Downer adopts 'enhanced' format to cut the clutter

Auditing A new format may reveal more about what auditors do.

Agnes King

Downer EDI's chief financial officer Kevin Fletcher wants retail investors at the infrastructure company's November annual meeting to drill its auditor KPMG about the rigour of its inspection.

He said it would validate the company's three-year program to rationalise its finance functions and reduce the volume of corporate reporting.

Downer became the first company listed solely on the ASX to start using an "enhanced" audit report from KPMG in its annual report, before expected changes to accounting standards in 2017.

Hearing device maker Cochlear followed suit last week.

The Australian Financial Review understands as many as 20 large listed entities are conducting dry runs of this new format behind closed doors.

Now that Downer and Cochlear have gone public, others may also lift the skirts on what external auditors do for the millions of dollars they charge.

Downer's decision to be first out of the gates is part of a broader three-year initiative to "cut the clutter". Downer shaved 17 pages off of its financial statements this year while Cochlear reduced its by a third. These efforts come amid renewed pressure on finance teams to respond to rapid changes in the broader business.

Mr Fletcher wants to close Downer's books faster at half-year and full-year end, get investor roadshows out of the way and have management focused back on the business before Hamilton Island Race Week in mid-August.

"We want to get our story out there ahead of the pack so it's unfettered [by the market's reaction to competitors' results]," Mr Fletcher said.

The new audit format is considered revolutionary for the orthodox audit profession.

Auditors will be required to call out key areas of risk and outline in some detail the stress testing undertaken to satisfy themselves about the financial performance and position of the company. In the past, this information was for audit committee and senior management eyes only.

"This is providing more information from auditors than has been seen before in Australia," Auditing and Assurance Standards Board chairman and chief executive Merran Kelsall said.

But finance chiefs have shrugged off all the fuss, saying it has not increased costs as initially feared (at least, not for companies). And it is unlikely to move the needle on investor sentiment.

"No one has picked it up as a priority," said Cochlear CFO Neville Mitchell, who has just completed an investor roadshow. "We haven't had a single question on it so far," he said.

Kevin Fletcher is keen to speed up the reporting process. PHOTO: BEN RUSHTON

This may change at the annual meeting, when people have had more time to digest it, according to Mr Mitchell. However, the real test will be when a company is embroiled in something contentious.

The international adoption of "enhanced" audit reports comes amid a series of accounting scandals that are chipping away at the integrity of large global audit firms.

US retailer Tesco dumped PwC, ending its 32-year relationship, after it missed a £250 million ($530 million) overstatement due to incorrectly booked payments from suppliers, a figure Tesco later raised to £263 million.

Toshiba executives resigned [in July] after investigators found the Japanese conglomerate, which is audited by EY, inflated earnings by at least 152 billion yen ($1.7 billion) since the global financial crisis.

Deloitte is still rebuilding its reputation after a wave of audit scandals involving Chinese companies listed overseas, while Pitcher Partners' relationship with long-time audit client Slater & Gordon is under scrutiny after the ASX-listed law firm admitted an accounting error has been found in its British business.

Although questions levelled at auditors at annual meetings are rare as hen's teeth, the industry is bracing for more as a result of the "enhanced" audit report.

The AUASB will issue new guidance for auditors on answering questions at annual meetings before the end of 2015.

EY head of audit Mike Wright believes the new audit format will spark higher levels of engagement and is helping his team prep for Q&A, particularly in high-profile engagements.

It is widely accepted that companies expect audit firms to absorb the additional expense of the new audit format. KPMG head of audit Duncan McLennan feels this is unsustainable in the long term.

Downer terminated a 16-year audit relationship with Deloitte last year and switched to KPMG. This gave it a certain amount of leverage on fees. Downer's audit bill dropped to $3 million, down from $3.5 million in 2014. However, Mr McLennan said "there was definitely more process involved" and he "expects fees to reflect this in due course".

Cochlear's audit bill rose from $1.4 million last year to $1.6 million in 2015, but Mr Mitchell said this was related to foreign exchange and other matters.