

# 'Audit-only' proposal won't fix auditing industry challenges

The auditing profession is undergoing the most profound transformation in its history, with recent calls for "audit-only" firms adding further challenges. As a practitioner and the leader of Deloitte Africa, it pains me to see the profession occupying headlines in a negative manner. I believe the majority of audit professionals are individuals of unquestionable integrity, who have dedicated their lives to serving their profession and delivering work that would withstand any level of scrutiny.

But it is incumbent on us to "hear" the voices raising concern about the overall integrity and value-add of the profession. Citizens and stakeholders alike expect more from us, and we have not always lived up to their expectations.

As a leader of a firm that has multiple disciplines, the recent pronouncement by the Independent Regulatory Board for Auditors (Irba) indicating that it is weighing the benefits of "audit-only" firms is very important.

My contribution will focus on sharing what we see as the benefits of a multidisciplinary practice and the safeguards we have in place to ensure that we manage auditor independence.

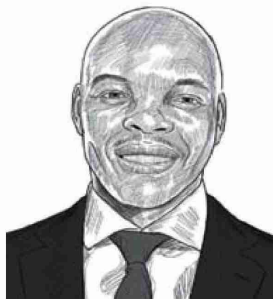
Auditor independence is fundamental to the integrity of any audit and must be feverishly protected. But this raises the question of how best to ensure it is protected while still serving the interests of the capital market and economy. It is at this stage unclear which measures will be adopted to make this happen.

Together with auditor independence, audit quality is an essential part of delivering on our mandate as auditors. This requires that the methodologies and tools utilised during an audit continue to evolve to match the ever-growing complexity and sophistication of the companies we audit.

It is in pursuance of this goal that we believe a multidisciplinary practice plays a critical role. In an "audit-only" model, such expertise will have to be procured from external professionals. Were these specialists to be employed permanently for the exclusive purpose of serving audit clients on an ad-hoc basis, this would be extremely expensive and not cost-efficient.

The assumption that the focus on the audit business is diminished by the growth of the advisory business is misguided. Our operating model is specifically designed to distinguish our different businesses – each with its own dedicated executive team. The firm effectively has two distinct sets of clients: audit clients and advisory clients.

About 45% of Deloitte South Africa's



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revenue is advisory revenue. This revenue is generated from clients that are not audit clients.

In addition, it is important to note that Deloitte's audit partners are specifically not rewarded for selling advisory services to audit clients. Audit partners are primarily rewarded for audit quality.

Where we do provide non-audit services to audit clients, the process is rigorously regulated in terms of local and international standards, as well as our own internal risk-management processes. In addition, legislation requires that all non-audit services are pre-approved by the client's audit committees.

We welcome the Irba's move towards requiring firms to produce transparency reports. This is an area where South Africa is lagging behind many other jurisdictions. Deloitte is in the process of finalising its transparency report to address a range of issues, including the structure of the firm, governance, pay gaps across gender and race, revenue split between advisory and audit, and risk-management processes.

Some proponents of the "audit-only" model claim benefits to competition in the audit environment. While the market for large company audits is undoubtedly concentrated around the Big Four firms, this market remains fiercely competitive. We do not believe that an "audit-only" approach will have any impact on reducing market concentration for large audits.

We recognise that choice is limited – ideally, there should be more than four big firms competing within the large company audit market. We would support measures that encourage other firms to succeed in entering this market. To place our position in context, Deloitte audits about 20% of the companies listed on the JSE.

On the way forward, we recognise the importance of the role we play in the efficient functioning of the financial markets. We recognise that this requires the ongoing trust and confidence of the general public and wider stakeholders – and any material shortcoming or failure in just one audit undermines that.

We have always considered that our reputation is the most important licence we require in order to trade. Given the current state of our profession, the criticism of it is warranted. As Deloitte, we have begun the process of introspection, and, where we identify areas of weakness, we have put measures in place to address these.

We accept that part of that introspection will require us to be held accountable for any wrongdoing for which we may be responsible.

But we believe that as a country we need to go further than that.

It is important that we begin an honest conversation about what we would like this profession to look like going forward. This should be aimed specifically at building and rebuilding, rather than looking to demolish some of the strong pillars that are in place.

We need a new consensus built around the scope and expectations of the audit. In this regard, we support an independent review of the role and responsibilities of auditors with input from investors, regulators, academics, standard setters, auditors and especially the wider public.

As we consider the role of the audit in the future, it needs to focus on what could and should be done to meet investor and broader societal expectations. However, Deloitte does not believe that the mandating of "audit-only" firms will have any direct positive impact on audit quality, independence or market concentration.

\*Bam is CEO of Deloitte Africa