

NEDs in Conversation (10 min read)

International regulatory trends
impacting the effectiveness of
financial reporting

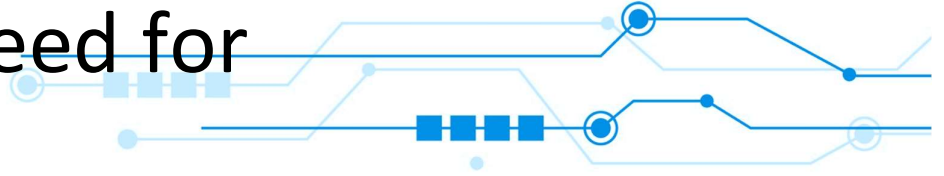
Summary of discussions | 23 July 2020



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IMPACT THAT
MATTERS**

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The urgent need for change



We are under no illusion that change in the financial reporting ecosystem is both needed and expected. In pursuit of such change, there have been government and regulatory reviews both locally and internationally. The interest from the NED community to engage in this discussion is an indicator of the importance of this conversation on how these regulatory trends are impacting the effectiveness of financial reporting.

Reflection of the discussions

After hearing many views from the panel today, we can take comfort in the common objectives which are to achieve high quality financial reporting and provide confidence to not only shareholders, but all stakeholders.

The adverse impact of corporate failures has led to public distrust, and as we design an audit product which is fit for the future, the expectations of society, underpinned by ethical and responsible business practices, should be at the heart of how we respond.

The audit profession is, of course, not the only role player in the financial reporting ecosystem. Our conversations with boards, management teams, regulators and policy makers alike, will be critical to the objective of effecting positive change.

We eagerly look forward to the ongoing conversations.

Sihlalo Jordan
Deputy Chief Executive
Deloitte Africa

Panel of speakers

Nosipho Molope

Audit Committee Chair of Old Mutual and NED at Engen, South32 and MTN

Stanley Subramoney

Audit Committee Chair of Nedbank and Chair of the Audit Committee Forum (an IODSA sponsored sub-committee)

Yunus Suleman

Audit Committee Chair of Gold Fields and Lead NED at Liberty

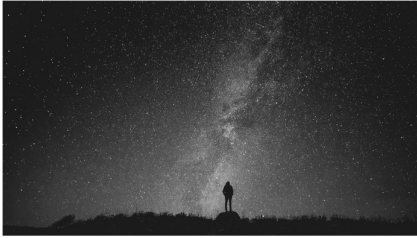
David Barnes

Deloitte global Managing Partner for Public Policy and Chair of the Global Public Policy Committee (GPPC) which represents the six largest professional services firms globally

Panel discussion chaired by Nina le Riche

Deloitte Africa Financial Services Leader and governance expert





“Audit quality has to be the North Star.”

David Barnes, Deloitte

International regulatory trends

Whilst there has been a high volume of consultation and regulatory change around the globe, including India, The Netherlands, the UK, Germany and South Africa, among others. The common denominator is to drive high levels of quality in and integrity of corporate financial reporting.

Three major role players: boards and management teams; regulators; and auditors

The USA adopted Sarbanes Oxley Act in 2002, and Japan adopted a similar version, called J-Sox, a few years later. This was deemed to set the standard for boards and management teams. Looking back, Sarbanes Oxley is deemed to be broadly successful. This experience has resulted in a recommendation that the UK look at a comparable system.

It is widely recognised that strong, effective and independent regulators are critical to the success of the financial reporting ecosystem to ensure effective oversight of all the role-players. The recent Kingman review echoed this sentiment in its recommendations.

The effectiveness and quality of audit was the topic of consideration in the Brydon report. The report confirms that the audit product is valued but more needs to be done to close the expectation gap. These recommendations are expected to have an impact beyond the borders of the UK, and there may be valuable insights to consider when reviewing the local financial reporting environment.

Panel discussion

There is a risk of creating the ‘perfect dinosaur’ which does not sufficiently respond to the current expectation gap from a widening set of stakeholders.

The expectation gap is widening

It is true that the expectation gap has existed for some time, but it is important to recognise that the stakeholders influencing the conversation has widened and extends to include the opinions of the wider society.

If we dive deeper into the widening expectation gap, the issue is not simply the performance of audits. It extends to include how audits are evolving to be fit for the future and how financial reports provide confidence to not only investors, but importantly the general public, who care about how businesses are acting responsibly.

In discussing the evolution of audits, there was recognition from the panel that the skills required to deliver audits of the future will require specialist skills like forensic analysis and the adoption of new technologies. Critical to this was that auditing needs to be seen as a long and attractive career path to ensure that talent pools build deep experience of the client and can bring industry perspectives.

Another observation from the panel was the importance of internal audit in driving quality and assurances. They encouraged that stronger linkages between internal and external auditors be explored.

It was recognised that regulators will need to balance the need for drastic change with minimising long term disruption, with a particular sensitivity towards maintaining the attractiveness of the audit profession to entice highly skilled talent.

Considerations for the Audit Committee Chair

It was clear from the experience of the panel that the board and Audit Committee play an important role, particularly in creating clear expectations around how to drive quality financial reporting. Key to this was defining the roles of management teams and auditors. The panel offered the following advice:

- Boards must provide ethical leadership to drive trust and transparency in financial reporting and communicate authentically.
- Consider the impact of all stakeholders, not just the shareholders.
- Create the governance structure which is tailored with deep knowledge of the organisation and its sector.
- Promote investor confidence and take cognisance of shareholder activism – create an engagement plan well ahead of the AGM.
- Be consistent between reporting periods and year ends. The audience is sophisticated and will easily spot discrepancies.
- Make sure that management teams, boards and auditors have sufficient time to ensure financial close.
- Make sure the information shared with the board is relevant and concise to enable effective oversight.
- Audit Committee chairs should engage with the leadership of the audit firms to ensure that the tone at the top is sound.

Key contacts

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This summary is based on a virtual event with the same title that was hosted by Deloitte Africa's Deputy Chief Executive, **Sihlalo Jordan**, on 23 July 2020. **Nina Le Riche**, Partner leading the Deloitte Financial Services industry and governance expert, chaired the panel discussion. Speakers included:

- **Nosipho Molope:** Audit Committee Chair of Old Mutual and NED at Engen, South32 and MTN
- **Stanley Subramoney:** Audit Committee Chair of Nedbank and Chair of the Audit Committee Forum (an IODSA sponsored sub-committee)
- **Yunus Suleman:** Audit Committee Chair of Gold Fields and NED at Liberty
- **David Barnes:** Deloitte global Managing Partner for Public Policy and Chair of the Global Public Policy Committee (GPPC) which represents the six largest professional services firms globally.

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