

The overseer

As Chair of the International Forum of Independent Audit Regulators, Brian Hunt has the ultimate responsibility for oversight of global audits. *Helen Burnett-Nichols* talks to him about the challenge of improving audit quality and how the audit of the future will differ from today's.



View video interview
go.ey.com/Huntvideo

Sitting in his office in downtown Toronto, reflecting on his nine years as CEO of the Canadian Public Accountability Board (CPAB), Brian Hunt says he has watched audit oversight evolve from simply inspecting files to a system of robust risk assessment and stakeholder engagement – an evolution he calls an “exceptional” achievement.

But while his time at CPAB came to a close in February 2018, Hunt still has formidable goals to achieve when it comes to improving audit quality on the global stage. Having begun a two-year term as the Chair of the International Forum of Independent Audit Regulators (IFIAR) in April 2017, Hunt has overseen an eventful year for the organization.

Although IFIAR was established in 2006, it had never had a permanent base before. It wasn't until 2013 that a decision was taken to examine the feasibility of establishing a permanent secretariat, which finally opened in 2017 in Tokyo. The Japanese capital was chosen partly because it can serve as a gateway to many non-IFIAR member jurisdictions. Most current IFIAR members are from Europe, but locating the secretariat in Tokyo makes

it easier to expand to the African and Asia-Oceania regions as well.

The secretariat initially comprises five full-time staff, including Executive Director Carl Renner, who are coordinating efforts to improve audit quality worldwide.

In 2015, IFIAR's Global Audit Quality (GAQ) Working Group set a target to achieve a 25% reduction in the rate of findings by the global network firms (the Big Six) by 2019. Hunt spoke to *Reporting* about progress toward that goal, giving an insight into IFIAR's thinking on the next target beyond 2019, how the Big Six can continue to improve their performance, and what is realistically achievable and by when. He also talked about the role of auditors beyond the financial statement, the ongoing effort to improve audit quality worldwide and the changing nature of the industry.

Q: ARE THE BIG SIX GOING TO REACH THE TARGET IFIAR SET THEM?

A: They're about 1% away from achieving the 25% reduction, which is focused on the GAQ Working Group members. We think that's very positive and we're pleased with that progress at this point. I think the target will be achieved. They've got two more years.

Now we need to focus on the next target. The 25% reduction target has made the firms focus on the drive to reduce deficiencies.

However, even if they meet that target, that will still mean one in three audits has a significant deficiency, and that's really not acceptable. So IFIAR will start a dialogue with the firms over the next few months as to what the target should be beyond 2019. The discussion will need to include the broader IFIAR membership going forward.

Q: WHAT SHOULD THEY BE FOCUSING ON SPECIFICALLY IN ORDER TO IMPROVE AUDIT QUALITY AND REDUCE THE NUMBER OF DEFICIENT AUDITS?

A: The question that the firms need to answer is: how do they execute a quality audit on a consistent basis across their entire portfolio?

I think they need to focus on the processes they have in place around quality control, the things they're doing when the audit is ongoing. How do they identify deficiencies and make sure they've got the right people in the right place doing the right things to achieve consistency of execution in the audit every time, not just periodically?

Q: YOU'VE STATED THAT THE BIG SIX SHOULD ULTIMATELY TARGET ZERO DEFICIENCIES AND THAT THE AIM SHOULD BE AN OVERALL PERCENTAGE OF DEFICIENCIES IN THE SINGLE DIGITS. HOW LONG WILL IT TAKE TO ACHIEVE THIS?

A: I sometimes refer to the airline industry in this regard: we wouldn't get on a plane if the airline said it had a 10% deficiency rate, i.e., one in ten aircraft was going to take off but not land.

So in my view, the firms should have a focus on zero deficiencies. How do you get there? We understand that the audit is a very dynamic process. There are a lot of moving parts: how do you make sure those parts are all moving in the right direction? We know that the client is sometimes late delivering material, and that people change – they may leave the firm, they may be sick, or they may have to switch assignments.

So how do the firms make sure that, with all those things going on, they can deliver a consistently high-quality audit? They need to put processes in place that identify these issues and address them before they become a problem in the final audit, or in the inspection we carry out. To assess audit quality, we

BRIAN HUNT: CV IN BRIEF

- ▶ Bachelor of Commerce Degree from the University of Windsor in Ontario, Canada, and subsequently Chartered Accountant designation
- ▶ Group Controller at Magna International, 1978-80
- ▶ Vice-President of Sales and Client Services of PHH's US operation, 1985-89, and President of PHH Canada, 1989-95
- ▶ President of Canada's largest membership organization, the Canadian Automobile Association, 1995-2001
- ▶ President and CEO of the Institute of Chartered Accountants of Ontario (ICAO), 2001-09
- ▶ Elected a fellow of the ICAO in 2000 and member of its 2000/01 Governing Council. Awarded Life Membership in 2009
- ▶ Appointed CEO of CPAB in January 2009. Also a founding director of the organization
- ▶ Member of Canada's Institute of Corporate Directors; ICD.D designation in 2012
- ▶ Became Chair of IFIAR's first elected board in April 2017
- ▶ Current member of the School of Accounting & Finance Advisory Council at Ryerson University in Toronto





“The Big Six are about 1% away from achieving the 25% reduction. Now we need to focus on the next target.”

need to consider the number of deficiencies as well as the firm’s quality processes.

I think it would be unrealistic to suggest that, beyond 2019, we’re going to get the percentage of deficiencies down to the single digits in, say, a four-year period, but getting into the mid-teens could be doable. Any new target will have to be discussed and agreed by the GAQ working group.

You’ve got to take into account that these are very large firms. They carry out multiple audits globally with a number of affiliates, so making these changes is not insignificant. But they need to start working on it so that we can get into that single-digit territory over the next five or six years.

Q: THE RECENT CPAB AUDIT QUALITY SYMPOSIUM SUGGESTED THAT AUDITORS SHOULD PROVIDE OVERSIGHT OR ASSURANCE OVER INFORMATION BEYOND THE FINANCIAL STATEMENT. HOW FAR COULD THAT MOVEMENT GO?

A: The audit is definitely the foundation, and there are certain things that you should be doing. The challenge is to be relevant going forward. Maybe we need to look at things slightly differently by industry.

If we look at oil and gas, for example: what drives the value of a company in that sector? It’s their cost to extract the product, the price of oil, the reserves – things of that nature. That’s very

different from a financial institution, for example. I would suggest that we probably need to think about what is foundational, and then about what may change by industry.

Q: IN 2016, CPAB LAUNCHED A PILOT PROJECT ON AUDIT QUALITY INDICATORS (AQIS). HOW IMPORTANT ARE THEY AND SHOULD AUDIT FIRMS, AUDIT COMMITTEES, REGULATORS AND COMPANIES BE USING THESE TYPES OF QUANTITATIVE MEASURES MORE?

A: If you want to have an effective audit, in my view, you have to have an effective auditor, effective management and an effective audit committee. One of the things we did with AQIs was to run a pilot with a number of reporting issuers and public companies, involving the audit committee, the auditor and the CFO. We asked them to select 5 to 10 indicators that they would track, and we asked that half of those would be related to risks, so that when you prepare the audit, you determine what the key risks are for this audit.

We’ve been pleasantly surprised by the interaction among the CFO, the audit committee and the auditors. It’s driven a lot of information which, we think, is enhancing what audit committees do. It’s bringing the preparers into the equation and working with the auditors to make them more effective.

Brian Hunt on ...

... how business has changed during his career

When I started, you had Canadian companies and you had American subsidiaries here. Now you have global companies; companies in Canada doing business in Asia, in Europe, in the Americas, in Africa. You need to have a different setup to do that, and that's a bigger challenge for the firms.

... why the audit needs to adapt to changing circumstances

The audits we do today were really created in the 1930s, when we had the Depression and an economic crisis. So people wanted assurance around numbers; they wanted to build integrity into business. But they didn't have the tech giants we have now, and they didn't have the internet, with access to instant information. The challenge for the audit is to be relevant.

... why businesses need to focus on long-term value

All reporting is based on quarters and that has a negative effect on management, audit committees, boards of directors, everyone. They're trying to

make that target number, and they don't want to show a loss or to see their earnings per share come down substantially. I think that drives some behavior that's probably not appropriate.

... how IFIAR can work better with standard setters

We need to be more proactive in terms of assisting the standard setters: are we identifying issues with standards where, if you were to change the language, you'd get a higher-quality audit and be clearer to the people who are implementing that standard what is required?

... why standards risk becoming out of date

I do worry whether standards are keeping up with the pace of change. Are we spending enough time researching how technology is going to impact on the standards? If I look at the expanded audit report, it's taken four to five years to draft the standard and to get it out, and it's still not implemented in many countries. We need to think about this, and we have to be able to move a little bit quicker and more strategically.

Q: WHAT ARE THE BENEFITS OF IFIAR'S NEW SECRETARIAT?

A: In the past, the chair and the vice chair would provide the secretariat, so you would lose that corporate memory. But I think it's more important than that. The secretariat, and the board, will drive a strategic plan for IFIAR. We've never had that before.

We'll drive an operating plan that achieves the strategic plan, and we'll tie the working group initiatives back to that plan. But, importantly, I also want to see the secretariat reach out to members and help them build their capabilities so that we can share a lot of information.

The key question is: how do we enhance our members' capabilities? That means anything from sharing our inspection methodologies to short-term secondments – that's one of the things we're suggesting, to help regulators who are just starting out or who may have a special need to spend a two- or three-week period somewhere.

The secretariat is key to moving this forward. I'm quite excited about 2018, and into 2019 I think we'll see some significant improvements in terms of how we add value to our membership.

Q: HOW DO YOU SEE THE EVOLUTION OF TECHNOLOGICAL CAPABILITIES CHANGING THE ROLE OF THE AUDITOR?

A: Where technology is going, I think it'll produce a better audit. We'll have more consistency. But one

of the things I am concerned about is that you've got to have the ability to extract the right data, because if you don't, doing all these manipulations is problematic.

The other thing we've seen is that substantive analytics is a great tool for audit. It's been well designed by the firms, who have spent significant dollars on developing that technology.

The problem is implementation. I worry that, with big data and data analytics, they have a major challenge as to how they train their people and how they're going to implement that effectively.

Q: HOW ARE THE BIG SIX LIKELY TO OVERCOME THAT CHALLENGE?

A: The makeup of the audit team will have to change; it will have to include people with a mathematical background who understand the algorithms needed to extract the data. Your auditor is going to have to have more IT experience than they do today, so firms will need to build the capabilities of their staff slightly differently.

All things considered, I suspect that an audit team in five years' time will look very different from an audit team today. ■

March 2018

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

About Reporting

Reporting, EY Assurance's insights hub, brings together insights and ideas that will interest, inform and inspire business leaders. It's about more than the numbers, examining reporting in its broadest sense.

Our content is available [online](#) and [in print](#), and is tailored for board members, audit committee chairs and finance directors of global companies. For more information, visit ey.com/reporting.

© 2018 EYGM Limited.
All Rights Reserved.
EYG no: 00999-182GBL
ED 0319

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

The views of third parties set out in this publication are not necessarily the views of the global EY organization or its member firms. Moreover, they should be seen in the context of the time they were made.

ey.com