

Auditing In Carillion's Case

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Audit Failure and the Collapse of Carillion

There are a lot of reasons why an audit process can go wrong, from the audit procedures that were carried out on Carillion, which offers health services to over a million Virginians in America. It is essential to identify the fact that a failed auditing process can be costly.

Despite the fact that auditing brings praise to the company upon successful completion, there are a few people who are left with the entire burden in case of failure. The causes for failure in Carillion's case were due to a combination of factors such as human error, compliance with the audit process, HACCP failure, lack of supplier control, and lack of documentation as well as the proper organization. (Al-Khaddash et al., 2013)

It doesn't matter the industry that you belong, but one thing is for sure, human error is bound to happen. According to auditing experts and FRC's enforcement division, the failure was attributable to human mistakes. That said, the critical goal of the quality assurance manager concerning this issue would be to ensure that all employees are appropriately trained and can fully understand the auditing process to reduce human error as much as possible. When the employees feel that they are comfortable with the whys of specific organizational processes, it becomes more comfortable for the company to progress. Moreover, internal audits ensure that the management is familiar with whatever the outcomes bring. (Lee et al., 2011)

Compliance, Commercial Pressure, and Conflicts in the Audit Process

Another factor that may have deterred the auditing process at Carillion may have had to do with compliance versus business goals. In the organization, there was a high probability that there was a conflict of interest between the quality assurance manager's goals and the need for the business to continue with its operations as usual. The failure in the case of Carillion may have resulted from some activities, including customer attendance, coinciding with the auditing process. This means that the auditors had limited access to vital information, which hindered their efforts. To mitigate this issue, compliance should come before anything else because failing to meet this may lead to a high cost, which is more of a loss than would have been caused by delays in product delivery. (Akkerman et al., 2008)

Onwards, failure can be tied to the serious distortion of financial statements, which is not reflected in

the audit report. This means merely that serious errors have been made either knowingly or unknowingly by the auditor. This might have occurred in the case of Carillion, where the auditors might have used the wrong GAAP or GAAS during entries. It can either be intentional or by mistake. Alternatively, the auditor may have knowingly interfered with the entries to succumb to pressure or allow for a bribe. Moreover, documents may have been distorted following undue influence by the client, who might have had a personal or business relationship with the auditor. In such cases, the auditor may bend the rules and allow for mischievous acts while protecting their interests.

As it is the duty of auditors to detect and correct any possible fraud, auditors are advised to strictly adhere to guidelines offered by GAAS and GAAP, as this can lead to audit success despite there being any form of alterations in the books of accounts. There are a lot of misconceptions with regard to what an auditor can achieve and what he cannot. That said, the auditor's responsibilities with regard to fraud and the going concern concept of the business leave a large "expectation gap" between what the auditors can do and what users of financial statements expect. Failure is bound to occur whenever an auditor does not comply with the provisions of ISAs. For example, the auditor at the firm may have decided to give an unmodified opinion of his own accord, meaning that he was negligent in his work. Last but not least, audit failure may have been castigated by the auditor's incompetence from the very beginning. For example, the auditor may have lacked the necessary knowledge required to sufficiently understand the risks involved in measuring fair values and reporting earnings.

Fraud Detection, Professional Responsibility, and Lessons from the Failure

Following the failure of an audit task, many issues are bound to come up, including the responsibilities of the auditor in matters related to fraud and fraud detection. Also, the auditor's independence is questioned as the rigidity of the accounting and auditing standards remains in doubt. However, to make the auditing processes successful in every attempt, the application of International Accounting and Auditing Standards should be encouraged on a global basis to undermine the rules-based approach that ends in audit failure most of the time. An example of such a standard is the ACCA, which supports a "think global: act locally" kind of thinking. Also, undertaking a review of the current regimes that monitor compliance, such as mandatory peer reviews of the US and the Joint Monitoring Unit for the UK, as well as the enforcement mechanisms that support the theme, can lead to increased chances of auditing success. (Bachar, 1989; Feng & Fei, 2002) Concerning auditor independence, a limit should be set on the time when the auditors are cleared to hold appointments. Also, an auditing firm shouldn't carry out an audit of a client where a senior auditor has worked before to increase success chances. (Ebrahim, 2001)

From the precedent, it is clear that audit failure is directly or indirectly linked to corporate failures. That said, despite how effective an auditor's response is, company failure is guaranteed where there is a corporate failure.

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