

## Current affairs in audit

### Conclusion

In this month's edition of *Current Affairs in Auditing* we have discussed two interrelated problems: they being CEO turnover and merger mania. There is a great deal of pressure on CEOs in Australia to perform or else be sacked. One means of providing growth to shareholders is to grow through takeovers and mergers. But history shows there is high risk involved in acquisitions, especially acquisitions in overseas markets. As modern auditing requires auditors to understand the nature of the business and anticipate problems, both of these problems are relevant to auditors. CEO turnover may become an inherent risk as it creates pressures for CEOs to adopt earnings management to avoid being sacked and a bad acquisition may mean the asset's value of the acquired company in the balance sheet has to be written down or the acquisition can be so disastrous that it may sow the seeds of collapse.

The issue of whether Australian companies listed in United States stock exchanges will be subject to the harsher Sarbane and Oxley Act has recently arisen in Australia and the differing types of regulation imposed upon auditors in Australia and United States is discussed in this month's edition of *Current Affairs in Auditing*. As US regulation is based upon in part an examination of audit workpapers, there is no doubt that the US regulation is superior to that adopted in Australia. However, two factors explain why Australian regulators may not be so stringent. The first is that the impact of the US collapses and accounting scandals was far greater than in Australia. Secondly, increased regulation may distract management from creating wealth and government in Australia would argue that decreased wealth creation caused through excessive regulation is too high a cost for a nation to bear. Examples recently cited in the media relating to the costs and benefits of regulation are

- that increased regulation in United States may cause companies not to list in that country and "shift to other markets, like Australia or Europe" (Tso, 2004, p.2)
- that having independent directors on boards and the splitting of the role of CEO and Chairman does not improve performance. The cost associated with implementing these measures is not justified as avoiding decision making failure by boards has more to do "with the individual expertise and behaviour of directors and the Chairman's leadership qualities and how directors interact" (Greenblat, 2004, p.9)

- in negotiating with the US authorities about the nature and extent of regulation imposed upon Australian companies listed in US, the ASIC will argue that it wishes to minimise the extra cost incurred through “complying with each international set of laws” (Lucy, 2004, p.11).

However, the US experience is valuable to Australia as when the inevitable next round of corporate collapses occurs, regulatory authorities may examine the US regulation and its effects to determine if Australia would benefit from the adoption of similar regulation.

## References

Tso Karen, 2004, *Businessbreakfast: Transcript, Australia warned on US corporate governance*, [www.abc.net.au/businessbreakfast](http://www.abc.net.au/businessbreakfast)

Greenblat Eli, 2004, “Skills best path to governance”, *The Australian Financial Review*, 25 November, p.9

Lucy Lucy, 2004, *Significant regulatory issues facing ASIC and Australian business*, August, [www.asic.gov.au](http://www.asic.gov.au)