

## **HIH inquiry outcomes and April review**

The report of the Royal Commission into the collapse of HIH Insurance re-affirms that corporate governance is seen at the main regulatory reform to deal with the problem of corporate collapse. The report also emphasises that it is impossible to regulate to prevent all corporate collapses. This is mainly because corporate governance mechanisms by themselves will not prevent corporate collapse. Justice Owen noted that HIH had a “semblance of standard governance mechanisms at work” (Owen, 2003, p.77) and emphasised that good corporate governance depends upon the honesty and integrity of directors and management and their willingness to speak out if they discover corporate irregularities. These qualities are not universal and provide some explanation why corporate collapse is, and will be, a perennial problem.

The month's edition also discusses the case *ASIC v Rich* that continues the trend of imposing onerous duties on directors. It remains to be seen if further cases arising out of HIH and other corporate collapses adds more responsibilities to directors.

### ***Appendix 1: Corporate governance and financial reporting recommendations of the HIH inquiry:***

Extend the rotation of auditors so senior staffers as well as partners are rotated every five years.

Force companies to disclose all non-audit services provided by their auditor, fees for "each item of work", and why independence is not compromised.

Introduce a four-year cooling-off period before an audit partner or senior staffer can direct or manage an audit client.

Introduce a two-year cooling-off period before a partner not directly involved in the audit can join a client.

Only one former partner of the audit firm can direct or manage an audit client at a time.

Ban a company's approved actuary from being an employee or partner of the company's auditor.

Ban audit firms from rewarding staff based on their ability to cross-sell other services to clients.

Introduce a tougher standard of independence and extend restrictions to audit firms.

Put non-accountants on accounting standard setting bodies.

Rewrite the accounting standard on insurance to clean up reinsurance.

Include a summary of the nature and scope of the audit work done each year.

Review requirements to ensure full disclosure of director and executive pay.

Revise law to ensure executives who act dishonestly or in breach of the law can be prosecuted.

Source: Buffini *et al.*, 2003. p.4.

## **References**

Buffini Fiona, Hepworth Annabel and Priest Marcus, 2003, “Business hits back over HIIH Reforms, *The Australian Financial Review*, 22 April, pp. 1 & 4.

Owen Richard, 2003, “Law ‘won’t’ stop incompetence”, *Herald Sun*, 19 April, pp. 77-8.