

## Perspectives from the Profession: Current Issues in Auditing

Rosemary King, CA ANZ  
 Ram Subramanian, CPA Australia  
 Marcus Lojczyk, PWC  
 Adele Fraser, PWC

*Chaired by:*  
**Robyn Moroney, Monash University**

## AASIG Current Issues

Impact of KAM




AASIG - Current Issues for Research in Auditing

## What is KAM?

Key Audit Matters

- New section in the audit report to explain those matters which were of most significance - must include a succinct description and a meaningful summary of the audit procedures undertaken to address the matter.
- Subset of matters communicated to TCWG and **may** be an area
  - With a higher risk of financial statement material misstatement
    - Requiring significant judgement, including accounting estimates
    - Where there was a significant event or transaction in the year
- Not to be used for matters that otherwise would give rise to a modified opinion

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## What KAMs have been reported?

Top 4 ....

- Goodwill and other intangibles
- Acquisitions
- Revenue
- Tax

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## Is the IAASB right?

Has KAM.....

- increased transparency?
- focused investors and other users on areas in the financial statements that are subject to significant management judgment and significant auditor attention?
- provided users with a basis to further engage with management and TCWG?
- enhanced communications between the auditor and Audit Committee?
- renewed auditor focus on matters to be communicated which could result in an increase in professional skepticism amongst other contributors to audit quality?

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## Research?

UK FRC Survey

- Investors have welcomed KAM and value the enhanced information provided especially where there are fewer other sources of information, including smaller companies
- Investors feel that more could still be done to enhance auditor's reports.

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## Research?

IAAER

- the disclosure of KAMs impacts users' information search pattern and increases their attention level to matters reported on by the auditor.
- Specifically, users
  - 1) Access matters of the financial statements (i.e., notes) that are referred to in the auditor's report more rapidly
  - 2) Pay greater attention to matters of the financial statements that are referred to in the auditor's report

(Using eye tracking technology)

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## Biggest change since clarity

- It is a dramatic step forward. It helps us know what to be looking at over time. Also, without KAM, the only other validation of the audit (audit quality) was how much did the audit cost – so, a proxy for quality or of the nature and extent of underlying issues, was whether there was a significant increase in cost from the prior year. But now we can understand better.*
- The auditor is telling us about the job that was done, not telling more about the financial statements.*

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## Future of Audit & Assurance

AFAANZ Audit & Assurance SIG – 2<sup>nd</sup> July 2017  
 Ram Subramanian – Policy Adviser, CPA Australia

BE HEARD. BE RECOGNISED.

CPA AUSTRALIA

## REALITY!

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## PERCEPTION!

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## HOW DOES AUDIT STAY RELEVANT?

### Meeting the needs of users:

#### Understanding:

- Who are they?
- What do they need?
  - » Information explosion means competing information sources
  - » Does financial reporting provide the information they require?
  - » Does audit or assurance in its current form provide confidence in that information when and how they need it?
- Better information not more information

BE HEARD.  
BE RECOGNISED.



## WHAT WILL DRIVE THE FUTURE OF AUDIT?

### Change will result from:

- What
  - » Developments in external reporting
  - » Information needs of stakeholders
- How
  - » Audit methodology impacted by technology
  - » How data is generated, verified and stored - cloud computing, blockchain
  - » Tools to analyse data - Data analytics
- When
  - » Timing of external reporting
  - » Continuous automated audit

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## DEVELOPMENTS IN FINANCIAL REPORTING

### Financial Reporting is evolving

- Directors' reports
  - » Operating & Financial Review (listed entities)
- Climate risk disclosures
  - » ASIC
    - environmental and other sustainability risks in OFR
  - » APRA
    - climate change is likely to have material, financial implications.
    - climate change risks are foreseeable, material and actionable now.
    - climate change risks must be considered and managed.
  - » FSB Task Force on Climate-related Financial Disclosures
    - Climate-related risk material for many entities.
    - Recommend voluntary, consistent climate-related financial disclosures in mainstream financial filings.
    - Disclosure of potential impacts under different scenarios.

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## DEVELOPMENTS IN EXTERNAL REPORTING

### External Reporting is Evolving

- GRI Sustainability reporting - required in Japan, Malaysia & Scandinavia



- Integrated Reporting
  - » Value creation of the organisation based on the increase, decrease or transformation of 6 capitals – financial, manufactured, intellectual, human, social & relationship & natural
  - » Gaining traction – SA mandated; Japan & Malaysia recommended; UK & EU encouraged
- Clean Energy Regulator schemes
- Service Performance Reporting

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BE RECOGNISED.



## WHAT IS THE IMPACT ON AUDITING & ASSURANCE

### New Skills

- Upskilling in IT
- Understanding new subject matters – broad range of KPIs, emissions, energy, sustainability, climate risk
- Bringing in expertise

### Leveraging existing skills

- Independence
- Risk based approach
- Materiality application
- Gathering sufficient appropriate evidence
- Professional judgement
- Professional scepticism

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## HOW WILL THE PROFESSION RESPOND?

### New Skills

- Education
- Multi-disciplinary teams
- Embracing innovation

### Utilising existing skills

- Importance of senior supervision

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### WHY SHOULD WE EMBRACE THE CHANGES?

**Impact on auditors**

- Better understanding of client needs
- Understanding of more diverse subject matters necessary
- Greater use of professional judgement
- Less "ticking and bashing"
- More scope to apply professional scepticism

**Benefits for auditors**

- More interesting work earlier in career
- Attract quality staff with diverse skills

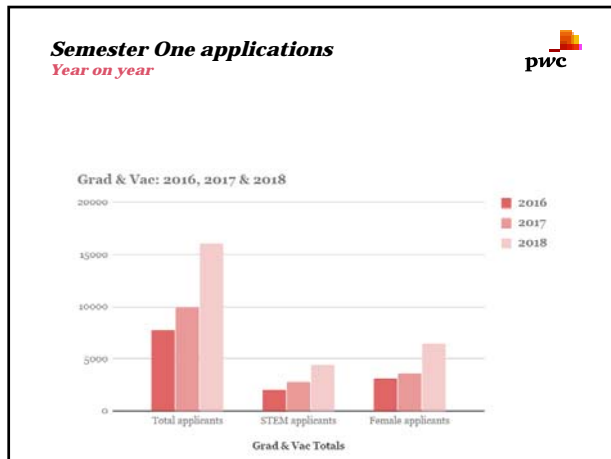
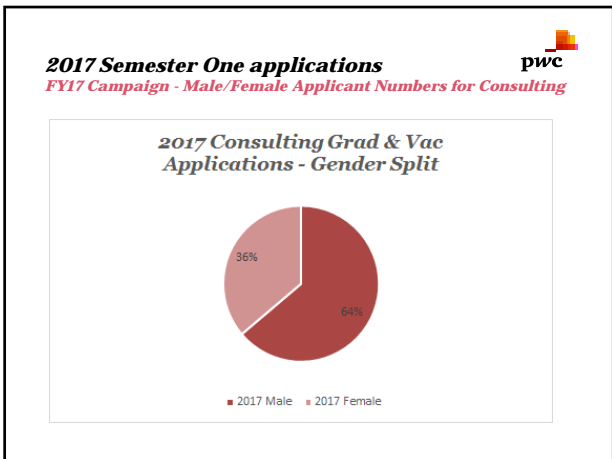
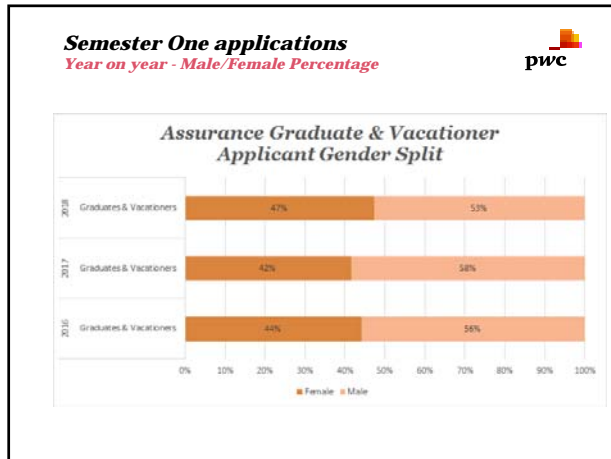
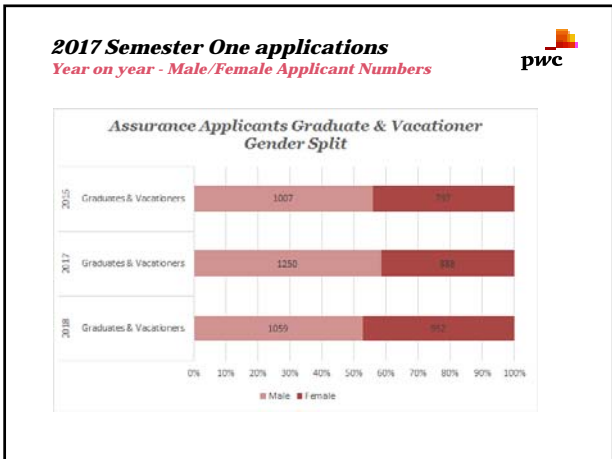
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### RESEARCH OPPORTUNITIES

**Global Research Perspectives Program**

- No specific funding cap
- Hot topics for 2017 include:
  - Data analytics and continuous auditing
  - Demand, benefits and shortcomings of non-financial assurance
  - See website
- Applications close 31 July

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# The Future of Auditing

July 2017

marcus.lojszczyk@pwc.com  
+61 421 357 038

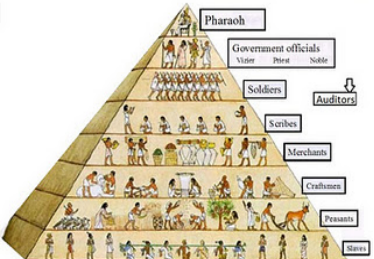


Back to understand the Future



marcus.lojszczyk@pwc.com  
+61 421 357 038


### The 1<sup>st</sup> auditors? – 400bc



marcus.lojszczyk@pwc.com  
+61 421 357 038

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### The auditors get a bit more powerful? - 110ad



marcus.lojszczyk@pwc.com  
+61 421 357 038

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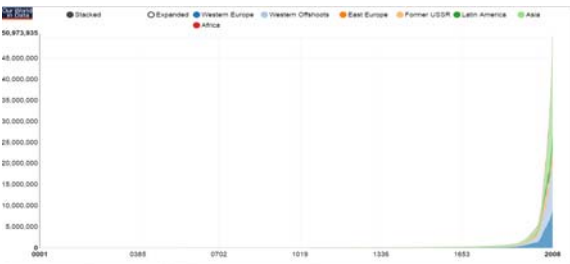
### The world started to change –real fast– and the auditor had to



marcus.lojszczyk@pwc.com  
+61 421 357 038

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### The world started to change –real fast– and the auditor had to keep up



marcus.lojszczyk@pwc.com  
+61 421 357 038

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### The Future of Auditing

[marcus.lojszczyk@pwc.com](mailto:marcus.lojszczyk@pwc.com)  
+61 421 357 038

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### The Future of Auditing - Speed

**Speed**  
- biggest change in auditing over time  
- not a new change phenomenon

**Challenge for the profession:**  
- resistance to  
- skill set required

[marcus.lojszczyk@pwc.com](mailto:marcus.lojszczyk@pwc.com)  
+61 421 357 038

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### The Future of Auditing - More

**More**  
- world doesn't just want assurance quicker but wants change more value

**Challenge for the profession:**  
- resistance to  
- skill set required  
- risk management

[marcus.lojszczyk@pwc.com](mailto:marcus.lojszczyk@pwc.com)  
+61 421 357 038

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### The Future of Auditing - More

<p><b>As-surance</b> Noun 1. a positive declaration intended to give confidence; company or the state a promise. of damage, illness, or <i>synonyms: word of honour, word, guarantee, promise, death in return</i> for payment of a specified premium <i>pledge, vow, avowal, oath, bond, affirmation, undertaking, commitment: <b>Mare</b> indemnification, (financial)</i></p> <p>2. confidence or certainty in one's own abilities. against a possible</p> <p><i>synonyms: self-confidence, confidence, belief, assurance, safeguard, safety in oneself, faith in oneself, positiveness, assertiveness,</i></p>	<p><b>In-surance</b> Noun 1. an arrangement by which a undertakes to provide a guarantee compensation for specified loss, death in return <i>synonyms: indemnity, protection, security, surety, cover</i></p> <p>2. a thing providing protection</p> <p><i>synonyms: protection, measure, shelter, security,</i></p>
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[marcus.lojszczyk@pwc.com](mailto:marcus.lojszczyk@pwc.com)  
+61 421 357 038

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### The Future of Auditing

**Technology**  
- impact of internet & connectivity  
- ability to process change data

**Challenge for the profession:**  
- resistance to  
- skill set required

[marcus.lojszczyk@pwc.com](mailto:marcus.lojszczyk@pwc.com)  
+61 421 357 038

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**Assurance yesterday**  
Using periodic sampling, mostly manual, historic and limited insight.

**Assurance today**  
Data assurance tools can be used to analyse whole data populations using automated algorithms for calculations, matching, flows, correlations, conditions and hypotheses with verification executed on a real time continuous basis – often identifying issues before they have an impact.

This allows identification of different types of unusual transactions, patterns and trends – which can be analysed further – resulting in greater insight and better business decisions.

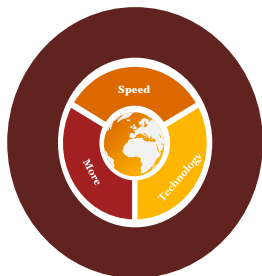
Use of interactive visualisations of test outcomes, patterns and trends to provide deeper insight.

[marcus.lojszczyk@pwc.com](mailto:marcus.lojszczyk@pwc.com)  
+61 421 357 038

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**The Future of Auditing**

change



**Challenge for the profession:**  
- resistance to  
- skill set required  
- risk management

[marcus.lojszczyk@pwc.com](mailto:marcus.lojszczyk@pwc.com)  
+61 421 357 038

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[marcus.lojszczyk@pwc.com](mailto:marcus.lojszczyk@pwc.com)  
+61 421 357 038

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