


# Chapter 10

## The Future of Auditing – Aligning International Audit Practices With Global Trade Needs

Anojan Vickneswaran

 <https://orcid.org/0000-0002-9315-0088>

*School of Business and Creative Industries, University of the Sunshine Coast,  
Australia & Department of Accounting, University of Jaffna, Sri Lanka*

### ABSTRACT

*In the dynamic realm of contemporary business, financial and non-financial audits are crucial for transparency, reliability, and sustainability. With rising concerns over Environmental, Social, and Governance (ESG) issues, stakeholders demand assurance on both financial and non-financial reporting. Accounting firms audit financial statements, both accounting and non-accounting firms provide non-financial reporting assurance. Given its novelty, regulators and investors focus on extended external reporting quality. Few nations mandate non-financial reporting and assurance, though global standards are emerging. Harmonizing audit practices remains challenging, yet necessary. Traditional audit reports had limited communicative value, leading to the introduction of Key Audit Matters (KAMs) reporting. This chapter shows application of KAMs reporting in Europe. Auditor competence and independence are crucial for financial and non-financial reporting, and audit quality. Future auditors are more likely to verify and report on both the financial and non-financial aspects of the firms.*

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## 1. INTRODUCTION

Shareholders are owners of the firms and appoint the management (board of directors) to operate the firms on their behalf because shareholders are from different educational backgrounds. The board of directors are expert in business, corporate governance, internal and external business environments, and reporting. The management's primary objective is to increase the wealth of shareholders' investments. They manage resources to achieve the goals of the firms (financial and non-financial goals). The board is accountable to shareholders for the firm's performance and position. Therefore, they are responsible for preparing and presenting financial and non-financial statements (Gompers, Ishii, & Metrick, 2003; Bushman & Smith, 2001; Carcello, Hermanson, & Ye, 2011; IAS 1).

The relationship between management and shareholders is called agency, which means that the management acts as an agent for shareholders. As per the agency theory, there is a conflict of interest between the management and shareholders (Jensen & Meckling, 1976). Shareholders are more interested in dividends and share prices. On the other hand, the board of directors is interested in bonuses and remuneration. When one party wants to maximize their interest, the other party has to give up their interest because of a conflict of interest. Due to the agency problems, financial statements are more likely to be misstated. Therefore, stakeholders, more specifically shareholders, demand independent audits of the financial statements. They are more likely to rely on audited financial statements and non-financial statements for economic decision-making related to firms.

The statutory auditors are responsible for ensuring the reliability and transparency of the financial statements. They audit the financial statements of the clients in accordance with generally accepted accounting principles, as well as other relevant internal and external regulations. Audit quality is more likely to mitigate the agency's problems; therefore, stakeholders, especially regulators more concerned about audit quality. They are involved with several activities to increase and maintain audit quality. Notably, the International Auditing and Assurance Standards Board (IAASB) is responsible for formulating and issuing international auditing standards (ISA) as per the needs of the business environment. In addition, they revise auditing standards as per the changes in the business environment at regular intervals. Their main purpose is to ensure audit quality and harmonization of auditing practices (Knechel, Krishnan, Pevzner, Shefchik, & Velury, 2013; Ball, 2009; Humphrey, Kausar, Loft, & Woods, 2011; Leuz & Wysocki, 2016).

Auditing involves many evolutions, notably financial statement audits, non-audit services, non-financial statements assurance, joint provisions of financial statements audits, and extended external reports assurance. Auditors' competence and independence are crucially important in audit quality. In the globalized business

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