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## Rebuilding trust in the audit profession isn't down to the auditors alone

Ignatius Sehoole was appointed as CEO of KPMG South Africa in June last year, and given the challenging task of rebuilding and restoring trust to the public and the SA business community and the audit profession more broadly too. He is tackling the challenge head on, and while there are very specific steps he's taking within KPMG's walls, he believes that public trust in the audit profession must be rebuilt by every individual involved in the financial reporting space. By Georgina Guedes

“In the financial reporting system, the process includes auditors and non-auditors alike – both auditors and non-auditors are involved in putting together financial statements. If you isolate the auditors, you are only looking at the end part of the financial reporting chain,” says Ignatius Sehoole, KPMG South Africa CEO. “I think it would be better to work in an environment where every participant in the chain puts the same effort into putting public interest first – towards having unparalleled integrity and towards having ethics that are unassailable.”

The risk of focusing on the integrity of the audit profession in isolation is that, according to Ignatius, “something might fall through the cracks”.

He acknowledges the extensive efforts being made by the South African Institute of Chartered Accountants (SAICA) and the Independent Regulatory Board for Auditors (IRBA) in working towards the common goal or restoring faith in the accounting and audit profession.

“Not only should both sides step up to meet public expectation, what is important about this is that individual accountants and individual auditors need to step up and do the right thing. Regulation comes at the end. You need the individuals involved in every step of the financial reporting process to take public interest and integrity very seriously, to take the highest level of ethics very seriously,” says Ignatius.



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For auditors, this means following standards and delivering the highest quality of engagement. It also means injecting a healthy level of professional skepticism towards whatever is presented to you. “Does it make sense in the totality of what you know about the organisation, the industry, the region, the country, and whatever other aspects might be applicable? It’s not just about making sure that it meets all the standards and ticks all the boxes – that it’s done the mechanical stuff of meeting what the requirements are – you have to sit back and ask, ‘Does this make sense in relation to all the other information?’”

**In practice at KPMG**

At KPMG, Ignatius says that his goal is to inculcate this outlook in every individual. “We are in a fortunate position as the audit profession in that we are granted the responsibility by law to perform audits. We need to take the public interest responsibility very seriously, and we ingrain that in our people from the very first moment that they join the firm. Their first and foremost duty is to the public interest, not to me, not to our clients or to the firm.”

KPMG has the stated vision of wanting to be “the most trusted and trustworthy professional services firm”. This cannot be achieved, says Ignatius, if the culture isn’t right, and if the individuals that make up the teams don’t have the right mindset and the right attitude. “No matter what the circumstances, no matter what the pressures, what makes you up as a person will carry you through whatever difficulties you face.”

KPMG has quality management systems in place to ensure that its audit teams deliver appropriate quality assignments, and risk management systems to check that its staff are all operating above board. These systems include the performance of continuous integrity checks not only on the employees, but their spouses and dependent children as well.

“We also have quality monitoring processes that are not limited to audit engagements, but evaluate the quality of all services that teams are delivering so that we can take action on what we find. If we do find any-

thing, we engage in a process of root cause analysis to see if we need to design and enhance our existing controls, and we learn from the process, and take corrective action. As a firm, we need to make sure that every engagement we are involved in delivers the highest quality.”

He says that KPMG South Africa is also subject to the KPMG Global monitoring processes, and subject to periodic reviews by IRBA, the audit regulator. “As we get reports from them, they are telling us how far they’ve seen us move in the right direction.”

**Getting the culture right**

While checks and balances certainly have a role to play, Ignatius believes that building a culture of accountability and ethics within the firm is a crucial part of moving KPMG forward. To this end, they have appointed a chief ethics officer, who runs workshops within the firm. “Everyone has to attend,” says Ignatius. “I’ve attended!”

He adds that acting on any information received, whether it’s anonymously via the local or international hotline, or from any other source, is crucial to rebuilding trust and to ensuring an ethical culture. “If something is reported and you find it has substance, you need to be seen very quickly to have taken action.”

He says that people should hold each other accountable, too. “I want people to say to me, ‘Ignatius, how does what you say stack up to what you are doing?’ People should hold each other accountable. It’s not only my responsibility to make sure people are acting ethically. Everyone has that responsibility.”

He feels strongly that being a part of KPMG is a lifestyle, and that employees have to be ethical and accountable wherever they go – not just during working hours. “There’s only one you, and that’s the you that is a part of KPMG. We’re a family, and these are the rules of the family, and if you can’t live by the rules, then you can’t be part of the family. It’s as simple as that.”

He believes that the more this is promoted as the ethos of the firm, the more people who don’t consider them-



selves part of that kind of family will leave. And that as this culture becomes increasingly widely entrenched and communicated externally, they will continue to attract the right people to a firm they can identify with.

This approach to culture, Ignatius says, is not only about doing the right thing ethically. It makes clear business sense as well. A study in 2018 by Bank of America Merrill Lynch found that firms with a better ESG [environment, social and governance] record than their peers produced higher three-year returns and were more likely to become high-quality stocks and were less likely to have large price declines or go bankrupt.

“Not only does it make human sense, it actually also makes commercial sense to always do the right thing, even when nobody’s looking,” says Ignatius. “And that’s the culture we are building here. We are not doing it for anybody else. We are doing it because that’s who we are, that’s how we identify ourselves, and that’s how we want to deliver on our vision.”

**A long-term view**

Ignatius acknowledges that a culture shift is not something that happens overnight. “It’s not a quick fix. We have a continuous journey to get to the right place. But anecdotal evidence is showing me that people feel that they can communicate when things are bothering them. This is a big step forward, because it gives us the opportunity to see what’s wrong and deal with it.”

He says that ultimately, the public will pronounce, adding: “They are the best measure. It’s not what you tell yourself; it’s when the public says you are serving their interest. That is the voice you need to listen to. And if you go by that, we are still in the continuous phase of rebuilding that trust. But I am confident that as insurmountable as it might have looked two years ago, we are going to get there, because we are determined and we know we are doing the right thing. It’s not for the sake of anyone or anything else. It’s the ethos we live through, our value system, how we look at life, how we react, and I believe that this will get us to the right culture to ensure we get the public trust back.” ●