The audit profession is somnolent right now: the coffee...

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Accountancy Age has reported that:

While the struggle around audit quality in the Big Four accounting firms continues on, EY have created a new Independent Audit Quality Committee (IAQC).

The panel was announced by EY's US partnership on Wednesday to provide an independent, outsider's view on the quality of their audits, including any operations, strategy, and culture relating to it.

Consisting of three experts, the panel was chosen from groups that EY deals with regularly who rely heavily on its audit work, like investors, corporate audit clients, and regulators.

It can now be revealed that those on the panel include Jeanette Franzel, former public company accounting oversight board member, William McNabb III, former chairman and CEO of Vanguard, and Charles Noski, former Bank of America chairman and executive vice president.

I am sure all three appointees are very worthy. And I am sure they will take their task seriously. But as an exercise in missing the point this really does take some beating.

The problem with audit is somewhat deeper than EY clearly think it is might be a reasonable conclusion from this action. They clearly believe that if only they appoint three people from amongst the great and good of finance to a committee that will meet every now and again then the systemic failings of audit will be resolved. I have to tell them that they have got this wrong.

The failings of the Big 4 firms are not so superficial. They are profound. Without writing a book on the subject I'll summarise the three main issues.

First, the Big 4 ensured that accounting standards were transformed I.e. the rules of the game of accounting were changed. Instead of accounts being designed in the broad public interest to meet all stakeholders needs the Big 4 ensured the International

Financial Reporting Standards Foundation and other similar bodies narrowed the purpose of accounting. Accounts are now designed solely to meet the needs of the users of financial markets. That's it. No one else. As the IFRS Foundation says, if other users have other needs they'll have to get the data from somewhere other than the accounts. They offer no hint as to where that might be. And usefully, they add that IFRS based accounts are not a useful basis for taxation.

Second, the Big 4 ensured that auditing standards were transformed. Instead of an adult confirming that the accounts of a company showed a true and fair view they ensured that audits instead confirmed that the accounts were prepared in accordance with the rules that were prepared solely for the benefit of financial markets. So now audit was not a matter of judgement: it became a box ticking exercise. And it ceased to be in the public interest: it came to be solely in the interest of investors, and then somewhat narrowly.

As a result accounts and audit were gutted of meaning. And thirdly, the public noticed. Because banks failed in 2008, without audit warning. And other companies have done so with embarrassing regularity since. I need but mention BHS and Carillion and then add Patisserie Valerie to the menu. And the public were not happy. Most especially when they realised that what the public wanted form accounts - like data on whether the company was going bust or not, and whether it was paying its taxes properly, or not - was seemingly unavailable under the terms of the rules the Big 4 had set, which they appear to have no intention of changing.

That's the problem with audit.

And appointing three grandees from the financial services community to reinforce the status quo really will not solve it for EY.

Or anyone else.

Never was there greater need for the profession to wake up and smell the coffee. But it is deeply somnolent right now. It's not even got near the coffee, let alone smelt it.

And EY would like to pretend otherwise. But no one will be convinced.