

UIG needs accountants

One of Australia's top accounting firms has warned of the dangers of placing individuals without the knowledge of accounting literature on the Urgent Issues Group, the body that interprets accounting standards for the domestic market.

Ernst & Young has pointed to several risks of having members of the UIG without adequate accounting knowledge in a corporate governance publication.

The Ernst & Young publication — a response to the recommendations in the report of Justice Neville Owen on the collapse of HIH — argues the use of non-accountants should only take place where those individuals have some knowledge of the accounting literature.

'It is imperative that the members of the group have extensive accounting knowledge. They must have the necessary expertise and knowledge to interpret accounting standards and the SACs, and apply these to the matter at hand', the firm asserts.

'We believe that in the majority of cases it is accountants who possess the necessary knowledge. However, provided a lawyer, or any user of financial statements, had the necessary expertise to fulfil the role adequately, we would not be opposed per se to the inclusion of non-accountants on the UIG.'

Ernst & Young does warn of the increased possibility that a novice to the accounting debate will want to reopen the debates on issues, when the UIG exists to resolve contentious accounting treatments within the context of the existing accounting framework.

'For example, the inclusion of non-accountants would possibly serve to lengthen the period in which the UIG formulate and issue their views. In order to contribute effectively, lay people would potentially need to be bought up to speed on what are often complex accounting issues, which would slow down the issuance of interpretive guidance', the firm notes.

'There is also the concern that the UIG could become a forum for non-accountants to "debate" the merits of accounting standards and the "usefulness" of various requirements of the standards, as opposed to a forum where the standards are interpreted in light of a specific issue.'

These types of debates on content and standards are best dealt with when an accounting pronouncement is initially opened up for public comment, Ernst & Young states.

'Responding to these exposure drafts and consultation papers is the appropriate medium for accountants and non-accountants alike to present their views and influence the resultant legislation and regulation.'

Ernst & Young has also said the UIG might be an appropriate body to deal with some matters of arbitration if it had its charter changed.

‘There is growing support for the creation of an “arbitrator” in matters where there is a dispute between management and the auditor. In contrast, there is an argument as to whether an arbitrator is appropriate or indeed viable and workable within the current financial reporting framework’, the firm notes.

‘Insofar as the UIG is concerned it is *not* currently the role of the group to issue consensus views specific to individual reporting entities. Whereas many issues that the UIG opine on start out as a specific query, referred to the group for resolution, the consensus view that is ultimately issued is generic and applies to all reporting entities, not just the entity who posed the query.’

The firm says the nature of the group would change if it were to adopt an advisory or arbitration-type role.

Even though it is not currently within its charter to do so, if arbitration were introduced in some form, the UIG may in fact be an appropriate body to act in that capacity.

This article was supplied by Tom Ravlic. Tom Ravlic is a financial journalist who has spent the past seven years covering the accounting profession, accounting and audit standard setting and corporate governance. His work has appeared in various publications including *Business Review Weekly*, *Personal Investment* (now *Personal Investor*), *The Age*, *CFO Magazine*, the *Australian CPA*, the *Company Director Journal* and the newsletters of the internationally renowned Lafferty Group. In addition to his freelance commitment to a wide range of publications, Tom has recently accepted an appointment to be editor of *Chartac Accountancy News*, published by Melbourne-based publisher Crown Content.