

What are independent auditors?

Independent CPA auditors are like referees in the financial reporting arena. The CPA comes in, does an audit of the business's accounting system and methods and gives a report that is attached to the company's financial statements. Publicly owned businesses are required to have their annual financial reports audited by independent CPA firms and any privately owned businesses have audits done as well because they know that an audit report will add credibility to their financial reports.

An auditor judges whether the business's accounting methods are in accordance with generally accepted accounting principles (GAAP). Generally everything is in place and the financial report is a reliable document. But at times an auditor will wave a yellow or red flag. Some indicators of potential trouble include when the business's capability to continue normal operations is in doubt because of what are known as financial exigencies, which could mean a low cash balance, unpaid overdue liabilities, or major lawsuits that the business doesn't have the cash to cover.

An auditor must exercise professional skepticism, meaning the auditor should challenge the accounting methods and reporting practices of the client in order to make sure that its financial statement conform with accounting standards and are not misleading - in short, that the financial statement are fairly presented. Indeed, the words "fairly presented" are the exact words used in the auditor's report.

A good auditor need technical know-how, but also needs to know how to be tough on the accounting methods of the client. His job is to be the agent of the shareholders and other users of the business's financial report. It's incumbent on an auditor to strictly uphold GAAP, and not let any irregularities slide.

There are a number of well-known companies that engaged in accounting fraud recently and that fraud was not discovered by the CPA auditors. Enron is one of these companies. In this case, the auditing firm, Arthur Anderson was found guilty of obstruction of justice because it destroyed audit evidence.