

A photograph of a lighthouse with a black base, a red middle section, and a white top section, situated on a concrete pier extending into the ocean. The sky is blue with scattered white clouds.

Viewpoint

Risk advisory

It is likely larger organisations will deal with a minimum of two accounting firms at any one time – one for audit and another for other non-audit services.

Corporate Governance - Have You Done Enough?

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Challenge area

With control over arguably the world's most influential capital market, the US has raised the bar on corporate governance – it has also created a new set of shadowy trade restrictions. If you want to trade with a US company, or supply it with components from another country, you will be almost compelled to comply with Sarbanes based controls. If your long-term plan as an Asia Pac entrepreneur has been to seek venture capital investors from the US, then you need to begin complying with Sarbanes now. Merger and acquisition due diligence reports and valuations are already beginning to include premiums for companies with strong corporate governance programs.

New perspectives

Each of the players in the capital market game worldwide has been impacted. Regulators around the world have in many ways mirrored many of the Sarbanes requirements. Australia's Clerp 9 reform has many parallels. Whilst Australian regulators have focused on market disclosure procedures and independence, the role of boards and audit committees has also received significant attention.

Action: Understand the Clerp 9 requirements and any intersection between local governance issues and Sarbanes-Oxley responsibilities.

It is likely larger organisations will deal with a minimum of two accounting firms at any one time – one for audit and another for other non-audit services. The net result being, increased competition between firms, a greater number of relationships to maintain and a more critical approach to service as clients are exposed to more than one provider allowing greater comparison of fees and service levels.



The importance of audit committees has increased enormously in the past year.

Action: Critically analyse the tasks your auditor currently performs. Evaluate other potential providers where independence may be compromised.

US Public companies must deal with the burden of documenting and evaluating their internal controls to meet the Sarbanes-Oxley requirements. For some, these guidelines will be provided by US parent companies, for others, they must be developed locally. These new controls increase both the workload and compliance costs for Australian based staff, with many critical of any addition to 'real output' –and critical of the need for 'more paper work'.

US research suggests compliance costs could increase by 25% to 30% in the first year of implementation of internal control programs.

US research also shows that audit fees could increase from between 30% to 50%.

Action: Document and evaluate internal control regimes – check with head office for standards or commence local implementation program.

The importance of audit committees has increased enormously in the past year. With responsibility for the approval of all non-audit services provided by the auditors, the interaction between management and audit committees will increase. The development of communication protocols between the audit committee and management will be vitally important in the first two years under the new regime. Audit committees have already exhibited a degree of conservatism, referring many potentially conflicting appointments straight to competitive tender or alternative providers. Management can save themselves time by quickly understanding their audit committees' position on conflict.

Action: Develop audit committee communication protocol. Clarify role of CFO, CEO, audit committee and board regarding communication with auditors and the market.

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The way forward

CEOs & CFOs take on a burden of responsibility like never before. They are now required to provide certifications regarding annual and quarterly reports, covering the presentation of the reports and internal controls.

They must be confident in their internal procedures and ever vigilant for fraud. Increasing the scrutiny under which their performance is placed can also be linked to the growing market infatuation with CEO salaries and links to performance.

About the author

As a Partner responsible for the Audit services division, Tim has extensive experience as a chartered accountant specialising as an auditor. He has worked with financial institutions, superannuation funds, hospitals, government department agencies, property developers and manufacturers. Tim has extensive knowledge of accounting standards and statutory reporting requirements, and was a member of the team that prepared the accounting and auditing standards for the Australian Financial Institutions Commission.

Tim has in excess of fifteen years of credit union auditing experience. This includes auditing, accounting advice, review of risk management systems and computer audit. He has extensive knowledge of the Local Government Act, Regulations and Finance Standards including an in depth understanding of the complex issues associated with infrastructure assets. He has an in depth knowledge of the reporting requirements and other issues facing Local Government. Tim has significant expertise in probity auditing gained from the successful completion of a number of significant including the Surat Basin/ Dawson Valley Private Sector Infrastructure Project. Clients value Tim's technical knowledge and ability, and appreciate his skills in effectively communicating the implications of his analysis.

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