

Auditing the auditors

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DEBIT CREDIT *Conclusion*

Last week I discussed about the global development in the accountancy profession amid news of inappropriate financial reporting or accounting scandals happening around the world, and the response of national professional regulators by setting up a regulatory body to oversee the conduct of an audit of companies by the external auditors [hereinafter, interchangeably referred to as external auditors or Certified Public Accountants (CPA) practitioners].

In our jurisdiction, our Professional Regulatory Board of Accountancy (BOA) has adopted our own external audit Quality Assurance Review (QAR) Program, but is yet to implement it. Our Securities Exchange Commission, on the other hand, has been working on the revision of its Rules on Financial Statements Reporting that will include, among others, the implementation of its own QAR System of external auditors accredited by the commission, but is yet to be finalized and approved for implementation. Pending the implementation and approval for a QAR Program/System, there is no local regulatory body that currently audits the auditors in this country, which situation may be good or bad, or should I say, may pose both challenges and/or opportunities to our regulators; to companies being audited or the auditees; and to CPA practitioners, whether big firms or small or medium practitioners (SMP).

It is, indeed, a challenge to our regulators, at present, inasmuch as the extent of compliance of the CPA practitioners with the prescribed auditing and ethical standards and regulatory policies, particularly on the extent of the adoption or nonadoption of the quality assurance elements into the practice of the CPAs in the Philippines, is not known because they have not yet conducted a QAR on these CPA practitioners. Moreover, it could also taint the image of the whole Philippine accountancy profession because of the failure to implement the QAR Program/System, as it is one of the criteria set in the Asean corporate governance scorecard.

To the companies being audited, it is maybe a challenge as well, as they are not assured of the quality of audits conducted by their external auditors, which may expose them to undetected material or significant weaknesses in their internal control and may lead to material misstatements or fraud in their financial statements.

On the whole, the present developments would be an opportunity for CPA practitioners, especially for SMPs, as such would give them time to prepare, prior to the eventual implementation of the pending, but definitely coming, QAR Program/System. It is an opportunity that should be taken advantage by SMPs for them to evaluate their current practices and determine gaps needed to be addressed in order to put in place the necessary audit quality control in their practice before the QAR Program implementation. This may include the preparation of a Quality Control, Ethics and Risk Manual and development of a system for conflict checks and client acceptance risk assessment. In this regard, no less than our accredited CPA professional organization, the Philippine Institute of CPAs, has developed a voluntary QAR Program that will soon be available to all CPA practitioners, mostly for SMPs, where they can opt to be subjected to peer review to assist them in pointing out areas where audit quality improvements can be made to their respective audit practices. I kept on saying SMPs because QAR is not at all new to large CPA firms or firms that belong to international networks. These large firms have been subjected to internal QARs by their respective international network firms to ascertain their compliance with international auditing and quality control

standards, and ethical and technical standards prescribed by their network firm. However, the BOA cannot use the results of the internal QAR of these local large CPA firms as the results are private in nature, and are not made available to the public. Moreover, the US PCAOB has conducted inspections or QAR to certain local large CPA firms who handle audits of local entities related to, or significant component of, US public companies.

In the end, auditing the external auditors creates a number of benefits to all stakeholders of the accountancy profession: (1) the BOA can ascertain the compliance of CPA practitioners/external auditors to the auditing and quality control standards, and ethical and technical standards it prescribes; thus, further uplifting the practice of accountancy in the Philippines to higher level of standards; (2) to *CPA practitioners*, the audit QAR shall help promote a culture of quality and good governance in their respective accounting practices; (3) the *companies* being audited will have peace of mind knowing that their external auditors put great regard to audit quality when they make independent assessments of compliance with financial reporting standards; and (4) more important, to the *general public or users of audited financial statements* (FS) for there will be a higher level or reasonable assurance that the financial information embodied in the FS certified by external auditors are reliable and credible.

In conclusion, the adoption and implementation of the QAR Program/System will generate a culture of quality and good governance among CPA practitioners, who become committed to ethical and quality control audit standards, and who uplift the delivery of audit services that will put reliability and credibility to the audited FS used by local and foreign businessmen in making sound business decisions. By then, our accountancy profession shall be able to justify its existence, and the significance of its role as one of the drivers of our nation's development, economic growth and global competitiveness.

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This column accepts contributions of articles from accountants that are of interest to the accountancy profession, in particular, and to the business community, in general. These can be e-mailed to boa.secretariat@gmail.com.