

The background of the slide features a black and white photograph of a modern architectural structure. It shows a glass-walled staircase or atrium with a grid-like pattern of window frames and railings, creating a sense of depth and geometric complexity.

Features of a Modern Audit

ICAJ PAB webinar
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Objectives

- History of audit
- Drivers of change
- Key trends reshaping audit and driving the modern audit
- Practitioner's perspective
- Wrap up – Transition to the modern audit

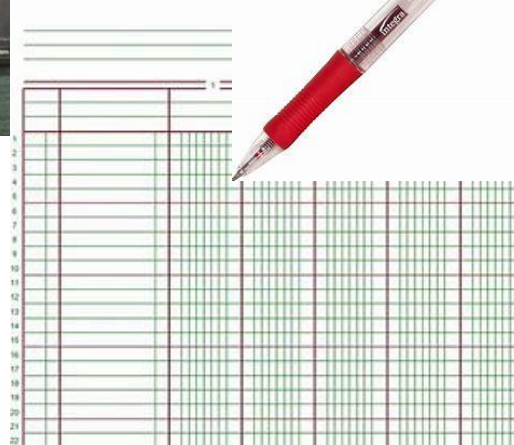
History of audit

- As early as the 5th and 4th centuries BC, the Romans and Greeks devised systems of checks and balances to ensure accuracy in their reports. Also evidence that during the Zhao dynasty in China, there were audits of official departments.
- In 1892, Lawrence Dicksee published 'A Practical Manual for Auditors', the first textbook on auditing.
- By the late 19th century, with the innovation of the joint stock company, auditing became a necessary part of business as the managers of these companies were not necessarily the owners. Owners required assurances that the managers were providing reliable and accurate information.

History of audit

- Expectations of auditors in the past were mainly focused on the accuracy of financial statements. This did not extend to assessing internal controls.
- High reliance on traditional methods – manual procedures such as detailed check of transactions (document review, sample based testing and physical inventory counts to verify financial accuracy and compliance).
- Also involve on site observations (execution of processes and controls), interviews to gather evidence and assess risks (inquiry), inspection of documentary support such as contracts/invoices etc., assets, recalculation/reperformance, analytical procedures and confirmation. Role was seen as a 'conformance' role.
- Can be time consuming and error prone due to manual nature of verification.

History of audit



History of audit

- With the development of the capital markets and evolution of business operations, the auditors role continued to evolve.
- The issue of auditor independence grew more difficult as firms began offering non-attest services such as taxation, IT services.
- Significant frauds and misrepresentation of financial information in the early 2000s, would change the face of the profession.
- In the US - Sarbanes-Oxley Act of 2002, affectionately known as “SOX” was born due to corporate scandals. The first was Enron, a corporation that appeared to be a reputable energy company at the time. The company’s leadership created fictitious holdings, used special purpose entities to hide their debt and toxic assets, and falsified accounting records. Eventually, Enron filed for Bankruptcy in 2001, tumbling its share price from its height at \$90.75 to a mere \$.26 cents. This scandal spurred not only the demise of the company but also its auditor, Arthur Anderson, and eradicated the life savings of numerous hardworking employees and investors who had the utmost confidence in the company’s financial position.

History of audit

- Following suit in 2002 was another large accounting scandal, resulting in the bankruptcy of WorldCom, the 2nd largest long-distance telephone company at the time. Both Enron and WorldCom intentionally “cooked the books,” and again, Arthur Anderson turned a blind eye at WorldCom for inflating profits.
- Given these extensive financial scandals, the federal government implemented sweeping reform by enacting SOX with bipartisan congressional support. With the enactment of SOX came the beginning of the PCAOB in the US and the end of more than 100 years of self-regulation by the accounting profession.
- Increased scrutiny by regulators, shifting investor expectations and advances in technology has resulted in audit become more demanding and complex and continuing to evolve.

History of audit – Auditors' report

AUDITOR'S REPORT

To the Members of ABC LIMITED

We have examined the financial statements set out on pages 5 to 19 and have obtained all the information and explanations which we required. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary.

In our opinion, proper accounting records have been maintained and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the company and the group at December 31, 1995, and the profit and cash flows of the group for the year then ended, so far as concerns members of the company, and comply with the provisions of the Companies Act.

Signed Auditor

History of audit – Auditors' report

Xx 2004
the Members of ABC Limited
Auditors' Report

We have audited the financial statements set out on pages 1 to xx, and have received all the information and explanations which we considered necessary. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of certain wholly-owned subsidiaries, which statements reflect revenues outside the group of \$xx and \$xx for the years ended 31 December 2003 and 2002, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those subsidiaries, is based solely on the report of the other auditors.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our examination and on the reports of the auditors of those subsidiaries not audited by us, proper accounting records have been kept and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the Group and the company as at 31 December 2003 and of the results of operations and cash flows of the Group, and changes in equity of the Group and the company for the year then ended, so far as concerns the members of the company, in accordance with International Financial Reporting Standards and comply with the provisions of the Jamaican Companies Act.

Signed Auditor

Drivers of change

Emerging risks in the audit profession

Growing complexity of businesses

Human Capital

Increased complexity of financial reporting and auditing standards

Digital disruption

Continuous changes in stakeholder demands –
Recent report by PwC indicates that 71% of companies believe external audits should provide more than just an opinion on the financial statements

Pressure to provide more insights and assurance on the company's financial statements

Need for specialized skills and expertise

Greater demands of oversight bodies

Auditor fatigue and burnout

Climate change

Effective audit strategies are essential for ensuring accuracy and compliance to safeguard financial integrity

Modern audits therefore require a mix of traditional techniques and innovative practices to address emerging risks and leverage technology

Key trends reshaping audit and driving the modern audit

Digital transformation

- Technological changes has introduced new complex challenges. Companies have been investing in and changing their business operations to meet new competitive demands.
- Auditors must now manage the traditional financial risks in addition to new threats from cybersecurity and the complex IT risks from changes to the IT environment. A recent US Study showed that about 55% of companies are using blockchain technology to improve their financial reporting and audit process.
- Firms must use technology to transform to a more digital audit – cloud technology, predictive analytics, automation, blockchain, artificial intelligence.

Key trends reshaping audit and driving the modern audit

Digital transformation

- *What does this look like for the audit process?*
 - Use of digital tools to capture and manipulate client's data.
 - Automation of processes using robotic process automation (RPA) – developing software bots to perform manual processes.
 - Data analytics – Used throughout the audit especially at planning and risk assessment. Tools such as Alteryx can clean, manipulate, format data and utilize algorithms to give insightful information.
 - Cloud based solutions – audit and accounting software allowing remote access
 - Digital audit platforms to enhance and transform the client experience – managing client requests, audit status dashboards – and facilitating seamless real time access to data and improving collaboration.
 - In 2021, Deloitte reported that accounting firms implementing AI and RPA improved efficiency by up to 40%.

Key trends reshaping audit and driving the modern audit

Digital transformation

- *Results - Technology improves audit efficiency and quality by:*
 - Reducing manual tasks, which allows the audit team to focus on higher-value work
 - Smaller sample sizes
 - Decreasing the risk of potential human bias
 - Allowing the audit team to conduct traditionally complex tasks with the help of artificial intelligence to deliver more efficient audits with more actionable business insights
 - Transforming relationship with client to become a more trusted business advisor and experience of the audit – better status updates, tracking the audit etc.
 - Focusing the audit procedures on areas of risk while maintaining rigorous compliance and quality standards
 - Real time data access improving collaboration and enhanced data security

History of audit

Audit profession evolution

IT audit as a specialized field
distinct from financial statement
audits

System based audits –ITGCs
and application controls
CAATs

2015 - Integration of
data analytics in the
audit

2023 - Financial statements
auditors who are proficient in
financial and IT audits

2020 - Data driven audits
focus on AI

1970

2000

2030

Key trends reshaping audit and driving the modern audit

People

- Talent disruption has resulted in a shortage of staff and burnout of auditors. Concerning statistics are concerning for students entering the profession.
- Transitioning to a digital audit can bring some interest as the modern auditor must have new skill sets and specialized expertise. Firms must be consistently innovating to improve their processes and facilitate continuous learning. Focus on professional development and career growth. Skills training such as soft skills, communication, emotional intelligence, collaboration, critical thinking have been more in demand. Expanded training programs/greater collaboration with others.
- Investing in and streamlining workflows can aid in facilitating a more flexible work arrangements.
- Revisit approach to hiring.
- Reinforcement of tone at top – Integrity and objectivity being paramount for continued trust and credibility with clients. Leaders need to inspire, empower and guide teams.
- Succession plan in place.

Key trends reshaping audit and driving the modern auditing

People

- Google AI's definition of a modern auditor –
 - *A modern auditor needs a blend of technical expertise, analytical skills, and soft skills to navigate complex financial and IT environments. They require strong communication, critical thinking, and adaptability to new technologies and regulations. Additionally, ethical judgment and integrity remain crucial, especially with the rise of data analytics and cybersecurity concerns.*

Key trends reshaping audit and driving the modern audit

ESG

- ESG considerations are now redefining the role of auditors – not only concerned with financial risks but also evaluating the accuracy and transparency of ESG related disclosures. Greater insight into the company's environmental practices, social responsibilities and governance practices.
- Changes in audit scope and complexity.
- Introduces possible need to collaborate with other professionals (sustainability experts).
- Expanded auditors report.

Key trends reshaping audit and driving the modern audit

Stakeholders

- **Clients**

- Continuous audit using data analytics and technology to provide real time assurance. Per EY report, 65% of companies believe that continuous auditing is essential for maintaining investor trust. Audit firms are able to provide more frequent and timely assurance.
- Study performed by Forbes Insights along with a Big 4 firm (KPMG) cited that nearly 80% of respondents say auditors should use bigger sample sizes and more sophisticated technologies for data gathering and analysis in their day to day work. Nearly half say auditors should perform a deeper analysis in the areas they already cover and two thirds say auditors must improve their communication, critical thinking and technology skills.
- Nearly half want more transparency about arriving at the audit opinion and what has been learned from the audit.

Key trends reshaping audit and driving the modern audit

Stakeholders

- **Those charged with governance**
 - Greater expectations of investors are driving changes as well for audit committees and their responsibilities.
 - Improved, effective and regular communication with audit committee critical.
- **Regulators**
 - Require auditors to remain relevant and to continue to level up their practices to meet the increased stakeholder demands so that they can continue to give credence to the capital markets.

Practitioner perspective

- Small businesses which are the engine of our economy operate in a wide range of industries and are typically audited by smaller firms. A robust active population of smaller firms is critical to serve these companies and protect investors.
- Some small firms challenged by –
 - use of and ability to invest in advanced technology/ lack of access to capital
 - access to talent due to lower number of accounting graduates
 - using outside specialists
 - firm culture
- Old school auditing versus risk based audit methodology (focuses on areas with the highest potential for material misstatement). ISA 315 emphasizes understanding the entity and its environment to aid in assessing risks. Auditor can allocate resources more effectively and address significant issues.
- Default to substantive approach versus one that is controls based – not challenging the status quo.

Transition to the modern audit

- Change in mindset – only constant is change.
- Automate repetitive tasks. Evolve frameworks and digital solutions. Adopt cloud based auditing tools. Fail to modernize and risk falling behind in an increasingly data driven environment.
- Improved policies for data use, management and security.
- Acquire new skills to keep pace and keep value proposition for staff. Expand training programs and hire more diverse staff.
- Facilitate remote auditing/hybrid work.
- Improve relationships with clients and other key stakeholders such as those charged with governance.
- Consider forming alliances /consolidation.
- Proper succession planning.

Thank you!



Resources

- CIO Hub.org – The Evolution of External Audits: Trends, Challenges and Opportunities
- The Essential Role of Smaller Audit Firms to Investors and the Capital Markets -Jun. 5, 2024 George R. Botic, PCAOB Board Member Event: Forum on Auditing in the Small Business Environment and on Auditing Broker-Dealers Location: Loyola Marymount University, Los Angeles, CA
- Accountant shortage puts CFOs in the 'hot seat' - Worried about how to maintain finance-department operations, many look ahead to generative AI for an assist.-May 8, 2025 David McCann's Contributing Editor
- [The development of the auditor in the digital age](#) – KPMG CH