

REACTIONS TO GOVERNMENT'S DISCUSSION PAPER

An editorial appearing *The Australian Financial Review* (2002) stated that the Federal Government's proposals were a balancing act between the need to reassure shareholders about losses arising from corporate excesses and the need to not overact and stifle enterprise. However, the editorial stated that the Federal Government's proposals did not do enough in relation to auditors. It described the auditors as being the last hope of stopping the rot in companies and stated that auditor firm rotation, an independent oversight board and a complete ban on consulting services were required. It queried whether the Financial Reporting Council had the skills to act as an effective oversight body. The editorial concluded that the profession had its way with the Federal Government.

Professor Lynn Turner, formerly chief accountant of the Securities and Exchange Commission in USA, criticised the Federal Government's proposals as not improving audit quality or improving audit independence. He argued that clear bans on non-audit services were more likely to result in auditor independence. He criticised the notion that the profession's independence standard, where auditors themselves determine independence threats, would be effective. He does not favour the auditing profession enforcing independence rules and said he also wished to see auditors increase their fraud detection abilities by adopting forensic auditing skills (Ravlic 2002, p. 1).

He also stated that proportionate liability, introduced in USA in 1995, had not improved the quality of auditing. He argued that the leadership of the accounting profession in USA have not learnt the lessons arising from the collapses in USA.

Harris (2002a), writing in *The Australian Financial Review*, was very critical of the Federal Government's proposals and suggested that they favour the auditing profession. He pointed out that electoral records show the big accounting firm donated \$204 000 to the Liberal Party, whilst only donating \$12 000 to the Labour Party.

Coleman (2002) stated that the Federal Government's discussion paper proposals do not solve auditor's insurance problems. He argued that capping auditor's liability will solve this problem. Coleman is a partner in KPMG.

Trevor Sykes (2002) has extensively written on corporate collapses. He noted that the Federal Government report stated that no auditor has notified the Australian Securities and Investment Commission (ASIC) of breaches of the Corporations Act as required by section 311 of the Act. Given the recent corporate collapses, he sees this as an indication of failings of the profession and wonders if the proposals suggested in the Federal Government discussion paper will result in any improvement.

References

- Sykes, T. 2002, 'Large firms are the winner', *The Weekend Australian Financial Review*, 21–22 September, p.14.
- The Australian Financial Review* 2002, 'A step in the right direction', 19 September 2002, p. 70.
- Ravlic, T. 2002, 'Regulator slams "soft" audit reforms', *The Age: Business*, 23 September, p. 1.
- Harris, T. 2002, 'Auditing: a cold response', *The Australian Financial Review*, 24 September, p. 62.

Coleman, M. 2002, 'CLERP 9 welcome but falls short for auditors', *The Australian Financial Review*, 23 September, p. 63.