The audit of the future

As technology fundamentally changes the nature of the audit, how can auditors use technology to enhance the way they analyse information?

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Our future is characterised by unparalleled organisational and informational complexity, with corporate and business reporting evolving rapidly. If the audit is to keep pace with these changes, we should ask ourselves the question: What will the audit of the future look like and will our audit teams have the requisite skills to deliver this proposition?

There are two options to consider. Firstly, to continue with the status quo whereby the audit is basically a control function for corporate businesses. And second, to be more progressive and drive change by developing a more insightful audit for this increasingly complex environment and, in doing so, win back trust and be regarded as custodians of the public interest.

If we agree that the process needs to develop, then technological advances are a game changer for the audit. The use of big data and analytics are enablers for auditors to assess ever-increasing volumes of data, thereby allowing them to better identify financial reporting, fraud and operational business risks and ultimately deliver a more relevant audit.

Technology also affords us the opportunity to deliver increasingly comprehensive testing with improved focus and audit quality. These new capabilities signal significant change for our profession, but also a wealth of opportunity. We can enhance our service offering by providing insights that are data-driven to support decision-making, and implement systems that are increasingly streamlined, agile and easy to tap into.

Game changer

The technological advances of the past few years are making high-performance computing and the ability to obtain valuable insights from client data more accessible to audit teams. The advent of internally hosted cloud computing and affordable data storage has improved the availability of increased computational capability, which we can effectively integrate into the audit process. This enables audit teams to consume larger volumes of audit-relevant data than previously possible.

The combination of big data, advanced analytics and visualisation technologies is delivering audit and business insights that impact the way an audit is planned, executed and delivered. For example, instead of testing a sample of revenue transactions to assess the appropriateness of revenue recognition, an auditor can now analyse all revenue and contra-revenue transactions to identify inconsistencies across the business or anomalies with specific customers or business units. This allows us to identify transactions that fall outside expectations for further examination and testing.

Auditors can also categorise activity based on its attributes, identify risks and drill down to examine the underlying transactions and details that help to explain why something deviates from the norm. Testing procedures are targeted and audit evidence covers a complete population of transactions, which increases the quality of the audit while providing more meaningful insights for stakeholders and clients alike.

Starting earlier

From EY's perspective, these developments have enabled us to be more forward-looking much earlier in the audit process. Historically, analytics were mainly used to carry out year-end substantive procedures. In those cases, to validate the account balance, we would obtain the underlying details from the client and then select and analyse a sample. Now, we begin gathering audit-relevant data earlier in the audit process which in turn influences our audit scoping, risk assessment and planning.

For example, analysing the details of a loan portfolio in advance by applying our collective quantitative expertise – financial, risk management and information technology – helps us to better assess the risk profile of that portfolio. This allows us to focus our resources on high-risk items and those where more judgement is required, thus delivering higher value to the client.

Increasing expectations

The current economic climate continues to emphasise the role of independent auditors in financial markets, with increasing expectations on the scope and value of the audit. Technology innovation also has a transformative impact on the audit and provides an opportunity to further align the audit with the expectations of the regulator, investors and clients. However, the practicalities of embedding new technologies into the audit process are not without challenges.

Data capture has traditionally been an onerous task. In many cases, clients are concerned about the security of their data and are reluctant to have that data taken outside their organisations. Building analytical models that produce high-quality audit evidence and valuable business insights across multiple business processes and industries is no small task. Furthermore, the availability of qualified and experienced resources to process and analyse the data is scarce.

People investment

While the use of technology will enable companies and their auditors to identify inconsistencies in business activity, the use of data analytics will require a very different skillset. Analytics specialists will be needed with the expertise to identify the objective and data requirements of the analysis; to apply the necessary technology to capture the data; and finally to organise the data in a meaningful way so that the results of the analysis can be interpreted appropriately and provide relevant audit evidence.

To evolve in parallel with this new world forming, firms will need to hire specialists who have the requisite technological skills. While having these specialists on board will be essential, it will also be necessary to educate and empower audit teams to ensure they have the knowledge to identify when to commission these services. Audit teams will also need to know the right questions to ask these specialists, and have the ability to comprehend the answers they receive. From a control perspective, audit teams will need to manage internal specialists. This means having the knowledge to interrogate and interpret data in a way that ensures the effective use of technology, thus minimising risk.

As technology evolves, so do the challenges and risks for auditors and the businesses they audit. This leads to questions like: how will the audit be managed via robotic process automation (RPA) and continuous controls monitoring? Will auditors be able to recognise and analyse the risks associated with cyber-crime and the impacts on reputation?

While the advancement of technology is a compelling proposition for all of us, auditors will need to have the skills to limit the risks from the use of technology and ensure minimum disruption to their clients' businesses.

Moving on to the benefits of technology in the audit, it has helped people learn new skills, spend less time on manual repetitive tasks, spend more time on analysing the evidence and following up on identified issues using their developed knowledge. It has also opened up opportunities for members of the audit team to move into specialised roles within the team that manages the analytics function.

Prepare for more innovation

The digital age is ever evolving and as such, we can count on innovation throwing up more issues for the audit profession to solve. Businesses and their auditors will need to assess the unknowns before they can take full advantage of these technologies.

Take blockchain as an example. It is set to transform financial transactions, and thus the world of corporate reporting. It is envisaged that, with the advancement of blockchain, we could soon see transactions executed automatically and verified in real time with a computer settling derivative contracts on your behalf. In this world of real-time systems offered through a distributed ledger, it could enable companies to close their books every day while highlighting anomalies as they emerge.

Businesses will therefore need to be ready for the many disruptions that blockchain could create. This means shaping the organisation's strategy so that it is innovation-ready with the right technology platform in place. It also means understanding what blockchain can do for every department and how finance can innovate, using blockchain to drive the organisation's future success. Auditors will also need to be prepared as they will be required to audit whether the distributed ledger systems are working correctly.

Similarly, artificial intelligence will allow us to digitise unstructured data, such as paper contracts, thereby enabling the software to analyse the information the way accountants would – just a lot faster. The parallel processing of vast amounts of readily-accessible data and improved learning algorithms are already in use within global practices.

Adapt or get left behind

Technology is already having a profound impact on audit and the value it provides. In the long-term, we can look forward to more real-time audit and real-time reporting and less time spent on the onerous tasks that consume so much finance resource today. It will also make our work more dynamic by producing more tangible insights and enabling us to better assess true enterprise value by incorporating unstructured data.

There will be new issues and challenges to solve and as we approach this new frontier, it is safe to say that continued digital transformation will result in an ever-changing work/life experience for us at home and in the office. This new world will be more complex, yet offer more simple solutions. It will also provide us with more excitement as we engage with new technologies.

And as with the past, we will turn challenges into solutions and thus find the right path for us as an industry. We will harness the use of technology and the opportunities it presents for our profession to win back trust and also be regarded as true custodians of the public interest.

From Accountancy Ireland, April 2017

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