



The future of audit: market view

Myths, realities and ways forward

mazars



Contents

02	Foreword
04	Introduction and methodology
06	Chapter 1: Standout findings
14	Chapter 2: Audit myths and realities
18	The primary objective of audit is fraud detection
22	The future of audit is robotic
26	Auditors should stick to traditional financials
30	Companies don't want joint audit
32	Chapter 3: Key audit questions for policymakers and regulators
36	Support for an evolution of the profession
37	Joint audit
38	Scope of services
39	People and technology in audit
40	Chapter 4: Focus on...
42	Europe and audit reform
44	PIEs and large companies on audit
46	Future direction of audit
48	Appendix: Questions from the survey

Financial audit is the foundation on which trust and integrity are built into financial markets around the world. However, the profession faces a decisive moment and the public interest is at stake.

Expectations are shifting; technology is changing the role of auditors and creating new opportunities; the case for audit reform in Europe – and elsewhere – is growing, spurred on by the need to create a healthier, more competitive market; and a series of headline-making corporate failures have raised questions about the exact role and objectives of audit.

At Mazars, audit is, and always has been, at the heart of what we do. We know that financial transparency shapes fairer, more prosperous economies, and that auditors have a crucial role to play in achieving that clarity. That's why we are committed to finding ways to strengthen and to help rethink our profession. Working with other stakeholders, it is our collective responsibility to help the market improve the relevance and quality of audit. The public interest is at stake.

This led us to commission an independent research firm to conduct a survey of 500 audit decision makers around the world in late 2020, seeking to better understand the needs and the mindsets regarding audit and auditors. By asking the market for expectations about audit and the professionals who deliver it, the value they get from an audit, and how the service and market can evolve, we gain a detailed and more nuanced picture of the reality of today's audit market.

The survey sheds new light on four market 'myths'. The first, that fraud detection and tackling corruption is not seen as the main objective of an audit, but rather: gaining objectivity, confidence and improving performance. The second, that while technological innovation is a key value driver, people skills – including soft skills such as listening, business knowledge and critical thinking – remain essential qualities when it comes to delivery. Third, we find the market welcomes audit services covering a wider, not narrower, range of topics. Finally, we discover clear

appetite for reform and that joint audit is far better understood and supported than often assumed.

In addition to helping debunk four myths about audit, the survey also provides insight on how to improve the service for all involved. Found on page 32, we address key questions to policymakers and regulators on the future scope, mission and value of audit, with the aim of shaping a collective debate between public and private sector leaders on how to achieve major service improvements. These policy considerations focus on audit quality enhancement, the use of technology and the potential for broader assurance services in the near future.

As expected, the survey and its findings underline the complexity inherent in plotting the right future for audit. However, by gauging the appetite and ambition of audit decision makers, we hope the survey and this report, which includes insight and recommendations, help create a conversation that takes in the big picture and moves the debate forward.

We are inviting the market – regulators, policymakers, other audit professionals and businesses – to reconsider audit expectations and realities. And, together, we can explore a course of action for audit reform that addresses the current tensions and meets contemporary needs, while evolving audit for its future applications and purpose.



Hervé Hélias
CEO and Chairman,
Mazars Group



In September 2020 Mazars commissioned Edelman Intelligence to conduct a double-blind survey (Mazars' name was not revealed) to identify the perceptions and needs of businesses (including public interest entities) and representatives from audit committees regarding audit and their current statutory auditor.

The survey findings allow better understanding of expectations concerning auditing services today. They provide objective insight into companies' expectations towards audit and auditors, and help shape recommendations on the evolution of audit and the benefits this evolution could generate.

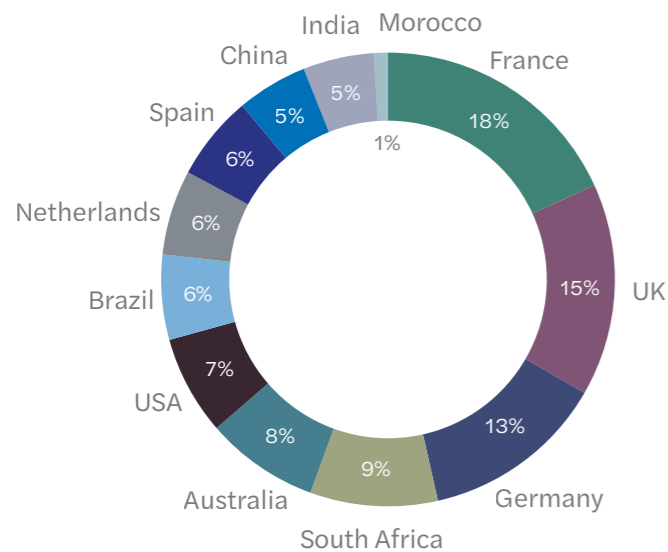
This report's chapters include: **standout findings**, underlining key facts and figures that came out of the survey; **myths and realities**, which contrasts four commonly-held assumptions about audit with

the realities presented by the findings; **questions for policymakers**, which have been drawn out of the findings in order to question how policy progress can be made for the benefit of all audit stakeholders; and finally, the **'focus on...'** chapter, which breaks down some of the findings according to certain geographies and respondent profiles. Countries were broadly consistent in their answers, with very few outliers for any of the survey questions.

Methodology

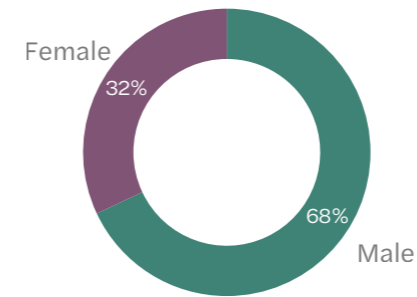
The quantitative survey had a sample of 501 respondents, with nearly half of respondents based in Europe and 42% from public interest entities. All respondents were in strategic positions (CFOs, CEOs, or members of audit committees) at organisations headquartered in one of the following 12 countries.

Survey respondents: location of organisation headquarters

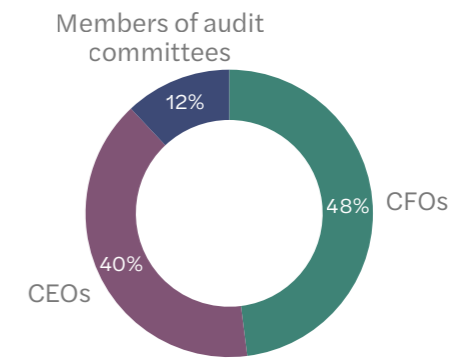


211
respondents identified as PIEs
(all from Europe)

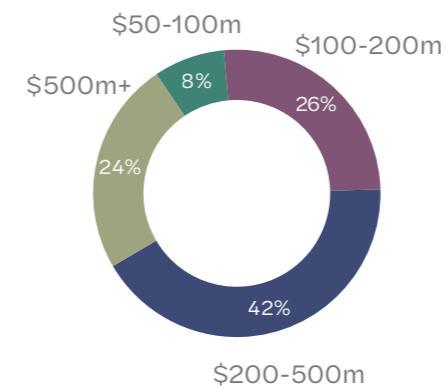
Gender



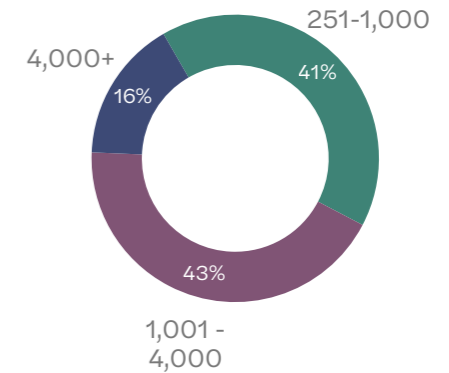
Role



Size of organisation (USD)



Number of employees



Chapter 1 Standout findings

With 501 responses from 12 countries, this survey sheds critical light on what respondents expect from audit. This section highlights six 'standout findings', including: the perceived mission of auditors and the expected benefits of a company audit; the value of technology to the auditing process; the most critical skills auditors are expected to bring; how broader audit services would be welcome; and, last but not least, the attitudes and appetites towards rotation, audit reform, and joint audit.





Standout findings Finding 1

Objectivity, confidence and performance improvement are the primary goals of an audit

61% vs 34%

Business expectations towards audit: objectivity, confidence and performance improvement top the list.

Asked what an audit will provide them with, business leaders expect an audit to deliver increased stakeholder confidence and support that drives future performance.

The top two responses – after ‘providing an objective opinion on financial statements’ – are:

- Provide ‘assurance and confidence for the benefit of investors, stakeholders and regulators’ (61%).
- Support ‘performance improvement’ (52%).

Just over a third of respondents say an audit will provide them with fraud prevention:

- Detection and prevention of fraud (34%).

Standout findings Finding 2

Technology matters: it empowers auditors, it does not replace them

96%

The use of technology is overwhelmingly welcome in the audit process.

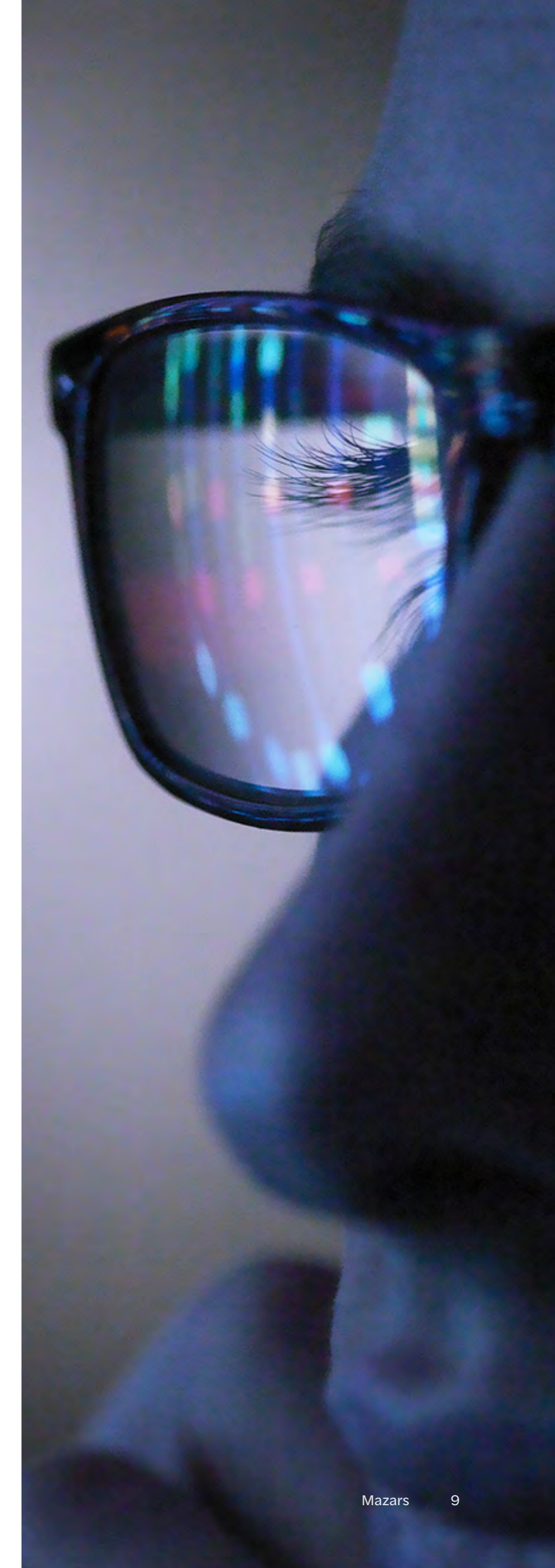
96% of all respondents are in favour of using new audit technologies.

The most cited benefits of new technology are:

1. Save time (93%).
2. Enable the auditor to focus on more added-value tasks (92%).
3. Give auditors more time to analyse and challenge the data (92%).

Besides technology, business knowledge and auditors’ skills are decisive criteria for selecting auditors.

According to the survey, business knowledge, the ability to understand the company and work with its teams, and stability and consistently delivering quality work are the other key selection criteria.





Standout findings Finding 3

Businesses value auditors' skills behind the screen

Top 5

Technical and intellectual skills are critical for auditors but respondents value soft skills to the same extent.

The necessary skills that most often make it into respondents' 'top five' are: 'rigorous thinking and strong sense of organisation' (53%) and 'critical thinking' (50%). The rest of the top five most quoted necessary skills are all innately soft, human skills: 'listening' (49%), 'discretion' (44%) and 'proactivity and creativity' (44%).

No. 1

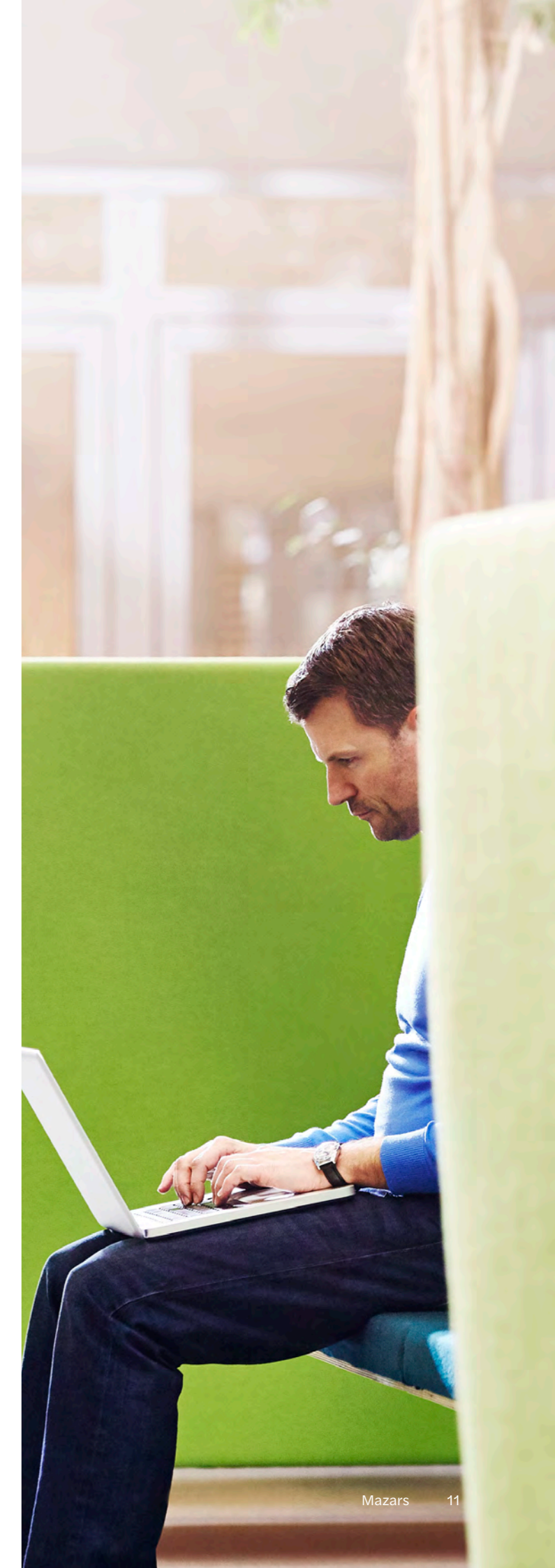
'Listening' is the skill that comes out most often as respondents' 'number one' (33%) – from a list of 20 options. This is followed by 'agility and flexibility' (17%). That means the skills that are most often in respondents' 'top two' are human qualities, which technology cannot easily replicate.

Standout findings Finding 4

The market is open to rotation

26%

Some 26% say they have rotated their auditors or considered rotating, even though it was not, or is not now, a regulatory requirement to do so.





Standout findings Finding 5

Auditors are encouraged to expand services beyond financial reporting

96%

Some 96% of respondents want auditors to broaden the range of their services.

More than two-thirds (67%) say they 'absolutely value' the fact their auditors broaden their range of services, and a further 29% say they 'somewhat value' this.

An overwhelming majority of respondents would be favourable to auditors providing assurance on financial as well as non-financial performance, in addition to providing training that improves teams' capabilities.

Services to be potentially proposed by auditors include training (78%), and assurance that covers: data privacy or security (59%), sustainability (53%), internal controls (52%), diversity and inclusion (51%).

87%

According to the survey, 87% are favourable to audit extending to new areas such as non-financial reporting, e.g. climate risk, gender diversity, human rights, which 75% of all respondents deem 'very important' areas to audit.

Standout findings Finding 6

There is overwhelming support for audit reform (and joint audit)

93%

Some 93% think the audit market should be reformed: 64% say 'yes absolutely' when asked if the audit market needs to be reformed, 29% say 'yes probably'.

89%

Asked about separation of services, 89% of respondents are favourable to an audit profession with audit activities clearly separated from advisory activities.

89%

Asked about joint audit, 89% answer they 'know well what joint audits are': 62% know 'very well' and 27% know joint audits 'well'.

87%

On audit's evolution, 87% are favourable to joint audit, with 50% 'strongly favourable' and 37% 'somewhat favourable'.

88%

Of those who have already experienced joint audit, 88% are favourable to it. More than half of them (54%) are 'strongly favourable'.



Chapter 2

Audit myths and realities

Audit is complex and the users of the service can have varied, and at times contradictory, expectations of what it delivers. Given its central role in creating confidence and ensuring healthy financial markets, it is also the subject of intense debate in terms of its current scope and method, and its future direction.



Chapter 2

Audit myths and realities

The survey findings enhance current debates and challenge four myths that exist relating to audit: its exact role and value, who and what is best placed to deliver it, whether audit services should expand or not, and gauging the present market appetite for joint audit. This chapter aims to dispel four myths, presenting these findings and the market reality today as perceived by some 500 users of audit services.

Myth #1

The primary objective of audit is fraud detection

Myth #2

The future of audit is robotic

Myth #3

Auditors should stick to traditional financials

Myth #4

Companies do not want joint audit



Audit myths and realities

Myth 1: The primary objective of audit is fraud detection

Survey findings: Fraud detection and tackling corruption are not seen as the main goals of an audit.

Audit is highly valued by companies

Audit helps companies improve their capabilities: 61% of respondents see audit as an opportunity for companies to make improvements (i.e. to internal control, business systems, governance).

In addition, a vast majority claim they would still use the support of auditors even if it were no longer a legal requirement (71% definitely, 25% probably, and just 4% would not).

Expectations of audit: objectivity, assurance and performance

When asked what audit users expect from an audit of their company (what the audit will provide them with), the most popular expectations are objectivity, confidence and support that drives future performance. Nearly three-quarters (74%) of respondents say, 'an objective and independent opinion on the financial statements of my company'. This is followed by 'assurance and confidence for investors, stakeholders and regulators' (61%) and 'support to improve business performance' (52%). Just 34% answer 'detection and prevention of fraud' (see figure 3).

61%

of respondents see audit as an opportunity for companies to make improvements

Figure 1: Audit is...

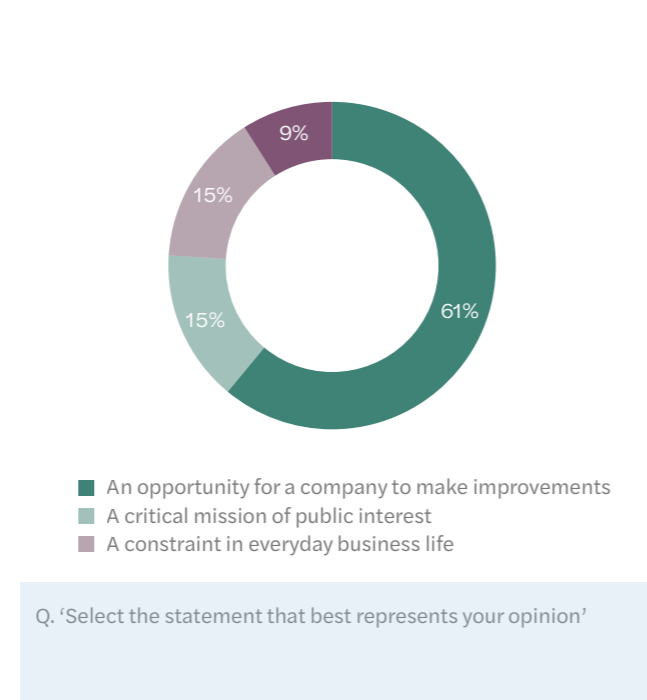
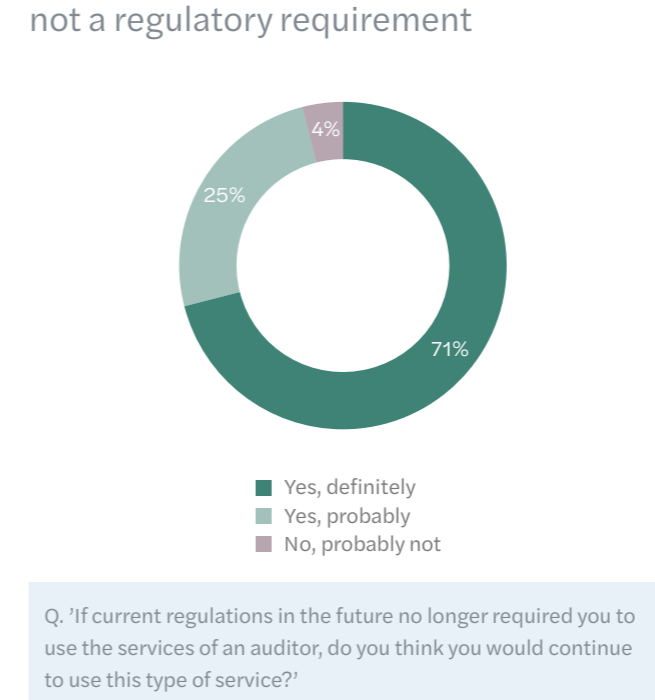


Figure 2: The use of an auditor if it were not a regulatory requirement



Audit myths and realities

Myth 1: The primary objective of audit is fraud detection

Disconnect between mission and benefits

When asked for the ‘mission’ of auditors, the most popular response from the survey respondents (42%) is ‘detect fraud and fight corruption’ (see figure 4). Expectations for fraud detection fall in Europe, where just 28% think the mission of the audit is to detect fraud, while 69% there think it is to improve business performance.

The disconnect between the expected mission of auditors and the expected benefits of a company audit (see figure 3) underlines the need for more transparent conversations on the current scope of audit. And it reaffirms the importance of using these conversations to identify what should change to resolve this tension and what auditors need to do in order to deliver on expectations.

“Under International Standard on Auditing (ISA) the auditor is responsible for obtaining reasonable assurance that the financial statements taken ‘as a whole’ are free from material misstatement – ‘whether caused by fraud or error’. However, reasonable assurance is not absolute assurance as auditors cannot test every transaction within a company, which means some frauds can go undetected, in particular when they are part of a complex web of management deceit. Identifying all possible frauds is not, at present, part of an auditor’s mission. In fact, fraud detection and investigation require a different scope of work, skillsets and processes (those used in forensic work, for instance) than what an audit currently is asked to deliver.”

David Herbinet
Global Audit Leader, Mazars

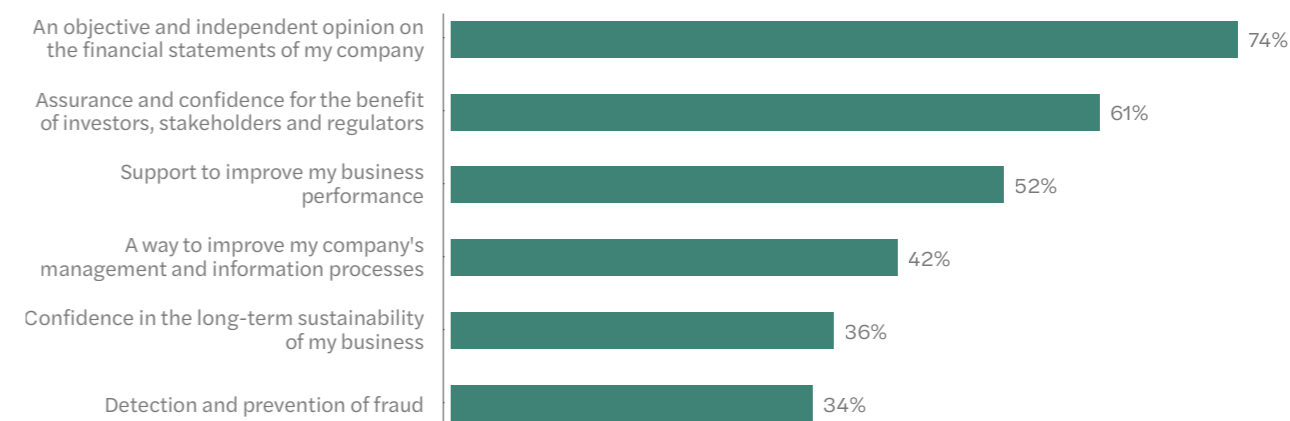
28%

Just 28% of companies in Europe expect an audit to detect fraud

Higher expectations for fraud and corruption detection outside Europe

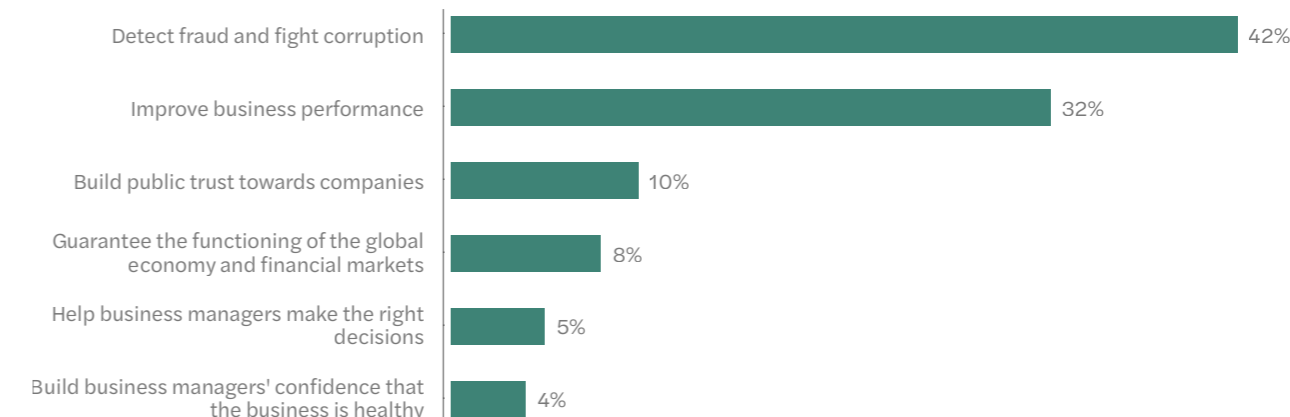
43% of respondents in Asia-Pacific and Africa and 41% in the Americas think the main mission of auditors is to detect fraud and fight corruption (vs 28% in Europe and 16% in France).

Figure 3: The expected benefits of a company audit



Q. ‘In your opinion, what is an audit of your company going to provide you with?’
Multiple choice

Figure 4: The expected mission of auditors



Q. ‘What are the most important missions of the audit profession?’
Multiple choice - rank 1-4

Audit myths and realities

Myth 2: The future of audit is robotic

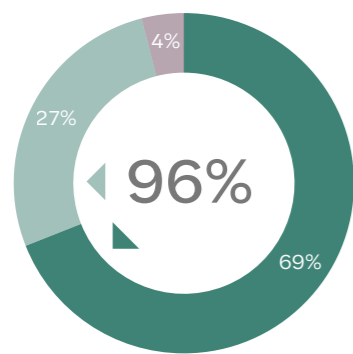
Survey findings: Technology is important to the audit process and its quality, but the professionals behind the screens matter even more.

Technology saves time, lowers risk and boosts reliability

Technology is, beyond doubt, an important part of the audit process: some 96% of respondents say they are favourable to the use of new auditing technologies by auditors (see figure 5).

It appears that CFOs are particularly keen to implement new technology: with some 77% favourable to new technology, compared to 60% of CEOs.

Figure 5: Attitudes towards auditing technologies



■ Yes, strongly favourable ■ Yes, somewhat favourable
■ No, somewhat opposed ■ No, strongly opposed

Q. 'Are you favourable to the use of new auditing technologies by your statutory auditors?'

The ability to integrate new technologies into audit work is a key criteria for selecting an audit firm, but auditors' skills matter even more: knowledge of the business, an ability to understand the company environment and work with its teams, the stability of teams involved, and the consistent quality of the service provided are all chosen in the top three criteria by 77% of respondents (see figure 6).

They are closely followed by 'technical expertise', 'reputation', 'objectivity and judgement' and 'how they handle cybersecurity.'

The top three benefits of auditing technologies on which respondents 'strongly agree' are:

1. Time saving: some 53% of respondents strongly agree technology helps auditors save time.
2. Risk and opportunity management: 53% strongly agree new technologies help auditors better assess future risks and opportunities.
3. Reliability: 52% strongly agree technology ensures better audit reliability.

Audit technology has a key role in reinforcing efficiency and quality but also serves to empower auditors

According to the findings, some 93% think technology saves time, 92% think it enables auditors to focus more on added-value tasks and recommendations, and 92% think it gives auditors more time and room to step back, analyse and challenge the data (see figure 7).

75%

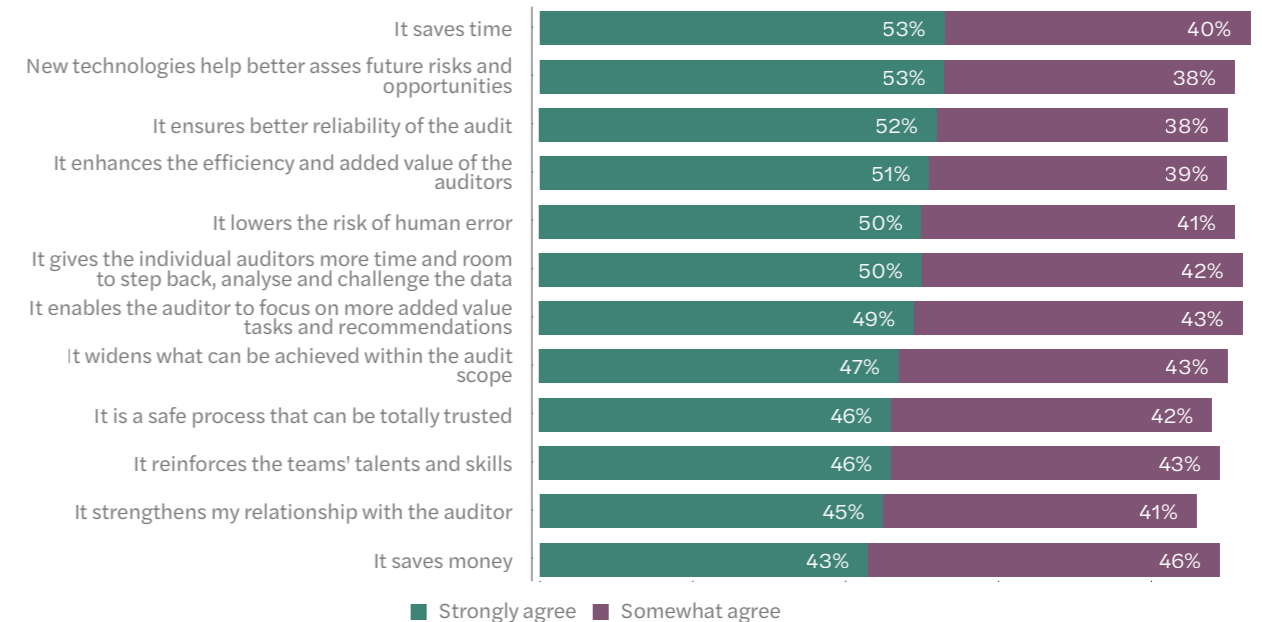
of PIEs are 'strongly favourable' to new auditing technologies **(+6 points vs all respondents)**

Figure 6: Criteria when choosing an audit firm



Q. 'To what extent is the criteria important to you when choosing an audit firm?'
Multiple choice - grades 8-10

Figure 7: Expected benefits of auditing technologies



Q. 'To what extent do you agree or disagree with the following statements regarding the use of new technologies in audit?'

Audit myths and realities

Myth 2: The future of audit is robotic

The importance of auditors' skills: ensuring the right mix

Auditors' skills matter – with 'soft' and intellectual skills as important as technical skills. The most important attribute to being a good auditor is, according to the survey, listening. A third of respondents select listening as the top skill overall, followed by 'agility and flexibility' (17%) (see figure 8).

Many of the most commonly selected qualities valued from an auditor are skills which cannot be replicated easily by technology: 53% believe rigorous thinking and a strong sense of organisation is a necessity; 50% critical thinking; 49% listening; 44% discretion (see figure 9).

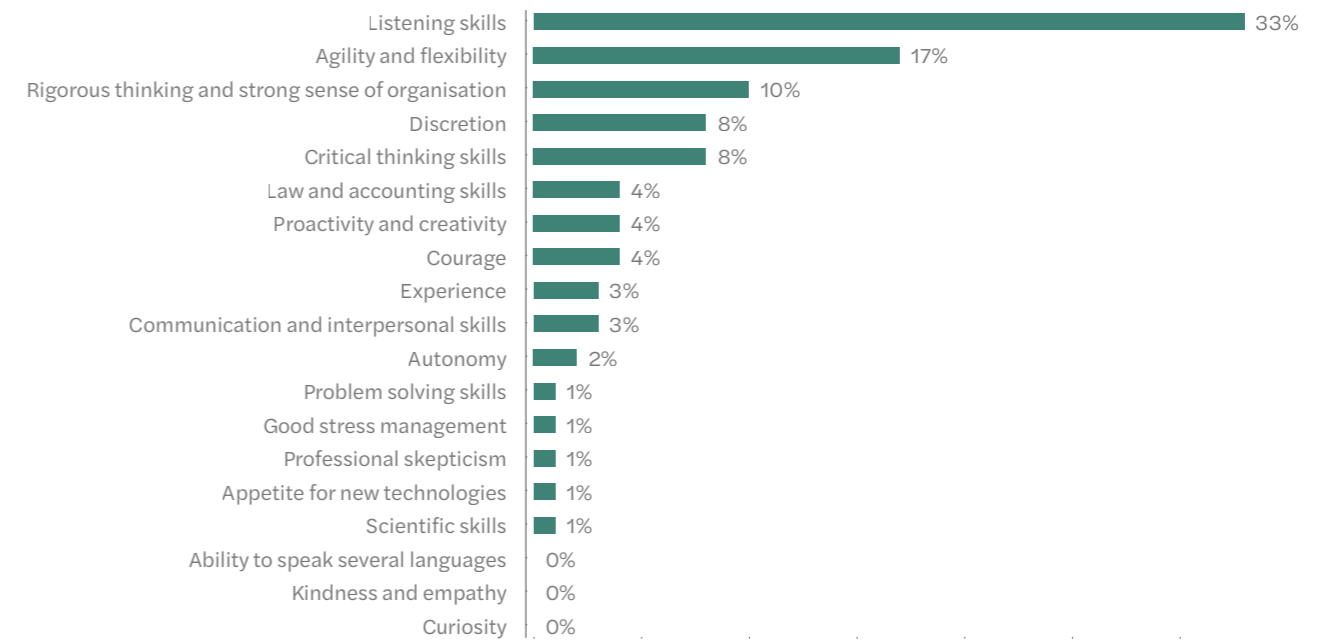
Respondents therefore confirm the importance of auditors' qualities behind the screen: an ability to listen and understand, to analyse and challenge data, to use critical judgement and, ultimately, use technology to enhance these skills, not replace them.

Technology, as a result, emerges as an investment that organisations need to make, but this must be done simultaneously with helping people develop critical knowledge and skills. Done correctly, this promises to lead to better audits, as well as firms being able to attract the next generation of talented auditors who are looking for high-value contributions in environments that appreciate the person and not just the machine.

"Technology is a means to an end and the challenge is to fully leverage it to reinvent the audit experience for both our clients and our teams. Before, unleashing the power of auditors meant equipping them with new solutions. But now, what matters is changing the DNA of auditors so that we develop their technological appetite and combine it with their human skills and technical expertise. To do that, training is only one part of the solution. We have to deploy a wider approach of open innovation and new HR models that retain and develop the 'slasher' generations (a new cohort of workers that have two or three jobs), while meeting their expectations for job diversity and learning."

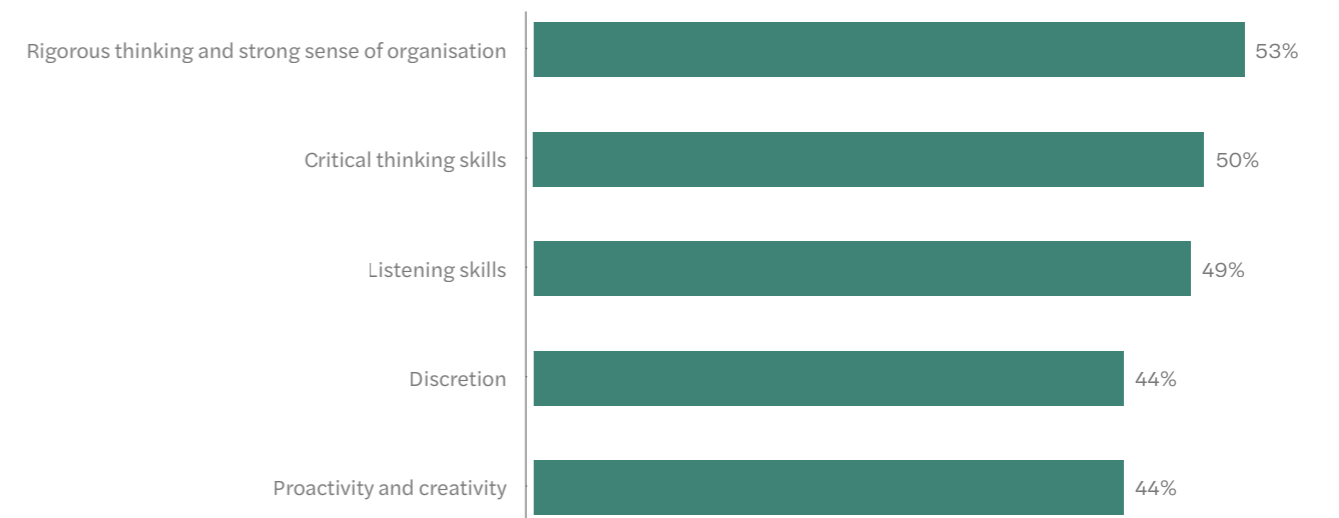
Florence Sardas
Partner, Mazars

Figure 8: The most important attribute of an auditor



Q. 'From the criteria, please select what you consider to be the most important attributes for being a good auditor.'
Multiple choice - % chosen 'most important' quality.

Figure 9: Attributes most chosen in respondents' top 5



Reading example: 53% of the respondents place 'rigorous thinking' among the five most important attributes of a good auditor.

Q. 'From the criteria, please select what you consider to be the most important attributes for being a good auditor.'
Multiple choice - % chosen in respondents' top 5.

Audit myths and realities

Myth 3: Auditors should stick to traditional financials

Survey findings: Respondents want auditors to broaden their range of services beyond financial audit, in particular into training and assurance of non-financial information.

The assumption that companies only want a strict, traditional financial audit from their provider is outdated, according to the findings. Some 96% of all respondents say they would ‘absolutely value’ or ‘value’ the fact that their auditors broaden their range of services beyond financial audits (see figure 10).

This is confirmed by the views that respondents express on the possible evolution of the audit market (see figure 11). Some 87% would like an extension of audit to new areas, such as non-financial services, and the same percentage would like to see more advisory services to complement the services they receive.

Continued separation of services compatible with delivering more services

Any extension of services must come hand-in-hand with the continued separation of audit and advisory services, and 89% of the respondents are favourable to a clear separation between the two¹ (see figure 11).

The survey also confirms there is a legitimate role and expertise that auditors can bring to address varied business priorities and demands beyond just financial auditing, but any steps towards such reform must be taken without causing conflicts of interest.

Expanding scope, attracting talent and managing conflict

Encouraging auditors to broaden their services could have a potentially positive impact on the ability of firms to recruit and retain top talent. It can be difficult, at present, to attract the best people to a firm that only offers traditional audit services. The chance to be part of a firm that offers a broad array of quality disciplines could lead to more informed, better skilled and more inspired auditors.

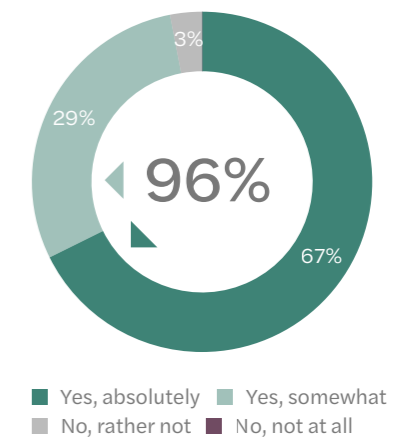
In addition, the survey confirms that the market values a broad range of skills from auditors, including strong business knowledge and technical expertise such as financial, tax and legal. Audit firms need to attract and grow talent with a breadth of expertise, which can be gained from experience in business advisory. Of course, any expansion in the scope of services would have to be considered alongside ways to manage conflicts of interest. Expanding the mission of auditors to other assurance services such as ESG reporting should be compatible with statutory auditing. However, when it comes to advisory services, it is important to ensure a strong management of conflicts of interests, applying strict rules, which could be inspired from the approach of the FRC on three principles (see side box).

FRC approach to improving quality in audit

- Audit practice governance prioritises audit quality and protects auditors from influences from the rest of the firm that could divert their focus away from audit quality;
- Culture of the audit practice prioritises high-quality audit by encouraging ethical behaviour, openness, teamwork, challenge and professional scepticism/judgement; and
- Auditors act in the public interest and work for the benefit of shareholders of audited entities and wider society.

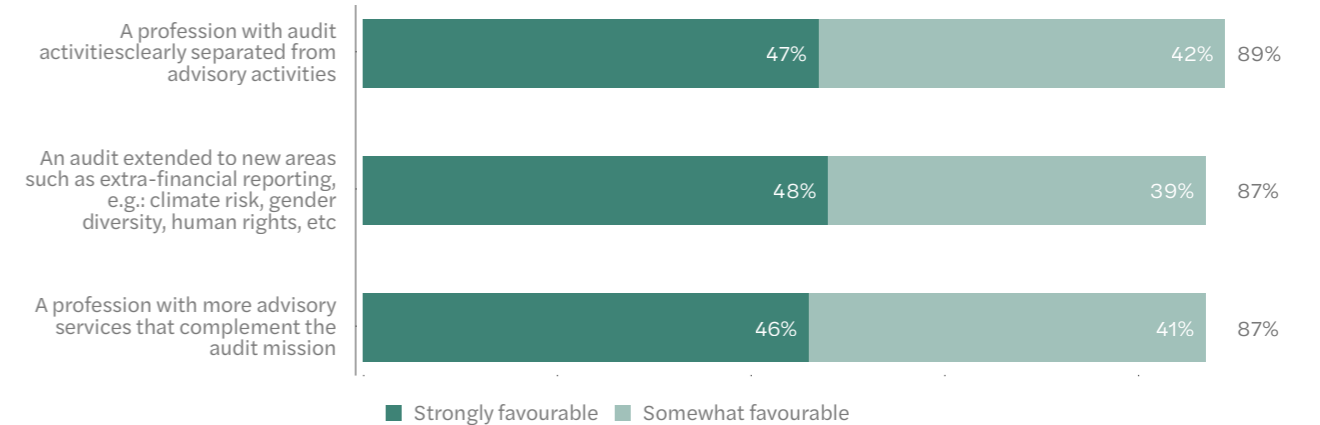
Source: FRC.org.uk

Figure 10: Appetite for broadening the scope of auditors’ roles



Q. ‘Would you value your statutory auditors broadening their range of services beyond financial audits?’

Figure 11: Separation and extension of audit services



Q. ‘Please indicate to what extent you would be favourable, or not, to each possible evolution of the audit market that is proposed.’

1. Combining ‘strongly favourable’ and ‘somewhat favourable’ responses

Audit myths and realities

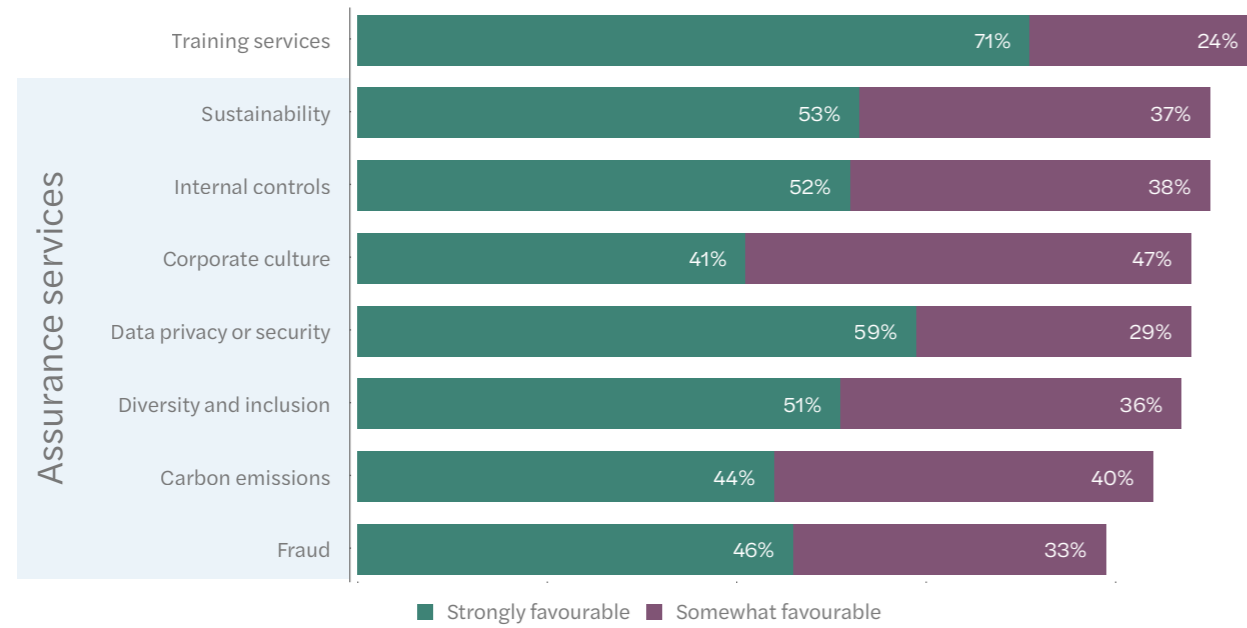
Myth 3: Auditors should stick to traditional financials

Auditors invited to expand into training and non-financial reporting

This raises the question over the direction in which audit services should broaden. Most respondents (95%) say they would be for their auditor adding training services to their offering - combining 'strongly favourable' and 'somewhat favourable' responses to the additional services statutory auditors could propose. This is followed by assurance services related to sustainability (90%) and internal controls (90%) (see figure 12).

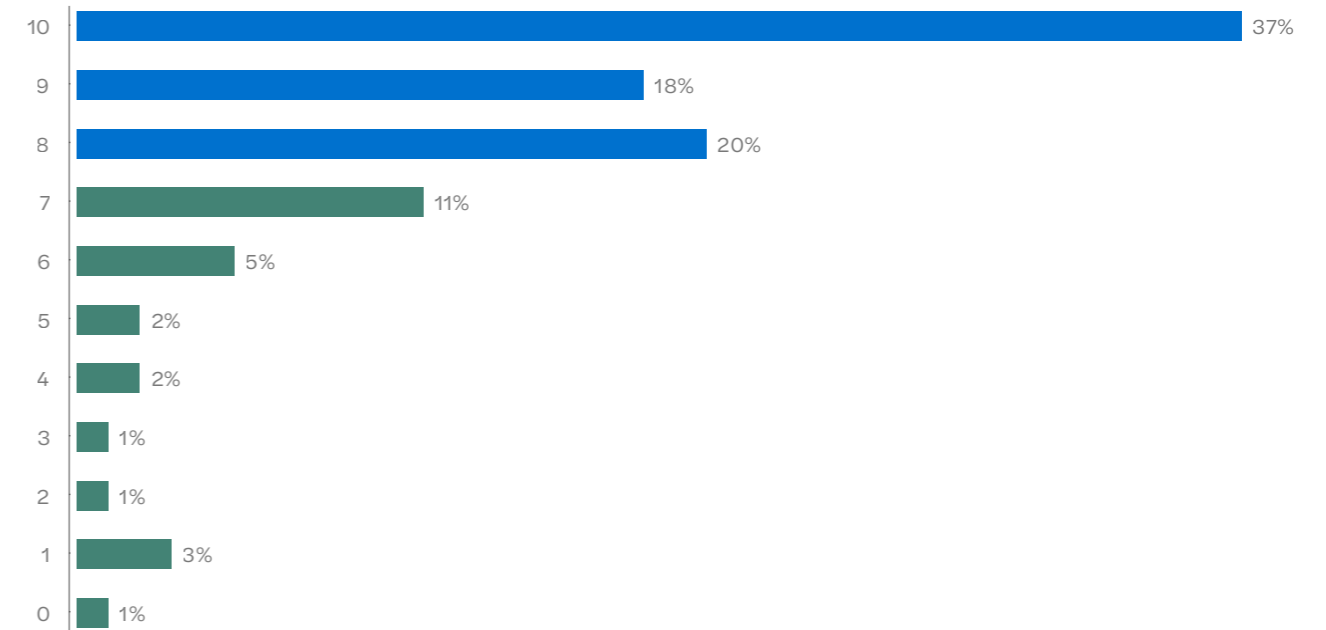
That interest in non-financial matters is reaffirmed by three-quarters of buyer being very favourable to audit extending into non-financial reporting areas e.g. climate risk, gender diversity and human rights. Asked to rate the importance they attach to auditing non-financial performance, 75% rate it at eight, nine or ten on a scale of one to ten (see figure 13).

Figure 12: Appetite levels for different services from the statutory auditor



Q. 'Please indicate to what extent you would be favourable, or not, to additional services potentially proposed by your statutory auditor.' Multiple choice

Figure 13: The importance of non-financial auditing



Q. 'On a scale of 0-10, what importance do you attach to auditing non-financial performance e.g. climate risk, gender diversity, human rights etc.?'



Audit myths and realities

Myth 4: Companies don't want joint audit

Survey findings: Joint audit is clearly understood and called for. Companies see it as a way to improve audits and increase stakeholder confidence in the financial report.

Strong support for reform and joint audit

There is massive support for audit reform, as 93% of respondents think the audit market should be reformed. Just 7% say 'probably not' when asked if the market needs to change (see figure 14).

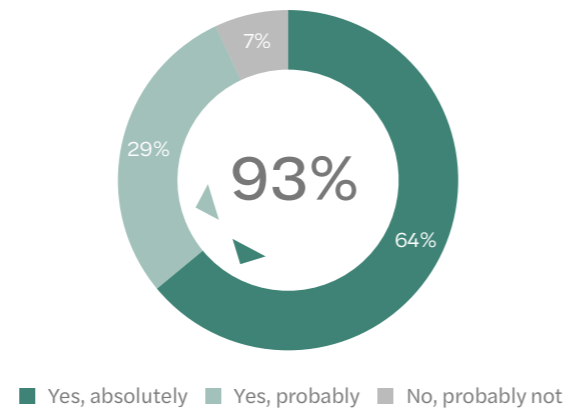
Broad support from those who have experienced it

Some 87% of respondents are favourable (50% 'strongly favourable') to the audit market evolving towards joint audit carried out by more than one statutory auditor. In addition, more than nine in ten (91%) of the global respondents have direct experience with joint audit and a vast majority (88%) of those who have experienced it are in favour of the approach; more than half (54%) are 'strongly favourable' to it and 34% 'somewhat favourable', according to the survey.

Benefits of joint audit

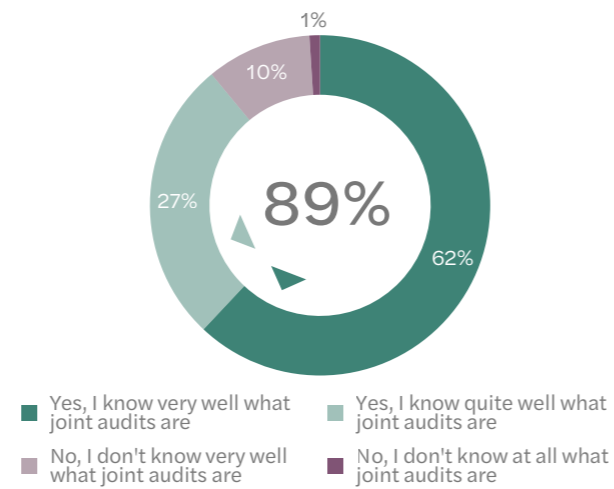
When asked for the expected benefits of joint audit, respondents say: 'increased stakeholder confidence', 'reduced risk of corruption or human error' and 'enabling companies to benefit from a broad range of technical expertise'.

Figure 14: Need for reform in the audit market



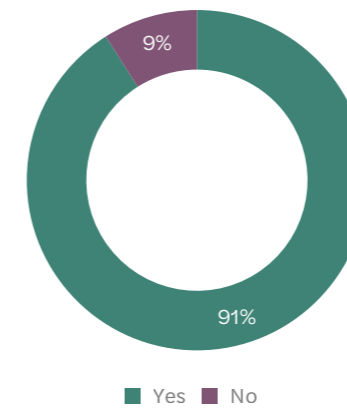
Q. 'In your opinion, does the audit market need to be reformed?'

Figure 15: Joint audit awareness



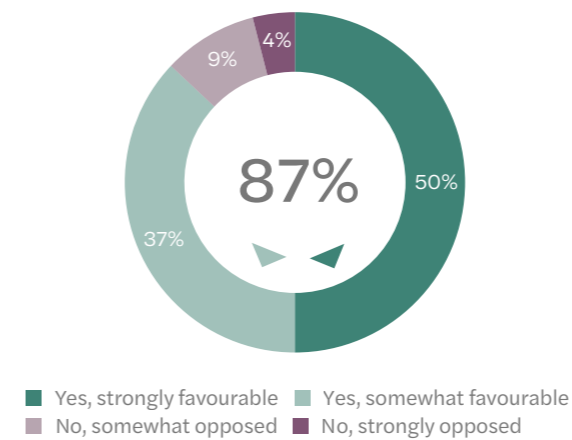
Q. 'Do you know what joint audits are?'

Figure 16: Level of experience with joint audit



Q. 'Do you have direct experience with joint audit?'

Figure 17: Appetite for joint audit



Q. 'To what extent would you be favourable to joint audit carried out by more than one statutory auditor?'

Chapter 3

Key audit questions for policymakers and regulators

The survey findings lead us to ask three important questions surrounding audit reform, the broadening of auditing services and the use of technology in the practice of audit. Addressed to policymakers, these questions, supported by our quantitative data and insight, explore future developments that could improve audit for the market and economies at large.

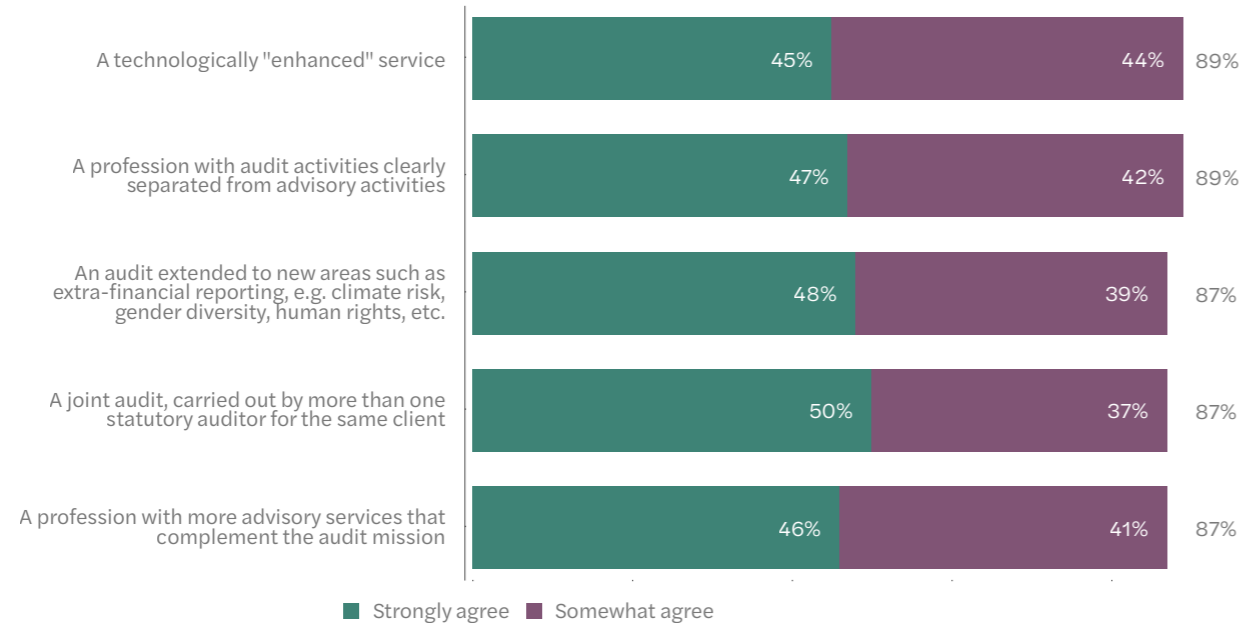


Chapter 3

Key audit questions for policymakers and regulators

We asked this question to all survey participants and invite policymakers and regulators to consider how they move the market forward and in these directions.

Figure 18: The evolution of audit



Q. 'To what extent would you be favourable or not, to each possible evolution of the audit market proposed.'



Key audit questions for policymakers and regulators

Question 1: How can policymakers respond to overwhelming support for an evolution of the profession?

A resounding 93% of respondents say the audit market needs to be reformed (64% say it is absolutely needed). This appetite for evolution is shared by most respondent profiles, including 95% of European companies and 94% of public interest entities (PIEs).

When viewed from a job role perspective, appetite is similarly consistent: 95% of CFOs call for reform, while 93% of audit committee respondents and 91% of CEOs do the same.

In addition to the high levels of interest in reform, many companies have experience of audit rotation, or have considered it, without the obligation.

Meanwhile, some 26% of respondents say they have rotated their auditors or have considered rotating, even though it is not (or not now) a regulatory requirement. That number rises to 30% for non-public interest entities and falls to 21% for public interest entities.

30%

of non-PIE entities have rotated their auditors or considered it even though it is not a regulatory requirement

“There are substantial and valid concerns from respondents to the survey on the functioning of the audit market, calling for wide-ranging reform covering the scope of audit and broadening the number of market participants to enhance quality and choice. Indeed, regarding the latter, many companies currently have very limited choice when it comes to appointing a new auditor in a context of mandatory firm rotation and demanding independence rules. On the scope of services, it is no longer relevant to focus only on financial information to fully communicate the performance of companies, hence this call for broader assurance. Status quo is definitely not an option.”

David Herbinet
Global Audit Leader, Mazars

Key audit questions for policymakers and regulators

Question 1b: Why delay on joint audit when it is already well understood and wanted?

Some 87% of respondents are favourable (50% ‘strongly favourable’) to the audit market evolving towards joint audit carried out by more than one statutory auditor; just 4% of respondents are ‘strongly opposed’.

Joint audit is, evidently, increasingly understood by the market, with 89% answering they ‘know well what joint audits are’. That understanding and the experience of it leads to favourable opinions of the method: more than nine in ten (91%) of the global respondents have direct experience with joint audit and a vast majority (88%) of those who have experienced it are in favour of the approach; more than half (54%) of them being ‘strongly favourable’ to it.

Expected benefits of joint audit according to the findings are: ‘increased stakeholder confidence’, ‘reduced risk of corruption or human error’ and ‘enabling companies to benefit from a broad range of technical expertise’.

88%

who have experienced joint audit support it

“From my experience as a signing partner of large and listed entities’ audits, I have developed the conviction that joint audit reinforces the quality of an audit, in particular for large-scale, complex businesses. In my view, the benefits of joint audit come from the fact it brings to the process the best capabilities and expertise of both audit firms, notably in three ways:

- The application of the ‘four eyes’ rule: without duplicating work, the key areas of an audit are systematically challenged by both firms, which have complementary competencies. This provides greater scrutiny on the results of the audit and increases public confidence.
- With the combined experience of joint auditors, we increase our capacity to benchmark and deliver best practice for the market in a dedicated sector, not only on financial information but also regarding internal control and financial reporting preparation.
- Finally, it doubles our capacity to provide companies with the best experts in their industries.”

Virginie Chauvin
Partner, Mazars

Key audit questions for policymakers and regulators

Question 2: Can we expect policy or regulation to protect, or even extend, the range of services auditors provide?

With demand rising around the expansion of the range of services auditors provide, particularly into areas of non-financial reporting (96% of respondents ‘absolutely value’ or ‘value’ the fact that their auditors broaden their range of services beyond financial audits), there is likely to be more questions raised around how audit and advisory services could similarly be broadened.

The market is clearly calling for audit firms to extend their reporting remit into areas including assurance and non-financial matters. Some 87% are favourable (and 48% ‘strongly favourable’) to audit extending into new areas such as non-financial reporting, e.g. climate risk, gender diversity, human rights. The total number of ‘strongly favourable’ to that prospect rises to 58% in France.

The survey also shows appetite for auditors to provide a range of advisory services complementing their audit services (87% of the respondents), while 89% also expect a separation between audit and advisory activities.

In this case, there needs to be careful consideration of how to expand the scope while avoiding conflicts of interest. Separation of audit and advisory services – by breaking up firms and their offerings into separate entities – risks reducing the overall quality of auditors, as outlined earlier in the report, notably in terms of attracting and retaining top talent and nurturing well-rounded skills and expertise.

“Regulators and policymakers can and should help define the scope of services that can be provided by auditors without risking conflicts and should provide clarity on the direction of travel for any future separation of services.

There is merit in tightening or fully harmonising the non-audit services list under article five of the audit regulation – favouring the transparent, consistent EU-wide application of independence rules.

Separation of operations is not the solution. A ‘white-list’ and ‘black-list’ approach that defines the type of work an audit firm can provide would strengthen independence without compromising quality. The current ‘black-list’ of forbidden non-audit work should be fully harmonised, and member states’ options to grant derogations or to ‘gold plate’ should be removed.”

Fabrice Demarigny
Partner, Mazars

Key audit questions for policymakers and regulators

Question 3: How can regulators help marry the best of people with the best of technology?

Technology is at the core of audit’s future developments, with massive market support: 96% of the respondents are favourable to using new audit technologies. But even more important are auditors’ skills.

Regulators have an opportunity to reflect on what distinguishes good auditors from others. We need to foster the right set of skills in the profession, so that audit firms can rely on high-quality professionals who have the right mix of competencies, including expertise in audit, IT and internal controls, business and industry knowledge, alongside the critical judgement and technical and soft skills that matter to companies.

“Our industry needs to be increasingly known as one that nurtures a breadth of skills, including soft skills, independent judgement, business knowledge and a wide range of expertise.

The skills that companies value most are those which distinguish good auditors – thinking, listening, discretion, proactivity and creativity. The survey respondents value these skills because they are the right ones for an auditor – and as the other finding demonstrates, these skills are empowered by technology.

We know that audit technology is already deeply integrated and being utilised to improve the industry’s quality and efficiency. However, it cannot be seen as a silver bullet to audit’s issues and should not be treated as a replacement for a well-skilled and experienced professional.”

Antoni Bover
Partner, Mazars

Chapter 4 Focus on...

This double-blind survey provides a global overview of how audit decision makers view the market today. It also uncovers how different sections of the market – regions, company types and professional profiles – approach fundamental aspects of audit's future direction, including reform, technology and non-financial reporting.



Focus on Continental ambition: Europe and audit reform

Respondents in Europe are consistent in their views on the mission, deliverables and direction of an evolution when it comes to audit and the people who deliver it.

Audit is a clear performance driver in Europe. Over half (59%) of respondents in Europe say an audit will provide their company with a way to support business performance, which is seven points higher than all respondents.

As for good auditor attributes, 44% believe listening skills are the top priority (increasing to 58% in France and 54% in Germany).

Overwhelming majority in favour of audit reform

In Europe, respondents are even more supportive of an audit enhancement than the rest of the world: 72% say the market 'absolutely' has to be reformed – compared to 64% overall.

In Germany 100% of respondents express a desire to see audit evolve – 91% answering 'yes, absolutely' to the need for reform and 9% 'yes, probably.' In France, some 93% say 'yes, absolutely' and a further 5% 'yes, probably.' In the UK, 87% of UK respondents call for audit reform, with 38% of respondents saying 'yes, absolutely' to the need for reform, a further 49% say 'yes, probably'.

100%

of respondents in Germany express a desire to see audit reformed

As for joint audit, 89% of respondents in the UK are favourable to the audit market evolving towards joint audit carried out by more than one statutory auditor (53% 'strongly favourable' and 36% 'somewhat favourable'). In France, 83% are favourable - with the country delivering the highest return on 'strongly favourable' at 57% alongside 26% 'somewhat favourable.' And in Germany, 77% are favourable to joint audit (45% strongly, 32% somewhat).

On audit rotation: 42% of respondents in the UK say they have rotated auditors, or considered it, even though it is not (or not now) a regulatory requirement - compared to 26% for all.

Asked about the direction of reform and what it should include, nearly two-thirds (65%) of respondents in France are 'strongly favourable' to the profession clearly separating audit activities from advisory activities, compared to 47% overall.

Europe's strong support for non-financial reporting

Europe is also the continent where 'new areas' of audit are most well-received: some 62% of respondents say non-financial reporting is very important, compared to 50% in Asia-Pacific and 43% in Africa.

89%

in the UK are favourable to joint audit

"Businesses in Europe, and especially in Germany, clearly desire a reform of the audit market and the evolution of the market towards the use of joint audits. Sustainable, effective market reform is necessary to deal with the increasing complexity of audits and to improve audit quality. In order to achieve a lasting improvement in quality, a fundamental change in the market structure is also required. Joint audits, with the underlying four eyes principle and the mutual control of two auditors, has been proven to strengthen the diversity of the audit market, increase the quality of audits and ensure greater transparency."

Christoph Regierer

Partner, Member of Group Executive Board, Mazars

"Following a thorough and independent review, the Competition and Markets Authority in the UK recommended in 2018 joint audits between a dominant firm and a challenger firm to address issues of lack of choice and quality in the audit market. This survey shows that the appetite for such a reform is much higher than thought."

Phil Verity

Partner, Member of Group Executive Board, Mazars



Focus on

Expectations of the evolution: PIEs and large companies on audit

PIEs and large companies are hugely in favour of joint audit and of an audit reform. They also value auditors broadening the range of their services.

Public interest entities are big supporters of joint audit: 86% are favourable to it (53% 'strongly', 33% 'somewhat'); just 4% are strongly opposed to it. When asked about the need for reform in general, 71% of PIEs respond 'yes absolutely' – compared to 64% for all business types.

Similar to other respondents, and to an even larger degree, PIEs view 'support business performance' as a key outcome of audit (58% of PIEs vs 52% for all respondents). And they are more likely to believe audit will provide confidence in their long term business sustainability (40% compared to 36% overall).

PIEs back broader services

Some 76% say they 'absolutely value' the fact their auditors broaden their range of services, compared to 67% overall. Half of PIEs are 'strongly favourable' to audit extending to new areas of non-financial reporting (compared to 48% overall) and 57% are 'strongly favourable' to a profession where audit activities are clearly separated from advisory activities – ten points higher than all business types.

To help with that evolution, three-quarters of all PIE respondents are 'strongly favourable' to the use of new auditing technologies and 72% say their auditor regularly uses new technologies (compared to 60% for non-PIEs).

"PIE support for audit reform is mainly due to their interest in restoring confidence to financial markets. They likely view audit reform as an opportunity to reaffirm and strengthen the independence of auditors, so the broad support for reform is a call for greater transparency to be delivered to stakeholders.

Another area of evolution is the scope of audit. PIEs' communication to the market is less and less just about financial information and more about non-financial information, such as ESG matters. This is because the latter is increasingly important in stakeholders' decision criteria. Expanding the scope of auditors to non-financial reporting will therefore increase stakeholder confidence, which is important to PIEs going forward."

Virginie Chauvin
Partner, Mazars

Large companies in favour of reform

As for companies with the highest annual turnover surveyed (more than US\$500m), 88% say there is a need for reform - more than half say 'yes, absolutely' to the need for reform (52%) and a further 36% say 'yes, probably.'

Appetite for rotation

Almost a third (31%) of companies with the highest annual turnover surveyed have rotated auditors, or considered rotating auditors, even though it is not (or not now) a regulatory requirement for their company. That is five points higher than all respondents.

80% of the large companies are in favour of non-financial extension

Some 80% of companies with more than US\$500m annual turnover are favourable to audit extending into areas of non-financial reporting e.g. climate risk, gender diversity, human rights (42% 'strongly agree' and 38% 'somewhat agree'). This is slightly lower than the overall trend (87% of all respondents are in favour of non-financial auditing).

87% of large companies are in favour of joint audit

Asked about their support for joint audit, nearly half (49%) of companies with more than US\$500m annual turnover are 'strongly favourable', while 38% are 'somewhat favourable'. Those findings are very similar to all respondents – 50% and 37%, respectively.

211

respondents identified as PIEs (all from Europe)

86%

of public interest entities are favourable to joint audit – including 53% 'strongly favourable'

75%

of PIEs are strongly favourable to the use of new auditing technologies (vs 69% overall)

Focus on
Future direction of audit: comparing audit committees, CEOs and CFOs' views

Audit committees, CEOs and CFOs return broadly similar answers across all question groups, reflecting the general consistency of the survey responses. However, there are a few key areas of difference worth highlighting.

1. CEOs view auditors' mission less as fraud detection, more as boosting performance

Some 33% of CEOs view fraud detection as the primary mission. This is significantly less than CFOs and committee respondents (48% and 45%, respectively).

CFOs see more value in objectivity and independence, with 80% claiming the main benefit of an audit is to provide an objective and independent opinion on the company's financial statements (vs 69% of audit committee respondents and CEOs).

2. Audit committees have higher expectations

Overall, members of audit committees show higher levels of expectation when hiring an audit firm. In particular, they put more emphasis on technical expertise than CFOs when it comes to all the below criteria, while CEOs are more interested in an auditor's knowledge of their business and sector. See below, Table 1.

Meanwhile, audit committee respondents are most likely to describe audit as an opportunity for a company to make improvements to 'internal controls, business systems and performance' – 69% compared to 55% of CEOs and 64% of CFOs.

3. CFOs most in favour of audit reform and service separation

Some 71% of CFOs say 'yes absolutely' to the need for reform, 69% of audit committee respondents say the same and 54% of CEOs.

Asked about the 'possible evolution' of the audit market, 52% of CFOs say they would be strongly favourable to a profession where audit activities are clearly separated from advisory activities. That falls 11 points for audit committees and eight points for CEOs (41% and 44%, respectively).

4. Audit committees less confident on technology's benefits, focus more on ESG

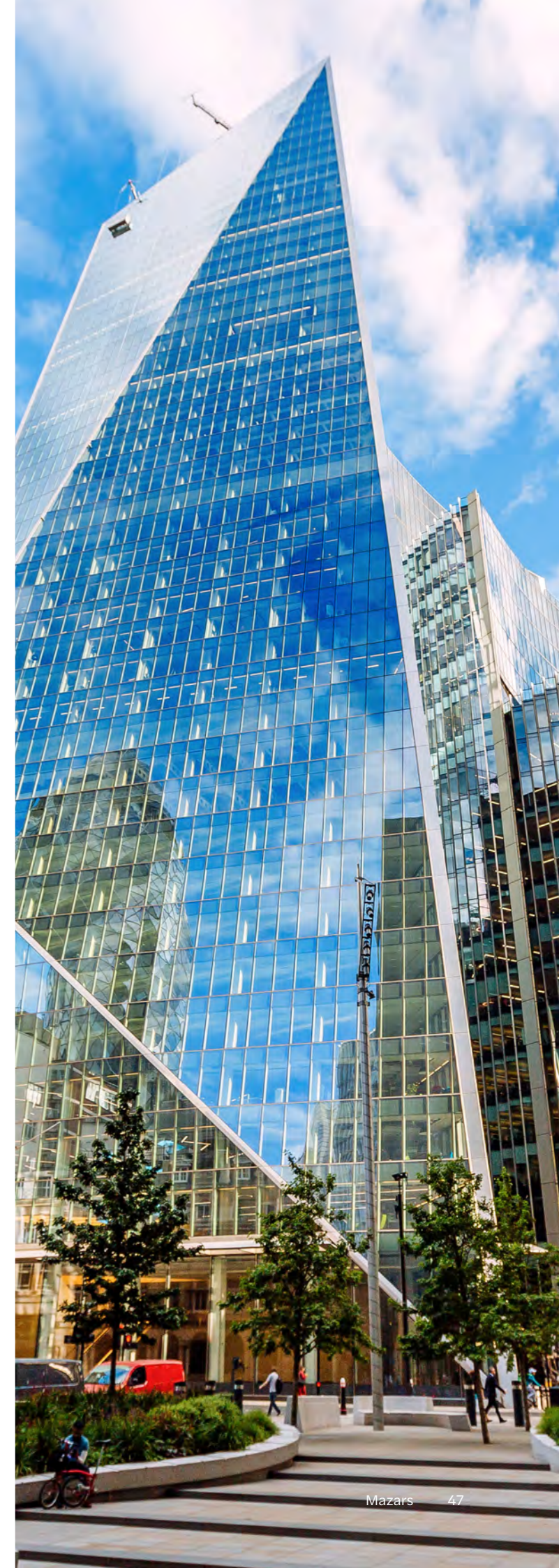
Meanwhile, audit committees are less confident about the benefits that technology can bring to audit. While 58% of CFOs and 50% of CEOs think new technologies ensure greater reliability of audits, just 38% of audit committee respondents say the same. However, committee respondents are more enthusiastic than other groups when it comes to auditing of non-financials. Some 62% of audit committee respondents say it is 'very important' to audit non-financial areas like climate risk and gender diversity, which is seven points higher than all respondents (55%).

Audit committee respondents also rank as more favourable to using assurance services related to 'diversity and inclusion' and 'carbon emissions' (57% vs 51% overall and 55% vs 44% overall, respectively).

Table 1: Audit committee responses above average on five key selection criteria

Criteria	Audit committee response	CFO response	CEO response
Technical expertise	65%	61%	52%
Consistent quality	62%	56%	58%
Ability to understand your environment	62%	54%	52%
Knowledge of your business and sector	62%	57%	64%
Geographical capabilities	62%	52%	46%

Q. 'To what extent are each of the criteria important to you when you are choosing an audit firm? (Grades 9 – 10 out of a 10 grade scale)'



Appendix

Questions from the survey

Below are the survey questions that respondents answered, according to when they appear in the report.

In your opinion, what is an audit of your company going to provide you with?

Select up to three

Are you favourable to the use of new auditing technologies (for example, artificial intelligence, algorithms, robots) by your statutory auditors?

Please select only one answer.

To what extent are each of the criteria below important to you when you are choosing an audit firm?

Please provide a grade on a 10-point scale,

0 meaning that it is not important at all

10 meaning that this item is very important

For each of the criteria below, please select what you consider to be the most important attributes to being a good auditor?

Please select and rank up to 5 items

As part of the European audit reform, some companies in some countries are required to rotate their statutory auditors. Has your company had to rotate its auditor(s) yet? Please select the statement that best represents your company's situation.

Please select only one answer.

Do you value that your statutory auditors broaden their range of services beyond financial audits?

Please select only one answer.

Please indicate to what extent you would be favourable, or not, to using the following training and/or assurances services potentially proposed by auditors below.

Please select only one answer.

Please indicate to what extent you would be favourable, or not, to each possible evolution of the audit market proposed below.

Please provide one answer for each proposition.

What importance do you attach today to auditing extra-financial reporting, e.g.: climate risk, gender diversity, human rights, etc.?

Please give a 0 to 10 grade,

10 meaning that it is very important

0 meaning that it is not important at all

There are currently many debates in many countries around the world to reform the audit market (e.g. the United Kingdom, Germany, Australia, South Africa, USA, and others). In your opinion, does the audit market need to be reformed?

Please select only one answer.

Do you know what joint audits are?

Please select only one answer.

Please select the statement below that best represents your opinion.

Audit is...

In the future, if current regulations no longer required your company to use the services of an auditor, do you think you would continue to use this type of service?

Please select one answer.

In your opinion, what are the most important missions of the audit profession?

Rank from 1-4

You will see below a list of potential benefits of using new technologies in an audit. Please indicate to what extent you agree or disagree with each statement.

A joint audit is the audit of a legal entity by two or more auditors to produce a single audit report, thereby sharing responsibility for the audit. Do you have direct experience with joint audits?

Please select only one answer.

Please indicate to what extent you agree with each of the statements listed below.

Joint audit is a way to...

Do your statutory auditors use new technologies (for example, artificial intelligence, algorithms, robots) to carry out their assignments?

Please select only one answer.

Contacts

David Herbinet

Global Audit Leader, Mazars
David.Herbinet@mazars.co.uk

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of more than 42,000 professionals – 26,000+ in Mazars' integrated partnership and 16,000+ via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws

www.mazars.com

© Mazars 2021

mazars