

Funding the Future

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I mentioned on Saturday that Ernst & Young had a role in the News International corruption debacle because of their role as auditors of the company. This has been challenged by a couple of commentators, so let me expand my case.

Auditing standards recognise that an auditor has a duty to check that a company is compliant with the legal framework in which a company operates. The relevant standard is here.

Now, it's clear that an auditor has to check the accounting and legal environment and compliance with obvious regulation relevant to a company when auditing its accounts. But it's not responsible for everything else.

But, it's also got a responsibility to review risk and that is company specific. So if a company suffers an allegation of phone hacking, for example, the auditor would be on notice to look for risk in that area. It's inconceivable, in my opinion, given all the attention given to hacking and payments to police given to News International over the last few years that the auditors did not look at this issue, and that is they did not they were negligent.

So I believe any inquiry must call for Ernst & Young's working papers from their audit files. And examine what they did, or did not find and report on it.