

Reaction to independence reforms included in CLERP 9 Bill

The Parliamentary Secretary to the Treasurer, Ross Cameron, acknowledged that the government was considering relaxing its approach “to the independence rules following feedback from the accountancy industry” (McLachlan *et al.*, p.1). He also noted that the accounting profession had been “vigorous in its lobbying of the government since the HIH collapse” (p.18).

The changes considered are:

- Reducing the cooling off period of former audit partners becoming employees or directors of former clients from four to two years. The accounting profession wishes the cooling off period to be one year.
- The rotation period of the lead audit partner may be reviewed. The profession wishes the rotation period to be extended from five to seven years.

The profession’s arguments for reducing the cooling off period to one year are that it discriminates against auditors (as no similar bars exist for lawyers and investment bankers), limits employment prospects for accountants, is anti-competitive and is not in line with international standards (p.18). On auditor rotation, the profession argues a seven-year rotation period is in line with international standards. However, the US has a rotation period of five years (p.18). The profession also wishes the rule allowing only one former audit partner on the board or as part of senior management be changed (p.18)

Senator Conroy (Buffini, 2003c, p.9), Labour’s governance spokesman, and Chanticleer (2003, p.64) reminded the government of Peter Costello’s promise to implement all of the HIH reforms. The HIH Royal Commission recommended increasing the cooling off period to four years. Senator Conroy also stated the reforms proposed in CLERP 9 fell short of US reforms. Chanticleer (2003, p.64) has reservations whether Ross Cameron is a suitable person for handling matters relating to CLERP 9. Phillip Spathis, a representative of the Australian Council of Superannuation Investors stated:

The ink is hardly dry on the recommendations by Justice Owen in HIH...

We thought they were sensible measures and not overly restrictive

It is a concern that we have a range of vested interests that want to do away with sensible proposals (Buffini, 2003c, p.9).

Finally, an editorial in *The Australian Financial Review* (26 November 2003, p.62) dealing with APRA’s suggested reforms to the general insurance industry stated:

Minimising the risk of future collapses is tricky. But the right mix of specific measures to combat glaring abuses and general insurance reforms aimed at making boards, audit committees and auditors more independent should help.

That means, of course, that the Howard government should resist all entreaties to soften the audit independence reforms in the CLERP 9 reform bill.

References

Buffini, Fiona 2003c, 'Softening of audit reform alarms investor groups', *The Australian Financial Review*, 26 November, p.9.

Chanticleer, 2003, 'Great news for foes of regulation', *The Australian Financial Review*, 26 November, p.64.

McLachlan, Miranda and Buffini, Fiona 2003, 'Breakdown on tough rules for auditors', *The Australian Financial Review*, 25 November, pp.1 and 18.

_____ 2003, 'New rules are good insurance', *The Australian Financial Review*, 26 November, p.62.