

# Accountants reject government intervention in fraud detection

By EVA TO

ACCOUNTANTS have fended off the Government's attempt to impose standby legislative power to monitor fraud detection and reporting.

Some accountants have hailed the proposal's rejection as recognition of the profession's ability to self-regulate.

Others, however, said accountants will be under further pressure to upgrade their self-policing system, to handle their expanded tasks.

One auditor said the Hong Kong Society of Accountants

would be under added pressure to enact the long-proposed "practice review system" aimed at scrutinising members' audit work. The rejected proposal involved auditors devising their own detection system with the Government having standby power to order further actions should the accountants' actions be inadequate.

Extensive changes would have to be made to local laws if the power was given, considering accountants' wide auditing responsibilities covering most local companies.

The idea, based on British

legislation, has been shelved after strong resistance from the society.

The society's immediate past president, Mr Marvin Cheung Kin-tung, finds the proposal "loathsome" and warns that it could unduly tarnish accountants' reputations.

He said this could throw doubt on the profession's ability to regulate its own matters.

Although the idea is on the back-burner, it may be reviewed. That depends on whether accountants can devise satisfactory guidelines in fraud detection within an "acceptable" time.

The Monetary Affairs Branch's principal assistant secretary, Mr David Gibson, said the Government would take a close look at those guidelines when they were ready.

Moreover, the watchdogs of certain key regulated financial industries - banking, insurance and insurance - are looking for ways to enhance the auditors' job in fraud detection. They are holding separate talks with the society.

The society is expected to devise guidelines for these industries in addition to a general guide for other businesses.

Mr Gibson said the related laws - Banking Ordinance, Securities Ordinance, Insurance Ordinance and Companies Ordinance - would probably be amended to facilitate the new measures.

Legislative changes are needed to discharge auditors from their duty of confidentiality regarding clients' affairs.

The society has completed a draft guideline for general businesses and is drawing up similar rules for the regulated financial industries. According to Mr Gibson, the rules for banks are close to completion and may be issued

before those for insurance and securities.

The Banking Commission's consultant, Mr John Aspden, confirmed that his office was reviewing ways to improve auditors' ability to detect irregularities.

In fact, the banking sector has taken the lead in recruiting auditors in fraud detection. Section 61 of the Banking Ordinance was amended last year to enable auditors to report directly to the Banking Commissioner on suspected irregularities.

Mr Aspden said the current

focus was on Section 63, which relates to auditors' role in certification of statistical information lodged with the regulators by the authorised financial institutions.

Banking commissioner Anthony Nicolle recently told the Legislative Council's finance committee that this might involve extending the auditors' scope of work under Section 63 relating to disclosure of information.

Returns do not have to be accompanied by auditor certifications, but Mr Aspden said it had often been required.