

AUDIT STANDARDS TO BE REDRAFTED

Audit standards will be redrafted and given the force of law in Australia despite strong opposition from the accounting profession, according to the parliamentary secretary to the treasurer, Senator Ian Campbell.

Senator Campbell told an audience at the recent summer school held by the Australian Securities and Investments Commission that the government will proceed with moves to put auditing standards into law despite the intense lobbying from the professional accounting bodies and other organisations.

The Federal Government proposed the legislating of auditing standards in the ninth installment of its Corporate Law Economic Reform Program (CLERP 9).

Legal backing for auditing standards will occur in the same manner as it does for accounting standards, Senator Campbell explained, and auditing standards will become disallowable instruments.

Giving auditing standards that status means they will be a part of the body of law dealing with audit rather than merely professional standards developed by a board selected by the professional accounting bodies.

‘There has been concern, for example, around the policy decision to give legislative backing to audit standards. I think many people in the accounting profession have challenged us by saying these are very subjective standards, they are very hard to put in legal language and again I have been asked to reconsider that policy,’ the Senator asserted.

‘I have reconsidered it and I reaffirm that the government will give legislative backing to audit standards. The policy in CLERP 9 said that we would give legislative backing to the core standards.’

Senator Campbell told the summer school audience the accounting profession urged him to review the policy outlined in the CLERP 9 discussion paper because of the difficulty in determining what the difference was between core and non-core audit literature.

The proposed legal backing for auditing standards has been of concern to the accounting profession because the initial proposal in CLERP 9 sought to give legal backing to core auditing standards.

Defining what constituted a core auditing standard and what audit literature sat outside that body of core audit literature was of concern to some audit experts lobbying the Federal Government.

‘I have reviewed [that policy] and we will in fact be giving legislative backing to all of the standards and we will do that in a diligent fashion. My view has been that you should

be able to give audit standards the same force as accounting standards, and the way I intend suggesting to Cabinet that we do that is that we effectively make the audit standards disallowable instruments in the same way as accounting standards are.'

Senator Campbell also indicated he was opposed to those parties wanting to overturn the government's policy for audit partners to be rotated every five years.

He said five year rotation was consistent with a 1997 report on reforms to the regulation of registered company auditors and that five years was international best practice.

Seven-year rotation was recommended by Professor Ian Ramsay from the University of Melbourne — the author of a report on auditor independence commissioned by the Federal Government.

Senator Campbell acknowledged concerns existed in rural communities about laws related to rotation of auditors given those regions have few auditors practicing within them to start with.

'I think there are, however, some genuine concerns about regional areas and smaller market places and so forth where five-year rotation may be not desirable,' the Senator stated

'In all of these things we are trying to get a good regulatory outcome for shareholders and so what we are looking at at the moment is to give [the Australian Securities and Investments Commission] — and I am sure [ASIC chairman David Knott] will be really pleased to hear this — an exemption power.'

The ASIC has lobbied hard for the introduction of an alternative means to resolve accounting disputes following its loss in the case against MYOB Limited over that company's use of an accounting method the ASIC believed was prohibited by an accounting standard.

Senator Campbell is considering the ASIC's favored model of a financial reporting review panel that would examine the specific circumstances of an accounting dispute between the commission and a company.

That panel would then issue a ruling on the appropriate accounting treatment in a similar manner to what is done by the UK Financial Reporting Review Panel.

CLERP 9 did not contain a recommendation for a sign-off on the financial statements by the chief executive officer or the chief financial officer of a company. Senator Campbell said the government is contemplating a CEO and CFO sign-off that is a form of assurance for the members of a company board.

'Could I say that in relation to the debate around CEO/CFO sign-offs, I was never a fan of that because in America it was a sign-off to the shareholders and I think one of the

things we have got right in Australia is keeping lines of responsibility within companies quite clear,' said Senator Campbell.

'My concern with the CEO/CFO sign-off was that if you bypass the board you are actually relieving the board of some duties and what we are considering is that there be a CEO/CFO sign-off but that will be a sign-off that is made to the board so that you keep in place that line of responsibility of the executive to the board and the board to the shareholders.'

The Senator has also maintained a strong line against watering down a proposal to fine companies for failing to comply with continuous disclosure requirements despite a chorus of opposition from the corporate sector.

'It is a crucial requirement if you are going to have a continuous disclosure regime with ethics that you have a range of appropriate penalties in place. Everyday that goes by I am more committed to the importance of that measure,' said Senator Campbell.

'It's important therefore to see that if companies aren't prepared to comply with the best practice guide that there are appropriate penalties in place, and I think in relation to disclosure of remuneration that it will be very hard to enforce unless you have a legislative requirement and of course under CLERP 9 we are looking very closely at appropriate provisions in the law.'