

Confidence in auditing profession is looking up

There's been a slight improvement in the perception of shareholder governance and the strength of auditing and accounting standards, according to the World Economic Forum's Global Competitiveness Report.



Image source: Getty/Gallo

This can be attributed to a number of factors.

The strength of auditing and accounting standards increased its score from 64.6 to 67.5 and South Africa's ranking improved six points from 55 in 2018 to 49 out of 141 countries surveyed. Shareholder governance also improved from a score of 60 to 67 and the country is now ranked 37, up from 56 in 2018.

"The collapse of some high profile companies highlighted the lack of regulation and oversight of the broader financial reporting chain and emphasised the importance of the contribution of those charged with governance to prevent business failures through appropriate and effective controls. While we may continue to see high profile business collapses, there is nevertheless some of hope that we are moving in the right direction.

Positive developments

"The public conversations in the last year have refocused the broader accounting profession's attention on the combined assurance model, a need for comprehensive regulation of the financial reporting chain and the importance of educating investors on the roles of each function in the financial reporting process. Investors are therefore more informed and taking greater interest in governance processes, which is a positive development.

"We have also seen visible initiatives and collaboration from the profession which focuses shareholders and audit committees' attention on concerns around the independence of external auditors and audit quality, as well as on measures to strengthen the financial reporting chain," said Bernard Agulhas, CEO of the Independent Regulatory Board for Auditors (IRBA).

The IRBA has been clear in stressing that the external auditor, as the final line of defence, comes in at the end of a process in which there are various role-players, each with responsibilities to implement controls and measures to prevent fraud, corruption and malfeasance. That said, there's also a need for the auditor to increase the amount of work on the audit as it relates to the identification of fraud.

During the year, exposure drafts for new standards around audit quality have been issued. These new standards, once adopted, will address key areas such as quality at an audit firm and engagement level including requirements for the firm and the engagement teams to respond with appropriate measures to address any identified quality risks, as well as defining new requirements for the appointment and eligibility of engagement quality reviewers, the level of performance of the engagement quality review and documentation of the review process.

Other initiatives

In other initiatives to restore confidence in auditing, the IRBA put out a call for audit firms to produce transparency reports to assist, inter alia, audit committees. Some audit firms have published audit firm transparency reports, which provide insight into their quality management systems, firm structures, and inspection results. The current transparency reporting process is voluntary, and it is expected that mandatory transparency reports for certain firms will be prescribed in future.

To assist committees in considering audit quality during their appointment and reappointment decisions, the IRBA has identified a set of audit quality indicators (AQIs). These are a set of comparable measures covering independence, review, workload and training, which supports comparison between firms and may assist in benchmarking. The AQIs are available from firms and have also been submitted by the firms to the IRBA to enhance its regulatory understanding of quality risks that firms face, and to provide feedback to the market in the form of a feedback report.

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