

## **Former audit board member a casualty of the NAB aftermath**

A former member of the Auditing and Assurance Standards Board, Chris Lewis, has been given his marching orders by John Stewart, the new chief executive of the National Australia Bank (NAB), following the release of the PricewaterhouseCoopers (PwC) report into the foreign currency trading debacle.

Lewis is a former partner of KPMG and was on the audit standard setting board as that firm's representative until he left the accounting practice to join the NAB as its executive general manager of risk management.

It was in his KPMG audit partner role that he signed off on the external audit of the NAB.

The departure of Lewis from his senior executive post was made public during a media conference held to explain the findings of the PwC report.

Some key findings of the report — analysed in more depth in the latter pages of this edition — are that the:

- final loss arising from foreign currency options trading announced on 27 January is \$360 million and that the losses arising from options trading grew significantly between September 2003 and January 2004,
- four traders used weaknesses in the trading systems to hide the losses and protect bonuses,
- trading losses were reported to management by several junior employees,
- markets division had inadequate management supervision, significant gaps in back office monitoring functions, escalation processes that did not work properly, weaknesses in control procedures, failure of risk management systems; and an absence of appropriate financial controls,
- bank lacks an appropriate compliance culture in this area and that bad news tends to be buried rather than passed on early, and
- warning signals from within and outside the bank were generally ignored.

Lewis is one of three senior executives to have been 'let go' by the bank following the foreign currency trading controversy.

The other two senior executives to have been shown the door are Ian Scholes, the executive general manager of corporate and institutional banking, and Ron Erdos, the head of the NAB's markets division.

'The reason they are leaving the bank is because I have lost confidence in them as has the board', Stewart says.

His banking experience hails from retail banking and not wholesale banking, Stewart explains, and told a media conference he did not want to spend his life looking over this shoulder.

Stewart also outlined the fact all four traders involved in the exercise and their immediate supervisor have been sacked.

‘Primary responsibility for the unauthorised trading rests with four members of the foreign currency options desk and they have been summarily dismissed from the National,’ Stewart says.

‘The four traders that have been dismissed are: Luke Duffy, David Bullen, Gianni Gray and Vince Ficarra. The Head of Foreign Exchange in the Markets Division, Gary Dillon, who was the direct supervisor of the four traders, will also be dismissed.’

Members of the press asked the chairman of the company board, Graham Kraehe, during a press conference held to discuss the report whether the company is reconsidering the appointment of KPMG as the auditor following the foreign currency trading losses. That question follows speculation in the marketplace that the firm will lose the audit as a result of recent concerns about its failure to comply with independence rules set down by the Securities and Exchange Commission in the United States.

Kraehe told the press conference attendees that the matter would be the subject of consideration by the audit committee, which is in charge of determining how the company will deal with or engage with the auditors.

A question that has been publicly canvassed subsequent to the release of the report into the foreign currency losses is whether PwC would be able to bid for the audit at all because a former partner of the firm, John Thorn, has assumed the role of the head of the audit committee. Thorn joined the board of the bank after he retired from PwC last year.

This article was supplied by Tom Ravlic. Tom Ravlic is a financial journalist who has spent the past seven years covering the accounting profession, accounting and audit standard setting and corporate governance. His work has appeared in various publications including *Business Review Weekly*, *Personal Investment* (now *Personal Investor*), *The Age*, *CFO Magazine*, the *Australian CPA*, the *Company Director Journal* and the newsletters of the internationally renowned Lafferty Group. In addition to his freelance commitment to a wide range of publications, Tom has recently accepted an appointment to be editor of *Chartac Accountancy News*, published by Melbourne-based publisher Crown Content.