Expectations & Realities in Audit

> *Numbers are axiomatic in terms of decision-making. Unless you have the right numbers you can't be sure that you have evaluated your policy options correctly, and you can't accurately report on the outcome of your decisions and therefore can't be held accountable.*
>
> Fayez Choudhury
> International Federation of Accountants
> as told to *Public Finance International*.

The major financial debacles in the United States in the past brought about significant reforms in the regulation of the accounting/auditing profession. The Enron and World Com incidents among others, paved the way to Sarbanes-Oxley Act of 2002 that created the Public Company Accounting Oversight Board (PCAOB) to oversee the auditing profession. It ended the profession's framework of self-regulation.

Section 101 of the said Act sets the mission of the PCAOB, "… to oversee the audit of [public] companies… in order to protect the interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports."

On August 31, 2016, Michael Rapoport of *The Wall Street Journal* reported that the PCAOB completed its annual inspections of 2015 audits by two of the Big 4 accounting firms. After probing on 55 audits per accounting firm, the US audit regulator found deficiencies in 13 audits (24%) by one firm, and 12 audits (22%) by the other. The other two Big 4 accounting firms will also be inspected by PCAOB.

Rapoport explained that to PCAOB, "*a deficient audit indicates that the audit firm hasn't obtained sufficient evidence to support its opinions blessing a company's financial statements and internal controls. It doesn't mean that the financial statements are inaccurate or that any problems found by the inspections weren't subsequently addressed'.* The article further said, "*At both firms, accounting for revenue was one of the areas in which the PCAOB inspectors found the greatest number of deficiencies,* *according to the inspection reports."*

According to the article, the inspectors further found deficiencies in accounting for inventory and long-lived assets in one accounting firm while in the other, they found deficiencies in accounting for business combinations and for goodwill and other intangible assets.

By any measure, more than 20% level of deficiencies is significant or material.

As expected, one inspected accounting firm's pronouncement after the release of the results said, "*performing high-quality audits as its top priority and that it has ongoing investments to yield significant enhancements"*. The other commented that it "*remain(s) committed to advancing audit quality through our continued investments in technology, enhancements in processes and in the development of our people.*"
After sharing the foregoing with a colleague, he said, "*Very revealing that quality of audit even in the US is spotty. I suppose the Philippine situation is not too different (maybe even worse). . . "*

The comment is well founded for the major players in the auditing profession in the country represent the Big 4 and mid-tier international accounting firms. While the US has the PCAOB, the Philippines has yet to have a similar regulator which can only happen by legislation since the accounting practice is governed by a specific law. It may still be a long way to go.

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This column accepts contributions from accountants, especially articles 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

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