



How auditors improve trust in the capital markets

Julie Bell Lindsay, Executive Director of the Center for Audit Quality, on the key issues facing the audit profession during COVID-19 and beyond.

This is a pivotal time for the auditors tasked with scrutinizing public company financial data. The COVID-19 pandemic has posed unprecedented challenges at a time when businesses, regulators, investors and other capital markets stakeholders are already asking more of them than ever before. The profession has also been fundamentally transformed by new technologies that can automate many of the tasks auditors have traditionally performed, and that give them access to powerful data analysis tools. Meanwhile, they face increasing demands for assurance on nonfinancial matters that have not previously been part of their remit.

As its name suggests, the Center for Audit Quality (CAQ) is dedicated to confronting and advancing these issues in close coordination with the public company auditing profession. An autonomous, nonpartisan and nonprofit public policy advocacy organization based in Washington, DC, the CAQ works with audit firms, audit committees, issuers and standard setters to help ensure that auditors meet the expectations of their stakeholders, and that the necessary

standards and policies are in place to enable them to perform their vital public role.

"I often comment that the auditing profession has a greater positive impact on the capital markets system than many people realize," says Julie Bell Lindsay, who became Executive Director of the CAQ in May 2019. "But if you think about it, a key reason why the capital markets are as efficient as they are today is that investors and other stakeholders can trust the information released by public companies."

In a wide-ranging interview, Lindsay shared her views on issues including the response of the audit profession to COVID-19, the increased use of audit quality indicators (AQIs) and the role of technology in shaping the audit – and the auditor – of the future.

Q. How is the auditing profession responding to COVID-19 while maintaining audit quality?

A. As a side effect of the COVID-19 health crisis, we're also facing the worst economic crisis in decades. For our part, the auditing profession plays an important role in the capital markets system that provides an essential component of our national response to, and recovery from, the pandemic.

As with nearly all professions, auditors face significant challenges and uncertainties that are making their jobs more difficult during this crisis. However, auditors are well suited to operate in a virtual environment. As this crisis continues, I have confidence that they will continue to adapt and find ways to operate that enable them to maintain their high standards of audit quality.

As audit firms adapt to the challenging conditions presented by COVID-19, they are also stepping up with additional commitments to address the crisis. Several firms have made financial pledges, taken steps to mitigate layoffs and developed resources for people and businesses to navigate the crisis.

As the crisis continues to evolve, I know our profession will continue to focus on the safety and wellbeing of people and on ensuring appropriate actions are taken to maintain the stability and strength of the capital markets.

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Q: You mentioned a virtual environment: how is technology helping auditors during the COVID-19 crisis?

A. The pandemic has really highlighted how the profession is using technology. First, because audit firms were already largely working in a remote, digital environment – particularly those with multinational clients working remotely across regions, which necessitates data sharing and engaging virtually in other ways. Now you have company staff, regulators and other members of the financial reporting supply chain all working remotely at the same time. Auditors have adapted to this virtual environment quite quickly without compromising audit quality.

Second, technology has also enabled firms to adapt to difficulties encountered as a result of COVID-19. One area is the reliance on technology to conduct inventory observations that may have previously been done in person. I recently learned of the example of firms leveraging GPS-enabled smartphones to share a video feed and the location data of an inventory observation. But even with a video feed, auditors will need to identify additional

ways to verify that the inventory is what it appears to be, where it appears to be. It's pretty amazing how auditors can adapt, because people in the profession are inherently creative and skeptical.

Q. How can technology improve audit quality more broadly?

A. The developments in technology in the audit profession are revolutionary. In the short time I've been in this role, I've been amazed at how firms are using technology in ways that I don't think a lot of people realize.

A perfect example of that here in the US was the implementation of the new lease accounting standard for public companies. Historically, the auditor would just sample a subset of a company's leases. But with machine learning and other technological capabilities, they can now review all of them – and for some large companies, you're talking tens of thousands of leases.

Having that automated capability is enabling the auditor to focus on other important responsibilities, such as valuations and issue spotting. It also allows them to have more strategic and risk management discussions with the audit committee, which is important. They can focus on the more high-risk, subjective areas that can lead to problems.

I've heard some people insinuate that technology is going to replace the auditor. My answer to that is: no, it won't. Technology cannot replace the human elements of being an auditor. What I do think you can have is an exciting collaboration of technology and the human auditor, combining the benefits of both. Ultimately, that's going to lead to the highest quality of audits.

Q. What are auditors doing well, and what could they do better to improve trust and confidence in the capital markets?

A. A key reason why the capital markets are efficient and function the way they do is because investors and other stakeholders can trust the information released by public companies. Why is that? It's because the auditor has provided independent assurance on the accuracy of that information.

Eighty-three percent of respondents to our 2019 *Main Street Investor Survey* said they viewed the auditor as enhancing trust and confidence in the system, up from 81% the previous year. These are really strong numbers. But we also believe there's a role for the auditor to expand on this good foundation, with the help of technology.

Q. What impact do you think the proposed new International Standard on Quality Management (ISQM 1) will have on audit quality?

A. The CAQ is very supportive of ISQM 1. One of the main reasons is that it's principles-based. The standard doesn't prescribe the risk to audit quality. Rather, it allows the firms to identify the risk to audit quality from their perspective. More importantly, they are required to devise and implement

responses that will address those quality risks. The firms are also required to annually evaluate their system of quality management and control.

It's very important to have consistent and aligned standards because, to the extent that you have unnecessary requirements, it could actually detract from audit quality. So encouraging a collaborative and communicative environment across the standard setters around the world is key.

Q. How does the multidisciplinary method adopted by audit firms impact audit quality?

A. We believe it's a significant contributor to audit quality. Global businesses are becoming much more complex, so it's more important than ever for companies to have the benefit of the breadth and the depth of auditing firms' subject matter expertise. That's what the multidisciplinary model provides.

During 2019, the Public Company Accounting Oversight Board released amendments to its standards regarding auditors' retention of specialists. They referenced a study they had done in which 60% of companies felt it was useful for the quality of the audit to engage a specialist to challenge management's views of fair value measurement.

With the advent of artificial intelligence, blockchain and other technologies, we only see this trend continuing. So we feel very strongly that the multidisciplinary model – with all the protections around independence between audit and non-audit services – is a win for the capital markets, public companies and investors.

Q. How important are AQIs, and should they be used more by audit firms, audit committees, regulators and companies?

A. The use of AQIs is very important, but it's a complex issue. Beginning several years ago, we reviewed the use of AQIs in conjunction with audit

committee members and regulators, as well as a range of other stakeholders. In 2014, we published an approach to the use of AQIs and then proceeded to test that approach on 30 audit engagements.

In the course of that work, we learned four things. First, one size does not fit all. Audit committee members universally desired that the approach to AQIs should be flexible. The types of AQIs and the number of them need to be tailored to the particular company, to the audit firm and to the engagement.

Second, quantitative metrics are not the end of the story. One example is the total number, or the total percentage, of audit hours spent by a specialist on the audit team (a tax or evaluation

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specialist, say) vis-à-vis the total for the entire audit engagement. Those numbers are important, but equally important is the audit committee's desire for information to enable it to gauge and monitor the qualitative nature of audit quality, and that's a bit harder. It's more subjective. How are the engagement team communicating among themselves? How are their project management skills? Are they bringing the appropriate mindset to the engagement?

Third, context matters. You can't have a discussion about audit quality by focusing solely on AQIs. It's



Viewpoint: Harnessing the power of diverse perspectives to serve the public interest

Kelly Grier, Ernst & Young LLP Chair and Managing Partner and Americas Managing Partner, and Chair of the Governing Board of the CAQ

The CAQ is in a unique position to shape the future of the audit profession. We're able to bring together voices from across the financial reporting ecosystem – investors, board members, auditors, standard setters, regulators and academics – for dialogue about the ways in which we collectively contribute to trust and confidence in the capital markets.

As the leader of Ernst & Young LLP, having this forum is extremely valuable. First, because

it elevates the importance of audit quality as a business and societal imperative, which is critical as we engage with audit committees and boards. And second, because it enables us to see issues from multiple perspectives, which enhances our understanding as we develop our priorities.

As the profession addresses the depth and breadth of accounting and financial oversight issues resulting from the COVID-19 crisis, the CAQ is a source of insight for the profession and all our stakeholders. Even in these challenging times, it continues to be a catalyst for extending the value we bring as audit professionals to the broad spectrum of reporting, and for finding new and exciting ways to broaden and deepen the skills of our people.

just one piece of the overall puzzle that you should be looking at when you're assessing audit quality.

Finally, working with AQIs is an iterative process. Audit committee members don't want to come up with one framework and never look back. It needs to be updated from time to time.

Q. How do you see the audit profession evolving?

A. You're starting to see the future of the profession take shape. While the markets certainly rely on audited financial information, it's undeniable that they are also getting a lot more company-reported information than they have in the past, including indicators of value outside of the audited financial statements.

You're also seeing nonfinancial measures being reported, such as environmental, social and governance data, diversity-related information and intangible indicators such as a company's brand, reputation and intellectual property. And then, of course, there is cybersecurity risk management and other enterprise risk issues that companies are facing.

Public companies are reporting all this information, but it's important to note that it is not independently assured as the financial statements are. We see the auditing profession as playing – or potentially playing – a role in providing independent assurance on that information to enhance its reliability.

We believe this evolution is critical and good for the capital markets, for public companies, for employees, for investors and for other stakeholders.

Q. What steps is the CAQ taking to help the profession attract the auditors of the future?

A. We partner with our member firms and we are always highlighting the attractiveness of the profession. By that, I mean the role the auditor plays in our capital markets overall, doing away with the notion that auditors are folks that sit in a room, not talking to anybody else and just checking numbers. That's not where the profession is and it's certainly not where the profession is going. We've recently embarked on some innovative steps to educate young people on what it means to be an auditor.

For one, we've partnered with an organization called Roadtrip Nation. It's a multimedia company based here in the US that focuses on younger individuals and tries to answer that daunting question: "What do you want to do with your life?" We've developed a documentary with them on life as an auditor that is due to premiere in June.

We've also built a portal with Roadtrip Nation called Share Your Road. Current professionals can go there and share their own experience as an auditor: how they got to where they are, what pitfalls exist and what advice they'd give to the younger generation. It's a great way for younger folks to see if auditing could be a career for them. ■

June 2020



**Julie Bell Lindsay:
resumé in brief**

- ▶ Graduates from The Ohio State University in 1993 with a BA in political science
- ▶ Receives her Juris Doctor degree from Vanderbilt School of Law in 1996
- ▶ Associate at law firm Wilson Sonsini Goodrich & Rosati in Palo Alto, California, 1996-2002
- ▶ Counsel to Commissioner Cynthia Glassman at the US Securities and Exchange Commission, 2002-05
- ▶ Counsel at law firm Hogan Lovells in Washington, DC, 2006-09
- ▶ Joins Citigroup in February 2009 as General Counsel of Capital Markets and Corporate Reporting
- ▶ Promoted to Managing Director and Deputy Head of Global Regulatory Affairs at Citigroup, February 2017
- ▶ Becomes Executive Director of the Center for Audit Quality in May 2019
- ▶ Also currently serves as President of the Board of Directors of the Association of Securities and Exchange Commission Alumni; as a Member of the Board of Directors of the Foundation for the National Institutes of Health; and as a Member of the Advisory Board of the Department of Political Science at The Ohio State University.

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