

Regulation of Auditing.

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FAO:
Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services.

I wish to have my views on the subject of the regulation of auditing in Australia.

I am most concerned because repeatedly we see auditors sign off on a company or a bank stating they are sound only to see that company fail shortly afterwards. The recent collapse of Thomas Cook in the UK is a case in point. Please see this article from UK press dated 1.10.19. <https://www.thesun.co.uk/money/10044534/thomas-cook-latest-news-collapse-business/>

This has happened time after time – so what are the auditors looking at?

How can a firm of auditors who are paid by the company it is auditing, and receives remuneration for consultation and advice from that same company, ever hope to give impartial and sound advice on the real health of the company? We in Australia are told our banks are safe yet they are audited by the same big four auditors who keep getting it wrong.

There is a massive conflict of interests and it is well past the time to talk about the HUGE elephant in the room.

A new report recently commissioned by the UK's Shadow Chancellor of the Exchequer, Labour MP John McDonnell, has dared to finally get serious about cleaning up the financial system by taking on the guardians of the corruption and criminality in the banks and big companies, the Big Four global accounting firms.

Released in December 2018, the report, *Reforming the Auditing Industry*, was prepared by a team of experts led by retired accounting professor Prem Sikka, who advised the British parliamentary inquiries into the collapses of the large retailer BHS and contractor Carillion. It exposes how the Big Four—PricewaterhouseCoopers (PWC), Ernst & Young (EY), KPMG, and Deloitte—are more influential and pervasive in their criminality than even the banks in the City of London and Wall Street, or Australia's Big Four.

Australian investigative reporter Michael West in 2016 put the figure at 98 per cent of the world's largest multinational companies are audited by the big four auditors. The Big

Four have therefore signed off on the illegal activities and protected the predatory practices by which corporate executives and large shareholders have been able to loot companies for their own personal wealth, which has bankrupted companies and robbed employees, pension funds and small business creditors. They have also designed and overseen the world's tax avoidance/evasion infrastructure and practices, which collectively robs governments of trillions of dollars and equivalent of revenue that could otherwise be spent on services and infrastructure.

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A fundamental conflict of interests

As was demonstrated repeatedly during Australia's Financial Services Royal Commission the financial system is riddled with conflicts of interests, which are at the centre of virtually all instances of crime and misconduct. **The Big Four accounting firms are structured around a fundamental conflict of interests.**

Auditing is a state-mandated function—companies are required by law to have their books audited by an external auditor. Accounting firms thus enjoy a state-mandated market, in every country. Auditing the biggest banks and corporations is such a large task that only the largest accounting firms have the capability to do it, which is how the Big Four came to so comprehensively dominate the auditing of large corporations worldwide.

The purpose of audits is to give stakeholders—shareholders, customers, regulators, etc.—confidence in the companies' financial accounts; the integrity of the audit is therefore crucial. However, the Big Four accounting firms don't just audit big corporations, they also provide consultancy services to the same corporations, which actually comprises a bigger part of their business than auditing.

In general, one third of the Big Four's revenue comes from auditing, and the rest from consultancy services. This means there is no way that their audits can be trusted as independent.

Australia too!

Michael West reported that the Big Four accounting firms enjoy pervasive influence over Australia. He quoted Martin Lock, formerly the head of withholding tax for the Australian Tax Office (ATO), on the pervasiveness of the four firms in formulating laws:

“These same stalwart firms are ensconced on the Board of Taxation, its Working Groups, CPA Australia, the Institute of Chartered Accountants (since renamed CAANZ) and the ATO's very own National Taxation Liaison Group, which the ATO describes as ‘one of the ATO's eight stewardship committees which addresses strategic issues to benefit Australia's taxation and superannuation system’ and which ‘drives improvements ... to ... tax law interpretation, administration, design and policy (including technical issues); confidence in and compliance with the tax system; and ATO service delivery’.”

West continued: “Then there are the dozens of millions of dollars lavished yearly by governments upon the Big Four for consulting reports and advice, and staff ‘secondments’ between the mega-firms and bureaucracies such as the Tax Office and the corporate regulator.” West contacted each of the Big Four auditors to ask the obvious question, “Who audits your firm?”, but they wouldn't tell him. West posed the rhetorical question, “Who is guarding the guards?”, and answered: “The short answer is nobody. The guards are guarding themselves. And not only are they guarding themselves but they are writing the laws of nations.”

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On 29 November 2017, the Australian Greens and the National Party agreed to include the Big Four accounting firms in the terms of reference for the Financial Services Royal Commission, to be investigated along with the banks. The next day the Turnbull government hurriedly called a royal commission with different terms of reference approved by the banks, in which the Big Four firms were not included. **As PWC audits CBA and Westpac, EY audits NAB, and KPMG audits ANZ, which banks were subsequently exposed as criminal enterprises, this decision to exclude the auditors was a conscious cover-up.**

Please give the necessary weight in your deliberations to the blatantly obvious conflict of interests by the Auditors. They simply cannot be impartial and their conduct to date proves that.