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KPMG Australia 'open' to end consulting services to audit clients



by **Edmund Tadros**

KPMG Australia is "open to considering" a move by KPMG UK to stop providing extra consulting services to clients it also audits to protect the independence of its work, as the big four firm tries to repair its image following a string of global scandals.

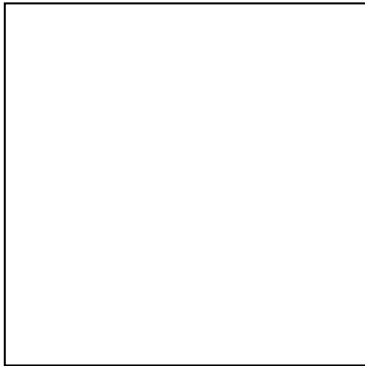
The firm's UK arm pledged last week to stop offering non-audit services such as restructuring, merger and acquisition and IT advice for large listed audit clients to "remove even the perception of a possible conflict [of interest]".

KPMG Australia chairman Alison Kitchen said the KPMG UK move was a "specific response" to challenges confronting the audit market and profession in the UK.

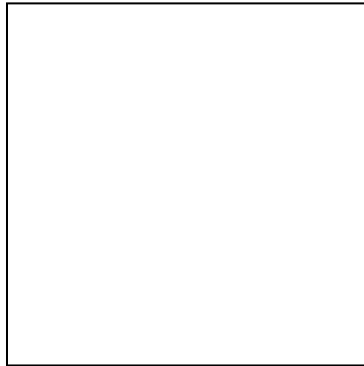
"We believe this is an important step for the profession in the UK to support rebuilding trust," she said.

Accounting & Consulting

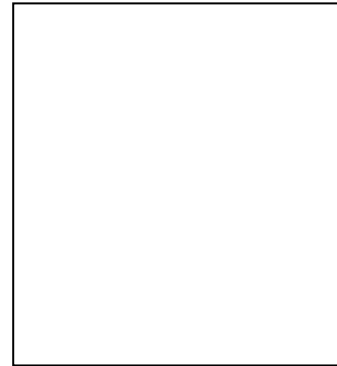
AUDIT QUALITY



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"In Australia, our business model will also continue to evolve to anticipate the rapidly changing needs of our clients, regulators and capital markets – and to respond to the need to enhance trust in the business community in this market.

"We are open to considering this action in Australia, as part of this process."

KPMG is under fire over the quality of its work in the UK with the British accounting watchdog saying the quality of the firm's audit work had deteriorated to an ["unacceptable level"](#) and its work at collapsed UK government outsourcing firm Carillion. The firm is also involved in an [ongoing scandal in South Africa](#) over its work for [former President Jacob Zuma](#) and his friends the Gupta family.

The KPMG UK proposal is worth about 3.6 per cent of the firm's total UK revenues last year of £2.2 billion (\$4 billion).

The head of another big four branch, Deloitte UK, also said he supported a ban on performing consulting work at large audit clients but Deloitte Australia did not commit to following suit.

Deloitte Australia chief strategy and innovation officer Robert Hillard said the firm had "read the announcement out of the UK and are watching the outcome with interest".

Enron and audit independence

The total value of assurance and other services for audit clients done by KPMG Australia was about 8 per cent, or \$131 million, of the firm's FY2018 income of \$1.6 billion, but emulating the KPMG UK move would only impact a part of this income.

At Deloitte Australia, the total level of advisory work for audit clients was worth 6 per cent of income last financial year, while it was worth 9 per cent of income at PwC Australia. A similar figure was not available for EY Oceania.

Audit firms have been subject to independence guidelines since 2001 when the now defunct accounting firm Arthur Andersen was found to be complicit in doctoring the accounts of Enron, contributing to the energy giant's collapse.

Corporate regulator the Australian Securities and Investments Commission allows the auditor of a listed firm to provide only limited non-audit services to an audit client, as long as the audit committee approves the work and believes that there is no conflict with the auditor's main role.

Big four rivals PwC Australia and EY Oceania said they had no plans to change their policies around non-audit work for audit clients.

PwC Australia's CEO Luke Sayers said the firm would "continue to closely assess regulatory developments in other countries" and that any change had to be part of "a holistic discussion which considers matters of audit quality, independence, conflicts of interest and the needs of our clients".

"There are a number of restrictions in place in Australia regarding the types of non-audit services that can be provided to an audit client," he said.

"For example, services such as IT implementations, internal audit services and taking on management roles are strictly prohibited and governed by the Corporations Act. We also have our own internal independence policies and processes which are subject to annual review by ASIC."

An EY spokeswoman said "independence takes priority" when the firm assesses an engagement.

"We already have very strong and rigorous processes in place to ensure the independence of our audit services and audit practitioners, including the provision of non-audit services to

audit clients. We also have continuous monitoring of compliance with professional standards," she said. "We have no plans to adopt this approach in Australia."

UK break-up call

In addition to image repair, the KPMG UK move is also seen as an attempt to pre-empt ongoing calls in the United Kingdom for the big four accounting firms to be broken up.

The UK branches of the big four are [facing a trifecta of UK inquiries into competition, conflicts of interest and procurement processes in the audit industry](#).

The KPMG UK does not address broader concerns that the big four [firms have let audit quality suffer](#) as they shift more focus towards their faster growing consulting arms.

There are similar concerns in Australia. [Labor in September asked the Australian Competition and Consumer Commission to investigate the big four](#) accounting firms over allegations of cartel-like behaviour, warning of conflicts of interest between their audit functions and lucrative consulting businesses.

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