

Role of auditors | free essay



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Introduction

Nowadays, the business environment becomes more complexity. Hence, the demands on the professional audit have been increased in order to provide reasonable assurance to users of the company financial statement. The external auditors are playing the important role in society. The important role of the external auditors is to “ perform the audit to obtain reasonable assurance about whether the entity maintained effective control over the financial statement” (Louwers, et al 2008, pp 182) and “ reducing the information asymmetry in financial statement as well as mitigating agency problems between the managers and shareholders and between the shareholders and the creditors” (Al-Ajmi, 2009, pp 64-65)[online]. The external auditors are emphasized by profession bodies like American Institute of Certified Public Accountants (AICPA), the Securities and Exchange Commission (SEC), Association of the Chartered Certified Accountants (ACCA), Malaysia institution of Accountancy (MIA), International Federation of the Accountants (IFAC) and several professional bodies with the guidelines on issues of auditors independence parties of the companies to express an professional opinion in companies finance statement showing true and fair view (Vanasco, 1996)[Online]. The external auditors are also surrounded by other regulations such as Company Law. Under Section 8 of the Malaysian Companies Act state that the external auditors must be a approved by the Minister of Finance as an company auditors for purpose of conducting the statutory of audit. (Puan Sri Datin Dr. Mary lee, Tang Seuk Ying, 2007, pp 3)

Main body

The role of the external auditors is reducing the agency problem. The auditors are playing role as watchdogs to help the shareholder monitor the credibility of the information presented by the management and verification of finance statement is showing true and fair view to the shareholder. In enhance credibility is the perception of the external stakeholders that the external auditors express an opinion in impartial and reduce conflicts of interest (Wolf. M. F, Tackett. J. A et. al) [online]. The external auditor is recognizing by the profession bodies in emphasis on the independence on appearance to the company shareholder and the management as agent (Wolf. M. F, Tackett. J. A et. al)[online]. In the premise of the agency theory that agent have more information than principle and have information asymmetry to the principals interest because there are adversely affected by the agents (Adams. M. B.) [online]. Pursuant agency theory The external auditors as an agent to evaluate the company are going concern or exist by expressing their profession opinion in the audit report to the stakeholder and shareholder (Kleinman. G, Anandarajan. A) [online]. In other hand the audit may be failed to be a reducing the agency problem. This is because the auditors (agent) are appointed by the shareholder to do an audit and pay by the company on their service, this will create conflict in finance interest of the auditors and difficulties in the role in reducing agency problem (Gavious. I)[online].

Second the role of external auditors as independence profession parties to verification the company financial statement. The “ Ethic Committee of the IFAC has been emphasis ethical issue about the independence of the

auditors” (Vanasco. R. R)[online]. The auditors without independence, the auditors may affected its audit judgment (Cosserrat. G. w, Rodda. N pp84). The independence it is an attitude or state in mind, the auditors independent are difficult to determine to assess of objectively otherwise only the action of the auditors can be used in evaluate the auditors are independence (Vanasco. R. R)[online]. “ Regulatory and investor have been concerned about the effect of auditors’ increased non-audit service on auditors independence and subsequent earning quality” (Ho Young Lee)[online]. The independence of the auditor the code of ethics has listed own by bodies in range of the “ risks concerning actual and perceived independence to the external auditors” (COSSERAT. G. W, RODDA. N, pp 11). The auditor’s essence independence can “ underlie the success and credibility of the accounting profession to serve the public” (COSSERAT. G. W, RODDA. N, pp 11). After the Enron and Andersen cases’ showing that auditors are failed to independence for provided the audit service to serve the public. This is because of the auditor have close personal relationship with the Enron Chief Accounting Officer (Thibodeau. J, Freier. D). The Andersen audit partner are provide the non-audit service to their audit client this will conflict interest especially when the revenue of non-audit service is greater than the audit fee, this will lead auditor influence their opinion on audit report (Thibodeau. J, Freier. D)[online] (Gavious. I) [online]. “ More surprising is that Andersen even maintained a permanent office space in the Enron’s building. In addition, Andersen employees attended and join many events organized under Enron management. This sign of lack of independence (real and perceived) was clear” (Dewifariha Abdullah@earnest, pp32).

On other hand the role of auditors have their own limitation. The first limitation of auditors is time budget and experience of the auditors. This becomes a part of influence audit judgment to express an opinion on the financial statement. This will increase fraud risks or an inability to adequately staff to do an audit gets evidence (Ciance, Buerstaker, 2009) [online]. The auditor engagement are time limited and provide the non audit are restricted, the audit client will try influence the audit fees to the external auditor to provide the unqualified report (Gavious. I, 2006). Increase from the client's time pressure, the auditor may make professional judgment of concessions (Ciance, Buerstaker, 2009)[online]. The negative time pressure may affect the less experience auditors to get enough evidence by passing the every audit stage without a completion of audit work and to reduce the time compare to actual time spend in specific audit work (Ciance, Buerstaker, 2009)[online]. The auditors may considerate that additional time spent to do an audit, yet finding significant issues in the qualified opinion, the auditors with subjects framing of the additional audit time as a " cost" or a " loss"(Jones. K. T, Chen. C. C, 2005, pp 6-8) [online]. in other hand, auditors may loss function, significant audit adjustments may be related to reduce the risks associated with a steadfast, and the use of additional time may be considered appropriate because the company may has received something in return for excessive audit time things (Jones. K. T, Chen. C. C, 2005, pp 6-8) [online].

The external auditors is playing an important role in society to days and their also pertaining to some regulatory to provide a service in society. The external auditors are in existing " auditing standards pertaining to the audit

principle and framework, responsibilities of the auditors, and audit procedure and quality control” (Mohamed Nazi Fadzly, Zauwiyah Ahmad, 2004, pp 899). These auditing standards are not designed to detect fraud other than financial statement fraud. The independent auditors are not expected to be expert in authentication of record and documentation with finding “ asset fraud, merely material misstatement of the financial statement” (zaibihollah rezaee, 2004, pp138) [online]. Under the Association of Certified Fraud Examiners (ACFE) has predication believe that the fraud may be occurred (Louwers. T. j, Ramsay. R. J et. al). Therefore the auditors having an expectation gap within the user of financial statement with auditors. The user expectation the auditor delivers the financial statement are free from fraud (zaibihollah rezaee, 2004). Now a day the auditors are being challenged and sued by the investor because of the financial frauds. The financial statement fraud will suffered to external auditors in monetarily and reputational of the audit firm, when the auditors are failed detected the financial statement frauds (example Anderson) (zaibihollah rezaee, 2004).

When the external auditors do not meet the client or the financial statement users expect, they may be responsible under the common law or statute law depends on the nature of action and the relationship between the party auditors (Louwers. T. J, Ramsay. R. J, et. al). Under regulatory of the Common Law, the external auditors may “ lawsuit by brought against auditors on the law of contract and tort actions for failure to exercise the appropriate level of professional care” (Louwers. T. J, Ramsay. R. J, et. al). This basis the characteristic of lawsuit arising from the external auditors’ is because the auditors are failure to exercise the professional care in doing the audit with

will impact the end user of the finance statement (Louwers. T. J, Ramsay. R. J, et. al). Under common law concept are developed through the court decision based on the tort of negligence, which the negligence will affect the end user of the finance statement (Schelluch. P, Topples. S et. al 2004). In other hand the auditors' may failed to fulfill the requirements by the regulatory of the Common Law, in the case of KPMG had been sued alleges in the performed grossly negligent audits and reviews and failed to detect the material error with respect to New Century's residual interest on loans it securitized and on its loan repurchases liability.

The external auditors should have an ethical behavior in mine with is "concern to characteristics as honesty and integrity, reliability and accountability, as well as all other aspects of attitude right versus wrong behavior" (Konrath. L. F pp35). In the AICPA Code of Professional Conduct is control the quality of auditing and other accounting service (Konrath. L. F). In the MIA the code of ethics is referred to as MIA by-laws to the auditor to indoctrination of sound professional practice and the prevention of illegal and dishonorable to the professional practice (Messier. jr. W. F, Boh. M, 2004). Auditor's judgment of the financial statement has a positive impact on the ethical code and experience (pflugrath. g, Martinov-Bennie. N, liang Chen, 2007, pp 3-6). The requirement of the Code of ethic is relating to integrity and objectivity. Integrity and objectivity are important qualities for professional accountant (Messier. jr. W. F, Boh. M, 2004). " By-law imposes to all members to obligation to be fair, intellectually honest and be free of conflict in their professional work" (Messier. jr. W. F, Boh. M, 2004, pp565). In the IFAC code of ethics as mentioned the independence is a fundamental

characteristic of the external auditor in the audit engagement (Messier, jr. W. F, Boh. M, 2004). The code of the professional ethic will issue preserve the public to more confidence to the professional (Dewifariha Abdullah @ Earnest). The code of ethic may include the self-review threat. The auditor must be to act on professional independence of the audit client (Chong Aik Lee, Angeline Yee Seow Voon, 2007, pp22). Independence of the accounting firm is impaired to perform the bookkeeping or makes an account or management decision for the company and takes a primary responsibility for client in all financial information. In this situation the public accounting may have dual purpose because of the public accounting firm may provide the finance statement or other information and doing an audit on the finance statement to provide audit opinion on their own work (Iouwers. T. J, Ramsay. R et. al).

In the corporate governance, the external auditors pursuant by the Company law to check the financial statement are issued by the managers to the shareholder (Bakar. C. R, 2009). The corporate governance has been defined in the range of organizational that protects and enhances the shareholder interest (Bakar. C. R 2009). In the current view on investor the auditors are assist the investor in final decision by providing the independence professional opinion (Bakar. C. R. 2009). The external auditors as assist investor decision making by enhancing the credibility of financial statement (Bakar. C. R, 2009). The “ role of external auditors is to express an opinion concerning whether the financial statement give a true and fair view of the company’s financial position and the final result in operations for the year ended” (Bakar. C. R, 2009, pp 27). In other hand the auditors may failed to

fulfill the requirement of the corporate governance to check the financial statement are showing true and fair view to the shareholder. In the case of the Enron and Anderson the auditors is failed in the corporate governance, Although existing approval procedure is sound sufficient, to ensure that the Supreme Audit quality but sometimes unable to detect misappropriations (Dewifariha Abdullah @ Earnest).

Conclusion

The auditor may need to continue maintain their profession knowledge in the high level. Their need to continue to take a courses are providing by the professional body to maintain the high level of the professional knowledge. The auditors may measure always keep up to date the auditing standard are their need to follow up in the time of the providing the audit job to the client. The auditors need to always independent in mind and appearance, to express an opinion in company finance statement and reduce the risk of the end user of that finance statement. There are also cannot easier influence by other person in provided the professional opinion in the audit report.