The Future of Audit

by Niall Gleeson

The future of audit is a topic of conversation that has been at the forefront of audit related public consciousness for a number of years. This was exacerbated given the lack of trust of the public in the audit function arising from the fallout from the economic crisis in the late 00's. The expectation gap between auditors and users of financial statements and the public became even more apparent as a result of this crisis.

While audit has undergone significant change over the course of the last number of years since this crisis, it is clear that even more significant change is being expected and will be demanded from audited entities, the users of financial statements and the public in the forthcoming years.

Audit, traditionally, has provided assurance over past results. Transparency and quality have always been key considerations of auditors. This focus is expected to continue and with the emergence of new technologies and audit tools with the Board, financial statements users expect ever increased transparency and quality. Stakeholders expect that auditors will offer more than just assurance over past results and additionally will offer a forward looking view. Users of financial statements believe that auditors need to provide insights that can add value to entities' management and boards and to financial statement users.

Financial Statement Users Expectation

It is widely known that historically there has been a gap in expectations between what the auditor expects an audit to achieve and what financial statement users expect an audit to deliver. Stakeholders want greater assurance on the future but financial statements are prepared on the basis of past results. There has been much discourse over the last number of years on how this gap can be alleviated and it has been suggested

that this may be through providing increased information with respect to auditors work on the front half of the annual report, and thus offering more insight into what the auditor has done to the financial statement users.

Given that business is evolving at an ever changing pace, stakeholders are demanding that audit in turn keeps up with the ever changing pace in their industry. Boards and management teams expect that an audit will not just tell them their results up until a certain point in time are "true and fair", they want auditors to offer them insights in what actions they can take now that will improve their processes and provide insight into the auditors assessment of business models going forward.

These insights will help entities be more efficient and productive and will offer insight into the effectiveness of their business model. This may include, but is not limited to, risk management insights, fraud prevention recommendations, control recommendations and quality assurance insights. Overall company management is expecting more from their audit and anticipate that technology is the means to achieve this.

Innovation in Audit

As noted above, technology and innovation offer auditors an increased opportunity to keep up with the even greater demands of stakeholders. It enables auditors to understand and gather vast quantities of entity data

to a greater extent than ever before. Artificial intelligence, data mining and data analytics are powerful tools that enable auditors to analyse quantitative data and provide qualitative insights.

Artificial Intelligence involves the use of machines that are capable of performing tasks that typically required human intelligence. The use of artificial intelligence means that tasks which were ordinarily performed by members of the audit team can now be performed by technology. This offers auditors the opportunity to focus on high risk areas. Data Analytics enables auditors to extract useful information from data. The use of Data Analytics, specifically Data Mining, enables auditors to analyse all of an entity's financial data, not just a sample as a traditional audit would have done. Auditors can use this data to perform a regression analysis over the last number of years. Such analysis can identify anomalies which can provide indicators of control weaknesses, fraud and errors. This provides insights to entity management which instil confidence and offer assurance that processes are working as they should rather than just noting that past results are "true and fair". Furthermore, these insights can improve both financial and operational performance through allowing management to make better informed business decisions which can drive overall business performance.

Change in Auditor

Developing the audit of the future means that significant investment is required in developing the auditor of the future. The introduction of the innovative technologies as noted above, evolving regulatory requirements and stakeholder expectations means that audit must develop and foster the right skills in the auditor of tomorrow to deliver high quality work in an evolving environment.

The role of an auditor is no longer just number - crunching and ensuring that accounting entries are correctly recorded. Audit firms need to recruit people who have the ability to react to this change, and foster people who can continually grow their skills and competencies. Audit firms need to adapt their recruitment strategies in order to provide for this. This may involve recruiting auditors from disciplines other than accounting and consistently providing IT and technology training and most importantly, critical thinking training, to all staff.

The auditor of the future doesn't necessarily need to be an IT and innovation expert but they do need to be technologically literate. The auditor of the future needs to be able to communicate with IT and innovation experts and to collaborate in order to offer improved solutions and insights to clients.

Execution of Change

While the recruitment of individuals with the necessary skills to conduct the audit of the future and the investment in the relevant technologies represent key steps, there also needs to be a creative and carefully thought out plan in order to enable this change.

Creating the audit of the future means that audit firms need to give audit teams the opportunity to focus on key risk areas and areas that can add value to clients. As a result audit firms need to transform the way they operate.
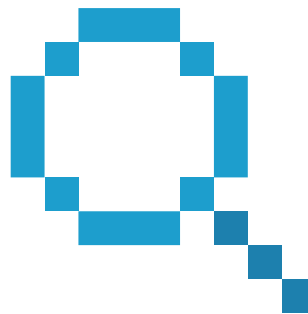
"...there needs to be a careful and considered approach to executing this change"

There are numerous ways in which this can be achieved. This may be enabled through providing a more streamlined approach to audit execution which may involve standardising audit procedures and involve the use of delivery centres who will perform similar procedures and tasks on a daily basis.

This will standardise the approach and thus make the approach more efficient. It will mean that lower risk areas are standardised and as such performed more efficiently by individuals who have a distinct knowledge of their individual area of expertise.

Audit firms need to continue to invest in IT and to invest their resources in staff training. The use of additional IT experts means auditors need to understand IT and communicate effectively with IT experts.

These steps mentioned above will offer other key staff members the opportunity to focus on areas that involve the use of professional scepticism and critical thinking skills that may deliver key insights to the Board and management. This will ensure audit firms can focus on areas that are more important.

This approach will involve the use of analytical skills, trendspotting techniques and give audit staff the opportunity to understand complex issues and communicate these to management and other stakeholders. This in turn will lead to more trust in the audit process and increased transparency.

Communication

All of this investment in technology is worthless if key insights derived from this are not delivered to management and other relevant stakeholders. Auditors should not just perform the type of work mentioned above in isolation and document it on an audit file. In order for the process to be effective and efficient, entity management need to be involved in the process from the planning stage and throughout the execution. This will ensure that the key risks and insights are relevant to the entity being audited.

At the conclusion of the audit, auditors need to consider how the insights derived from this investment in technology are delivered and articulated to management and other stakeholders. Auditors need to fully understand the entities business and the related business processes to know which messages are important to deliver. Management and Boards expect more than just a listing of findings documented in a deliverable document such as a letter to those charged with governance. They expect that key findings are delivered and communicated by auditors in a considered way.

Entity management expect that auditors will have a sufficient knowledge of their business in order to weigh and prioritise any findings or recommendations and that any insights are ranked and that auditors continue to provide challenge to management and the board. They then expect that clear recommendations are proposed to resolve any issues or control deficiencies.

Conclusion

As demonstrated above - in order to fulfil the expectation of stakeholders, the audit purpose needs to evolve with the pace of change in society and technology. It is clear that management and boards expect that auditors should be able to help them understand and manage the present and prepare for the future. It is clear that investment in innovative technologies and adapted recruitment and training policies offer building blocks to create the audit of the future.

However, there needs to be a careful and considered approach to executing this change and indeed communicating this change in order to ensure appropriate value is delivered to companies and financial statement users. Auditors need to continue to engage with management teams, audit committees, investors, regulators, and standard setters to shape the environment in which we operate and offer solutions to all stakeholders.

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