

## REPORT

**The Future of Audit**

16 November 2016



On 16 November 2016, based on the findings of their recent report on the [Future of Audit](#), ACCA (the Association of Chartered Certified Accountants) and Grant Thornton jointly organised, under the patronage of the Slovak Presidency of the Council of the EU, a conference to discuss the issues the audit profession is currently facing and how it will have to evolve to remain relevant, as well as to follow up on the impact of the recent legislative changes. The event was attended by over 100 participants from a broad range of stakeholder groups

**Maggie McGhee**, Director Professional Insights, ACCA, and **Arnold Schilder**, Chairman of the International Auditing and Assurance Standards Board (IAASB), gave keynote speeches. **Nick Jeffrey**, Director - public policy, Grant Thornton International Ltd, presented the report. The panel debate was moderated by **Andrew Gambier**, Head of Audit & Assurance, ACCA, and comprised of **Sue Almond**, Head of Assurance, Grant Thornton UK, **Hans-Jürgen Säglitz**, Head of Financial Reporting, German Insurance Association (GDV), **Lê Quang Tran Van**, AFEP/European Issuers, **Fabrizio Tocchini**, Country Director Tagetik Belgium and Tagetik Luxembourg. **Dr Ivan Sammut**, Permanent Representation of Malta to the EU talked about the recent European legislation affecting auditors and the company law priorities of the incoming Maltese Presidency of the Council of the EU. **Sue Almond** concluded the session.

**Main conclusions:**

- Auditors need to adapt, experiment in all sorts of areas and constantly innovate. There are challenges ahead and the profession has a choice of embracing them or being left behind
- Different stakeholders in different geographies have different needs and perspectives, as well as fears. Standard setters need to take that into account.
- There is a need for open dialogue and strengthened collaboration between all actors to both overcome existing and future challenges and design the right path to make audit still relevant in ten years' time.
- While focussing on auditor independence, we must ensure that the audit quality is not being lowered. In the world of technology and information overload, it is essential that auditors are able to navigate the information, provide judgement and focus on important issues.
- Recruiting and retaining the right people is what we need to survive as a profession.

## Main highlights

**Maggie McGhee**, Director of Professional Insights at ACCA.

- The longstanding partnership between Grant Thornton and ACCA is built on a mutually shared innovative mindset. We strongly believe that collaboration is at the heart of achieving our purpose. Whether that's working with investors, academics, think tanks, banks, businesses, regulators, decision makers and governments; or working with the public sector to build a business environment that supports sustainable and inclusive growth.
- Today's economy and business environment are more dynamic than ever before. Everything is in constant flux, including technology, regulations and resources. When nothing can be expected to be the same from one day to the next - but certainty has become prerequisite - the need for audit is imperative to sustain confidence in the markets and business. Financial crises over the last decade have emphasised the fact that audit is pivotal to engender trust in business, thereby sustaining economic growth. But the ACCA-Grant Thornton report also shows that audit is valued more highly in some countries compared to others.
- In 2014 ACCA and Grant Thornton decided to initiate a series of roundtables around the world, with the view to identify the drivers of change and the potential options for evolution for audit and the profession in the medium/long term future.
- ACCA and Grant Thornton held roundtables in Brussels in the UAE (Dubai), China (Beijing), South Africa, the UK, Singapore and Ukraine. The aim was to identify demand for new audit work streams and challenges to 'traditional' practices, including assessing the impact of changing demands from users of audit, the rise of technology and automated processes as well as the need for new skills for the profession.
- The complexity and global interconnectedness of today's business environment have resulted in growing demand for assurance that information is being disclosed fairly and accurately. The audit profession is at an important crossroads. As former Commissioner Michel Barnier used to say: "status quo is not an option". It can either retreat, losing relevance as technology takes over; or grab hold of opportunities, including those offered by new digital possibilities and new non-traditional information demanded by the markets. Auditors need to adapt and constantly innovate. There are challenges ahead and we have a choice of embracing them or being left behind. History shows that auditors are very resilient, but they now have to show that they can overcome these challenges.
- Being fit for purpose is key. This is precisely with this in mind that ACCA recently took a major step forward in shaping the future of accountancy with [major innovations to its Master's level qualification](#). The new ground-breaking design of our qualification draws on an extensive, two-year review and consultation with members, employers and learning providers. ACCA has tailored its qualification to meet the strategic challenges of the 21st century's disruptive economy. It aims to give the students the forward-thinking strategic abilities and advanced skill-set required of modern professional accountants so they can shape the future of global business.
- In order to understand how the profession needs to change and evolve, ACCA does a lot of research that covers the whole profession, not just the audit part. We are looking into emotional intelligence, professional scepticism and mind-set needed for the future of the profession. ACCA's next piece of research is focussing on the perspective of young people - their views on the profession and where they want to take their career. Another important research is focusing on blockchain, which will be followed up by a joint event with EY in Brussels in April.

**Nick Jeffrey**, Director - public policy, Grant Thornton International Ltd

- When ACCA and Grant Thornton decided to undertake this research, there was a clear dissatisfaction with audit, but it was important to understand if that view was

wide spread. Therefore, ACCA and Grant Thornton held roundtables in 7 jurisdictions which had different characteristics and differing history with audit.

- A very basic question was asked – “what is the future of audit?” Very little direction was given to the roundtable moderators because the goal was to have free flowing discussions with broad range of stakeholders in the room. It was also important that the non-auditors outnumber the auditors. The level of interest in these roundtables was very high.
- Two main messages emerged from the roundtable discussions: there is no one global answer or global agreement on what the future is; and: countries with a longer history of historical financial statement audit are more inclined to think about wider assurance on non-financial data/information or forward looking information.
- Whatever the service – historical financial statement audit or assurance - there was agreement that it needs to meet user needs. However, it is clear that user needs are different in different countries.
- Some recommendations were set out for policy makers and standard setters: there is no single answer but there is strong encouragement for policy makers to allow room for innovation to develop. Open discussions with all stakeholders are needed in order to understand their needs.

**Arnold Schilder**, Chairman of the International Auditing and Assurance Standards Board (IAASB)

- “In a rapidly changing world, audit does have a future”, says the report from Grant Thornton and ACCA sets the tone. The title of this conference does not have a question mark at the end. Rightly so. The Federation of European Accountants (FEE) published a [report](#) with this promising quote: “The challenges that lie ahead for the profession go along with plenty of opportunities to further evolve and better serve new markets’ needs”.
- Four main issues should be discussed – each with their own sets of challenges and opportunities:

**1. Understanding the business of the auditee, its corporate defense and value preservation is a cornerstone of a robust audit.** The importance of the auditor’s understanding of the business was emphasized by many who commented on the IAASB’s Invitation to Comment (ITC) ‘Enhancing audit quality in the public interest’. It sounds like an open door. But it was mentioned very often with a twofold background. First, the rapidly changing world that all businesses are part of; second, a concern that audits have become a “check-the-box” exercise. Standards and rules can be good guides but the real journey cannot be predicted – you have to find out yourselves. That is the essence of auditing – your professionalism and independence. This understanding of the business includes how the auditee has organised its value preservation, and its corporate defense around that. There are eight components of the ‘corporate defense umbrella (Sean Lyons, Corporate defense and the value preservation imperative, CRC Press, 2017): Governance, Risk, Compliance, Intelligence, Security, Resilience, Controls and Assurance. “Each organisation is required to focus on bringing the dollar in through the front door (offense) while also focusing on preventing the dollar from leaving through the back door (defense).” This certainly is a great challenge as well as an equal opportunity for assurance providers.

**2. Professional skepticism and professional judgment are key inputs to audit quality. Professional skepticism, as a state of mind and attitude, should govern the performance of auditors.** Professional skepticism is a fundamental concept and core to a high quality audit. The IAASB [received](#) many comments on this topic of the ITC:

- Professional skepticism is about the appropriate mindset of the auditor. It is relevant throughout the entire audit.
- A sufficient knowledge of the business enables the auditor to ask probing questions, more effectively challenge management, and identify when evidence is contradictory.

- Professional skepticism is about *behavior* – how can auditors be encouraged to act as critical challengers? And how can quality control at the engagement level stimulate this, such as putting together a team with the right skills, expertise and experience?
- Training and education is important to infuse a professionally skeptical attitude into the “DNA” of auditors.
- There is a strong link between professional skepticism and the role of the “tone at the top” and the “tone at the middle”.

Each of us can, and should, stimulate this professional behavior. It is difficult enough.

**3. “Audits are not dying yet, but they do need to adapt to the digital age.”**

“Industries all over the world are being disrupted by technological advancements, social change and innovative thinking” (Rob Nixon, Remaining relevant – the future of the accounting profession, p. 7, 2015, VIVID Publishing, 2015.) The impact of new technologies including data analytics on both businesses and audits can only be underestimated. The IAASB has recently published a [paper](#), titled “Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics.” The link between these new innovative technologies and understanding the business with all its ongoing changes is obvious. But equally important is the impact on new audit practices and methodologies. Obviously our standards were not, and could not be, written with tomorrow’s technological challenges and opportunities in mind. But the use of data analytics in the audit can lead to 1) better informed risk assessments, through understanding the business of the auditee, and 2) more available evidence to support professionally skeptical behavior. It is important that we pursue this area with great intensity and an open mind. A constructive dialogue between businesses, auditors, regulators and standard setters is a must to make effective and efficient progress.

- **4. The new auditor reporting with key audit matters cannot be encouraged enough. It innovates the audit by clearly speaking out to users. And it provides a link to wider forms of assurance on emerging external reporting, including integrated reporting.** For many decades external users of financial statements and the attached independent auditor’s report received only one sentence from the auditor, the audit opinion. A binary “pass” or “fail”. That is now changing completely. Auditors will now provide a number of observations on key matters in the audit that are most relevant to users, in a very readable way. We know from surveys in early adoption countries, notably the United Kingdom, how much this is valued by these users. There are even investor awards for the most innovative and most insightful auditor’s reports. This new more informative and relevant reporting by the auditor helps clarify the public’s perception of what an audit is. It also stimulates professional dialogues between the company, its investors, auditors and regulators.
- It is vital that we continue to stimulate highly relevant auditor reporting. The IAASB has a special auditor reporting implementation support group. But all of us have a role to play here. The new auditor’s report will also have an impact on other forms of assurance reporting. There are many interesting developments in external reporting and providing assurance thereon. Integrated reporting is a well-known example. The IAASB published a discussion [paper](#) in August 2016 on this subject, and has recently extended the deadline for comments to February 3, 2017.

**Sue Almond**, Head of Assurance, Grant Thornton UK

- It is important to go back to first principles and look at why audit was invented in the first place. The aim was to provide trust and confidence in financial information that underpins a vibrant economy that we all want to be part of. That is just as relevant today as it always has been. But the information people look to trust, and the way business compiles it, has changed and so 'audit' needs to evolve.
- The ACCA-Grant Thornton report highlights challenges in keeping audit relevant:
- Different needs in different markets – it is easy in a developed market to underestimate the value that historical financial statement audit adds to markets that are less developed;

- Value of consistent, high quality global standards;
- Desire for assurance on more than just the financial data.
- There are challenges for everybody. Developing rules and encouraging innovation don't necessarily go hand in hand. And yet, in these areas we need to be bold and embrace innovation.
- Standard setting in fast evolving areas is difficult because there's always a time lag between setting a standard and fast evolving practices. Different stakeholders have different needs and perspectives -and sometimes fears. Some of the assurance we provide is about addressing some of the fears that people have.
- Any standard setting needs to take account of broad stakeholder input and provide sufficient flexibility for innovation and experimentation. Auditor reporting has achieved this balance. The profession needs to innovate and experiment in all sorts of areas (investment in IT, analytics, wider assurance). It drives the work that auditors do.
- Other stakeholders are important as well. The audit committee plays a key role. It sets the tone in the organisation, especially when developing and encouraging innovation.
- Open and transparent dialogue with all stakeholders is critical in order to develop audit in its widest sense that is relevant to the future and meets the challenge of evolving rather than dying.
- Auditors now work very differently than they did 10 years ago. Skills are being deployed and work becomes more data-enabled. Some of the changes make the profession a lot more interesting and stimulating for the kind of talent we actually want to recruit and retain.
- Providing safe harbours and opportunities to discuss is important. The audit industry needs to be able to speak to regulators before they start regulating and explain to them how audit quality could be enhanced.
- As regards to re-opening the Audit reform, there is probably not much appetite for that in Europe.

**Le Quang Tran Van**, Director in charge of financial affairs and audit, AFEP & member of European Issuers

- In many EU countries auditors are still dealing with a difficult implementation of the Audit reform. This is the reason why so many people are reflecting on the future of audit. Companies and auditors are facing new reporting requirements, new risks, new technologies and new expectations from investors. Some see threats in this context, while others see opportunities. It is yet unclear how it will affect audit firms' fees but some people are already questioning the usefulness of auditors.
- Auditors are essential in enhancing investor confidence. Different regimes for large and small companies should be established. The audit scope doesn't need to be extended. The more reports are issued, the more opinions there are and that increases companies' liabilities.
- Users have more and more expectations but we need to see if it is relevant to address them all.
- The main concerns for companies are independence of auditors and quality of audit. There is an issue of concentration of the audit market.
- The main challenge for auditors is adapting to technological changes.
- Auditors are not the only industry that is reflecting on the future at the moment. Listed and non-listed SMEs do that exercise as well. Considering the costs, listed SMEs reflect on their future as listed companies.
- SMEs should benefit from a proportionate audit regime. SMEs do not bear the same risks as large companies. They also don't have the same needs as large companies. Sometimes SMEs need more help and assistance from auditors, therefore closer SME-auditors relationship could be useful.
- As regards to new requirements for audit selection and rotation, we need to see if that is useful for SMEs. Directors of companies will have to upgrade and update their skills in order to perform their duties.

**Hans-Jürgen Säglitz**, Head of Financial Reporting, German Insurance Association (GDV)

- Auditors should focus more on their core business. The world is much more complicated than it ever was. It is getting more complicated to attract young people to the profession. In the insurance sector, it is very much about increasing the quality of audit. Board members want someone who is in a position to be an aspiring partner and able not just filling out a check list but providing good judgement.
- Audit procedures must be (re-)focused on providing sound and reliable assessments on the financial condition of a firm instead of expanding the audit report with information not related to financial parameters.
- Different information needs of stakeholders such as requests on non-financial information should be served by voluntary reports not subject to audit requirements.
- Auditors and supervisors have different roles and perspectives, merging them might be a wrong direction. The increasing tendency to outsource the surveillance of regulatory requirements to auditors is a particular concern of insurers and neither feasible nor appropriate to ensure the relevance of audit. In contrast, the different goals of financial statements and regulatory reports are likely to create additional expectation gaps from the view of stakeholders.
- Audit regulation in Europe determined to ensure independency must be sensible to prevent unintended effects such impediments on the availability of qualified audit services and audit procedures in international groups. The EU audit reform was a huge step towards having a more common market. However, it focussed too much on auditor independence which can lower the audit quality.
- The accelerating progress of digital techniques will have a significant impact on the business model of insurers and require auditors to challenge their processes in order to adapt to these fundamental changes.
- We must be aware that we live in a world of information overload. The greatest expectation is to have the auditor as a counterpart to navigate the information, provide judgement and focus on important issues. It is about the audit quality.
- The audit profession should evaluate if there are skills that aren't needed anymore and whether a technological shift is required. In the long run, audit is people's business.

**Fabrizio Tochini**, Country Director Tagetik Belgium and Tagetik Luxembourg

- Years ago Tagetik was providing software calculations selected by CIOs (Chief Information Officers) of a company instead of the CFOs. This resolved in an offer that was mainly focussed on calculating without really having financial content in it.
- Preparation of the data to provide the final report was around 85% of the work. Only 15% was dedicated to the business analysis.
- CFOs started requesting new tools in order to speed up the data preparation and to dedicate the most of the time for its interpretation. The finance content was not only provided by business profession but also by the auditor that was auditing the business. The business is not only what they produce but also how they do things and how they intend doing things in the future. Tagetik is being requested more of these four main pillars: Big data and Analytics; Cloud and software as a service; Mobile; Social Media. Big Data and Analytics: according to the definition, Big Data are data sets that are so large or complex that traditional data processing applications are inadequate to deal with them.
- The challenge for auditors is to have the data value. In order to do that, you need to find correlation on data. Financial and non-financial data needs to be combined which requires ability to handle a massive set of data. We can optimise time and speed up some tasks but a professional doing that cannot be replaced. Cloud and software as a service: financial profession is asking data accessibility anywhere and anytime because businesses need to be reactive. In term of skills that auditors need for the future, multidisciplinary and diverse knowledge is mandatory.

**Andrew Gambier**, Head of Audit & Assurance at ACCA moderated the debate. A challenge put to ACCA and Grant Thornton was what are the next steps, and how to make a good use of the evidence gathered. The points made in the debate were consistent with the findings of the future of audit report: auditors should focus on quality, but be ready to innovate to meet changing user needs and utilise technology to enhance delivery and focus on key issues.

**Dr Ivan Sammut**, Permanent Representation of Malta to the EU

- With the transposition of the EU Single Accounting Directive and the EU amendments to the Statutory Audit Directive as well as the EU Regulation affecting statutory auditors of Public Interest Entities, besides the continuing evolution of independence codes and requirements of IFRS, the accountancy and auditing professions have been called upon to continue in their journey of continuing evolution and improvement over the short term at least.
- **Single Accounting Directive.** With the Single Accounting Directive, financial reporting obligations have been modernised and cost reduced, in particular for SMEs. With the new rules on country by country reporting, a framework where business and governments must disclose revenues from natural resources has been created. This framework will also contribute to the fight against tax fraud and corruption. To a certain extent, the Directive will also improve the quality and comparability of the information disclosed. The new Directive merges and improves the former two European Directives that were in place. This change, together with the “think small first” approach reflected in the Directive makes this EU legislation better adapted to the present and future needs of preparers and users of financial statements. There is no EU requirement for small companies to have an audit. In case a member state would nevertheless see the need for assurance, the Directive has allowed a more proportionate approach. This Directive will strengthen the cohesiveness of the Single Market. By keeping financial statements comparable, clear and easy to understand, cross-border activities have been facilitated. This should allow companies to find further funding outside their home member states.
- **Statutory Audit Reform Directive and Regulation.** The 2008 financial crisis highlighted considerable shortcomings in the European audit system. Audits of some large financial institutions just before, during and since the crisis resulted in ‘clean’ audit reports despite the serious intrinsic weaknesses in the financial health of the institutions concerned. Inspection reports by national supervisors had also criticised the quality of audits. With the Audit Reform Directive and Regulation, this situation is to change by clarifying the role of the auditors and introducing more stringent rules for the audit sector aimed in particular at strengthening the independence of auditors as well as introducing greater diversity into the current highly-concentrated audit market. Furthermore, with the Reform, a Single Market for statutory audit services has been created allowing auditors to exercise their profession freely and easily across Europe, once licensed in one member state. There is also a move for a strengthened and more coordinated approach to the supervision of auditors in the EU. Taken together, all the measures should enhance the quality of statutory audits in the EU and restore confidence in audited financial statements, in particular those of banks, insurers and large listed companies.
- The Regulation regarding the statutory audit of public-interest entities, such as banks, insurance companies and listed companies, envisage measures to enhance auditor independence and to make the statutory audit market more dynamic. The key measures in this respect, besides those mentioned before, are the mandatory rotation of audit firms, mandatory tendering, the prohibition of non-audit services, cutting red tape for smaller auditor and the strengthening of independence of the public oversight of statutory auditors and audit firms.
- **The EU Non-Financial Reporting Directive.** By the coming 6<sup>th</sup> December member states are required to transpose Directive 2014/95/EU, the EU Non-Financial Reporting Directive, also referred to as the “Transparency Directive”. Through this

Directive, certain large Public-Interest Entities and large groups will have to prepare a non-financial statement containing information relating at least to environment matters, social and employee-related matters, respect for human rights, anti-corruption and bribery matters. Statutory auditors and audit firms will only need to check that the non-financial statement has been provided. In addition, it will be possible for member states to require that the information included in the non-financial statement be verified by an independent assurance services provider.

- The Maltese Presidency intends to build on the work done by the Dutch and Slovak Presidencies in moving forward the work on **company law dossiers**, including the Proposal for Directive amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement, Directive 2013/34/EU as regards certain elements of the corporate governance statement, as well as the Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EC as regards disclosure of income tax information by certain undertakings and branches (Country by Country Reporting).
- Furthermore, the incoming Maltese Presidency will follow up on any remaining items concerning the trilogues related to the financing of EFRAG and it will commence in Council the discussion on a company law initiative to facilitate the use of digital technologies throughout a company's lifecycle and cross-border mergers and divisions.

## Conclusions



### Sue Almond, Head of Assurance, Grant Thornton UK

- There is no *one size fits all* answer that will fit all jurisdictions.
- We need to make sure that the professional environment remains relevant and is able to respond to developments.
- A lot of education could be done in the area of data analytics and technology in order to take advantage of opportunities it provides.
- Emphasis needs to be put on audit quality which sometimes is taken for granted, and it probably shouldn't be. In the context of the roundtables, audit quality was critical
- Maintaining the dialogue between stakeholders and creating an open space to share views is essential.
- There are a lot of discussions about financial reports and how they should look like.
- We all recognise the value of audit and its ongoing need. It is all about how we as a profession develop in the future. We are still facing challenges and there are still some regulatory questions to resolve.