

Banking Lender's loan book went unquestioned

Auditor banned over Banksia failure

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The corporate watchdog has banned the former auditor of collapsed Victorian lender Banksia Securities after an investigation found he failed to question the lender's \$500 million loan book.

Warren Sinnott was the lead auditor of the non-bank lender and its subsidiary, Cherry Fund, when it collapsed in 2012, owing investors more than \$660 million.

He has been banned from practising as an auditor for five years under an enforceable undertaking issued by the regulator, the Australian Securities and Investments Com-

mission. ASIC said Mr Sinnott failed to carry out his duties as auditor by failing to question the health of the company's loan book.

It said he failed to identify "management bias" in relation to the provision of loans and monitor whether transactions between related parties were being disclosed. He also failed to cast sufficient doubt on the company's dubious lending position, including scrutinising the size of its loan book and the impact of potential write-downs.

The investigation has raised further questions about the ability of auditors to sufficiently scrutinise companies they review.

"Auditors are important gatekeepers who are relied upon to provide assurance and market confidence in the quality of financial reports," ASIC Commissioner John Price said.

"Auditors who fail to adequately perform their duties will be held to account."

Concerns were raised early in the investigation about the performance of Banksia's auditors.

This followed concerns by the receiver, McGrathNichol, that problems at the lender may have been sparked by a conflict of interest and inflamed by the inability of the auditor to recognise negligent lending.

Banksia was given a clean bill of health by its auditors in September 2012, a month before it collapsed.

This was despite the fact that it had 956 individual loans totalling about \$500 million. ASIC said its investigation found Mr Sinnott signed off on "unqualified audit opinions" in respect of Banksia and its subsidiaries.

Mr Sinnott was a partner with Sinnott & Delahunty, a chartered accountant firm. He was a member of CPA Australia and the Institute of Chartered Accountants Australia.

Under the enforceable undertaking, he will be required to participate in 10 hours of professional develop-

ment during his suspension.

ASIC chairman Greg Medcraft put the auditing industry on notice after a string of company collapses, including Banksia, Centro and Trio Capital.

He said too many audits were being signed off without sufficient "audit evidence" and if auditors did not improve then ASIC would consider asking the federal government to compel them to rotate between companies.

Banksia's debenture holders, mostly residents of the rural town of Kyabram, were told by the receivers last year to expect up to 85¢ back for every dollar they lost.