




The future in the practice of auditing

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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



1

The audit profession
scandals constantly under
the spotlight



2

The audit profession in
constant evolution



3

The audit profession
expectation gap



4

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

FTfm Corporate governance + Add to myFT

Is audit fit for purpose?

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



<https://www.accaglobal.com>



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.

AccountancyAge
Beyond the numbers

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 future of the audit profession – Also lots of Collaboration (i.e.)



RUTGERS
THE STATE UNIVERSITY
OF NEW JERSEY

DRAFT

The Cosine Similarity of KAM Disclosures for Spanish Companies

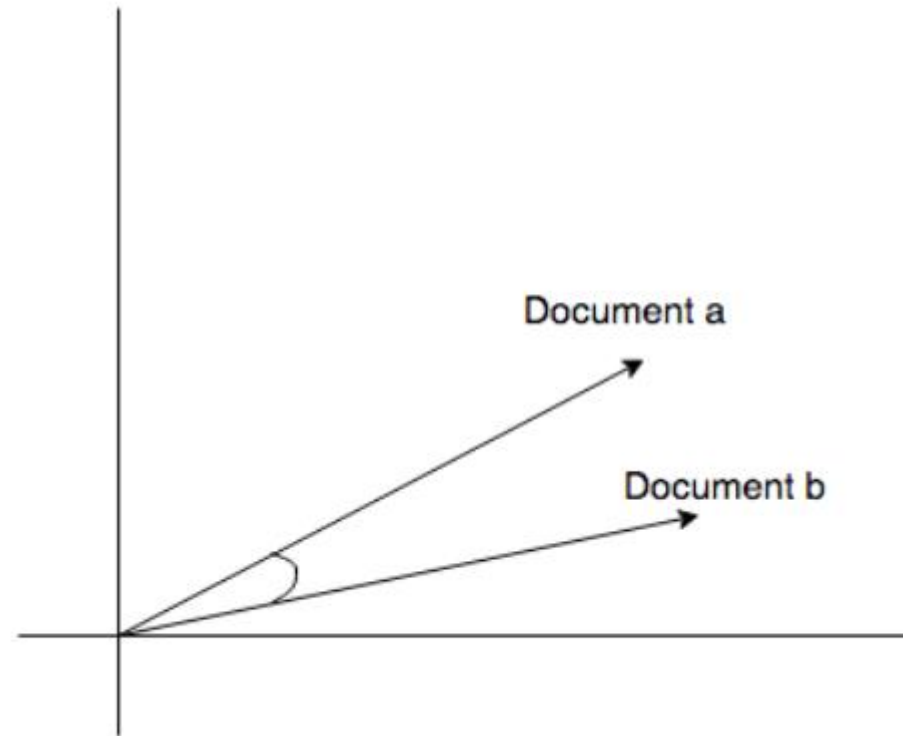
Sheng-Feng Hsieh
Cleber Beretta Custodio
Miklos Vasarhelyi
Andrea Rozario

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

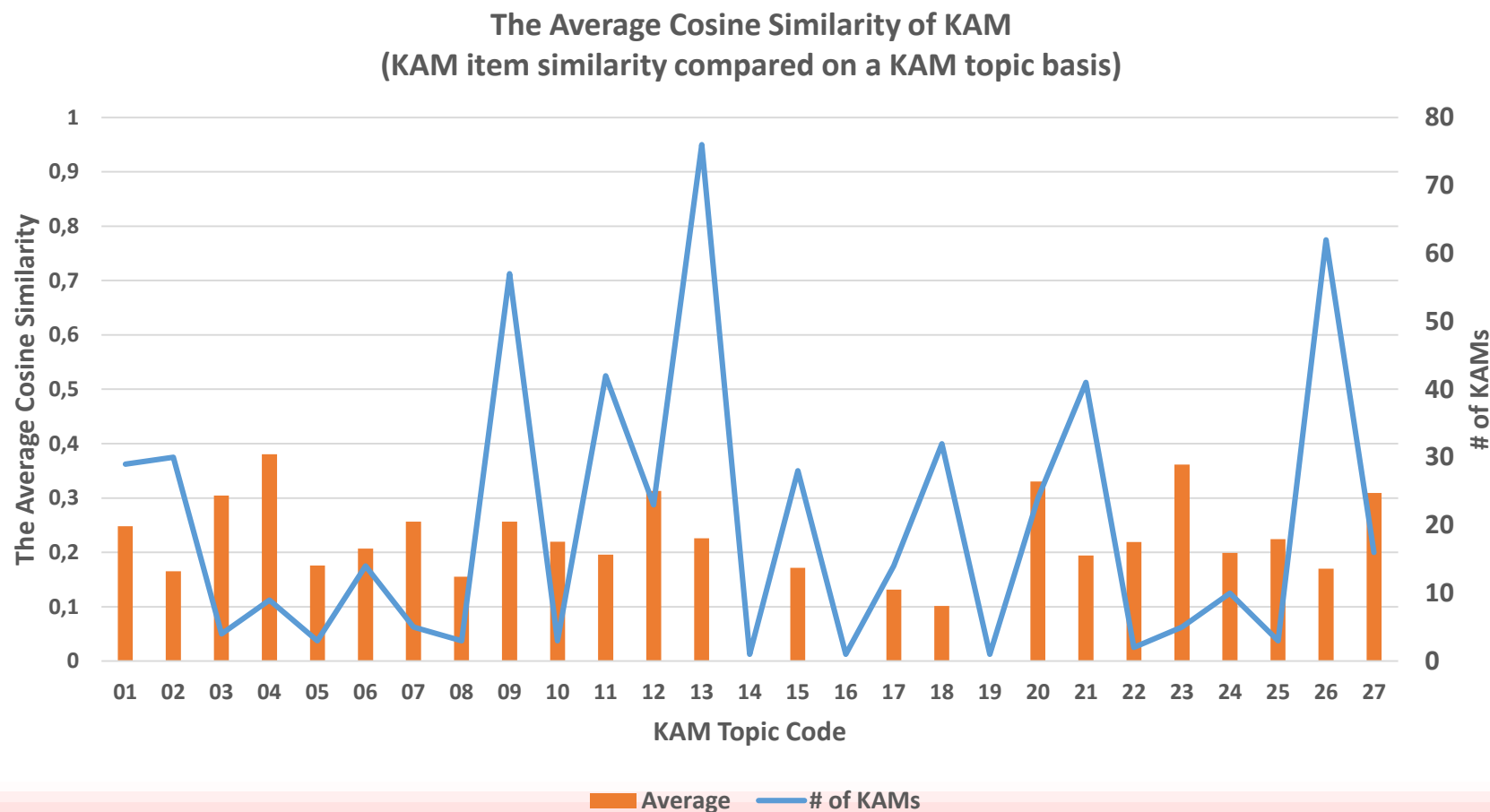


$$\text{similarity} = \cos(\theta) = \frac{\mathbf{A} \cdot \mathbf{B}}{\|\mathbf{A}\| \|\mathbf{B}\|} = \frac{\sum_{i=1} A_i B_i}{\sqrt{\sum_{i=1}^n A_i^2} \sqrt{\sum_{i=1}^n B_i^2}}$$

0-1



FY 18 Results (**Post**-filtered)

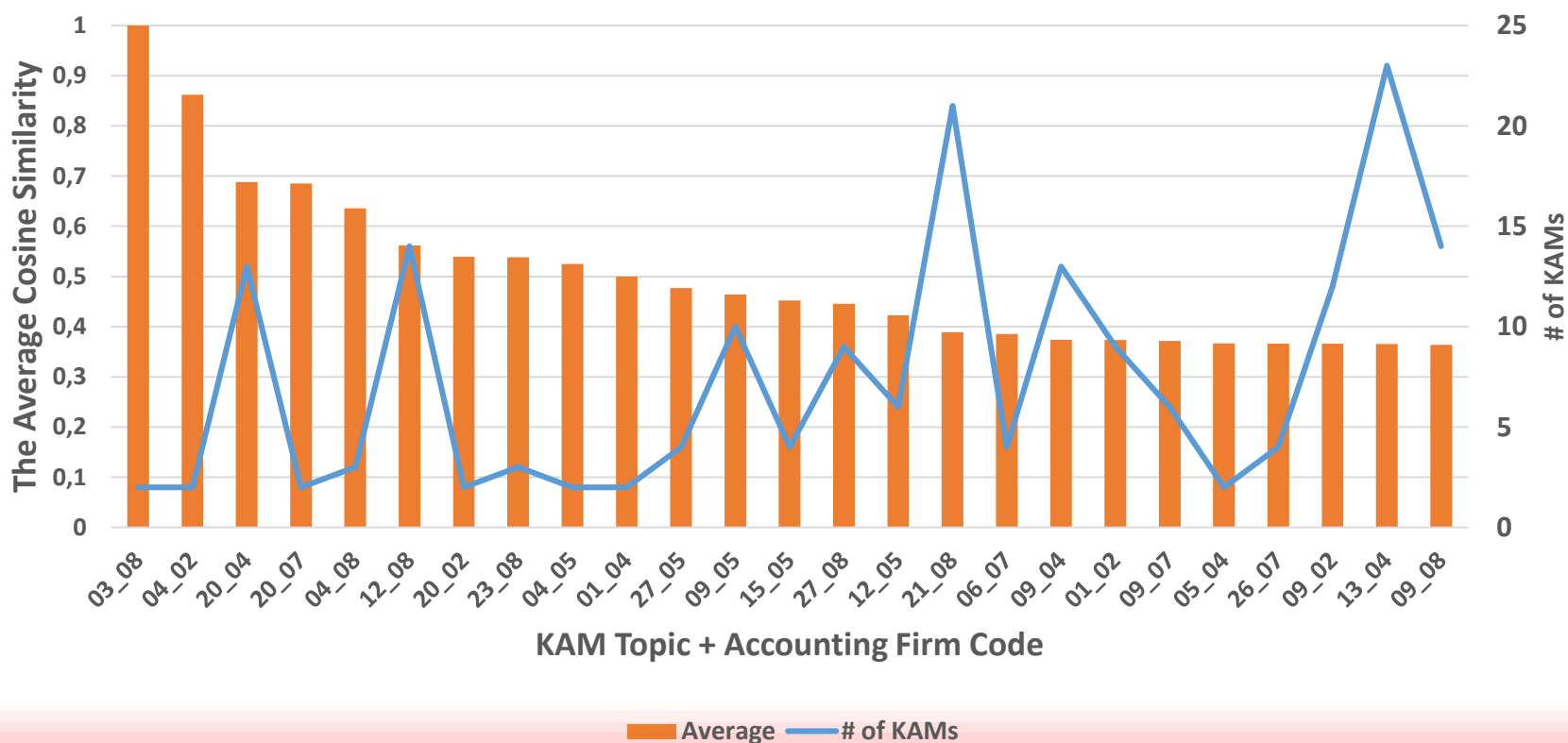


15 Financial investments in group companies and associates



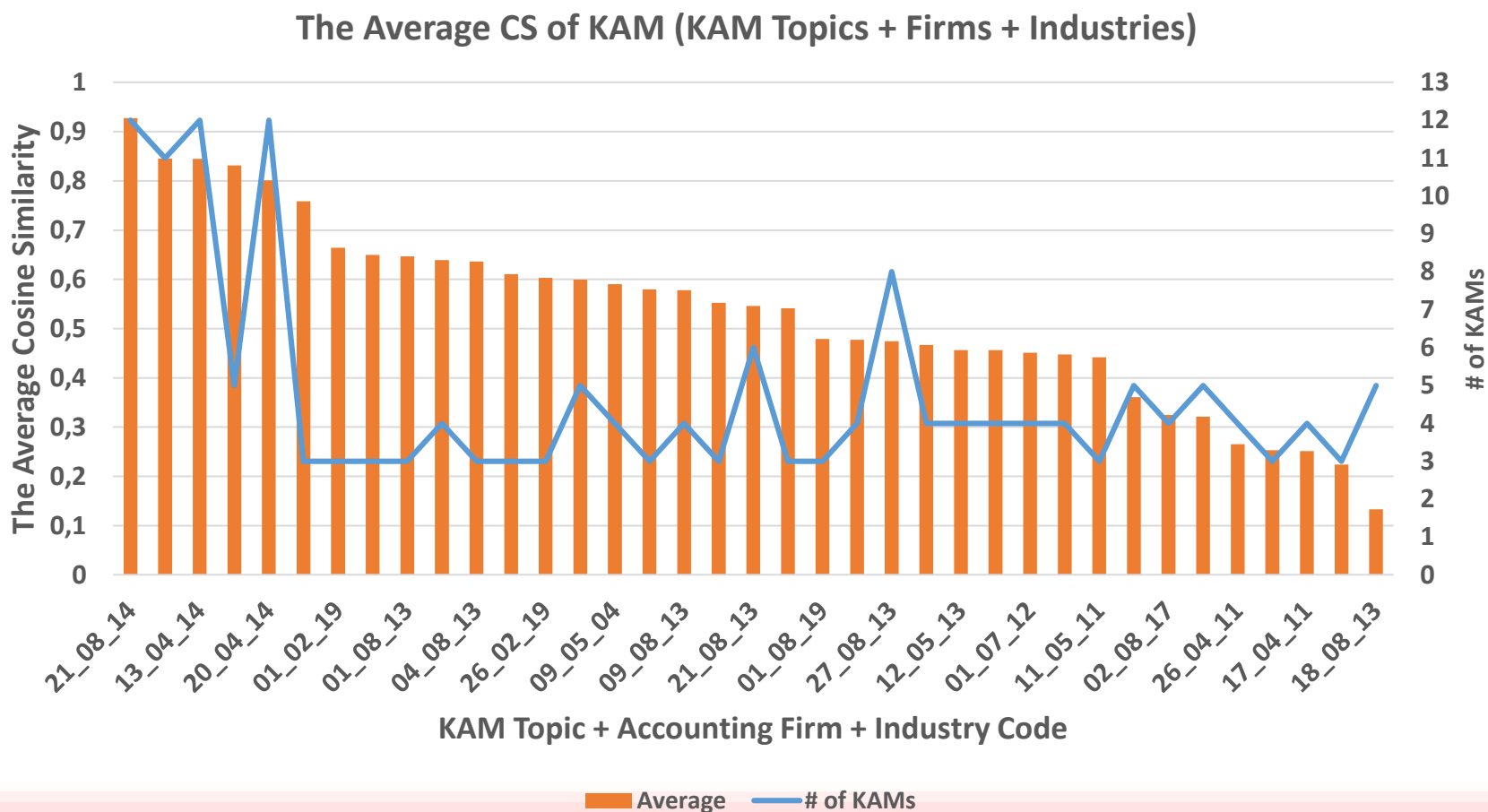
FY 18 Results (**Post**-filtered)

The Average CS of KAM (KAM Topics + Accounting Firms)
(Top 25)





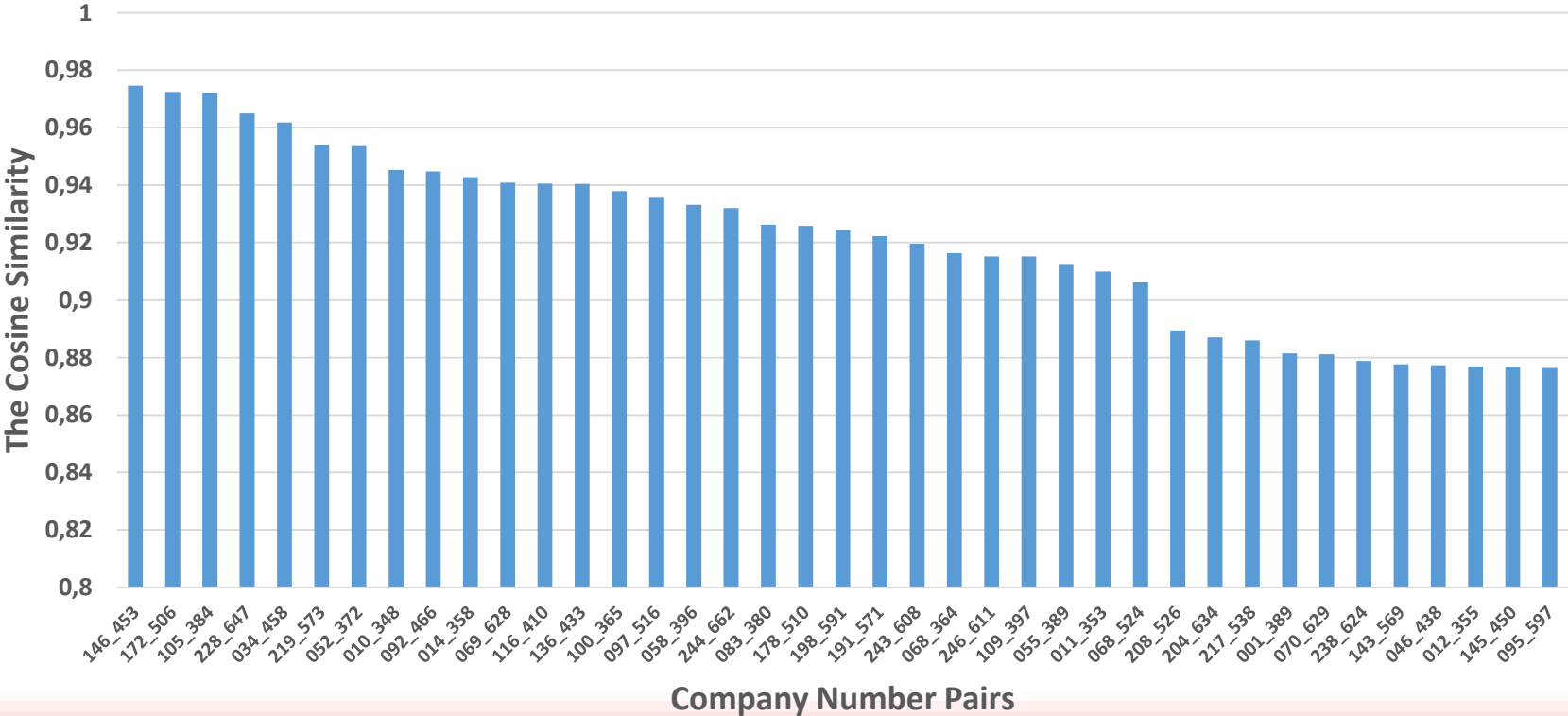
FY 18 Results (Post-filtered)





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





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