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The Future of Audit

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ACCA supports its **178,000** members and **455,000** students in **181** countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of **95** offices and centres and more than **7,110** Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. It believes that accountants bring value to economies in all stages of development and seek to develop capacity in the profession and encourage the adoption of global standards. ACCA's core values are aligned to the needs of employers in all sectors and it ensures that through its range of qualifications, it prepares accountants for business. ACCA seeks to open up the profession to people of all backgrounds and remove artificial barriers, innovating its qualifications and delivery to meet the diverse needs of trainee professionals and their employers. More information is available at: www.accaglobal.com

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The future of audit was discussed at a series of roundtables in China, the EU, Singapore, South Africa, the UAE, the UK and Ukraine: locations chosen to cover a range of business environments with differing characteristics. The roundtables were jointly hosted by Grant Thornton and ACCA. What follows describes the results of those discussions, some of which might be surprising.

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In countries without a longstanding tradition of audit, the view is that developing a capacity in audit is essential for underpinning and enhancing economic growth. The financial statement audit is seen as a gateway to a stronger accountancy profession and, with it, greater prosperity. By contrast, in countries where audit is more established, the view is that audit itself must develop. The suggestion is that new, differentiated types of reporting and new assurance offerings will keep the financial statement audit relevant for users.

Auditors will need to keep their skills up to date to respond to the challenges created by heightened expectations of the profession. The digital age creates opportunities and threats.

This report, as well as highlighting the changes that affect the profession and suggesting ways to respond to them, also sets out some recommendations for standard setters and regulators to support better global outcomes.



The world is changing. The financial crisis emphasised the extent to which financial systems are connected globally.

The world is changing. The financial crisis emphasised the extent to which financial systems are connected globally. This interconnectedness brings greater prosperity, but also greater concentrations of systemic risk. Policymakers are still responding to both the economic fallout from the crisis and the public outcry for regulatory changes.



Because the crisis led to a lack of public trust, it is not surprising that audit is expected to be a major part of the solution. In practice, to achieve this, audit and auditors will need to change to be able to respond to the challenges of this more interconnected world and greater public expectations.

CHANGE IN ENVIRONMENT

The environment for professional accountants is changing. ACCA research has identified global connectivity, smart machines and new media as drivers that are likely to influence the global need for accountants over the next decade.

Where there is change, there is greater demand for assurance in general and audit in particular, and for audit and assurance to be provided in new ways that make use of

new technologies. Novel funding models may require novel assurance services. Stakeholders expect auditors to exploit new ways of working to drive efficiencies so that reporting timetables can be shortened while continuing to improve audit quality.

CHANGE IN EXPECTATIONS

Expectations are changing. Feedback from the Grant Thornton/ACCA roundtables suggests that investors like the 'binary' audit report in which the auditor must either commit to a 'clean' opinion or qualify the accounts. In general, however, users also want more contextual information to be provided, to explain the process whereby the auditors reached their opinion and the challenges they faced and overcame along the way. Although auditor reporting is changing, there is some frustration that it is not changing further, and more quickly.

Users want more disclosure from companies, particularly of non-financial information, such as on sustainability, and forward-looking information. Users also want assurance that this information is being disclosed fairly and accurately. The accountancy profession is well placed to satisfy this demand.

CHANGE TO AUDITORS

In response to these changes, auditors themselves are changing. There is more emphasis on how well audit is done, with heightened focus on risk, professional scepticism and audit quality. Auditing standards are being enhanced to address some of these new challenges.

Although changes to standards have begun to enhance confidence in audit for larger companies, they have introduced additional complexity for smaller entity audits. In response, some countries have exempted the smallest companies from the obligation to have an audit. The idea that an audit is a single, universal service that is the same for all types of entity anywhere in the world is under unprecedented strain.

In countries where audit is less developed, the view is clear: audit is an enabler of growth.

In countries where audit is less developed, the view is clear: audit is an enabler of growth. It underpins market confidence, reduces the cost of capital and transaction costs, boosts capital flows and serves as a cornerstone for the business environment. The feedback from the roundtables is that audit is absolutely vital for engendering trust in business. As a result, building



capability in audit is a key priority for countries seeking sustainable economic growth. This view is reinforced by the World Bank's continuing support for its ROSC (Reports on the Observance of Standards & Codes) initiative, which promotes the financial statement audit in accordance with international standards.

'Audit facilitates innovation through flexible, proportionate regulation and an avoidance of regulatory straitjackets'.

In such countries, the audit is a comparatively recent offer, with providers of finance primarily interested in financial information about a company and little else. There is currently limited interest in other assurance services to complement the audit, let alone alternative assurance offerings that might replace it.

'Minority shareholders are the main customers of audit'.
[Ukraine]

These countries see the future of audit as being about building consistent quality and making the audit process more efficient for companies, users and auditors. The audit might be increasing in popularity, or demand for audit might outstrip supply. Alternatively, the auditing profession might be relatively small, making use of expertise from other countries, or be in the early stages of moving from national to international standards. The quality of audits might be inconsistent, or there might be relatively few firms capable of auditing banks, utilities or the public sector.

A clear message from the roundtables was the need for users to get 'as much as possible' from the audit. Users wanted a standard audit of the historical financial statements and they wanted it done well. Equally important was the need to build user confidence in the auditing profession and develop its scale, before thinking about adding extra services: such markets are not 'ready' for more than the 'vanilla' audit.

'[An] audit builds trust with providers of finance. If you don't have your financial accounts certified by an independent auditor, then how do you get investors to invest in your company? How do you get banks to lend you money?'

[EU]

While the requirement for a mandatory audit is being removed from ever-bigger companies in Europe, developing countries want to invest in their accountancy professions to build the infrastructure necessary for supporting enhanced business growth. While there are those that believe developing countries will follow the same development path as developed countries, albeit later than them, others argue that audit development will be influenced by other factors, such as the nature of the accountancy profession, property rights, political and social factors, and others. We believe this latter path to be the more likely.

'Audit is not a necessary inconvenience – it is vital'.
[Singapore]

Countries with a strong audit tradition want it to do more

In developed markets, audit has typically been mandatory for a long period.

In developed markets, audit has typically been mandatory for a long period. In such countries, there may have been moves to exempt businesses of certain types or sizes from the audit requirement. Companies may have more skilled finance teams, producing more trustworthy financial information than those in developing countries. Providers of finance may receive regular, reliable financial updates as a matter of course, so that for them the annual audit report is seen as 'old news' and merely confirmatory. Additionally, they may receive a regular, rich and varied range of information about the business, which is essential for investment decisions but is not financial and not part of the audit.

In these developed countries, audit is seen as a critical bedrock for larger companies, but with little additional value other than confirmation of what is already understood about a business. For companies that are neither large nor publicly traded, significant questions are being asked about whether the audit report is useful. If not, should it be scrapped and replaced? This threat to the relevance of audit is recognised by standard setters, which have

responded by expanding the external audit report for public interest entities.

WHO, WHAT, WHY?

'Audit providers should listen carefully to users, and understand who the users are, what information they use, and what they use it for'.

'The next generation of investors may want different information'.
[\[Singapore\]](#)

Where roundtable participants cast doubt on the continuing usefulness of an audit report, the common misgivings were about the following concerns.

Who? The report is addressed only to shareholders.

What? The report is issued months after the period end and mostly covers only historical financial information.

Why? The report is a standardised product with limited reference to particular user needs.



Another key driver for change is legislative and regulatory intervention.

Each of these is both a threat, in that it challenges the relevance of audit, and an opportunity, to the extent that the profession can respond to it. Reports could be prepared covering information of use to other users. Reports could be prepared more quickly and over a wider range of information than present reports, including non-financial and contextual information.



Reports could be prepared that are tailored for particular user needs. Practitioners will wish to ensure that their liability is proportionate to any payment they receive for such services. Traditionally, payment and liability have been barriers to reform.

‘We should be asking, not just what the user wants [from an audit] but what they want to use it for’.

[South Africa]

The International Auditing and Assurance Standards Board has introduced expanded auditor reporting requirements for audits of listed companies, similar to those already in effect in the UK. Early feedback from the UK has been positive, although enthusiasm may wane if audit reports do not continue to evolve.

Another key driver for change is legislative and regulatory intervention. For example, in the European Union, legislators are requiring auditors to do more, beyond the traditional scope of the historical financial statement audit, for listed company audits. Once these additional services have been streamlined, demand for them may grow elsewhere in the world, and beyond the listed company sector.

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Although the amount of information included in and alongside the annual accounts has increased substantially, the audit itself has stayed largely the same. The idea that audits need to become more adaptable has attracted broad consensus. Not everyone is interested in every single piece of company information; but nearly every single piece of company information is of interest to someone, even while some argue that the core information essential to understanding the drivers of performance may not be captured by current financial reporting.

Nonetheless, rather than try to scale an audit down to the lowest common denominator – in other words, financial information – the modern audit should ‘find a way to meet the differentiated needs of report users [China].’ For example: ‘institutional banks as providers of finance have a different use of audited information than do equity investors [EU].’ As one participant put it: ‘audit has a future, but [the audit profession] must be prepared to change, at times significantly, [to meet] user needs [Singapore].’

In the UAE, the issue of conflicting objectives was identified. ‘There is a big mismatch between what the market wants, what the investor wants, what the companies who want to list want and what the regulator allows.’ One approach would be to put the audit user first; as one participant commented: ‘Surely, [auditors] should be listening to them and giving them the product that they want? [South Africa]’ Certainly, there is a need to engage more with end-users to understand where audit falls short of their expectations, as there is clear demand for ‘more specialised, detailed and differentiated audit services [China].’ Examples given included: ‘assurance on the authenticity of the company’s business; how a particular business model works, authenticity of supply-chain financial transactions; and the supply-chain closed-loop process, which might fall outside the scope of pure financial audit’ [China], ‘the social return on investment by diversity credits’ [Ukraine] and ‘a company’s culture, and the quality of a company’s reporting function [UK].’

There were calls for auditors to re-evaluate their value proposition to end-users.



Concerns surfaced that change was occurring too slowly, that audits are too reactive, and that too much emphasis is placed on compliance rather than value.

Investors want increased dialogue: 'we want to hear about early warning signals [Singapore].' There was also a sense that auditors 'hold a lot of information of the audited entity which is very useful to investors' decision-making', whereas this knowledge and experience could be used to 'offer more services than merely making simple reports [China].' For example, one way for auditors 'to meet expectations from the stakeholders, especially from business owners is for the auditors to partner them, to provide them the value addition: how they make better profits, and how they could have better risk assessment internally and externally [UAE]. This would require the auditor 'to really understand the business [and] to get buy-in from management, to make meaningful comments in the audit report [Singapore].' Although investors are clear that they want 'more', they are less clear as to what this means in practice, not least because different users have different needs and wants.

There was recognition, in all the locations where the roundtables were held, that the business world is probably developing too fast for the audit community to catch up if it operates in a vacuum. The digital age is changing what it means to be an employer, a company, even a nation; and participants were concerned that these generational changes are not being addressed. 'There has been so much innovation in other industries, but audit has not followed,' observed one participant [UK]. For some, audit change should be 'driven by the investor community' [Singapore] while others said the best way to develop audit would be to 'let business drive innovation [EU].'

'Innovation needs to come from the profession not the regulator, but someone needs to pull it together for consistency across markets; firms need to drive it forward.'

[UK]

Concerns surfaced that change was occurring too slowly, that audits are too reactive, and that too much emphasis is placed on compliance rather than value. 'The major challenge – and the key success factor – is to transform the audit from the old function into a business partner concept [UAE].' One respondent pondered

whether 'we need [to see more] corporate collapses to usher in change?' [Singapore] Another said that auditors need to 'evolve or die' [Singapore]. The overwhelming feeling is that both the traditional audit and the traditional auditor need to respond more promptly to change if they are to remain fit for purpose. This poses a challenge for auditors: how to meet the needs of users without compromising the independence that is at the heart of auditors' professional standards.

NATURE OF THE AUDITED ENTITY

Some of the discussions questioned whether a single set of audit rules fits all types of entity. Common observations included the following.

- Audit rules should distinguish between listed companies, unlisted companies, large enterprises, and small and medium enterprises. Their reporting requirements are not the same, and accordingly their assurance needs are not the same either.
- There are, nonetheless, benefits to having a core approach to audit that is shared across all types of entity everywhere in the world.
- This is a problem for standard-setters to solve. If they do not demonstrate how auditing standards for larger entities can be applied to SME audits, rival audit approaches may develop.
- Finance teams at small and medium-sized entities generally need more assistance than those at larger companies. The quality of financial information they publish is greatly enhanced by help from the auditor but this may create tensions with the traditional, listed-company view that the auditor must be, and be seen to be, completely independent of the audited entity.
- Specialist investors who are familiar with the risks of investing in smaller entities also know that those are the companies that produce the most growth.
- Different countries need different criteria by which to evaluate the need for an audit of an entity.

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

Audits are not dying yet, but they do need to adapt to the digital age. This was perhaps the key message that emerged from the roundtable discussions globally. There was general consensus that the audit report should reduce complexity, allowing users easy access to the information they need: 'Complicated audit reports make it hard for readers to comprehend' said one



participant, while another added: 'Readability is important – we must not overestimate investors' ability to understand the audit report'. [China]

There was more debate as to how the 'modern audit' should look to users. A minority argued that the definition of an audit has been stretched: 'audit should return to the basics: merely assurance for investors, telling [them] if [the company is financially in] good or bad [shape]' [China] or 'the auditor should focus on providing the key information to providers of capital'. [EU]

In contrast, many participants want to see the audit report evolve. The potential benefits of integrated reporting as well as technological advances were widely cited and there was interest in exploring the full impact of data analytics, data mobility and

continuous auditing. 'Auditors need to be smarter about the way that they do audits and use technology', said one participant, while another added: 'technology is a tool to facilitate – it doesn't replace auditors'. [Singapore]

Flexibility and access to real-time information was also discussed in the context of arguments that the annual audit cycle is too slow for the modern world; 'Boards are now asking for more real time information that has a level of assurance built in', said one participant [EU]. This was countered by another participant, who raised concerns about the possible dangers of this approach: 'Real-time information risks short-term decision making, and ignoring long-term value creation'. [Singapore]

In most jurisdictions the roundtables took place before the benefits of the new audit reporting standard had become evident or were widely understood by market participants. Nevertheless, it was widely held that auditors who can offer customisable reports might also be able to differentiate themselves from their competitors: 'all the standard reports look pretty much the same; there is no differentiated competition' said one investor [China]. A participant proposed 'different audit reports for different purposes rather one report which is for every stakeholder.' [UAE] Although another investor said new regulations on auditor rotation could hamper the efforts of auditors to give really valuable insights: 'they need to be close to management, they need to be close to the business, and it takes a number of years'. [South Africa]

'Audit should play a bigger role in a world with complicated information which spreads faster'.
[China]

'Not using technology is almost like defaulting on the quality of the audit'.
[South Africa]

So how will auditors themselves have to change in order to meet the new requirements that could be demanded of them?

'Business is getting more complex – are auditors trained to deal with it?'

'Auditors need to provide insights to enhance the value of audit, and the relevance and attractiveness of the profession'.
[Singapore]

So how will auditors themselves have to change in order to meet the new requirements that could be demanded of them? Participants suggested that audit teams need to improve both the 'harder', technical skills and the 'softer', interpersonal skills, while there was a strong sense from Asia, in particular, that the attractiveness of the profession needs to be addressed.

The technical expertise of auditors themselves was not brought into question. Rather, the question was how auditors could expand their horizons to offer more value to clients: 'we tick the technical box; we don't tick the depth box. I think [the auditor moves] on too quickly' said one participant [South Africa]. Another added that analytical capability is missing: '[auditors have] all the technical experience but not the necessary understanding to make big picture decisions later on'. [South Africa]

It was also widely recognised that audit teams need to diversify to meet modern challenges and add value: '[we] need more specialists on audit teams' said one participant [Singapore]; 'an auditor will not always be needed,' said another, 'depending on the nature of information needing assurance you might need an engineer or a geologist' [EU]. Some audits might call for 'hot shot IT people' or 'psychologists' to drive value [South Africa]. If auditors are asked to perform these multiple roles there is a danger of missing key information: 'new enterprises and internet companies built on piles of data require auditors to be information specialists, data and statistical experts, which is a tall order' [China].

In Asia there was a strong sense that the audit profession is no longer seen as 'first class': 'People don't think accountants are that important', said one investor [China]. Others said staff turnover at accountancy firms was too high and others called for pay increases: 'pay your auditors more, keep the good people, and make the profession attractive' [Singapore]. By contrast, in the Ukraine, being an auditor was seen as being 'in fashion'.



This report has set out the future of audit from the perspective of auditors, preparers, regulators, academics and thinkers.

IMPLICATIONS FOR THE PROFESSION

This report has set out the future of audit from the perspective of auditors, preparers, regulators, academics and thinkers.

Attendees at the Grant Thornton/ACCA roundtables were of the view that the same model of audit is not applicable everywhere, and in future audit may evolve



at different speeds and in different ways in different countries. The historical financial statement audit remains a critical bedrock on which to base investment decisions, but audit has differing relative value to users depending on whether it is seen as 'news' or as merely confirmatory.

Where finance providers place reliance on information, there will remain potential demand for independent assurance services.

Assurance skills need to be applied in a flexible and proportionate manner to specific user circumstances and needs. Innovations in developed countries may

have broader application in developing countries, but it should not be presumed that they should be mandated everywhere until fundamental capacity is established and the demand for a greater range of assurance services is there.

IMPLICATIONS FOR STANDARD SETTERS AND REGULATORS

Alongside the profound changes now affecting the accountancy profession, there are also important implications for standard setters and regulators.

Whatever the operating environment, roundtable contributors saw a stable body of standards as essential. For countries that are developing their audit capability, a stable body of standards fosters understanding and improvement in audit quality. For countries with a mature audit sector, there is an argument that only marginal gains in the usefulness of an audit are available, which may be out of proportion to the effort required to make those gains.

While consistency of standards is important for international business, the implication for standard setters is that they need to articulate the business benefit of changes. International standard setters should also recognise that different countries are on different stages of audit development, and should seek to reflect that in standards that are designed to be suitable for entities of all sizes. Marginal gains in audit quality may not be worth the additional effort required to capture them, so standard setters and regulators need to articulate the business benefit of changes.

Regulators should recognise the balance between audit quality, consistency and innovation, by giving audit firms the flexibility to apply auditing and quality control standards in new ways, provided that audit quality is maintained or improved.



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