



**AUDIT & CORPORATE GOVERNANCE COMMITTEE**

Meeting of the Committee

Wednesday, 4 December 2019 at 9.30am

by teleconference



## Audit & Corporate Governance Committee

Meeting of the Committee to be held on Wednesday, 4 December 2019  
at 9.30am at Level 3, Crown Towers, 8 Whiteman Street, Southbank

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### Attendees

<i>Committee:</i>	Helen Coonan (Chair) Michael Johnston Toni Korsanos
	Mary Manos (Secretary)
<i>By Invitation:</i>	John Alexander Ken Barton Lauren Harris

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RESTRICTED AGENDA

1. [Auditor Review](#)
2. [DGN Restructure](#)



**AGENDA ITEM 1:**  
Auditor Review



## Audit & Corporate Governance Committee Memorandum

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**To:** Audit & Corporate Governance Committee  
**From:** Ken Barton  
**Date:** 29 November 2019  
**Subject:** **Review of Statutory Auditor**

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The purpose of this paper is to review the current arrangements for the audit of Crown's accounts and, in particular, to determine whether Crown should consider going to tender for its statutory auditor.

For the reasons outlined in this paper, management recommends that a tender process be undertaken to consider alternative statutory auditors for Crown.

### Background

Ernst & Young (EY) has been Crown's statutory auditor since the PBL demerger in 2007. Prior to the demerger, EY was Crown's auditor since its inception in 1994. Throughout this entire period, EY has also provided Crown with non-audit services, largely comprised of tax advisory services.

For a number of years, proxy advisers and shareholder advocates have raised concerns over the level of non-audit fees paid to EY. Proxy advisers believe that a 'large imbalance' in non-audit fees could have an actual or perceived impact on the independence of an auditor. A summary of the views expressed by these organisations is as follows:

- CGI Glass Lewis takes the view that non-audit fees should not exceed audit fees, and will hold the Chair of the Audit Committee accountable for ensuring this is the case. As a result, CGI recommended shareholders vote against the re-election of Helen Coonan at the 2019 AGM.
- ISS believes that the 'excessive' level of non-audit fees paid to EY by Crown gives rise to 'governance concerns for shareholders'. Crown currently has the lowest score for governance on ISS' Governance Profile (10 – measuring "higher risk"), with "Audit & Risk Oversight" one of ISS' key governance quality score metrics, for which Crown is rated 9. ISS has encouraged shareholders to engage with Crown directly on this matter in the past. A score of 1 indicates lower governance risk, while a 10 indicates higher governance risk versus its index or region.
- Ownership Mattes and ACSI have also raised concerns that the 'bulk of fees' received by EY have been for non-audit services, largely relating to tax advice.

- In past years the Australian Shareholders Association has also referred to the 'significant' fees being paid to EY for non-audit work and has expressed a concern that this could lead to a perception regarding the independence of the auditor.

In August 2019, ASIC issued Crown with a letter requesting information in relation to the quantum of non-audit services provided by EY in F17 & F18, particularly to determine if those services were compatible with the general standard of independence and/or may have compromised the auditor independence requirements. Crown provided ASIC with a comprehensive response in early September 2019 as to why the provision of non-audit services did not compromise the independence of the external auditor. Crown has not yet heard back from ASIC.

#### **Ratio of Audit to Non-audit Services**

The benchmark in determining auditor independence which has been set by shareholder advisory groups is that the ratio of audit to non-audit fees be 1:1.

Crown has placed a significant reliance on EY to assist in taxation related matters and therefore the quantum of non-audit services provided by EY has always been greater than the quantum of audit services.

While the quantum of tax advisory fees has declined over time, it is expected that these fees will continue to be in the region of [REDACTED] and therefore the ratio will exceed the expected level. Given EY's long standing relationship with the group and its deep understanding of tax matters, it is Crown's preferred position to continue to utilise the taxation advisory services of EY.

#### **Audit Fees**

Over the past twelve months, EY has twice proposed significant increases to the base audit fees due to low recovery rates.

Based on EY's latest proposal dated October 2019, a [REDACTED] has been proposed, increasing from [REDACTED] in F19 to [REDACTED] in F20.

According to EY's historical fee analysis, total audit hours on the Crown engagement have almost tripled over the past 5 years, increasing from 3,241 in F14 to 9,240 hours in F19. Over the same period, Crown has simplified its business with the divestment of its interests in Melco, CrownBet and Ellerston and the sale of the Alon land. The areas of potential audit risk have also been largely addressed. Despite the simplification of Crown's operations, EY's audit hours have increased significantly. This may, in part, reflect additional procedures to satisfy increasing regulatory compliance requirements, a new approach adopted by EY, or potential audit inefficiencies.

#### **Tender Process**

Having regard to the above, it is proposed that, a tender process be undertaken to consider alternative external auditors for Crown. This would involve Crown inviting a select number of audit firms (PwC, KPMG and Deloitte) to submit a proposal to Crown which would involve a detailed review by the tenderers of Crown's historical audit processes and issues.

If the Committee, and ultimately the Board, agrees with this proposal to undertake a tender process, this will first be discussed with the EY audit team and other representatives of EY.

At the conclusion of the tender process, should it be decided that Crown appoint an alternative external auditor, this would require approval of the members at Crown's Annual General Meeting.

#### **Legal Requirements for the Replacement of an Auditor**

The *Corporations Act 2001* (Cth) sets out the process to be adopted should a company determine that it wishes to replace its auditor.

There are two options. The first is that Crown may seek to remove the auditor at an annual general meeting, or alternatively, the auditor may resign from office following consultation with the company. The second option is obviously preferable.

As with director appointments, should an auditor resign prior to an annual general meeting, the directors of a company can appoint a new auditor to fill the casual vacancy created with that appointment requiring approval of members at the next AGM.

There are various notice and consent requirements which would also need to be met.

A change in auditor must also be announced to the market.

#### **Decision of the Committee**

Having regard to the above, it is recommended that the Committee propose to the Board that a tender process be undertaken to consider alternative statutory auditors for Crown.

Kind Regards

Ken Barton  
**Chief Financial Officer and CEO Digital**



**AGENDA ITEM 2:**  
DGN Restructure









