Preparing for the Audit of the Future

The accounting profession is undergoing significant change as technology continues to impact it, especially as it relates to auditing. Initiatives are underway in two main areas. First, firms are embarking on efficiency projects, using new technology, that employ workflow management processes and leveraging big data and data analytics to provide real-time, forward-looking value to clients.

Secondly, the American Institute of Certified Public Accountants (AICPA), the professional governing body of the accounting profession, has been developing initiatives to help firms offer innovative new services to clients. Below are the top three issues that will have the most impact on shaping the audit of the future.

Embracing Technology

There are many buzzwords regarding new processes and services in our profession right now, all of which will revolutionize the way firms offer services to clients and how clients and firms interact with one another. In addition to the now-ubiquitous cybersecurity and cloud-based technologies that abound, the new methods shaping the audit of the future include:

- **Artificial Intelligence (AI) and Big Data:** AI includes automating tasks that were typically performed by humans, such as preparing a tax return or financial statement. With AI, CPA firms can streamline audit processes leading to new ways to service clients.

  Data Analytics: AI and big data – large, complex sets of data that require specialized methods and technologies to analyze them – are making data analytics more relevant and important in the audit process. The AICPA defines data analytics as the science and art of discovering and analyzing patterns, identifying anomalies and extracting other useful information in data underlying or related to the subject matter of an audit through analysis, modeling and visualization to plan or perform the audit.

  Auditors normally use sampling techniques to test a small portion of a population and the project conclusions across the entire population. Theoretically, the use of data analytics would allow an auditor to test 100 percent of a population, which would lead auditors to the areas of greatest concern. According to the AICPA, the use of data analytics can enhance traditional audit procedures, contribute to every phase of the audit, and offer a new way of visualizing and analyzing results.

- **Blockchain:** According to *Blockchain for Dummies*®, "Blockchain is a shared, distributed ledger that facilitates the process of recording transactions and tracking assets in a business network. An asset can be tangible — a house, a car, cash, land — or intangible such as intellectual property, such as patents, copyrights, or branding. Virtually anything of value can be tracked and traded on a blockchain network, reducing risk and cutting costs for all involved."

  While Blockchain is gaining more and more attention, there are still many hurdles the process must overcome, and the Blockchain of today most likely will be much different from the Blockchain in five years.

Innovating traditional services

The audit as we know it is on its way to becoming a commodity – and some would say it already has. The traditional audit is backward-looking reporting on information that management has already analyzed time and time again, often several months after the fact.

Firms must find ways to innovate the traditional audit process by leveraging big data, using data analytics to create efficiencies and predictive capabilities, and moving to virtual/continuous auditing. This will allow the profession to reinvent the audit into a service that is real-time, forward-looking and predictive to provide real value for clients.

To assist firms in modernizing traditional audit approaches, the AICPA is working with Rutgers University on a project called the RADAR Initiative to further integrate the use of data analytics into the audit process. There's also the RIVIO Clearinghouse, which will allow CPA firms, private business and third parties, such as financial institutions, to more securely and efficiently exchange information. (Previously only public companies had access to the SEC's EDGAR, a secure network, to share information with stakeholders.)

Creating New Services

As traditional services run the risk of becoming outdated, it is up to accountants to create innovative new service offerings to drive value for our clients. The AICPA recently rolled out one such service – a cybersecurity reporting framework. The framework, according to the AICPA, will provide organizations with a common language to use when evaluating and reporting on their cybersecurity efforts and gives them a level of comfort that they've adequately considered best practices when designing, implementing and operating programs.

The accounting industry is in an age of unprecedented change. As I recently learned at the AICPA's annual conference, "It is up to us to disrupt ourselves."

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