GPPC

The Multidisciplinary Model (MDM) of the Modern Audit Firm: Bringing Together Skills and Competencies to Enhance the Quality of Audit – A view from the Global Public Policy Committee[1]

Executive Summary

A business model combining audit with complementary service lines offers the best platform for auditors to fulfill their public-interest obligation to protect investors. Rising complexity of business, ever accelerating technological change, and the need for assurance on a widening range of company information all reinforce the benefits of the multidisciplinary model of audit firms.

Discussion

The primary objective of the public company audit has remained the same over time – to provide financial statement users with reasonable – but not absolute – assurance that the financial statements prepared by management are fairly presented. However, the environment in which the public company audit is conducted has changed drastically over the last couple of decades for a number of reasons, not only the changing market realities cited above but also major financial crises and regulatory response to high-profile financial and audit failures. The public interest debate has led to the examination of the business model of the audit firms themselves, particularly the multidisciplinary model (MDM) of the large, global accounting networks. Critics have asserted that such a model may pose conflicts to auditor independence, negatively affect firm focus and culture, and further reduce auditor choice in an already highly-concentrated landscape dominated by the largest firms. We take these concerns and the need to address them with utmost seriousness. While acknowledging the MDM's potential challenges, the GPPC networks, along with other large, global accounting networks, continue to embrace the MDM as the most effective structure for furthering their firms' commitment to the audit function itself and to audit quality. Indeed, we believe a blank-slate exercise to design the most effective structure for audit firms, in light of today's business and market realities, would arrive at the MDM as the best model for auditors to meet their public-interest responsibility.

The MDM provides the structure, breadth and depth of industry expertise, and necessary balance of audit knowledge and specialist skills to successfully adapt in a dynamic environment and deliver high-quality audits. While the global networks value growth across all of their functions, expansion of tax and advisory service lines can serve to strengthen audit practices by creating additional resources with which to invest in top-of-the line audit technologies and first-rate talent. Importantly, the role of independent auditor oversight also has evolved, ending an era of self-regulation, placing important checks on the audit profession to ensure independence within the context of the network firms' multidisciplinary functions, and recognizing the need for auditors to adequately supervise the work of specialists which has become much more abundant in this increasingly complex and digital age.

The GPPC networks collectively employ nearly 1.3 million people worldwide, largely through independent firms operating in 150+ countries.[2] Generally, GPPC network firms' primary business lines

[1] The Global Public Policy Committee is comprised of representatives of *BDO International Limited, Deloitte Touche Tohmatsu Limited, Ernst & Young Global Limited, Grant Thornton International Ltd (GTIL), KPMG International Cooperative, and PricewaterhouseCoopers International Limited,* and focuses on public policy issues for the profession.

[2] Data extracted from the individual 2019 and 2020 Global Annual Reviews of the GPPC network firms.

include audit, tax, and advisory services spanning a wide range of industries, from financial services to energy and natural resources, technology to consumer goods. Thus, GPPC network firms are able to draw from a diverse talent pool, both in terms of background and skillset. The GPPC networks utilize in-house specialists employed across functions to build balanced and competent audit engagement teams. A high-quality audit of a complex organization today requires skill sets well beyond traditional auditing expertise, including cloud computing, data analytics, artificial intelligence, and cyber. Moreover, the rapid growth of investor and market demand for assurance on information beyond the traditional financial statement, including ESG, will require an even broader range of subject-matter experts with cutting-edge skills.

The most talented specialists in these emerging fields would not come to work for a firm if their role were limited to audit support. At the same time, from the GPPC's view, it is crucial to keep these specialists in-house for a number of reasons. First, using professionals across functions that are employed by the same network ensures that auditors and specialists alike are bound by the same standards of quality and ethics, share common professional values, and are intertwined in a culture and brand which largely has been built on a reputation for high-quality audits. Second, the benefit of having specialists on hand, often in the same building, is invaluable to engagement teams, as specialists are needed at various times throughout the entire audit cycle to address technical issues as they arise. Likewise, the non-audit functions are critical for housing and grooming specialists. They serve as an effective recruitment tool for the GPPC networks as young professionals may wish to gain audit knowledge and experience but not limit their exposure to other disciplines and work environments, and developed talent may not want to feel limited in terms of their scope of work. Also, specialists often perform their most cutting-edge work in their respective fields through their employment with non-audit functions. This helps keep specialists' skills sharp while allowing audit teams access to true experts in multiple disciplines and industries. Any impediments to attracting talent or accessing this expertise would be to the detriment of audit quality.

Many of the most recent criticisms of the MDM relate to the rapid growth of non-audit services (NAS) compared to audit, which opponents say diverts leadership attention and firm resources away from the audit practice, negatively impacting audit quality. However, the competition for the largest audit clients remains fierce, signifying that firm leadership is committed to the audit business and brand. More intense regulatory scrutiny of auditors which can have a major impact on both individual and firm reputation has kept leadership focused on the audit function upon which the networks' brands and reputations have been cultivated. In terms of culture, critics assert that a firm in which most of the revenue is driven by transactional, non-audit engagements may develop a purely commercial mindset and lose its sense of serving the public interest. While issues of culture are handled differently across the GPPC network firms and cannot be thoroughly described at length, collectively, at the heart of the networks' public interest mission is a culture committed to high-quality professionals producing high-quality audits. GPPC network leadership strives to manage any risk to quality or independence stemming from the MDM by investing a great deal in sound governance, policies, processes, training, and other measures.

As it relates to shifts in firm culture having impact on auditor choice, critics argue that the audit firms' drive for more lucrative advisory business over audit engagements, combined with independence rules such as NAS restrictions and mandatory firm rotation (MFR), significantly limits the choice of auditors in the marketplace. The GPPC networks acknowledge this inherent tension and believe it essential for the tone at the top of network firms to reflect the belief that providing audit services, and more importantly, *high-quality* audit services, is essential to maintaining firm brand and critical to the overall success of the networks. Protecting the public interest and driving growth across all functions are not mutually exclusive. In fact, producing high-quality audits promotes both at the same time. Still, we encourage regulators and stakeholders worldwide to consider whether policies such as MFR and strict NAS rules, especially in combination, are the most effective solutions to the problems they are put forward to solve, or if the unintended negative consequences outweigh the benefits.