

# Role of auditors in promoting investor confidence



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## Overview

Stability and growth of an economy and financial markets are dependent upon trust among stakeholders. One cannot take trust for granted. External stakeholders, such as investors, creditors, and regulatory bodies, rely on audited financial statements to make informed decisions. Internal stakeholders, including management and boards of directors need insights into the efficiency and effectiveness of internal controls and risk management systems.

With the advent of new technologies, greater openness of the economy and faster transmission of information flows, it has become paramount to ensure credibility and confidence in the system. Misreporting may occur due to errors in the financial reporting process. Further, at times, being responsible for financial performance, management may also have some compulsions to misreport.

Auditing is thus very vital for having trust in financial

information. It provides an independent and objective assessment of an organization's financial statements, internal controls and compliance with relevant laws and regulations. An independent challenge by the auditor during the audit process is an important safeguard against any misreporting and promoting investor confidence. High-quality financial reporting and a robust auditing profession are the bedrock of market capitalism.

## Emerging trends of how auditors enhance confidence

We have noted several emerging trends through which auditors in today's era enhance confidence in the audit. This has changed both in terms of processes as well as the culture within the audit profession.

**Focusing on Auditor Independence** - The audit is perceived as a public good and hence stakeholders must have confidence in the auditor's independence. The objective of providing credibility to the financial statements cannot be met if the Stakeholders (Shareholders/ Regulators/ Prospective Investors/ Lenders all others) do not believe that there is full independence on the part of the auditor while providing their opinion. Hence, Auditors need to be independent both in form and in perception. Auditors need to demonstrate a high degree of professional skepticism, particularly in areas involving management judgement and assumptions, and in areas that are susceptible to fraudulent reporting. The readiness to challenge and ask probing questions about a company's transactions, processes, controls, reporting and governance practices greatly adds to the quality of audits. By building robust independence limitations, the auditors are demonstrating that they are unbiased in giving their opinions and can promote investor confidence.

**Additional procedures on Non-GAAP measures**- Investors today look not only to the financial statements but to a multitude of other information when making investment decisions including sustainability reports, environmental, social and corporate governance matters, and non-GAAP financial measures. Investors rely on key performance indicators because they find it a quick way to focus on an entity's performance. However, often this information is not consistent, comparable, reliable or well-disclosed. Further, investors are not clear on the nature and extent of auditor review involvement with that information. As per some studies, audited financial statements account for not more than 20%-25% per cent of the information an informed investor uses to make their decisions. The rest is generally from Management Discussion & Analysis, press releases, analyst calls with management and investor information packages which are generally not part of audit. When the auditor audits this information, whether as part of external audit or management audit, it helps in the investor confidence.

**Enhanced focus on clear and transparent reporting** – the audit report serves as the mode of communication between an auditor and the users of the financial statements. While the format of the audit report is generally prescribed by regulations, auditors have the mandate to describe the key audit areas of the audit that they focused on and the procedures performed in these areas, through their 'key audit matter' reporting. Further, auditors need to ensure that they call out any disagreements or concerns by appropriately modifying their audit reports either through qualifications or highlighting any going concern uncertainties in a timely manner. The Regulatory bodies in their review reports or oversight publications have also considered this as a significant aspect of whether the auditor has discharged its duties with sufficient care or not. When the audit report is clear and transparent, it helps in building investor confidence.

**Use of Technology and integration of Artificial Intelligence**– Considering the ever-increasing Regulatory oversight and the business complexities, auditors nowadays are needed to ensure consistent compliance with the auditing standards by investing in people, processes and technology and use of Artificial intelligence tools e.g. AI is being used to automate repetitive tasks to improve efficiency, accuracy, and the overall employee happiness of your everyday auditors, by allowing them more time to focus on the more interesting aspects of audit. In the area of people, auditors need to attract and retain talent and ensure that they are adequately trained. Process investments would entail development of appropriate tools and quality control checks that can be used by the audit field teams. With an appropriate investment in technology and data analytics tool, auditors are able to obtain and provide the required level of assurance in a technology-dependent and thus increasing investor confidence.

**Accountability**- Investors today expect to hold auditors accountable for their work and not to view the audit as merely a regulatory requirement. Investors believe that regulators and audit firms should take steps to ensure that the culture and tone at the top as set by firm leaders promotes audit quality, independence, objectivity, and professional skepticism. Investors believe that the quality of the audit is improved by the nature and quality of the interaction between the audit committee and auditor. Internal auditing is another critical aspect of promoting transparency and accountability within organizations. Internal auditors employed by the company assess internal control systems, risk management, and governance processes. Their role is to provide leadership with independent and objective evaluations, identifying areas of improvement and ensuring adequate controls are in place. Internal auditors play a proactive role in risk mitigation, fraud prevention, and operational efficiency, promoting good governance practices.

### **Conclusion**

High-quality financial reporting, strong internal controls and a robust audit are the collective responsibility of all stakeholders in the ecosystem and improve investor confidence. Management, audit committees, regulators and auditors all need to work together in this area. Audit process and Auditors certainly contribute one of the most significant roles in building investor confidence in financial reporting.

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