

# Ensuring the Accountability of Audit and Accounting

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Audit and accounting is often seen as a staid profession. In truth, auditors and accountants have changed much over the years to keep pace with what the world has thrown at them, and there are more changes to come.



**A**udit and accounting have come a long way in recent years, developing and constantly trying to stay relevant in serving the public interest. These changes have been driven by the dynamics and complexities of the business environment, and they have adversely affected how the profession is often perceived.

### Perception of the profession

The fundamental question is whether the profession is fit for purpose in the current business environment.

Over the years, there have been a number of company collapses and scandals. Whilst it is acknowledged that the primary responsibility over the preparation of proper financial statements and maintenance of appropriate internal controls is that of the management and board of directors of a company, these corporate collapses bring to the fore the role and purpose of the accounting and audit profession.

There have been intense debates over the usefulness of current audit and accounting practices. In particular, in the United Kingdom, since the second half of 2018, arising from certain high-profile collapses, concerns have been raised by members of parliament and authorities regarding the independence of the quality of audits (more on this below).

Without doubt, the changes in business models and increasing organisational complexities and structures have caused concern as to whether the profession is keeping up with the non-linear pace of change and whether it can sustain itself in its current shape in the future. There is also an issue with what value an audit provides.

Alongside these changes, there has been an increase in regulation and more demands for transparency and accountability at all levels.

Moreover, the profession has an image problem with young graduates (“millennials”) who may not find the profession attractive or “cool”. Long hours and perceived slow response to the pace of change add to this image problem.

Finally, the ubiquitous “expectation gap” of an audit report remains and instead of narrowing, has, in fact, grown wider. Whilst there is a sense of appreciation by the stakeholders that the vast majority of audits meet the standards set by the regulators, there remain questions about whether those standards are the right ones for the future. There are debates about what is audited, for whose benefit, the role of professional judgment in audit and how audit fits into the wider financial reporting and corporate governance system.

### Transformation under way

Those outside the profession may therefore be surprised to read that transformation is underway in the profession. The reality is that the profession has made significant progress in efforts to transform its image and stay relevant in the current environment, whilst keeping its *raison d’etre* of serving the public interest.

Some changes indicating this resolve are summarised in the box, “Transforming Audit & Accounting”.

As can be seen, the profession has relentlessly been updating accounting and auditing standards to address changes that have been happening, e.g. the new, enhanced auditor’s report. At the same time, they are eagerly applying new technologies and changing their processes, in particular data analytics to their work. Apart from raising the efficiency and quality of audits and financial processing, analytics is making the work more relevant for younger professionals, as the profession seeks to retain skills.

## Transforming Audit & Accounting



### Enhanced auditor's report

In 2013, a call was made to revamp the “boilerplate” auditor's report. The result was that the binary, “yes/no” auditor's report was transformed into a document that is now more readable, specific and communicative.

Effective 2016, the enhanced auditor's report introduced a new section “Key Audit Matters” aimed to provide insight and transparency of the audit and require greater engagement between the auditor, management and the audit committee.

The results in the first two years of adoption have been generally positive. The more challenging task now is how the auditors would use it to provide more insights and continuously provide value-add information to the investors.

### Technology and analytics

Improvements in analytics capabilities enable auditors to focus on a 24/7 analysis of huge data sets. They can test complete data sets, the whole population rather than just a sample. It enables the concept of continuous audit, testing audit evidence in real-time, with timely identification of issues and focus on anomalies.

Apart from raising audit quality, analytics is making the audit efficient and relevant for younger professionals, some of whom are more interested to join the analytics side of audit than the more traditional accounting side. Efficiency is not about “cutting hours”, rather it is about getting to the things that matter more quickly and spending more time on them instead of ploughing slowly through random samples that often tell you very little.

Analytics is also helping auditors to bring more insights to management and audit committees using the data of the company, but analysed and presented to add value to the audit.

### New accounting standards

Accounting standards are being amended and revised continually in response to changes in the business environment.

In 2018, there were fundamental changes to accounting standards. Listed companies had to comply with a new accounting framework identical to International Financial Reporting Standards (IFRS). In addition, two new standards came into force, IFRS 15 on Revenue and IFRS 9 on Financial Instruments. From 2019, another new standard, IFRS 16 on Leases will be in force.

### Talent and processes

There are initiatives the profession is adopting to attract and retain talent. Use of technology and analytics is helping to move the mundane and somewhat low level work to delivery centres, so that professionals can focus their efforts on more important areas and see their efforts have a more direct impact.

Mobility and emphasis on assurance and advisory work, which is adjacent to the audit business, is providing professionals opportunities to work in emerging areas, different from the traditional “tick and bash” part of the audit work.

### Is it enough?

Despite all this, recent events have called into question whether the audit and accounting profession is relevant for the current environment, whether the pace of change in the profession is fast enough, and whether it is attracting and will continue to attract and retain good talent.

Chief among these events are certain company collapses resulting in three reports released in the UK. One was an independent review by Sir John Kingman on the Financial Reporting Council (FRC), which is the UK's audit regulator. The other two reports related to the Competition and Market Authority's (CMA) market study of the effectiveness of competition in the audit market and the Business, Energy, Industrial and Strategy Committee's inquiry on the "The Future of Audit". The resulting report on the impact of the CMA market study and the Kingman review of the FRC focused on improving quality and competition in the audit market and reducing conflicts of interest.

The CMA made significant observations regarding the current state of the profession in the UK: how companies choose their auditors based on a "cultural fit or chemistry" rather than those that offer the toughest scrutiny, and limited choice as the Big Four audit a large proportion of the FTSE 350 companies.

Some of the recommendations of the CMA include joint audits of UK companies listed on the FTSE 350 carried out by at least two firms, with one from outside the Big Four; controls regarding who appoints auditors; and a possible market cap to ensure certain audit contracts are handled by the non-Big Four.

These are far-reaching developments and are being closely watched the world over as to the impact on the profession going forward.

### Towards greater accountability

The accounting and audit profession has definitely made progress but the environmental drivers necessitate and demand more changes – not incremental but continued transformation. Furthermore, transparency and quality demands are very high on the agenda.

What an audit is, and expectations around the value of an audit, are important considerations for the future. Calling victory about the expectation gap of the stakeholders can only happen when the auditors become future-ready and use of analytics and smart tools become the norm. What an audit should cover will also need to be clarified, in particular with in regard to fraud and going concern. The standard setters have a very important role to play in this area by setting out requirements for both the company and its auditors.

All of this requires a strong and supportive environment; boards and audit committees in particular must be professionalised and alive to changing and emerging risks. And the regulators and standard setters have a very important role to play as well in seeing to the transformation of and responsiveness to changes by the profession, for example in the areas of crypto currency / initial coin offerings, and use of advanced analytics and the related documentation protocols so as to promote greater understanding and consistency.

Meanwhile, the profession has a key role to play going forward but there is also work to do in the current environment. While there is commitment to change, the profession will need to work with all the stakeholders in the ecosystem, management, directors, standard setters and regulators, to ensure that the transformation journey is successful. ■