CAN SHAREHOLDERS RELY ON REPORTS PREPARED BY ACCOUNTANTS AND AUDITORS?

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by

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Thank you for the invitation to address the Society today on such an important subject as 'Can Shareholders Rely On Reports Prepared By Accountants and Auditors?' At the time when the accounting profession is, to say the least, undergoing some criticism and responding with some introspection, it is gratifying to the Australian Shareholders' Association that an organisation such as yours has seen fit to ask a representative to explain the shareholders' point of view. The A.S.A. is the type of organisation which everybody loves to hate and at times has been on the receiving end of the wrath of directors, but we have always found that if directors have nothing to hide, the probings by the A.S.A. are not resented. Of course, being a voluntary organisation with no statutory power, our chief weapon has been and will continue to be, publicity. I was informed that the press would be present and as your organisation has the same initials as the Association, I am waiting with baited breath for tomorrows headline, "A.S.A. slams A.S.A."

Being a stockbroker, perhaps I would start by reminding the accountancy profession what happened to the Stock Exchange in the 1960's when in the mining boom, brokers threw caution to the wind, a gullible public came in and lost their money and their faith in the Stock Exchange – a situation which nearly took a decade to correct. In those days, the brokers set rules amongst themselves and in the Antimony Nickel affair even changed them midstream. We were too slow to plug loopholes, possibly because of client problems. Today the public criticism of accountants not only takes into account those criticisms but extends to the profession not preparing accounting policy with a sufficiently broad public base and when the rules are set the accounting organisations are powerless to enforce them.

Professor R.J. Chambers recently said in his report of the Accounting Standards Review Committee "Accounting for private affairs is a private matter. But accounting for companies in which there is a large public interest has long been a public matter. The legislature is the arbiter of matters relating to the public interest and of the means of reconciling private interests. The basic provision of Companies Legislation on accounts – true and fair reporting on the financial affairs of companies expresses a determining principle. The Legislature should require no less. The orderly and equitable conduct of companies and of their dealing with others would not be assured if accounts were permitted to be false or potentially misleading."

I am going to show how shareholders have a low regard for the accountancy profession by describing some corporate accounts which have led to the intervention by the Australian Shareholders' Association. The purpose of my remarks is not to attack individual auditors, individual directors or companies but to flay the system and standards which allow the following situations to occur. The examples illustrate some of the questionable activities of the accounting profession and call into question the objectivity and credibility of accountancy in Australia. In arriving at a supposed value of a company, accountants, using acceptable accounting practices, can come up with any figure they like or is required by the directors.

Just such an example occurred in the merger between Patrick Corporation Ltd. and Castlereagh Securities Ltd. This was no ordinary takeover, but a merger involving a scheme of arrangement which avoided the more stringent disclosure requirements of the takeover section of the Companies Act and the requirements of Part A and Part B of the tenth schedule. A key element in the proposal was a report prepared by one of Australia's leading accounting firms on the valuation of the two companies for the purposes of the merger. The strictly confidential report, which aroused suspicion and mistrust in itself and was never produced for shareholders, valued Patrick Corporation at 78 cents per share. Directors of Patrick Corporation responded by adding around 30 cents and then went back to the firm of accountants for a certificate which, with qualifications, it provided. The firm then sent a letter to directors of both companies which was sent to shareholders of Castlereagh as being a fair basis for the merger. When the audited accounts for Patrick Corporation, for the year ending 30th June, 1973, were prepared one month later they disclosed the net worth to be only 7 cents. As Bernard Shaw once said, "accountants are those who have forsaken the principle of being approximately right in favour of being completely wrong". The hapless shareholders of Castlereagh Securities allowed almost sixteen times the real value of Patrick Corporation to be used in the merger, yet they were never shown the report at the time of the merger. This was most important as Mr Justice Street, when allowing the reduction of capital to occur so that the merger could be effected, said this:

> "I should perhaps observe in conclusion as the contrary has been put forward by the directors that this Court does not sit in judgement upon the business wisdom of commercial prudence of reducing the capital so as to effectuate the proposed merger. These are matters which the law commits to the decision of the shareholders in general meeting. It is the very unchallengeability upon commercial grounds of the shareholders' decision that underlies the obligation upon directors to place adequate information before shareholders."

The strictly confidential report accidentally fell off the back of a truck some time later and disclosed alarming practices in the accountant's report including the valuation of assets at above share market value, excessive price earning multiples and the non consolidation of subsidiary companies with no attempt to explain how worthless subsidiaries would repay the parent company. One could fairly ask the question why did the court and presiding judge not notice these glaring deficiencies? The court however, was only considering the narrow area of a reduction of capital and the poor shareholders, having been given misleading information at the time they voted on the proposals, were left with the following words of cold comfort from Mr Justice Street:

> "A sound share market and the ability of shareholders to reach reliable conclusions are dependent upon shareholders, brokers and financial experts having access to full and reliable information concerning the affairs of companies. The Courts do not, and directors should not yield to the laconism that the only financial information most shareholders want is the figure on their dividend cheques. It is the clearly discernible intention of the companies legislation that companies should make adequate disclosures to enable shareholders individually and the market collectively, to reach informed judgements. Over value and under value are both obnoxious. Where authentic details are not forthcoming, inference and even speculation inevitably take over. Decisions based on gossip or on inside information are concomitants of an unhealthy market.".

Another area which has caused shareholders to be sceptical of accounting reports has been what I will call inside takeovers. These are takeovers which feature in the following aspects:

1. Common directors between offeror and offeree.
2. Limited or no directors recommendation in the Part B. statement.
3. A bid price well below the net tangible asset value.
4. An implied threat that if the offer is not accepted by some shareholder there would be sufficient acceptances to result in delisting the shares, so depriving the remaining minorities of a market.

Just such a case which led to intervention by the A.S.A. involved the takeover of Hanover Holdings Ltd. by Tallerk Pty. Ltd., a private company of the directors of the public company. A well known accounting firm placed a fair value of 65 cents per share on Hanover Holdings in a report dated November 19, 1975 just twelve days after another well known accounting firm had signed the 1975 accounts without qualification showing the net tangible assets to be $1.32 at 30 June, 1975. The report of the independent accountants based on an earnings potential coincided with a change in accounting procedure which saw a large write-off of interest and overheads against profit instead of adopting the usual policy of capitalisation. Shareholders in such circumstances are entitled to an explanation between the balance sheet figures certified by auditors as true and fair on November 7 and the valuation by another firm of accountants 12 days later in which the fair value of the company was slashed by more than 50%. Shareholders can rightly expect that justice should not only be done, but be seen to be done when the value accorded Hanover shares by an independent accountant and the net tangible asset backing certified as true and fair by auditors was so vastly different.

I should, however, compliment the accounting profession on their brilliant footwork when it comes to valuing an asset which has to be sold rather than bought. Just such a case involved the Association intervening in the Bridge Oil Limited acquisition of a 96% interest in Wynyard Holdings Ltd., in order to accommodate the indebtedness to Bridge Oil by private companies owned or controlled by some of the Bridge Oil directors. In this particular case, the shareholders in Bridge Oil were asked to approve the purchase of shares in a company which was substantially owned by some of the directors of Bridge Oil and their families and for the purposes of valuing Wynyard's shares retained a large firm of accountants. The true assets backing for Wynyard shares was given at $1.56, compared with the true and fair asset value of 65 cents, given by the company's auditors only eight months earlier. Shareholders were presented with a so-called independent report which (i) did not reflect internal financing arrangements between the parent company and its subsidiaries, (ii) applied double standards in the valuation of listed investments and (iii) arbitrarily treated taxation liabilities. Shareholders could be forgiven for believing that so-called independent reports conform more to the dictates of directors than to the real value of the company. The footwork of the accounting profession is dazzling to behold – rather like the legs of a centipede going in a myriad of different directions at once.

The Association has in recent times received numerous complaints from shareholders in collapsed public companies. I am not suggesting that auditors and accountants are responsible for the gross public deception that has occurred in the following cases, but there can be no doubt that accounting standards greatly assisted directors in misleading the public. The public are far more discerning and disenchanted with investing in public companies than the accounting profession would believe. There has been in the last decade a marked reduction in the number of small shareholders in public companies with the concentration of equity more in the hands of institutions and large companies. Whilst many reasons have been advanced for this very unhealthy trend, the major factor in my opinion has been that the public at large no longer trusts balance sheets and profit and loss statements from directors and auditors. Who can blame them when you consider the following instances:

1. Mineral Securities Ltd. reported in January 1971, that it had made a profit of $3.5 million in the six months ended 31.12.70. One week later the directors withdrew that statement and advised that a loss of $3 million was in fact the true position. To be fair, this was a statement given in takeover documents and merely reflected the sale of assets from the parent to a subsidiary which, of course, on consolidation would have disappeared in the audit report, but I wonder in view of the cases of non-consolidation which I have mentioned. For instance, the Association intervened in the matter of Reinvestment Ltd. and the manner in which that company's funds were being lent. The auditors statement in a prospectus dated 23rd March, 1973, included a balance sheet as at 30th June, 1972, with the bald statement from a leading firm of accountants that two subsidiaries had not been consolidated at the balance date, 30th June, 1972. The company subsequently went into receivership with those two non-consolidated subsidiaries figuring prominently in the reduction of shareholders funds. Admittedly the auditors were not appointed until 7th December, 1972, and relied on financial statements audited by unnamed other accountants, but the accounting profession generally must stand condemned for allowing what was a blatantly misleading picture to be presented to the public and any intending investors in the company's debentures.

2. In the collapse of Cambridge Credit, the inspectors found that an announced profit of $3.7 million in a six month period was overstated by at least $3.9 million. Six months later, Cambridge Credit reported a profit of $5.7 million and this was found to be overstated by $3.7 million. Prior to the collapse of Cambridge Credit the casual observer might have looked at the pre-collapse accounts and thought that the group was a conventional finance company with normal outstandings. In fact most of its assets were loans to joint ventures but in this off-balance sheet financing were not shown as such. These joint ventures themselves had borrowings of around $100 million but nowhere was this $100 million liability recorded in the Cambridge accounts, although it ranked ahead of supposedly secured Cambridge debenture holders who lost their investment. Accounting standards must take part of the blame. To my knowledge the standards which allowed that $100 million not to be recorded still exist unaltered six years later.

3. In contrast, Hooker Corporation's 1976 accounts showed an obscure note which said that guarantees to subsidiary and associated companies totalled $150 million. Following broker comment and articles in the Financial Review, the Chairman detailed the associate companies which is now continuing practice in the Hooker accounts. Perhaps there is a moral in that Hooker Corporation today survives and flourishes with the Chairman finding time in his busy schedule to head up the Government inquiry into the Australian Financial System. I hope that the Committee have found time to examine some of the matters which I am mentioning today.

4. The collapse of Associated Securities Ltd. and of Finance Corporation of Australia Ltd. which lead to the Reserve Bank virtually telling the Bank of Adelaide that it was unfit to hold a banking licence shows that, under current accounting standards, there is unlimited scope for anticipating profits that haven't yet and may never materialise. In these cases the deterioration that led to receivership for A.S.L. and forced merger for F.C.A. obviously did not occur just in the weeks or months prior to collapse. A.S.L. and F.C.A. were obviously for a long time, with the acquiescence of the auditors, counting millions of dollars which should not have been counted among its assets. At the time of the merger of the Bank of Adelaide with the A.N.Z. Bank, the Investigations Committee reported that F.C.A. should make write-offs of $30 million and provisions for another $28 million.

The auditors of F.C.A. had been signing a 'true and fair' report with no qualification for F.C.A. from 1975 to 1978. As my friend Pierpont commented at the Croesus Club, tersely in his inebriated state. "This comes as no surprise to Pierpont who has long since assumed that it is illegal for an auditor to give anything except a teddy bear stamp for good work to a finance company." After the controversy of finance companies and the tougher approach by the Corporate Affairs Commission to auditors to justify the assets of finance companies, it is indeed disappointing that auditors have put their heads in the sand and turned their backs on the new ground rules. In the C.A.G.A. Ltd. prospectus No. 45, the auditor comments that the statement of assets and liabilities has been prepared on the basis of historical cost accounting and on the assumption that the company is a going concern. The auditors then blandly state that in the absence of the support of the major shareholder – an Australian bank – some other values for assets may be appropriate.

5. The collapse of Gollin Holdings Ltd. and the subsequent trial of two executives brought some telling comments from Mr Justice Slattery, particularly in relation to the conduct of the audits on the company. Amongst other matters the judge said the following:

> "While a board has many responsibilities, it must rely heavily on its auditors. After all, the auditors are watchdogs for shareholders of the company and prospective investors in the company. Another defect in Gollin affairs was absence of internal audits. One was instituted in 1974 but not proceeded with. In my view it would not be unreasonable in a large public group which has turnover in the vicinity of $400 million to have an internal audit branch which should report to the board of the group."

I know that the profession is presently considering the position of Audit Committees whose establishment will significantly strengthen the independent position of auditors and eventually improve the standard of reporting to the public. It is interesting to note that last year one of the largest banks in Australia formed an audit committee, all being outside directors. In the U.S. it is a condition for listing with the New York Stock Exchange that public companies have an audit committee. In Canada, The Federal Canada Business Corporation Act 1973, made the establishment of corporate audit committees mandatory for all corporations offering securities to the public. It cannot be claimed that the audit committee will create a panacea for all the problems of directors but properly constituted, they should achieve increased understanding of the role of the independent auditor, a subject on which I would like to spend some time drawing on the experience of the Association in a number of matters.

The Association intervened the matter of Ipec Holdings Ltd. in the sequence of transactions between this listed public company (with 9,600 shareholders) and a private company owned by two of the company's directors. Ipec Holdings Ltd. had a history of transferring assets from the public company to the directors' private company with the aid of substantial unsecured loans. These transactions occurred in a manner which resulted in the public company receiving no benefits which accrued to the private company. Later in the same year an Extraordinary General Meeting of the public company was called to seek shareholder ratification of an agreement to purchase Angus and Robertson Publishers from the directors' private company at a price of $2.0 million cash for the goodwill, plus about $600,000 for stock and other assets.

A report on the proposed acquisition by the public company's auditors was sent to shareholders and it gave profit figures for Angus and Robertson Publishers for 1976, 1977, 1978 and half of 1979 as well as management's estimate of profits for 1980. The auditors discarded the low 1976 profit as being not representative; ignored the 1977 profit figure; discounted the 1978/79 profit prospects because of the costs of setting up new warehouse facilities; expressed doubts about management's profit estimates of $500,000 before tax for 1979/80; made no mention at all of 1980/81 but formed the view "that future maintainable earnings of $500,000 should be achievable by the 1981/82 financial year and thereafter". Tax at 38% was assumed, leaving a net profit of $310,000. This was multiplied by 6.45 times to arrive at the vendor's goodwill figure of a neat $2.0 million. This indeed is one of the most remarkable pieces of crystal ball gazing that has yet been encountered and whereas previously I thought goodwill was based on past profits obviously I will have to do some more professional development courses to understand the new avant-garde manner of determining goodwill as outlined by this firm of accountants. The Association's misgivings, expressed at the Extraordinary Meeting, were based on what appeared to be inadaquacies and omissions in the report to shareholders and the Association's firmly held view that "independent" reports to shareholders on transactions between dominant shareholders/Directors of public companies and the private interests of those Directors should not be made by the auditors. The fees of that auditing firm from Ipec Holdings for 1978/79 were $303,994. At the meeting the purchase was ratified and the public company now owns Angus & Robertson Publishing. The other lunch hour I was browsing through their bookshop and on the shelves were two books which I consider appropriate "Snugglepot and Cuddlepie" and "How to Win Friends and Influence People".

Another example of the conflict of auditors' duties occurred when the Association was asked for assistance in assessing a Scheme of Arrangement involving a return of capital held by Ralph Symonds Ltd. minority shareholders. Shareholders in this company were completely confused by an independent report prepared by the company's auditors who on 25th October, 1979, signed the Auditor's Report confirming a true and fair view of the stated net tangible asset backing of the company at $1.08. But only three weeks later they prepared another report for shareholders on the proposal for the return of capital which differed significantly in the following respects:

1. The value of stock was included in the Company's Accounts at the lower of cost or market value; and the Auditors had stated in the Annual Meeting that the true market value was higher than the cost or book value.
2. Plant and machinery was arbitrarily reduced by 25% despite the book value of these assets being certified true and fair.
3. A revaluation of the Company's leasehold property to a higher value was not taken into account.
4. $150,000 in cash deposits shown in the audited Balance Sheet was missing in the independent report.
5. Future income tax benefits were omitted but a provision for deferred income tax was included.
6. The failure to assess significant management charges of $299,353 was made by the parent and associated company against Ralph Symonds.

The result of these manoeuvres was to reduce the value of Ralph Symonds Ltd. net tangible assets as certified as true and fair from $1.08 to a value three weeks later of not exceeding 45 cents by the same auditors. Following Association advice, the reduction of capital was opposed in the Equity Court and during proceedings an offer was made and accepted by the dissidents of 85 cents plus 12% interest from the date of the December 1979 meeting. The value of this offer will therefore approach the net tangible asset backing and shows that the auditors were not wrong after all when they signed the 1979 accounts.

The conflict betweeen the role of the auditor in serving the watchdog role on behalf of shareholders and in his dealing with directors came to the fore when the Association intervened in the matter of the Nugan Group Ltd. This company had come to the notice of the Association for acquiring five proprietary companies from Nugan Holdings Pty. Ltd., a company associated with the chairman of the public company, for $120,000 when these proprietary companies had a combined deficit of shareholders funds of $15,000 and losses of $19,365. The auditors qualified the accounts saying they were unable to form an opinion as to the book value of companies acquired from Nugan Holdings Pty. Ltd. Prior to the completion of the audit for the ensuing year, but after the end of that financial year, the auditors applied to the Companies Auditors Board to resign but permission was refused. The company then gave notice of a meeting to remove the auditors due to "irreconcilable differences" and replace them with the auditors for the private vendor company associated with the chairman of Nugan Group Ltd. The general meeting, after heated debate, removed the auditors but a subsequent resolution to appoint the incoming auditors failed by a substantial margin to obtain the vote necessary in terms of the Companies Act. The meeting was adjourned in terms of Section 166 of the Companies Act and the incoming auditors were duly appointed three weeks later by a simple majority. The incoming auditors would have done themselves great credit in the eyes of the minority holders and the investing public as a whole if they had withdrawn their consent to act as auditors and so facilitate the appointment of an auditor by the Companies Auditors Board in terms of Section 166 of the Companies Act. Alarming as these matters are to the profession they pale into insignificance compared with the audit report of the incoming auditor for the year ending 30th June, 1978, who stated that:

1. they did not attend the stock count in respect of the financial year in question, and
2. they were unable to say whether certain cash items had been validly expended.

The auditor has since been charged with others with conspiracy to conceal the fraudulent application of funds of the Nugan Group Ltd.

It was Bernard Shaw whose comments about accountants I mentioned earlier, who also remarked that in London you could do anything as long as you did not do it in the streets and frighten the horses. If he were alive today and in Australia I am sure his quip would be that auditors can do anything as long as they do not do it in the boardroom and frighten directors. The incestuous relationship between directors of public companies and auditors in practice is further exemplified with reference to the Craigmoor Wines Ltd. matter. The Association made representations at a meeting of Craigmoor Wines Ltd. in December 1978, when directors proposed the sale of its major operating subsidiary, Craigmoor Wines (Mudgee) Pty. Ltd., to a private company associated with the Chairman of the public company for $331,503. The value of the parent company's investment in the subsidiary company was notionally reduced from $501,481 to $331,503 and a similar provision for the diminution in the value of assets was made although the basis for this diminution was never revealed. The auditor of the public company had endorsed the purchase price of Craigmoor Wines (Mudgee) Pty. Ltd. of $501,481 (the price purchased from private interests of the same directors of the public company) as being true and fair on four occasions (1974, 1975, 1976 and 1977). Subsequent to balance date in 1978, the auditors made this downward adjustment to coincide with the proposed sale from the public company to the same interests who had vended the private company in 1974. At the 1978 meeting, directors of Craigmoor Wines Ltd. withdrew the proposal after trenchant criticism by shareholders, including criticism of the completeness of the valuation prepared by the public company auditors to substantiate the proposed sale price. The company now proposes to sell the operating subsidiary at precisely the same price as in 1978 and in a further insult to shareholders, the proposal included no reassessment of the previously criticised 1978 valuation but merely two letters from the company's auditors to the effect that they thought no change from the 1978 valuation was warranted. On the auditor's own admission, no attempt has been made to make a current assessment of the fixed assets or stock, or to take into account substantial new expenditure on plant and equipment. The report is totally inadequate and is an example of the mushroom treatment of shareholders – keeping them in the dark, feeding them with that matter on which mushrooms are fed and then canning it. Auditors of public companies are meant to be protectors of shareholders' interests not stooges of the directors looking after their private investments. The whole matter of independent reports gives rise to a very great concern on behalf of the investing public when they are produced in a manner described above. The accounting profession should be encouraging competent and truly independent reports – it is totally unsatisfactory that inadequate reports are being prepared in reponse to statutory and Stock Exchange requirements. The situation at present is far worse than when independent reports were not required as shareholders previously used the old adage of "caveat emptor" or buyer beware in assessing deals. Proposals now being prepared for shareholders have the imprimatur of leading members of the accounting profession and with this hallmark of apparent respectability shareholders are being misled with monotonous regularity.

There is a very clear responsibility on behalf of the legislators to plug this glaring deficiency in company law and for the new National Companies and Securities Commission to act on the valuation issues quickly. There has been much discussion in the press and by other interested parties of the need for tightening up of takeover procedures. The new Companies (Acquisition of shares) Bill will prohibit acquisition above 20% and below 90% of a company's voting shares unless one of the following methods is adopted:

1. A gradual acquisition of shares at the rate of 3% every six months.
2. A formal takeover based largely on the current existing takeover code.
3. An unconditional bid for one month on the floor of a Stock Exchange.

Whilst there have been minor abuses of the existing takeover code shareholders have derived great benefits from the spate of takeover activity over the last three years and I remain unconvinced that shareholders will derive greater benefit from a potential offeror being limited to acquiring only 3% of a company's capital every six months. In cases such as White Industries Ltd. and Herald & Weekly Times Ltd., it will effectively ensure that no shareholder ever receives the top prices which all too infrequently occur in a market free for all.

The Companies (Acquisition of Shares) Bill therefore plugs relatively minor loopholes which are arguable whilst leaving gaping voids in regulating the widespread abuses involving the sale or purchase of any undertaking to or from interests associated with a director of a public company.

Just such a case involved the Association intervening in the matter of Minerals Mining and Metallurgy Ltd. which proposed to acquire the business of a private company Gary Radford Earthmovers Pty. Ltd. which was owned by the major shareholder of the public company. A prominent firm of accountants had prepared an unaudited balance sheet and profit and loss account for the year ending 30th June, 1979, for the private company showing shareholders funds of $1,207,770 and an operating profit of $352. The unaudited report included a disclaimer from the auditors saying that they expressed no opinion on whether these accounts represented a true and fair view of the year's trading and no warranty of accuracy or reliability could be taken. Six months later the same firm of accountants produced a report which formed the basis of the acquisition price of $3.6 million showing that the valuation of the private company had increased from $1,207,770 to $2,924,033 with complete lack of information on the company's profit and loss. A future income tax benefit of $150,675 was included in the valuation of the business at 31st December, 1979. This probably reflected the unprofitable trading of the company during the six months from the date of the unaudited balance sheet to the date of the valuation due to underprovision for annual and long service leave. Although the accountants report was said to contain 100 pages, important factors were overlooked in the information provided to shareholders.

1. A goodwill component of $2.4 million was excluded and a major proportion of this goodwill, if it existed, was provided by the public company's patronage of the private company.
2. No information was provided on the principles which another firm of valuers used in arriving at the value of plant and equipment on a going concern basis.
3. As a liability for leased equipment of $1,029,880

was included in the valuation, no information was included as to the proportion of equipment actually owned by the private company and the proportion under lease.

At a sparsely attended meeting at an out of the way location less that 5% of the company's shareholders voted on an accountant's report which was grossly misleading and deficient in vital matters affecting shareholders of the public company.

In order to stop the spate of reports such as those which I have outlined, could I suggest, in a constructive manner, the following principles be adopted by the profession in preparing independent reports.

1. The auditor of a private or public company should not prepare a report on the sale or purchase of any undertaking to or from interest associated with a director of, or a substantial shareholder in, such public company.
2. The assessor should have a clear and unambiguous commission to value the company, taking into account all relevant factors which might have a bearing on the approval or disapproval by shareholders of the proposed transaction.
3. No instruction should be given by the board on how the valuation should be carried out.
4. No information should be withheld from the independent assessor.
5. Where specialised valuations or other expert advice is required, this should be commissioned by the assessor and not by the company.
6. The full unabridged report of the assessor should be provided to shareholders. Where this report is too long or detailed, a summary report may be prepared by the assessor alone, with no instruction from the board. This summary may then be forwarded to shareholders and the full report lodged with the relevant Stock Exchange where it will be available for examination by shareholders and the financial press.
7. In the case of a sale, assessment should be made on the basis that the business is available for offer to the highest bidder for whatever purpose he may wish to acquire it. It is unacceptable to discount the business on the basis that it is controlled by the directors and no other higher offer is therefore possible.
8. In the case of the purchase, assessment should be made on the basis of what assets would bring if put up for open market purchase. It is unacceptable to add a premium on the basis that the business is an ongoing concern.

I commend these suggestions to the Australian Accounting Research Foundation, to the National Companies and Securities Commission and to the Minister for Business and Consumer Affairs. Action by those parties in respect of these principles would, I believe, do more to improve the lot of the shareholder than much of the recently enacted and proposed legislation on National Companies Law.

Could I conclude by saying a few words on the standing of the Accounting Profession in its dealing with Governments. Accounting in Australia at the moment, as I hope has been shown in this paper, is played without rules except those played by Mr Rafferty. The closest parallel I can find is the role played by the New York Yacht Club in the America's Cup. In particular, the 1933 challenge when England was represented by Sir Thomas Sopwith's yacht "Endeavour" and America was represented by the New York Yacht Club's "Rainbow". In one race, "Endeavour" had the right of way over "Rainbow" but to avoid a serious collision, veered away and lost the race. The British Crew protested but the New York Yacht Club point blank refused to hear the protest. The following day, the New York Times in a now famous headline commented "Britannia rules the waves, but America waives the rules". And so it is today with Accountancy in Australia where there are few rules and these are waived with monotonous regularity. In a further interesting parallel, the New York Yacht Club refused to hear that protest in 1933 not because an infringement occurred, but because the protest flag was not raised at the moment after near impact. Protests in Australia in Accountancy usually occur when a company is in receivership or liquidation or after shareholders have been disadvantaged. Accounting bodies in Australia simply refuse to hear the protests saying that self regulation is what they want.

The case studies referred to in this paper show that self regulation is a myth. The flagrant abuses of the rules, mainly by the large accounting firms, can at best be described as incompetence and at worst as a calculated attempt to deceive and disadvantage shareholders. Many auditors, with the imprimatur of apparent respectability, are acting as mere stooges of directors in submitting questionable deals to shareholders. The profession has already received a warning from the N.S.W. Attorney General at the Society's Convention in Perth in April 1979, that unless the standard of accounting reports improved, the accounting profession would come under some form of Government control. There is not one scintilla of evidence to suggest that the profession has heeded that warning with continual abuses of fundamental accounting standards being the order of the day. In my opinion the profession is looking down the gun barrel not only of Government control of accountants but of Government audits of public companies. I leave that to your own good judgement as to what effect this will have on the free enterprise system which I believe we all hold so dear.