3 keys to the future of audit

White paper

"Innovation is change that unlocks new value."
— Jamie Notter, speaker, author, and consultant[1]

Continuous innovation: Consistent progress toward the future without completely disrupting your firm.

The future of audit is not only fast approaching — it is already here. Does your firm have the right tools and resources in place to unlock success?

It is no secret that the audit profession is rapidly changing. Increased client demands and expectations, regulatory changes, and an influx of progressive technologies are reshaping the profession. Keeping pace can prove challenging and daunting for audit firms.

Many firms are frustrated with technology and data security. Too often, auditors rely on non-integrated solutions, like spreadsheets and desktop software, which means they must toggle between siloed systems and spin their wheels on tedious tasks like duplicate data entry. This makes it difficult to collaborate and share information among both team members and their clients.

Many auditors still rely on these non-integrated, inefficient systems to churn out "Same as Last Year (SALY)" results, which they then use to draw conclusions and insights. This is inefficient, labor intensive, and makes it hard to effectively focus on higher risk areas and deliver the deeper, more informed insights that clients value.

Unfortunately, inefficiencies and audit results that fail to meet expectations negatively impact client relationships and place an even greater strain on staff. Both are risks that firms cannot afford to take in a competitive market.

For firms looking to move forward, it is not about digitizing a checklist-based process. It involves reimagining processes and adopting new technologies — but that is not all. It also means sustaining innovation. This involves consistent, continuous progress toward the future to ensure that your firm remains relevant and competitive, but doing so in a way that does not completely disrupt your firm and your processes.

Attracting and retaining talent and ensuring compliance with professional standards are also critical considerations. Most firms do not have the resources, bandwidth, or time to implement highly disruptive changes, and new technologies must be adopted with due care to ensure you comply with professional standards and do not jeopardize your peer review.

In the following pages, we delve into three essential keys that will shape the future of audit: the ability to sustain innovation, the capacity to attract and retain top talent, and the commitment to maintaining compliance with professional standards.

Key #1: Sustaining innovation

With the exponential growth of big data and influx of progressive technologies, innovation has been and continues to be critical to the success of audit firms. The strategic insights that can be derived from structured, unstructured, and semi-structured data are significant, enabling firms to remain competitive and relevant.

In many respects, the technological advancements needed to succeed are present and available for firms. The challenge for many is finding ways to sustain innovation. As noted previously, this involves consistent, continuous progress toward the future to ensure that your firm remains relevant and competitive, but doing so in a way that does not completely disrupt your firm and your processes.

Thanks to advancements in technology, auditors are no longer confined to limited amounts of data. They are now able to transform data into insights to identify risks, uncover opportunities, and integrate it with the knowledge that extends beyond the financial statements. In other words, they have the ability to think holistically and promote innovation. This, of course, begins with ensuring the quality and integrity of data.

Data: Quality over quantity

The quality and integrity of data is paramount, and auditors must have confidence that the data is clean. Analysis based on bad data is not only unhelpful — it results in wasted work and can even be detrimental to the reputation of the firm.

Gathering data in disparate forms from various sources increases the risk of unclean data or errors occurring during the data gathering process. That's why quality checks are so important before diving into any data analysis.

Data quality is based on the following:

- Verification of completeness
- Accuracy
- Data integrity to ensure it has not been altered
- Consistency in data formats, naming conventions, and precision
- Multiple data source agreement
- Exportability and portability
- Cost effectiveness considering the effort and time required to obtain, clean, and verify the data
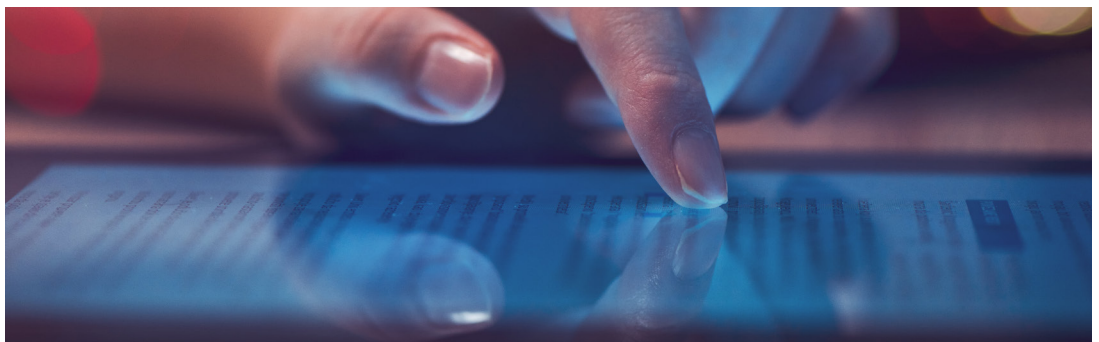
Data existing in disparate forms and locations increases both the risk of unclean data and the time and complexity necessary to even access data.

Unfortunately, sometimes there are barriers to data access. When a client has numerous accounting systems, all containing different sets and types of data, it presents potential challenges for auditors. Data existing in disparate forms and locations increases both the risk of unclean data and the time and complexity necessary to even access data.

The solution to this risk is to use a high-quality data ingestion service provider that offers connectors for the accounting systems that your audit clients use. Such a service can make ingesting, cleaning, and standardizing data a highly efficient process, and this is a critical first step in a data-driven audit.

Data analytics: Unlocking insights

Data analytics, which is essentially the science of examining raw data to draw conclusions, is not new to auditors. The profession has used analytics in various forms for years. Firms are increasingly using more sophisticated data analytics to deliver high quality audits in less time and in a less labor-intensive way.

As outlined in a recent article by the Association of Chartered Certified Accountants (ACCA), the increased access and manipulation of data and the consistency of application of data analytics tools can increase audit quality and efficiency in numerous ways. These include[2]:

- Thorough data analysis with dashboard displays to detect anomalies/outliers
- Improved risk identification with directed testing
- Efficient processing of large data volumes for better focus on risk areas
- Easy manipulation of data for audit testing, including sensitivity analysis
- Enhanced fraud detection through interrogation of all data
- Testing segregation of duties
- Adding greater value to audits with insights from data analytics

Several examples of the use of data analytics to perform audits include, but are not limited to[3]:

- Matching purchase orders to invoices and payments
- Comparing the last time an inventory item was purchased with the last time it was sold and at what price
- Analyzing revenue trends by product and region
- Testing segregation of duties by identifying combinations of users involved in processing transactions from the metadata attached to transactions

2 accaglobal.com, ACCA -. "Data Analytics and the Auditor." ACCA Global, accaglobal.com/gb/en/student/exam-support-resources/professional-exams-study-resources/p7/technical-articles/data-analytics.html

3 "Data Analytics and the Auditor."

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Anyone who hasn't made the shift to the cloud is already falling behind.

Leveraging the cloud

The migration to cloud-based solutions has been underway for some time, but the pandemic certainly accelerated adoption as firms swiftly moved to remote audits. The reality is that in today's tech-driven environment, the cloud is vital for firms.

Consider this: a survey of 250 finance executives conducted by Forbes Insights in partnership with KPMG found the cloud (80%), smart analytics (70%), and artificial intelligence (61%) are the top-cited must haves for today's external auditors .[4]

Underscoring this point, accounting and advisory firm BDO stated in an article that the cloud brings "indispensable value" to audit and, in the coming years, will be "a standard tool in the auditor's toolbox." [5]

The efficiencies gained by leveraging the cloud significantly reduce the time spent in the audit process. As outlined by BDO, cloud-based solutions provide auditors with benefits such as:

- Audit teams all have access to the same data and source information, allowing them to work together quickly and easily.

- File organization remains consistent because everyone is working with the same technology. This results in a more efficient and frictionless experience.

- Data encryption and access controls help ensure that data is secured and people see only the data relevant to them.

Stated BDO: "In the coming years, the cloud will no longer be one possible avenue of communication for auditors — it will be universally expected. Anyone who hasn't made the shift to the cloud is already falling behind."

Key #2: Attracting and retaining talent

Attracting and retaining talent has long been a concern for the profession, but the pandemic and what has become known as the "Great Resignation" further fueled the issue. In the wake of the pandemic, employees across many industries began to reevaluate their priorities, as well as how and where they want to work. The accounting profession was no exception.

According to the most recent "Top Firm Issues Survey" by the AICPA, finding qualified staff was a top concern for firms of all sizes.[6]

Further underscoring this point, research by human resource consulting firm Robert Half found that hiring challenges remain within finance and accounting.

According to the findings, 89% of finance and accounting managers said they are facing challenges finding skilled talent.[7]
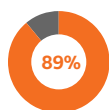
89%

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4 "Future-Proofed: How Technology Is Driving Change in Finance and Audit." Future-Proofed: How Technology Is Driving Change in Finance and Audit, KPMG, 27 Oct. 2021, audit.kpmg.us/future-proofed.html

5 "The Future of the Audit in 5 Predictions." BDO, bdo.com/insights/assurance/the-future-of-the-audit-in-5-predictions

6 "IRS Issues Among Top Challenges for CPA Firms, AICPA Survey Finds" American Institute of Certified Public Accountants, aicpa.org/news/article/irs-issues-among-top-challenges-for-cpa-firms-aicpa-survey-finds

7 "Finance and Account Hiring Trends 2023." Finance and Account Hiring Trends 2023 | Robert Half, 14 Feb. 2023, roberthalf.com/employment-trends/finance-and-accounting

Technology is key in winning the war on talent

Providing auditors with the innovative tools and resources they need to work more efficiently and with greater flexibility can prove game changing for firms struggling with strained bandwidth. Engagement suffers when employees feel they don't have the technology and resources needed to work effectively and further develop their skills.

By leveraging a cloud-based, end-to-end audit solution, firms can improve efficiencies with real-time digital collaboration between audit teams and clients. This enables auditors to work faster and smarter, regardless of their physical location, and better serve clients. Time spent toggling between disparate systems, pushing data back and forth between systems, can be eliminated. This frees up time for auditors to better serve clients with more informed insights and higher quality audits.

This also enables firms to provide staff with a greater work-life balance. It is an important factor to consider, especially in light of research revealing a connection between a greater work-life balance and high-quality audits.

According to research by the American Accounting Association, having additional time to unplug and pursue personal interests outside of work can actually improve audit quality. According to the findings[8]:

The efficiencies gained by leveraging the cloud significantly reduce the time spent in the audit process. As outlined by BDO, cloud-based solutions provide auditors with benefits such as:

- The better the auditors' work-life balance at the audit firm, the greater their propensity to issue a going concern opinion for a distressed client

- Auditors who are less likely to have their judgement impaired due to long working hours are more likely to detect and reduce clients' use of within-GAAP accrual manipulation to report higher earnings

- When auditors have a better work-life balance, there's a lower incidence of financial restatements for clients

The research also found that auditor work-life balance is as important as compensation in determining the overall satisfaction of accounting firm employees.

It is also important to note that when firms leverage cloud-based solutions that enable auditors to work anytime, from anywhere, it tears down geographic borders and significantly widens the pool of job candidates. No longer constrained by state and city lines, firms can hire top talent to work remotely regardless of where they live.

Having a comprehensive solution in place that can manage the full spectrum of audit tasks in one place to save time and improve efficiencies, as well as having a trusted partner to help your firm safely move into the future with advanced audit technologies, are key ingredients to attracting and retaining talent.

8 "Work-Life Balance Is Associated with High-Quality Audits: American Accounting Association." Work-Life Balance Is Associated with High-Quality Audits | American Accounting Association, 13 July 2021, aaahq.org/Outreach/Newsroom/Press Releases/7-13-2021-Work-Life-Balance-Is-Associated-with-High-Quality-Audits

Case study: Forrestall CPAs

Forrestall CPAs is a Buford, Georgia-based firm offering clients a full range of services. It was founded in 1978 and, today, is known as one of the oldest and most experienced CPA firms in Gwinnett and Hall Counties.

The firm's long-standing commitment to delivering top-notch customer service has not gone unnoticed. In 2021, it was voted by Gwinnett Magazine as the "Best CPA Firm in Gwinnett County" for the 12th year. In addition, the Atlanta Business Chronicle ranked it among the top fastest growing CPA firms in Atlanta for six years.

The challenge

Despite the firm's successes over the years, it was not immune from the staffing challenges impacting the profession, especially since the onset of the pandemic.

"Even with the use of headhunters we are not finding any [job candidates] who want to come into the office full time. So, it was a challenge. Like a lot of people, we were turning away some work because we just needed more staff," said Managing Partner Jeff Forrestall, whose father founded the firm.

Not accustomed to a virtual work environment, Forrestall admitted he was a bit uncomfortable with the notion of employees working remotely. "That's not my generational thing. We are kinda the type that like to see people in person," he said.

But Forrestall knew that changes needed to be made if the firm was going to secure a competitive edge in the war on talent.

The solution

The firm began allowing employees who lived within a drivable distance to the office to work remotely up to two days a week. And in late 2022, it decided to expand its talent pool and hire full-time remote employees located out of state.

Today the firm staffs 24 employees, of which three are fully remote. Roughly five employees are hybrid, working remotely a few days a week.

The key to making its new business model work is two-fold: clarity of staff expectations and leveraging innovative, cloud-based technology like the Thomson Reuters® Cloud Audit Suite.

The firm, which is a long-time user of Thomson Reuters products, implemented Cloud Audit Suite in late 2022 and has been fully up and running since the start of 2023. It is a move that certainly made remote work "more feasible" for the firm, Forrestall said.

"Seeing [Cloud Audit Suite] in action and seeing how it worked, we were able to have the security, have the speed, and the easier platform," Forrestall said.

For example, prior to the migration to Cloud Audit Suite, one employee was out of state and trying to move files from the firm's terminal server to their local machine — an extremely slow process that took roughly three days, said Forrestall. Now, through the use of audit engagement management software AdvanceFlow, that task takes hours, not days, to complete.

<u>Looking ahead</u>

Looking ahead, the firm has a positive outlook on remote work and is rethinking the need for a physical office.

"If you're out of state or if you're out of the country, it doesn't really matter," Forrestall said.

The firm's experience serves as an example of how firms can thrive in the new age of auditing by embracing change and utilizing technology to their advantage.

The adaptation of a traditional accounting firm to the changing landscape of auditing is exemplified in Forrestall CPAs leveraging innovative technology and implementing remote work policies. By embracing cloud-based solutions and allowing employees to work remotely, the firm expanded its talent pool, increased efficiency, and remained competitive in the industry.

Key #3: Ensuring compliance

Foundational to success in the future of audit is ensuring ongoing compliance amid a complex and ever-changing regulatory environment. Firms must employ a guided engagement process to perform efficient and profitable audits that comply with professional standards and pass peer review.

And in an increasingly remote environment, it is important that auditors can keep up with regulation changes on the go and share information while simultaneously accessing and working on engagements in the field or anywhere else.

This can be achieved through a fully integrated online solution that enables firms to manage all types of engagements (i.e., financial statement audits, single audits, reviews, compilations, and preparation), increase accuracy, and simplify the audit process. **When evaluating solutions, consider one that includes the following features and capabilities:**

- Cloud-based solution for easy, simultaneous information sharing, access, and work on engagements
- Builds a customized audit program based on a firm's risks and assertions to prevent over-auditing
- Engagement templates creation with industry-specific content to meet SSARS, SAS, and PCAOB PCR requirements
- Engagement roll-forward feature that saves time by avoiding recreation and rekeying for each tailored engagement
- Trusted audit content for all industries audited
- Efficient process for transferring and receiving client engagement files
- Enhanced security and control over sensitive data
- Step-by-step guided engagements with expert commentary and complete engagement and representation letters
- Alerts and diagnostics to avoid overlooking unresolved issues
- Dynamic, cloud-based solution for single audits

A guided engagement process and a fully integrated online solution with the above-mentioned features can help firms conduct efficient and profitable audits that comply with professional standards and pass peer review.

The audit profession is increasingly looking to become more of a real-time, forward-looking activity as firms look to not only provide basic audit value, but to also deliver higher value insights to clients.

Disruption accelerates change

Even before the onset of the pandemic, the wheels of change had been set in motion due to a rise in new technologies like data extraction tools, analytics, and cloud-based solutions. However, the onset of COVID-19 shattered norms and altered, essentially overnight, how auditors approach and perform their work.

Mandatory lockdowns forced many businesses to leverage digital technologies and operate remotely. For audit, which historically relied on access to physical evidence and face-to-face meetings, this meant an accelerated move to a virtual audit and the need to find alternative ways to gather audit evidence and conduct an engagement.

Disruption, however, fuels change. Today, as the world returns to a greater sense of normalcy, the longer-term positive effects on the profession are becoming apparent. Such impacts include:

- The greater use of progressive technologies to perform audits
- A greater reliance on technology for communication and collaboration among both clients and team members
- More innovative ways to gather and analyze evidence
- An increase in remote or hybrid work environments

Furthermore, the industry is seeing an overall shift in audit and the role of the auditor. The audit profession is increasingly looking to become more of a real-time, forward-looking activity as firms look to not only provide basic audit value, but to also deliver higher value insights to clients.

In fact, an article published in the ISACA Journal suggests that the new auditing role could spawn additional advisory and value-add opportunities such as [9]:

- Providing effective feedback to top management
- Performing adaptability testing of new technology
- Giving continuous input for improving processes
- Improving operational standards
- Handholding implementation of standard operating procedures (SOPs)
- Creating awareness of risks related to information systems security and cybersecurity

That is not to say, however, that challenges do not exist. Expanding the auditor's role in this way requires having the right skillsets in place. As noted in the ISACA Journal, such challenges include:

- Understanding complex business operations
- Being adept with trending technologies
- Being able to use the latest audit tools and techniques
- Adapting to the need for agility
- Being able to address regulatory compliance in a changing landscape

Having a clearer understanding of the keys to the future of auditing can help firms overcome challenges and provide greater results and a better overall client experience.

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9 "The Evolution of Audit in the Wake of the Pandemic." ISACA Journal, 15 Feb. 2022, isaca.org/resources/isaca-journal/
   issues/2022/volume-1/the-evolution-of-audit-in-the-wake-of-the-pandemic

Conclusion

The audit profession is rapidly changing, and keeping pace can prove challenging for firms as they navigate strained bandwidth, increased client expectations, regulatory changes, and an influx of innovative technologies.

As the world moves towards a more automated and data-driven audit environment, it is becoming increasingly clear that the right tools and technologies can make all the difference in driving efficiencies, increasing confidence, and ultimately, delivering better outcomes for clients.

Many firms recognize the importance of adopting progressive technologies, but in today's challenging environment, they find they don't have the bandwidth to implement them. Firms are frozen. They find themselves unable to move forward because they lack the resources and time needed to effectively evaluate new technologies and drive change.

The good news is you are not alone in your journey. You can rely on a trusted solutions provider like Thomson Reuters who can safely guide your firm into the future with advanced audit technologies. This is more than just plugging new technologies into your audit workflow. It includes the highly trusted guidance necessary to ensure your firm and your audit staff apply these new technologies in ways that both drive new efficiencies and pass peer review.

The future of audit is here, and it's more powerful, efficient, and collaborative than ever before. It's time to leverage cutting-edge technologies and innovations to revolutionize your practice and keep pace with the changing industry landscape. Sieze the opportunity for innovation and empower your firm to thrive in the new era of audit.

Future-proof your audit practice and stay ahead of the competition with the Thomson Reuters Cloud Audit Suite — a powerful platform that leverages the latest in cloud technology to enable seamless collaboration, streamline workflows, and automate many of the manual processes associated with audit.

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