Audit committees

It is now mandatory for the top 500 listed companies to have audit committees (para. 8, Reform Proposals). Last month's *Current Affairs in Auditing* noted that the Australian Stock Exchange will amend its rules to include this provision. In its Reform Proposals (para. 8), the government stated that it 'supported the role of the ASX Corporate Governance Council in developing best practice standards for audit committees'.

Commentary

Whenever the issue of independence is raised, the first suggestion to deal with the problem of audit independence is audit committees. It is argued that auditors can take problems to non-executive directors on audit committees, who are more inclined to act on the problems because they will be less biased in their attitude to reported results. Executive directors such as the managing director see the published results as reflecting their own management abilities and so have more incentive to manipulate the results. Also, non-executive directors have onerous legal duties, and being part of the audit committee allows these directors to access more information about the company's results. It is therefore hoped that the non-executive directors will be more informed and will, where needed, take the appropriate action.

Audit committees are a form of self-regulation, with no cost to government, and are thus a favoured form of regulation with governments.

Reference

Joint Standing Committee on Public Accounts and Audit, 2002, *Report 391: Review of Independent Auditing by Registered Company Auditors*. The Parliament of the Commonwealth of Australia, Canberra.