The accounting scandals of the past year or so have created widespread concern about the effectiveness of audits and the independence of auditors.

The auditing industry initially argued strongly that the independence of the auditor was in no way compromised by doing other consulting work for the company. It was even claimed that an auditor can do a better audit where certain consultancy services are also provided.

Even though the Big Four have now formally separated themselves to varying degrees from their consulting arms, they continue to claim providing taxation consultancy does not affect their independence as auditors.

The Sarbanes-Oxley Act in the USA recognises the independence of the members of audit committees and bars them from accepting any consulting, advisory or other compensation.

Doublespeak says that the independence of auditors is not affected by other consultancy fees but that the independence of members of the audit committees would be compromised.

A second example of doublespeak can be heard in discussions of the auditor’s responsibility to detect fraud. Audit guideline 9 on fraud and error states the auditor should plan the audit “so that there is a reasonable expectation of detecting material misstatements in the financial information resulting from fraud or error.”

In direct contrast is this statement: ‘The role of the auditor was not to find fraud but to express an opinion on the truth and fairness of financial statements. There was a mistaken expectation that the auditor would find fraud when the auditor had no responsibility to do that’ (DominionPost Jan 23).

This is part of what the profession has been calling the audit expectation gap since the 1970s. So doublethink means that while auditors have the knowledge to detect material fraud and should plan the audit accordingly, it is not their responsibility to find fraud.

The most telling example of doublespeak must be this advice on the pro’s and con’s of requiring audits of all companies in a group:

A group audit enables the level of scrutiny to be exactly the same, no matter how directors have structured the business; through subsidiaries, business units or divisions.

Consider two groups, identical except for the choice of structure. One has one company with 20 operating divisions; the other has 20 operating subsidiaries. If an audit opinion were required for every company, then the group with 20 operating subsidiaries would have 20 detailed audits of small operations.
On the other hand the identical group with 20 operating divisions would only be required to have one set of group financial statements subject to audit and one audit opinion (to a higher level of materiality).

The level of audit scrutiny and the cost of the audit would be radically different in each case.

So doublespeak allows the levels of scrutiny to be 'exactly the same' and 'radically different' at the same time.

George Orwell would see the irony in the masters of double-entry becoming unwitting slaves of double-think and double-speak.

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