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EXCLUSIVE INTERVIEW

AUDITORS FACE GREATER DEMANDS FROM INVESTORS

AUDITORS ARE STRIVING to meet higher expectations, PwC International chairman Dennis M Nally says.

ACHARA DEBOONME
THE NATION

There is a need to narrow the gap between professional auditing services and investor expectations, Dennis M Nally, chairman of PwC International, the global arm of PricewaterhouseCoopers, stressed repeatedly in an interview with *The Nation*.

Speaking during his visit to Bangkok last week, he acknowledged that demands to narrow this gap had been gaining momentum in recent years as the globe is engulfed in financial crises and striving for measures to prevent another one. Auditors, considered aloof to investors and performing their job without communicating with them, are now required to adjust to greater investor diversity and demands.

"We welcome the opportunities to engage with regulators in a very constructive design to enhance the relevant and long-term standing of our profession ... PwC welcomes the discussion [on what is] to be done, to help, hopefully, to prevent another crisis," he said.

"There are lessons to be learned by all participants – those involved with the capital markets, auditors, rating agencies and regulators themselves. I expect that over the next 12-18 months there will be firm proposals dealing with a number of issues."

A key move would be to improve communications with investors, to know better what they want. Though there are rules and regulations obliging auditors to offer reasonable assurance in certain areas, better communications are expected to create clear understanding of "what we can do, what we can't". Resources can be pooled from experts in other areas to respond better to investors' demands.

Auditors came under pressure to make changes after the collapse of energy firm Enron in the early 2000s because of fraudulent practices, and Lehman Brothers in 2008 because of over-leveraging. Frustrated with auditors who have failed to provide crucial tips, investors are making a frenzied search for any dodgy accounting that might reveal the next disaster.

"It's a big challenge. There's not one set of investors with one voice," Nally said, referring to the diversity of investors ranging from hedge funds, long-term institutional investors and others who pose different demands. Yet, he said, it is possible for auditors to give more, either with more quantitative assurance, better explanation of the whole auditing process, and improved rules.

Coming with the current crisis is opportunity. Earlier, economic recovery was led by developed markets, but now there is no road map. Investors are not looking just within their own borders, but are seeking cross-border opportunities. And to support their investment, they are looking for assurance of corporate governance and fraud reporting, aside from plain auditing reports. Above all, these services must be consistent.

Discussing how and in what areas auditors could do more, Nally sees the possibility of pooling resources from other services to address investor demands in other areas, such as how companies manage risks. But as these extra services entail extra costs, he asked, who will pay?

Nally said that for any change, there were two fundamental criteria to consider – quality enhancement, and rel-

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evance and sustainability. He acknowledged that investors were seeking more assurance, but whatever the proposals are, they must be evaluated by facts.

One of the proposals floated was the limitation of auditing terms to a particular client. While encouraging debate on this, Nally cautioned that the objectives must match "real-life experiences" or the rules could be troublesome.

He defended auditors, insisting they were not the cause of the financial crisis, as that could not be induced by "one industry, one company or one profession. Each of us is involved and obligated to stop that. We need to find out what has to be done, what could be done to avoid that."

Aside from the changing regulatory environment, another challenge lies in the economic rebalancing with the West in deep trouble and the East prospering. "I believe it [growth in emerging markets] is real and here to stay," he said, as Western countries' economic growth could remain as low as 1-2 per cent for years while emerging markets would show growth of 4-9 per cent per annum.

PwC accordingly sets its sights on doubling its revenue from emerging markets, including the Thailand office, from 21 per cent now to 40-42 per cent in the next five years. The overall business size would also be doubled in the corresponding period to maintain its No 1 position in the industry.

Under the aggressive strategy to be No 1 in the industry, Nally acknowledged that aside from size, PwC needed such critical elements as talent and the best brand.