Auditing and Assurance Services

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# Introduction

Auditing is considered to be a procedure to examine the financial records of the organizations in order to identify whether they are appropriate or not. The external auditors evaluate the financial records comes from outside the company and give their independent opinion. Big 4 accounting firms are the largest accounting organizations in the world. The firms have provide wide range of auditing and accounting services including taxation services, external audit, business and management consultancy and risk control and assessment. They also provide huge career and employment development opportunities to auditors and accountants all around the world. A British investigative journalist stated that the “big four” accounting organizations need to be examined by the banking royal commission (Hay, 2017).It was being stated that the behaviour and practices of the firms should be investigated just like the activities of the banks are being investigated. During financial crisis, many questions raised about the value and role of the external audits. Many financial institutions had bailed out or collapsed within the shorter period due to the unqualified audit opinions. It was being found that the auditors lack the required expertise to manage the financial accounts in an appropriate manner. It is also being argued that there is some limitations within the basic auditing model as the auditors have become financially reliant on organizations. The conservative approach to quality of audit is also imperfect because it gives less devotion to social and organizational context of auditing. The organizations have diversified complex financial instruments and new forms of investments; it can be difficult to audit some transactions in the traditional way.

# Discussion

**Agree or disagree with the statement**

The British investigative journalist stated that the bank royal commission should carry out an investigation on the “big four” accountancy firms of Australia because of their activities in overseas. Bean Counters, a book of the journalist depicted the case of Ernst & Young, Deloitte, KPMG and PricewaterhouseCoopers having massive interest conflict because they sell the constancy services to same organizations whose accounts were independently auditing. The primary interest was not to get numbers but to obtain earn money for themselves. The dual roles of the firms imposed significant impact on the global economy (Cannane, 2018). It is being argued that if the audit firms would have done their job appropriately then the financial crisis would not have occurred in the way it happened. The organizations sold the ludicrous sub-prime mortgages in the financial crisis period and their financial state would had spotted by their auditors far earlier. KPMG carry out the audits in US for the top subprime auditors. The account books did not clearly depicted the mortgages of the organizations (Phylaktis, 2014). The audit firms does not only audit but also advice on financial products, financial transactions and package up the derivative products. Thus, the auditors play a significant role in confirming that the organization is carrying out its operations in an appropriate manner.

The journalist stated that the big four accounting firms within the financial system had become the insiders and they are being forced for maintaining the outsider status. The big four firms senior partners stated that the firms earns two thirds of their income from marketing and advising worldwide and third comes from auditing. The governments are also paying huge amount of money for their consultancy services. The banking royal commission should investigate the activities of “big four” accounting firms (O’Hagan, 2018). The senior partner of PricewaterhouseCoopers was banned for 15 year and finned from the Financial Reporting Council after failure in raising concerns about the collapse of BHS. CEO of RBS, Fred Goodwin brought Deloitte for which he had worked but shortly the firm failed to raise concern about its finances before the taxpayer was being compelled to bail the bank due its own inappropriate decision making. Despite of this, a pay rise was received by Deloitte from RBS in 2008 and John Connolly, the senior partner received £5.2 million pay package in the next year. An investigation was carried out by Financial Services Authority into RBS with the help of PwC (Brooks, 2018). Deloitte was replaced by EY in the year 2014 which was being sued in 2010 by New York prosecutors over the allegations of Lehman Brothers collapse. In 2015, the firm by paying $10 million was able to settle the lawsuit and also paid for damages made to the investors in 2015.

Audit Commission, a public accountancy body audited an amount of £200 billion spent by around 11000 public organizations. The Audit Commission determined many financial scandals carried out by the big four firms. The evidences raises questions that whether the big four accountancy firms are carrying out their jobs appropriately or they are only focusing on making money. MPs of cross party committee suggested that the Big Four accountancy firms of UK should be separated into non-audit and audit businesses(Team, 2019). Big Four firms carry out 97% audits of big organizations in UK. According to a review of CMA, Carillion a high profile company collapsed which was being audited by KPMG. The focus was made on splitting the advisory and audit businesses with separate accounts and management, accountability for appointing the auditors with objective of strengthening the audit system. The efforts were being made for dealing with the fraud at the organizations. The audit firms play a significant role in providing a fair view of the organizations. It is being found that the big four firms are also focusing on making money rather than the fair view of the financial performance of the organization (Watson & Head, 2019).

**Opportunities and challenges for the Australian auditing profession in the 21st century**

The auditors perform the role of gatekeeper who protects the investors of the company. Managers of the company have a human incentive to present the picture of stewardship and success of the company. The managers do so under extreme pressure or greed to reap the maximum profit. The auditors are hired by the company to reflect the situation that the presentations regarding the audit of the company are true. The auditor is paid incentive for supporting the company’s story but if the market does not find the auditors statement credible it would not assign any value to the opinion of the creditor(Doty, 2014). If the audit of the company reflects that the auditor has missed any statement or has provided any misleading statement then both the manager and the auditor can get involved in complex legal process. The auditor then will be forced to accept lower charges or will lose the existing clients. The careers and the reputation of the company get ruined. The misleading assertions made by the auditor of the company has the capability of shaking up the reporting company, business lines, management and the employees of the companies competitor’s. If a successful business model turns a charade then multiple industries will get affected.

The public company accounting oversight board is responsible for maintaining an oversight on the works of the auditor to reduce risk of disintegration of the company. A hard look must be kept in the capital market in order to serve the investing public. The public company accounting oversight board is outreaching to the audit committees of the company in order to raise awareness regarding audit challenges and risks. Audit practice alerts have been issued in critical areas concerning revenue recognition, control and other assumptions raising concerns (Parrino, 2015). Hearings have been arranged to gather public comment regarding fair value auditing, management estimates and improvement in the auditor’s reporting model. Public meeting can also be held with advisory groups regarding fraud and quality in audit indicators. Comment has been sought on the overall reorganization of auditing standards in order to make them available to the auditors.

External auditing has emerged as an important part of the companies’ governance process. The role of auditing profession is impacted by volume of transaction, globalization, information technology, laws and regulation and uniform increase in the complexity. Corporate collapse, fraudulent financial reporting and business failure has resulted in a crisis for auditing profession. . The three main ethical dilemmas of the auditor are fear to be sued, self-fulfilling prediction effect and the liability of giving caution signals (Helliar and Bebbington, 2004). The auditors face problems while taking the right decisions due to the pressure from their managers or greed of money. Artificial intelligence is a source of significant risk as they do not understand their task properly and rely on training data. Programmatic error may creep in delivering wrong result which may have serious consequence. The artificial intelligence is doing majority of audit functions thus snatching away jobs, posing a major threat to the auditing profession.

Government intervention has resulted in formulation of new laws and regulation that governs the financial auditing which in turn have raised the demand for auditing profession. Numerous auditing scandals have been reported in the 21st century. This scam has made it necessary for the auditors to bring changes in the way of practising the profession. The media, persons controlling financial reporting and investing public have found the customary practices and long-held attitudes to be deficient in nature (Sikka, 2009). The period of 21st century has faced a lot of substantive changes in the auditing profession because of the auditing scams and the debates that took place in favour of changing the prevalent auditing profession. The audit professionals could use technology along with knowledge and experience to deeply dive into the economic facet of the company and make available insights that result in good quality audit, better decision making and finally generate value for their clients. Present legal regulation and professional standards are not information intensive thus it produces difficulty for an audit firm to serve the need of their clients (McLaney, 2017). Presently in the era of big data the auditor should rely on big data analytics and concentrate more on correlation than causation. This change will shift the paradigm from traditional audit process.

The very fabric of audit firm is getting changed by the technological innovation. The audit firm must have educated workforce who are capable of producing intangible services programmed with complex knowledge. The auditors with knowledge in communication, technology, critical thinking and financial skills are in demand among clients. The audit report is subject to regulatory and organizational politics. The auditors must inform the regulators of their intension to issue a qualified audit report (Sikka, Filling &Liew, 2009). The production of the audit is associated with organisational and process values. Such process includes public regulators, economic incentives and management of labours. The knowledge base of the auditors is questioned by the finance capitalism intensification. The increasing volume of information has to be used to deliver best-quality audit and permits the auditor to put stress on identification of risk and business insight. The volume and unused potential of data produced by new technologies have driven the need for digitalization of audit.

**Recent regulatory attempts to improve the audit quality in Australia**

The auditor independent work of Australian Security and Investments Commission (ASIC) has been updated through the Corporation Legislation Amendment (Audit Enhancement) Act 2012. This Act also streamlines the FRC by eliminating the current freedom of auditors from the FRC and at the same time giving FRC a responsibility of supplying with the detailed planned policy guidance regarding the quality of audit conducted by the Australian auditors to the specialized accounting bodies and the Minister. The interest of FRC regarding the audit’s quality conducted by the Australian auditors is being shared by the Australian Auditing and Accounting Public Policy Committee (Frc, 2019). There are some improvements have been identified in the quality of Australian audit in recent years that help the FRC in its reporting obligations.

ASIC is considered to be a key controller under the Corporation Act. ASIC has certain responsibilities like surveillance, examination, and implementation of financial necessities of the Corporation Act and guideline of listed company auditors that includes the improvement of audit quality requirement and the independence of the auditors. The audit assessment program of ASIC focuses on promoting the standard value of external audits of the listed financial data and other public interest bodies of Australia for providing users with great confidence in financial reporting. A public report has also been published by ASIC which aims at issues and key themes that have recognized in the audit review program of it. These public data have been composed on a combined basis across organizations. The focus of these data is to make the stakeholders aware of systemic issue and themes with the aim of presenting a healthier audit quality through determining all stakeholders in the chain of financial reporting.

Despite of involved challenges in describing audit quality, many efforts have been made by ASIC and FRC to do so. The Australian profession is contributing and continuously observing some present international initiatives that are inspecting problems associated with the quality of audit and its definition. These cover the consultation paper of the International Auditing and Assurance Standards Board (IAASB). It is a framework of Audit Quality that helps in describing the important issues associated with high-quality audits are constantly executed by practitioners (Hossain, 2013). The audit profession of Australia is going to continue monitoring debate on the issues. It is believed by APPC that there may be chances for the FRC and the profession to work collaboratively for considering issues with the outcome based quality that includes investigation of director’s views and investor community on the issue.

The audit supposition gap states the differences between the actual responsibilities of an auditor and what other financial users and public identifies to be. Multiple types of research have been conducted on the audit expectation gap over the years, though there are still misunderstanding regarding the role and duty of auditors. An additional examination required on this subject, especially in regards to the role to be played by those charged with governance that is more likely to affect the honesty and quality of financial reporting and also how to promote consciousness between the investor communities. An exposure draft was released by IAASB in the year of 2013 for seeking views from stakeholders regarding the proposal of IAASB for enhancing reporting system of auditor globally which was more directly connected to the role of auditors. There are certain new aspects that have been included in this exposure draft such as new ISA 701, and multiple revised proposed ISAs that includes an amendment to ISA 700, Forming an Opinion and Reporting on Financial Statement.

# Conclusion

The banking royal commission should investigate the business activities of the “big four” accountancy firms of Australia. The failure of the Big four accounting firms imposes significant on the organizations of different countries. The firms are focusing on making money rather than providing a fair picture of the organizations. The financial crisis raised question regarding the value and role of external audits. Many financial institutions have collapsed due to unqualified audit opinion. The auditor’s lack of expertise in rendering independent account of corporate affairs has fuelled the collapse of the financial institution. The short comings of the current practices can be highlighted by an independent inquiry about the role of auditors at financial organizations. Multiple changes have been made to the audit regulation power of ASIC in 2012 through the Corporation Legislation Amendment. A number of recommendations implemented via this act build by Treasury following its discussion data permitted by Audit Quality in Australia. The report of Treasury decided that audit guideline framework of Australia is strong and steady and it is also in line with international best practice.

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