Australian Citizens Party

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MEDIA RELEASE

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Bank audit bill to avert ‘impending doom upon the Australian economy’

Member for Kennedy Bob Katter has introduced an urgent bill into the Australian parliament directing the Commonwealth Auditor-General to conduct a thorough audit of the risks building up in the banking system.

The Australian Banks (Government Audit) Bill 2019, which the Citizens Party helped to draft, was introduced on 2 December, seconded by the Member for Melbourne, Adam Bandt of the Australian Greens.

(Click here to watch “Who’s Moved The Fridge?” on the Digital Finance Analytics YouTube channel, in which banking expert Martin North and Citizens Party Research Director Robert Barwick explain the importance of Katter’s bill.)

Katter emphasised the danger facing the economy from the explosion of bank-funded financial speculation that now dominates the financial system, which he called “this impending doom upon the Australian economy”.

“Mr Speaker, what you’re looking at is a giant Ponzi scheme”, Katter warned, “and like all Ponzi schemes, eventually it comes to a very, very bad ending.”

The maverick Queensland MP slammed the Big Four global auditors—EY, PwC, KPMG and Deloitte—which audit nearlly all of the world’s big banks and corporations: “They are not to be trusted”, he thundered.

Katter gave an example from “the greatest collapse in human history”, the 2008 global financial crisis. “EY gave a clean bill of health to Lehman Brothers in July 2008—two months before its bankruptcy precipitated the global banking crash. The New York Attorney General accused EY of helping Lehman Brothers ‘engage in a massive accounting fraud’.”

All over the world the Big Four global auditors are coming under intense scrutiny for the conflict of interests that has corrupted the important auditing process. Audits are supposed to inform customers, shareholders and governments as to the true financial health of businesses. But each of the Big Four now make more money from consulting to the same companies they audit.

“Where the business to be audited picks the auditors, and the auditor works for that business, I mean it’s by definition not an audit”, Katter said. “By definition it can’t be an audit. I mean, you’re employing the person. What? Is the person going to tell you you’re a bad guy? Not to my knowledge. … You pay the piper, you call the tune.”

“This situation has got to come to an end”, he declared.

The Member for Kennedy’s position is backed up by experience and thorough research. In December 2018 a UK Labour Party-commissioned report by a team led by Accounting Professor Prem Sikka recommended that accounting firms should be broken up between their auditing and consulting arms, and that banks should be audited by a truly independent statutory (government) auditor.

In Australia, the Parliamentary Joint Committee on Corporations and Financial Services is conducting an inquiry into regulation of auditing. At public hearings on 29 November Professor Allan Fels, one of Australia’s most experienced regulators, called for the accounting firms to be broken up in Australia. In response to a question from Greens Senator Peter Whish-Wilson, Fels explicitly compared the problem to the corruption of the US banking system following the repeal of the *Glass-Steagall Act*, when commercial banking and risky investment banking merged. (Professor Fels and the Greens support the Glass-Steagall separation of Australia’s banks.)

“I think that is a very, very relevant comparison”, Professor Fels said to Senator Whish-Wilson. “In banking and financial services there’s absolutely no question about the correctness of what you’ve said. Banks were originally deposit-taking institutions. They did get a special form of protection from the government, as the lender of last resort and so on, and there are almost arguments that point against that. But what has happened, as you say, is that banks have gone into investment, trading

and all sorts of other activities, and in the background is the knowledge we have, as customers, that if they do get into trouble they are likely to be protected by the law, as ‘too big to fail’. In a loose sense it has—I can’t think of a better word—corrupted their activities. I do see similar sorts of issues; first of all, the fact that, in doing consulting, if you’re the customer you have a firm which has behind it all its audit business, its apparent respectability and so on. That worries me a little bit.”

Also at the hearing, Distinguished Professor of Accounting at Macquarie Business School James Guthrie, an associate of Professor Prem Sikka, testified on his submission which recommended for Australia the separation of the accounting firms and a government auditor for the banks. “My argument is that they’re too big to fail now”, Professor Guthrie said. “If one of them fails you have less competition. That’s why I argue for a statutory auditor of the financial services industry.”

Professor Guthrie endorsed Katter’s bill: “I see that there is a bill that’s going to be in the Senate next week, which I was lucky enough to have a look at”, he said. “That’s making a similar argument, that Australian banks be audited by the Auditor-General, which used to happen in the old days. That’s the idea of a statutory auditor for the financial services industry. It’s a real concern now. My pension, which I don’t get a lot of—but at least I get a pension—is all tied up in shares now.”

(Click here to watch Professor Guthrie’s full testimony .)

The Government Audit Bill directs the Auditor-General to investigate risk areas in the banks that normal audits don’t consider, including:

- the assumptions underlying the valuations and risks of mortgage loans;
- the adequacy of provisions for bad debts;
- the big banks’ internal ratings-based models by which they assess their own risks; and
- the derivatives exposure of the banks, and their off-balance sheet accounting.

These audits will inform Parliament as to pre-emptive reforms it should make to avert any looming financial crises, such as a Glass-Steagall structural separation of banking from speculation, and a national bank to invest in restructuring the economy.

Click here to sign the petition against the cash ban, which is being aggressively pushed by one of the disreputable big four accounting firms, KPMG.

Click here for copies of the new “Fight the totalitarian ban on cash!” flyer to distribute.

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