



ENFORCEABLE UNDERTAKING

Australian Securities & Investments Commission Act 2001

Section 93AA

The commitments in this enforceable undertaking are offered to the Australian Securities & Investments Commission (ASIC) by: -

Mark Aloysius Sheridan
C/- Hanrick Curran
Level 9, 324 Queen Street
BRISBANE QLD 4000

1. Definitions

In addition to terms defined elsewhere, the following terms are also used:

Corporations Act means the *Corporations Act 2001* (Cth)

ASIC Act means the *Australian Securities & Investments Commission Act 2001* (Cth)

2. Background

2.1 Under section 1 of the ASIC Act, ASIC is charged with a statutory responsibility to perform its function and to exercise its powers so as to promote the confident and informed participation of investors and consumers in the financial system.

2.2 Details of conduct

2.2.1 Mark Aloysius Sheridan (Mr Sheridan) is a registered company auditor pursuant to section 1280 of the *Corporations Act 2001* (the Act). Mr Sheridan first obtained his registration as an auditor on 25 January 1984 and holds audit registration number 7067.

2.2.2 Mr Sheridan is a partner of the Brisbane partnership of Hanrick Curran, a firm of chartered accountants and business advisors and consultants of Level 9, 324 Queen Street, Brisbane. Mr Sheridan is also a member of the Institute of Chartered Accountants in Australia (ICAA) and is a chartered accountant. In his role as a registered company auditor, Mr Sheridan is required to comply with the Australian Auditing Standards (AUS). Mr Sheridan is also required to ensure that financial statements audited by him comply with the Australian Accounting Standards (AAS).

2.2.3 Hanrick Curran were the statutory auditors for Premium Mortgage Income Fund (the Scheme) for the years ended 30 June 2003 and 2004 and conducted the half-year statutory reviews for the half-years ended 31 December 2002, 2003 and 2004. Mr

Sheridan is the partner who conducted the audits of the Scheme's financial reports and signed the independent audit reports and the half-year statutory reviews.

- 2.2.4 The Scheme is a pooled mortgage investment fund. The principal activity of the Scheme has been to invest in loans secured by registered mortgage over properties in Australia. For this purpose, the Scheme established two portfolios being the First Mortgage Income Portfolio and the High Yield Income Portfolio. Unit holders are members of the Scheme.
- 2.2.5 On 16 September 2004, unit holders voted to replace the former Responsible Entity (RE) and wind up the Fund. Since that date the Fund has no longer traded and its operations have been reduced to the ongoing management of the proceeds arising from the sale of the security properties behind non-performing loans. The current RE continues to use Hanrick Curran as auditors.
- 2.2.6 In the unqualified audited financial report for year end 30 June 2004, a loan totalling \$922,663 was classified as a Mortgage Loan Receivable by the First Mortgage Portfolio. This loan was later reallocated by the new RE, as a Loan Receivable by the High Yield Income Portfolio for the half-year ended 31 December 2004.
- 2.2.7 In their role as statutory auditors for the Scheme, Hanrick Curran prepared and issued an unqualified statutory audit report on the Scheme's financial statements for the years ended 30 June 2003 and 30 June 2004 and unqualified half-year statutory review reports on the financial statements of the Scheme for the half-years ended 31 December 2002, 31 December 2003 and 31 December 2004. These documents were signed by Mr Sheridan.
- 2.2.8 ASIC has conducted an investigation in relation to the audits of the Scheme for the years ended 30 June 2003 and 30 June 2004 and the half-year statutory reviews on the financial statements of the Scheme for the half-years ended 31 December 2002, 31 December 2003 and 31 December 2004.
- 2.3 ASIC's concerns**
- 2.3.1 Mr Sheridan issued unqualified audit opinions on the Fund's financial reports for the years ended 30 June 2003 and 30 June 2004 and unqualified half-year statutory review reports on the financial statements of the Scheme for the half-years ended 31 December 2002, 31 December 2003 and 31 December 2004.
- 2.3.2 ASIC contends that, as auditor of the Scheme, Mr Sheridan may have failed to carry out or perform adequately and properly the duties of an auditor, and the duties or functions required of a registered company auditor by the Act, in relation to the audit of the Scheme for the financial years ended 30 June 2003 and 2004 and the half-year statutory reviews on the financial statements of the Scheme for the half-years ended 31 December 2002, 2003 and 2004. ASIC's contentions are (in summary) that Mr Sheridan:-
- (a) By failing to carry through substantive procedures, did not obtain sufficient appropriate evidence to enable him to draw reasonable conclusions that a loan receivable, totalling \$922,663 at 30 June 2004, was correctly classified as being a loan receivable by the First Mortgage Income Portfolio. This loan

was subsequently reallocated as a loan receivable by the High Yield Income Portfolio in the Fund's audited financial accounts for the half-year ended 31 December 2004.

- (b) By failing to carry through substantive procedures, did not obtain sufficient appropriate evidence on which to base his unqualified audit opinion that loan receivables were fully recoverable at 31 December 2002, 30 June 2003 and 30 December 2004.
- (c) Failed to exercise due professional care in reviewing the financial statements half-year ended 31 December 2003 by not reporting on the Directors' failure to disclose the comparatives for the corresponding six month period ending 31 December 2002. ASIC contends that the Directors' failed to comply with paragraph 8.1 of AASB 1029 *Interim Financial Reporting* for the half-year ended 31 December 2003.
- (d) Failed to obtain external bank confirmations for the half-years ended 31 December 2003 and 31 December 2004 and the years ended 30 June 2003 and 30 June 2004.
- (e) Failed to exercise due professional care in respect of the quality of the audit (some audit working papers show incomplete documentation of references and some do not show evidence of review) and the identification of some financial statement disclosure errors (the receipts from customers and payments to suppliers and employees in the Statement of Cash Flows for the half-year ended 31 December 2003 being overstated and some typographical and summation errors for the half-year ended 31 December 2004) pertaining to the statutory reviews for the half-years ended 31 December 2002, 31 December 2003 and 31 December 2004 and the audits for the years ended 30 June 2003 and 30 June 2004.

2.4 Acknowledgment of Concerns

- 2.4.1 Whilst Mr Sheridan does not agree with all of ASIC's contentions, he acknowledges ASIC's concerns and has offered, and ASIC has agreed to accept, enforceable undertakings in the terms of paragraphs 3.1 to 3.6 below.

3 Undertakings

- 3.1 Under section 93AA of the ASIC Act, Mr Sheridan has offered, and ASIC has agreed to accept an enforceable undertaking in the terms set out below, as an alternative to ASIC making an application to the Companies Auditors and Liquidators Disciplinary Board (the Board) for an order pursuant to s.1292 of the Act.

3.2 Undertaking as to new audit appointments

- 3.2.1 Mr Sheridan undertakes that he will not for a period of 12 months from the date of this undertaking, accept any new appointments as auditor of a listed company or of a managed investment scheme.

3.3 Undertaking to be supervised

Mr Sheridan undertakes that for his next audit of the listed companies and managed investments schemes of which he is currently appointed auditor, he will not sign the requisite report unless and until another registered company auditor approved in advance by ASIC has reviewed the company audit or half-yearly review, and he has received (and supplied to ASIC a copy of) a written statement from the reviewing auditor that each audit has been conducted to an acceptable standard, and that all costs associated with this undertaking be borne by Mr Sheridan.

3.4 Undertaking to take part in continuing education

- 3.4.1 Mr Sheridan undertakes that in addition to the mandatory requirements for continuing professional education (CPE) for 12 months he will attend a further 15 hours of CPE in relation to audit practice and procedure with either the ICA or CPA.

3.5 Undertaking to notify ASIC of non-compliance

- 3.5.1 Mr Sheridan undertakes that, on becoming aware of non-compliance with any of the undertakings set out in paragraphs 3.2 to 3.4 above, and without derogating from any other rights and remedies available to ASIC, he or the reviewing auditor will notify ASIC in writing within 3 business days of becoming aware that such non-compliance has occurred.

3.6 Monitoring compliance with undertakings

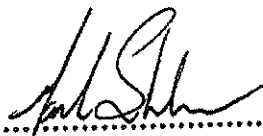
- 3.6.1 Mr Sheridan undertakes to make arrangements acceptable to ASIC for the Reviewing Partner at Hanrick Curran to monitor Mr Sheridan's compliance with the undertakings set out in paragraphs 3.2 to 3.5 above.
- 3.6.2 Mr Sheridan undertakes to make arrangements acceptable to ASIC for the Reviewing Partner to discuss compliance with the undertakings with Mr Sheridan on a quarterly basis to ensure that they are being implemented, and to provide ASIC with quarterly updates in this regard.

4. Acknowledgements

- 4.1 Mr Sheridan acknowledges that ASIC: -

- 4.1.1 may issue a media release on execution of this undertaking referring to its terms and to the concerns of ASIC which led to its execution;
- 4.1.2 may from time to time publicly refer to this undertaking; and

- 4.1.3 will make this undertaking available for public inspection.
- 4.2 Further, Mr Sheridan acknowledges that:
- 4.2.1 ASIC's acceptance of this undertaking does not affect ASIC's power to investigate, conduct surveillance or pursue a criminal prosecution or its power to lay charges or seek a pecuniary civil order in relation to any contravention not the subject of the background section of this Enforceable Undertaking or arising from future conduct;
- 4.2.2 this undertaking in no way derogates from the rights and remedies available to any other person or entity arising from any conduct described in this Enforceable Undertaking or arising from future conduct.
- 4.3 ASIC acknowledges that nothing in this enforceable undertaking constitutes an admission by Mr Sheridan.
- 4.4 Mr Sheridan acknowledges that this enforceable undertaking has no operative force until accepted by ASIC.


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MARK ALOYSIUS SHERIDAN
Registered Auditor No. 7067

Dated 11/5/07

Accepted by the Australian Securities & Investments Commission pursuant to section 93AA of the *Australian Securities & Investments Commission Act 2001* (Cth) by its duly authorised delegate.

Dated 15 May 2007


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Signature


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Name