Regaining Public Confidence through Audit Quality

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Audit failures in Kenya

- Swaber Swalah Gahman (2015): “There have been concerns about audit quality in the present audit environment, where severe audit failures have come to light. It has been found that the perceived reliability of audited financial information has declined, while the perceived relevance of audited financial information has increased”.

“A Framework for Audit Quality”

IAASB: aims to set high-quality auditing, assurance, and other related standards and to facilitate the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

Quality audits and status update in Kenya

ICPAK commends the IAASB's initiative to develop the Framework at a time when the delivery of a high quality, robust, and independent audit is viewed as a fundamental aspect of credible financial reporting. We greatly back the IAASB's proposal to include "Key Interactions" and "Contextual Factors" in the Framework as they are essential to the general understanding of audit quality.

IFAC:“A framework for audit quality”

- ICPAK: “We would however wish to see additional guidance for instances whereby management may exert undue influence on the auditor selection process and audit fee negotiations thereby causing an inherent independence threat.”

Upon issuance of the Framework, ICPAK will:

- Advocate for use a reference document for assurance practitioners, especially small and medium practitioners, to assess whether they have achieved all elements required to undertake a quality audit;
- In discharging our regulatory mandate, as a reference point for monitoring programs.

Quality review at firm level

A quality audit is likely to have been achieved by an engagement team that:

Exhibited appropriate values, ethics and attitudes;

Was sufficiently knowledgeable, skilled, and experienced and had sufficient time allocated to perform the audit work;

Applied a rigorous audit process and quality control procedures that complied with law, regulation and applicable standards;

Provided useful and timely reports; and

Interacted appropriately with relevant stakeholders.

Regaining public confidence

PCAOB: “I would like to talk with you today about the Board's responsibility to restore confidence in audited financial statements. Fundamentally, the Board's mission is not merely to register firms, to conduct inspections, to set standards, or to discipline those who fail to live up to their professional obligations -- although we will certainly be doing all of those things. At the most basic level, our job is to help the profession regain its capacity to furnish the service that most justifies its existence -- the ability to instill public confidence in financial reporting”.

A Round-Table Discussion in Ukraine, 27 January 2010

- Value regained: restoring the role of audit in society
- It is vital that the regulators and auditors work together but do not confuse their roles. The auditor is there to uphold investors’ interests, and the regulators are there to set the right framework for this, not to ask the auditor to produce reports for the regulator’s own purposes.

Challenges and the way forward

- Under section 143(12) of the Indian Companies Act 2013, enacted to replace the Companies Act 1956, auditors who suspect that fraud has been committed against the company subject to audit, have to report immediately to the central government.
- Auditors who have sufficient reason to believe that an offence involving fraud is being or has been committed against the company by its officers or employees have to report to the authorities not later than 60 days from the date the fraud comes to his knowledge: the auditors are also required to forward this report to the company's board or audit committee immediately and seek their reply or observations on the report within 45 days, before reporting to the central government.
- "This is for the first time that such responsibility of reporting on frauds directly to the central government has been given to the statutory auditors, in addition to their other existing reporting requirements to the shareholders." ICAI president K Raghu said.

Kenya Banking Act (1)

- Every bank shall appoint annually an auditor qualified under section 161 of the Companies Act and approved by the Central Bank.
- If the auditor of a bank, in the course of the performance of his duties under this Act, is satisfied that:-
- (a) there has been a serious breach of or non-compliance with the provisions of this Act, the Central Bank of Kenya Act or the regulations, guidelines or other matters prescribed by the Central Bank;

Kenya Banking Act (2)

- (b) a criminal offence involving fraud or other dishonesty has been committed by the bank or any of its officers or employees;
- (c) losses have been incurred which reduce the core capital of the bank by fifty per cent or more;
- (d) serious irregularities have occurred which may jeopardize the security of depositors or creditors of the institution; or
- (e) he is unable to confirm that the claims of depositors and creditors of the institution are capable of being met out of the assets of the institution,
- **he shall immediately report the matter to the Central Bank.**

Auditors as Whistleblowers (1)

SEC awards: individuals who are completely ineligible to receive any award: external auditors who fail to file a required report with the SEC about a possibly illegal act and instead provide the information to the SEC seeking a whistleblower award.

Auditors as Whistleblowers (2)

A 28-year-old former auditor charged with theft and violating trade secrets in Luxembourg in the wake of the LuxLeaks tax avoidance scandal has revealed his identity and claimed he acted out of conviction, in an interview with the French newspaper Libération. Antoine Deltour, who joined a firm from business school in 2008, resigned two years later. “Normally auditors are a bit like regulators. It is a useful profession: we verify the accounts of companies,” he told the newspaper. “But I wasn’t feeling at home in that environment. Bit by bit I discovered how extreme the system was in reality – it was a massive tax optimisation practice. I didn’t want to be part of that.”