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AUDITING PROFESSION IN PERIL: TIME IS RUNNING OUT

BY

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Abstract

There is increasing demand in auditors by regulators, third parties and users of their services in terms of their responsibilities and duties to perform. This is because, it is auditor's opinion that furnishes investors with critical assurance that the financial statement have been subjected to a rigorous examination by an objective, impartial, and skilled professional, and that investors, therefore, can rely on them. The auditor as a professional is dependent on his skill and professional competence for livelihood. But where audit fee keep dwindling with increasing risk; and other accounting services are available for the auditor, he might take up such opportunity. This paper examine why auditing is proving risky and expensive and concluded that the profession, the regulators and users of their services come together to review the profession, it might be difficult to source auditors in future.

AUDITING PROFESSION IN PERIL: TIME IS RUNNING OUT

Introduction

The objective of the ordinary audit of financial statement by the independent auditors is the expression of an opinion on the fairness with which they present fairly in all material respect, financial position, results of operations and cash-flows in conformity with generally accepted accounting principles (SAS 1; AU 110). Auditors accumulate evidence in order to reach conclusion about whether the financial statements are fairly stated and to determine the effectiveness of internal control, after which they issue the appropriate report.

As a general rule, audits should always be an independent evaluation that will include some degree of quantitative and qualitative analysis whereas an assessment implies a less independent and more consultative approach. The outcome of the assessment should relate to the norms that were set for the task, product or event. It is for this reason that there have been deep-rooted global concerns by members of the public and governments about the roles and liabilities of auditors in the auditing of the books of accounts of companies and corporations. And the law as an instrument of social engineering continues to seek stronger statutory framework towards providing effective and efficient regulations. This has been basically through statutory provisions (Ihenyen, 2013).

Auditors of financial statement can be classified into two categories:

External auditor/Statutory auditor is an independent firm engaged by the client subject to the audit, to express an opinion on whether the company's financial statements are free of material misstatements, whether due to fraud or error. For publicly traded companies, external auditors may also be required to express an opinion over the effectiveness of internal controls over financial reporting. External auditors may also be engaged to perform other agreed-upon procedures, related or unrelated to financial statements.

Most importantly, external auditors, though engaged and paid by the company being audited are regarded as independent auditors. This should be separated from internal auditing which can be described as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by

bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process. (IPPF, 2011)

The appointment of auditors has been subjected to various legal requirements, few of which will be mentioned. For instance, in Nigeria all the regulators have requirements that are ancillary to those provided by the Companies and Allied Matters Act. Banks and other Financial Institution Act, 1991, in section 30 requires every bank to appoint annually, the approved auditor who shall make available to the shareholders reports upon which the annual balance sheet and profit and loss account of the bank, and every such report shall contain statements as to the matters and such other information as may be prescribed from time to time by the Central Bank (Ajayi, 1999).

Responsibilities as a Professional

The auditor is therefore expected to plane his work with due diligence and bring his professionals competence to bear on his job. This is important as his report may be relied upon by variety of individuals and organizations in investment decision making.

If the auditors believes that the statements are not fairly presented or is unable to reach a conclusion because of insufficient evidence, the auditor has the responsibility of notifying users through the auditor's report. Subsequent to their issuance, if facts indicate that the statements were not fairly presented, the auditor will probably have to demonstrate to the courts or regulatory agencies that he or she conducted the audit in a proper manner and drew reasonable conclusion.

The auditors may need to qualify his report as a warning to investors and other users of financial statements to which be attested to avoid liability to these users if he is not to suffer financially and put his name and the firm which he represent in peril.

This is the main activity of the external auditor, but conditions are changing. The happenings in the capital markets, home and abroad and business failures soon after a clean audit report has brought on the auditor and the auditing profession serious pressures and constraints that is currently jeopardizing the auditing profession.

Review of Literature

It is true the word of American securities and exchanges commission (SEC) 'it is the auditor's opinion that furnishes investors with critical assurance that the financial statements have been subjected to a rigorous examination by an objective, impartial, and skill professional, and that investors, therefore, can rely on them, if investors do not believe that an auditor is independent of a company, they will derive little confidence from the auditor's opinion and will be far less likely to invest in that public company's securities (U.S. SEC,2001).

The auditor as a professional is dependent on his skill and professional competence for livelihood. But where audit fee keep dwindling and other accounting services are available for the auditor, he might take up such opportunity. This is because low-balling sends a message inside the audit firm as well. According to Hills 'Ewe are concerned that the shift in a firm's emphasis away from auditing and toward non-audit services causes, over time, a cultural shift within the firm. The factors that drive a high quality audit, including the core values of the auditing profession, may diminish in importance to the firm, as will the influence of those firm members who exemplified those core value in their own professional career' (Hills, 2000). Interestingly auditing firms do not describe themselves as auditors but rather they prefer to be described as chartered accountants or audit firm. Because of the intimate knowledge of the internal operations of companies and some other business organizations, the auditor 'acting in his capacity as a trained accountant may be called upon to perform a range of services and expertise other than auditing to existing and prospective clients' (Olowookere, 2001).

Similarly, Johnson (2000) opined that the evolution of the auditing profession into multi-service professional firms as given rise to reasonable concerns that the integrity of financial data is being or may be adversely affected or at least that markets may become suspicious of that facts and impose and additional risk premium. As a result, client, as well as regulators are taking steps to reduce the impact of the consequences of auditors loosing their independence to non-audit services thus making auditing as a profession to be unattractive to the upcoming generation as a result of stringenmt condition and poor remunerations.

The peril of auditors stated in the late eighties and early nineties with the big accounting firms in US and Europe as demonstrated on price water house website. Both Coopers and Lybrand and

Price Waterhouse gradually increased their emphasis consulting in the 1990s. auditing was proving risky and expensive, as the Big Six were being held liable for the failure of companies they audited and induced into paying huge settlements.

In 1992 Coopers and Lybrand settle a suit brought against it by the investors of MiniScribe, a disk-drive maker that went bankrupt. Fighting against claim that they should have caught the company's fraud, Coopers and Lybrand eventually agreed to pay investors \$92 million. In another fraud related case, the firm made large payments in 1996 to settle claim regarding failed companies in the media empire of the deceased Robert Maxwell. The accounting firm was fined by regulators in 1999 for their failure to detect Maxwell's fraudulent transfer of \$650 million from a company pension fund to himself. Among other payments was coopers and Lybrand's expensive settlements related to their auditing of Pha-Mor Pharmacies, bankrupt in the mid-1990s.

Price Waterhouse had their own legal trouble in the 1990s. a protracted battle over the company's audit of Bank of credit and commerce International ended in 1995 with a payment of \$200 million, significantly less than \$11 billion sought by the creditors of the collapsed bank. In addition to hefty settlements, the suits led to soaring insurance costs for the accounting firms. By the mid-1990s many insurers refused to even cover the auditing practices of the Big Six Firms, forcing Coopers & Lybrand and Price Waterhouse to set aside money to cover themselves. (Price Waterhouse Coopers, 2012).

Article IV of the AICPA'S code of professional conduct provides that "objectivity is a state of mind, a quality that lends value to a member's services. It is a distinguishing feature of the profession. The principle of objectivity imposes the obligation to the impartial, intellectually honest, and free of conflicts of interest. Independence precludes relationship that may appear to impair a member's objectivity in rendering attestation services.

But today, are auditors complaining their independence as specified in this American code of professional conduct? Companies themselves are faced with all manner of recessions that many of them are engaging auditors in acts that compromise their objectivity. Periods of economic uncertainty lead to challenging conditions for companies due to potential deterioration of operating results, increased external scrutiny, and reduced access to capital.

These conditions cause companies to adopt practices that may be incorrect or inconsistently applied in an effort to address perceived expectations of the capital markets, creditors or potential investors. Amidst the mayhem, we need to ask questions about the role of auditors, who may have been paid millions of money worth to give opinions on company financial statements. Yet companies are sinking within weeks of getting a clean bill of health. No wonder therefore, in September of 2010, Central Bank of Nigeria gave all deposit money banks (DMBs) up to December 31, 2010 to replace external auditors that have been appointed for more than 10 years including years spent with constitute legacy banks in compliance with the provisions of paragraph 8.2.3 of the CBN Code of Corporate Governance for Banks, which stipulates that “the tenure of the auditors in a given bank shall be for a maximum period of ten years which, the audit firm shall not be reappointed in the bank until after a period of another ten years.” This no doubt affected some audit firm’s income as they automatically lost the income derivable from these banks suddenly without any fault of their own but will such a directive ensure clear bill of health audit report?

According to Mukoro (2012) auditing is not intended to write a clean bill of health or otherwise for an entity. The fundamental misconceptions about audit is that users wrongly believe that a clean audit report indicates that an entity has made effective use of its resources, and has adequate resources to continue in business and maintain a reliable system of internal control.

Where the auditor is negligent in the performance of his duties as decided in some court cases a test of reasonable care may be performed. The liability of accountants and auditors depends upon a qualified test of ‘reasonable foresight’, i.e a principle of proximity whereby negligent accountants owe a duty of care to those who (irrespective of whether they are known to accounts for the purpose of deciding whether or not to take over the company-having, of course, first established that it was reasonable in the circumstances for them to rely on the audited accounts in this way.

Professional practice today is like walking through a minefield, and each new Act or case decision produces a fresh set of detonators. We therefore do well to keep a steady nerve and remember at all times that the judgment of reasonableness works both ways: not only whether, in the light of all prevailing circumstances and without the benefit of hindsight, we have ourselves

reached our conclusions in a reasonable manner. For while we so believe, we have nothing to fear from the courts.

During such times as these, professional skepticism should be heightened and the status quo should be challenged. ISA 240 P24 states that the auditors should maintain an attitude of professional skepticism throughout the audit. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. Professional skepticism requires an on-going questioning of whether the information and the audit evidence obtained suggest that a material misstatement may exist. Although the auditor neither assumes that management is dishonest nor assumes unquestioned honesty, the auditor should consider the increased risk associated with the potential increases in external pressure faced by management in times of economic decline. (Asa, 2009).

Conclusion

A correct understanding of the role and status of the audit profession today, including the expectations placed upon it by the public, requires an appraisal of the changes which have led to the present neurosis concerning liability. Not all of these developments are of auditors' making: any legislation designed, for example, to curb the profligacy, financial recklessness or, worse, downright malpractice of company/organization executives inevitably has a powerful spin-off for auditors, by reposing in them the ultimate responsibility (and hence potential liability) for ensuring implementation and these is not only scary but a dis-incentive to upcoming professional accountant who may desire to practice auditing.

This paper considered to some extent, the challenges faced by auditor in the current age, how involvement in consultancy has eroded their independence, and the growing cases of auditors liability worldwide. In view of the above circumstances, it is recommended that the auditors need to return to their core professional functions and reduce non-audit services to audit clients as a way of avoiding the peril. Similarly, audit fees should be reasonable especially for small firms to encourage practice and reduce intension to engage in non-audit services to audit-clients.

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