

## ***Week 2 - DQ 1***

***Why is public accounting often viewed as a guarantor of results, or even as a provider of assurance that one's investment is of high quality? To what extent is it reasonable to view the auditor as a guarantor? Explain. To what extent do you believe that user expectations of the public accounting profession appear to be unwarranted? Explain.***

### ***Response #1***

I do not think viewing a public accounting or an auditor for that matter as a guarantor of results is fair. Instead, auditors should be viewed as those responsible to plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. In other words, auditors provided, "Reasonable assurance but not a guarantee that financial statements are free from errors or misstatements. Auditors do not review all financial statement documents, instead they perform the audit on a test basis to gain comfort over the financial statements. Furthermore, auditors do address the quality of an investment, they provide an opinion that the financial statements present to within a material amount the company's financial results. On the other hand, the extent to which it is reasonable to view the auditor as a guarantor is high. There are some reasons for this, for example, when audits are performed by third party companies who begin the audit process without assertion to how the entity should be operated. Another reason is that they are the only individuals people can trust to provide an accurate description of the company. I do not believe that all users (management, creditor, shareholders, etc.) of the public accounting profession appear unwarranted. I think they all have their own interpretations and purposes of a particular data. Common sense tells me that not everyone view financial reports in the same manner or for the same purpose.

### ***Response #2***

In my opinion most public accounting are viewed as a guarantor of results (some time called number crunchers), or even as a provider of assurance that other people investment is of high quality for several reason. Therefore, public accounting are often perceived as an independent analysis of an entity's financial position. Whereas the reasons may include the

standards are procedures that accounting professionals are required to uphold. GAAP, GAAS, AICPA, SOX, etc., now has set up the guidelines and regulations that are designed to instill confidence in the public's perception of professional accounting and auditing work.

Here again the reasonable to view an auditor as a guarantor is quite high. For the most part all auditors, should be the one people that the company can trust to provide an accurate portrayal of company, as an auditors the only ones who have the ability to provide the best accuracy of information about the business. Another reason might be that often audits are performed by third party companies who begin the audit process without bias or assertions to how the entity should be operated.

I believe the extent users expectations of the public accounting profession appear to be unwarranted are that auditors cannot catch everything and therefore cannot be held liable for everything. We have to understand that in the course of an investigation into a failed company after an audit was done, care should be given in determining if the auditor failed in their duties. If not, it is not auditors fault. Sort of like a doctor treating an accident victim that eventually dies. Sure, in some cases the doctor could be found at fault if they did not perform their duties as required, however, in many cases they do and there is still no hope. Doctors do not guarantee life no more than an auditor can guarantee a perfect audit.

### *Response #3*

Public Accounting is a field with very stringent regulations. If you want to work in assurance, you have to be independent of the client – not only you but also your husband or wife. You have to disclose what employer your immediate family members work for and have invested in, so that your employer can place you, and no conflict of interest arises. Additionally, while doing an audit, the auditor has to ensure that their client is applying GAAP without exception. And he has to apply with GAAS. Then there is also other regulations that have to be followed, for instance SOX and AICPA. All these regulations lead to a public image of confidence in the public accountant.

Due to the fact that the auditor has very strict regulations to follow and is independent of the client, it is very reasonable that he is viewed as a guarantor. However, an auditor is not

responsible for the financial statements but only publishes an opinion on them. In order to present the opinion, the auditor plans and performs an audit to obtain reasonable assurance that the financial statements are free of material misstatement.

Due to the fact that the auditor is not responsible for the financial statements itself but management, users can have a wrong perception of the auditor. A user can be multiple different types, for instance they can be management, shareholders, customers etc. Every user has a different view point and interpretations of data and therefore different expectations of an audit. An audit is to provide reasonable assurance that there is no material misstatement – that does not mean there is none.

#### *Response #4*

Public accounting is often viewed as a guarantor of results for several reasons. The auditors "responsibility" is to provide an unbiased review of not only the financials but also the processes of the public organization. The auditors review should provide support that the organization is in compliance with a standards and rules and regulations. Providing an opinion that the organization is in compliance and that the financials accurately reflect the standing of the organization provides some assurance to the investor. However, the auditors opinion is only as good as the review performed. I have worked in organizations where every process and documentation was reviewed and I have worked in organizations where the accounting personnel were more meticulous than the auditor. To say that the auditor is a guarantor that an investment is of high quality is a little much in my opinion. Further, just because the financials are accurate according to standards does not necessarily mean that there is not an abundance of "creative finance" behind the scenes of the numbers.

The public accounting profession is just like any other profession. The profession is a reflection of the professional. If the professional is unethical and immoral such will reflect on the profession. Even with the new regulations of SoX there are still the Madoff type people that believe they are invincible.