

## **Reforms to auditing firms' policies on independence**

Two of the Big Four auditing firms have announced policy changes in relation to independence matters. The first is Deloitte, who will no longer provide internal audit services to audit clients and install financial systems to audit clients. An external audit would review the adequacy of the internal auditor's work and check on the controls and data produced by financial systems. Both of these services would thus involve the auditor checking on the adequacy of their own work.

However, a more interesting proposal is PricewaterhouseCoopers introducing an oversight board to monitor their audit practice. This board would review audit processes, risk management, quality control, the firm's policy of partner remuneration and training and produce a publicly available annual report. The board members include Gordon Samuels, a former Governor General of New South Wales, Alan Cameron, former Australian Securities and Investments Commission chairman and Robert Lynn, a past president of the Accounting Standards Board.

Professor Keith Houghton of the University of Melbourne has advocated the use of oversight boards. He argues that recently that the audit market has changed and auditors will be forced to compete on independence matters. He also states that use of such boards brings transparency to independence issues and likens the introduction of oversight boards to the use of ethics committee in hospitals. While this might be an appropriate analogy, the introduction of oversight boards can also be likened to the use of corporate governance systems by listed companies. Following the corporate collapses of the late 1980s, there was a call for companies to use systems based around non-executive directors to curb the corporate excesses of executive management. The systems have been criticised as the non-executive directors may not be independent of executive management, lack the skills to carry out their assigned tasks or are dependent upon executive management for information to carry out their duties. Oversight boards for auditing firms may suffer from the same weaknesses.