Companies' reactions to independence problems

Several companies have announced policies directed at improving the independence of their auditors.

Woolworths

Woolworths announced that they would put their audit out to tender every five years, change their audit partner and never appoint a former auditor as a company director. The audit committee made up of external directors should also appoint and interview the auditor without executives present. The rationale for this policy is to protect overseas investors, shareholders and employees in the aftermath of the collapse of Enron and HIH.

ANZ Bank

ANZ announced a policy regarding the provision of non-audit services by their auditor. The policy notes three categories of non-audit services. The first category is services that can be provided by their auditors. The second is those services that cannot be provided by their auditors, the justification being that these services require auditors to express an opinion on its own work. The final category is services that can be provided by ANZ's auditors subject to audit committee approval.

Provision in made for the bank to vary the policy. However, variations have to be approved by the Board of Directors.

John McFarlane, the managing director of the ANZ Bank, is said to want to position himself as a socially responsible banker and this policy would be seen as an example of this strategy. Other areas in financial reporting where the ANZ Bank is taking initiatives are a discussion of critical accounting policies and disclosure of off balance sheet structures in the company's published financial statements. This latter issue was a critical factor in Enron's crash.

AXA

In response to concerns raised by the Australian Shareholder Association about the level of consulting services provided by auditors, the chairman of AXA stated that the auditors were not to provide bookkeeping, systems development, internal audit outsourcing and asset valuation services. The reason for adopting such practices was to ensure the auditors did not run the risk of auditing the performance of their work or work carried out by other parts of their firm.

Group of 100

The chief finance officers of the Group of 100 have recommended that auditing firms not sell consulting services such as tax planning, due diligence or IT services to audit clients. This group represents the chief finance officers of major listed Australian companies. Tom Pockett, the president of the Group of 100, stated that the Group supported proposals that included rotation of audit partners, not audit firms; external auditors not providing consulting services; internal controls that balance pressures on companies to beat earnings forecasts; and a mechanism to reclaim profits from CEOs or directors who make poor or misleading disclosures. The group argued that share-based remuneration schemes and the short-term perspective of the share market were causing earnings management. Finally, they called on the government to implement Ramsay Report reforms.

These developments from auditing firms and companies are welcomed as it highlights areas where audit independence may be compromised. However, a word of caution should be noted. Senator Conroy noted that self-regulation of the auditing profession is out of date. The policies introduced by auditing firms and client companies are a form of self-regulation. Consequently, two questions could be posed. They are:

- Are the above changes being introduced to prevent government regulation?

- Are the above recommendations similar to business' response in recommending corporate governance systems to curb the excesses of executive management that led to the corporate collapses of the late 1980s?

For reasons outlined earlier in this edition of *Current Affairs in Auditing*, corporate governance systems have their critics. Also, the disadvantage of the above recommendations is that they rely on the initiatives of individual auditing firms and client companies. It would be far better if the accounting profession or government introduced regulations that outlined allowable and non-allowable practices as these regulations would apply to all auditors and their clients.