

■ REPORTING BY THE ACCOUNTANTS TODAY EDITORIAL TEAM

THE FUTURE OF AUDIT

Stakeholders and users will still count on audit in the future, but auditors must embrace change in order to deliver the high quality and diverse services being demanded. Importantly, auditors must also be credible and live up to expectations of trust and integrity.

Tech

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AUDIT services have long been the bread-and-butter of the accountancy profession, and indeed, accountants are the flagbearers of financial assurance. But in a daunting landscape, how can the profession further reform itself to satisfy users and stakeholders, and ensure the relevance and longevity of audit?

The recent joint Forum on The Future of Audit organised by MIA and ACCA reached a consensus that the need for audit will not vanish anytime soon. Audits are validated as a necessary safeguard that plays a crucial role to engender trust in business. In fact, increasing business complexities and the occurrence of financial crises have resulted in greater demand for higher quality assurance in general, and audit in particular.

Andrew Gambier, ACCA's Head of Audit and Assurance, said: "Investors and report users are expecting more from listed company auditors, with increasing calls for auditors to provide contextual information which explains the process by which they reach their opinion and the challenges they face and overcome along the way.

"In a series of roundtable discussions conducted by ACCA and Grant Thornton last year, it was found that investors want early warning signals. They believe auditors hold significant insights into the audited entity that could be very useful to investors' decision-making."



L-R: Andrew Gambier, Lee Tuck Heng, Tan Sri Ambrin Buang, Datin Sunita Rajakumar, Hooi Kok Mun and Scott Layton.

There was an overwhelming sentiment at the Forum that both the traditional audit and the traditional auditor need to respond more promptly to change if they are to remain fit for purpose in the future. Increasing business complexities, harmonisation of global standards and increased regulations – such as the implementation of Key Audit Matters – are but a few of the challenges faced by auditors today.

EMBRACE TECHNOLOGY, ESPECIALLY DATA ANALYTICS

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Data analytics will have far-reaching impacts across audit, concurred Gambier and his fellow

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panellists. The holistic and inclusive characteristics of analytics mean that no stone in an audit will be left unturned, so to speak. Lee Tuck Heng, Chairman of the MIA Auditing and Assurance Standards Board, explained: "Currently, the common approach to audit is by random sampling which relies on chance to capture any outliers. Data analytics then becomes a powerful tool because it enables us to gather a data sampling of 100 per cent, which we are able to test quickly. Furthermore, it can produce data visualisation that is more effective in delivering the

messages required by auditors and to management."

Data analytics can also provide an inclusive picture of risks. Hooi Kok Mun, Audit Practice Leader at SJ Grant Thornton, added: "Many times when we conduct an audit, we are only auditing that company but we forget to look at other factors affecting the business. In essence, we are auditing the tree while being ignorant of the jungle surrounding it. With data analytics, we are able to observe the big picture which enhances the quality of our advice to our clients."

Other disruptions such as

the internet of things (IoT), cloud computing and big data will also expand the precision, potential and benefits of audit in the future. But technology cannot replace professional judgement and scepticism in the audit reporting process. At the end of the day, judgement will be the key quality exercised by professional auditors, which cannot be replicated by machines and technology. "While we need to leverage on technology more, there's always going to be a human component in audit. Technology will allow us to extract specific at-risk transactions which we can then check in greater detail," said Scott Layton, Director of Audit and Investigations at IBM Asia Pacific.

He added: "I think we're going to see more combinations of audit with investigations as issues such as fraud become more complex. At IBM, as we think about how to address fraud and handle investigations in a systematic approach, our investigators are starting to work like auditors and be more proactive in trying to find fraud

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Bright Future in **Public Sector Auditing**

Rising expectations for transparency and accountability of government finances is driving demand for public sector auditing.

Increased expectations for financial transparency for government spending mean that demand is rising for public sector auditing as an important tool in engendering trust.

Tan Sri Ambrin Buang, Auditor-General of Malaysia said: "Where public resources are concerned, the demand for public sector auditing will only increase. The duty of care for protecting public funds lies with us."

"Government finance today is very complex – there is the Federal government, state governments and local government agencies to monitor. There are hundreds of GLCs (government-linked corporations) and projects. Who is there to assess the value for the money spent? Our stakeholders are varied and becoming more vociferous, and look forward to our audit reports which tell all the irregularities."

"As Malaysia aspires to become a developed nation by 2020, I think the country also deserves a developed country audit institution," he quipped.

Currently, the NAD has 2,000 auditors whose scope is not just to look at financial statements but beyond. Among supreme audit institutions (SAIs), Malaysia's NAD is unique because the government through its transformation programme has empowered the NAD to pursue its reports. "Stakeholders are interested in action. So we conduct the audit, do the report and then follow up to monitor the status of the issues that we identified."

However, the NAD's bite could be

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Auditor-General of Malaysia

sharpened by improving its status, independence and talent. "We are a department under the executive branch of government. Although the government has accepted the need to transform the audit agency, enhancing our powers such as establishing an independent Audit Commission would require amendments to the Constitution."

To strengthen talent, the NAD is collaborating closely with professional bodies to provide certification and qualifications for its officers. Notably, MIA works with NAD to provide continuing education and to offer the CIPFA professional qualification which is the gold standard for chartered public finance accountants. The NAD also collaborates with over fifty private accounting firms to audit financial statements of statutory bodies.

Government external auditors must also be supported by quality internal auditors to mitigate risks, which could point to increasing demand for competent and qualified internal auditors, which is another key development priority for MIA. "Internal audit plays a very important preventative role and internal auditors must be competently trained to identify the various types of fraud," remarked Tan Sri Ambrin.



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as opposed to waiting for an allegation to bring us to possible fraud.”

Incorporating data analytics and other technologies into audit will require a wider set of skills and multi-disciplines beyond finance – such as engineering and psychology – to analyse the large amounts of data. “Diversity will become more important and we would want to train up experts from other backgrounds as auditors,” said Gambier.

Importantly, technology and data analytics could also level the playing field for SMPs. Given the increasingly competitive business environment, new regulations, the scarcity of talent and resources, and the prevailing headache of balancing costs and fees, SMPs are understandably extremely concerned about the future for audit. SMP sustainability is also a top priority for MIA because of the high number of SMPs and SMP practitioners among its members. “Software helps smaller audit firms become more efficient,” concluded Gambier.

LIVE UP TO GLOBAL STANDARDS

Practitioners, especially SMPs, must accept that markets are complying with global standards as the world becomes more borderless. However, Gambier noted that an important direction for the International Auditing and Assurance Standards Board (IAASB) and its fellow standard setters will be scalability, or ensuring that standards are applicable to entities of all sizes.

Other questions raised related to the feasibility of implementing two sets of standards, one for complex businesses such as multinationals, PLCs and PIEs, and one for simpler,

smaller businesses such as the mom-and-pop grocery store. Since Malaysia practices a two-tier system of financial reporting standards – MFRS which are IFRS-compliant and MPERS which are compliant with IFRS for SMEs, shouldn’t there be two sets of auditing standards? Lee replied that IAASB standards are principles-based. “You would need to exercise your professional judgement in applying the standards, and as such, two sets of standards wouldn’t be necessary.”

However, Lee noted that there is criticism that accounting standards and consequently auditing standards do not reflect the global state of business today. “Business has moved

on but some accounting rules have not caught up.” For example, only about 20 per cent of market capitalisation correlates to asset value on balance sheets; more accurate reporting is needed for intangibles which feature heavily in economic and value creation. “How should research expenditure and development costs be accounted for? Are auditors trained in the valuation of intellectual property and intangibles? Market expectations today have changed. It’s no longer just about the hard financials and cash being king; non-financial data is becoming more and more critical and we must equip ourselves with these non-financial skills.”



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MEET STAKEHOLDER NEEDS

Auditors must strive to deliver value to meet escalating expectations, and not just tick the boxes. “It’s important that the profession takes ownership and try to anticipate these needs,” urged Datin Sunita Rajakumar, Chairperson, Caring Pharmacy Berhad & Independent Non-Executive Director, Hai-O Enterprise. “From the perspective of an independent director, I can share that there is strong demand from the Board for auditors who can understand the value drivers of the business, and can articulate professional judgement that we can count on. Questions about the integrity and capacity of the company, whether they do what they say they do – these are the things that keep me up at night.”

MANAGING ENHANCED AUDITOR REPORTING AND KEY AUDIT MATTERS

While some users appreciate binary audit reports which either result in a clean or qualified opinion, new developments in enhanced auditor reporting mean that audit must transition away from boilerplates and templates to disclosure attuned to the specific risks and business models of reporting entities. Here in Malaysia, enhanced auditor reporting standards and Key Audit Matters (KAMs) will take effect for audits of financial statements of PLCs and PIEs for financial periods ending on or after 15 December 2016.

Entities subject to KAMs have been advised to start early, and Datin Sunita indicated that some of the Boards she sits on have already begun engaging with their external auditors. “It wasn’t too difficult because the KAMs cannot

include new information that is not already referred to in the financial statements. We anticipate that there will be an average of two to seven KAMs per company.”

ASSURANCE BEYOND AUDIT

Gambier noted that assurance services may develop around the audit as customers seek other than financial assurance, and firms, especially SMPs should try to develop niches in these alternative services e.g. advisory. Other types of audits emerging in the Malaysian marketplace include sustainability audits, GST audits and transfer pricing audits, which will require new and unique skillsets. In short, there will be no shortage of demand for auditors and firms which are willing to retrain and diversify. The panellists concurred that fluent language and communication skills, on top of technical expertise, professional judgement, and a strong grasp of standards and regulations, will be the drivers for success for audit professionals of the future.

AUDIT EXEMPTIONS

There was significant interest in the consequences of the UK’s move to raise the mandatory audit threshold from GBP10 million to GBP50 million in annual turnover, given that Malaysia too might be moving towards mandatory audit exemptions to reduce business costs and simplify bureaucracy and enforcement.

With regards to audit exemptions and their impact on SMPs, MIA is continuing to advocate for such exemptions to be applied to dormant companies first and to delay any further extensions, said Lee.

ATTRACT AND RETAIN TALENT

In accordance with recommendations from the Committee to Strengthen the Accountancy Profession (CSAP) and the World Bank, MIA along with other PAOs is emphasising the building of the profession’s talent pipeline as a top priority. The panellists also noted that audit must shed its image of being a bargain commodity and demonstrate the value it brings in order to secure commensurate fees and rewards. Low fees and pay coupled with long hours and intense regulation means that the profession is no longer the first choice of top talent; this must change urgently. “We have to make the profession appealing to the next generation. Talent is vital for the quality of auditing. Overregulation might stamp out bad behaviour but will deter talent from joining,” said Gambier. Career auditor Lee concurred that the profession is no longer as fun as it was thirty years ago, and that pressure-cooker conditions and perceptions had to be overhauled.

CONCLUSION

Changes might be tough to put in place, but are vital to the relevance and sustainability of the audit profession. “We have to make these tectonic changes. All along, auditors and accounting professionals have been very resilient. We have managed to regroup, re-strategise and retrain ourselves,” concluded Lee, who said that metaphorically, audit quality and growth was like a train ride. “It’s our choice to embrace these changes. The audit train is leaving the station. Are you on the train or are you still at the station?” ■