QUALITY AUDITS — EVIDENCE IS THE PRIME CONSIDERATION

One issue that has not been debated in this 'audit crisis' is whether present audit methodologies for collecting evidence result in sufficient, appropriate and reliable evidence being collected. The present debate relates mainly to audit independence. However, in determining audit negligence, independence is not the prime issue courts consider. Audit negligence is based upon sufficiency and reliability of evidence collected and/or whether the auditor has satisfied its reporting obligations. Details on whether an auditor has breached independence standards is admissible in court proceedings brought against auditors as this information might explain why the auditor failed to collect sufficient, appropriate and reliable evidence or failed to fulfil its reporting obligations. This clearly illustrates that in determining audit negligence independence issues are secondary to evidence and reporting issues.

Anecdotal evidence suggests that auditors are relying more on analytical procedures and less on tests of internal controls. This matter was discussed in July's edition of *Current Affairs in Audit*, 'Events in the USA – the collapse of WorldCom, and you should read this edition, noting the Panel of Audit Effectiveness findings that companies were changing the financial report figures so they would appear reasonable to the auditors. The change in the mix of audit testing focuses attention on audit methodologies for collecting evidence, an issue that has received scant attention in the media. The lack of debate on such matters is understandable for two reasons:

- The evidence collection process is unobservable and thus commentators have difficulty ascertaining exactly how auditors are presently collecting evidence. Independence issues such as the fees for audit and non-audit services are observable and this information provides commentators and researchers with a ready source of material for comment. For example, in October and November there have been a number of articles reported in the media commenting upon increases in audit and non-audit fees (Chenoweth and Buffini 2002, Bryan-Low 2002and Gettler 2002). The reasons for the fee increases lie in rising costs and 'increased demand for assurance-related work from anxious company directors' (Chenoweth and Buffini 2002, p. 1). It is felt that previously audit fees were too low and a quality audit will cost more.
- Evidence collection by auditors is a technical matter and many media commentators lack the auditing knowledge to comment on these matters.

Information about evidence collection comes to light many years after an audit is actually conducted in the form of royal commission findings and reports of investigations and court cases involving auditors. Even then the complexity of modern business can hinder the publication of details relating to auditors' conduct. For example, the auditors of Tricontinental requested that the royal commission into the collapse of Tricontinental not investigate the conduct of the auditor, arguing that there was a court case pending on such matters. Owing to concern about the time and cost of the investigation, the royal commission accepted this argument (Johnson 2001, p. 5). Later, the State Government of Victoria agreed with the royal commission's decision. However, the court case involving the auditor of Tricontinenal was settled out of court, and the judge approved of the settlement because he thought the case was so complex that the court did not have the resources to cope (Johnson 2001, p. 11). Thus, because of complexity no investigation into whether poor auditing was a factor in Tricontinental's collapse ever occurred.

References

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