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# Investor view

## Insight from the investment community

### Are you giving investors the comfort they need?

Assurance today and tomorrow – October 2012

PwC's publication 'Assurance today and tomorrow' shares the views of investment professionals on the value of audit today and their practical suggestions for management, audit committees and auditors on how assurance might evolve in the future.

#### Audit today

Our survey of over 100 investors and analysts in 11 capital markets provides invaluable insight into the investment community's opinion on audit today.

They tell us that they value today's audit, but many say that they do not always read audit opinions, especially if they are unmodified. However, they are unlikely to invest in a company with a qualified audit opinion. They also acknowledge that they cannot themselves access the information they need to perform their own due diligence.

Whether the survey participants routinely read the audit opinion varies according to a number of factors, including the jurisdiction in which a company is listed, its market capitalisation and its history. The type of investor is also a factor – the equity

investors we interviewed are less likely to routinely read the report than their fixed-income peers.

In general, audit committees are not perceived to be as independent of management as auditors: 26% agreed or strongly agreed that audit committees are sufficiently independent, and 35% are neutral; but 39% of those we talked to disagreed or strongly disagreed that audit committees were sufficiently independent of management.

#### More value from today's audit

There was an appetite for more insight into today's audit among the investment professionals we interviewed. Despite their desire for more insight, they recognise it might be difficult to provide this through the auditor's report.

*“The only time I would ever read audit opinions is if there is something contentious in it. They are very few and far between.”*

*“Anybody who thinks they can find out everything they know about a company from the outside is dreaming”*



*“If you don’t have privacy, you don’t have honesty. And if you don’t have honesty, nothing gets done properly.”*

*“Anything that is driving an investment decision or share price should be given a high level of assurance”*

*“We need to see direct dialogue with auditors. Not necessarily to talk company specific, but to talk about the role of the auditor and to better explain what an auditor does”*

The most commonly cited practical concerns included:

- **Quality not quantity:** How can the auditor’s reports be expanded in practice to really add value? They fear that the result could be boilerplate statements.
- **Unintended consequences:** For example, would the debate between auditor and management or the audit committee become less frank if it were known that elements of that dialogue would be reported externally?

When asked where they would value more insight into today’s audit, top of the list was the ‘aggressiveness’ of a company’s financial statements. However, once again, those interviewed questioned how that might be achieved in practice. How can ‘aggressiveness’ be defined or benchmarked?

A significant number also said they would like more information on areas of significant debate between auditor, management and audit committee, and areas where there a risk of material misstatement

The survey indicates that investment professionals are relatively content with the information available to them on going concern, particularly those in mature markets and/or following ‘large cap’ companies. Nevertheless, many respondents suggested that better covenant information from management would be valuable (see also ‘Investor view’ on [business funding](#) and on the [competition for capital](#)).

### **Assurance tomorrow**

Looking forward, we asked the survey participants what levels of assurance they would like on the various types of information they receive.

There was strong support for robust assurance over the metrics that move

markets – most notably non-GAAP and industry-specific metrics – particularly if some ground rules or standard definitions can be developed. There was, however, a note of caution against imposing new regulations in this area if those regulations would result in less information being reported. Unassured data, we were told, is better than none.

In the governance arena, there is strong support among the survey participants for robust assurance over directors’ remuneration reports.

There is less appetite for assurance over corporate social responsibility (CSR) information – unless it is value-relevant. The exception to this lies in the emerging markets, where the investment professionals surveyed would appreciate a high level of assurance on CSR information in general, perhaps reflecting negative local experiences in relation to environmental and other CSR matters.

The vast majority of participants want the highest level of assurance to continue for the primary financial statements and accompanying notes, but there is appetite too for earnings releases (preliminary announcements) to include an assurance report. That said, a number of participants take comfort from the huge reputational damage caused to companies by any need to revise preliminary results; they assume that the penalty for those who revise is sufficient to focus management’s attention on the accuracy of the preliminary results.

Finally, there was a strong desire for more open communication between investors and the audit profession. While PwC is proud of the efforts our member firms make to engage with investment professionals, this survey acts as a reminder that we have a long way to go before the lines of communication are as robust as we would like.

