

The Auditor: Catalyst for Good Corporate Governance

Rose Lumumba

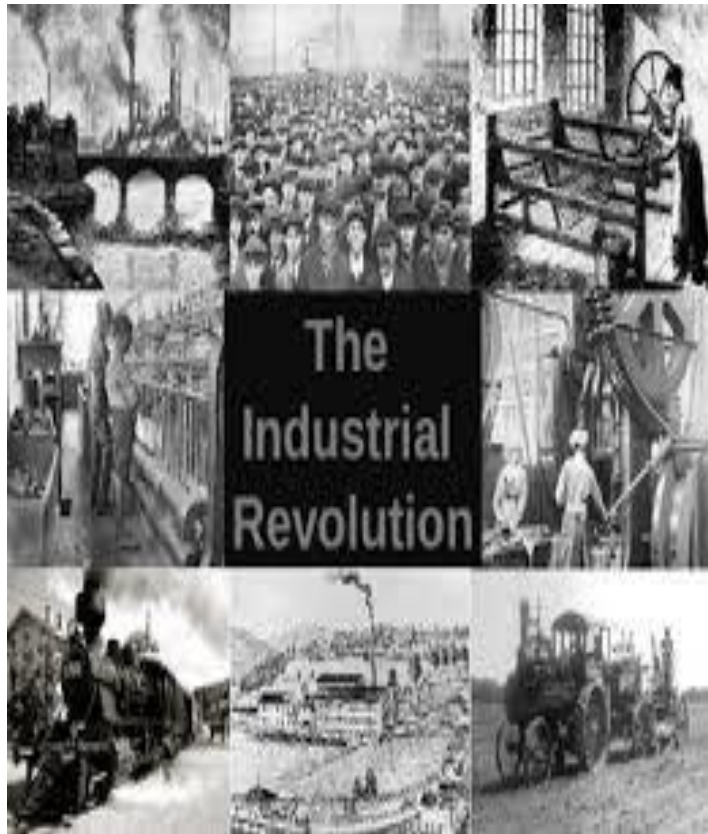
7th May, 2019



LEHMAN BROTHERS

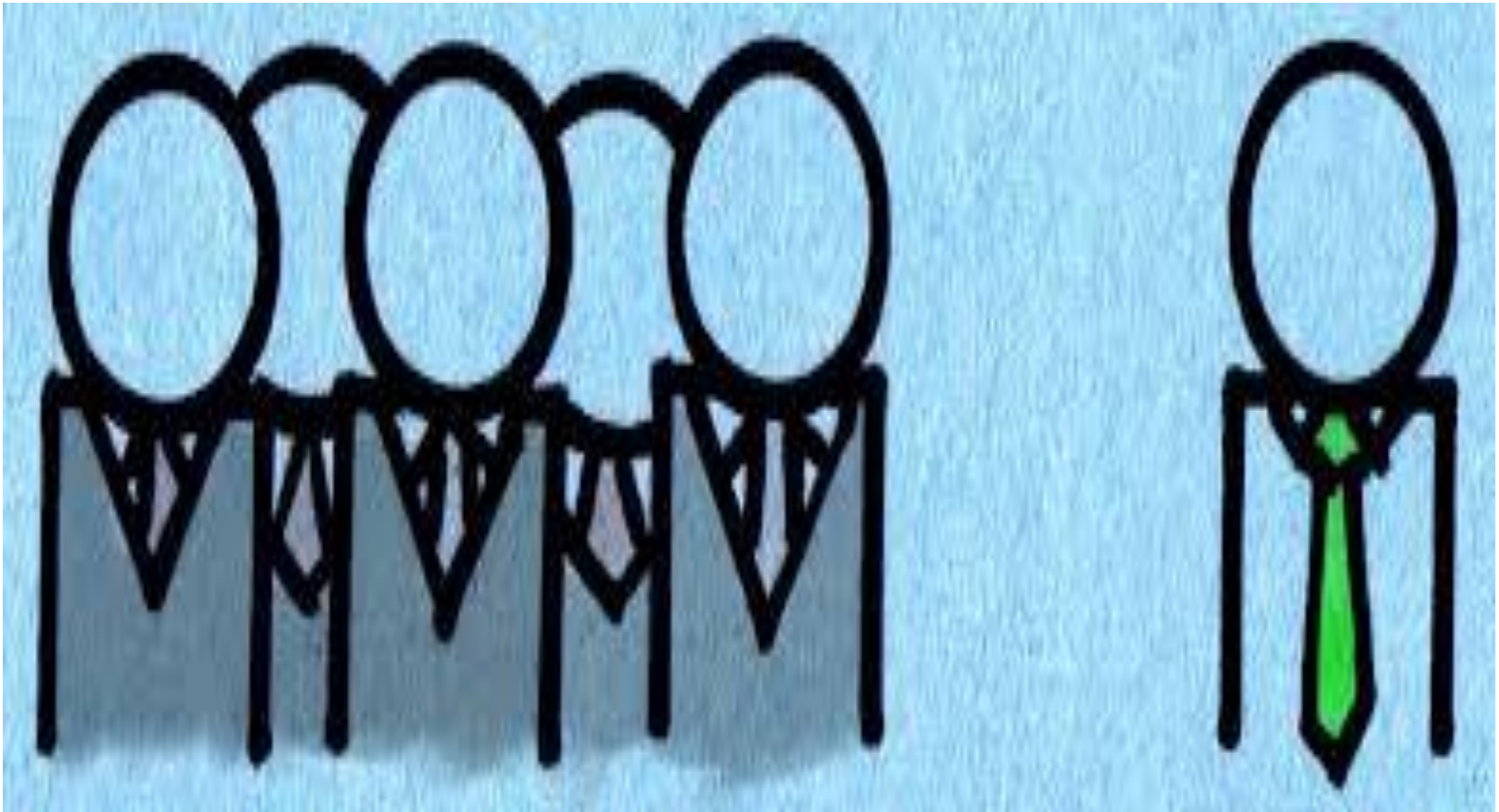


Business Safeguards



- ✓ Profession of Auditors begun Industrial Revolution, from 1750 to 1850 with the ancient Egyptians, Greeks, and Romans
- ✓ To locate frauds as well as to find out whether the receipts and payments were properly recorded by the person responsible
- ✓ detection and financial accountability.
- ✓ Protect shareholders Interests
- ✓ Oversee a management hired to operate businesses in the owners' absence.
- ✓ need to monitor financial activities, both for accuracy and for fraud prevention.

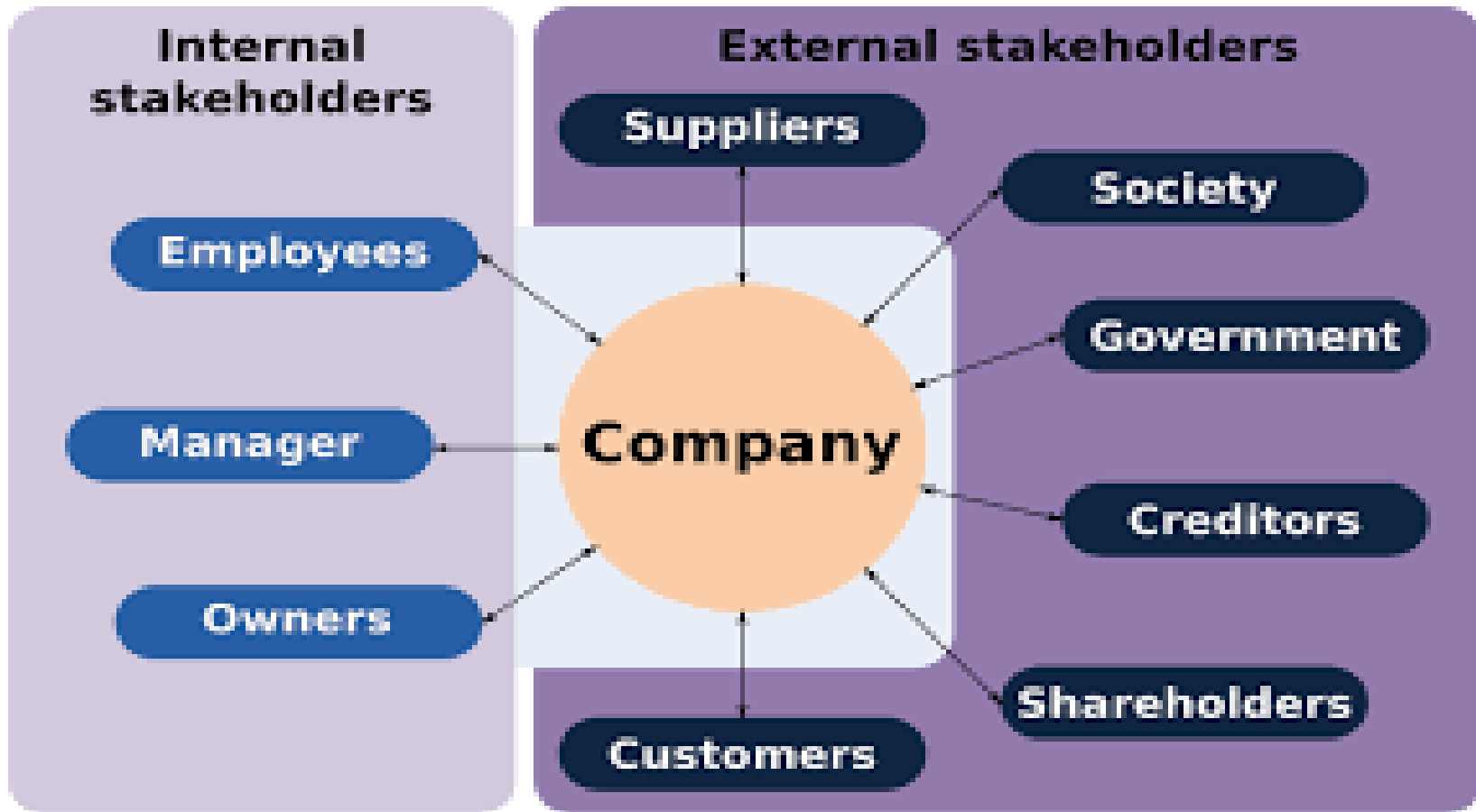
The Auditor

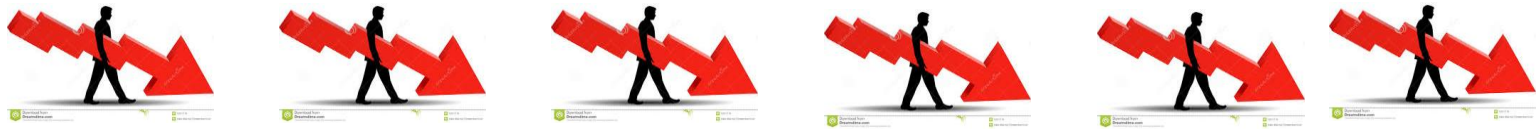


QUALITIES OF AN AUDITOR

- Tact
- Clear
- Caution
- Firmness
- Patience
- Reliability
- Integrity
- Discretion
- Good temper
- Industry Judgement

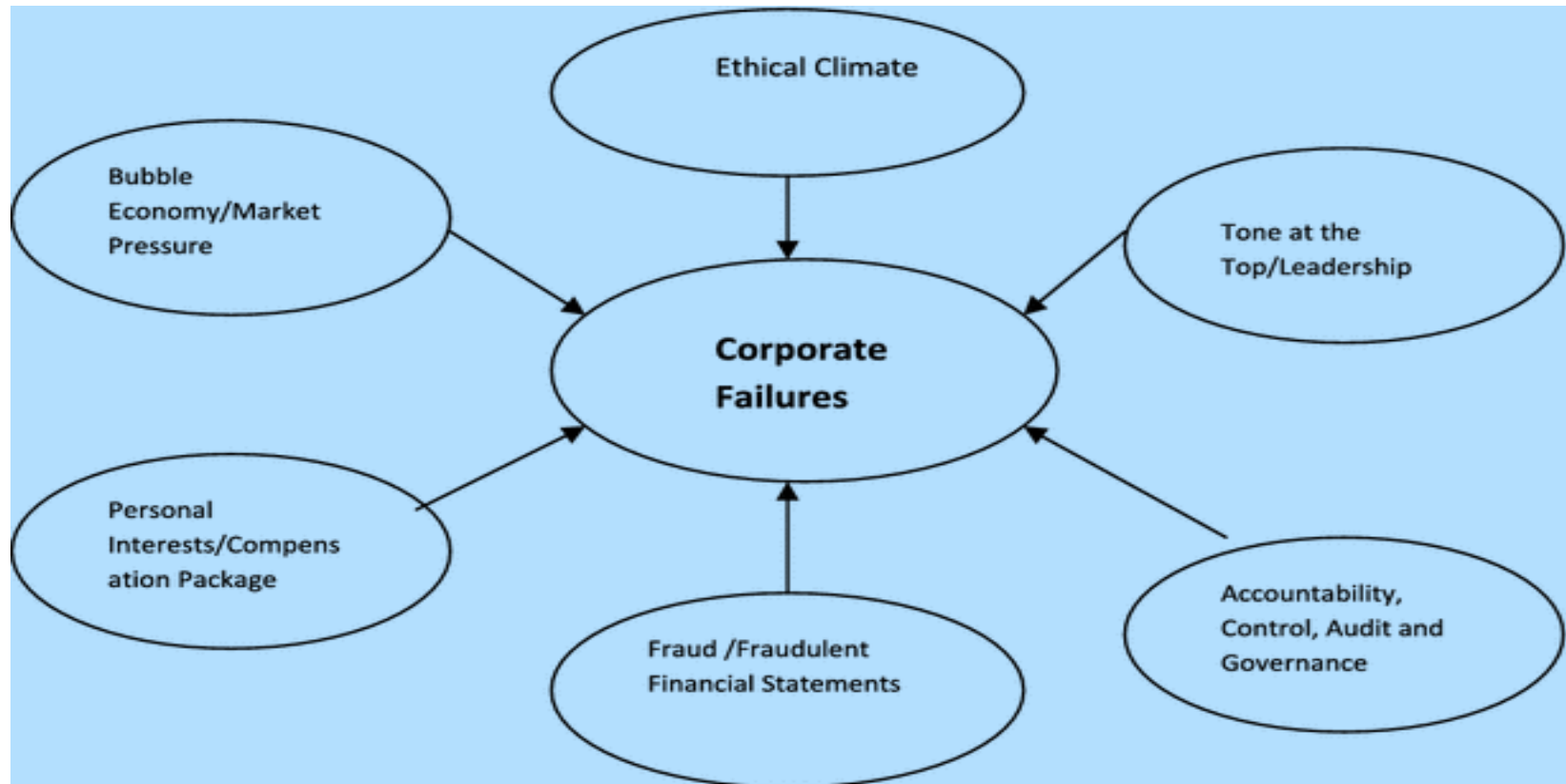
Needed by All





- The financial failure stories are full of details on how managements at brand name companies:
 - hide losses,
 - fabricate revenues,
 - report imaginary profits and
 - claim to have assets that turn out to be nonexistent,
 - all of which supposedly independent auditors either fail to detect or keep quiet.

Business Failures



Effects of Failure of Businesses and Governments



Where are we Going Wrong?

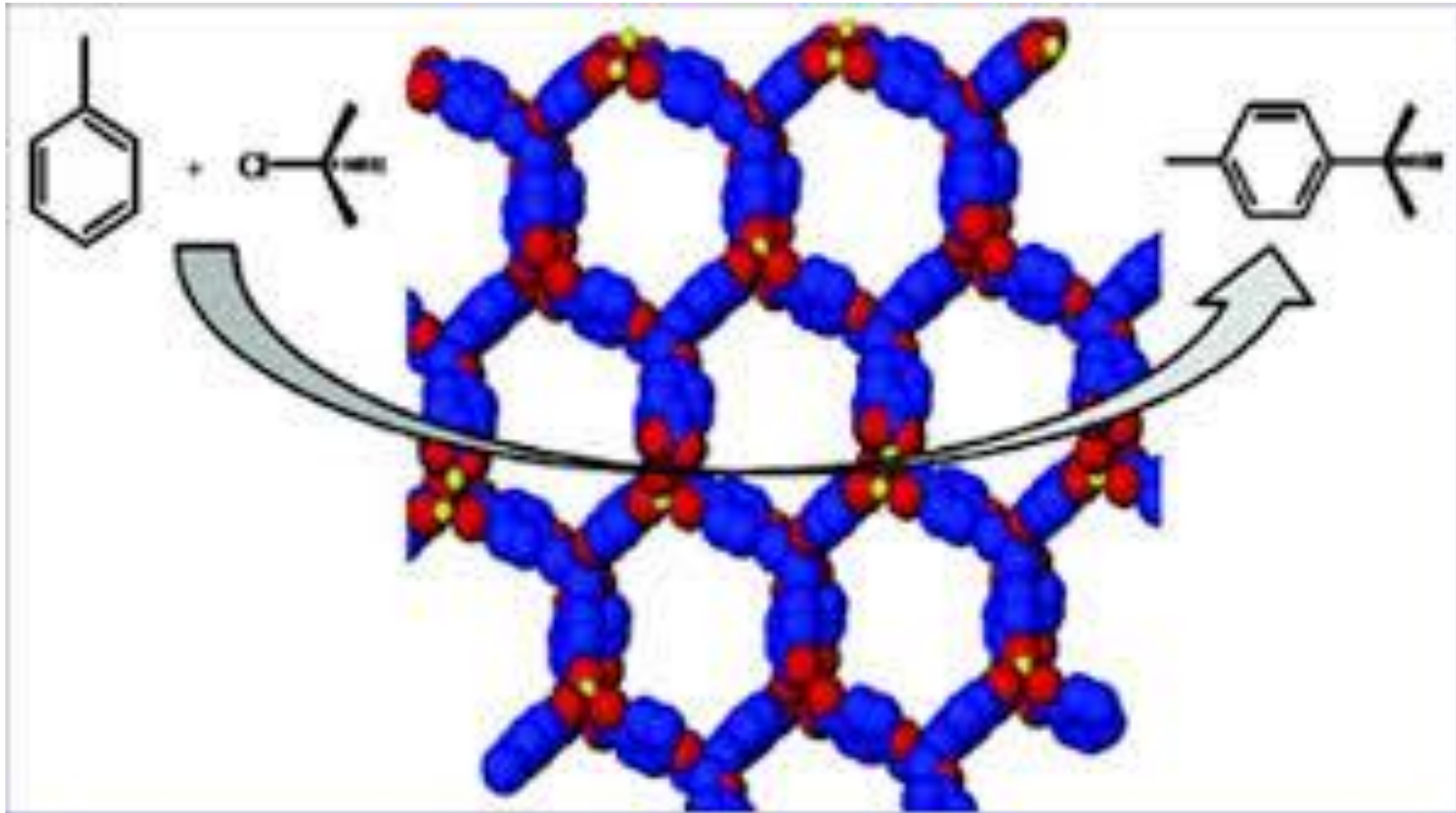
- It's not as if auditing is a nascent field:
- New York lawmakers created “Certified Public Accountant” as a licensed occupation in 1896.
- Britain's parliament required companies to keep books and let shareholder committees audit them way back in 1845
- And the development of internal controls to prevent fraud dates back at least to the era of the Babylonian king Hammurabi, roughly four millennia ago.
- It also is not as if we lack warnings !!! Is it that too many auditors are in on the frauds? — **either looking the other way or actively helping companies hide financial lies.**

- Arthur Levitt, former chairman of the Securities and Exchange Commission under President Bill Clinton, said in a speech at New York University in 1998 that corporate managers, auditors and analysts were taking part in a “game of nods and winks.”
- He cited “a gray area where the accounting is being perverted; where managers are cutting corners; and, where earnings reports reflect the desires of management rather than the underlying financial performance of the company.”
- Professor Prem Sikka, a reformer at the University of Essex in Britain, notes surveys showing that “as many as 70 percent of auditors admit to falsified audit work” in surveys of countries around the world.

- “We need to look at the internal value systems and culture of the accounting firms,” Sikka.
- There is the real problem — the structure and the rules of auditing.
- Why do we let corporations pick their auditors?
- Why do we have only four big firms instead of a dozen, a score or more?
- Why is law enforcement handcuffed by inadequate budgets and rules that hinder investigations?
- **Why are auditors allowed to quietly resign instead of being required to blow the whistle?**

- Does auditing need a shakeup and fundamental restructuring? **Do accounting firms need a serious debate about their failings, practical and moral?**
- Honest auditors and honest managers need to renew Levitt's call for fundamental reform. They need to press for actual reform, not just talk, so bad practices do not drive out good.
- Until we get structural reform the history of gross failings by the profession are sure to continue **and that means no one's investments can be safe.**

The Auditor: The Catalyst





Catalyst to Reducing Corruption

- While the mandate of auditors is not tackling corruption per se, their duty to oversee government revenue and expenditure gives them an important role to play in **detering and detecting public sector corruption.**
- Studies illustrate that where auditing is conducted **professionally and independently of outside influences, the level of corruption can be reduced as public officials are less able to hide malfeasance behind financial misrepresentation.**
- Successful approaches include **focusing audit planning on areas at high risk of corruption, cooperation and coordination with other anti-corruption bodies, and engaging civil society in audit processes.**

Relying on You



© Theodoris Tibilis - Shutterstock

**Thank
You**