

THE INCREASING REGULATORY AND PROFESSIONAL OBLIGATIONS ON THE AUDITOR; STRATEGIES FOR COPING

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- What can to be done
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Carmakers & Recall Rates



Carmakers & Recall Rates

- Safety-related recalls a **red hot button issue**
- General Motors - **1.62 million models** from 2005-07 with faulty ignition switches
- Toyota - **\$1.2 billion penalty** for claims of unintended acceleration - recall over 10 m vehicles
- 2013, in the US, recalls close to **a third more** vehicles (22 m) than it sold (just over 15 m)
- **Are recalls necessarily a predictor of a given model line's inherent safety or its long-term reliability?**

Regulatory & professional obligations



Regulatory & professional obligations

- Difficult to imagine a world without audit
- But audit viewed as a black box – local and international scandals
- Audit still viewed as having relevance & value
- Needed by management, shareholders, banks & capital markets etc.
- Argued AUDIT QUALITY has improved since Enron/Sarbanes Oxley/PCAOB
- However, the VALUE OF AN AUDIT viewed as limited: it only deals with historical financial data
- Question is do we need to (re)invent the audit product/process/outputs/standards & compliance/skill sets....(INNOVATION? versus AUDIT RISK?)
- Emphasis historically placed on a periodic, backward-looking approach

Regulatory & professional obligations

- Demands for
 - ▣ ever larger topic of debate: the seemingly ever-expanding role of the auditor
 - ▣ Audit to start looking at what creates value in business
 - ▣ More integrated thinking so that companies consider how they report more holistically
 - ▣ understand entities' real business value drivers & give assurance over these drivers
 - ▣ deeper & more relevant insights about an organization's financial condition and performance
 - ▣ creating a new reporting and assurance model that works for tomorrow's business world

Regulatory & professional obligations

- **New landscape** for financial reporting
 - ▣ Advances in technology & new threats (cyber threats)
 - ▣ Investors access a seemingly unlimited breadth and depth of information
- **Managers/seniors overstretched**
 - ▣ more demanded in less time & under increased entity & audit risks
 - ▣ Limited investor & shareholder contact

Suggestions on what can be done

- Enhanced **professional skepticism** (overlying on enquiry?)
- **Automation of audit process** - high powered data analytics
- Increase understanding & consulting with **non-traditional disciplines**
- **Pronounced deliberate focus** on fraud and corruption
- Publish **extended audit report** -
- **Improved communication**, between auditors and their clients (road shows or other updates)
- **Increasing the frequency** of audited reporting

What can be done



Suggestions on what can be done

- Entity-wide financial management **self-assessments**
- Enhanced inspections, **better disciplinary orders**
- **Cooling off** periods from auditor to client work
- Enhanced & regular **Quality Control Reviews**
- More **structured mandatory CPD** esp. on automation
- Robust **auditor rotation & tenders** (regulated)
- Stricter **certification for Practicing CPAs**
- **Audit thresholds** for private (not public interest) companies; shift towards **more examinations**
- Enhanced **regulatory intervention**
- **Explicitly reporting** on risks for investors and markets
- More **pronounced role** in investor & shareholder briefings

Potential challenges

- Concerns over
 - ▣ Auditor independence
 - ▣ Data security – shared & protected
 - ▣ Transparency
 - ▣ Regulatory engagement (investor interests)

Concluding remarks

- Assurance over **integrated reporting** crucial
- Integrated reporting considers how a business uses and affects the resources it relies on. These are not only financial resources, but also **people, society, the environment, infrastructure and the relationships that these create**. If a business creates **value for others, in the long term, this creates value for the business**
- **External auditors** should provide comfort that management commentary is of investment- grade quality
- **The future of audit** will require a change in thinking from auditors, investors and companies alike, who must embrace these opportunities.

Concluding remarks

- Future audit approaches would likely require auditors, regulators, and standards setters to make significant adjustments
- Such adjustments might include
 - ▣ Changes in the **timing and frequency of the audit**
 - ▣ **Increased education** in technology and analytic methods
 - ▣ Adoption of **full population examination instead of sampling**
 - ▣ **Re-examination of concepts** such as materiality and independence
 - ▣ Substantial **technical and analytical skills**



Comments/Discussions