Since the Thatcher and Reagan era, Self Regulation and Laissez Faire policies have flourished on a World-wide basis. Central Authorities scaled back their involvement in business regulation and the free markets were left to ultimately resolve issues as they arose. Professions were left to their own devices for as long as anyone can remember.

Accountants set their own professional standards, educated their members and ultimately monitored compliance. Standards were developed on a partnership basis with the UK bodies and more recently with International Standard setters. Over the years, this system has worked well and has resulted in highly trained accountants delivering an excellent service to the business community. However, in the recent past with the fall-out from the Bank crisis, the Self regulation Module is being challenged.

The Financial Regulator has indicated that in his view one of the causes of the International Financial Crisis was the inadequate oversight of credit institutions and insurance companies. The overseers would have included the Regulator’s office, the Board of Directors, and the External Auditors. He has confirmed his intentions to legislate for mandatory regulations dealing with all areas of Corporate Governance of the Banking Sector including the Audit of those institutions.

To-date, the Government has granted far reaching powers and matching resources to the Regulator’s office to carry out his mandate. More interestingly from an accountants view, the Regulator has issued a Consultation paper in relation to Corporate governance and the role of Non Executive Directors in Credit Institutions and Insurance Undertakings. Even though the Financial Regulator’s immediate sphere of control is limited to the Banking and insurance sector, the principles and the regulations he has identified in his paper may easily be applied to Auditing and Accounting on a broader basis.

Possible Future Trends for the Auditor
The possible indicators of future trends for the Auditor are;

- There is an intention to give statutory recognition to the Regulations with associated sanctions. Applying this to the Audit, the International Auditing Standards would be enshrined in legislation and non compliance in itself would carry a definite sanction.

- The Regulator envisages that a Compliance Statement would be issued directly to the Financial Regulator. This might translate into the Auditor having to issue a compliance statement annually to the Director of Corporate Enforcement.

- He also outlines criteria for assessing independence. In this section he identifies the provision of professional services by a director and long service might be a threat to independence. Applying these sections to the Auditor, it would be reasonable to assume that the provision of Non Audit services would be limited and that the Auditor would be required to resign after a fixed period.

- The Financial Regulator proposes a Whistle-blower provision for directors with presumably adequate protection given to the director. A similar provision could be extended to all audit staff in appropriate circumstances.

- Finally, in the last paragraph of the paper he fleetingly deals with the concept of potential costs. As in all cases, the costs could be more disproportionate for small entities. For Audit purposes, it would mean that smaller companies would be exempt from many of the proposals.

The foregoing gives an indication of what might be to come for the Auditors of public and larger companies in the new era of State Intervention. As with all crises, there is an immediate over reaction to many perceived weaknesses in the existing systems. It is important that a balanced approach is taken to all proposals and that the benefits of the proven existing system are not lost in over regulation.

The views expressed in this article are those of the contributor and are not necessarily endorsed by the Institute, its Council or Editor.