The future in the practice of auditing

48th World Continuous Auditing and Reporting Symposium • Madrid • September 24 & 25, 2020

Cleber Beretta Custodio
The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

In conducting the audit so as to achieve its objective, the overall objective of the independent auditor is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to report on the financial statements in accordance with the auditor's findings.

*Par. 4 and 5 - ISA 200, Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing*
The audit profession scandals constantly under the spotlight

The audit profession in constant evolution

The audit profession expectation gap

The future of the audit profession
The audit profession scandals constantly under the spotlight

Enron Scandal
WorldCom Scandal
Lehman Brothers Scandal
BERNIE MADOFF SCANDAL
Thomas Cook
Carillion
Wirecard
The audit profession in constant evolution

SOX (Internal Control Audit)
Independence
Key Audit Matters
ISA 720
ESEF
The audit profession expectation gap

Is audit fit for purpose?

After Wirecard, shareholders say company accounts and audits no longer provide the information investors need.

Knowledge gap: What the public thinks auditors do

Performance gap: What auditors actually do

Evolution gap: What auditors are supposed to do

What the public wants auditors to do

AUDIT EXPECTATION GAP

Brydon and the audit gap: Expectations, definitions and fraud

Sir Donald Brydon’s report into the quality and effectiveness of audit was published at the end of 2019, and in it, Brydon tackles the issues of the audit expectation gap and the issues it causes. In this article, we look at some of his key recommendations and observations made in the report.
The future of the audit profession

- **Stakeholders broadly find value in audit.** However, there is demand for change. The world is changing and within this context there is a clear interest in assurance on forward-looking, non-GAAP and non-financial information. Given this, audit needs to, at least, keep pace.

- **Audit is part of the wider financial ecosystem.** Concerns around the way companies manage risk can be only partially addressed by reforming the audit report – all market participants will need to contribute.

- **There is demand for more nuanced communication to investors and wider society about the risk profile and prospects of companies.** Audit reform is part of the answer to this.

- **There is concern that more regulation** and new technical standards will lead to more box-ticking rather than less.

- **Process reforms** will be important, determining the way auditors relate to ACs, investors and the wider world.

- **To sustain support from the wider business community,** it is important reforms are effective and have cost implications that are proportionate to the benefit they deliver.

**Meanwhile** (ENHANCE PROCEDURES IN ALREADY EXISTING ISAS):

- Fraud
- Analytics
- Cyber
- Climate
- Viability
- Controls, Governance & Ethics
The Cosine Similarity of KAM Disclosures for Spanish Companies

Sheng-Feng Hsieh
Cleber Beretta Custodio
Miklos Vasarhelyi
Andrea Rozario
Objective – Are auditors copying KAMs?

• Understand whether KAM disclosures in Spanish company’s FY 2018 and 2017 (after filtering out individual F/S) auditor’s reports are presented similarly by different:
  – KAM topics
  – KAM topics + Accounting firms
  – KAM topics + Accounting firms + Industries

• Understand whether KAM disclosures from each single company are presented similarly between FY2018 and FY2017.
“Modification” Measure - Cosine Similarity

\[
similarity = \cos(\theta) = \frac{A \cdot B}{\|A\| \|B\|} = \frac{\sum_{i=1}^{n} A_i B_i}{\sqrt{\sum_{i=1}^{n} A_i^2} \sqrt{\sum_{i=1}^{n} B_i^2}}
\]

0-1
FY 18 Results (Post-filtered)

The Average Cosine Similarity of KAM
(KAM item similarity compared on a KAM topic basis)

15 Financial investments in group companies and associates
FY 18 Results (Post-filtered)

The Average CS of KAM (KAM Topics + Accounting Firms) (Top 25)
FY 18 Results (Post-filtered)

The Average Cosine Similarity
KAM Topic + Accounting Firm + Industry Code

The Average CS of KAM (KAM Topics + Firms + Industries)
FY 18 & FY 17 Results

The Average Cosine Similarity of KAMs
(The Same Company Between FY 17 and 18)
“Excellence is not a gift, but a skill that takes practice. We do not act ‘rightly’ because we are excellent, in fact we achieve excellence by acting rightly.”

Plato, Philosopher