Corporate Collapse

The author attended a seminar on corporate collapse held at CPA Australia on 12 June. The most significant comment came from Keith Alfredson, the recently retired chairman of the Australian Accounting Standards Board, who stated that directors should have an audit of the system that produces information given to them for decision-making. The rationale for this suggestion is that directors' responsibilities are increasing and there is a fear that, due to their reliance on management for information, this information could be filtered or biased.

One of the issues to consider with this suggestion is who will conduct the audit? Will it be the internal auditor, another firm of external auditors or the present external auditor? Often the internal auditor reports to executive management and their independence becomes questionable. Having another firm of external auditors would be costly and cause inconvenience to company staff. Cost and inconvenience could arise if both sets of external auditors are covering similar matters and inquire about and discuss these matters. If the present external auditor attests to this information, the audit fee will rise.

It could be argued that as part of present audit methodologies, information given to the board could be regarded as a control that enhances financial statement reliability. Thus, the external auditor should test this control. If directors are given reliable information, they will have a more realistic picture of the company's financial results and thus be better able to determine if the results in the annual reports are fair.

A disadvantage of this suggestion is that its implementation may cause distrust between executive management and non-executive directors. However, the suggestion does indicate the increasing responsibilities of directors for financial statement reliability and the need for directors to demonstrate that they have taken sufficient steps to show they have taken due care in the exercise of their responsibilities.