



PERCEPTIONS OF PROGRESS

Our virtual roundtable on the future of audit and assurance highlighted some important emerging developments. Lesley Meall takes a look at some different perspectives

Over the past 21 years of the Audit & Assurance Faculty there have been some significant developments affecting the audit profession. They include the introduction of International Standards on Auditing, Ethical Standards for Auditors, the global financial crisis, scandals such as Enron and WorldCom, International Financial Reporting Standards, new UK GAAP and a series of increases in UK audit thresholds.

Predicting what may change over the next 21 years is a tall order; it is hard enough to look a few years ahead. However, when *Audit & Beyond* asked those in and around audit for their perspectives on the biggest recent and upcoming developments, some

themes loomed larger than others. There seemed to be consensus among academics, auditors, investors, regulators and standard-setters on areas where the most significant recent developments have been and where the most exciting emerging developments are likely to be.

Their lists of mixed blessings included changes in stakeholders' demands of corporate reporting, developing new skill sets for auditors and audit teams, extended auditors reports, rising audit thresholds, disruptive technologies, trust in audit and corporate reporting, consequences of market, legal and regulatory interference and more.

Hemione Hudson, UK head of assurance, PwC spoke for many when she noted the value the

extended audit report adds with its insights into the audit 'black box'. Describing this as the most significant recent development in audit, Arnold Schilder, chairman of the International Auditing and Assurance Standards Board (IAASB) explained: "It serves the public interest and helps in appreciating the relevance of audits."

BUILDING CONFIDENCE IN AUDIT

Liz Murrall, director of stewardship and reporting at The Investment Association, echoed this: "The more discursive audit report has increased the transparency of the audit process, and mandatory audit rotation helped address concerns about the lack of independence due to the long terms auditors can hold office. These changes have improved investors' confidence in audit."

Paul Lee, head of corporate governance and responsible for stewardship, at Aberdeen Asset Management, said more value will emerge: "Changes within the audit year displaying how the auditor responded to discoveries will give insight into scepticism in practice, and variations in the scope and materiality levels of the audit over several years will emphasise the value of building auditor insight over a period of time."

The Financial Reporting Council (FRC) led the world with extended audit reports, and plans to further build confidence in audit and financial reporting. FRC chairman Sir Win Bischoff said: "Culture is important and the auditor is well-placed to ensure that corporate governance is not just viewed as a process, but provides a genuine picture of the checks and balances within a company."

TRUST IN BUSINESS

Melanie McLaren, FRC executive director of codes and standards, highlighted key roles for internal and external auditors as a source of formal and informal intelligence on whether values are being lived in the organisation. "As organisations develop their own transparent indicators and measures of culture, relevant and reliable assurance of them is becoming important to boards," she said.

ICAEW chief executive Michael Izza noted that despite the special privileges businesses are given - such as limited liability - large corporations are increasingly seen as out of step with society: "It is time to recognise that their duties and responsibilities must increase in order to meet societal expectation: to act with integrity, to meet all of their regulatory requirements, to behave in a socially acceptable way, and to state publicly what their values are and how they intend to show them."

James Roberts, faculty committee chairman and recently retired BDO partner, observed that nearly



"We need to develop robust audit responses to the changing business environment"

Arnold Schilder,
chairman of the IAASB



"Predictions on the future are dominated by the impact of technological change"

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all corporate scandals of recent years have been about business viability or behaviour initiated at the highest levels of the company. He explored the importance of trust to the value of corporate reporting, some of the reasons why trust is no longer a given, and some possible remedies.

"Many corporate reports are still too long, lack coherence and don't tell a story," said Roberts. "This obscures the important in a sea of relative trivia that is too complex for most stakeholders. That sort of thing shouldn't matter if the corporate report contains a holistic story of what has been happening and a sensible view of what might happen in future."

SUPPORTING SMALLER FIRMS

Global standards came in for some constructive criticism. Sandra Higgins, the Practitioner Services Panel chairman, who works for Maidenhead-based firm Peter Upton, said: "There is a growing understanding in the profession that current auditing standards are not an efficient and cost-effective 'one-size-fits-all' regime."

Higgins suggested that a single auditing standard based on the same principles as existing standards could be used to achieve an equally valid audit opinion. "Regrettably, recognition of the need for this 'think small first' approach by regulatory authorities and standard-setters is some way off," she said.

IAASB's plans to revise some International Standards on Auditing (ISAs) may be cause for cautious optimism. "SME audit issues have been highlighted. IAASB is aware that it has to be seen to be addressing the needs of this market if it is to fend off attempts to develop alternative auditing standards for SMEs," says Katharine Bagshaw, ICAEW technical manager for auditing standards.

A PROBLEM SHARED

Some existing and emerging matters seemed to loom large with firms of all shapes and sizes. When asked about the biggest challenges the profession faces over the next few years, Hudson was not alone in citing the need to change the traditional profile of an auditor to ensure that firms have people with the skills they need for the audit of the future.

Mark Protherough, ICAEW executive director for learning and development, said: "We are seeing more focus on higher-level skills - identifying risks, challenging assumptions, professional judgement, influencing and project management." These skills are embedded in the ACA and ICAEW is continually updating the skills it assesses through professional development.

Luke Metson, a responsible individual with City-based firm CBW, said that regulatory changes



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are already having an impact on the skills firms need. “As a result of the establishment of new accounting standards and the impending revisions to auditing standards, firms are looking towards recruiting commercially-minded and innovative staff.”

ATTRACTING AND NURTURING TALENT

Caroline Chaffer and Jill Webb, authors of the ICAEW report *Understanding ambition*, offered advice on attracting and retaining millennials. Webb emphasised the importance of identifying those with the potential to reach the most senior levels and providing them with appropriate work experience, training, exposure to senior role models, and external secondment opportunities.

Chaffer had advice for smaller firms. “While they may not be able to compete with the biggest firms on salary, they can make themselves an attractive alternative by focusing on the broader non-financial factors that the next generation consider to be important,” she said. Smaller firms can tailor training and working experience to employee needs by taking innovative approaches to this.

The need to innovate was a recurring roundtable theme, most evident in the areas affected by digital technology. “Firms are looking to implement technological advances such as cloud-based solutions and analytics to help them retain their standing within a sector that has become more fee-competitive and value-driven over the last decade,” said Metson.

TAKING RISKS WITH TECHNOLOGY

Hywel Ball, EY’s managing partner of assurance, UK & Ireland, described the analytics tools that are transforming our ability to analyse large amounts of structured and unstructured data as a game changer for audit. “They enable auditors to better identify financial reporting, fraud and operational business risks and tailor their approach to deliver a more relevant audit.” However, IT can also be risky.

Stelios Saphiris, partner, KPSA Cyprus said: “We must ensure that risks from technology and its use in business operations and processes are taken into account and audited as part of the company audit.” He suggested a specialised IT auditor as part of the



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audit team for technology companies, those selling online, and funds and investment companies using software for investment activities and reporting.

Sumita Shah, regulatory policy manager, public sector, ICAEW, noted some of the challenges ahead: “The profession needs to learn new skills to prepare for a more technologically advanced world.”

As automation spreads and advances, and the possibilities of analytics are enhanced by increasingly smart systems with machine-learning algorithms, audit will feel the impact of artificial intelligence (AI).

SURVIVING ARTIFICIAL INTELLIGENCE

Richard Anning, IT Faculty head, picked up the theme of technologies with the potential to fundamentally change audit, such as AI and blockchain: “In future we can see transactions being entered into the blockchain, with AI, such as IBM’s Watson, used to examine underlying transactions.” This may create audit challenges and opportunities.

We live in a world where huge insights into a company can be obtained from sources beyond traditional company reporting mechanisms. “What concerns many is the impact of a Silicon Valley start-up that disrupts the market, perhaps with a crowd-sourced audit undertaken on the blockchain. That would make changes in the audit threshold seem like a minor inconvenience,” said Anning.

Izza noted that there has probably never been a time in history when we did not worry about how technological developments would radically change business and society, and that it is overly pessimistic to see only threats: “New technology does not change human needs or behaviours, it facilitates them. Agility and flexibility will be key, enabling finance professionals to use new technology to their advantage.”

Hudson also focused on how the profession may continue to add value despite disruptive technologies: “Perhaps when the world is run by AI, the ultimate role of the assurance professional will be to assure the ethics of those machines are coded in a way that ensures the sustainability of the human race - a heavy responsibility, but this could be our profession’s future.” ■