

In Pursuit of Quality Audit

By

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Many may still recall the Enron accounting scandal and how it precipitated the significant changes in the accounting and auditing landscape. As a consequence of the incident that had global impact, the Sarbanes-Oxley Act was passed in 2002 in the United States. This paved the way to the creation of the Public Company Accounting Oversight Board (PCAOB). The PCAOB (the Board) is the independent, quasi-government oversight entity that has the statutory authority over the registration, standard-setting, monitoring and disciplinary actions for public accounting firms that audit public clients. It conducts periodic inspections of audit firms meant to restore and enhance public confidence in the auditing profession.

The results of the periodic inspections are released as Inspection Brief aimed at establishing and reporting audit quality indicators. Based on the latest Board's staff inspection brief released early November of this year, the inspectors examined parts of more than 780 public company audits in 2016 and reviewed the system of quality control at more than 190 firms. The brief highlighted three main areas where recurring deficiencies were most frequently found –

- a. Assessing and responding to risks of material misstatement,
- b. Auditing internal control over financial reporting, and
- c. Auditing accounting estimates, including fair value measurements.

Per report, the inspectors also looked at how firms are developing and using auditing software and how engagement teams are coping with the risks of material misstatement and related controls associated with cybersecurity.

According to PCAOB Director of registration and inspections, Helen Munter, *"The number and significance of the recurring audit deficiencies that were identified suggests that some firms*

may need to consider whether additional or different steps need to be taken to improve and sustain audit quality.”

The practice of accountancy in the Philippines is state-regulated in accordance with The Philippine Accountancy Act of 2004. Proposed amendments to the law were incorporated in a proposed bill filed with the 17th Congress. The significant revisions include the creation of the Accountancy Regulatory Office that may be considered the country’s version of the US PCAOB. The bill is not among those considered urgent thus, it remains to be a filed bill. The gap between 2002 and to date is an indication of how far behind the practice of accountancy in the country is vis-a-vis that of the United States.

As we claim to be part of the global economy without borders and an active member of the aggrupation of regional nations called ASEAN, we need to reflect and hopefully, take immediate measures to have the appropriate framework and corresponding policies and procedures to gain that level of confidence on the quality of audit attributed to the US counterpart.

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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