Rethinking the Structure of Accounting and Auditing

Shyam Sunder
Yale School of Management

ABSTRACT

Failures in corporate governance of many major US corporations in 2002 suggest that it may be useful to fundamentally rethink the structure of institutions of accounting, auditing, corporate governance and executive compensation. Replacement of the system of authoritative standards by a competitive, common law approach to accounting principles and rules may help shift the focus of financial reporting from form to substance. Following some key Supreme Court rulings, the quality of auditing declined under the governmental push to increase competition in that industry beginning the late seventies, pushing audit firms to peddle consulting services to their clients for economic survival. Restoring high quality of audit may require radical reorganization of the audit function, such as bundling it with insurance. Protection of minority interest by the board of directors and the control of runaway executive compensation are two other problems whose solution may require structural, not just procedural, changes.

Keywords: Accounting, Auditing, Regulation, Institutional Reform
JEL Classifications: G28, L44, L51, L84, M41

1 This is a revised version of the keynote address delivered at the Indian Accounting Association Research Foundation’s Sixth International Accounting Conference, at Calcutta on January 11, 2003. The paper is also available at: http://www.som.yale.edu/faculty/sunder.