4 Keys to the Future of Audit
Prepared in collaboration with Alan W. Anderson, CPA
INTRODUCTION

Technology continues to change at nearly the speed of light with no signs of slowing down. The CPA profession as a whole recognizes that its future success depends on the changes made today; but these pressures are even heavier in the field of audit. Although the breadth of knowledge and services a CPA provides continues to develop and expand, the essential service of the CPA profession is the audit. Audit is the profession’s past, as well as its present. Yet, in order to maintain the reputation of a CPA as the most trusted advisor, reimagined audit services must be our future.

Bill Gates once said, “The first rule of any technology used in a business is that automation applied to an efficient operation will magnify the efficiency. The second is that automation applied to an inefficient operation will magnify the inefficiency.” Yet, as recent conversation has turned towards what the future of auditing will look like, many firms do not realize their audits are still living in the past. Many are under the false pretense that since their audits are paperless, they are modernized and future-ready. However, most of these firms don’t take into account that while the medium may have changed, nothing about the audit process itself has changed along with it — thus, the same systematic inefficiencies are still present. Furthermore, auditors continuously fail to use technology to better understand a client and their business, the industry and as a tool to enhance curiosity.

As the clock runs down, auditors robotically manufacture “Same as Last Year (SALY)” results from the crumbs under the table, while leaving a banquet of information on the top that curious auditors could use to draw conclusions and provide insight. Even worse, audits presently fail to embrace a healthy client relationship — one which involves the client in the planning and outcome. Commoditization and time pressures further prevent auditors from offering insight for systems and process improvements for the organizations they serve. As a result, technology is not used to transform challenges into opportunities; technology is a replication of the pen and paper world, void of curiosity and thoughtful conclusions. Present auditors are impeded from making recommendations that truly enhance decision-making. Firms must better understand the current challenges and shortcomings facing the profession to recognize the needs that must be met by the audit of the future.

The most pressing challenges facing the audit profession can be grouped into four main categories: quality, innovation, talent and relevance. Read on to learn how each of these challenges impact today’s audit and how reimagining solutions to these challenges can transform audits of the future.

1. QUALITY

Throughout the audit engagement, quality is the top priority. Quality, however, isn’t just a form or a checklist. Quality is a culture built into the fabric of the firm. From understanding the client’s business to their industry, the professional standards and how audits should be performed, quality is comprehensive and continuous. Quality is waking up each day with the goal of doing a better job than the day before, and it is realized through continuous learning with active leaders who set the right example. The focus on quality and purpose is what truly inspires good auditors. A June 2016 Journal of Accountancy article refers to an academic study on levels of job satisfaction within the public accounting profession. The article ties job satisfaction to three key factors: hope, calling and autonomy. According to the study, CPAs in Auditing and Assurance expressed noticeably higher job satisfaction levels than other practice areas like financial advisory, tax and consulting.
A surge in the focus on quality reappears periodically at points in time when there is a financial crisis or ethical catastrophe. Most recently, the focus shifted to the Department of Labor after it released a report exposing the profession to greater scrutiny in employee benefit plan audits. The profession’s traditional response to ensuring quality has been its peer review program. Because the program involves an inspection well after the service is performed, it is not optimally designed for weaving quality into the fabric of the firm and supporting a philosophy of front-line precision. Thus, the CPA profession’s past and present responses to quality assurance have been more reactive than proactive. Future quality efforts must be more proactive and more real-time.

W. Edwards Deming’s Philosophy Regarding Improving Audit Quality

W. Edwards Deming was a 20th century scholar and teacher who published hundreds of original papers, articles and books. He is well known for his revolutionary ideas about quality. According to the W. Edwards Deming Institute, “Dr. Deming offered 14 key principles for management to follow for significantly improving the effectiveness of a business or organization. Many of the principles are philosophical. Others are more programmatic. All are transformative in nature.” Several of Dr. Deming’s 14 principles are striking and should be considered in the discussion of improving quality in the audit.

■ “Cease dependence on inspection to achieve quality. Eliminate the need for inspection on a mass basis by building quality into the product in the first place.

■ Eliminate slogans, exhortations and targets for the work force asking for zero defects and new levels of productivity. Such exhortations only create adversarial relationships, as the bulk of the causes of low quality and low productivity belong to the system and thus lie beyond the power of the work force.

■ Eliminate work standards (quotas) on the factory floor. Substitute leadership.

■ Eliminate management by objective. Eliminate management by numbers, numerical goals. Substitute leadership.

■ Institute a vigorous program of education and self-improvement.

■ Put everybody in the company to work to accomplish the transformation. The transformation is everybody’s job.”

As one reads these principles, it is clear that our profession’s quality assurance efforts will have limited effectiveness as long as they are dependent on inspection, realization reports and workplace jargon. Moreover, the profession’s focus on long work hours and hierarchical structure actually inhibits the opportunity for new professionals to engage in thoughtful decision-making and transformation.

The AICPA’s Response

In response to the pressure of improving audit quality, the AICPA took positive action by launching the Enhancing Audit Quality initiative in 2014. After receiving comments, the AICPA then released a Six-Point Plan to improve audits in 2015, which is described as the U.S. CPA profession’s answer to quality financial statement audits of private companies, employee benefit plans and governmental entities.1, 2

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The goal of the plan is to support members with the “necessary tools, training and resources ... from before an individual is licensed to when he or she builds professional competency and engages in peer review and practice monitoring. It places the necessary emphasis on areas that we believe will help our members stay focused on achieving the highest level of performance for financial statement audits.”

– Susan S. Coffey, CPA, CGMA, AICPA Executive Vice President, Public Practice

In summary, the Six-Point Plan centers around the following:

- Pre-CPA licensure
- Standards and ethics
- CPA learning and support
- Peer review
- Practice monitoring of the future
- Enforcement

Creating a Quality Mindset

The AICPA is to be commended for leading the profession’s response to challenges regarding quality and for pursuing proactive change such as Practice Monitoring of the Future (PMOF). But, ultimately, it is up to individual firms to embrace quality as a foundation of their audit practices. In addition to reviewing the AICPA’s progress, below are some practical proactive ideas we can implement now to enhance audit quality:

“First Time Right”

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<thead>
<tr>
<th>“First Time Right” IS:</th>
<th>“First Time Right” is NOT:</th>
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<tbody>
<tr>
<td>✓ An attitude</td>
<td>X Waiting for reviews to catch errors</td>
</tr>
<tr>
<td>✓ Pride in work product</td>
<td>X Copying last year’s work or SALY (same as last year)</td>
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<tr>
<td>✓ Teamwork</td>
<td>X Simply filling out forms for the sake of completing forms</td>
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<tr>
<td>✓ Professional skepticism</td>
<td>X Relying on managers and partners to wrap up the job</td>
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<td>✓ Due professional care</td>
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<tr>
<td>✓ Objectivity</td>
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<tr>
<td>✓ Inquisitive minds</td>
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<td>✓ Culture of openness to new ideas</td>
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<td>✓ Leveraging technology</td>
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Developing a quality mindset in future auditors requires direction from knowledgeable instructors as well as firm leaders. It also requires the development of a “first time right” mindset. A “first time right” environment drives a continuous culture of quality.

Auditors need technology that better enables real-time review. In the present state, audit technology often requires complicated coordination of checking files in and out and syncing and moving databases around from location to location. Thus, real-time review is rare and is often
put off until the end of the audit. “First Time Right” technology drives quality throughout the entire audit by enabling collaboration among the audit team on a real-time continuous basis coupled with real-time supervisory review.

In addition, the audit process should further leverage technology to develop real-time quality dashboards that can be used to help the firm monitor quality. Such dashboards could provide real-time alerts when the system notes issues. Emerging cloud-based audit technologies offer significant improvements in this area and hold great promise in helping the profession move into the future.

2. INNOVATION

Innovation is paramount to the continued success of auditors and their firms. Today, big data and data analytics are the most powerful engines auditors can use to provide insights. In fact, without insights, there can be no innovation. The profession must step up and question its practices to drive change, to be innovative and to remain relevant. Auditors have always been willing to work long, hard hours. Are they now willing to work creatively and innovatively?

When auditors evaluate a company (whether their own or that of a client), the focus is often on the data behind the business; and this data then is used to formulate observations and draw conclusions. In audits of the past, technology limitations forced auditors to review only selected transactions, providing them with only a limited view of a business from which to draw conclusions. Auditors focused on historical data without having an integrated view, which further limited their ability to provide real value to the audit and to their clients. Auditors have expertise in analysis, oftentimes being accused of possessing “analysis paralysis.” However, auditors now have the ability to rise above limited amounts of data and scope out observations. With the ability to have an expanded real-time internal and external view, auditors can now think holistically and promote innovation within their firms. Granted, it is important to assure information published and/or used by company management is valid. However, this information on its own is of little value and is essentially obsolete. Without transforming this data/information into insights to assess needs and wants, predict behaviors and integrate it with knowledge beyond the financial statements, the audit is a meaningless exercise.

Innovation means change. And change is never easily accepted, especially when it involves technology. Cloud-based audit solutions, continuous auditing, real-time risk/compliance monitoring, real-time practice monitoring, cognitive assisted decision making and robust data analysis are only a few of the innovations the profession must act upon now or become obsolete.

Innovation Through Data Extraction

Virtually every audit firm has explored or invested in data extraction tools to some degree. However, most have been unsuccessful in gleaning value. The tools simply have not been implemented sufficiently enough to achieve the desired efficiencies and enhancements to the effectiveness of the audit. New technologies and improvements, such as web-native data extraction tools, are much simpler to use than older desktop applications.

Proper use of data extraction tools can dramatically improve the quality of the audit and reduce the overall time required to perform certain audit procedures. For example, data extraction tools can be used to analyze large volumes of data quickly, resulting in a complete review of all of the transactions rather than a sample. The entirety of the transactions can be examined in far less time than it would take the auditor to manually review only a sample.

To increase the use of data extraction in a firm, first consider your people. Survey your staff to assess their skills in the use and understanding of the firm’s data extraction tools. Generally,
staff know how to run the data extraction tools or can learn the tools. However, they generally struggle to understand when or how it could be used to positively impact the audit approach. If this is the case, your firm should conduct a data extraction training session working with live client data — you may think of these as “reality-based” learning sessions. These sessions, in which staff gain the understanding on a “live” client, will serve to confirm that the work performed on the client is real and useful to the engagement. The result is that your staff has a vested interest in listening and learning because they know the expectation has been set — staff should be using data extraction techniques on their audit clients. Most audit clients have several areas where data extraction can be used to enhance both efficiency and audit quality. Work with the audit team to review the audit approach for data extraction opportunities and build them into the audit program. Consideration must also be given to designing the audit approach to clearly identify the audit procedures that typically should be performed using data extraction. Doing so dramatically increases the use of data extraction.

Once you have determined your staff needs and audit approach for data extraction, you should review the capabilities of your data extraction technology. It is important to make certain that your existing technology will not only effectively handle your data extraction needs, but that it also matches the skill set and functionality expectations of your staff. Traditional data extraction is typically used to facilitate sample selection and substantive tests of details. However, newer cloud-based data extraction technologies are now able to assist with risk assessment and analytical procedures linked to external data, such as industry data.

Innovation Through Data Analytics

Innovation in audit methodology should capitalize on the large amounts of available client data. Auditors presently tend to perform procedures over a relatively small sample of transactions (as few as 30 or 40) and then generalize conclusions across a much broader population. By using new data analytics technologies, auditors can gain the capacity to examine all transactions. Auditors will be able to sort, filter and analyze thousands of transactions to identify exceptions or anomalies, making it easier to focus on areas of potential concern and to drill down on those items with the highest risk. This methodology will enhance both audit quality and efficiency.

The following diagram shows how this methodology leverages client data through use of data analytics:
The six steps illustrated in the diagram fundamentally change the auditor’s approach for gathering audit evidence. The approach drives the auditor to audit exceptions based upon an analysis of all of the financial transactions of the entity. These individual transactions form the underpinning of the financial statements. After summarization and classification, the end result is a set of client financial statements that the auditor can opine upon due to the evidence obtained through the use of the data analytics.

**STEP ONE: Data Access**

This methodology does not necessarily have to generate a report; it is a process that tests transactions based upon prescribed criteria and identifies anomalies, which is the responsibility of the auditor. To identify the anomalies, the audit must have access to what is commonly referred to as “big data.” Big data describes the large volume of data — both structured and unstructured — that engulfs a business on a daily basis. This model contemplates the use of the structured data contained within the client’s accounting software. Unstructured data, such as email, is not initially part of the audit methodology system.

Access to data is important, but data quality is essential to auditability. Quality is based on the following:

- Verification of completeness
- Accuracy
- Consistency on data formats, naming conventions and precision
- Multiple data source agreement
- Exportability and portability
- How easy can the data be exported?
- Audit trail
- How much effort is required to uncover the change in data values and accountability of the changes?
- Data integrity
- Data normalization and standardization (required before computerized tools can analyze corporate financial and transactional data)
- High data conversion costs

A number of barriers to data access exist, the first being gaining permission to access the data. Companies invest in protecting their data, and obtaining approval to access data can be a time-consuming process. Citing security concerns, clients may refuse to provide data. Another barrier to data access is the fact that auditors typically encounter numerous accounting systems and multiple systems within the same company, all containing different sets and types of data. There are several efforts (for example the AICPA’s Audit Data Standard project as well as technology innovations in the audit market) underway to provide systems or tools to facilitate the data normalization process, and these tools hold promise for simplifying the data acquisition process and keeping data conversion costs under control. But the amount of data and access to it is unimportant if auditors do not apply effective analytics. Done correctly, big data can be analyzed to develop key insights that lead to better decisions for the audit process.
STEP TWO: Data Analytics
Data analytics is the science of examining raw data for the purpose of drawing conclusions. Auditors have utilized data analytics in various forms for years, but rapidly decreasing technology storage and processing costs are making data analysis even more attractive because of the potential for significant scale and depth. The new model looks for better ways to embed analytics into the fabric of audits. A basic data analytics program is generally outlined as follows:

- Consideration of potential scenarios resulting in exceptions
- Assessment at various levels: globally (corporate-wide), significant business units, substantial account levels
- Assessment along industry lines when available
- Testing of the effectiveness of the internal policies and controls
- Ongoing monitoring and evaluations on a periodic and random frequency to access performance and effectiveness

Once auditors embed analytics in this way, they are able to examine much larger sets of financial data to better identify issues and analyze trends. Models are also being developed to assist in the formatting and display of the analytics, therefore allowing the auditor to interpret and understand the results faster. Auditors will then be able to provide deeper perspectives on trends and risks. This enhanced perspective facilitates better decision-making during the risk assessment process, and the knowledge gained is a significant value-add to the client.

STEP THREE: Frequency/Scalability
This model is not designed to be a one-size-fits-all and is where data analytics frequency comes into play. Larger, more sophisticated clients may be monitored on a real time or near real-time basis. Smaller, less complex clients may have data analytics performed on a less frequent basis (e.g., quarterly or even annually). In essence, the frequency of the performance of the audit procedures can be scaled to meet the size and complexity of each client.

STEP FOUR: Parameters for Exceptions
This process is determined as the audit team understands what data is available. This connects directly to the auditor’s risk assessment procedures through a sound understanding of the entity and its environment, including internal controls. Parameters are determined for each risk area during the planning of the engagement and may consider the following:

- Review existing entity process risk documentation
- Review existing analytics for efficiency and effectiveness
- Update existing analytics for full changing risk
- Conduct additional reviews of entity processes and identify new risk areas
- Identify opportunities for improving process through Data Analytics
- Identify new analytics opportunities within specific entity risk areas
- Identify and verify all compensating controls
The following are just a few examples of parameters that might be used:

**Authorizations limit exceptions:**
- Single and multiple accumulated values exceeding limits
- Transaction amounts that exceed or are just below the authorization limit
- Requisitions, purchase orders, invoices, payments
- Accumulated transaction amounts that exceed the authorization limit
- Split requisitions, split purchase orders, split invoices, split payments

**Timing or aging exceptions:**
- Single record age
- Days difference between Create Date and Approval Date
- Stale requisitions, stale purchase orders, stale invoices
- Multiple files aging
- Retroactive PO vs. invoice (invoice Create Date prior to PO Create Date)

**Matching (join) — amounts over variance thresholds:**
- PO line item vs. invoice line item
- PO line item quantity vs. goods received quantity
- Accumulated invoice line items vs. payment
- Accumulated invoices vs. bulk payment

**Unmatched (join) — orphaned records or missing records:**
- Unauthorized users: requisitions, purchaser

Using analytics to produce audit parameters in response to entity risks is difficult. Auditors must find the appropriate balance between applying auditor judgment and relying on the results of these analytics. One response to this challenge will most likely be the development of virtual audit guidance, baked into audit methodologies, to assist auditors in determining useful analytics and approaches for setting up parameters and determining exceptions.

**STEP FIVE: Investigate Exceptions**
This process must be supported through complete documentation and resolution of each exception. The conclusions reached are the audit evidence needed to support the auditor’s conclusion. This is why it will be critical for data analytics to be baked into audit methodologies. Approaches to the investigation of exceptions evolve and may require clarity by the Auditing Standards Board. For example: If an auditor concludes a certain percentage of the transactions analyzed are an exception, is the auditor then required to examine 100% of those transactions? Or can the auditor sample the population containing the exception and project the results of the sample to the population?

**STEP SIX: Action, Conclusion and Value Add**
By using data analytics effectively, the auditor is able to more effectively draw a conclusion on the financial statements under audit as well as offer value-added insights and advice. All of this stems from the auditor’s deeper understanding of the entity, its transactions and its processes based on the knowledge gained from this approach.
Innovation Through Cloud and Cognitive Technology

If your CPA firm isn’t considering moving their computing systems to the cloud now, chances are you will very soon. By 2017, two-thirds of all business workloads will be processed in cloud data centers, according to data cited by the New Jersey Institute of Technology. The percentage of organizations using the cloud for some form of database-as-a-service (DBaaS) is also expected to double by 2017 — from 23 percent to 44 percent. While cloud adoption is growing rapidly, CPA firms have a long history of being slow to change, typically citing an array of reasons such as the cost of conversion and privacy risks. While these are realistic issues that must be considered, effective solutions exist. Consequently, it would be short-sighted to ignore the cloud as a key part of the audit of the future.

Cloud-based audit platforms with integrated methodologies are available today. These will assist auditors in making the transformation to cloud technologies and will position the profession well for the audit of the future. These technologies should be seriously considered as each firm pursues a course of audit innovation.

Cognitive computing is the simulation of human thought processes through use of a computerized model. Cognitive computing involves self-learning systems that use data mining (domain knowledge), pattern recognition and natural language processing to replicate the way the human brain works. One goal of cognitive computing is to create automated IT systems that are capable of solving problems without requiring human assistance. While such a goal is not achievable anytime soon for professions such as auditing that require significant levels of experience and professional judgment, cognitive computing still holds significant promise for auditors. Models are currently being developed to provide auditors with assisted decision-making, much in the way similar systems are being developed for the medical profession. Assisted decision-making does not replace auditor judgment; it simply augments auditor judgment and makes it even more effective and valuable.

Cognitive computing systems use algorithms to drive machine learning. Such systems continually acquire domain knowledge from the data fed into them by mining data for information. The systems refine the way they look for patterns as well as the way they process data, so they eventually become capable of anticipating new problems and modeling possible solutions. Cognitive computing is used in numerous artificial intelligence applications, including expert systems, natural language programming, neural networks, robotics and virtual reality. Other industries are much further along than the audit profession, but there is little doubt that cognitive computing has a prominent place in the future of the audit. It’s only a matter of time.

“Digital is the foundation, but I don’t think it’s the destination. There’s another shift right in front of you ... it is going to be more transformative and more disruptive. Put simply, if you take a digital business and add digital intelligence to it ... you would get a cognitive business. It’s a business model and a technology model. I think more of cognitive as a destination. The ultimate competitive advantage is being cognitive, because the advantage would go to those who can really get and extract the insights from the information that we all talk about.”

- Ginni Rometty, Chair, President, CEO, IBM (2016)
Rometty speaks about the impact of IBM Watson, the computer that won Jeopardy and is now helping doctors treat cancer. Watson is an example of a learning technology harnessing data to understand, reason and learn. Rometty believes cognitive, cloud and block chain\(^3\) technology together are the future, and the financial services industry will lead in the transformation to cognitive computing.\(^4\)

She acknowledges this is a journey. Front-end computing creates a deeper client relationship, but cognitive computing is untapped in the back- to mid-office. This is not about replacing people, but about making better decisions that reduce risk. Assistive technology offers continuous compliance and real-time monitoring. Interestingly, Rometty advocates creating insights governance within companies, which could broaden the role of governance in assurance services.

Key objectives in leveraging technology in the audit through innovation are operational in nature, mainly:

- Improving efficiencies
- Providing value-added advice to clients
- Enhancing quality
- Attracting and retaining talent

Specifically, audit innovation improves efficiency by enabling a one-and-done philosophy. Continued evolution or technology tools and techniques can be and should be the foundation for innovation. Done properly, innovation that is technology-enabled reduces time spent on executing tasks that do not bring value, such as repetitive form completion and completing tasks addressing non-essential risk factors. This allows focus on the more critical and risky areas of the audit.

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3. TALENT

Accounting professionals continue to be in high demand. More students than ever before are majoring in accounting, but the gap between those graduating with accounting degrees and those obtaining a CPA license is widening. This represents a threat to the profession in general, but it is even more of a threat to audit services. Audit services themselves, as well as the platforms used to provide those services, are becoming ever more complex. This not only requires top-notch audit talent, it requires progressive firms to hire professionals outside the accounting profession: data scientists, human resource professionals, engineers and information technologists.

In today’s environment of talent wars, the importance of moving the audit to the future cannot be over-emphasized. Overall employment of accountants and auditors is projected to grow 11 percent from 2014 to 2024 — faster than the average for all occupations, according to Bureau of Labor Statistics from August 2016. Conversely, 2015 Trends in the Supply of Accounting Graduates and the Demand for Public Accounting Recruits, published by the AICPA in July 2016, shows slowing momentum in the combined number of accounting undergraduate and graduate degrees awarded. Compounding this talent gap is the fact that more accounting graduates are electing not sit for the CPA exam. According to Barry Melancon, CPA, CGMA, president and CEO of the AICPA, “There is a slight widening of the gap between the number of students who are graduating with accounting degrees and the number of candidates sitting for the CPA Exam, although the growth of the gap has slowed.” Thus, while the demand for CPAs is rising, the supply is declining, and there has been a shift from hiring staff accountants to individuals with greater analytical and business skills.

Clearly, our profession needs to attract more entrants with more than just the traditional accounting skillset. One reason this is a challenge is the public perception (and reality) of the current audit landscape. For example, Google “why I hate accounting” and you will get 2.5 million hits of articles, blogs, YouTube videos and more. Commenters describe the profession as boring, bean counting, personality not needed, number crunching, repetitious, requiring long hours and plagued by high turnover. Additionally, there is an understanding that entry-level public accounting positions have been relegated to task-oriented positions, as traditional audit processes have consisted of completing a series of form and checklist tasks. The attention to what is happening with a client’s entity or industry diminished as the driving force behind structuring and executing the audit. Auditing became filling out forms; and, to the extent possible, repeating the same process as the previous year. The more “SALY” continues to be the norm, the more auditor job satisfaction declines. Introducing more progressive technology into the audit is one key to attracting young talent into the profession. Consider the innovations described previously, such as more effective use of data analytics, cognitive capabilities providing assisted decision making and the emergence of cloud-based audit platforms with integrated methodologies. All of these will have a tremendously positive impact on the profession’s ability to hire and retain talent. Currently, new entrants to the audit profession expecting advanced use of technology end up being sorely disappointed. This will change when auditors begin embracing and investing in innovation.

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This audit of the future encourages auditors — including young accountants — to utilize their talent, skills, knowledge, education, experience and training. Repetitive tasks are minimized, and accounting, audit training and experience are essential. The audit becomes stimulating and the auditor becomes more valuable to his or her client, thereby encouraging talent to pursue and to remain in the audit profession. The audit of the future requires deeper training in areas beyond an auditor’s historic skill sets. While, in some cases, the audit demands skills of other disciplines such as risk management, forensics and IT, the auditor of tomorrow increases his or her understanding of these non-traditional disciplines and works more closely than ever before with data and analytics specialists.

The Learning Challenge

Given today’s regulatory CPE environment, auditors are able to rest on their laurels without reflecting on their own individual need for competency development. Unfortunately, most state regulators continue to rely on the arbitrary number of hours in the classroom to determine one’s maintenance of his or her competency. This antiquated system must change. Firms must be led by individuals focused on continuous learning, where forms, timesheets and realization take a back seat to understanding the evolving client, keeping up with changing technologies and formulating insights. This environment makes the audit experience rewarding and leads to lasting relationships with clients.

Once employed, staff should know the standards not by “form” or by simply understanding that they exist. Staff should understand why they are important and their intended outcome. Staff must also be challenged to apply the AICPA Code of Professional Conduct in real-world situations. By allowing open discussions about the standards and ethics and their relevance to a client, audit managers can better ensure staff compliance with standards. Managers must challenge staff to apply critical thinking skills learned at the university, implement technologies that facilitate and enhance critical thinking in the real-world audit environment and provide opportunities for staff to develop these skills and apply them effectively. Leaders must assess the need for learning based on experience and goals for the organization — for themselves as well as the staff. W. Edwards Deming believed in “continual improvement,” which translates not to earning the requisite CPE hours, but rather to continuous competency development that ensures quality and helps each CPA maintain his or her relevance.

The AICPA/CIMA Competency Framework identifies the following areas as important to the accounting profession:

- Technical
- Business
- People
- Leadership
- Ethics, integrity and professionalism

The framework’s basic concept is that as one gains more experience, the emphasis in each area should evolve to target that individual’s needs for growing and remaining competent.

Competency.aicpa.org provides learning opportunities along with knowledge checks to guide learning throughout one’s career. Likewise, checkpointlearning.thomsonreuters.com offers a full range of learning solutions, including courses focused on in-demand topic areas. These resources are an excellent supplement to job-related learning opportunities. The highest potential for gaining wisdom is when a curious mind seeks knowledge and this knowledge is understood, applied, shared, analyzed, synthesized, evaluated and used to create insights from which decisions are made. The best way to achieve this is during reality-based learning, where the individual can apply a new concept or methodology in a client engagement or what we call “experienced-based learning.”
Experienced-Based Learning

Managers guiding new auditors must eliminate blind reliance on checklists and introduce active learning sessions into engagement planning as an element of continuous learning. For example, after a thorough review of the client and understanding of the client’s industry, engagement planning sessions should include new approaches, such as the following:

- Role playing using real-life examples
- Plain paper exercise — spend time free-form thinking about what needs to be done for a specific client, and include the client in the planning exercise along with reminder checklists and a method of documenting what the team has come up with in their free-form exercise
- Meet a client with a staff member — allow the staff member to lead the client visit and welcome his or her curiosity about the business and ability to offer insights
- Introduce a mentorship mindset into the supervision process — create open and honest relationships where a staff person can learn from his or her mistakes while guiding the mentee through the journey and encouraging him or her to explore new ideas and technologies
- Open ended question of the week contest (with prizes) — challenge staff members to solve an audit step through the use of technology, to describe the impact of standards on a client engagement or to offer solutions for a troubling situation that is playing out in the press with regard to the firm or specific accounting firms
- Encourage thinking and exploration — offer staff the opportunity to understand what other firms are doing, as well as other challenges and successes (this includes providing opportunities to collaborate with auditors outside the firm, in networking groups and at professional conferences)
- Leaders must challenge themselves to think — set aside regular time each day to research information about new technology and ideas and how these might work in your firm, thereby empowering yourself and others to confront the status quo and those who resist change

Each of these ideas is designed to create an environment of curiosity, where systems are challenged and creativity is rewarded. In this environment, appropriate, professional client interaction is welcomed, not feared. Each year is a new year because SALY is no longer a part of the process. Successful firms welcome change, and the auditor who evolves along with the client is better able to add value to the audit.
4: RELEVANCE

All audits have a fundamental purpose because they are required for the audited entity to maintain financing or to meet regulatory requirements. But purpose does not automatically equate to relevance. For client satisfaction and retention, relevance is essential. Virtually every accounting firm has marketing materials, and firms routinely state in their proposals that their audit is unique (i.e., more relevant) because of insights provided to the business or organization. In reality, business owners and organizations typically regard the annual audit as a cost or a necessary evil that is not relevant and adds little or no value to the business. Because of this, firms continue to be challenged by commoditization. Commoditization in the audit world is commonly referred to as the process clients use to reduce their audit firm selection decision to the lowest common denominator: price. In this environment, words about relevance are of little meaning because the client is doubtful the audit will actually deliver on that promise. In a survey conducted by KPMG of 400 small to medium-sized companies, 56% reported the audit as a routine chore which varied little from year after year. Over 60% of the companies reported their auditor did not raise any issues or ideas used in their business to enhance their processes or decisions.

Multiple definitions of “relevance” exist and center around the concept of something being meaningful. Therefore, audit relevance should be understood as making the audit more meaningful to the individual client. Unless the auditor addresses the unique environment of the client, including the goals of the audit committee (or equivalent), management decision-making style and strategy and the company’s relationship to their industry, the audit is not relevant. Starting with the response to a request for proposal, the auditor must demonstrate a desire to understand and address the client’s unique environment. Bottom line: providing meaningful insights targeted to the individual client makes an audit relevant. Firm leadership must believe in relevance and demonstrate value and relevance through actions, not words. In turn, staff will deliver relevance when the firm culture supports a deep understanding of the client’s environment with an emphasis on delivering the insights expected by the client.

Leveraging Technology to Add Relevance

Innovation and relevance go hand-in-hand. Without innovation, CPAs cannot remain relevant. How can a CPA firm benefit a client when the firm is not using technology and processes to the client’s advantage and its staff struggles to communicate effectively?

Gathering business insight is typically just one click away. Advances in the speed and functionality of search engines benefit the auditor. The auditor can quickly gather information about a prospective or current client, their industry and the general business climate in the area where they operate. This information can then be used for two key purposes: 1) to facilitate the identification of risk areas in planning the audit and 2) to gain an understanding of the client and its industry. Both are important to the audit process. The greater the initial understanding of a client’s business, the more effective the audit and the greater likelihood the auditor and client will have a meaningful business discussion that will culminate in insights. Unfortunately, auditors infrequently utilize the internet to gather information about a client and the client’s industry. This kind of valuable research must be a routine step in every audit — first in determining whether to engage a client and second during audit planning after a client has been engaged. The auditor must create a targeted and efficient online research plan.
Consider the following items in your online research plan:

■ Client website
■ Industry association website
■ Press releases
■ News articles about the client
■ Performance measures
■ Economic update in the client market area
■ Search of Social Media — LinkedIn, Facebook, etc.

To better focus the research, auditors should use advanced search engine features. For example, when searching for performance measures on a client, access the advanced search page and type in the client’s industry and key performance indicators. With a prepared online search plan, it is also possible to delegate the information gathering phase to an administrative resource. He or she can efficiently research recent news articles, updated performance measures and economic updates.

**Involve the Audit Team**

The audit team needs to know that the partner expects them to understand the client’s business and to add insight to the audit by identifying areas where the client can improve. Firm culture must emphasize the importance of understanding the client’s business and communicating/confirming this understanding to the client. Audit staff will seldom gain the necessary understanding of the client’s business by simply completing checklists, so the partner will need to jumpstart the process.

All too often the only client personnel that the audit team talks to during fieldwork are those in the accounting department. One idea that helps with this is asking a member of the audit team to “interview” someone outside of accounting and to prepare a brief summary of that interview. These assignments can be based on the audit areas that the staff person is assigned. For example, if a staff person works on the inventory audit area of a manufacturer, then that person would be assigned to meet with the production manager.

Staff can accomplish these conversations using an interview approach. The staff person may set aside times with specific employees in a comfortable area (such as a conference room) where the staff person can create an environment of trust. Free-flow observations can be recorded on a laptop and easily developed into a written report, shared with the rest of the audit team and used to develop insights.

The interview questions typically flow as follows:

1. What is your role and background with the company/organization?
2. What is the greatest strength of your area or department?
3. What are your ideas for improving your area or department?
4. What is your company’s greatest strength?
5. What are your ideas for improving the company?
These questions serve as an effective way to get a dialogue started between the audit team and client personnel outside of accounting. They allow the staff person to ask open-ended questions that provide insight about other areas in the company which, in turn, helps staff better understand the client’s business. A better understanding of the client’s business causes staff to be better auditors as well as business advisors.

The next step for getting the audit team involved is to have an open-ended discussion about what they learned. At the end of every audit, convene a meeting of the audit team. Start by discussing the results of their interviews of client personnel and what these viewpoints mean to the business. Finally, starting with the newest member of the team, each member completes the following sentence:

If I were running this business, I would__________________________.

This process is ultimately beneficial not only to the client, but also to each member of the audit team. These conversations must be welcomed in the firm’s culture. Each team member gains a greater understanding of the client’s business as a whole, and he or she thinks like a business owner. This helps the team member gain the necessary skills to become a better auditor. Most importantly, the process serves as a spring board for developing insights, which can then be discussed with the client to add value to the audit.

**Communicate to Add Insight and Drive Relevance**

Insights do not emerge automatically; rather, they are developed and communicated using a different approach driven by firm culture. In addition to the formal auditor’s report, the approach to providing insights and relevance includes (as outlined above) researching the business and deeply involving the team. At this point, the client must also be involved. The communication becomes a two-way exchange of ideas between the auditor and the client. To facilitate this, a live presentation using a PowerPoint is more effective than a detailed letter because it allows for open-ended dialogue and discussion with the audit committee (or equivalent) and management. The presentation has the potential to become a flexible, creative process in which the client provides additional insights and serves to provide the audit team with an even greater understanding of the client.

The presentation to the audit committee (or equivalent) and management typically should include the following:

- Results of the audit
- High level overview of the financial statements
- Industry and/or competitor trends
- Economic climate
- Key Performance Indicators (KPIs) compared to the industry (both financial and strategic)
- Operating improvement ideas
- Internal control communication
- Governance communication

Utilizing a bullet-point format, without additional narrative, will serve to stimulate discussion and eliminate extensive reading.
Additional Ways to Create Relevance

1. Being a trusted advisor doesn’t end at the completion of the audit and presentation to the audit committee and management. The auditor must be available to the client on an ongoing basis. Knowing that the auditor is armed with information from which insights were generated from the audit experience, the auditor is viewed as a trusted advisor all year long.

2. Providing insights that reflect how a financial decision will affect the company will allow the company to make a better decision.

3. Know and understand why standards matter to the client, and communicate this to management as they occur.

4. Remain up-to-date on important developments in the client’s industry. Continue to be curious and ask questions. Use this data and information to offer further insights all year long.

5. Stay present throughout the company. Continue engaging with employees outside the accounting department. Building trust throughout the company establishes relevance with the board of directors.

6. Leveraging available technologies can be an effective tool to assist in the dissemination and communication of relevant information and keeps ideas in front and top of mind with your client. Tools such as firm to client portals, cloud document management, CRM systems and external data mining can be used to assist with keeping the client connection alive.

7. In the future, the above technology tools will be supported by cognitive computing processes, which will be able to scan internal and external data sources and automatically push information to the client as the information becomes available.

CONCLUSION: THE AUDIT OF THE FUTURE

The audit profession is at an important crossroads, and we can take one of two courses: 1) maintain the status quo and do nothing or 2) become architects of our future.

“We are called to be architects of (our) future, not its victims.”

– R. Buckminster Fuller

Successful firm leaders must shape their audit process to be more nimble, more flexible and more innovative — in short, better organized to deliver insight and relevance. As we look forward to the future, firm leaders must create a culture that welcomes challenges to the status quo and capitalizes on technology to enable audit processes. Advances in technology and the massive proliferation of available information have created a new landscape for financial reporting. The audit technology tools that are in the cloud today, that integrate platform and methodology, are very good starting points to move to the future. Add cognitive computing and data analytics once they are more fully evolved, and the result could be an audit game-changer. However, to successfully impact the future of audits, we must recognize the key challenges facing the audit profession. Using what we’ve learned about each, we can tackle them with common sense ideas and solutions to build a brighter audit future.
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Learn More.

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