



Summary

# The Future of Audit

Perspectives on how the audit  
could evolve

July 2019

# Introduction

The audit matters, and it needs to evolve. At PwC, we recognise the need for change to respond to the needs of stakeholders and to re-establish trust in the quality of the audit.

There are concerns about the quality of today's audits, and across the profession there have been well-documented cases in which audit quality has fallen short of the standards expected. At PwC, we are working hard to ensure that the quality of our audits continues to improve, and have put in place a substantial programme of measures to support this.

As well as improving the audit today, we are also committed to evolving the audit to better meet the needs of stakeholders. To understand those needs, we sought the views of a wide range of people who have an interest in the audit's future. We gathered the perspectives of investors, business leaders, the public sector and academics — more than 600 people in all — from across the UK. This paper summarises the depth and breadth of ideas we heard about how the audit could evolve, as well as our own thinking about where there are opportunities for change.

We know there are no easy answers and that no single participant can resolve the challenges; it will require many different perspectives and a large number of organisations, institutions and individuals working together to create effective change. Our aim is to contribute to the debate and to work constructively with others to develop a system that we can all be confident in and is trusted.

For those who are interested in exploring in more depth the ideas touched on in this summary, please read the full paper on our website at [www.pwc.co.uk/futureofaudit](http://www.pwc.co.uk/futureofaudit).



**Kevin Ellis**  
Chairman and Senior Partner



**Hemione Hudson**  
Head of Audit

# Convening a debate on the future of audit

Through a programme of large events and small gatherings, in person and online, PwC opened up a discussion with a range of organisations and individuals who have an interest in making the audit fit for the future. From business leaders to investors, members of audit committees to academics, we heard many different views and perspectives on how the audit could evolve.

## Roundtables across the country

We had conversations with more than 150 investors, audit committee members, CEOs, CFOs and academics at our events in Belfast, Birmingham, Edinburgh, London and Manchester.

## Survey of UK businesses and investors

We heard from 175 investors (who all invest in UK businesses) and 198 business leaders through our survey conducted in Spring 2019.

## Conversations with business leaders and investors

We met individually with senior business leaders, investors, and others who are interested in the audit to capture their ideas. These in-depth discussions complemented what we heard in the roundtables and in the survey.

## Open invitation to contribute online

We also created an online forum to ensure that as many people as possible could share their views with us.

## Our framework for debate

How the audit could and should evolve for the future is a complex question, touching on many different issues. Given this complexity, we developed a framework structured around six big topics to open up and guide our many conversations.



### Beyond historical information

Would the audit be more valuable if it provided more information about the risks a company faces?



### A different approach for big and small companies

Should all companies be subject to the same framework for an audit, regardless of their size and type?



### Beyond shareholders

Should the audit evolve to serve a wider range of stakeholders?



### Technology reshaping audit

How can new technologies make the audit more efficient and effective?



### Beyond the financial statements

Could the audit cover the other types of information companies report?



### Driving audit quality

How can the profession work to deliver consistently high quality audits?

# Perspectives from stakeholders of the audit

This is a summary of what we heard from stakeholders throughout our programme of engagement.



## Beyond historical information

Would the audit be more valuable if it provided more information about the risks a company faces?

### Stakeholders tell us they want:

- **A greater focus on the future**, including for the audit to provide assurance about a company's future prospects.
- **Clearer signaling of risk** in the annual report and, in turn, in the audit report.
- **A stronger going concern assessment**, which goes further and is reviewed more frequently by a company and its auditor.
- **A stronger viability statement** from a company that explicitly sets out its appetite for risk, and for the statement to be within the scope of the audit.
- **Greater transparency through the auditor's report** by providing the auditor's view of a company's prospects and the risks it faces, and how well-equipped the company is at managing them.

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An audit is by its nature a review of the past. But investors don't care about the past, they care about the future.

**Asset manager,  
survey respondent**



## Beyond shareholders

Should the audit evolve to serve a wider range of stakeholders?

### Stakeholders see a need for:

- **Simpler, more accessible corporate information** that is tailored to meet the interests of different stakeholders.
- **Seeking a better understanding of the needs of a wider stakeholder community** which could help ensure corporate reporting conveys the information stakeholders need to understand the business' performance and prospects.

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Audit has societal purpose and is no longer just about shareholders, but broader stakeholders.

**Academic, Edinburgh  
roundtable**



## Beyond the financial statements

Could the audit cover the other types of information companies report?

### Among stakeholders there is:

- **A divergence in views about auditing non-financial information** given concerns that this information may not be sufficiently robust to be audited, compared with the core financial information.
- **An appetite for financial information reported outside the financial statements to be included in the audit**, particularly from investors who frequently use such information as a basis for their decisions.
- **A desire for the information that is audited to be customisable** so that the scope of the audit may be tailored to the needs of the company and its stakeholders.

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Non-financial information is a very important part of the reporting cycle. But we wouldn't necessarily believe that extending the audit to cover that information is the most important next step.

**CFO, London  
roundtable**



## A different approach for big and small companies

Should all companies be subject to the same framework for an audit, regardless of their size and type?

**Stakeholders want the scope of the audit to be more flexible, and in particular to:**

- **Recognise the needs of smaller businesses** because a single audit framework is considered too rigid to meet their stakeholders' requirements.
- **Look at whether to audit smaller privately-owned companies at all** given that their shareholders are often directors of the company and have access to all the information they need about the business.
- **Bring greater scrutiny for companies with the greatest societal footprints** because of the potential harm that could be caused by their collapse.

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The more we expand the audit, the less likely it is that one size will fit all.

**Audit committee chair, London roundtable**



## Technology reshaping audit

How can new technologies make the audit more efficient and effective?

**Among stakeholders there is:**

- **Optimism about the potential impact of technology** to increase the efficiency and quality of audits.
- **Caution about the limits of technology** because it cannot provide auditors with everything they need to know about the company and its management.
- **A belief in the continuing value of human judgement** since, regardless of how big a role technology plays in the audit process, there will always be a role for the experience of human auditors.

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Technology clearly has a role to play—but you can't replace the human being walking around the finance department and standing tall with the CFO.

**CFO, Manchester roundtable**



## Driving audit quality

How can the profession work to deliver consistently high quality audits?

**Stakeholders have:**

- **Differences in opinion about whether today's audit is 'broken'** with some, particularly investors, feeling it is not providing the assurance they need, but others thinking that 'broken' is too strong a term.
- **Questions about how to define quality**, with no consensus on a description of audit quality, but an agreement that the skills and experience of audit teams are critical.
- **A desire for a culture of challenge in audit teams** to ensure that auditors are consistently able to scrutinise companies effectively.
- **Demands for the audit to better communicate the risks of fraud**, with ideas ranging from more extensive measures to detect fraud to requiring companies to report on internal controls in respect of fraud.
- **A request to increase the responsibilities of company directors** so they are sufficiently accountable for the accuracy of the financial information published by the company.

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As investors, we are looking for judgement. We are looking for someone skeptical, willing to challenge—but we feel the 'beige-ness' has taken over.

**Investor, London roundtable**

# PwC's perspective

This is our perspective on the key themes emerging from our discussions that we see as opportunities for change.

## What we heard

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For the audit to move forward, the entire corporate reporting system needs to evolve

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The audit should provide more clarity and insight into the company's potential risks and future prospects

## Opportunities for change



- **Strengthen the clarity and relevance of corporate reporting** to ensure the entire corporate reporting 'ecosystem' is as effective as possible.
- **Enhance the reporting and auditing of a company's internal controls** by requiring an attestation, from directors, of the design and effectiveness of a company's internal controls, and a corresponding attestation on internal control from the auditor for larger companies.
- **Develop better engagement between the audit profession, company management, shareholders and other stakeholders**, such as through a new annual assurance meeting or the introduction of an Assurance Map.



- **Create a single, coherent piece of company reporting that provides more insight into the future prospects of the company—including the scenarios in which the business model could fail**, giving stakeholders a clearer picture of the risks that could lead to failure, so they can make informed decisions.
- **Provide more insight about the material uncertainties facing a company** by considering whether, market-wide, auditors should include a key audit matter on going concern in public interest audit reports.
- **Consider the need to provide assurance over other forms of risk** for which stakeholders may be seeking independent assurance, potentially as part of an Assurance Map exercise.

### A new approach: Creating an Assurance Map

The statutory audit is just one way to provide assurance over the many financial risks facing a company. A way to make sure all sources of assurance over a company's principal risks, whether financial or not, are considered would be to make it an explicit responsibility for the audit committee to determine the level and type of assurance needed by their company's stakeholders, and to present it to them and discuss it at the beginning of the reporting cycle. Creating this Assurance Map would prompt a constructive discussion at the top of the business about the needs of their stakeholders and would make it possible to get assurance over the areas that are important to those stakeholders.





## What we heard

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There should be greater assurance beyond the financial statements

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The audit needs to recognise companies' different sizes and types

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Continued investment in technology will enable a better audit

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Auditors must deliver consistently high quality audits

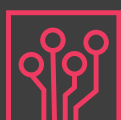
## Opportunities for change



- **Reporting and assurance need to expand to cover critical performance measures** that stakeholders use in their decision making, such as non-GAAP financial performance measures.



- **Provide additional assurance over the companies that need it, without expanding the statutory audit for all** and potentially overburdening smaller businesses.



- **Continue to develop and roll out new technologies to improve the effectiveness of audits**, focusing on using technology to improve quality, efficiency and auditor insight.



- **Increase investment in the training, technology and people required to conduct consistently high quality audits** through a long-term commitment by audit firms.
- **Strengthen the culture of challenge** in audit teams to ensure consistently effective scrutiny of companies.
- **Continue to reflect on how auditors can better tackle the risk of fraud**, including considering use of fraud diagnostic surveys and involvement of forensic specialists at the planning stage.

### Strengthening PwC's focus on audit quality

We are committed to continually improving and strengthening audit quality and that is why we have introduced measures to ensure we deliver consistently high quality audits that meet the needs of investors, companies and society. Our plan has three areas of focus: (1) investing in training, people and technology, (2) further aligning the audit business behind audit quality and (3) reinforcing a focus on culture and quality control.



## A new approach: Creating an Assurance Map

The statutory audit is just one source of assurance over the many different risks facing a company. Because the types of risks facing a business—as well as the level of assurance each company’s stakeholders want about those risks—vary so widely, there is a need for a more flexible regime.

One way of obtaining assurance over those different risks would be to make it an explicit responsibility for the audit committee to determine the level and type of assurance needed by their company’s stakeholders. Creating this Assurance Map would prompt a constructive discussion at the top of the business about the needs of their stakeholders. This would involve identifying:

- the principal risks faced by the company
- the controls in place to mitigate those risks
- the key performance indicators relevant to the company (which could be financial or non-financial)
- the information and results needed by users to assess risks, related controls and key performance indicators
- the assurance available, including who provides the assurance and how often.

The statutory audit would form one part of the Assurance Map, providing a level of assurance over a company’s financial statements. It would then be possible for the audit committee to commission additional assurance, but not as part of the statutory audit, over the other areas that are important to stakeholders.

The various sources of assurance available to meet the needs of stakeholders could be made more visible by requiring a company to publish its Assurance Map at the beginning of the audit cycle. This would give an opportunity for stakeholders to comment on and, if necessary, challenge the areas for which they want more or less assurance. This means that the range and type of assurance over each company would be tailored depending on the needs of its stakeholders. And as stakeholders’ expectations change over time, the assurance sought could be altered to best meet their needs. The approach would also ensure that there is clarity over the boundaries of the statutory audit and the external auditor’s liability and duty of care in delivering that work.



# Strengthening PwC's focus on audit quality

We are committed to continually improving and strengthening audit quality and that is why we have introduced measures to ensure we deliver consistently high quality audits that meet the needs of investors, companies and society.

Our plan has three areas of focus:

## 1 Investing in training, people and technology

Investing an additional £30 million annually, targeted on training, people and technology initiatives

Doubling the face-to-face training programme for all our experienced auditors

Creating a new national 'digital audit team' focused on the development and roll-out of innovative technologies that will drive audit quality

Hiring over 500 additional experienced auditors across the UK

## 2 Further aligning the audit business behind audit quality

Creating a practice with a focus on external audit and strengthening its governance with our Independent Non-Executives

Undertaking a comprehensive review of the entities that we audit to ensure we achieve a return that allows continual investment in and focus on quality

## 3 Reinforcing a focus on culture and quality control

Increasing by two-thirds the number of specialists in our audit quality control team to enable them to conduct real-time reviews of ongoing audits

Commissioning an independent paper from Karthik Ramanna, Professor of Business & Public Policy at the University of Oxford's Blavatnik School of Government, on what a culture of challenge means for auditors in 2019. This will help inform our training and policies within the audit practice

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