



# Relationships with Auditors – Best Practice

December 2011

# Agenda

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- ▶ The future of Auditor reporting
- ▶ The Caribbean experience:
  - Where we came from
  - Our regional experience
  - Our current state
- ▶ The Auditor / Client relationship
- ▶ The Auditor / Actuary relationship
- ▶ Best practices

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# The future of Auditor reporting

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- ▶ Weak governance and the financial crisis triggered a reassessment of many aspects of the audit relationship including the Auditor's report
- ▶ Investors report that they continue to value the "pass/fail" Auditor's reporting model but call for supplemental disclosures
- ▶ In particular, investors and other financial statement users want more information about:
  - Issuers and their risks
  - The audit process
  - Auditor judgements and findings
- ▶ This has resulted in national and international scrutiny of Auditor communications and relationships.

# PCAOB, IFAC, EC discussions

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- ▶ The PCAOB is discussing potential alterations to the Auditor's report, including:
  - Auditor's discussion and analysis (AD&A)
  - Required and expanded use of 'emphasis of matter' paragraphs
  - Auditor assurance on other information outside the financial statements
  - Clarifying certain terms in the Auditor's report
- ▶ IFAC's proposals are similar to the PCAOB with the main differences being:
  - No recommendation for Auditor's discussion and analysis (AD&A)
  - Changes apply to both listed and private companies
- ▶ In the EC there is draft legislation which includes among other things:
  - Prohibiting Auditors from providing non-audit services to audit clients
  - Mandatory rotation of Auditors every 9 years
  - Regular dialogue between Auditor & Regulator .

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# The Caribbean Experience

# Where we came from

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Lack of:

- ▶ Independent partner reviews
- ▶ Partner rotation
- ▶ Peer reviews
- ▶ Audit quality reviews
- ▶ Professional institute oversight
- ▶ Regulatory oversight
- ▶ Effective independence guidelines
- ▶ Emphasis on client acceptance & continuance
- ▶ Professional indemnity insurance
- ▶ Adequate laws & regulations

# Our regional experience

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- ▶ ‘Threats’ to independence
- ▶ Conflicts of interest
- ▶ ‘Poor / inconsistent’ audit quality
- ▶ ‘Poor / inconsistent’ financial statement quality
- ▶ Financial meltdowns
- ▶ Weak regulatory environment
- ▶ Minimal risk of litigation
- ▶ Local GAAP not IFRS
- ▶ Non-existent sanctions / penalties
- ▶ Outdated corporate governance structures (e.g. audit committees)

# Our current state

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- ▶ Adoption of IFRS as local GAAP
- ▶ Increased regulatory oversight
- ▶ Improved IFAC guidance on independence, ethics & quality control
- ▶ Improved legislation in some areas (e.g. TT financial services, publicly listed entities, retirement plans)
- ▶ Increased litigation risk to practitioners
- ▶ PCAOB cross-border oversight (for subsidiaries of US SEC registrants)
- ▶ ICAC / ACCA practice monitoring
- ▶ Requirements for 'Key Audit Partner' rotation and engagement quality reviews on 'Public Interest Entities'.

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How have all of these changes impacted our relationships and what are the best practices?

# The Auditor / Client Relationship

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- ▶ Audit relationship now more complex to manage – ensuring independence is maintained is key
- ▶ Firms have had to invest in systems to track services offered, related party data etc., and have resources dedicated to manage and monitor independence, and train teams
- ▶ This could become even more onerous with the expected reporting changes discussed
- ▶ In Trinidad and certain other Caribbean territories, with the changes to legislation and more explicit exposure for Directors, there has been increased interest in and attention to the audit process

# The Auditor / Client Relationship (Continued)

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- ▶ Increased communication with, and reporting to the Audit Committees (which themselves have strengthened) is positive
- ▶ More robust documentation requirements for Auditors – ‘not documented, not done’ is the motto
- ▶ Increased documentation requirements for Management – good practice for management to document complex and significant matters, and their considerations and conclusions thereon
- ▶ Increased complexity of the accounting standards – working with clients to reach the right conclusions while respecting independence rules could be tricky

# The Auditor / Client Relationship (Continued)

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- ▶ In working with experts, certain Firms now want sign off by their in-house specialists in key areas – reliance on an independent actuary, for example, is no longer sufficient. This was more challenging to implement in the Caribbean
- ▶ Increased challenges with rotation partner requirements (FIA now 5 years and now Insurance Act also proposed 5 years) – how will this impact smaller firms? Relevant industry experience? Working to ensure smooth transitions is critical to excellent client service
- ▶ More frequent and detailed meetings with Regulators has been occurring, with Regulators now having access to our working papers.

# The Auditor / Actuary relationship

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- ▶ Actuaries are involved in some of the most complex standards – IAS 19, IFRS 2, IFRS 4
- ▶ Excellent communication is critical to ensure comprehensive coverage and agreement on interpretations
- ▶ How are we coordinating to ensure that input data is audited and validated (all relevant and important fields)
- ▶ In our market it is often difficult to benchmark key assumptions which is an important element in validating the reasonableness of assumptions – can this change?
- ▶ How involved is, and how equipped is Management to take responsibility for these assumptions?

# The Auditor / Actuary relationship (Continued)

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- ▶ Are actuaries reviewing and signing off on the financial statements disclosures (other than IAS 19)?
- ▶ Internal sign-off by the Firms has broadly been limited to insurance and policy holder liabilities. Requirement for a sign-off on IAS 19 numbers is under discussion.

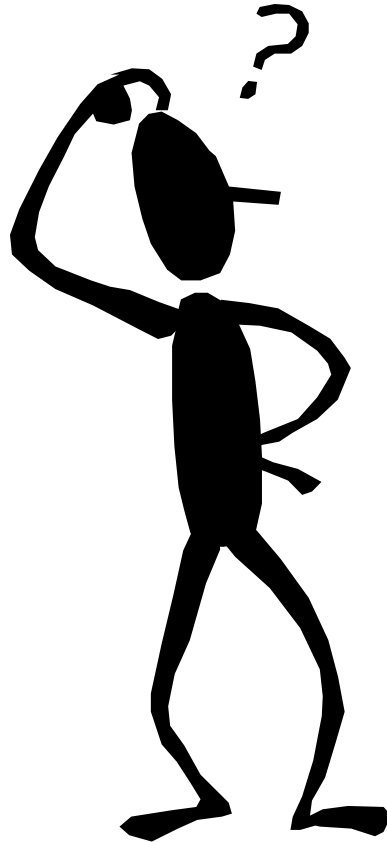
# Best Practices

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- ▶ Communication communication communication – just like any other relationship
- ▶ Earlier is always better than later
- ▶ Best to share positions with your Auditor in “final draft” for feedback and agreement before sign off
- ▶ Ensure that all the right parties are involved in discussions from the start.

# Questions?

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**Thank you**