



Accountants to face peer audit

Eric Johnston

Australia's biggest accounting firms are about to face their own audits.

The newly formed Audit Quality Review Board is preparing to scrutinise the independent audits performed on the accounts of Australia's listed companies.

While it is hoped the peer review will be alert to any traces of fraud, the aim is to encourage the industry to go beyond the letter of the law and improve overall auditing standards.

The inaugural chairman of the AQRB, Andrew Rogers, QC, said: "We're going to try to create a climate in which there will both be an increase in the quality of audit work and some assurances to the public that there are independent people looking – not just at the breaches of the law – but more importantly in a sense at the quality of work that is being done."

Scandals such as HIH Insurance and the collapse of US energy giant Enron have undermined confidence in audit work. Such high-profile affairs have also created a gulf between what auditors believed to be their responsibilities and the public's expectations of them.

Working to erode confidence have been revelations of lucrative fees accounting giants have been receiving for non-audit work such as due diligence or risk-management assessments.

The introduction of the tough Sarbanes-Oxley compliance rules in

the US blocked accounting firms from simultaneously providing any audit services with non-audit work.

Australia's CLERP 9 reforms stopped short of a ban, but they introduced new disclosure requirements in relation to non-audit services.

Professor Rogers said the industry-funded AQRB – at barely five months old – was very much "a work in progress", but over the next few months AQRB staff would review up to five audits conducted by each of the four big accounting firms on public companies.

Feedback on the work would be provided to each of the firms, which had promised to improve any shortcomings. It was expected the review process would become an annual exercise.

The focus of the reviews was on the quality of the work being carried out. While the board would keep a watch for legal breaches in audits, it did not pretend to be the accountants' cop.

"This is self-assessment and self-improvement instigated by the profession which is conscious that it needs to have its performance independently assessed," Professor Rogers said.

"The Australian Securities and Investments Commission will remain in the undisputed position in the field of enforcement and investigation."

Still, with business increasingly feeling the strain of regulation,

Professor Rogers acknowledged the AQRB provided yet another layer of oversight on accounting firms.

Firms already undergo rigorous assessments by ASIC and with the combined efforts of the Institute of Chartered Accountants, the National Institute of Accountants and CPA Australia providing peer review.

It is expected the AQRB will eventually take over the entire oversight roles of the industry bodies, but for now, Professor Rogers said, the additional regulation was a small price to maintain confidence in financial markets.

A former NSW Supreme Court judge, Professor Rogers was involved in the liquidation after the \$US10 billion collapse of the Bank of Credit and Commerce International last decade, which still ranks as one of the world's biggest bank frauds.

He is joined on the board by nine other audit and securities law experts, including former ASIC chairman Alan Cameron and Melbourne University's corporate law expert professor Ian Ramsay.

KEY POINTS

- A newly formed review panel will scrutinise independent audits.
- The idea is to lift audit quality and restore confidence in the process.



The new audit board is expected to become the chief oversight body. Photo: ROB HOMER