



## Deloitte Global survey exploring the value of audit highlights the importance of the evolving financial reporting ecosystem

### Improved confidence and increased expectations

The debate about responsible reporting has not been sidelined by the COVID-19 pandemic. In fact, the future of audit—and how it should adapt to changing stakeholder demands—has only grown in importance as financial reporting ecosystem participants consider how to deliver reporting that provides the insights for businesses and investors to recover and thrive.

To inform this debate, Deloitte Global surveyed 351 c-suite, finance and audit committee executives, investors, shareholders, and board members across nine countries from a broad spectrum of company sizes (revenues ranging from US\$500 million to US\$10 billion or more) to better understand the value they place on financial statement audits. The survey, which was conducted in April and May 2020 at the height of the initial global response to COVID-19, shows that even within the economic turmoil of the pandemic, market participants place great value on audits and the assurance that they provide.

#### **Audit remains essential**

The survey results underscore the fact that audit is an integral part of the financial reporting ecosystem, providing one perspective on a business's health. This ecosystem includes management, boards and those charged with governance, regulators, standard setters, auditors, and investors, with each having an important role to play.

The survey respondents view audit as essential. Nearly all respondents agree that an audit of a company's financial statements allows them to trust and rely on the financial statements, with about a third agreeing completely.

Users of financial statements indicated that an audit enhances their confidence in a company's financial information. However, there continues to be differing views about the perceived scope and purpose of audit. Today's complex business environment requires the audit to be dynamic,

multidimensional, and insightful in order to meet changing needs and expectations. Over the past few years, there has been a growing demand for audits to evolve and provide real-time, relevant information, and companies expect audits to keep pace as they innovate their businesses and processes.

Auditing firms, including Deloitte, have responded to these demands by investing in enhanced or new processes, technologies, and learning to equip their audit professionals with the tools and knowledge to modernize the audit. These advancements seem to have made an impact, as 94% of respondents said that they are more confident in their financial statement audit process than they were five years ago, with nearly one-third (32%) answering that they are much more confident. Although great progress has been made, with increasing complexity, risk, and expectations, there is more still to do.

## Expanding audit

The traditional approach to financial reporting—providing a historical view of financial information—has continued to come under scrutiny, as many would like to see it expand and include forward-looking elements that also cover a broader scope of topics.

Deloitte polled respondents about both the insights they receive from their audits (which could be provided by any number of participants in the financial reporting ecosystem). When it comes to audit, 92% percent of respondents seek a more holistic view of the direction their organization is heading from their audits. When asked which business areas they would like their audit to include in the future, they were equally split among the following areas—corporate culture, sustainability practices, ethical standards and practices, social responsibility practices, corporate purpose, and cyber risk.

When asked specifically about financial statement audits, 95% of those surveyed said that a financial statement audit should provide additional value beyond providing an independent auditor's report on the historical financial information. These findings suggest that a financial statement audit should inform as well as assure, extending its scope to areas of broader public interest, not solely historic financial statements.

Nearly three-quarters of respondents (73%) believe financial statement audits are designed to provide assurance that any fraud will be detected by the auditors, but the remaining 27% disagree. However, in its current form, an audit is not designed to provide these absolute assurances indicating there is a misunderstanding about what an audit is designed to do. The auditor's responsibilities in relation to detecting fraud is an area of continued focus in adapting the scope of the audit

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and requires the constructive, integrated evolution of standards.

Fraud risk is not new, but recent corporate failures have increased the focus. This is emphasizing the responsibilities of management boards, regulators, and auditors. The COVID-19 pandemic has resulted in significant operational and financial pressures on many companies and may have led to changes or weaknesses in their internal controls. Deloitte has heightened its focus on the controls environment within the companies it audits, including leadership tone-at-the-top, exercise of professional skepticism, ongoing assessment of risks, and nature of audit evidence.

## Transparency expectations

Technological disruption, rapid market changes, and recent events have also highlighted the desire for greater transparency and breadth in reporting. A majority (65%) of executives surveyed cited that greater visibility and transparency around the process and outcomes of the audit as a way to address these expectations.

Further, we see much greater interest in sustainability by a range of stakeholders. Over the past years, issues such as ESG (environmental, social and governance) performance have moved from being a fringe interest to a key factor in investment decisions.

At Deloitte, we are actively engaging with policy makers to evolve the scope of the audit as part of our commitment to our transformation journey and instilling trust in our critical public interest role. Deloitte is taking a critical look at the auditor's role within the financial reporting ecosystem and how more visible challenge and greater transparency can drive more meaningful useful financial reporting.

## A financial reporting ecosystem fit for the future

As expectations evolve, it is clear that the entire financial reporting ecosystem will need to continue to adapt as an integrated whole. All players across the ecosystem have a collective responsibility to serve the public interest. More forward-looking reporting, covering both financial and non-financial matters, such as climate and ethics, is an important step in this evolution. Ultimately any changes implemented need to drive responsible business behaviors, improve clarity and transparency of relevant reporting, and provide stakeholders with more meaningful information to equip them to take informed decisions.

The auditor is critical, but only one part of the financial reporting ecosystem—continued constructive collaboration is needed to drive further change. Deloitte recognizes the significant opportunity and responsibility we have—alongside our counterparts—to drive more value-added reporting and continue to challenge ourselves on how we can adapt for the future.

## Connect with us

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