Federation of European Accountants
Fédération des Experts comptables Européens

AUDIT CONFERENCE

"Long term vision and short term challenges"

DAY 1

22 June 2015

For once, turn all devices ON!

... but on SILENT MODE

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OPENING

Rutger Mollee
Moderator

WELCOME

Petr Kriz

President, FEE

What stakeholders expect from auditors

Eric Anstee
Executive Chairman, CPP Group

Carl Dolan
Director, Transparency International

Janine Van Diggelen
Chair, IFIAR

Luc Vansteenkiste
Chairman, European Issuers

FEE AUDIT CONFERENCE

LONG TERM VISION
AND SHORT TERM CHALLENGES
ERIC ANSTEE

INVESTORS VIEWPOINT

The views expressed here are my own and should not be attributed to any firm or organization with whom I am associated

Eric Anstee

- INVESTORS and other stakeholders
- AUDITORS
- MANAGEMENT

INVESTOR NEEDS

>Risks
>Materiality
>Areas of subjectivity
>Compliance & Controls
>Value For Money (VFM) Issues
>Maintain Healthy Scepticism

AUDIT COMMITTEE REPORTS

How far should they go?

Legal Implications?

Commercially sensitive issues?

UK new versions are mixed but a definite improvement on the past.

Expanded Audit Reports

>Tend to mirror the Audit Committee report or Vice versa

- Do they say enough about Risks?
- Are they transparent enough about what the auditor thinks?

IMPACT OF REGULATION

>Has the pendulum over audit quality made audits too mechanical?

>Audits need to fully and HOLISTICALLY understand the business and not necessarily Document it!

> What has happened to VFM auditing?

THE VALUE OF VFM

"Innovation Matters and is the Lifeblood of any economy" Sir Mark Walport UK Govt. chief scientific adviser

My concern- if Audit Regulation focuses too much on Box ticking it will deter Commercial &Innovative thinking in Carrying out Audits

My premise is:

“ the growth in Rules and Codes developed by regulators is in danger of preventing innovation in audit techniques and in assisting Management by providing Fresh eyes to look over the operational effectiveness of the business”

Eric Anstee

IFIAR: International Forum of Independent Audit Regulators

Janine van Diggelen, IFIAR Chair

FEE Audit Conference – Long term visions and short term challenges

Session 1 – Stakeholders' expectations from auditors

Brussels, 22 June 2015

Content

- Role of the auditor
- Audit Quality Issues
- Audit Quality Developments

Role of the Auditor

- Increase trust in capital markets
- Through independent verification of whether financial statements give true and fair view
- Increased transparency on the audit for investors and the public at large

Audit Quality Issues

- Number of scandals (early 2000s) have created awareness that audit quality was at stake and resulted in independent audit regulation
- Despite measures taken through regulation and by firms, still persistently high levels of deficiencies

2015 Survey: Summary of findings

- **948** inspected audit engagements of which 449 had deficiencies (47%);
- **148** inspected major financial institutions of which 60 had deficiencies (41%)

Top 3 findings for Issuers

- Fair value measurements (20%);
- Internal control testing (24%) ; and
- Revenue Recognition (14%)

and for Financial Institutions

- Valuation of investments and securities (27%);
- Internal control testing (27%); and
- Audit of allowance for loan losses and loan impairments (17%)

2015 Survey: Findings from Listed PIE Audit Inspections (incl. listed SIFIs)

Inspection Themes	Number of Findings (a single PIE may have multiple findings for the same theme)	# of PIE Audits Inspected	# of PIE Audits with a Finding	% of Listed PIE Audits inspected with at least one finding
Fair Value Measurement	205	795	156	20%
Internal Control Testing	178	638	155	24%
Revenue Recognition	114	732	104	14%
Adequacy of Financial Statements and Disclosures	101	633	79	12%
Substantive Analytical Procedures	79	476	66	14%
Group Audits	75	506	53	10%
Inventory	69	409	64	16%
Adequacy of Review and Supervision	55	482	46	10%

Assessment Change in Audit Quality

Assessment Change in Audit Quality	2014
Overall improvement	7
Overall decline	1
Both improvement and decline	6
No significant overall change	11
TOTAL RESPONSES	25

Audit Quality Developments

- Continued work in IFIAR with largest global networks
- European subgroups of regulators for Big-4 firms established
- EU Audit Reforms strengthening
  - audit supervision
  - Auditor independence
- Increased transparency of the audit
  - Expanded auditor's report
  - Further transparency on inspection findings
  - Role of audit committee

Audit Quality Developments (2)

→ Are these developments sufficient for more competition on audit quality in the audit market?

Keynote address: **transatlantic regulator perspectives**

James Doty
Chairman, PCAOB

Federation of European Accountants
Fédération des Experts comptables Européens

Coffee Break

15.45 – 16.15

Technology: how business is reshaping and how the firms are adapting

Ashton Dallsingh
Vice President and CFO, Cisco System Ltd

Christoph Hütten
Senior Vice-President, SAP SE

Mona de Boer
Senior Manager, PwC

Angelique J.M. Koopman
Partner, Coney

Nicholas Frost
Partner, KPMG

Technology Meets Business Challenges

Ashton Dallsingh (Vice President and CFO, Cisco System Ltd)
Christoph Hütten (Senior Vice-President and Chief Accounting Officer, SAP SE)

Business Challenges and Technology

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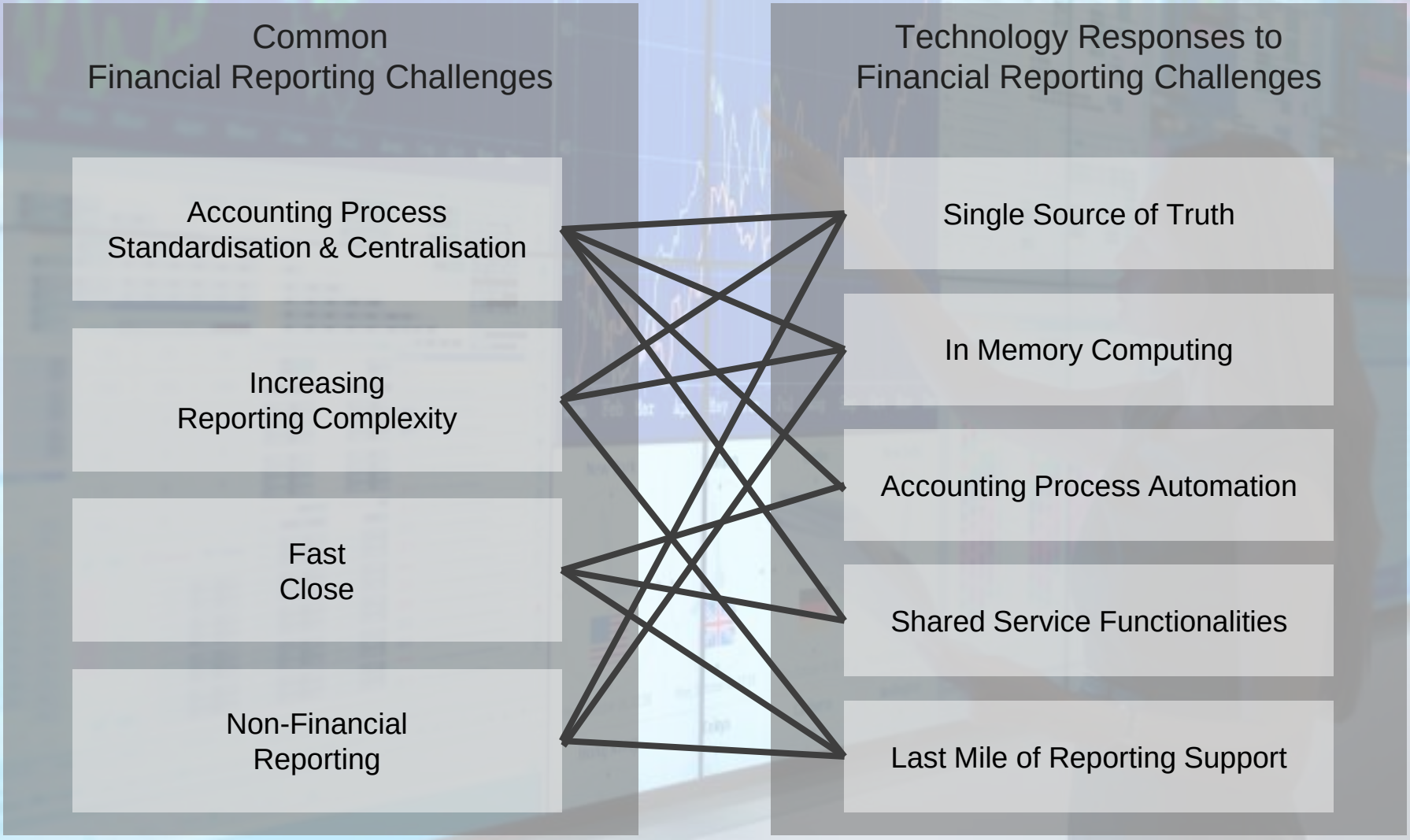
Technology as Solution to Business Challenges

Examples from Financial Reporting



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Our Changing Landscape

@CiscoEMEAR

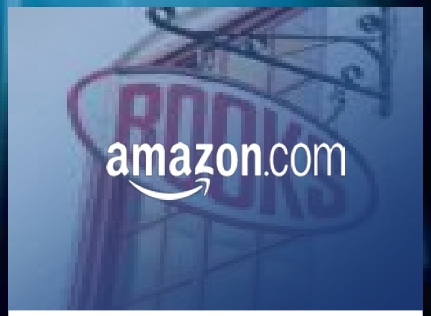
22nd June, 2015

*"In **10 years**, it's predicted that **40%+** of Enterprise companies will **no longer exist**."*

A. Agree
B. Disagree

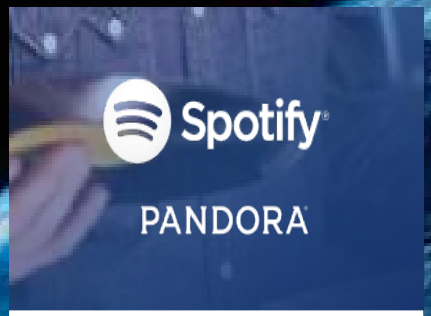
Exponential technology advancement and speed of technology adoption is changing how our customers want to consume technology……..

Pace of Change[2]



Bookstore

Taxi

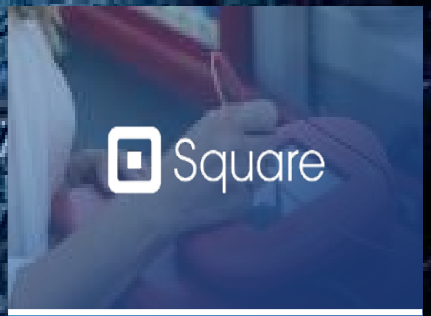


Music

Hotel

Print Advertising

Car



Point-of-Sale

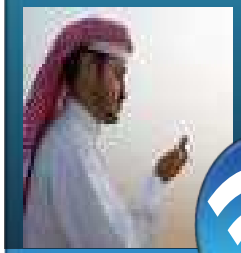
What are our customers asking us?
Challenge or Solution?

How do I **cut cost** and improve my business?

Cloud

Create a Secure, Optimized, Cloud-Enabled Infrastructure

How do I create a **more engaged and productive workforce**?



Mobile

Enable a Secure, Mobile Workforce

How can I create **personalized customer experiences**?

Social

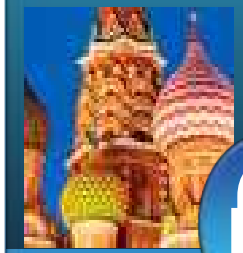
Create one-to-one connections with Customers Anytime

How do I make **better decisions…faster**?

Data

Access Distributed Data and gain insight to Speed Decisions

How do I handle a **dynamic threat landscape** created by increased connections?



Security

Protect Valuable Assets and Reputation in Real-Time

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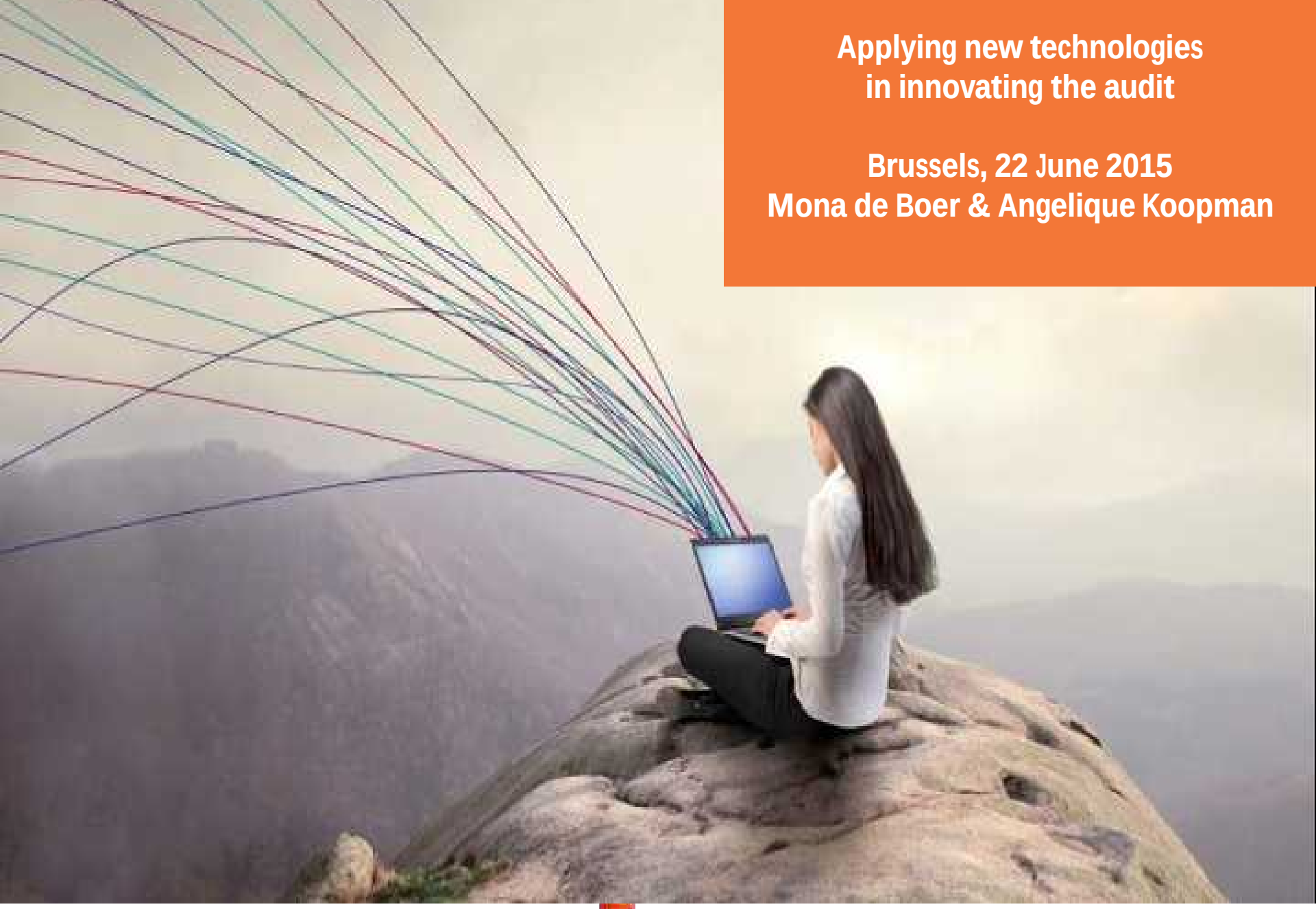
Applying new technologies in innovating the audit

Brussels, 22 June 2015

Mona de Boer & Angelique Koopman



Your facilitators for this session

drs. Mona de Boer RA EMITA
Mona is a senior manager in the assurance practice of PwC and leads a data analytics driven audit innovation program.

Furthermore, she is a PhD researcher at the Vrije Universiteit Amsterdam, examining the impact of big data on the (re)design of the audit.

drs. Angelique J.M. Koopman RE RA
Angelique is a partner at Coney in the audit and consultancy practice.

Angelique is also a PhD researcher at Tilburg University, focussing on the application of process mining to strengthen internal control in the context of continuous monitoring and auditing.

Agenda

New technologies:
Useful for innovating the audit?

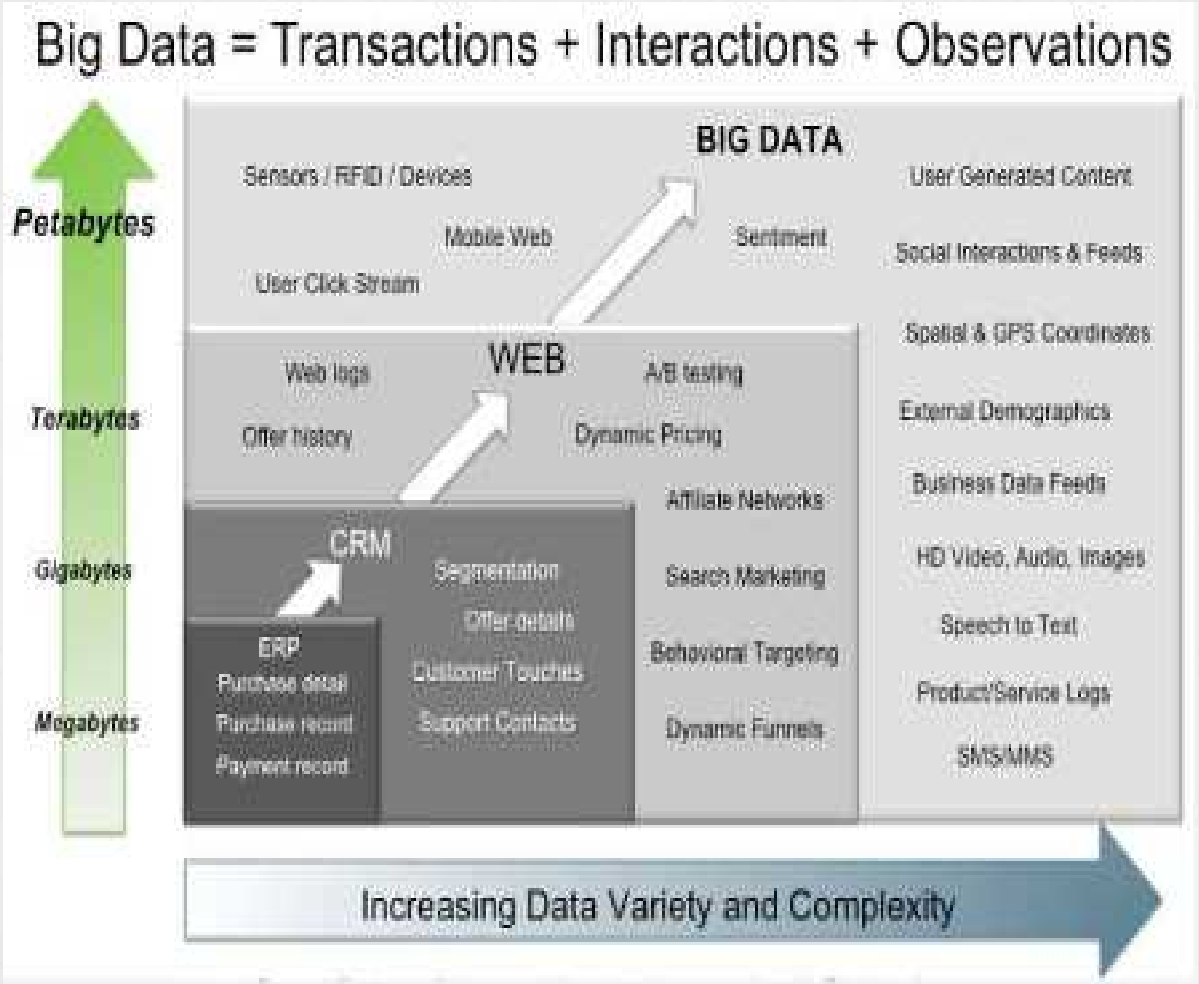
Social Listening

What is it? An exploration.

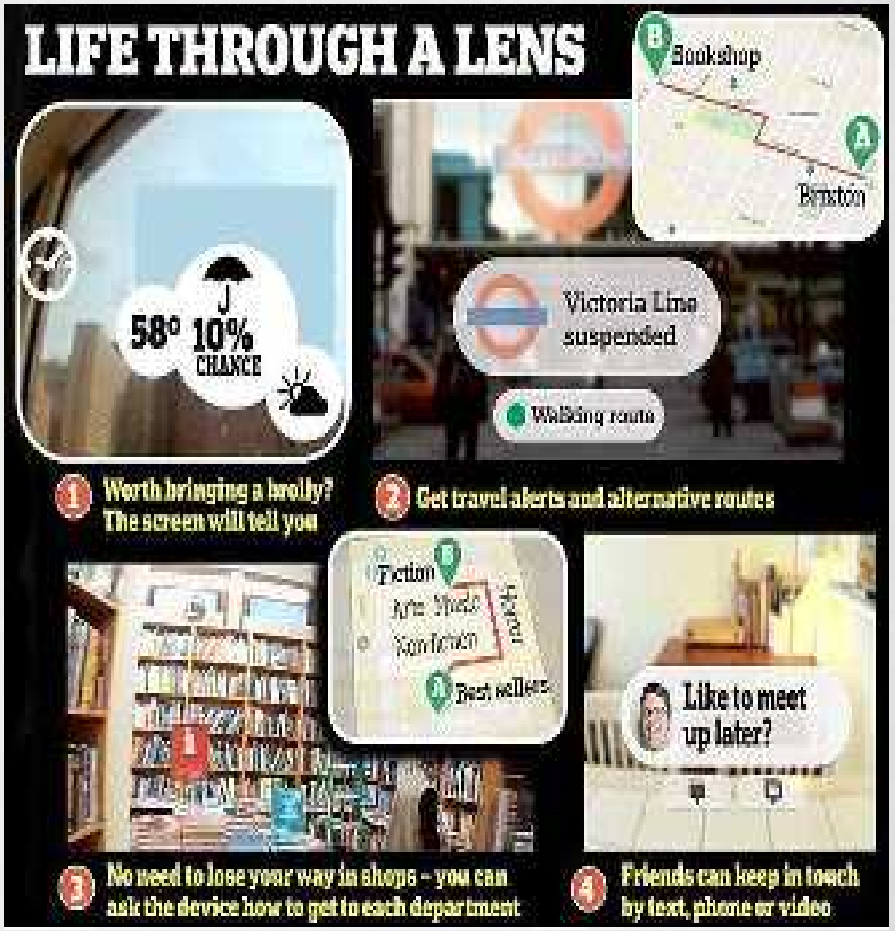
Process Mining

What is it?
Demonstration with commercial tool.

There is more to explore



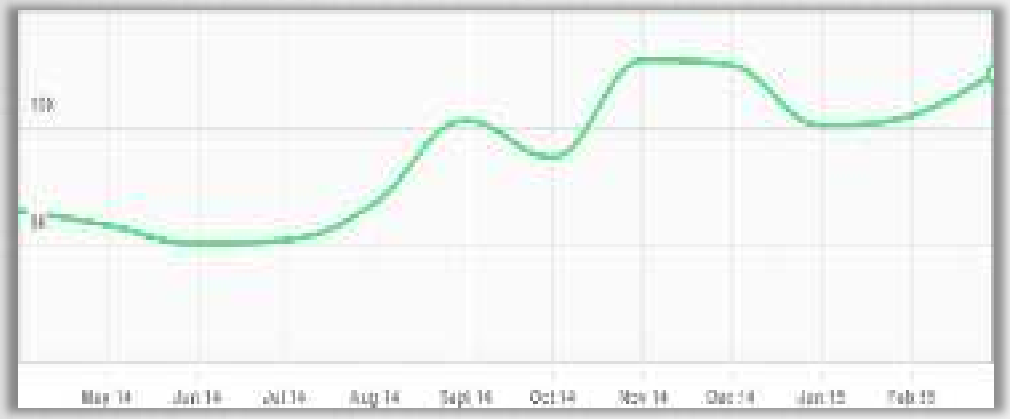
Access to data has radically changed



SOCIAL LISTENING

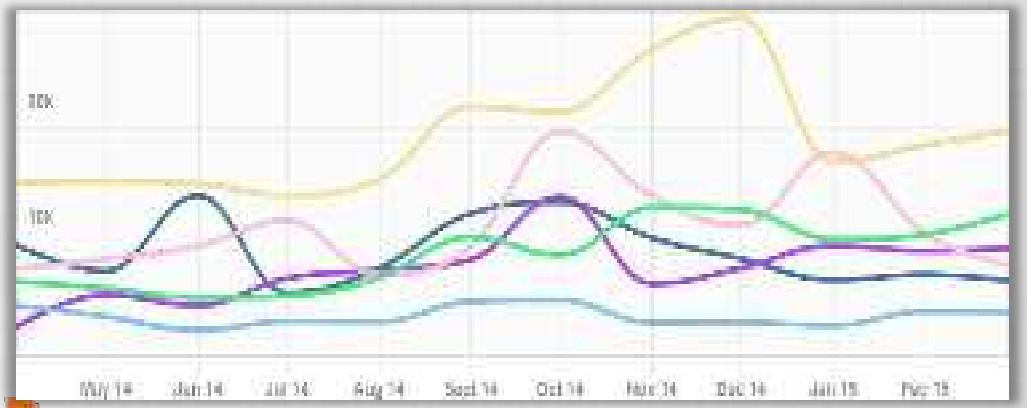
Understanding the entity and its environment (1/4)

Post volume Brand X FY2014-2015



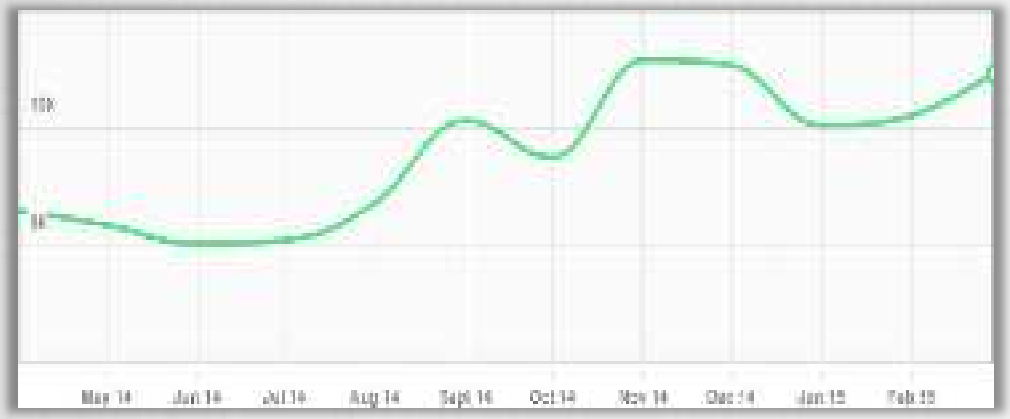
Share of Buzz

Post volume Brand X FY2014-2015 vs other brands

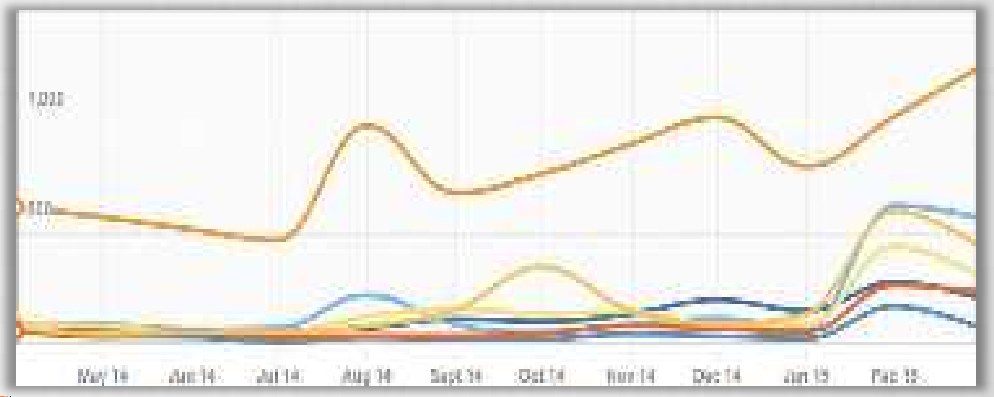


Understanding the entity and its environment (2/4)

Post volume Brand X FY2014-2015

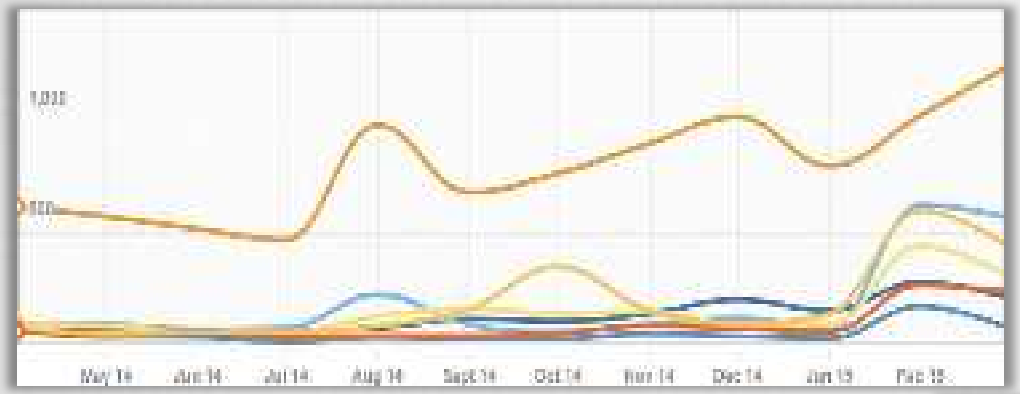


Post volume Brand X FY2014-2015 per topic

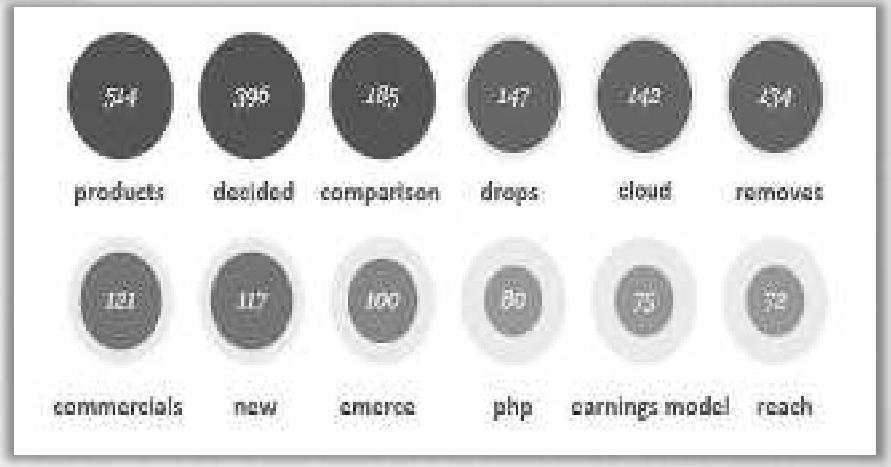


Understanding the entity and its environment (3/4)

Post volume Brand X FY2014-2015 per topic

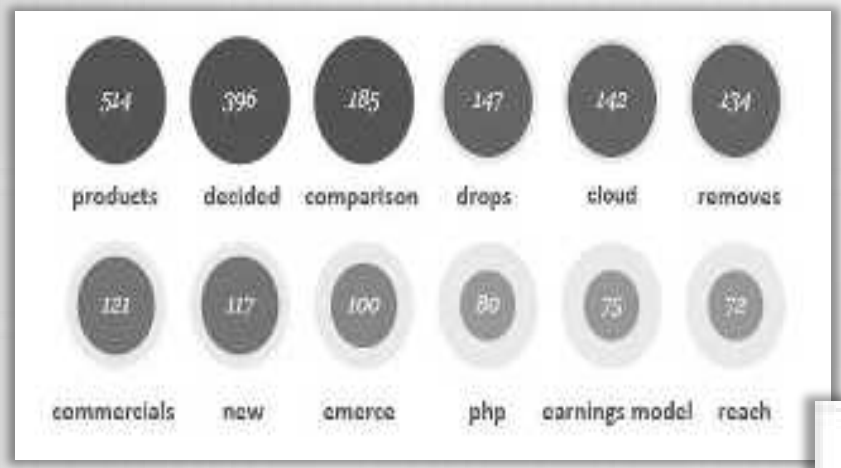


Trending topics August 2014



Understanding the entity and its environment (4/4)

Trending topics August 2014



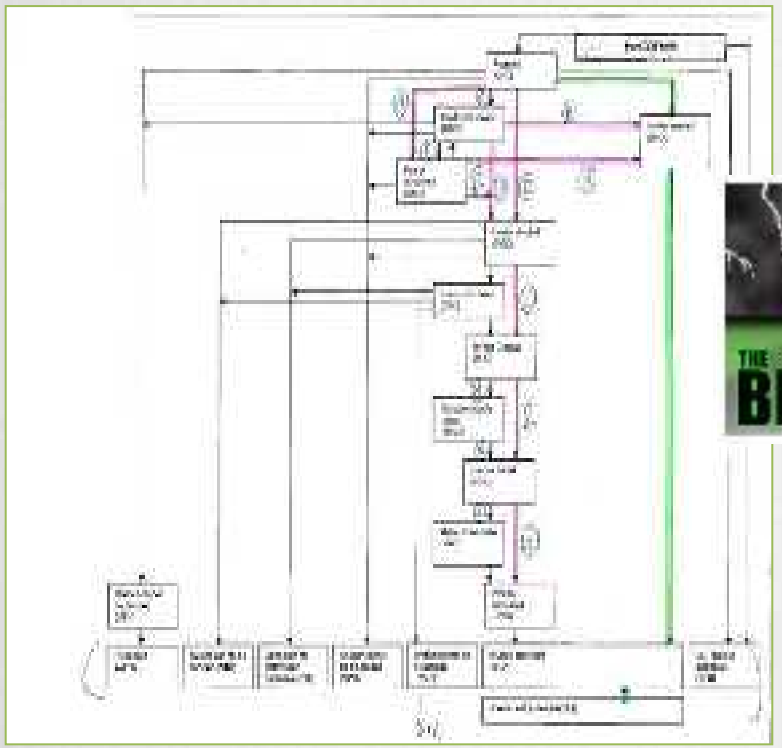
Sentiment analysis

“I see, I see, what you don’t see....”

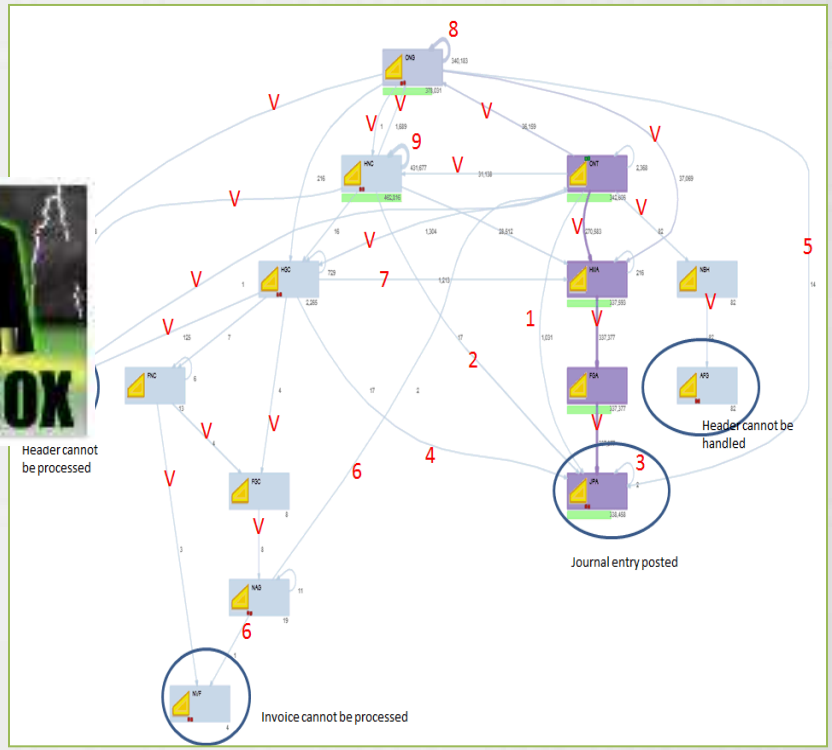
PROCESS MINING

Auditors open the ‘black box’!

What the client’s flow chart tells us



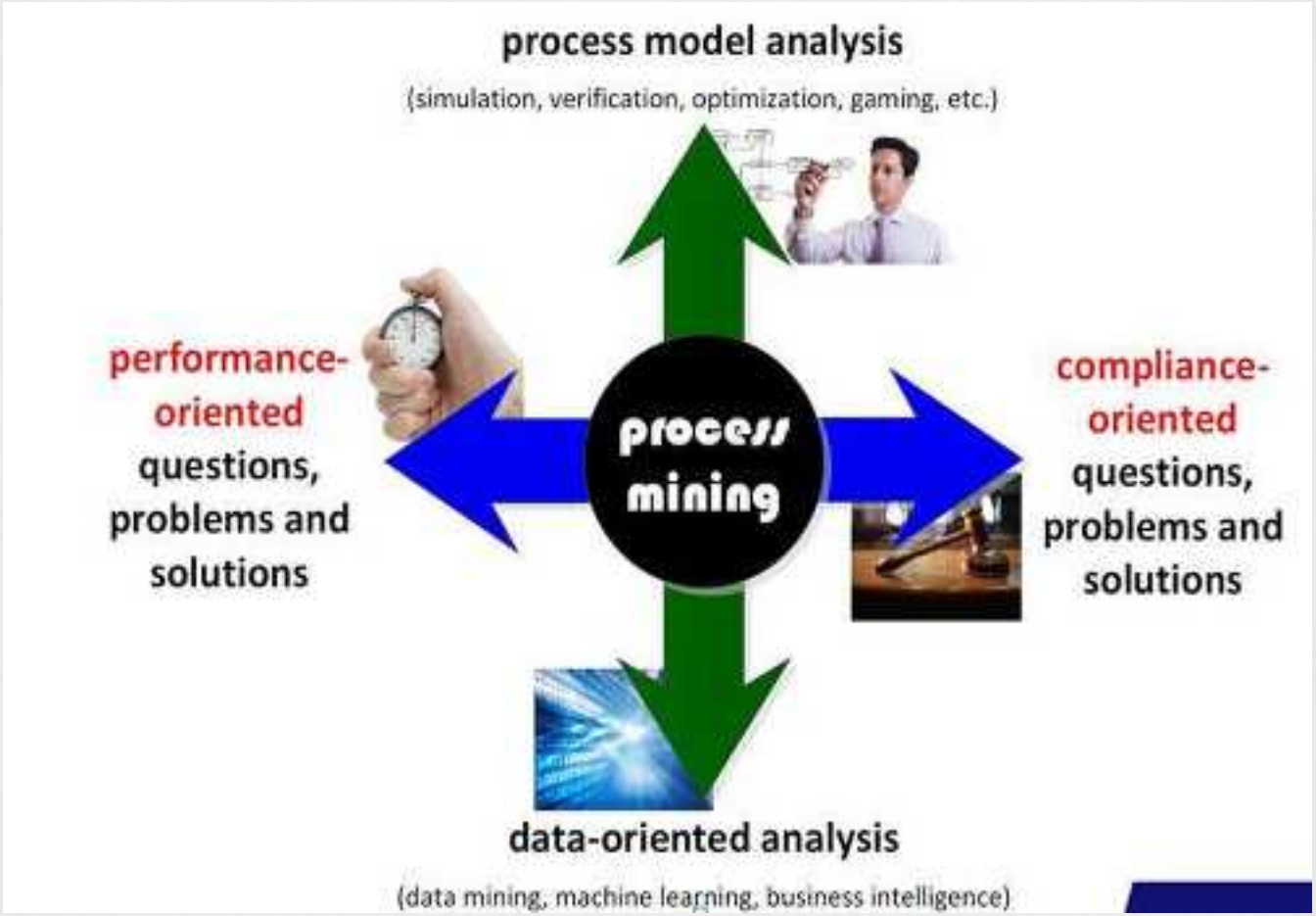
What the data tell us



What does a process mining tool do?

- Automatically creates process models and social networks from captured data
- Gives an accurate, objective analysis of the current situation
- Discovers waste and bottlenecks
- Supports (compliance) audits by identifying deviation

Positioning Process mining



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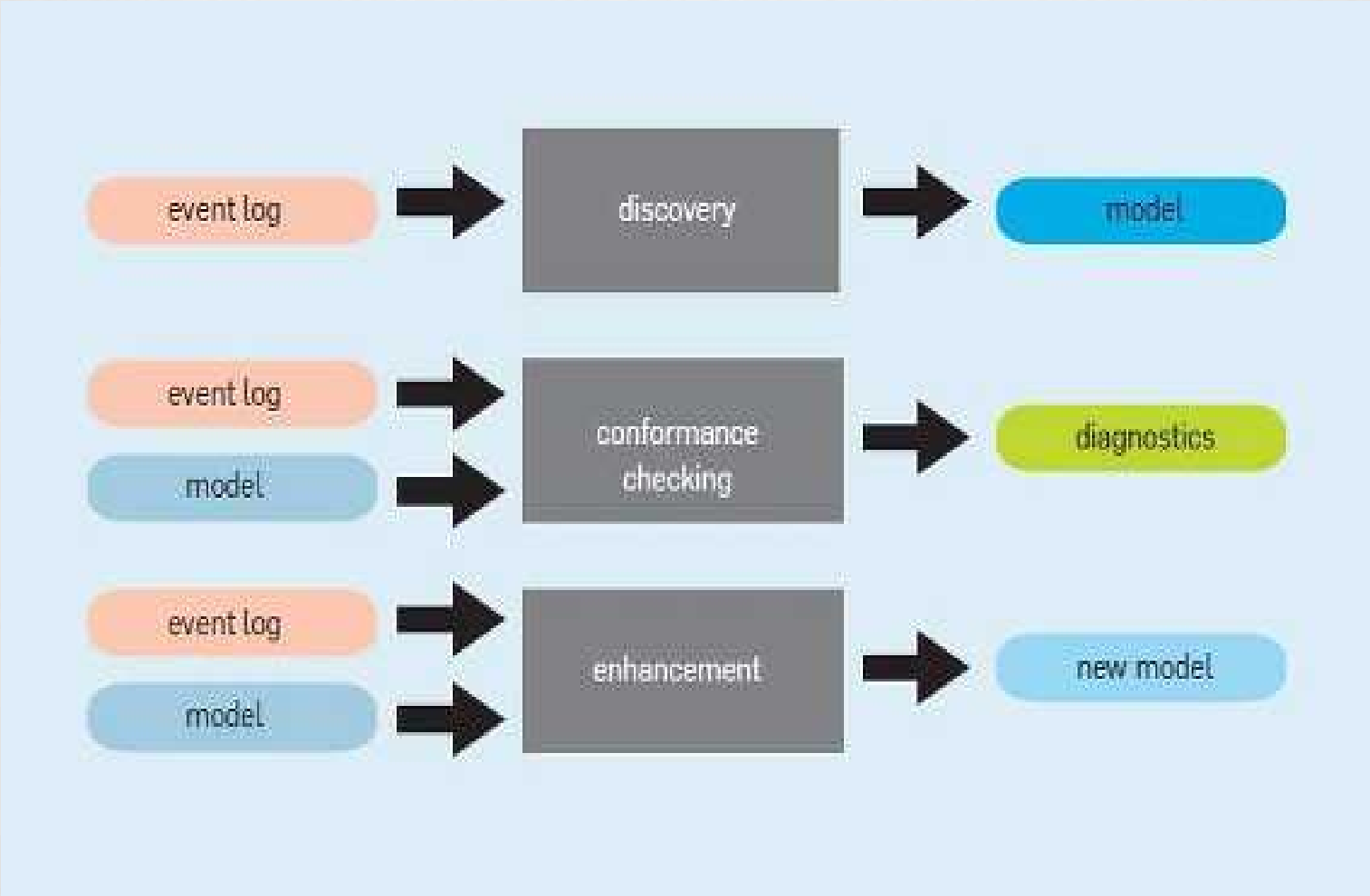
3 main types of Process mining



SEEING IS BELIEVING

perceptive process mining

conay_akoopman ▾ Help ▾

EAFC Procurement Process 5 June 2015

Switch ▾

Actions

- Overview
- Mine
- Replay
- Chart

Objects

Models (10)

- 25% Model
- 36% Model
- 50% Model
- 100% Model
- Compare with 50% Model exa
- Incomplete cases Invoice no F
- No SoD Approve invoice and F
- Procurement process Model

Import model

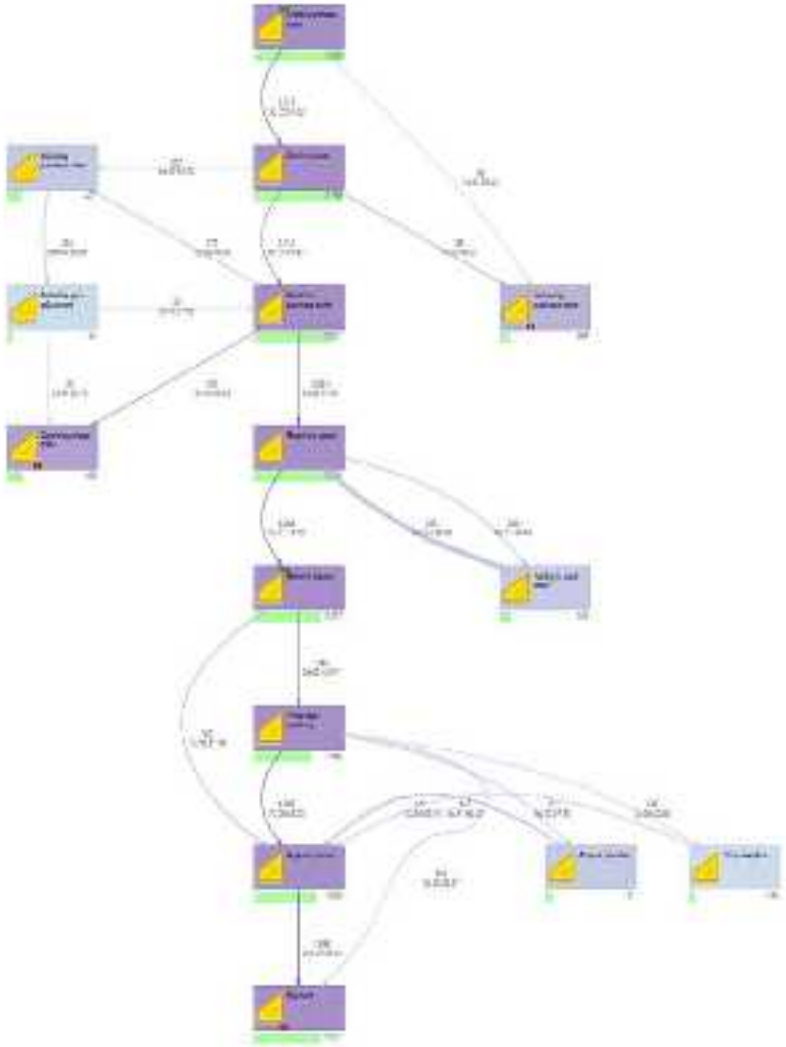
Replay list (1)

Charts (2)

Dashboards (0)

Mine

Save | Save as | Download ▾



Settings

Use the slider to simplify the model by including fewer cases:

100%

Attribute: Activity

Layout: Process Model

Compare: None

☑ Show performance metrics

Performance

Baseline: None

Baseline Model:

Per Activity

Count

Do not use

Per arrow

The model is created from 2,809 cases (100%) and fits 2,809 cases (100%) out of 2,809 cases.

Mine

Forecast | Servant Lea...ship Europe | InTech - O... | Open Minds | bubbl.us - ... | map online. | Accountant.nl | Zorg | Acco...r Tilly Berk | LinkedIn | Magister Tymen

perceptive process mining

EAFC Procurement Process 5 June 2015

Switch

Actions

- Overview
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- Chart

Objects

- Models (10)
  - 25% Model
  - 36% Model
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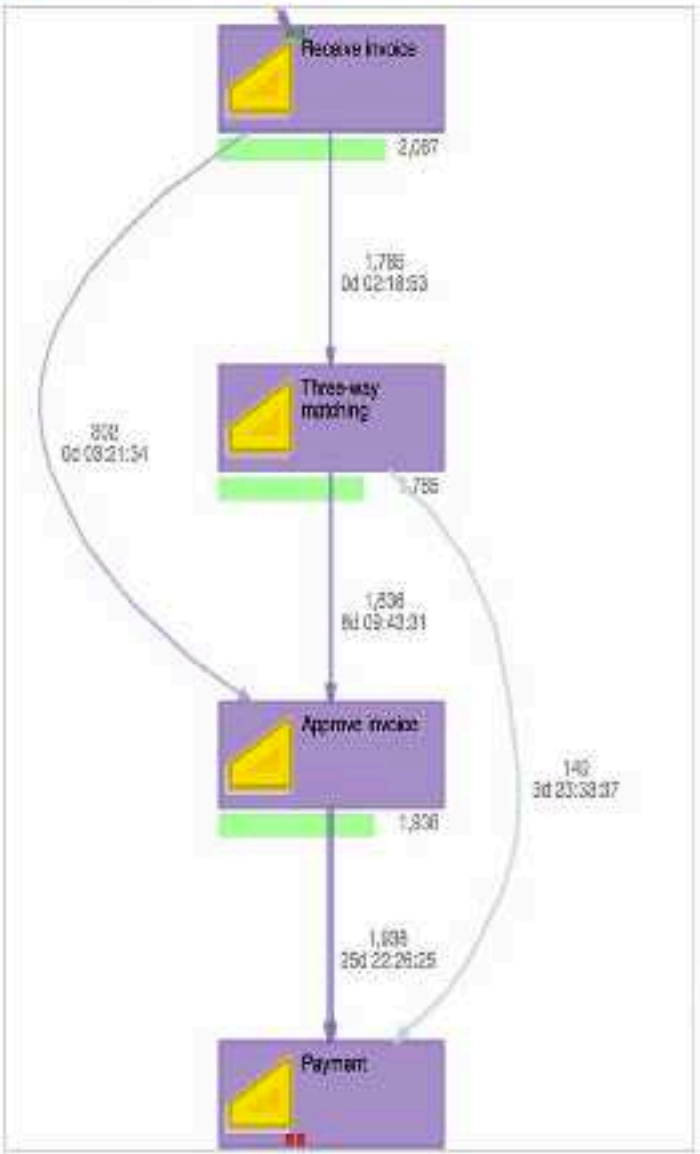
Import model

- Replay list (1)
- Charts (2)
- Dashboards (0)

Mine

Save | Save as | Download



Settings

Use the slider to simplify the model by including fewer cases:

100%

Attribute: Activity

Layout: Process Model

Compare: None

Show performance metrics

- Performance
- Miner
- Description

The model is created from 2,809 cases (100%) and fits 2,809 cases (100%) out of 2,809 cases.

Mine

Filtering

Switch

Add filter item

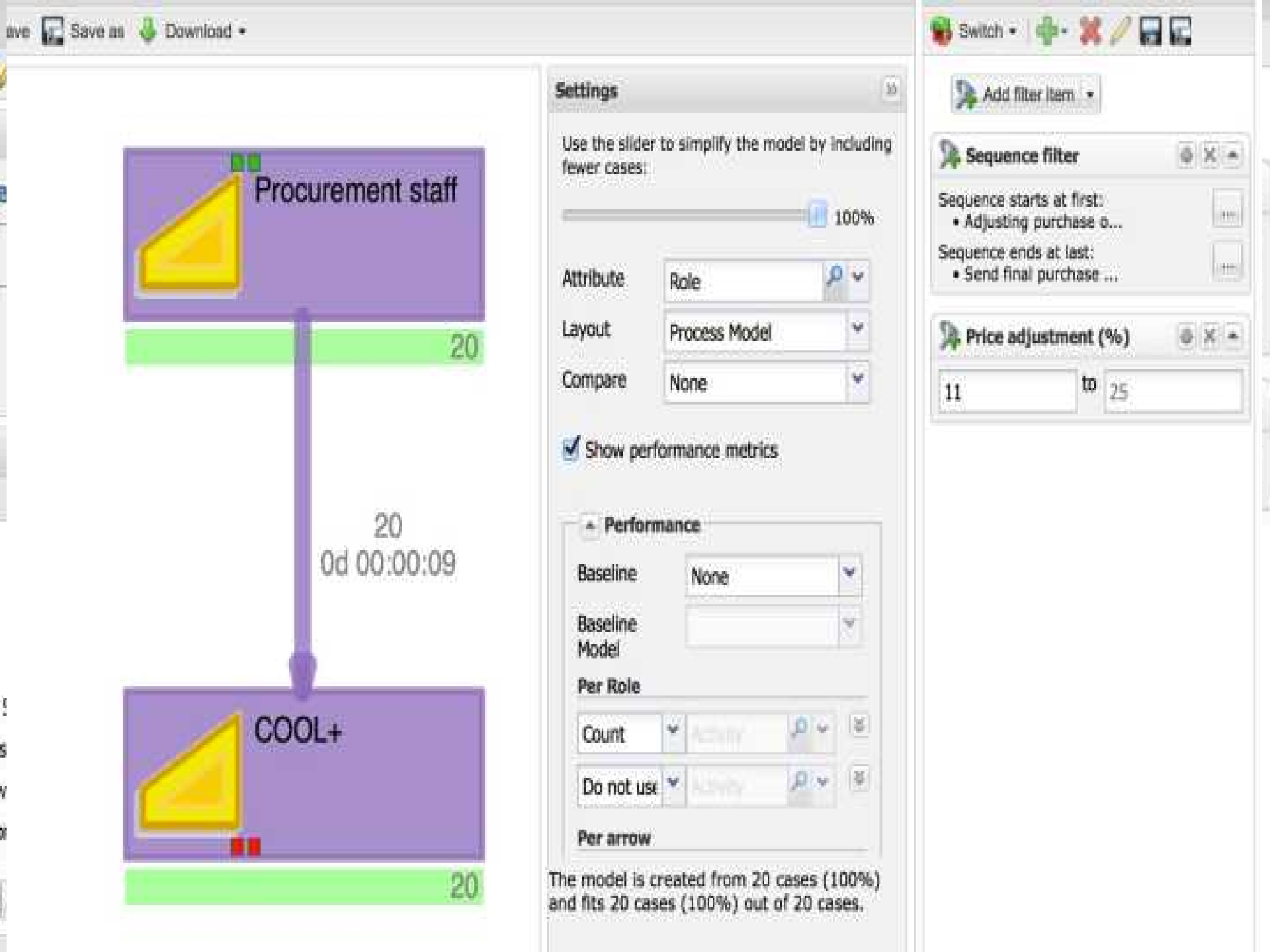
Activity

Selection

Type here to search

Value	Cs.	Evt.
Create purchas...	2806	2806
Confirm prices	2710	2710
Send final purc...	2431	2431
Receiving goods	2084	2406
Payment	2087	2087
Receive invoice	2087	2087
Approve invoice	1938	1938
Three-way matc...	1785	1785
Cancel purchas...	438	438

Show filtered cases


ave
Save as
Download
Switch
Procurement staff
20
20
0d 00:00:09
COOL+
20
Settings
Use the slider to simplify the model by including fewer cases:
100%
Attribute
Role
Layout
Process Model
Compare
None
Show performance metrics
Performance
Baseline
None
Baseline Model
Per Role
Count
Do not use
Per arrow
The model is created from 20 cases (100%) and fits 20 cases (100%) out of 20 cases.
Add filter item
Sequence filter
Sequence starts at first:
• Adjusting purchase o...
Sequence ends at last:
• Send final purchase ...
Price adjustment (%)
11
to
25

Filtered cases

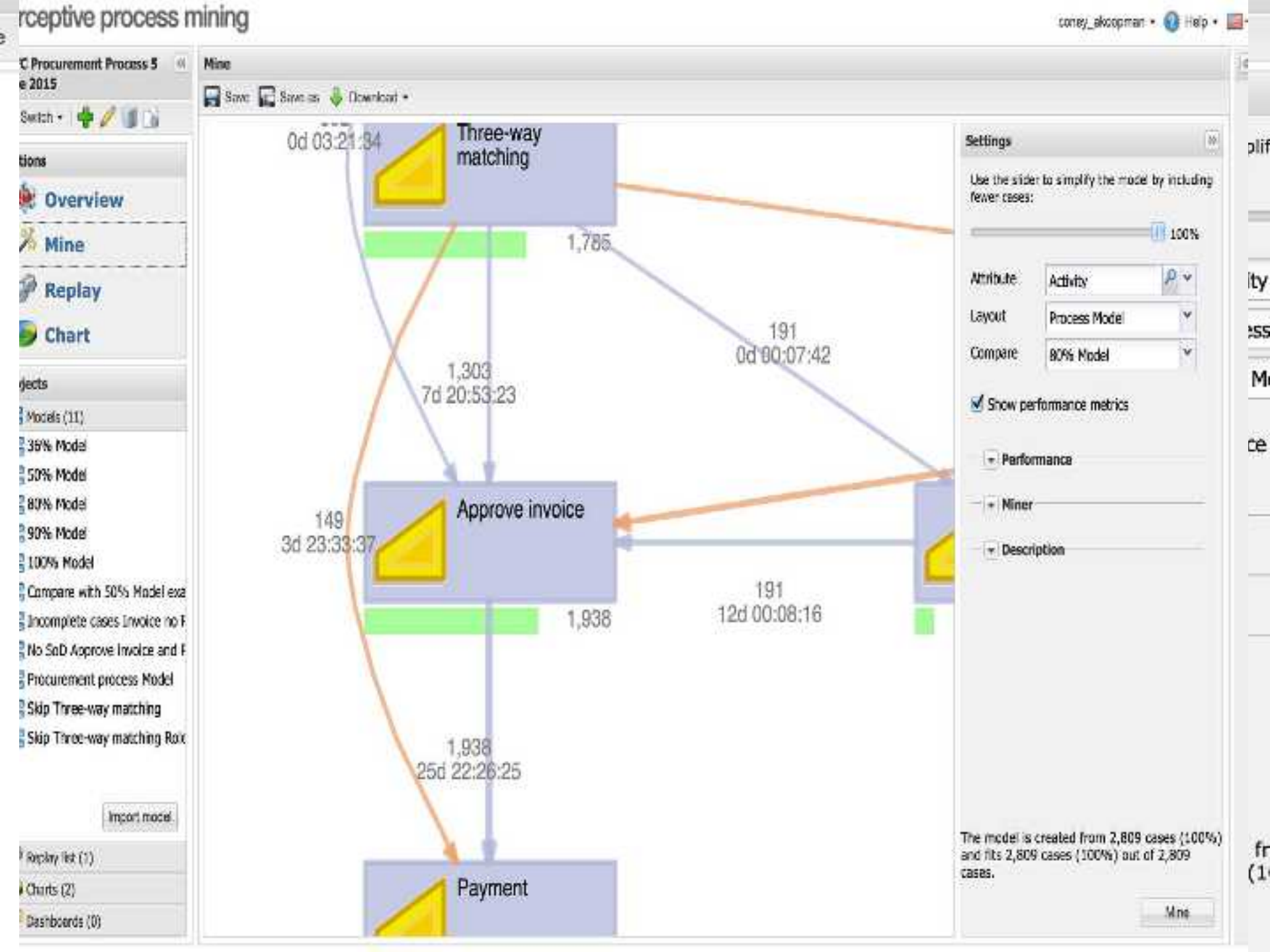
Select attributes | Download | 20 cases, 40 events

Filtered cases

Select attributes | Download | 20 cases, 40 events

Case ID	Aging backo...	Material	PO Amout	PO Value	Price adjust...	Supplier	Throughput t...
1337		Aluminium 1.5...	125	11,750	15	Alcoa Inc	0d 0:00:00
1343		Wire Form WF...	670	4,221	17	Amaco	0d 0:00:00
1389		Heatsink Anchors	265	3,948.5	19	Gamma Inc	0d 0:00:00
1485		Aluminium 1.0...	80	5,120	25	China Aluminium	0d 0:00:00
1726		Wire Form WF...	390	2,457	16	Amaco	0d 0:00:00
1899		Clip 03	14,500	3,335	20	Clips R Us	0d 0:00:00
1958	56d 8:00:00	Aluminium 0.3...	290	6,090	14	Alcoa Inc	0d 0:00:00
2035		Aluminium 1.0...	60	3,840	13	China Aluminium	0d 0:01:00
2590		Heatsink Anchors	153	2,279.7	18	Praxis Corp	0d 0:01:00
27	7d 22:00:00	Heatsink Anchors	133	1,981.7	21	Praxis Corp	0d 0:00:00

pwc Coney


rceptive process mining
corey_akcopman
Help
C Procurement Process 5
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Switch
Mine
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Overview
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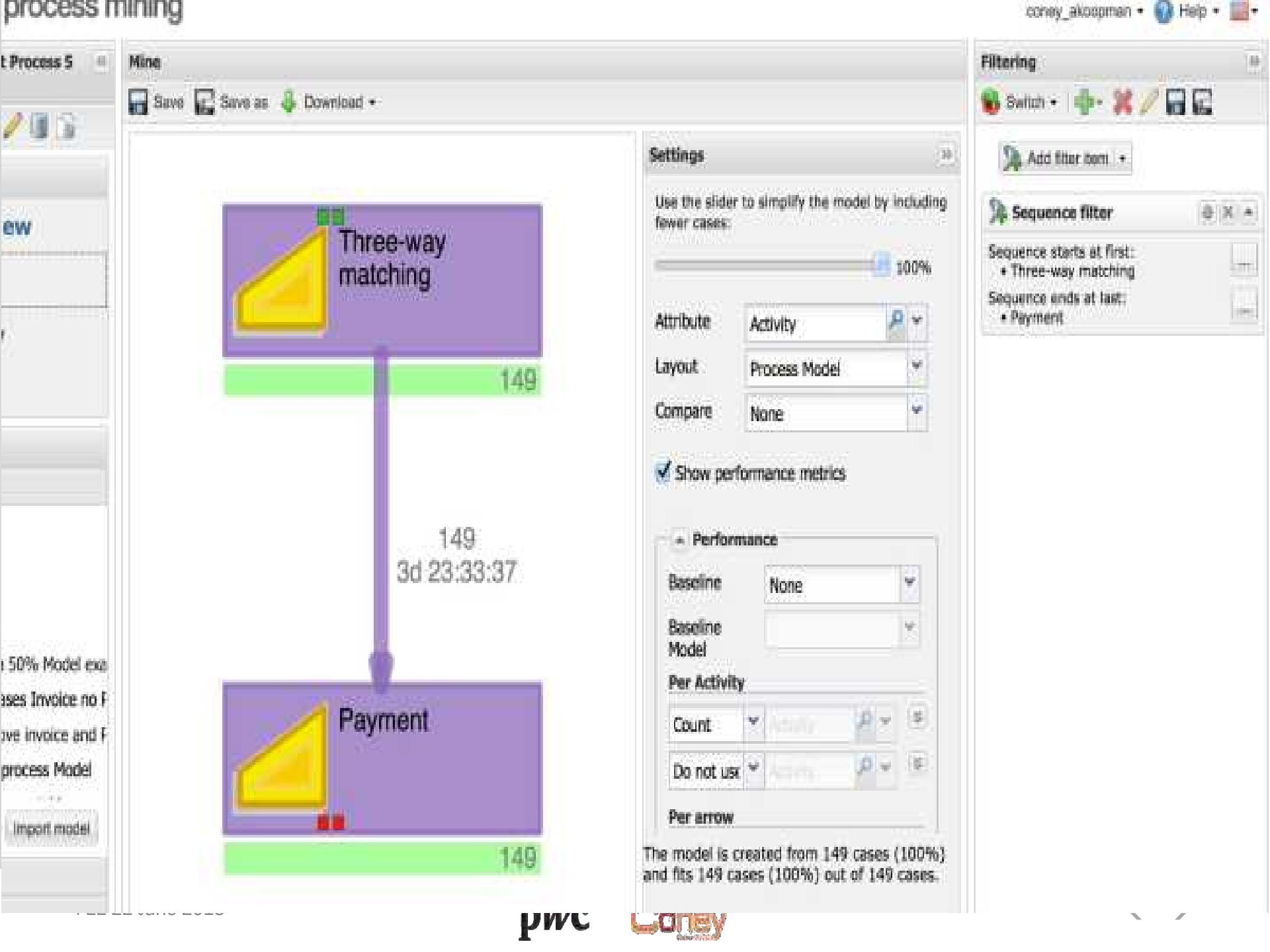
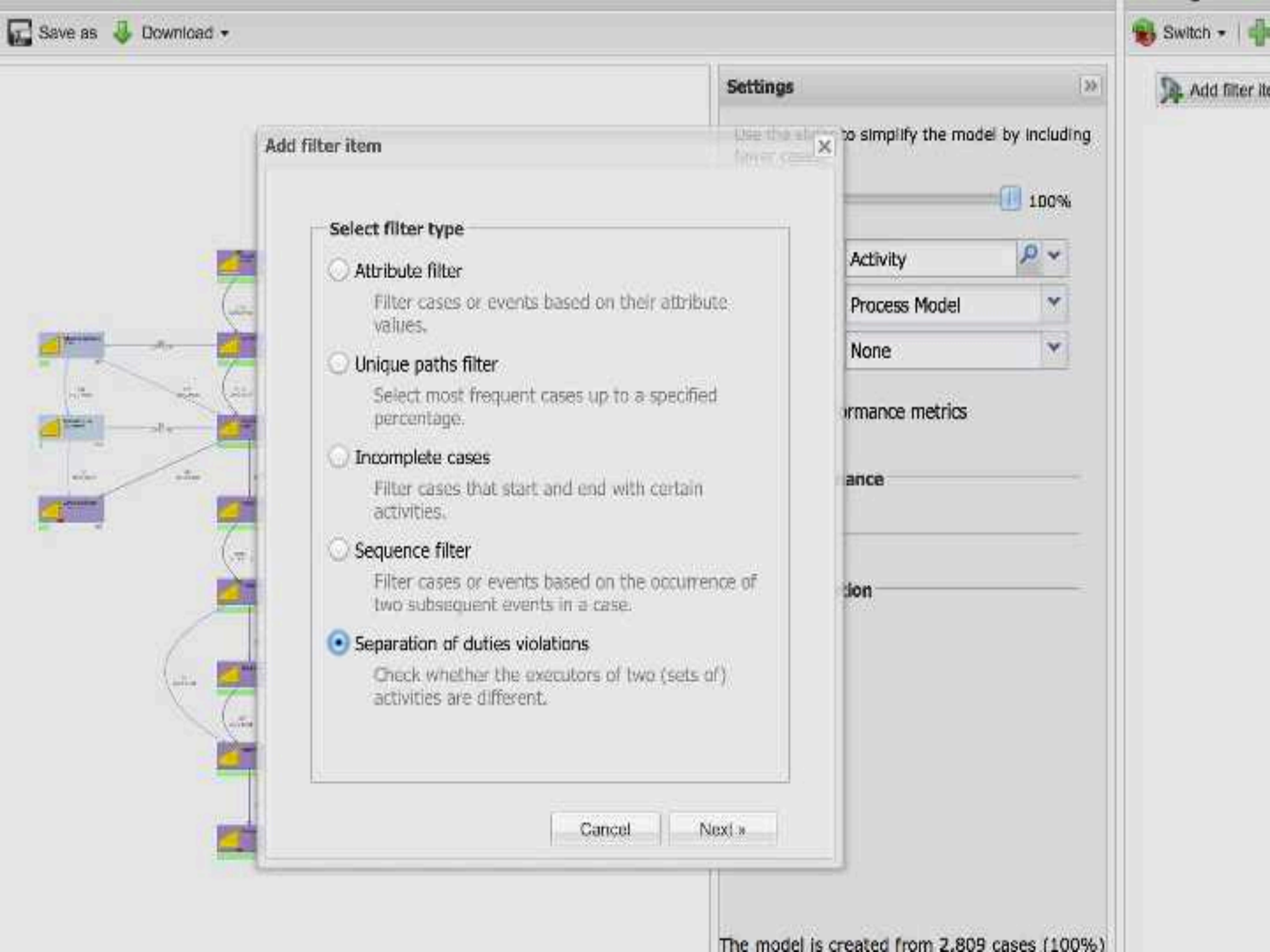
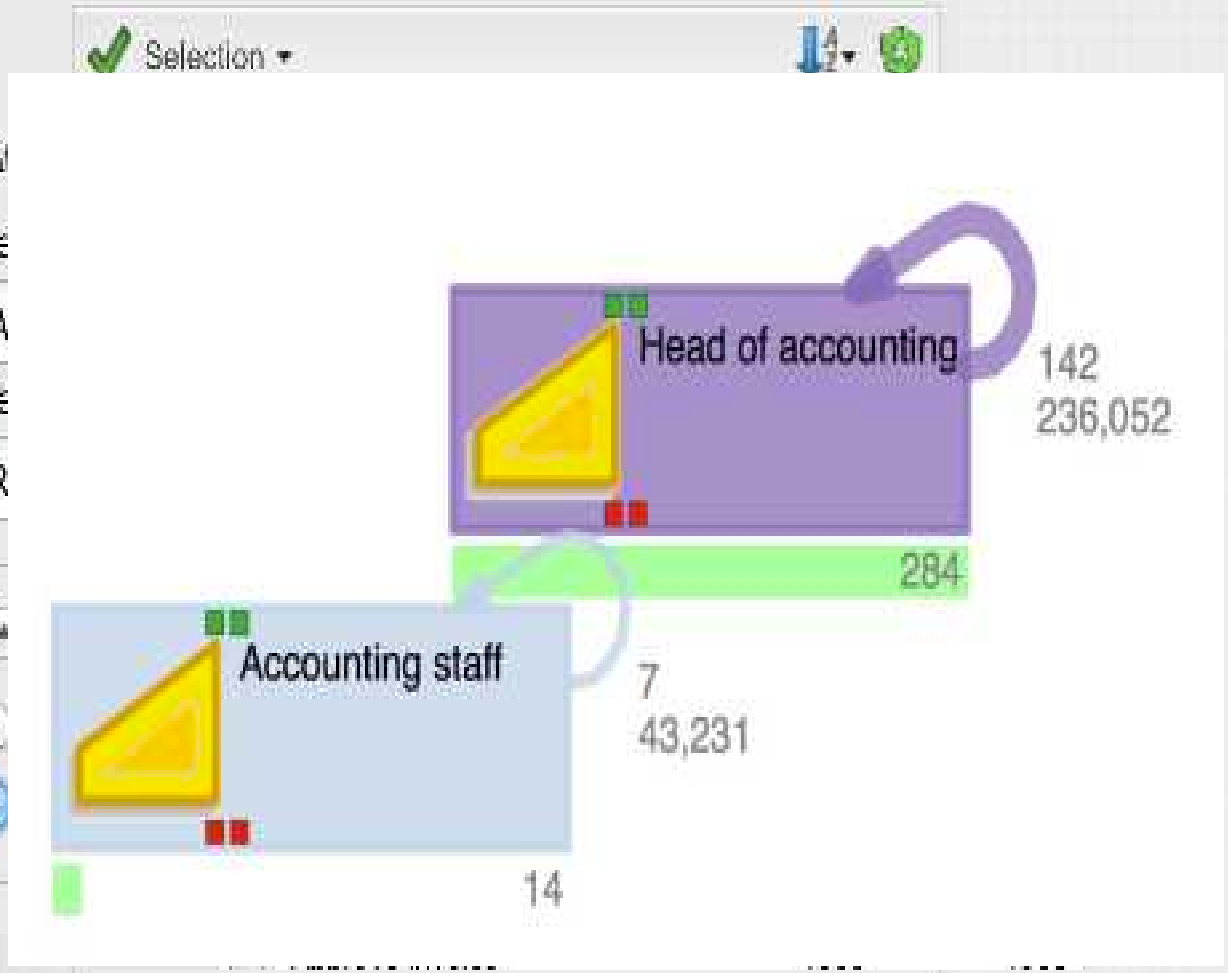
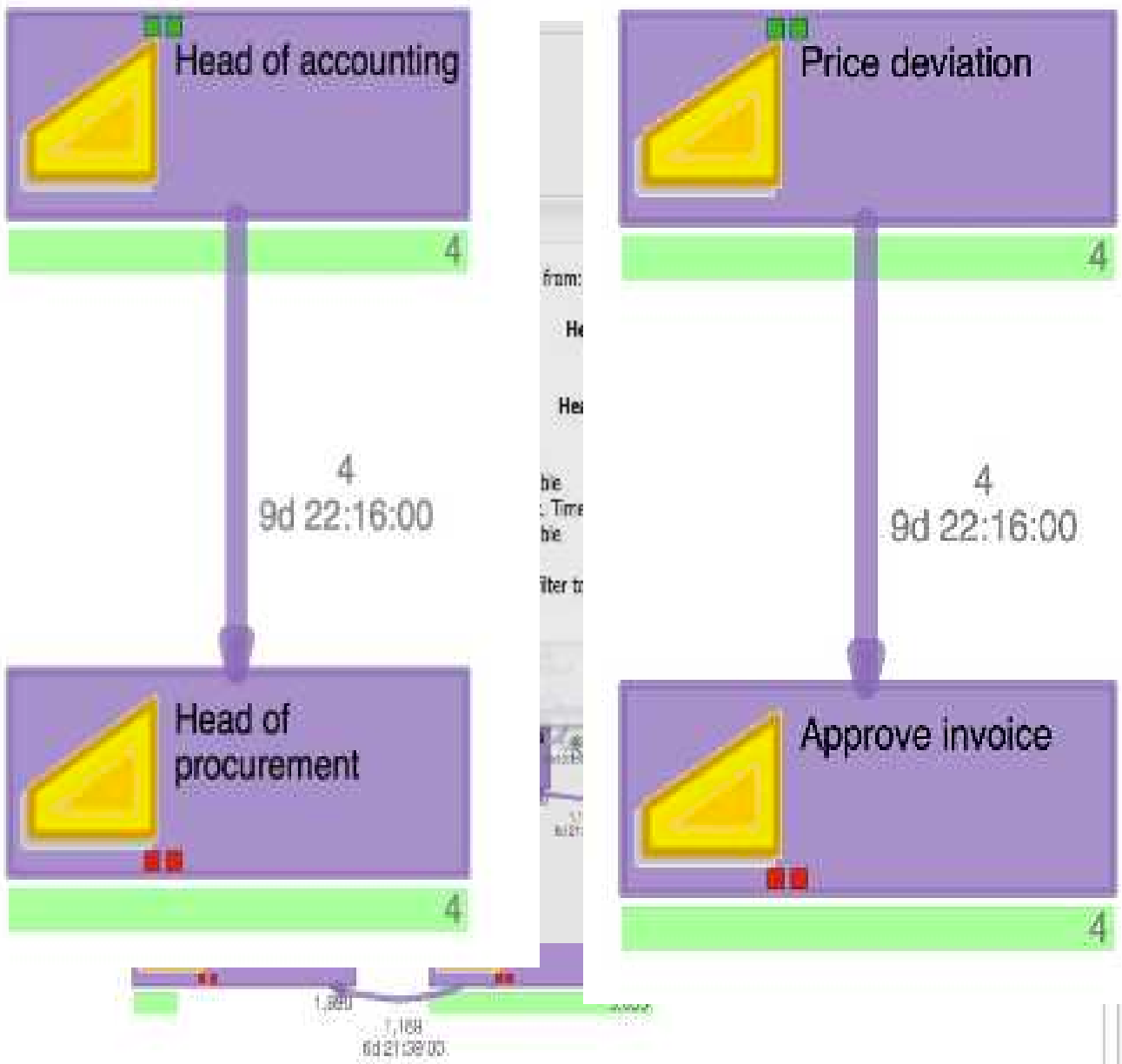
Chart
jects
Models (11)
35% Model
50% Model
80% Model
90% Model
100% Model
Compare with 50% Model exa
Incomplete cases Invoice no F
No SoD Approve Invoice and F
Procurement process Model
Skip Three-way matching
Skip Three-way matching Roo
Import model
Replay list (1)
Charts (2)
Dashboards (0)
0d 03:21:34
Three-way matching
1,785
191
0d 00:07:42
1,303
7d 20:53:23
149
3d 23:33:37
Approve invoice
1,938
191
12d 00:08:16
1,938
25d 22:26:25
Payment
Settings
Use the slider to simplify the model by including fewer cases:
100%
Attribute
Activity
Layout
Process Model
Compare
80% Model
Show performance metrics
Performance
Miner
Description
The model is created from 2,809 cases (100%) and fits 2,809 cases (100%) out of 2,809 cases.
Mine

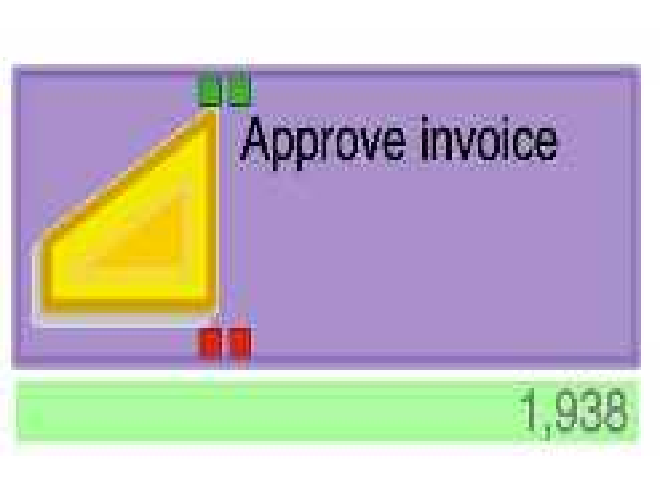

process mining
coney_akoopman
Help
Process 5
Mine
Save
Save as
Download
Filtering
Switch
Add filter item
Settings
Use the slider to simplify the model by including fewer cases:
100%
Attribute
Activity
Layout
Process Model
Compare
None
Show performance metrics
Performance
Baseline
None
Baseline Model
Per Activity
Count
Do not use
Per arrow
Sequence filter
Sequence starts at first:
• Three-way matching
Sequence ends at last:
• Payment
Three-way matching
149
149
3d 23:33:37
Payment
149
The model is created from 149 cases (100%) and fits 149 cases (100%) out of 149 cases.
Import model

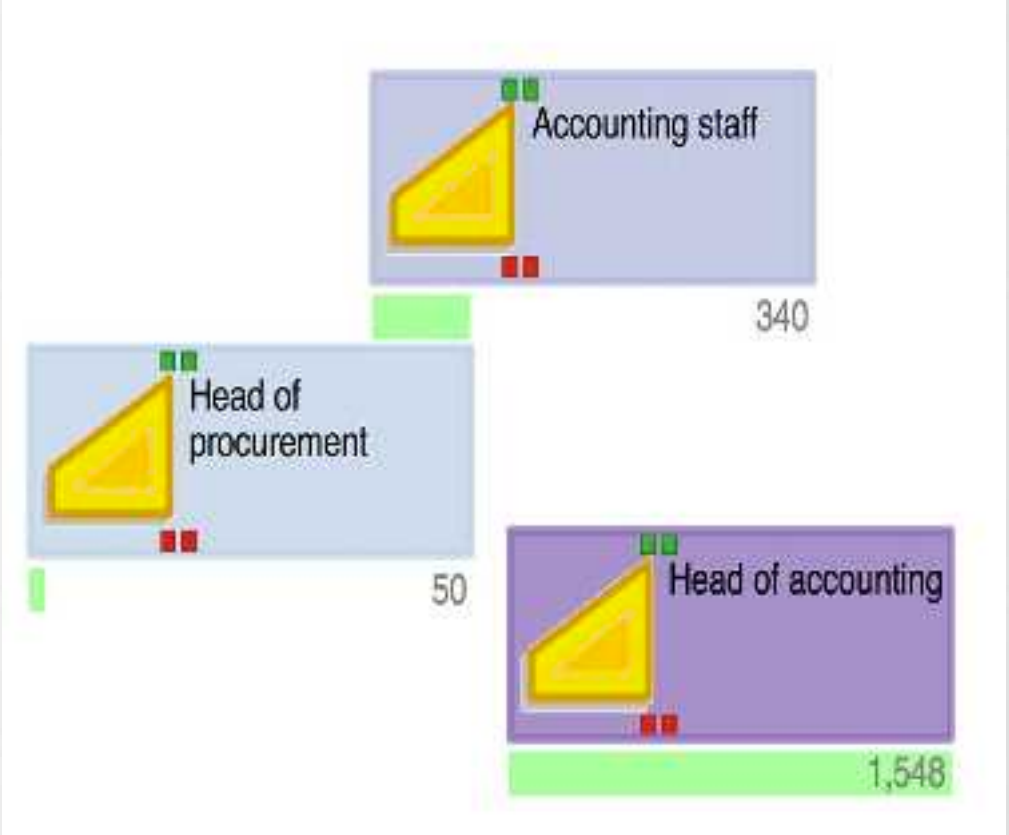

Save as
Download
Switch
Settings
Add filter item
Select filter type
Attribute filter
Filter cases or events based on their attribute values.
Unique paths filter
Select most frequent cases up to a specified percentage.
Incomplete cases
Filter cases that start and end with certain activities.
Sequence filter
Filter cases or events based on the occurrence of two subsequent events in a case.
Separation of duties violations
Check whether the executors of two (sets of) activities are different.
Cancel
Next »
100%
Activity
Process Model
None
The model is created from 2,809 cases (100%)

Add Separation of Duties violations filter item



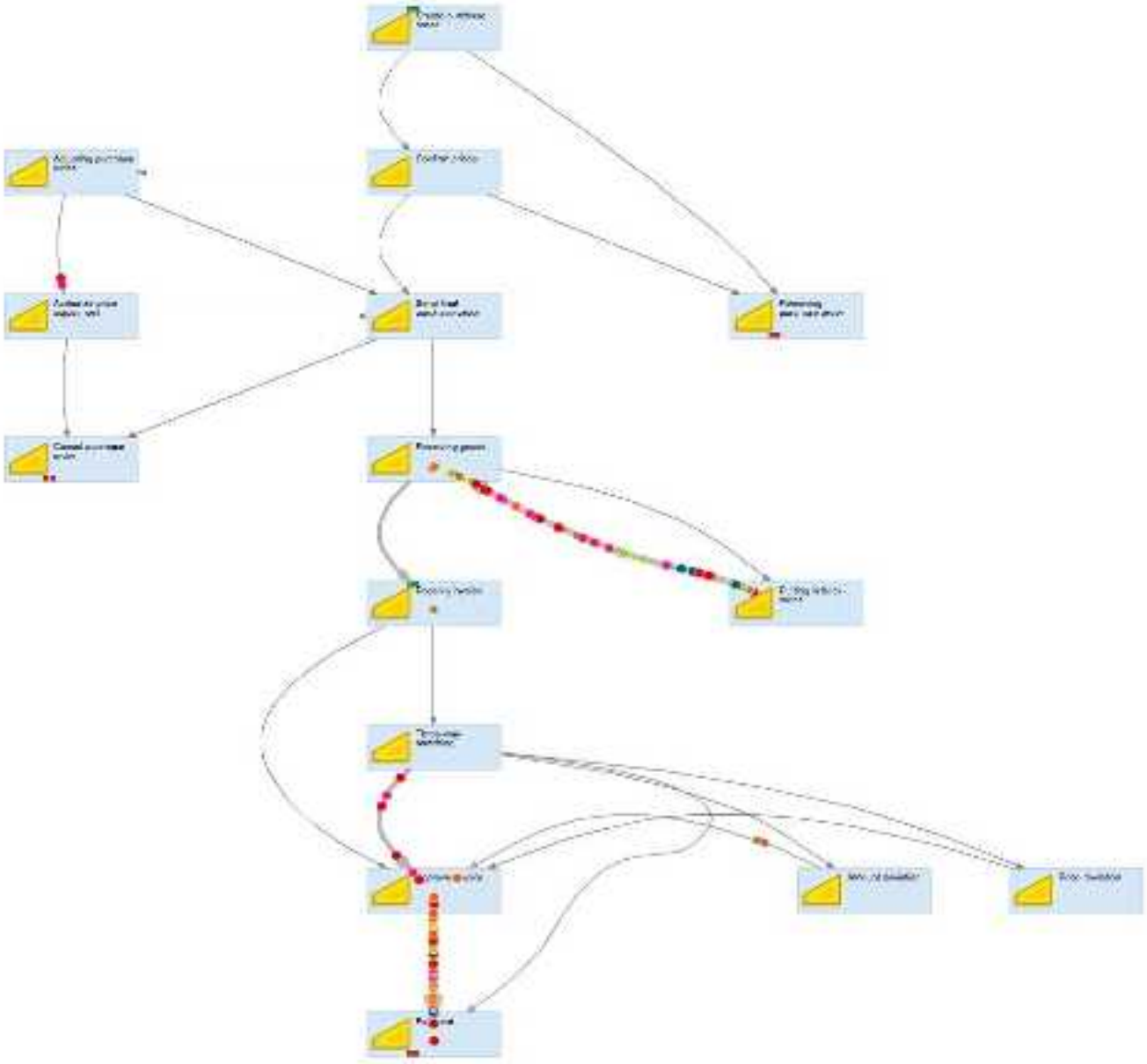

Head of accounting
4
4
9d 22:16:00
Head of procurement
4
Price deviation
4
4
9d 22:16:00
Approve invoice
4


Approve invoice
1,938


Accounting staff
340
Head of procurement
50
Head of accounting
1,548

Animation Supplier

Rename | Delete | Download | Side by side | Edit



Supplier

Number of cases

Alcoa Inc	589
China Aluminium	540
Amaco	519
Praxis Corp	348
Gamma Inc	364
Clips R Us	277

Average throughput time

Alcoa Inc	36d 09:07
China Aluminium	38d 01:05
Amaco	37d 04:09
Praxis Corp	36d 07:50
Gamma Inc	38d 11:42
Clips R Us	35d 16:52

Considerations and areas for further research

Within the auditing domain, anything technically possible is allowed.

The technologies presented today will be part of a regular audit in the next 2-3 years.

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angelique.koopman@coney.nl

KPMG

cutting through complexity

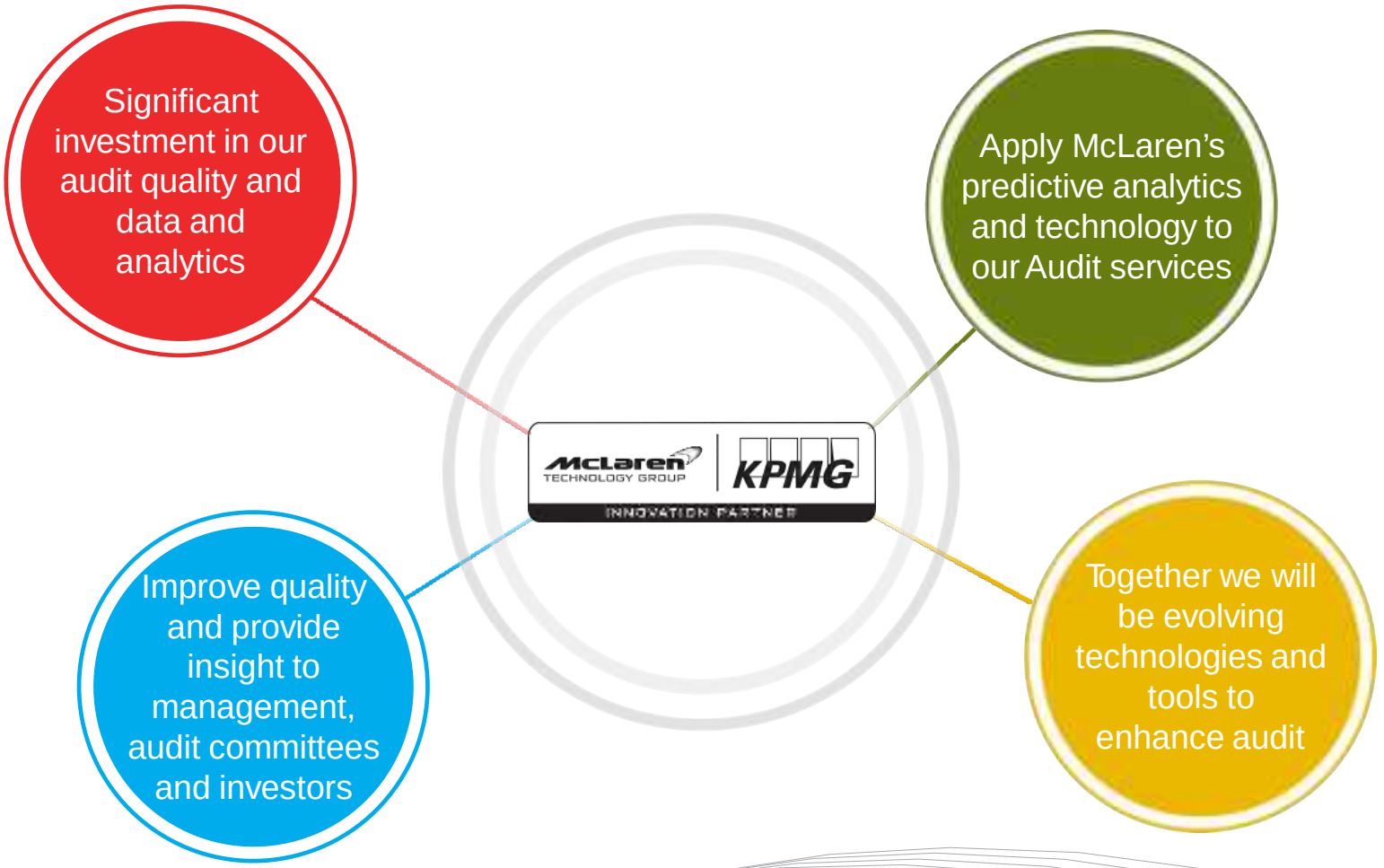
KPMG & McLaren Strategic Alliance

Nick Frost

FEE Conference

22 June 2015

A transformational alliance for audit with McLaren Technology Group



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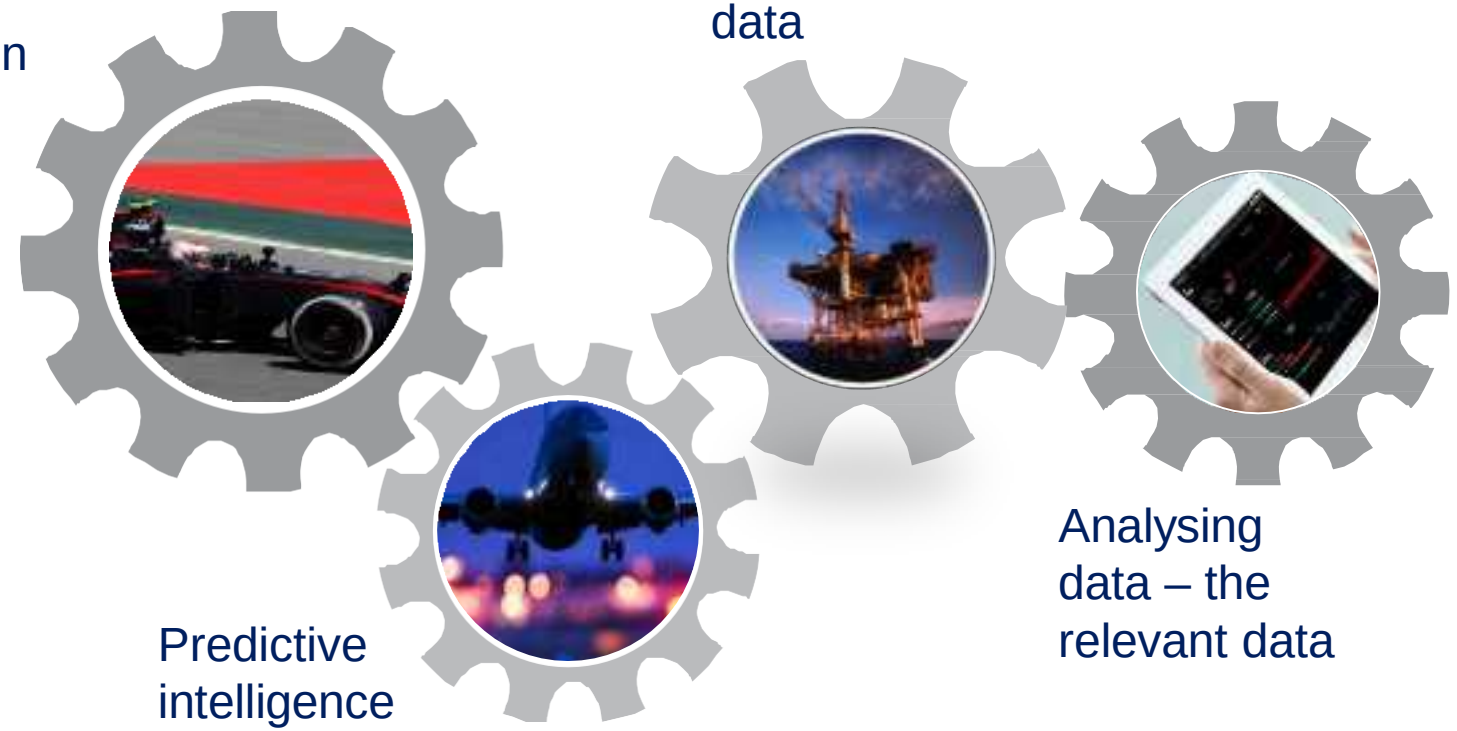
…the skills of McLaren Technology Group

Speed and visualisation of data

Multi dimensional data



Analysing data – the relevant data

Predictive intelligence and scenario modelling

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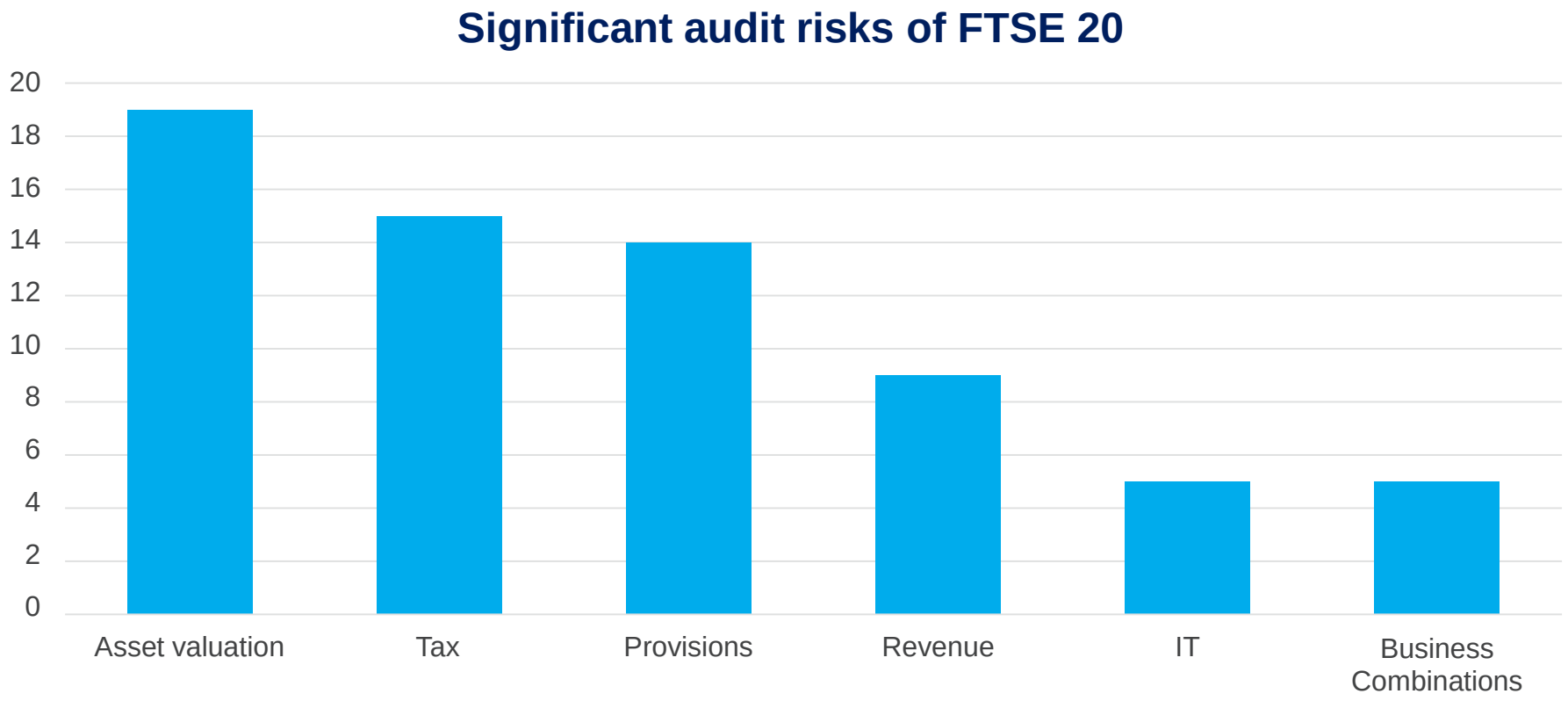
…and so the relevance to our audit…



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…the first is our Impairment Tool

Developed an impairment tool with broad functionality to increase audit rigour, challenge and quality:

- View historical accuracy of management's forecasts
- Industry benchmark data
- Instant sensitivity analysis for assumption changes
- Visualisation of results
- Formalised data upload
- Pre-set scenarios

...there will be more tools to come…

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Bespoke tools…

Jointly developed bespoke tools targeting client focused issues for specific sectors/clients e.g. in, Oil and Gas, Banking and Retail

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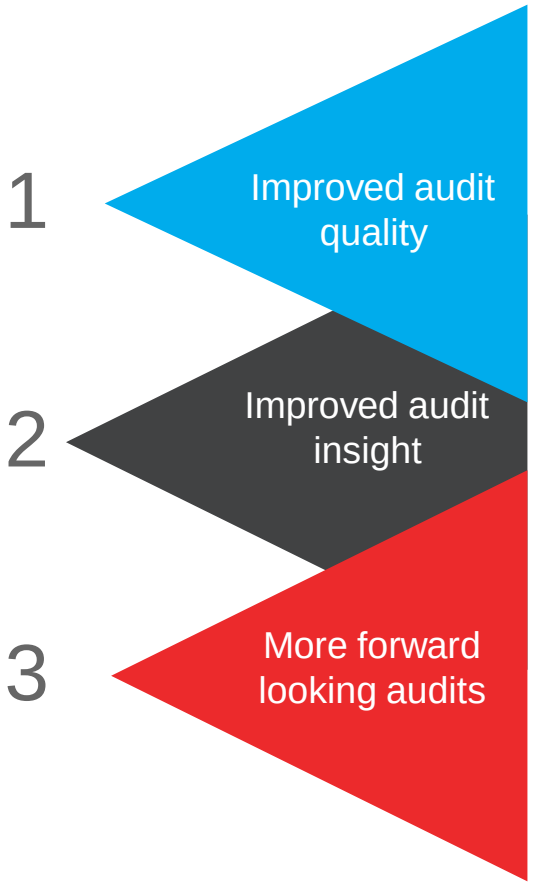
The future… a forward looking and more relevant Audit proposition

- Extended use of predictive analytics
- Continuous monitoring capability
- Embedded use of both client and external data sources
- Development of simulation techniques
- Adding a layer of codified KPMG knowledge
- Adding real challenge and deeper insight



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Technology: how business is reshaping and how the firms are adapting

Ashton Dallsingh
Vice President and CFO, Cisco System Ltd

Christoph Hütten
Senior Vice-President, SAP SE

Mona de Boer
Senior Manager, PwC

Angelique J.M. Koopman
Partner, Coney

Nicholas Frost
Partner, KPMG

Keynote address: auditor skillset and what has to change for the future

Graham Durgan
Chairman, Emile Woolf International

Federation of European Accountants
Fédération des Experts comptables Européens

Thank you

See you at the dinner

Panoramic Hall, The Square Brussels Meeting Centre