

Trey Stone

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### Ethics Case

I support the position of reconsidering the mandate of rotating auditing firms every set number of years. The foundation of the major conflict of interest that an audit client pays the auditor will still be there no matter what is decided with this. The rotation method will not in any way counteract this I believe. Let us consider this point of view. Say that there is an unethical company and an unethical auditing firm. Any auditing firm that you match the unethical company with, it will not change that it will still want to cheat the system. On the same note, any company that you try to match the unethical auditing firm with, will not change that it will still try to cheat the system as well.

As I have learned in my experiences thus far, auditor independence for the industry as a whole has had its reputation tarnished because of all the major fraud findings in the last decade. That is to say that the public has lost its confidence in the auditing profession. That is why independence in appearance is such a big deal. Most of the AICPA rules about independence relate to independence in appearance because of this; also, because judging a person's mindset (independence in fact) is very hard to do a lot of times. Even a small financial relationship with a company you're auditing such as owning a single share of stock, would be considered by financial information users to be against independence in appearance. While it most likely would not influence the auditor one way or another, just the perception of the relationship might cause the public to have doubts in the auditing profession (Louwers et al., 2011, p. 43). In short, I understand why it is important to not only be independent, but to also appear that way as well. In a survey of bank loan officers, 67.3% of respondents agreed that mandatory audit firm rotation would increase the perception of auditor's independence (Daniels & Booker, 2009, p. 3). There is no question that this act would produce benefits, but would those outweigh the costs involved? I think the auditing industry is restructured very well now and that it is better than ever before. How anyone could not perceive it to be independent in appearance is beyond me. It seems as though one cannot read a business article nowadays without seeing the word "ethics" in it. I know all this "red tape" is necessary to ensure the integrity of the auditing profession, but how far do we really have to go? Now that we have this new structure, should not we try to strengthen the procedures we have in place instead of pumping out tons of new ones that are not high quality? How can we ensure the methodologies we are using right now are getting the attention they deserve? Should not we ensure that they are being enforced before coming out with more? How do we know new measures are necessary if we do not give the current ones a chance to work? The Section 202 of the Sarbanes-Oxley Act of 2002 has already put in place that public audit firms need to rotate

their lead auditor that is primarily responsible for the audit and the audit partner who is in charge of reviewing the audit after every five consecutive years of work on an audit engagement (Arel, Brody, & Pany, 2005, p. 1). I think that these controls are efficient and effective enough taking into consideration that the implications of enforcing this act would really change the auditing world forever (for the worse I believe). It would take a lot of business away from public auditing firms and may even bring about layoffs for some companies. Some people have worked really hard to get to where they are at in life and to have that swept away because their company is losing business because of some rotation act is absurd.

The best stance to take against this issue would be to approach it with a utilitarian outlook. One way to express the utilitarian view is as the greatest amount of good caused for the greatest number of people it affects. The best way to determine this would be to consider the net benefits that would be caused by making the audit firm rotation. In order to figure the net benefits, one must know all the benefits from making this change and subtract all the costs involved (very similar to a cost-benefit analysis). This task would be a great challenge to overcome because of the great detail involved in figuring out the costs and benefits associated with the change. The learning curve and the higher fees are just a couple of the many costs that would be involved (I think these would, with no question, outweigh the benefits). The lessening of the inappropriate influences impressed on auditors such as external pressures and incentives would be very difficult to measure. It seems as though the three components of the "Fraud Triangle" (motivation, opportunity, and rationalization) are next to impossible to eradicate completely and will always be existent in some form and to some extent.

## References

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Louwers, T. J., Ramsay, R. J., Sinason, D. H., Strawser, J. R., & Thibodeau, J. C. (2011). *Auditing & Assurance Services* (5<sup>th</sup> ed.). New York, NY: McGraw-Hill/Irwin.