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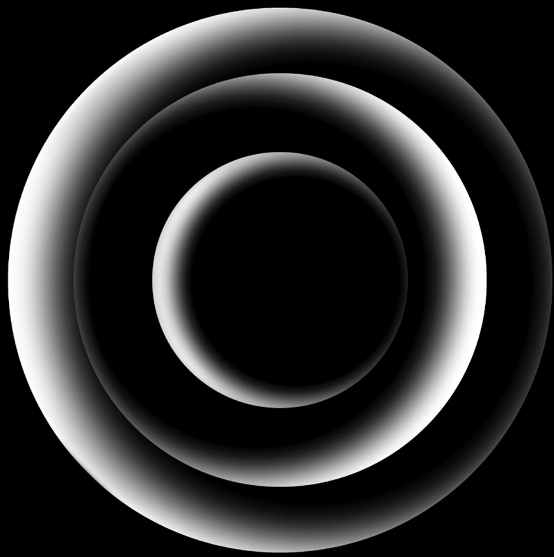

Addressing misconceptions
about the role of audit

Andrew Mackie, Audit Leader Deloitte Africa

Recent media reports of audit failures, both globally and locally, have shone a spotlight on the role of auditors, and what a financial audit entails. Whilst reporting and criticism of the profession has been focused on the audit quality debate, it has also re-enforced that there remains a limited understanding of the role of the profession. Dubbed the "expectation gap", there exists a discrepancy between what an audit does, and what people think it does, or should do.

In part, trust and confidence has fallen due to this expectation gap, with many stakeholders expecting an infallible audit, with a guarantee as to the absence of fraud and misstatements, irrespective of how immaterial they are.

The independent auditor's role is to render an audit opinion on whether a company's financial statements are presented fairly, in all material respects, in accordance with the financial reporting framework of the jurisdiction in which the company operates. To this end, the auditor must objectively examine the company's financial statements and use his/her professional judgement in reaching a conclusion on the audit opinion. The financial audit is conducted in terms of the International Standards on Auditing and as such the scope of a financial statement audit does not include the uncovering of fraud, unless that is included in the express agreed scope of the audit. A financial statement audit may or may not reveal fraud or misrepresentation of facts. Consequently, fraud might remain concealed to the external auditors even if a thorough financial statement audit is conducted. Therefore, fraud detection falls within the realm of the forensic audit.

The primary difference between a financial statement and a forensic audit lies in the agreed purpose of the audit. While a financial statement audit confirms the validity of a company's financial records, providing investors and creditors with confidence in the financial information, a forensic audit relates directly to an issue defined and agreed by the audit client. This defined and agreed issue may involve employee fraud or a dispute with a vendor or customer. The forensic auditor's report must meet the standards for presentation in court.

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Should auditors uncover fraud in the companies that they audit? 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, particularly in an age of enormous technological transformation.

In the meantime, financial statement users should be educated about the tasks performed by the auditors so that no invalid expectations arise in the first place. Closing the expectation gap requires effort from all involved parties. Management should be held accountable for the effectiveness and reliability of their internal controls, shareholders need to concede the fact that it is not the auditors' responsibility, to uncover fraud and the auditors themselves should conduct their audit within the scope of their agreement with management. Auditors, in their capacity as external independent persons should apply professional skepticism whilst primarily ascertaining whether the financial statements of the company are stated fairly in all material respects.

We recognise that the status quo is unsustainable, and that change is inevitable. We need a new consensus built around the role of the auditor, and the scope and expectations of audit. As Deloitte, it is our priority to find workable solutions to address concerns and to ensure we serve the public interest.

Therefore, we support an independent review of the role and responsibilities of auditors with input from investors, regulators, standard setters, auditors and especially the wider public. Establishing a truly independent review or Commission with input from investors, companies, other key stakeholders and auditors to assess whether audit meets the needs of 21^{st} Century investors and society more broadly and to make recommendations accordingly.