The Role of the Independent Auditor in Assuring Fair Reporting

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The Merrill Lynch Center
3rd Annual Roundtable on Corporate Governance on Corporate Responsibility
Overview

- Perceived Audit Failures
- Auditor’s Role – User’s Viewpoint
- Auditor’s Role – Profession’s Viewpoint
- Audit Industry Watchdogs
- Final Comments
Perceived Audit Failures

United States
- Enron
- WorldCom
- Tyco
- Health South
- Computer Associates
- Fannie Mae

International
- Parmalat
- Royal Ahold
- SK Global
- Asia Pulp and Paper
- Hollinger International
Where was the auditor?
The Auditor: Financial Statement User’s Perspective

- Represents the interests of corporate shareholders & other users of financial information
- Insures accuracy of publicly issued financial information
The Auditor: Financial Statement
User’s Perspective

- Identifies and reports on
  - Quality of financial reporting
  - Potential financial failure
  - Illegal conduct
  - Fraudulent behavior

- Reports findings
  - BOD and audit committee
  - Public and investing community
The Auditor:
Audit Profession’s Perspective

- Impartial professional

- Provides assurance of financial statement information.
  - Fairly presented in all material respects
  - According to accounting rules of a specific jurisdiction

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The Auditor: Audit Profession’s Perspective

- Must be aware of possibility of:
  - *Going concern* issues
    - Affects auditor’s opinion
  - *Illegal acts* by clients
    - Report to management or audit committee
  - *Fraudulent* behavior
    - Report to management or audit committee
- Issues a *general purpose* report
Who Audits the Auditors?
Insuring Transparency in U.S. Auditing – The Watchdogs

- Securities and Exchange Commission ("SEC")
- Public Companies Accounting Oversight Board ("PCAOB")
- American Institute of CPAs ("AICPA")
Insuring Transparency in U.S. Auditing – The Watchdogs

**SEC**

- Regulates public securities markets
- Investigation and enforcement activities
- Retains strong bully pulpit position
  - Oversight responsibility of PCAOB
  - Sits in meetings of AICPA and the other U.S. and international auditing standard-setters
Insuring Transparency in U.S. Auditing – The Watchdogs

**PCAOB**

- Established by Sarbanes-Oxley, 2002
- Registers auditing firms
- Regulates the auditing profession
  - Auditing standards
  - Firm quality control standards
  - Codes of professional conduct
Insuring Transparency in U.S. Auditing – The Watchdogs

**PCAOB**

- Conducts inspections of auditing firm procedures
  - Inspection results publicly available
- Retains investigation and disciplinary powers.
- Meets with national and international audit standard-setting organizations.
- Rules must be approved by the SEC.
Insuring Transparency in U.S. Auditing – The Watchdogs

AI CPA

- Administers CPA Exam
- Provides professional education and training
- Sets ethical standards for CPAs
- Retains disciplinary process
- Coordinates Peer Review program
- Retains disciplinary procedures
Insuring Global Transparency in Auditing – The Watchdogs

- International Organization of Securities Commissions
- International Federation of Accountants
- European Union
- IMF and World Bank
- National Securities Market Regulators
- National Accounting Professional Bodies
Questions

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