**Integra International Audit & Accounting Alert**

Issue 6 |November 2018

**At-A-Glance**

Auditors have traditionally been looked upon with a high degree of respect from the public. Also, progress toward gender diversity has proceeded faster than in other professions. Nevertheless, as our first article points out, there is still room for improvement, and while female representation at entry levels has reached parity with males, the proportion of females at top levels drops off significantly.

As with most sectors of society, accountants are racing to keep up with the relentless pace of technological change. However, in the arena of international audit standards, the rate of change is much more protracted. With over 130 countries and jurisdictions impacted, nothing occurs without extended deliberations and debate. Consequently, responding to the prevalence of corporate failures in recent years, the financial regulatory commissions of the world are taking a more involved role in the process of standard setting and oversight. Our second article reports on the developments.

Finally, our Worldwide Update covers news from organizations across the globe.

**Investors Show Confidence in Auditors, but Women Audit Partners Are Still a Minority**

***Two new reports tell the story***

It seems that in religion and politics, to a large extent, you get the answers you want by the way you interpret the information placed before you. That maxim can be applied to the accounting profession as well. A recent Journal of Accountancy (JofA) article was titled *Investors trust auditors, but confidence in U.S. markets drop (9/18/18)*. Good news for auditors, right? However, Accounting Today (AT) titled an article on the same topic *Investor confidence slips in auditors and markets (9/18/18).* Oh, not so good after all?

The JofA article starts out with "Public company auditors remain the group investors trust most to protect their interests…" AT opens with "The vast majority of investors remain confident in public company auditors… but there are signs they are losing some confidence in the past year…" To be fair, AT goes on to say that the 3% drop in auditor confidence from the prior year is within the margin of error.

The articles are referencing the *2018 Main Street Investor Survey*, sponsored by the Center for Audit Quality (CAF), an affiliate of the American Institute of Public Accountants that bills itself as "an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets." CAF has conducted the survey annually since 2007 to measure the trends. With 81% of those surveyed indicating that they have some, quite a bit, or a great deal of trust in public company auditors, the profession can rightly feel good about the public's perception. In contrast, public confidence in U.S. capital markets dropped 11% to 74%, while for markets outside the U.S. the confidence level was only 56%.

In other good news, the survey rated auditors highest, at 81%, among the groups looking out for investors. Financial analysts and advisors, stock exchanges, and credit rating agencies had ratings in the 70-79% range. Journalists, management and regulators had ratings in the 60-69% range, while Congress brought up the rear at 44%.

At about the same time, the CFA Institute, the global association of investment professionals, released a report, *New Public Company Auditor Disclosures*, that analyzes the newly available information about the composition of lead auditors by gender and tenure. This information is the result of Public Company Accounting Oversight Board and Securities and Exchange Commission standards now in effect for public companies.

Applying computer data analytics applications (the AuditorSearch feature of the PCAOB database and a CalcBench program looking at SEC filed audit opinions) to the S&P 500 companies, CFA was able to determine the lead engagement partners by gender and tenure. Only 15% of the lead engagement partners for the 2017 filings were women. In comparison, recent statistics from Catalyst Inc. indicate that 5% of S&P 500 CEO's are women and 21.2% of corporate board members are women. So the female audit partners are better represented than female CEO's, but lesser represented than female board members. Total employees for these companies were 44.7% women.

While the information required by the PCAOB/SEC standards is only available beginning with 2017 filings, the CFA report gave further historical insights. Comparing AICPA Trend Reports from the years 2000 and 2017, the report noted that new accounting graduate hires in 2000 were 56% female, but only 48% in 2017. Even so, more importantly, while over these 17 years the female hires were roughly half of total hires, the number of partners that emerged from these ranks 10-15 years later was only 15% female. The CFA report notes "The accounting profession has sought to answer this issue, but it does not seem to be substantially improving across all firms." As to which gender would be more capable, the report goes on to say "Although the research is inconclusive on whether women make better auditors, the potential benefits of diversity in the boardroom, within top management of companies, and within the investment profession, would seem to apply as well to lead audit partners."

In this regard, the state of California is known for leading the way on various issues. On September 30, 2018, California Governor Jerry Brown signed a bill into law that according to the Los Angeles Times "makes California the first state to require corporate boards of directors to include women…The new law requires publicly traded corporations headquartered in California to include at least one woman on their boards of directors by the end of 2019 as part of an effort to close the gender gap in business. By the end of July 2021, a minimum of two women must sit on boards with five members, and there must be at least three women on boards with six or more members. Companies that fail to comply face fines of $100,000 for a first violation and $300,000 for a second or subsequent violation. Business groups have questioned the legality of a state imposing such requirements on corporations, many of which are incorporated in other states."

Regarding the tenure issue, the European Union mandates auditor rotation every 20 years and mandatory tendering of audit engagements every 10 years. Though the PCAOB does not require mandatory rotation of audit firms in the United States, the tenure of the audit relationship is now required disclosure in audit opinions. The CFA report determined that about 13% of S&P 500 companies changed auditors in the past decade, 34% had a change in the 11-20 year timeframe, and 54% had a relationship of more than 20 years. Only time will tell if audit quality is improved by the periodic "fresh look" by a new auditor, or degraded along with higher costs from firm rotation.

Another telling fact reported was that only 3 of the S&P 500 companies were audited by firms other than the Big 4. Also, in a nod to possibly interesting, yet totally irrelevant facts generated by the data analytics, the report displayed graphics displaying the first names of lead engagement auditors, with the most common shown in the largest font. For the women, Kathryn and Laura were followed by Laurie and Lisa as the most common female names. John led the men, with Robert and Michael just behind. Alas, the miniscule font representing Gerald denoted that for those of us bearing that moniker, only one or two audit opinions were signed with our first name.

Further details can be found at 2018 Main Street Investor Survey and New Public Company Auditor Disclosures.

(https://www.cfainstitute.org/en/advocacy/policy-positions/new-public-company-auditor-disclosures) and (https://www.thecaq.org/2018-main-street-investor-survey)