

Chapter 4

Fundamental or Enhancing Roles? The Dual Roles of External Auditors and Forensic Accountants

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ABSTRACT

In view recent developments which have resulted in the replacement of attributes of relevance and reliability with a new categorization of fundamental qualitative characteristics of accounting information and enhancing qualitative characteristics of accounting information, this chapter is aimed at highlighting why the roles of audits – and particularly accountants and auditors still serve as fundamental, vital and crucial means of verifying financial statements – such that these can be reasonably relied upon by investors in financial and capital markets. Fundamental qualitative characteristics of accounting information are categorized into relevance and faithful representation – a change from the IASB's 1989 framework. The enhancing qualitative characteristics of accounting information now comprise verifiability, understandability, comparability and timeliness. This chapter is aimed at highlighting why such enhancing characteristics could be regarded as fundamental qualitative characteristics.

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INTRODUCTION

In view recent developments which have resulted in the replacement of attributes of relevance and reliability with a new categorization of fundamental qualitative characteristics of accounting information and enhancing qualitative characteristics of accounting information, this chapter is aimed at highlighting why the roles of audits – and particularly accountants and auditors still serve as fundamental, vital and crucial means of verifying financial statements – such that these can be reasonably relied upon by investors in financial and capital markets. Fundamental qualitative characteristics of accounting information are categorized into relevance and faithful representation – a change from the IASB’s 1989 framework. The enhancing qualitative characteristics of accounting information now comprise verifiability, understandability, comparability and timeliness. This chapter is aimed at highlighting why such enhancing characteristics could be regarded as fundamental qualitative characteristics which not only facilitate the mitigation of information asymmetries between management and investors – but also assume crucial roles in the present volatile environment which prevails in major economies in respect of their financial and capital markets.

This chapter also considers the dual roles of both external auditors and forensic accountants: whether acting in the dual capacity of external auditor and internal auditor (with respect to internal and external audits), as well as whether the overlapping roles of testifying and consulting experts ³ (with respect to forensic accountants) do (significantly or not significantly), affect the objectivity and independence attributes required in exercising their functions.

It is also important to highlight that a consideration of the dual roles of the external auditor and internal auditor will involve examining whether it is appropriate for the external auditor to incorporate internal audit responsibilities in certain circumstances (as provided for by *ISA 610, Using the Work of Internal Auditors*, as well as provisions of the Sarbanes Oxley Act which imposes limitations on external auditors’ abilities to perform in a dual capacity—particularly with respect to internal audit outsourcing services). It will consider the impact of the performance in such a dual capacity on the ability of the external and internal audit work to be carried out with the required attributes of objectivity and independence.

According to Stewart and Subramaniam (2010), the motivation for increased interest in the objectivity and independence of internal audit is associated with “the evolving and expanding role of internal audit as key corporate governance mechanism, as well as an internal consultancy service. In this respect, internal auditors occupy the unique position as providers of both assurance services within the organization, and consultancy services to managers.” The controversial debates which such dual role has generated, as well as the dual role’s impact in placing internal auditors in

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