

Poor auditing could be 'canary in the coal mine' for financial crisis: ASIC boss

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Greg Medcraft is also urging tougher action against corporate criminals. (AAP: Julian Smith)

Australia could be facing an Enron-style corporate collapse unless the big four accounting firms dramatically improve their auditing standards, the outgoing ASIC chairman Greg Medcraft has warned.

Mr Medcraft, who retires from the Australian Securities and Investments Commission next week, says poor auditing of corporate accounts could be a "canary in the coal mine" for the next financial crisis.

"We don't want to have another Enron. And the key to not having another Enron is making sure auditors do their job and to get assurance that financials are free of material misstatement," he told the ABC's AM program.

"Why I'm worried is because we have to have trust in financial information. We have to remember that Enron caused a major crisis in the audit area.

"So, I am concerned about the level of trust the community can have in financial statements that are meant to be assured by auditors."

According to ASIC samples of key audits by Deloitte, KPMG, PWC and Ernst and Young, over 18 months to December 2016, 23 per cent had not provided reasonable assurance that accounts were accurate or free of misstatements.

"Often what we found was that there was a lack of scepticism and generally a lack of challenging what was in front of them," Mr Medcraft said.

Asked if poor auditing was a canary in the coal mine, Mr Medcraft warned: "I think that this is a very significant red flag and it is getting worse."

The US-based Enron spectacularly collapsed in 2002, in a scandal around systemic and creatively planned accounting fraud that resulted in the demise of the accounting firm Arthur Anderson which failed to detect what became an auditing time-bomb.

Seven West Media and Nine Entertainment Company wrote down the value of assets after ASIC raised concerns about valuations in 2016 financial reports.

In one of his final interviews as ASIC chairman, Mr Medcraft defended his record as corporate cop in the face of constant criticism the regulator has been "asleep at the wheel" on occasions.

'I want Australia to be a hellhole for criminals'

Mr Medcraft said that over six years, ASIC has conducted 7,000 high-intensity surveillances, over a thousand investigations, imprisoned more than 80 people, banned more than 600 and returned \$1.3 billion for investors, including those from the Storm Financial scandal.

"But, yes, we haven't made everyone happy, but by golly we've tried our hardest to," he said.

Mr Medcraft has a list of unfinished business that he has handed to the Federal Government and his successor James Shipton who takes over early next year.

Among a long list, Mr Medcraft is urging tougher action against corporate criminals, including criminal rather than civil penalties.

"Clearly civil penalties are inadequate. The Government has recognised it and the financial system inquiry has recognised it," he said.

"I want Australia to be a hellhole for white collar criminals. A hellhole. I want them to not even think about it."

Mr Medcraft's final day is on November 12, and he takes up a senior position at the Organisation for Economic Cooperation and Development (OECD) in Paris later in the year.

A former Societe Generale banker, Mr Medcraft was appointed as an ASIC commissioner by the Rudd Labor government in 2009 and appointed chairman in 2011.

Mr Medcraft's term was extended last year after winning more funding to crack down on banking scandals, [as the Federal Government pushes back against a royal commission into banking bad behaviour.](#)

Mr Medcraft was pressed by the ABC on whether he felt a royal commission was now inevitable but refused to comment.