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Review on the Role of Auditor for Financial Reporting in Modernization Era

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Abstract

The role of auditors has evolved significantly due to changes in regulatory frameworks, technological advancements, and increasing stakeholder expectations. Nowadays, auditors play a crucial role in risk management, fraud detection, sustainability assurance, and the adoption of emerging technologies. The paper aims to expand the responsibilities of auditors by highlighting key challenges and opportunities in different contexts. This paper explores five main roles of auditors to ensure financial reporting reliability through independent assessments and uphold reporting credibility. Next, we discuss the challenges faced by auditors based on their role, the economy that they are exposed to, industries, and technology adoption. The study highlights the importance of continuous adaptation in auditing practices to maintain transparency, accountability, and trust in the evolving business landscape.

Keywords**:** *Auditing, digital transformation, ESG reporting, financial reporting, risk management, sustainability assurance.*

I. INTRODUCTION

Evolution in regulatory frameworks, technological advancements, and increasing stakeholder expectations has made the role of auditors change significantly over the years. According to Malay Mail [1], there are 2,000 government-linked companies will be audited by the national audit department to establish better governance systems. Traditionally, an auditor's task is to verify the accuracy of financial statements and ensure compliance with accounting standards. However, cybersecurity risks, sustainability reporting, and the integration of advanced technologies like artificial intelligence and blockchain have expanded the role of auditors [2]–[5].

Assurance on the fairness and accuracy of financial statements is one of the primary functions of auditors. This is grounded in agency theory, which state that an independent agent auditor's duty is to mitigate conflicts of interest between principals and agents [6]. The scope has been broadened and has encompassed non-financial aspects such as environmental, social, and governance disclosures [7]. Auditors are actively involved in verifying the accuracy of sustainability reports, which are becoming integral to corporate transparency and accountability [8], [9].

In the past, auditors main focus was checking financial statement accuracy and ensuring that companies followed accounting standards. When technological advancements were still immature, audit firms imposed higher audit fees due to the increased likelihood of earnings management [10]. Therefore, the integration of advanced technologies helps to improve consulting activities by providing more value-added services, perhaps reducing audit costs and enhancing client satisfaction [11].

To date, identifying risks and detecting anomalies has become convenient as digital transformation enables auditors to enhance the efficiency and effectiveness of audit processes [12], [13]. Adopting technology in auditing work can improve the transparency and traceability of

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financial transactions and reduce the risk of fraud [3].

Figure 1 categorizes auditors based on three fundamental dimensions. It illustrates the diverse nature of modern auditing. The structure provides an overview of auditors' responsibilities and expertise. It demonstrates that internal and external auditors perform similar roles. However, internal auditors have greater access to company information whereas, external auditors must rely solely on the information provided to them, necessitating a more strategic approach to their evaluations.

In respect to the expansion of auditor responsibilities, this paper aims to provide a comprehensive review which highlight their contributions toward the organization's governance, transparency, and accountability to ensure the reliability and sustainability of the company. There are assurance and financial reporting, risk management and internal control, fraud detection and prevention, sustainability and governance assurance, and last but not least, technology integration and digital transformation. Next is synthesizing insights from recent studies to highlight the challenges and opportunities facing the auditing profession and propose future research directions to address these issues.

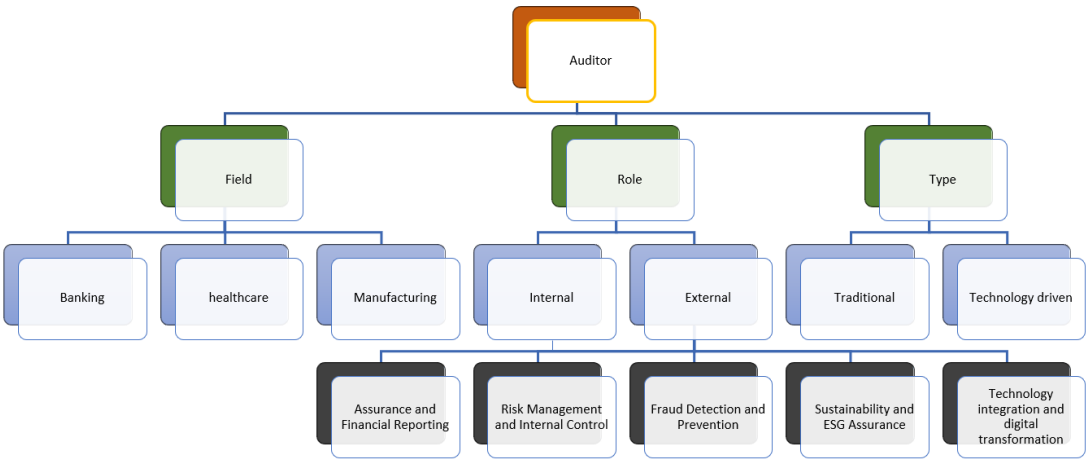

Figure 1: Overview of Auditor Responsibilities and Expert.

II. LITERATURE REVIEW

Recent research highlights the multifaceted role of auditors in modern organizations. The competence and experience of auditors significantly impact audit quality. Efficiency and accuracy can be achieved with technology adoption and can make complex decision-making tasks. Internal auditors should utilize artificial intelligence particularly in data analysis, to meet stakeholder needs and provide added value through consulting roles [14]. External auditors used new technologies like the metaverse to focus on cybersecurity risks [2], [11]. The COVID-19 pandemic has accelerated digital transformation, leading to increased automation and data analytics in auditing processes [15]. This shift has transformed auditors from transaction loggers to analysts and consultants [16].

Table 1 provides a summary of aims and treats on responsibilities of auditor. The table highlights various aims, which emphasis audit assurance, risk management, and regulatory compliance. However, auditors' primary focus is to preserve their professional standards, regulatory constraints, and the practical limitations of the audit process. These treats undermine the persistent audit expectation gap, which remains a critical issue in modern auditing practices.

This paper explores the five key roles of auditors in modern business, which highlight their contributions toward the organization's governance, transparency, and accountability to ensure the reliability and sustainability of the company. There are assurance and financial reporting, risk management and internal control, fraud detection and prevention, sustainability and governance assurance and last but not least technology integration and digital transformation.

A. Assurance and Financial Reporting.

Assurance on the accuracy and reliability of financial statements is one of the most fundamental roles of auditors. It is critical for maintaining trust in capital markets and stakeholders, as investors rely

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on financial information for decision-making. This can be achieved by conducting independent examinations of financial records, assessing accounting standards, and issuing audit opinions that attest to the fairness of financial reports [7], [18].

However, the audit expectation gap, which is the difference between stakeholder expectations and auditor report results remains a persistent issue. For example, stakeholders often expect auditors to detect all instances of fraud, even though audit procedures are inherently limited in scope [19], [20]. Additionally, the increasing complexity of financial transactions, corporate strategy, and the globalization of business operations have made it more difficult for auditors to provide absolute assurance [21], [22]. Despite these challenges, auditors continue to play a vital role in enhancing the credibility of financial information, which is essential for the functioning of global markets [4], [23].

B. Risk Management and Internal Control

Auditors are increasingly involved in evaluating and improving an organization's risk management processes and internal control systems. Particularly, internal auditor tasks are to identify operational, financial, and compliance risks and provide recommendations to strengthen internal controls [4], [8].

The integration of sustainability into risk management has magnified the role of auditors. Auditors are now expected to assess the impact of environmental and social risks, ensuring that companies are prepared to address emerging challenges such as climate change and social inequality [9], [13]. Consequently, it contributes to the long-term resilience and sustainability of organizations [12].

C. Fraud Detection and Prevention.

Fraud detection and prevention is critical, particularly in light of high-profile corporate scandals and increasing regulatory scrutiny. Auditors are the front line of defense against fraudulent activities by utilizing methods such as data analytics and forensic auditing to identify red flags and anomalies in financial data [18], [24]. However, the effectiveness in detecting fraud is often constrained by the limitations of audit procedures and the complexity of modern business operations [22].

The fraud triangle theory explains the fraudulent behavior. The theory provides a useful framework to understand the challenges auditors face [18], [24]. Thus, auditors must adopt a proactive approach by leveraging advanced technologies and collaborating with other stakeholders to strengthen anti-fraud controls and monitoring systems [3], [12].

D. Sustainability and Governance Assurance.

Growing on environmental, social, and governance reporting has created new opportunities and challenges for auditors. Nowadays, companies are required to disclose non-financial information, such as carbon emissions, diversity metrics, and supply chain practices, to meet the expectations of investors, regulators, and the public. Verifying the accuracy and reliability of these disclosures is crucial to ensure that stakeholders can trust the information provided [8], [9].

A complex landscape of governance frameworks, such as the Global Reporting Initiative and the Sustainability Accounting Standards Board poses a challenge to auditors to address the risks and opportunities associated with each industry [3], [12]. Additionally, lack of standardized methodologies and metrics for sustainability reporting poses significant challenges for auditors. Despite these challenges, auditors are managing to enhance the credibility of sustainability reporting and sustainable development as a whole [17].

E. Technology Integration and Digital Transformation.

The rise of digital technologies has enhanced the efficiency and effectiveness of audit processes specifically in data analysis, risk assessment, and fraud detection. The decentralized and immutable ledger feature offered by blockchain improves the transparency and traceability of financial transactions, thereby reducing the risk of fraud [3], [12].

This transformation requires auditors to develop new skills and competencies, particularly in data analytics and cybersecurity [25]. Technology usage has enhanced performance evaluation and checked compliance with certain auditing criteria [26]. By selecting suitable artificial intelligence auditing infrastructure, it should be able to support the dynamic and multi-dimensional context.

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Table 1: Aims and Threats on Responsibility of Auditors

Auditors Responsibilities	Aim	Threat
Assurance and Financial Reporting Risk Management and Internal Control Fraud Detection and Prevention Sustainability and Governance Assurance Technology integration and digital transformation	● To minimize Audit Expectation Gap. ● Enhance Financial reporting quality and Cybersecurity Risk Management. ● Help organizations manage risks and add strategic value. ● Maintain audit integrity and independence ● Enhances disclosure quality ● Develop technological skills. ● Equipped with digital skills	● Unrealistic expectations from stakeholder ● Need to maintain auditors-client relationships ● Weak Enforcement. ● Lack expertise in IT risk management. ● Company adopt aggressive corporate strategies can weaken auditors' influence on financial reporting quality ● Lack of authority in strategic decision-making. ● Pressure from clients to issue favourable reports. ● No standardized governance auditing framework. ● Automation is replacing traditional bookkeeping roles

III. CHALLENGES FACED BY AUDITORS ACROSS CONTEXTS.

The responsibilities and challenges of auditors are heavily influenced by the specific context in which they operate. By examining these contexts, a deeper understanding can be gained regarding how auditors adapt to diverse environments and address unique challenges. Table 2 shows the audit concerns in different contexts. This analysis highlights the several auditors concerns that contribute audit quality and performance.

A. Internal vs. External Auditors.

The roles of internal and external auditors depend on their objectives and responsibilities. Internal auditors actively identify operational, financial, and regulatory risks and enhance governance frameworks. [4]. Early detection of irregularities, allowing management to implement corrective actions before issues escalate. Auditors are actively involved in sustainability reporting, ensuring that organizations address environmental and social risks effectively [8].

In contrast, external auditors are responsible for providing assurance on the accuracy and reliability of financial statements through independent examinations of financial records, assessing compliance with accounting standards, and issuing audit opinions on the fairness of financial reports. However, audit expectation gaps, are one of the limitations of audit procedures [17].

B. Developed vs. Emerging Economies.

The In developed economies, auditors are more likely to adopt advanced technologies such as artificial intelligence and blockchain to enhance audit quality and efficiency [3]. They use artificial intelligence to analyze large datasets and identify anomalies, improving the accuracy of financial reporting [12].

In contrast, auditors in emerging economies encounter significant challenges to narrow the audit expectation gap due to limited awareness and education about auditing standards [19]. In Mozambique, auditors struggle with fraud detection and compliance with prudential regulations [17].

C. Different Industries.

Every industry is exposed to unique risks and regulatory requirements. In the banking industry, auditors concentrate on the effectiveness of internal controls and ensure that financial institutions follow regulatory standards [17]. They use advanced technologies to enhance cybersecurity and detect fraudulent activities [2].

On the other hand, in the healthcare industry, auditors verify the accuracy of non-financial disclosures, such as carbon emissions and diversity metrics, and assess the impact of environmental and social risks [13]. In the manufacturing industry, auditor attention is to ensure that companies comply with environmental regulations and adopt sustainable practices [9].

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Table 2: Auditor concerns in Different Contexts.

Context	Dimension	Concern
Role	Internal	● Governance Framework ● Risk management
	External	● Compliance accounting standard ● Financial assurance
Industries	Financing company	● Internal controls, regulatory compliance, cybersecurity, and fraud detection.
	Non- Financing company	● Compliance with environmental regulations and sustainable practices
Economies status	Developed	● Audit expectation gap
	Emerging	● Fraud detection ● Limited technology use
Approach	Traditional	● Time-consuming and human error
	Technology-Driven	● Ethical and privacy

D. Traditional vs. Technology-Driven Auditing.

The digital transformation has created a distinction between traditional auditing practices and technology-driven auditing. Traditional auditing relies on manual processes and professional judgment to verify financial statements and assess compliance with accounting standards [18]. However, it is time-consuming and prone to human error.

In contrast, technology-driven increased the transparency and fairness in audit report [3]. Advanced tools allowed auditors to analyze big datasets and detect anomalies, reducing the risk of fraud [24]. However, it raises ethical and privacy concerns and requires auditors to balance innovation with professional judgment [12].

IV. CONCLUSION

The evolving regulatory, technological, and societal landscape has introduced significant challenges for auditors, which are critical to ensuring organizational transparency, accountability, and resilience. As for the future research, the role of digital transformation in maintaining auditor independence and objectivity should be investigated. This could shed some light on the effectiveness of digital transformation by exploring the impact of digital tools on their professional judgment and skepticism. Furthermore, technology-driven auditing demands auditors to possess comprehensive technological skills and capabilities in digitalization, including data analytics and cybersecurity, which have implications for audit quality and stakeholder trust.

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