

AUSTRALIAN WHEAT BOARD



AWB
LIMITED

Overview

Australian Wheat Board was the second leader in wheat market, below only USA at the end of last century.

It produces only 3% of the world's wheat harvest but its products were sold in more than 50 countries around 1990.

During the UN embargo in Iraq, it was the largest supplier of wheat to citizens of Iraq and its goods were sold through the United Nations (U.N.)

After the overthrow of Saddam Hussein's regime, in 2004, it was discovered that AWB were selling his products including bribes to the dictator.

Australian wheat's history



1930 Great Depression

1939 – Australian Wheat Board

1989 – Free domestic market

1999 – AWB Limited

2000 – Second worldwide leader

Association to control bribes

1977 – Foreign Corrupt Practises Act (FCPA)
adopted by the US Congress

1990 – Convention Against the Bribery of Foreign
Public Officials in International Business
transaction, by OECD (Organization of
Economic Cooperation and Development)

1996 – This convention was adopted

When in Rome, do as Romans do

AWB modified its Corporate Ethics and Code of Conduct policy

Differentiate between Bribes and Facilitating Payments

Facilitating Payments: «are used to smooth business deals or engender goodwill with customers», «[are] small benefit to a foreign public official in order to facilitate routine government action of minor nature»

Methods used

AWB concealed the bribery payment by funneling them through a Jordanian trucking company that was allegedly transporting the wheat to Iraq

Recoup the bribes, inflating the price of the wheat sold to Iraq

AWB deducted the bribes payments as normal business expenses in its annual tax returns filed with Australian Taxation Office

Ernst & Young didn't discover anything in the audit of year 2000.

Control actions

Arthur anderson was called to investigate in the payments in the early 2000, who identify severar red flags, (and a similar system used to sell products in Pakistan)

The Prime Minister, Howard, create a royal commission to investigate in the scandal: «Cole Commission»

Only in may 2006 the company's top management reveiled the payment of \$300 million to Iraq.

Consequences

Cole Commission declared:

- Those payments were not illegal at that time due to they weren't unlawful in Iraq at that time.
- Charges against 11 former of AWB in November 2006 by Cole Commission

Those payments were treated as tax deductible expenses.

Therefore, it saved the company about \$400 million in back taxes

The Australian government revoke AWB's export monopoly business.

The US department of agriculture banned AWB from seeking contracts with the US government

Questions



1. Many foreign companies sell securities on US stock exchanges. Do the provisions of the Foreign Corrupt Practices Act apply to those companies?

Answers

The focus of Foreign Corrupt Practised Act was to avoid that US companies use bribes in order to take business relationship with other government.

In 1998, the anti-bribery provisions also apply to foreign firms and persons who cause, directly or through agents, an act in furtherance of such a corrupt payment to take place within the territory of the United States.

The FCPA also requires companies whose securities are listed in the United States to meet its accounting provisions. Therefore, the securities need to fairly reflect the transactions of the corporation maintain an adequate system of internal accounting controls.

Questions

2. Under current US auditing standards, what responsibility, if any, does an audit firm of a multinational company have to discover bribes that are paid by the client to obtain or retain international business relationships? In a bullet format, list audit procedures that may be effective in uncovering such payments.

Answers

Regarding ISA 240 the audit firm need to:

- Use professional skepticism over the accounting system
- Investigate the inconsistencies
- Make inquire of management assestment risk of finalcial statement and of management process for which a risk of fraud is likely to exist
- Make inquire about unusual transactions or transaction that are outside the normal course of the business
- Evaluate the identified misstatement, if it's material or not
- Communicate with the manager and with those in charge of government.

Questions

3. Suppose you discover during the course of an audit engagement that the audit client is routinely making «facilitating payments» in a foreign country. What are the key audit-related issues, if any, posed by the discovery?

Answers

As soon as the audit firm discover some facilitaties payments in the client accounting needs to undertand if they are illegal in the country of the client and in the foreign country. If so the audit firm should present an adverse opinion or a disclaimer opinion.

Moreover it should advise the manager and whoever is in charge to create a trasparent enviroment, is it's not. As Andersen did with AWB

Questions

4- A quote in this case from an Australian newspaper suggested that many corporate boards in the United States believe that they «have no social responsibility beyond that of making profits for their shareholders». In your opinion, what level of «social responsibility», if any, do corporate boards have? Defend your answer

Answers

A corporate boards should follow some social responsibilities as well as making profits, such as:

- Environment friendly
- Ethical rules
- Ethical labour practises

The clients will be more incentivated to buy their products or use their service because they think worldwide, therefore the firm is taking effort to improve the reality where the clients live too.

Questions

5. The audit report shown in Exhibit 1 refers to «Australian Auditing Standards». What organization issues Australian Auditing Standards? What is the relationship, if any, between Australian Auditing Standards and International Standards of Auditing?

Answers

Australian Auditing Standards is part of Auditing and Assurance Standards Board (AUASB), which is statutory agency of the Australian Government, responsible for developing, issuing and maintaining Auditing and assurance standards.

International standards of Auditing is an independent private-sector organisation based in London. It co-operates with AUASB. The latter received funds from the government.



Thank you
for your
attention!