

The auditor and the judge

While a judge enjoys constitutional authority, an auditor enjoys none and there is a case for the need to make this change

An auditor renders a skillful job of delivering an opinion on the true and fair view of the financial statements of the audited entity. There are multiple points in the conduct of an audit where application of mind, involves experienced and deep judgment. On the one hand, there are the 'facts' of the case. On the other hand, there are the laws and standards and 'regulations'. An application of the regulations to the facts, gives rise to numerous onerous interpretations involving complex issues of law, probability, precedence, intent, all supported by independence and ethics. This gives rise to multiple set of interpretations and understandings of the same facts and regulations. This is where judgment comes in. While the auditee may argue along one line, the audit engagement team and experts may choose different lines, which is most often the case.

Based on all this, the auditor (signing the financial statements) has to make a final judgment call and his 'order' is contained in the Auditors Report. It has been repeatedly said, especially recently, that an auditor's signature is relied upon by the whole nation, meaning to say that the role of the auditor is crucial. Sadly, in all this, an auditor, who plays such a crucial role, is treated like any other consultant employed by the company commercially, and there ends the matter.

This ostrich-like stance of the western rules of auditing that is the basis of our present laws, defies the facts of the situation, that, in so far as the audit is concerned, the auditor performs a quasi-judicial function, based on exercise of both personal skill and judgment, involving a conscience-based duty, delivering grass-root governance to the entire economy in the form of assurance arising from his integrity. Therefore, the present structure is far from salubrious, just as making a judge subservient to the litigants, denying him the standing, denying him the privileges, and the financial independence, will all compromise and throw into jeopardy the legal system. The very same outdated framework of laws, which fails to protect the standing and role of an auditor, however, expects that the auditor should be



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independent of the auditee, without providing any support for it.

It is all too obvious that the process, when tested in situations, will continue to fail, as it is inherently fraught with inadequacies. No amount of SOX and governance rules, can fix the problem, and having tried it for a few years, we see that audit failures still continue to happen. Why? Because the root cause of the failure, namely the lack of standing and authority of an auditor as a constitutional authority similar to a judge, has failed to be recognised. It is essential to empower the auditor and not keep him as a pawn in a commercial game. Have we not said always that auditing is a noble profession? Should there not be a framework to support it?

On a national scale, the legal system interfaces with perhaps 1 per cent of the population. The legal system kicks in only when there is a complaint on a dispute. On the other hand, nearly one

hundred percent of the population is directly or indirectly, subjected to an audit. Every business, and every charity, is audited. The audit is nearly omnipresent and is a substratum of the nation. The objective of our times is to bring in good-niti – ethics, integrity, and good governance. Indeed this objective that is to be fulfilled is in the very motto of ICAI – satyam eva jayate. By re-positioning the status of an auditor, the reach of integrity and

good governance will be almost pushed to one hundred percent.

This shows how vastly favourable the impact on the population will be by a reform of this nature – in fact so complete will be the roll out of the process of bringing an undercurrent to all our affairs, that such a change will completely clean up the country's everyday standards of ethics at the grass root level. One can safely say that this is in our national interest. It is therefore essential that the audit profession be rescued from the bad framework of laws, and the chartered accountant is given a constitutional position similar to a judge in so far as his function as an independent auditor of financial statements goes. ♦



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