

WAS ARTHUR ANDERSEN NEGLIGENT?

A partner of Deloitte Touché Tommatsu was hired by the HIH royal commission to provide a report on the quality of audits provided by Arthur Andersen. The partner gave evidence before the royal commission and this evidence was reported in *The Australian Financial Review*, in an article entitled 'Andersen's audits of HIH deficient' (Main 2002). The partner's evidence is highly critical of Arthur Andersen and for full details of the criticisms you should read this article.

One matter that the partner noted was that Arthur Andersen's work relating to the recoverability of assets was deficient. Companies that are failing generally have trading losses and this leads to questions on whether assets' values, especially intangible assets, can be recovered either through the sale of the asset or through the revenue production cycle. Companies that are failing generally have poor trading results and they are reluctant to increase these losses by writing off assets whose value cannot be recovered. The auditor's task is to estimate what portion of the asset can be recovered in the future. Recoverability of assets involves a subjective assessment of the future saleability or use of the asset in the revenue production cycle. Being future orientated, this assessment involves great subjectivity and poses problems to auditors.

References

Main A 2002, 'Andersen's audits of HIH deficient', *The Australian Financial Review*, 28 November, p. 12.