

MEDIA RELEASE



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Audit firms warned over tax services

Audit firms offering traditional tax services could be casting doubt on their reputation for independence, particularly among investors and those using annual reports, a Deakin researcher has found.

Associate Professor Graeme Wines, from Deakin University's Faculty of Business and Law in Warrnambool, found that clients were sceptical of a firm's independence if it offered non-audit services, even if those services comprised only traditional tax work.

"Up until now tax services were not considered to represent a concern to an audit firm's independence," Associate Professor Wines explained.

"Yet my research shows there is definitely cause for concern."

Associate Professor Wines looked at the issue of auditor independence as part of his PhD.

He explained that the issue of auditor independence had come to public notice following the HIH and Enron scandals. "There was considerable regulatory change as a result of HIH in Australia," he said. "It was acknowledged that it was important that the auditor who audits a company's accounts is, and is seen to be, independent of the company.

"Firms have separated their audit and non-audit services to ensure their independence, but until now tax services were thought to be okay."

"My research suggests that accounting firms need to be careful about the level of tax services they do provide to listed public companies, even if they are provided by a separate division within the firm. PhD research participants indicated concerns if the taxation services fees amounted to 50 per cent of the audit fee charged."

"It requires a careful balancing, as the accounting firm conducting the audit is also likely to be in the best position to supply additional tax services on a cost-effective basis."

Associate Professor Wines' research also supported regulatory changes requiring the rotation of audit partners to ensure independence.

A further issue examined was that of audit partners leaving to become directors of audit clients.

"Often in the past audit partners left the audit firm they worked for and joined the board of a company they previously audited," Associate Professor Wines explained.

"New regulations have required a two year cooling off period before a partner previously involved in the audit of a company could become a director of that company. My research

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supports the view that this cooling off period should apply to all the audit firm's partners, even if they didn't previously work on the audit of the company they are moving to."

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