

## CHAPTER 8 – LOOKING AHEAD

**8.1** The past decade has seen unprecedented changes in the global economy and capital markets. In making its recommendations, the Panel recognizes that many of these changes have profoundly affected the auditing profession, and they will continue to do so at an accelerating pace. The Panel's recommendations throughout this report seek not only to make today's audits more effective, but also to help the profession make continuous improvements in the years ahead. The Panel recognizes that implementing its recommendations requires a major effort by many constituencies. It believes that its recommendations can have a significant effect on the conduct of audits, the governance of the profession and the public's perceptions about the value of audits.

**8.2** The Panel is aware that future developments may affect the conduct of audits in ways that it cannot now foresee. In interpreting its mission, the Panel focused on improving the effectiveness of audits of financial statements prepared in accordance with the current accounting model predicated on generally accepted accounting principles, or GAAP. However, the Panel recognizes that auditors will face many challenges in the years ahead and will have to adapt to an ever-evolving world.

**8.3** The Panel foresees the following developments as having a major effect on how audits will be conducted in the future: the technology explosion, the demand for new and more timely information, finding and retaining the best people for the profession, and the globalization of business. The Panel's vision about each of these is briefly discussed in the balance of this chapter.

### TECHNOLOGY

**8.4** Not a day goes by without more news about the revolutionary effects of technology on the world economy. Technological developments are changing business and financial reporting, and consequently how audits are conducted also is changing. And more changes are forthcoming.

**8.5** Increasingly, auditors will find it necessary to understand fully the risks associated with new and advanced business information systems, and the controls that are needed to respond to those risks. Auditors also will find that they must expand their technological knowledge and skills, devise more effective audit approaches by taking advantage of technology and design different types of audit tests to respond to new business processes. Highly skilled technology specialists will become even more essential members of audit engagement teams.

**8.6** Attracting and retaining qualified technology specialists in the numbers required for audit support has long been a challenge to the profession, one that will become even more critical in the high technology environment of the future. Technology specialists will need to work with auditors as a team. However, auditors cannot cede addressing all technology matters to technology specialists, and in turn technology specialists will require a better understanding of auditing.

## THE INFORMATION DEMAND

**8.7** The demand for new or timelier information is on the rise. Technology-driven information systems are capable of capturing, organizing and disseminating information in “real time.” Investors can quickly access information and consequently have expanded their demands for both financial and non-financial information. Some of that information is “traditional” historical financial data, and some of it is new. Information provided on a real-time basis to investors inevitably will raise the question of its reliability. And, at this point, the auditors likely will be expected to enter the picture and to provide some assurances about the reliability of the expanded array of information. But, because of the virtually real-time nature of the information, these assurances will involve both the reliability of the systems or processes that produce the information and the ultimate output of those systems or processes, the information itself.

**8.8** At the same time, the historical-cost-based GAAP accounting model is seen by some as out-of-date and increasingly unresponsive to investors’ needs for information. They charge that the current model is oriented to tangible assets rather than the intangible assets that drive many of the values of today’s “new economy” service- and technology-based businesses. Some observers believe that the challenge for the auditing profession will be to develop new approaches to auditing to meet the demands for any new information and to adapt to changes in the accounting model. These new approaches may include some form of continuous auditing and require new tools and skills, with greater emphasis on the use of technology-driven analytical and diagnostic procedures.

## THE BEST PEOPLE

**8.9** Perhaps the biggest challenge facing the auditing profession today is the apparent decline in the attractiveness of auditing, particularly to college and university students. That decline has been influenced by increased educational requirements, issues of compensation, heavy workloads and issues of family or lifestyle. It also has been influenced by the perception that alternative career opportunities are more exciting, challenging and rewarding than auditing. Some of the same issues affect the ability of audit firms to retain professional personnel for the long term. All this comes at a time when some observers believe that the profession also faces the need to attract even more personnel with technology and other special skills to meet the challenges of, and the demands for, providing assurances on additional and new forms of financial and non-financial data.

**8.10** The profession will need to restore the historic attractiveness of auditing as a profession and convince the “best” people that it offers excellent long-term career opportunities. To do so it will have to lift the public perception of the profession to a higher plane and convincingly demonstrate the worth of the profession. This is an effort that will require a partnership among audit firms, professional societies

and the academic community.

## **GLOBALIZATION**

**8.11** Economic globalization is expected to continue at an accelerating rate. For the auditing profession, this means greater attention to the development of fully integrated international organizations with uniform audit policies and methodologies premised on high-quality standards. The challenges of globalization will require extraordinary leadership efforts by audit firms, especially the large firms, to overcome the many impediments to progress, such as weak country-specific regulations and corporate governance practices. The firms will need to be the first line of enforcement of uniform worldwide accounting and auditing standards.

**8.12** An infrastructure for global self-regulation that provides for strong governance and oversight of the profession needs to be put in place. Importantly, this infrastructure will have to be sufficiently transparent that it is responsive to the public interest in both fact and perception. Audit firms will need to work closely and cooperatively with regulators, the key organizations involved in establishing international accounting and auditing standards, and those involved in overseeing the international auditing profession to achieve these goals.

## **FINAL THOUGHTS**

**8.13** Responding to change promises to be an ongoing challenge for audit firms, for those who establish standards, and for those who oversee the profession and monitor auditors' performance – essentially the bodies and organizations to whom the Panel's recommendations are addressed. The Public Oversight Board (POB), in particular, will face major challenges in meeting its expanded responsibilities – challenges that the Panel believes present a unique opportunity not only to improve audit effectiveness but also to elevate the image of the auditing profession. A fully cooperative effort by the profession, POB and SEC is essential to ensure both successful implementation of the Panel's recommendations and continuous improvement in audit quality.

**8.14** In even a short five years from now, it is likely that the auditing profession will have undergone dramatic change. The Panel is hopeful that its recommendations will serve to promote some of that change in positive ways. The Panel is confident that a newly empowered POB will monitor the progress toward implementing the recommendations in this report and use its expanded influence to see that the profession addresses the challenges of the future. The POB also will act as the catalyst for a renewed spirit of cooperation between the profession and the SEC.

**8.15** POB-sponsored special reviews of issues of audit efficacy or other matters affecting the profession are clearly within the scope of the POB's new charter. While another broad review of audit

effectiveness of the nature of the Panel's project is not foreseeable, the POB should not hesitate to exercise its discretion in calling for further reviews if circumstances demonstrate the need to do so. At the end of the day, the public interest is paramount.