

Where were the auditors? (Part 74 of a series, to be co...

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The [Guardian has reported](#):

Toshiba overstated its operating profit by 151.8 bn yen (£780m) over several years in accounting irregularities involving top management of the Japanese technology company, independent investigators said.

To put this in context, the estimate now reported is three times that first suggested when problems began to come to light.

The Guardian notes:

The report said much of the improper accounting, stretching back to fiscal year 2008, was intentional and would have been difficult for auditors to detect.

For the record, the auditors are [Ernst & Young's Japanese operation](#).

And also for the record, if this has been going on since 2008 I think that claim is an exercise in corporate whitewashing. If the auditors supposedly could not detect this three questions follow.

First, why have auditors in that case?

Second, why have accounts if they're so opaque and open to manipulation that even an insider cannot detect what is happening?

Third, how can you know whether the auditors would have difficulty, or not?

Corporate fraud is, I regret, normal, especially in the top down, Stalinist like, structures that demand results of the type Toshiba (and Tesco) adopted. But please don't tell me that risk cannot be appraised in such organisations. It can be, and is invariably at the top. The difficulty is having an auditor willing to name that risk and address it. That's the hard bit. And by default EY fell short: the accounts they signed off were wrong.

Now the question is will anything change? Don't hold your breath: the real reason for getting the excuses to the media, which the Guardian has faithfully reproduced, in early is to make sure that this will be claimed to be 'a rotten apple' and nothing needs to change as a result.

I beg to differ, and the agenda for change is simple.

First, split auditing from the supply of all other services.

Second, rotate auditors, compulsorily.

Third, remove some of the vast areas of subjectivity from current accounting standards that provide scope for abuse and impart little useful information.

Fourth, add granularity that puts the focus on real, local trading. Country-by-country reporting would do that.

Fifth, require that all the books of all companies in a group be covered by audit: this is rarely if ever the case at present leaving massive boltholes for misrepresentation.

Sixth, ensure that this happens worldwide.

Seventh, stop arguing: do it.