Executive Summaries


How and why an independent audit matters

Robert J. Kueppers and Kristen B. Sullivan

With each new fraud and ‘audit failure’ divulged in the financial press, more pointed questions are being asked about the value of the independent audit. Although many recognize that the audit profession plays an essential role in the functioning of the global capital markets and adds value to the roles played by other stakeholders in the financial reporting process, others contend that the value of the independent audit, and the measure of its relevance to investors, is measured only by the absence of fraud or failure of the business once the audit is complete. Discussions of audit quality tend to occur in the context of alleged audit failures, without recognition that the vast majority of audits stand the test of time. In answering the question ‘how and why an independent audit matters’, we have considered the explicit value of the final audit report and the importance of the consultative audit process. In addition, we have highlighted the fact that each of the principal players has a responsibility in the financial reporting and governance regime; that complementary interplay and responsibility to the investing public is essential to help promote investor confidence through reliable financial statement information. Financial reporting must continue to evolve to meet the needs of financial markets in the new world, whether that includes movement toward more real-time reporting with ever-changing technology or toward more principles-based standards. Independent auditors have and will continue to focus on improving performance, which is essential to effectively execute quality audits that contribute to the reliability of more timely and more useful financial information. In addition, it is essential that auditors continue to be positioned to provide assurance on financial reporting, in any format. As we move toward a set of global standards (accounting, auditing and independence), the value of the independent audit will continue to increase in influence as an element of efficiently functioning global capital markets affecting investors around the world. The views expressed in this article are those of the authors and do not necessarily reflect those of Deloitte LLP or any other organization with which they have been associated.

Approaches to auditing standards and their possible impact on behavior. How are they set? And by whom?

Jennifer Burns and John Fogarty

The development and existence of appropriate, high quality auditing standards is the first step in the road to quality audits. Auditing standards serve several important purposes including defining what an audit is, promoting consistency, facilitating education, providing a means to judge performance, and, most of all, influencing auditor behavior. Standards also affect many of the other factors that impact auditor behavior such as inspections, enforcement and firm methodologies. Effective audit standards take account of the complex environment that influences auditor behavior and are designed to promote the sound exercise of professional judgment. However, standard setters take different approaches to the development of standards and significant issues related to the role of judgment and to the level of prescription in the auditing standards remain. Audit standard setters have different views of the interplay between the role of standards and how they influence auditor behavior, and this influences
the emphasis of the standards themselves. This article discusses the role of audit standards, various approaches used by current standard setters, the advantages and disadvantages of different approaches, and how such approaches may impact audit quality over time. The insights provided are based on professional experience and participation in the standard-setting process. Those involved in activities related to financial reporting, auditing and standard-setting will be interested in reading this article.

A single set of worldwide auditing standards: The road is long ...

P. Nicholas Fraser
This article makes the case for convergence on a single set of global, high quality auditing standards. The need is driven by the fact that business and capital markets have 'gone global', whereas relevant laws, regulations and standards remain predominantly national in nature. The article is written for stakeholders in the financial reporting supply chain – preparers and issuers, including audit committee members; auditors; investors and investor representatives; auditor oversight bodies; other regulators and global and regional organizations such as the Financial Stability Board, the World Bank and various European institutions. It is written in the hope that it will encourage national regulators and others involved in the legislative and standard-setting process to take appropriate action in favor of convergence, thereby serving the global public interest. I also hope that the arguments presented will help global and regional organizations play their role in discouraging narrow nationalism.

A discussion of auditor judgment as the critical component in audit quality – A practitioner’s perspective

Phil D. Wedemeyer
Interest in issues related to auditor judgment by parties outside the profession has shown a substantial increase since the events that led to the passage of the Sarbanes–Oxley Act in the United States. Changes in the regulation of the activities of auditors of public companies in the United States have placed an increasing emphasis on the role of professional standards and of inspections in monitoring and influencing auditor judgment. There is a fundamentally important difference in judgments made by auditors in forming and expressing audit opinions and those made by third parties in evaluating the effectiveness of these judgments after release of the auditor’s report. This difference should be recognized by users of financial statements and regulators. Audit judgments are unique to each individual audit and comparing audit judgment across audits presents significant challenges that should be addressed carefully to avoid unintended consequences. In recent history, changes in accounting principles have increased the inherent variability of financial statement amounts and, correspondingly, have increased the importance of disclosures. Although the primary focus of good auditor judgments and audit quality is at the engagement level, the current regulatory environment and the structure and business model of audit firms are of increased importance in influencing those judgments. These factors also influence the independence and professional skepticism of auditors.

The global accounting profession in the United States

Barry C. Melancon
For several decades during its nearly 125-year history, the AICPA has worked to meet the changing needs of an increasingly global economy. Today, virtually all the issues at the top of our agenda have a significant international component. Many of them relate to how CPAs, companies and investors can productively navigate through international waters. As the world becomes flatter, international convergence in accounting and auditing standards and ethics codes, as well as the mobility of accountants into foreign lands, have increased
in importance. At the same time, as the United States (along with the rest of the world) struggles to emerge from the worst recession in eight decades, the CPA profession is at the forefront of efforts to address problems in our financial system, and to contribute toward effective solutions.

**Perceptions of preparers, users and auditors regarding financial statement audits conducted by Big 4 accounting firms**

Glen L. Gray and Nicole V.S. Ratzinger

This study includes the most diverse stakeholder population integrated into one research study regarding perceptions of financial statement audits conducted by Big 4 accounting firms. Whereas prior studies almost exclusively used either archival data or experiments to implicitly derive the stakeholders’ perceptions, this study employed focus groups with financial statement (1) preparers; (2) users consisting of bankers, financial analysts and non-professional investors; and (3) auditors to explicitly solicit perceptions regarding the financial statement audits conducted by Big 4 accounting firms. Some stakeholders opined that Big 4 audit quality has decreased because of the rush to hire staff because of increased Sarbanes–Oxley (SOX) work. However, stakeholders generally agreed that for organizations that are some combination of large, complex and/or multinational, the Big 4 accounting firms will be superior. For other organizations, second- and third-tier accounting firms will provide the same quality audit as the Big 4 firms. One factor as to why there are fewer differences between the firms is that many of the non-Big 4 auditors are Big 4 firm alumni. Regardless of whether a Big 4 audit is actually superior, the stakeholders generally agreed that the Big 4 audit has a cachet that has a monetary value in the financial marketplaces. In terms of differences between the Big 4 firms, the auditors believe there is little difference in how they interpret GAAP or GAAS because there is open communication between the Big 4 firms. Alternatively, the preparers have witnessed differences, particularly, in GAAP interpretations. However, both the auditors and the preparers generally agreed that interpretation differences are wider between Big 4 and non-Big 4 firms.


Rose L. Bailey, Denise Dickins and John T. Reisch

The Public Company Accounting Oversight Board has issued a Concept Release, which would require audit engagement partners of US publicly traded companies to be identified by signing their firm’s audit reports. In this article, we attempt to identify who would benefit from – and who would pay for – identification of audit engagement partners. We do this by summarizing the commentary of responders on the Concept Release, comparing the Concept Release to provisions contained in the Sarbanes–Oxley Act of 2002, examining arguments for and against identifying the audit engagement partner, and summarizing the likely impact of adopting the Concept Release. We conclude that, if adopted, it is unlikely that audit partner identification would enhance audit quality. Further, the cost of additional audit and/or quality control procedures associated with implementation will likely be borne by companies and their shareholders.