Investigation into Burns Philp's writedowns

The Burns Philp saga suggests that ASIC was envisaging a greater role for directors in ensuring financial statement reliability before David Knott was appointed chairman of ASIC.

ASIC published the *Report of the Investigation into Burns Philp & Company Limited* in December 1998. In September 1997, Burns Philp had announced a $700 million writedown of herbs and spices assets (ASIC 1998, p. 6), and later its share price had plummeted to $0.18 (ASIC 1998, p. 39). The report investigated the circumstances behind this large write off.

The report concluded 'there was no sufficient change in circumstances to explain the drastic alteration in the value of the herbs and spices businesses between the issue of the 1996 financial statements and the 1997 financial statements' (ASIC 1998, p. 29). The report further stated that it 'appears that the values attributed to the herbs and spices assets in the 1996 financial statements may have been materially overstated' (ASIC 1998, p. 30).

ASIC were particularly concerned about the write off that related to tradenames and despite the directors' having obtained three independent views about the values attributed to the tradenames in the 1996 financial statements, and the fact that the auditors had signed off the accounts, ASIC considered that the directors had further obligations in this area. In relation to the valuation reports of intangible assets, ASIC (1998, p. 42) concluded that the director should:

- consider whether the assumptions used by the valuers were reasonable, in the light of the directors' overall knowledge of the business
- consider the reliability of the source data used by the expert valuers
- undertake reasonableness checks of the values ascribed to the intangible assets by the expert valuers.

The report adds that if directors have concerns about valuations, they must raise those concerns with the valuers and ensure they are satisfactorily resolved (ASIC 1998, p. 42).

The report also considers the responsibilities of auditors in relation to valuation of intangible assets, and in doing so provides a quotation from Auditing Standard AUS 606 'Using the work of an expert' (ASIC 1998, p. 44). There is remarkable similarity between the points quoted from AUS 606 and ASIC's deemed responsibilities for directors noted above. This suggests that at least for valuation of intangible assets, ASIC considers that directors should undertake work similar to auditors and that the directors in this area become at the minimum quasi-auditors.

Reference

Australian Securities & Investments Commission 1998, *Report of the Investigation into Burns Philp & Company Limited,* www.asic.gov.au.