

## Chronology of significant facts leading to the crisis facing the audit profession

Date	Event
28 Sep 98	<p>Arthur Levitt, the then chairman of the Securities and Exchange Commission, delivers <i>The Numbers Game</i> (1998a) speech. He argues earnings are being managed to meet market expectations.</p> <p>The speech calls for the Public Oversight Board to investigate effectiveness of audits. The body investigating this question was later called The Panel of Audit Effectiveness. Also, Blue Ribbon Committee called to deliver recommendations to improve workings of audit committees.</p>
1998 – 1999	<p>Levitt delivers speeches emphasising the importance of confidence in a nation's financial reporting system and commenting that earnings management and auditor independence is undermining that confidence. (Levitt 1998b, Levitt 1998c, Levitt 1999a and Levitt 1999b).</p>
July 99	<p>Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees published.</p>
Aug 2000	<p>The Panel of Audit Effectiveness reports.</p>
16 Feb 2001	<p>Australian Democrats reiterates policy that has ramifications for audit independence (Murray, 2001).</p>
Mar 2001	<p>Harris Scarfe collapses.</p>
28 Mar 2001	<p>Kim Beasley announces the Australian Labor Party's policy to improve corporate governance that includes a brief policy on auditor independence (Beasley, 2002).</p>
Apr 2001	<p>HIH Insurance collapses.</p>
June 2001	<p>One.Tel collapses.</p>
18 June 2001	<p>Federal Government announces a royal commission into the causes of the HIH Insurance collapse. One of the matters to be investigated was the conduct of the auditor.</p>
29 June 2001	<p>Australian Securities and Investment Commission (ASIC) announces study on audit independence.</p>
July 2001	<p>Federal government commissions Professor Ian Ramsay to study the problem of audit independence.</p>
24 Aug 2001	<p>Australian Shareholder Association reiterates policy of banning the sale of non-audit services by auditors to audit clients (Fenton-Jones, 2001, p.18).</p>
24 Aug	<p>Alan Knott, the Chairman of ASIC, called for audit fees to increase</p>

2001	(Pheasant, 2001, p.6)
Oct 2001	Professor Ian Ramsay publishes reports entitled <i>Independence of Australian Company Auditors</i> .
Oct 2001	Enron collapses in USA. Eleven US Congressional Committees in USA investigate the collapse of Enron (Turnbull J., 2002, p.4).
Dec 2001	Royal Commission hearings into the collapse of HIH Insurance uncovers details about auditors conduct.
Dec 2001	Two accounting bodies issue re-exposure draft on professional independence.
16 Jan 2002	ASIC publish document based on survey of the top 100 companies in Australia. Report entitled 'Background to survey on audit independence', (2002). Document accompanies <i>Media and information release 02/13: ASIC announces findings of auditor independence survey</i> .
Jan 2002	Details published about Arthur Andersen, the auditors of Enron, shredding documents and that the amount of non-audit services provided by Arthur Andersen was a factor in their decision to retain Enron as a client.
Jan and Feb 2002	Editorials published by the <i>Australian Financial Review</i> (dated 17 January 2002, 29 January 2002 and 26 February 2002), and the <i>Age</i> (dated 2 February 2002) criticising auditors and suggesting change is needed.
8 Feb 2002	Peter Costello, the Federal Treasurer, signalled government's intention to overhaul audit industry ((Murphy <i>et al.</i> , p.1 & 10).
Feb 2002	Reports emanate from USA that confidence in reporting system of country is under severe pressure. For example, see Robison P., 2002, p.5.
Feb 2002	International Organisation of Securities Commissions to investigate audit independence and audit practices (Mellish, 2002, p.4).
Mar 2002	The auditors of Harris Scarfe are sued for up to \$220 million (Towers <i>et al.</i> , 2002 (a), p.1 and Towers <i>et al.</i> , 2002 (b), p.6).
Mar 2002	In Australia, it is announced that Arthur Andersen, the auditors of HIH Insurance, is to be acquired by Ernst and Young.
Mar 2002	In the United States of America, Arthur Andersen indicted for obstruction of justice for shredding documents relating to the Enron audit (Collins L., 2002, p.4).
Mar 2002	Paul Volcker, the former head of the US Federal Reserve and Chairman of the Trustees of the International Accounting Standards Committee Foundation, stated for quality audits to occur audit fees must rise (Fabro <i>et al.</i> , p.3).

Apr 2002	David Boymal, former member of Australian Accounting Standards Board and International Accounting Standards Committee, states that failing to comply with the intent of an accounting standard should be a breach of accounting body's by-laws (Ravlic, 2002, p.24).
12 Apr 2002	A joint committee of Federal Parliament, called the Joint Committee of Public Accounts and Audit, is to undertake an investigation entitled <i>Review of Independent Auditing by Registered Company Auditors</i> . The review is to investigate the balance between external controls through government regulation and freedom for industry self-regulation.
19 Apr 2002	CPA Australia calls for overhaul to accounting and auditing. (Buffini, 2002, p.1)
26 Apr 2002	Arthur Andersen moves to settle lawsuit for alleged negligence in conducting the audit of Southern Equities Corp (formerly Bond Corporation) (Drummond, 2002, p.1).

### Bibliography

ASIC, 2002, 'Background to ASIC's Audit Independence Survey', January, [www.asic.gov.au/asic](http://www.asic.gov.au/asic)

Beasley K., 2001, *Labor's Plan To Improve Corporate Governance Practices*, <http://www.alp.org.au/media>.

Buffini F., 2002, 'Accountants call for radical audit shake-up', *Australian Financial Review*, 19 April 2002, p.1 & 18.

Collins L., 'Charged, Andersen fights for life', *Australian Financial Review*, 16 March 2002. p.4.

Drummond M., 2002, 'Andersen to settle \$1bn Bond claim', *Australian Financial Review*, 26 April 2002, p.1.

Fabro A. and Buffini F., 'Volcker enters audit fray', *Australian Financial Review*, 8 March 2002, p.3.

Levitt A., 1998 a, 'The numbers game', NYU Center for Law and Business, September 28 1998, <http://www.sec.gov/news/>

Levitt A., 1998 b, 'Expanding the promise of opportunity and security through saving and investing', Consumer Federation of America, Washington D. C., December 3 1998, <http://www.sec.gov/news/>

Levitt A., 1998 c, 'A partnership for the Public Trust', American Institute of Certified Public Accountants, December 8 1998, <http://www.sec.gov/news/>.

Levitt A., 1999a, 'Corporate Governance in a Global Arena', American Council on Germany, October 7 1999, <http://www.sec.gov/news/>.

Levitt A., 1999b, 'Remarks to the Panel on Audit Effectiveness of the Public Oversight Board', Public Oversight Hearings, October 7 1999, <http://www.sec.gov/news/>

Mellish M., 2002, 'IOSC probes audit independence', *Australian Financial Review*, 22 February 2002, p.4

Murphy K. and Walker T., 2002, 'Costello: audit crisis of confidence', *Australian Financial Review*, 8 February 2002, p. 1 & 10.

Pheasant B., 2001, 'Directors are undervaluing audits', *Australian Financial Review* 24 August 2001, p.6.

Ramsay I., 2001, *Independence of Australian Company Auditors*, [cclsr.law.unimelb.edu.au](http://cclsr.law.unimelb.edu.au)

Ravlic T., 2002, 'David Boymal FCA', *Charter*, April 2002, p.24.

Turnbull J., 2002, 'ASX chief gives account of our financial future', *Age: Business*, March 26, 2002, p.4.

\_\_\_\_\_, 2002 a, 'Urgent need for review', *Australian Financial Review*, 17 January 2002, p.46.

\_\_\_\_\_, 2002 b, 'Taking stock of auditors', *Australian Financial Review*, 29 January 2002, p.46.

\_\_\_\_\_, 2002 c, 'Andersen's offer refused', *The Australian Financial Review*, 2 February 2002, p.65.

\_\_\_\_\_, 2002, 'The importance of honest auditing', *The Age*, 2 February 2002, p.6.

\_\_\_\_\_, 2002 d, 'Auditing diet has to improve', *Australian Financial Review*, 26 February 2002, p.62.