

Editorial
The auditing industry
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The beginning of the twenty-first century can rightly be described as the era of accountability in general and of accounting and auditing in particular. Never in the history of issues of public interest has the auditing industry and accountability been so much in the spotlight as at present. This edition of *Auditing SA* is therefore devoted to the audit industry.

Names like Masterbond, LeisureNet and Regal Bank in South Africa and Enron and WorldCom in the United States have become household names. Almost on a daily basis reports about the auditing industry appear in the press. These reports and other articles are generally critical and cover court proceedings, other financial investigations, research reports, press releases by the Ministry of Finance and other related articles. They have in common the fact that they are critical and that they highlight the negative aspects of the auditing industry: collusion with management; dishonesty; lack of independence; unwillingness to report; failing to act in the public interest and the need for a new Act to effectively regulate the auditing industry, amongst others.

The published reaction of the auditing industry to this media coverage is not very encouraging. In particular, the impression is created that the auditing industry does not want to actively address the problems that exist. Rather, current practices are defended. In March 2002 the chairman of the South African Institute of Chartered Accountants still defended the practise of one firm providing both audit and non-audit services to the same client.

In sharp contrast to the situation in the private sector of the auditing industry is the totally different approach in the public sector. Independence is very important to government auditors, and thus they are prohibited from rendering both audit and non-audit services to the same auditee. This principle also applies when the Office of the Auditor-General outsources work to audit firms in the private sector.

The essence of the questions asked of the auditing industry by the media in South Africa and also worldwide, is whether the industry is independent and whether it add confidence and credibility to financial information - whether they really act in the public interest.

The question, "Why is the auditing industry in so much trouble and perceived in such a negative light?" must be asked. The answer is complex, because major developments and changes have taken place in society both in South Africa and worldwide. Technological development allows events worldwide to penetrate the homes of people all over the world within seconds. Openness, transparency and the right to share information are part of a paradigm shift in an increasing number of aspects of society.

In South Africa the apartheid government, which granted privileges only to a certain group, was replaced by a democratic government with a policy of absolute equality. Empowerment, openness and transparency have gained a new meaning in our society.

The question can also rightly be asked whether the existing structures, legislation and audit processes with respect to the auditing industry (which has a statutory monopoly), are still capable of achieving the original aim of auditing, namely to provide the shareholders, investors and the community as a whole, with assurances of financial integrity and peace of mind.

On the other hand, the auditing industry seems not to have engaged with the changes in society yet and is still at the stage of *resistance* and *denial*. It also seems as if the auditing industry is unable to grasp the fact that it is a product of society, that society created it and that society can remove it or change it to suit the needs of society.

History has taught us that certain changes have taken place at particular periods, which later transpire to have been paradigm shifts that fundamentally affected the course of social and economic developments in the world. A few of these events and developments are the invention of book printing, the Renaissance, the Industrial Revolution and the computer era. The run-up to these changes was usually a dead-end situation that temporarily blocked progress.

The lack of confidence in financial results published by companies is currently causing a serious threat to world economies and may impede further developments. This situation puts the lives of millions of people at risk. The instrument that society itself developed to add *trust* to financial information of companies, namely the auditing function, seems to be unable and unwilling to fulfil this roll.

The original aim of auditing, namely to add confidence to the financial information and to report without fear to the shareholders, has seemingly been forgotten. The current audit industry has developed into an instrument of management to achieve management's goals, and little protection is given to the shareholders and society as a whole. In essence, *auditing* has disappeared.

The audit industry will have to be changed radically if it again wants to engender confidence and credibility as a product. These qualities, which *real auditing* provides, are a precondition for sustained economic growth and stability in the world.