

Audit quality as a cornerstone for transparency

More than ever auditors, audit committees, investors, and regulators are seeing value in achieving high standards of audit quality.



The global market turmoil we have witnessed, and demand for increased transparency suggests that reliable financial information supported by quality audits are key elements in enhancing market confidence and an important tool for effective banking supervision.

External audits performed in accordance with globally accepted auditing and ethics standards provide comfort that the financial information made available to the public is reliable, transparent, and useful to the marketplace and thus contributes towards strength of the banking systems. The Middle East, a region experiencing rapid change in the business environment, has also seen the bar being raised due

to the efforts of regulators and the changing demands of stakeholders.

Melding traditional audit practice with new technologies, such as data analytics, machine learning and algorithmic checking is providing organizations with data-driven insights and assisting with evolving reporting and regulatory requirements. A more efficient and accurate audit process is capable of delivering improvements across key metrics including quality of assurance provided, and its timing. This is key for the banking industry and regulators alike.

Other than focusing on technology, audit firms also involve more subject-matter experts to support

audit teams in testing complex areas of banking audits, like model driven loan loss allowances, valuation of financial instruments and financial risk disclosures.

And yet auditing is both a science and an art, as it relies on both applied, practical functions as well as instinctive, human interactions and behavioral elements. Fostering the right culture and values is as equally vital to attaining excellence as the process itself. A clearly articulated strategy, a focus on audit quality, consistency, trust, and growth, must be championed by the leadership within the organisation – they share accountability with the auditors. That accountability, along with the assigning of roles and responsibilities, is a result of strong oversight and robust governance.

The importance of the delivery team – appropriately qualified, experienced and with diverse perspectives – is also a must. Indeed, the pursuit of quality starts and ends with people, and for that to materialize the right talent needs to be recruited, trained, and motivated. Continuous personal development plans should be part of the program to maintain high levels of learning and development on technical expertise, professional acumen, and leadership skills – and help to retain talent. On-the-job training plays a key part in

developing the personal qualities that are important for a successful career in auditing – including developing professional judgement and scepticism.

These factors are shaping the auditing profession in Saudi Arabia and the region today, just as they are the world over. The pursuit of higher standards in audit quality is an issue that transcends national boundaries and is of global interest.

Bank audits are evolving

As financial institutions – including banks – become increasingly complex, they present new challenges to auditors. During the unprecedented circumstances of 2020, expected credit loss (ECL) models were regarded with a lot of subjectivity, while the recent rally of interest rates is affecting the cost of funds as well as the valuation of long-term assets which are usually purchased at fixed rate.

These complexities are compounded by model-determined values of various financial instruments. New risk assessments are required, often soliciting the involvement of financial risk modelling experts to challenge the credit risk associated with a bank's loans and advance portfolio (loan loss allowances and recognition of other impairments), exacerbated by insufficient data histories (new products, new issues of securities), lack of observable input parameters (collateral information may not be available or may not be sufficiently comparable), among other factors.

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Raising the bar on audit quality, upholding compliance with global standards, and achieving international best practice are key to maintain and grow the trust in Saudi Arabia's capital markets.

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Furthermore, these complexities can evolve further based on the market conditions whereby the current high interest rate environment poses challenges around assessment of liquidity risk and market risk (fixed interest instruments purchased in low interest rate environment). These require involvement of relevant subject matter specialist to effectively challenge the fair valuation estimates, adequacy of disclosures and exposure to risk.

Industry consensus and active collaboration driven by SAMA and audit firms play a pivotal role in Saudi Arabia to mitigate and effectively manage these risks. SAMA has supported in creation of several banking forums to essentially debate evolving financial matters that can impact the industry and agree on a cohesive approach. Moreover, the New Banking Law which is currently in draft stage and circulated for public consultation, will also cement the regulatory framework for banks with latest development in the sector and to ensure stability and growth of the sector.

Going forward

Our focus is to continuously invest and innovate, with an unremitting improvement objective. We are always keen to invest in audit technology comprising the latest audit tools and resources including data and analytics technologies, and to keep our audit methodology updated with the latest developments in the international standards of auditing.

Driven by regulators, clients and audit firms alike, audit quality is truly the foundation of the profession, with a drive to create greater consistency in the performance of all our audits and strengthen the monitoring of engagement milestones by both engagement teams and audit leadership. In-order to achieve this objective, it is critical to leverage advanced data analytics technology to conduct data-enabled, risk-focused and high-quality audits.

In conclusion, the global drivers for raising the bar on audit quality are diverse, ranging from increased stakeholder demands to emerging technologies. Against this backdrop, the focus regulators in the Kingdom are bringing towards audit quality, with new frameworks, approaches and technology, is contributing to an environment where businesses are held accountable, investor confidence is optimal, and trust is maintained in the integrity of the capital market.



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