Corporate activist backs ban on partners

Finance writer and shareholder activist Stephen Mayne is backing the two-year ban on former partners of accounting firms joining the board of a company that is a client of their old firm. Mayne told the CLERP 9 parliamentary committee hearings that the auditor independence rules in the United States are excessive, particularly in the case of smaller entities.

He expresses concerns about the phenomenon of former auditors joining the managements or boards of clients, citing the example of former KPMG audit partner Chris Lewis joining the National Australia Bank as its head of risk management.

Mayne says Lewis headed the due diligence team that advised the NAB on the purchase of HomeSide, after which he became the audit partner responsible for the NAB and, consequently, responsible for missing the $4 billion HomeSide writedown.

“He then became the guy covering up the audit failures at NAB, effectively, as the head of risk management. It was the worst example in recent Australian corporate history — I would say even worse than HIH — to have those three roles,” Mayne says. “The consultant recommending acquisitions becomes the auditor missing a $4 billion loss and then becomes the in-house executive in charge of risk — the very area the auditor missed.”

Maynes links the audit committee with the appointment of Lewis as the head of the bank’s risk management, arguing that Cathy Walter, presently the subject of controversy over her criticisms of the way the review of foreign currency losses was conducted earlier this year, is partly responsible for the hiring of Chris Lewis.

“We should hold her particularly responsible, as audit committee chair, for the hiring of Christopher Lewis as NAB’s executive general manager of risk management, because as audit committee chair she was dealing with him when he was the audit signing partner who signed the accounts, saying they were free of material misstatements when they had missed the $4 billion HomeSide disaster,” says Mayne.

The self-styled shareholder activist does not mince words when he attacks certain generally accepted accounting principles as applied by listed companies and signed off on by experienced audit professionals. Mayne argues companies such as David Jones should be required, for example, to show all of the lease liabilities on balance sheet.

He also attacks the failure of financial statements to reflect current values of assets by using AMP as an example of where, according to Mayne, the accounts are not free from material misstatement because the company’s net asset base is probably misstated by between $13-$14 billion.

“The auditor of AMP, Brian Long from Ernst and Young, signed the accounts last year, saying that the company had net assets of $18 billion. They were actually close to $5 billion, although some people argued that they were technically broke at the time. So he missed the mark by about $13 billion or $14 billion," says Mayne.

"Ernst and Young got paid $42 million by AMP last year to advise on the demerger process, which is, I think, a record fee. I would have been putting a resolution up at this coming AGM to sack Ernst and Young, on the basis that they signed the accounts, saying that they were free of any material misstatement and that the company had net assets of $18 billion.

"It is a complete joke, yet shareholders cannot put these resolutions up."

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.