

# The social role of the auditing profession

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Over the past 20 years, the auditing profession has come under increased public criticism. In the case of South Africa, censure and condemnation of the profession has been very fierce over the last five years. This has been exacerbated by the involvement of members of the profession in corruption and state capture. The root causes include, amongst others, how the audit firms, in particular the big firms and individual members of the profession, have come to define their role versus their role as understood by the public. As one reads the news, more and more members of this once beloved profession are found to be complicit in several scandals.



Professor Wiseman Nkuhlu

I recall a meeting I attended not so long ago where attendees started referencing to a member of the profession who had appeared before the Zondo Commission. They kept expressing their shock at the member's responses when the chairman of the commission repeatedly said, "...You are a chartered accountant". With these words, the chairman seemed to indicate that more is expected from a member of this profession.

It's no surprise that there was a public outcry with members asking why the South African Institute of Chartered Accountants was not doing something against the member who was bringing the profession to disrepute. Yet, as more and more members appear to be complicit in such scandals, the expectation gap between that which the public defines as being the role of accountants and auditors, and the role as defined by the accountants and auditors themselves, widens.

## Explaining the social role members of the auditing profession play

The central duty of an auditor is by this quote from the late Dr Paul Clikeman, a professor at the University of Richmond: "In the distant past auditors had their origin in the natural distrust felt by one man for another in matters where the handling of money and other valuables was at stake."

The central duty of an auditor has not changed. What has changed, however, is the complexity of organisations and the multiplicity of stakeholders that an auditor serves. Yet despite this, the central duty remains that of enhancing trust in financial reporting to outside stakeholders on how those entrusted with the stewardship and management of the organisation have discharged their duties, in particular whether they have done so truthfully and with integrity.

“ Core in this role of the auditors is trust. ”

Given the crucial role of auditing in society, auditing as a profession should be a very prestigious calling and consequently attract only the most talented and public-spirited individuals.

Members of the profession should be proud of their unique role in society and be inspired to make the necessary sacrifices to gain recognition and respect as distinguished members of the profession. This deep pride should be embedded in the conscience of every auditor. The education, training and mentoring of auditors should be such that this becomes a powerful force that cannot be tamed or silenced.

Auditing standards, laws and regulations should not be the beginning and the end but a sound framework that sets the inviolable rules. As an auditor, it is your conscience that should prevent you from rationalising your actions through over reliance on technical and legal arguments. The challenge is how to ingrain this pride and desire for recognition in the DNA of the auditors of tomorrow.

## **Diversification and repurposing by audit firms**

Accountants and auditors emerge from and are shaped by their environments and are, therefore, susceptible to being carried away by the preferences and ideas that become dominant in society. Thus, one must wonder whether or not societal or environmental changes could be leading auditors to forgetting their core role?

Diversification and repositioning of audit firms is to a large extent a consequence of dominant economic trends post World War II. Various mergers and acquisitions have resulted in the emergence of gigantic technologically complex market dominant multinationals. Accompanying these developments has been the rapid growth in the sophistication and complexity of financial instruments and corporate arrangements, leading to increasing demand for advisory services.

In addition to this the reshaping and repurposing of the audit firms, especially the bigger firms, has crystalised during this period. Initially audit firms extended their services in response to demand by their major clients; however, over time the offering of advisory and consulting services gained momentum of its own. This led audit firms to become multi-disciplinary with auditing being just one of the many offerings on their menu and not necessarily an auditing firm's primary one.

The result: These developments changed the very character of these firms – essentially turning them into commercial enterprises who derive their pride from commercial success and delighting clients with smart and innovative business solutions. Pride in being respected and trusted by the public for ensuring the reliability of financial reporting became a by-product not their first and foremost driver.

## **Towards a new future for auditors**

There is no doubt that audit failures have contributed significantly to corporate failures over the last 20 years. The corporate failures in which audit failures are a major contributor have resulted into huge losses for the poor and middle class as job

losses and the erosion of pensions is one of the biggest knock on effects of corporate failures.

These failures have deepened inequality and also caused governments to redirect resources that would otherwise have been available for service delivery to the poor and the vulnerable to rescue banks and other major corporates instead.

Calls for increased sanctioning of delinquent auditors are completely justified as are calls for more stringent regulators. Unfortunately, up to now, responses by governments have been slow, inconsistent and uncoordinated. The reasons why have to do partly with the lobbying of the audit profession but also with ideological differences regarding the nature and levels of regulation that are acceptable in an open economy.

In light of the above, the role of civil society cannot be overemphasised. The matter of ensuring that there is an independent, fit for purpose, trustworthy profession is too important to be left to governments alone.

Civil society and the media played a critical role in exposing corruption and state capture in the recent past. The challenge now is to ensure that we use the lessons we've learnt to radically transform our institutions and to significantly raise the bar on ethical conduct and performance.

Given the fact that the audit profession failed the country in the recent past, now is the time to introduce major reforms to position it for the future. I question the reluctance of the audit firms to adopt governance practices that are in line with international best practice for public interest entities. More specifically, I question their failure to adopt the King IV recommendations that they themselves promote to their clients.

## **Prioritising public interest**

It is only if the profession prioritises serving the public interest above all else that it will be truly trusted by the public. Any firm or profession that subordinates this purpose to other purposes like being respected as the provider of smart and innovative solutions by clients will be distracted and will not adequately fulfil the role.

The renewal of the auditing profession's purpose for existence requires leaders, such as leaders of the audit firms, including their CEOs, executive leadership teams and experienced partners, with a completely different orientation, with a deeper appreciation of their role and of the organisations they lead to contribute positively to the greater public good and not to allow the economic and technological power under their control to be used to cause harm to society.

In preparing the auditors of the future, we also need to infuse the principles and values of responsible and ethical leadership in earlier stages of education and training. This is the only way we will be able to produce a generation of auditors that is proud of its social role.

## **ABOUT THE AUTHOR**

Professor Wiseman Nkuhlu is the chancellor of the University of Pretoria, chairman of the board of KPMG, and a member of the advisory board of the South African Institute of Chartered Accountants (Saica). He has served as president of the South African Institute of Chartered Accountants for two terms, from April 1998 to April 2000. He is passionately involved with the development of black accountants and is the patron of the Nkuhlu School of Accounting of the University of Fort Hare. He served as economic advisor to President Thabo Mbeki and as chief executive of the Secretariat of New Partnership for Africa's Development (Nepad) from 2000 to 2005, playing a major role in the elaboration of Nepad policy framework and in promoting the programme both in Africa and internationally. He participates regularly as a speaker in international conferences on African Development issues and corporate governance.

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