

CORPORATE GOVERNANCE – WIDER DEFINITION

Problems involving corporate governance as defined in the wider sense have also been reported in the media in March 2003. The parliamentary secretary to the treasurer, Senator Ian Campbell, in an address to the ASIC Summer School stated that the government would pick up the slack in best-practice corporate governance practices. He stated that corporate governance legislation was necessary in a number of areas. The two areas that have the most significance to financial reporting and auditing are:

- an expert panel to adjudicate on disputes between companies and the ASIC on accounting standards
- auditing standards to be redrafted into legally enforceable standards (Buffini, 2003, p.5).

The rationale for having an expert panel to adjudicate on accounting standards is that judges may lack knowledge about accounting standards and this approach provides a more flexible and immediate solution. The above issue highlights the relative merits of principle-based standards and rule-based standards. The Australian accounting profession favours principle-based standards. Volcker (2002), the former Federal Reserve Chairman in USA and Chairman of the Trustees of the International Accounting Standards committee, has made the comment that principled-based standards ‘would further the burden on the independent auditor for disciplined, independent and dispassionate judgment’ (p. 4). Principle-based standards involve great subjectivity, leading to a greater burden placed on auditors and the need for a panel to adjudicate on disputes.

In relation to auditing standards it would seem difficult to redraft the auditing standards to make them more objective and thus more capable of prescribing right or wrong behaviour of auditors. Out-of-court settlements, with their confidentiality clauses, prevent details of substandard auditing becoming public. Corrective action is thus not possible. Nowadays, legal cases involving auditors can be easily turned into a long drawn out affair where costs are large and this favours an out-of-court settlement. However, legally enforceable auditing standards do open another avenue by which auditors can be subject to legal proceedings. In last month’s *Current Affairs in Audit* it was stated that the ASIC might use statutory backing of auditing standards as a means to bring legal actions against auditors. It is hoped these actions raise the standard of auditing in Australia.

References

- Buffini, F 2003, ‘Disclosure regime to get teeth’, *The Australian Financial Review*, 15–16 March, p. 5.
Volcker, P 2002, ‘Finally, a time for audit reform’, *Corporate Board*, Sep/Oct, pp. 1–5.