



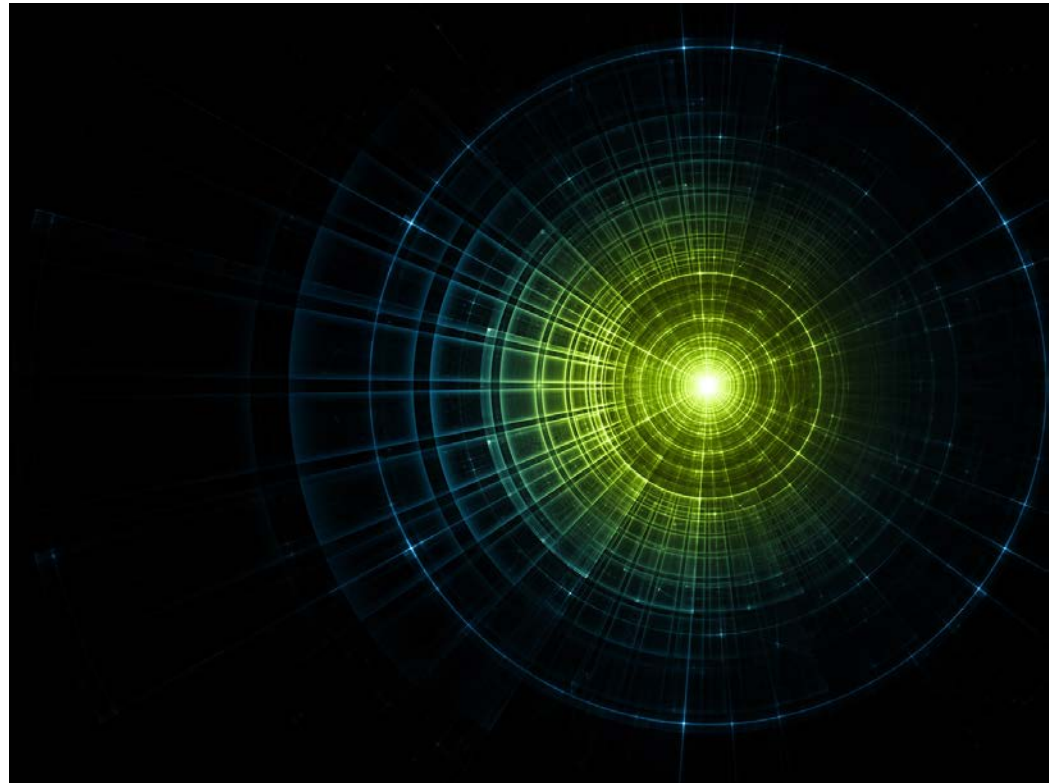
The future of Audit

A Firm's Perspective

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June 2014

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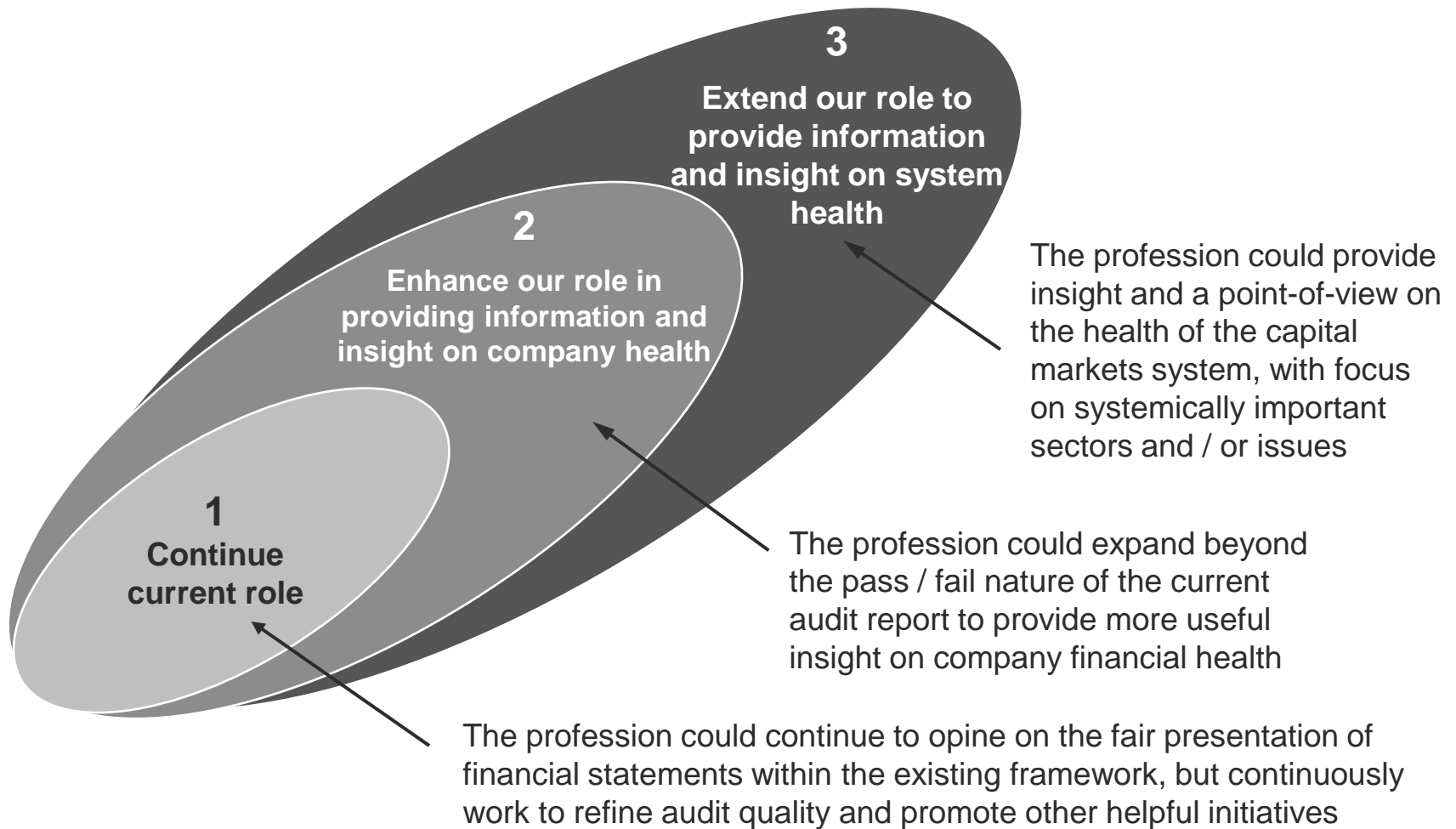


The Audit Firm environment is 'dynamic'

- **Technological developments affect the *demand* and the *supply* of audits**
- **Regulatory fragmentation**
- **Audit does not do well in the public perception**
 - * **AQ reports**
 - * **Integrity issues**
 - * **The problem of binary reporting**
- **From Quality to Relevance**

*'The majority of the sessions' participant were in agreement that they would like to have to read the audit page' **

Three broad roles for the Audit of the Future



1. Continue our Current Role

- **Continue to opine on the fair presentation of financial statements within the existing framework**
- **Enhance effectiveness (AQ, Fraud, GC, ICFR) and efficiency of audits (Process/data/text analytics; natural language processing; etc.)**
- **Increase engagement with stakeholders**
 - Global Auditor-Investor Dialogue
 - IAASB progress on Audit reporting
 - IFIAR Audit quality mandate
 - FSB (Basel Committee) work on Audit quality and enhanced disclosures for financial institutions
 - Continue to look for new opportunities to engage with stakeholders

1. Continue our Current Role

- **Key issues to address**
 - Tools and methodologies, in context of standards setting
 - Governance of firms
 - Remuneration and incentives
 - Talent models
 - Audit reporting to describe essential judgments and choices made
- **Opportunities for research**
 - Audit Quality root cause analysis (including AJ and Professional Skepticism)
 - Extended reporting effectiveness (Mock et al., 2013)
 - Research on governance and incentives
 - Tools and methodologies (De Boer, Eimers, Elsas, 2014)

2. Enhance our role in providing information and insight on company health

- **Expand beyond the pass / fail nature of the current Audit to provide more useful insights on company financial health and risks**
- **Items to consider**
 - Enterprise risks and ERM
 - Non-GAAP measures
 - CSR
 - Deeper insights on performance, operations and risks
 - Mixed support for analysis of value drivers
 - Reporting frequency

2. Enhance our role in providing information and insight on company health

- **Key issues to address**
 - Tools, methodologies, standards setting
 - Talent (skillsets, mentality, apprenticeship model)
 - Audit firms to have a 'voice' on publicly relevant issues (see later)
 - Accountability and reporting to the investor community
 - Who will drive the demand?
 - Liability issues
- **Opportunities for research**
 - Further exploration of demand for 'assurance' (whatever happened since the Elliott Committee)
 - Tools, methodologies
 - Identifying strengths and weaknesses of audit profession in light of new demand
 - Effectiveness or reporting to management, AC and broader community of stakeholders

3. Extend our role to provide information and insight on system health

- **Provide insight and a point-of-view on key elements of the capital markets system, with focus on systemically important sectors and/or issues (e.g., banking, emerging markets, healthcare)**
- **Set up ongoing mechanisms for sector / issue experts within the firms to meet and exchange systemic insights**
- **Audit profession would exchange these insights with stakeholders – regulators could be a logical constituency**

3. Extend our role to provide information and insight on system health

- **Key issues to address**
 - Range of topics, frequency
 - Key stakeholders
 - Level of aggregation, confidentiality
 - Who will communicate (firms, profession)
- **Opportunities for research**
 - Research on existing examples (quality, topics, impact)



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