

Editorial

Asking the big questions about auditing

Accountants are again in the spotlight. Both internationally and in Ireland, the incidence of corporate failure and inappropriate director activity is leading to the repeated question of 'where were the auditors?'

It is fair to say that the expectation gap is as high as it ever was. Corporate failure has led to cries from the public that the auditors didn't do their job. There are voices among shareholders and the public that appear to hold auditors responsible for bad business decisions made by directors. In respect of a bank corporate failure, for the shareholders, it is a financial wipe out. For the taxpayer, it is an almost unimaginable exposure.

It is important for the accounting profession to deal authoritatively with questions that arise out of the banking collapse. In Ireland, the Minister for Finance squarely lays the vast majority of blame for banking failures in the hands of the senior bank executives and at poor corporate governance within the banking

system. Across the globe, bank executives have questions to answer. Auditors may also have questions to answer, but it is unclear at this stage where the blame lies. In our much lauded principle-based accounting system there are fewer clear cut answers than there might be in, for example, the rule-based US system. The investigations need to be fair but firm. They need to be timely and the lessons learned need to be reflected in new codes of corporate governance in Ireland.

Audits of publicly-quoted companies involve extra responsibility for auditors, and when it comes to banks and financial institutions, audit risk is almost as high as it can go. A big question for the Government and the accounting profession to consider in light of the banking crisis is whether the current system of audit deals properly with these risks. If the audit approach is subsequently seen to be deficient, then steps should be taken to address this. Equally, auditors who fail to meet the standards set should be identified and reprimanded.

The *Journal of Modern Accounting and Auditing* states:

"The audit expectation gap is critical to the

auditing profession because the greater the unfulfilled expectations from the public, the lower is the credibility, earning potential and prestige associated with the work of auditors."

In recent years, the accountancy profession in Ireland has lost its self-regulatory role. I believe this has the potential to be good for the profession, as self regulation is ultimately difficult to justify.

Every registered auditor in Ireland is regulated by a professional body and this process is overseen by a statutory regulator. In the UK, the statutory regulator directly regulates the audits of public interest entities and, perhaps, this is something that should be considered in Ireland. The professional bodies that regulate auditing firms which audit public-interest companies, and the State regulator who oversees this process, need to ensure that the highest standards are maintained, and public, as well as international, confidence is assured.

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