

Auditors are not to blame for corporate reporting failures

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Trust in auditors has declined after a number of high-profile corporate reporting failures, however according to newly appointed professor Olof Bik from Nyenrode Business University, external auditors are not the only ones to blame.

According to Professor of Behavioral Research in Auditing Olof Bik

“We need to realize that auditors are human too and therefore there is no such thing as zero risk in conducting audit work. It is possible that these risks can never be fully addressed through regulation and professional intervention alone as these could even lead to unintended consequences.

“When the Dutch Authority for the Financial Markets (AFM) reports to have found issues in the audit files of 45% of the selected audits, small or large and irrespective of any real economic significance in financial reporting quality, the public narrative is that 45% of audits fail.

“The reality is that financial reporting quality – and therefore also financial reporting issues and failures – is a joint responsibility of at least a number of parties in the entire financial reporting and assurance supply chain.

“As a result, the auditing profession should dare to cross their own divide by choosing financial reporting quality as its compass for audit quality which is in line with the expectations stakeholders and society have of the auditor.

“In the case of financial reporting quality issue or failure, it also casts a slur on the work of the auditor – but the auditor would also have a better story to tell: the reality that financial reporting quality – and thus also financial reporting issues and failures – is a joint responsibility of at least a number of parties in the entire financial reporting and assurance supply chain. Not only: where was the auditor? But also, where was the accounting department of the audited company? Where was management? Where was the internal auditor? All parties have a role to play.”

The Foundation for Auditing Research, which is co-lead by Olof Bik, Jan Bouwens and Henriëtte Prast, is an example of a serious attempt to bridge science and practice in auditing research.

According to Olof Bik, telling the story of the financial-reporting-level definition of audit quality will enable the profession to paint the complete picture and tell it like it really is.

The research is published in CROSSING THE DIVIDE: BEHAVIORAL RESEARCH IN AUDITING.

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For more information, a copy of the paper, or to speak to Professor Olof Bik, contact Kate Mowbray at BlueSky PR on kate@bluesky-pr.com or call +44 (0)1582 790 711.