

NOVEMBER 2002 IN REVIEW

November's edition has dealt with evidence before the royal commission into the collapse of HIH Insurance and legal action brought by the liquidator relating to the collapse of HIH Insurance. The royal commission's final report will be significant, as the Federal Government will consider the findings before issuing its own final reforms into auditing and financial reporting. It is hoped the findings of the royal commission along with issues arising from the lawsuit brought by the liquidator against the auditors of HIH Insurance highlight issues relating to evidence collection, an issue that has received scant attention so far.

This is the last edition of *Current Affairs in Audit* for this year. This column has sought to describe the various developments in an 'audit crisis' facing Australian business. These developments had many twists and turns and will not be substantially resolved until next year. However, regulation of auditing is a complex matter and the Federal Government's final reforms will probably result in a heated debate about the adequacy of those reforms.

The complexity in devising reforms arises from three factors that at times can conflict:

- In this internationalised business world, it is important that people have confidence in a nation's reporting system. In April's edition of *Current Affairs in Audit*, Arthur Levitt (former Chairman of the Securities and Exchange Commission in USA) was noted as saying that confidence is necessary in a nation's financial reporting system because:
 - increasingly people are investing in shares as part of their retirement plans
 - the capital flows between countries are of increasing importance in this internationalised business environment. Confidence is needed in the reporting system to maintain these capital flows.

The importance of confidence in a nation's reporting system has been reinforced when recently, China's Premier, Zhu Rongji, urged Chinese accountants and auditors to never falsify accounts. One of the factors relevant to confidence in a nation's reporting system is the quality of the audit function.

- Financial reporting abuses accompanied by audit negligence are said to occur in a minority of circumstances. Thus, reforms introduced should not unjustly burden the majority of companies who report fairly.
- The audit process is unobservable and thus one cannot observe whether auditors are complying with best audit practice in the conduct of the audit. Aspects of independence are observable and reforms would be most likely directed at independence issues. It is feared that reforms will neglect the question of whether present audit methodologies result in sufficient, competent and reliable evidence being collected.

The reforms necessary have been described as a balancing act and thus we wait for the new year when the royal commission reports and the Federal Government produces its final reforms into auditing and financial reporting.