

September 2002 in review

September brought significant developments in this chronicle of an accounting/auditing crisis, with the publication of two governmental reports. The first was the government's discussion paper on financial reporting and auditing entitled *Corporate disclosure: Strengthening the financial reporting framework*. The second was the report by the Joint Standing Committee of Public Accounts and Audit inquiry into auditing. This month's edition of *Current Affairs in Auditing* will focus on the government discussion paper, with some brief commentary included. Next month's edition will deal with the Joint Committee's report and various reactions to the government's discussion paper.

Before we discuss the reforms proposed by government, it may be useful to reiterate the regulatory problem facing government. By its nature, an audit is a confidential review of company accounts. The workings of an audit are not disclosed to the public. Except for the level of audit fees and other services, most issues relating to independence cannot be observed by regulators. It is often only when companies crash that the spotlight is turned on auditors and information about auditor performance becomes public. Also, as noted in last month's edition, government prefers a self-regulatory approach as it is less costly to government. Examples of self-regulatory mechanisms that have been emphasised recently include the adoption of (i) corporate governance systems by companies, (ii) supervisory boards by auditing firms and (iii) policies on the purchase of non-audit services by companies. Another complicating factor is that the issue of auditor regulation is complex, and it seems there is no perfect solution to this problem. In the current debate about auditor performance various reforms have been suggested. It seems each reform has its advantages and disadvantages. Also in last month's *Current Affairs in Auditing*, we noted the dangers of imposing rules on business that increase bureaucratic red tape.

Reference

The Treasury, 2002, *Corporate Disclosure: Strengthening the financial reporting framework*, Commonwealth of Australia, 2002, <http://www.treasury.gov>.