

'Big Six' Call for a New Way of Auditing, Financial Disclosure

Paris (Nov. 9, 2006) - The Big Four, plus major audit players Grant Thornton and BDO International, have joined forces to call for a new business reporting model.

In a paper, the firms endorse the concept of accounting rules that are standards based, offering fewer details but giving more responsibility to auditors to interpret those rules. According to the six, the concept should lead to less fraud and more useful financial information -- and ideally protect their businesses from the liabilities audit work opens a firm up to.

The proposal is full of language melding together the promise of high ethical standards and improved technology. Signed by the chief executives of the six global audit networks, the report, entitled "Global Capital Markets and the Global Economy," was presented at a conference in Paris this week.

Noting that contractual relationships are more complicated in a business world where globalization is a matter of course, the firms say that the financial reporting currently required by regulators doesn't reflect changes in economic and business activity.

"[Today's] financial reports remain largely one-size-fits-all, and are not sufficiently accessible to many investors," the paper says. "In a world of 'mass customization,' standard financial statements have less and less meaning and relevance. The future of auditing in such an environment lies in the need to verify that the process by which company-specific information is collected, sorted and reported is reliable and the information presented is relevant for decision making."

In the near term, the paper advocates for a resolution to the ongoing process of internal convergence of accounting rules. Over the longer term, the paper says that a trend needs to begin towards the public release of more non-financial information (some or much of which may be industry-specific) customized to the user, which is capable of being accessed far more frequently than currently.

Of course, the firms also made the case that they need a way of protecting themselves from the liability issues surrounding audit work -- mentioning the Enron-induced failure of former Big Five firm Arthur Andersen several times throughout the paper.

Another concept the paper highlighted was the creation of a separate category for higher-priced forensic audits that companies would be required to undergo only every five years, or on a random basis, or at the discretion of the investors who would have to bear the additional cost.

The full report is available online at www.globalpublicpolicysymposium.com/.

— Alicia Korney, Editor, WebCPA

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