Auditors are finally going to have to do their jobs

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As the FT has noted this morning:

UK financial regulators are examining how many listed companies are set to issue warnings about their ability to survive the pandemic, as they seek to assess the impact on markets should share prices plummet.

Auditors have warned that there is a backlog of annual reports that are likely to question the ability of companies in the retail, hospitality, leisure and travel industries to continue trading as a going concern for the next 12 months.

]A flood of going concern warnings or qualified audit opinions – in which an auditor says there are misstatements or that they could not obtain enough evidence to sign off the accounts with a clean bill of health – could spook markets. There is also expected to be a rise in "emphasis of matter" audit reports, which highlight serious uncertainties around matters such as property or inventory valuations.

This is, of course, exactly what auditors have always been meant to do. The job of an auditor is not to issue a boiler-plate report saying all is well in a company when it is not, although that has on far too many occasions in recent years been exactly what has happened. The job of an auditor is to highlight issues of concern, and whether the count likes it or not.

Now that is likely, and unprecedented. As the FT notes:

A senior accountant who is close to the government said that a cross-sector wave of warnings "didn't happen during the last financial crisis, and as the future is far from certain there is lots of worry about this".

And as they add:

The head of audit at one large firm said some major businesses had approached the government's department for business in recent weeks to complain that their auditors were putting too much pressure on them. "They have complained that we're being *overly prudent," the auditor said.*

In this scenario there is no such thing as being over-prudent. What is required is honest opinion. The test of that will, in many cases, be that the client does not like the opinion offered. But that is not for the client to complain about. And if markets do not like the results, they should have quit earlier. What any auditor is going to say should have been known to any astute investor a long time ago (in current terms).

For once auditors have the chance to get something right. I really hope that they do not flunk it.