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CHANGE AND OPPORTUNITIES UNDER DISCUSSION

”While there is concern about how audit services can handle the extensive changes that the auditing profession is facing, there is definitely a growing demand towards assurance services”, Wendy Green presented in seminar on Audit Quality and Sustainability of the Profession.

The future of the audit profession, new audit legislation and assurance of non-financial information were the main topics of the seminar organized on May 19th 2014 at Aalto University School of Business. The keynote speakers were distinguished professors W. Robert Knechel and Wendy Green and their thoughts are presented more precisely on the next spread.

Research as a way of recognizing unintended consequences of regulatory changes

The extensive changes in the regulation of the audit profession in USA and European Union did not totally convince Knechel. “The changes to the legislation have been made in an attempt to improve audit quality, but the changes have also led to unintended consequences,” he reminded. The Professor of the University of Florida also highlighted the significance of academic research when evaluating the effects of new regulation to audit quality. “It must be critically evaluated, do the targets of regulation really reach the goals set. It is of great importance to recognize unintended consequences of the regulatory changes,” Knechel presented.

New regulation gets critical feedback

Christian Savtschenko, Partner, PwC and KHT auditor, was given an opportunity to comment on the European Union audit legislation that was adopted in April. “The final package of legislation

is wide-ranging and the most significant changes are related to mandatory audit firm rotation and restrictions on the range of non-audit services. The legislation introduces mandatory firm rotation for the statutory auditor after a maximum initial engagement period of 10 years. The aim of the changes is to improve the audit quality and also financial reporting quality,” he presented. The new audit legislation of the EU got criticized for being prepared in a hurry. However, the development of audit quality in Finland has improved positively according to Savtschenko, the chairman of the Finnish Institute of Authorized Public Accountants. ”Audit quality has improved in Finland over the last ten years,” he concluded.

Assurance of non-financial information – multidisciplinary teams needed

Professor Wendy Green from the University of New South Wales, Australia used the most recent research in her presentation “Opportunities for Assurance Firms”. “While there are concerns about how the audit market survives in the middle of the changes, there is growing demand for assurance services like assurance of environmental reporting,” she presented. According to Green the markets of assurance services are dichotomous, because assurance can be provided by both accounting firms and non-accounting specialist consulting firms. The key factor of effective assurance is, according to Green, multidisciplinary teams consisting of members with accounting and non-accounting backgrounds. “Multidisciplinary teams bring benefits, but it requires creating and maintaining interactive cooperation,” she concluded.

External assurance of sustainability reports creates credibility

Maj-Lis Steiner, KHT auditor and the director of PwC’s corporate responsibility services, contemplated the importance of assurance to the firm itself and its interest groups. She suggested that the firm’s interest groups usually want more information than just the financial statements.

A sustainability report is a tool of valuation and communication, with which a firm can present to its interest groups, how the firm has succeeded with its corporate responsibility targets. The reports show how the targets of social responsibility affect the operations of the organization. Steiner presented that effective corporate responsibility reporting requires credibility, which can be achieved by external assurance. External assurance increases openness and transparency towards interest groups. "Corporate responsibility reporting is still in a developing stage and assurance service providers must take this into account. However, development of the reporting standards helps to compare information both internally and externally," she presented. In addition, Maj-Lis Steiner suggested that development of assurance methods and the planning of assurance process are really important in the future. "When planning the assurance engagement, it is necessary to pay attention to assurance level and extent," she said.

Regulation affects competitiveness of the biofuel industry

Simo Honkanen, Senior Vice President Sustainability, Neste Oil, presented that 100 % of Neste Oil's renewable raw materials are traced back to plantations and production sites from which they originate. "Neste Oil ensures that it acts sustainably in every stage of its supply chain. This is confirmed by using own and independent audit," he presented.

p. 26 INCREASED REGULATION MAY LEAD TO A LOSS OF AUDIT QUALITY

The distinguished researcher fears that the legislated restrictions on supply of services can turn against the targets.

Professor, W. Robert Knechel who visited in May in Helsinki, doubts the benefits of the extensive changes to the regulation of the auditing profession in USA and European Union in the past decade. For example, every company that falls within the PIE definition is required to rotate

their auditors after a specific period and this can restrict client's freedom of choice. The audit client may not be able to choose the best auditor in the client's point of view. In addition, the mandatory auditor rotation causes expenses.

Client customization is natural

The American Professor reminds that audit is considered a service bundle and the laws of supply and demand guide the audit markets. However, supply and demand rest more or less on regulatory changes of the audit markets. Knechel, who has examined increased regulation and audit clients needs for services, presents that service customization is natural. "Every client has individual needs for eg. consulting services," he presented.

Incentives for service innovation can be declined

Knechel suggested that regulatory constraints on the nature of service bundles can change the nature of competition. "When auditors cannot compete on service, they will compete on price. Competition on price might reduce incentives for innovation affecting the quality of service. Moreover, perceived low quality will lead to pressure for more regulation", Knechel considered.

p. 27 ASSURANCE OF NON-FINANCIAL INFORMATION OPENS OPPORTUNITIES

Wendy Green believes that growing demand for assurance of non-financial information reports opens new opportunities for the auditing profession.

According to Wendy Green, growing demand for assurance of corporate responsibility reports offers significant possibilities for the audit markets. Increased demand from interest groups is due to the need of sustainability information. Furthermore, companies have also started to see corporate social responsibility as one of the key factors to strengthen the business.

The volume of assurance grows smoothly

Findings from recent studies suggest that sustainability reporting and assurance are increasing smoothly as stakeholders increasingly demand information from companies beyond their financial performance. For instance, 95% of the largest companies in the world issue sustainability reports where they disclose their greenhouse gas (GHG) emissions information. And according to a survey conducted in 2011, 46% of the largest companies in the world (G250 companies) and 38% of the 100 largest companies in 41 countries (N100 companies) assured their corporate responsibility data (KPMG 2011).

Assurance supports internal reporting

Professor Wendy Green highlights that external assurance of non-financial information has significant benefits to company itself. The assurance process also helps developing the internal reporting of the company and it provides information that improves internal decision making. However, she reminds the users and providers of non-financial reports that the regulation of assurance reporting is in its early stages. “So far, corporate social responsibility is often viewed as self-regulated, and follows the standards provided by the profession,” she presented.