

Week 1 - 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

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 accountings 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 #2

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 #3

Public accounting is often viewed as a guarantor of results, because of the education, rules and regulations that the accountants and auditors are required to follow. Legislation such as Sarbanes Oxley has imposed strict regulations on the financial industry that can be followed by severe penalties. Companies need to be sure that the financial documents being presented are accurate, and auditing provides a method whereby companies can be sure that their books are accurate. That being said, there are no assurance that mistakes are not made either by miscalculation or misinformation.

I would have to say that it is reasonable to view the auditor as a guarantor. Sure mistakes can happen, however the auditor acts as an unbiased party who is required to follow a predefined set of rules set up by the GAAP. The fact that the auditor is unbiased

also builds in a sense of security which reinforces the feeling or view of a guarantee of accuracy and success. This being said, user expectations may be weaker than in times past due to the recent history of companies inflating numbers. In addition, the guise of a guarantee also is undermined by the very fact that an auditor is also human and can make mistakes. Ways to feel secure in a choice of auditor are to get a referral from a respected source or to stay with an auditor that has proven its value.

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.