The path to audit transformation: Cloud, Connect, Create
Auditing in the future key drivers

Despite years’ worth of discussion within the accounting profession on the topic of audit transformation, for many CPAs transformation is not only confusing – it’s intimidating. After all, transformation of any sort suggests a lot of work, perhaps even upheaval. For firms with an already-packed executive agenda, audit transformation may remain elusive, especially for leaders who are not convinced that the audit world is changing so fast, or so significantly, that full-blown transformation is warranted.

Given broader shifts in client operations and systems, however, transformation is inevitable. Many of these changes are already underway, in fact. There are four trends at work behind this rapid evolution, driven by technology advances.

Key Trends

Cloud capabilities and paperless transactions and services were only the beginning. Today, disruptive developments in AI, machine learning, and blockchain are already changing the business world at large – including the accounting profession. Emerging technologies are creating new
opportunities for auditors to reimagine how they perform the audit – what they look at, when they look at it and how they look at it – to drive a more precise focus on higher risk areas and inform greater insights and value to clients. Still, many firms have not yet identified their strategies for turning these advances to their advantage. Rather than proactively transforming to meet this new reality, they are reacting on an ad hoc basis.

While technology is an important, highly visible enabler of transformation, it is not the only catalyst, and should be considered in parallel with an evolution of audit methodology and related standards. In the digital age, the profession’s response to these developments has taken on added importance, because new tools and technologies have made it possible to realize long-term business value beyond mere compliance. For example, automation capabilities can drive consistency and standardization of service delivery across client engagements, using regulatory compliance as a starting point. Enhanced use of data analytics, and ultimately machine learning, can drive a myriad of benefits by enabling auditors to focus efforts where the risk is greatest in the context of each unique engagement.

The AICPA Auditing Standards Board is considering how standards and related guidance might need to evolve to keep pace with changes in these areas. For firms, it is already clear that audit transformation requires them to develop new skills and talent to address growing gaps in digital intelligence, data analytics, and critical thinking.

How can the profession meet this challenge? The following is a guide to transformation, addressing each key dimension in detail for firms proactively seeking to drive these important changes.

Defining Transformation

Given the many ways in which the word “transformation” can be interpreted, it may help to think about it in three distinct categories:

**Methodology:**
The process and procedures followed in execution of the audit

**Execution:**
Coordinating beyond methodology

**Experience:**
How clients and professionals interact and execute

These categories offer a starting point for consideration. A firm’s approach to implementation and change management is integral in achieving success in the areas outlined above. The end goal is not merely to just enhance processes, but to establish a new way of working.

For Jessica Helms, Senior Manager at Cherry Bekaert LLP, transformation “is not just changing how we’re doing the things we’re already doing – it’s about changing how we’re doing an audit overall, and what it really means to audit.” According to Helms, even
deliverables that appear at first glance to be transformative on their own must be assessed in terms of their ability to create more powerful results for clients. “Technology is changing so quickly, giving us the ability to do so much more,” she says. “For example, we’re able to analyze and visualize data so much more quickly today, but we have to make sure we’re not just giving clients these amazing data visualizations without helping them understand what they mean and what the implications are for their business. How can we use that information to improve the audit, rather than having extra information just for the sake of having it? How can we leverage it in the audit?”

How can firms successfully advance from where they are today to a truly transformative approach to the audit? Each firm’s transformation can and should take its own path, based on size, client needs, business goals and strategies, and current maturity levels in everything from technology infrastructure to processes and methodologies. Regardless of how this transformation takes place, three critical touchstones should guide the efforts at each firm: Cloud, Connect, and Create.
Cloud

While cloud technology is not new, its impact on the accounting profession has grown exponentially in recent years and is reflected in the growth of online accounting tools such as QuickBooks Online, Xero, Sage Intacct, and others. Many firms have also adopted cloud-based file-sharing tools such as ShareFile, DropBox, and Google Drive to better secure files and centralize client collaboration. Still, these advances have often been piecemeal, and most firms are still defining and developing their more comprehensive cloud strategies.

In fact, when we asked more than 200 CPA.com webinar attendees from various firms how much of their current A&A technology is cloud-based, nearly half (48%) reported that 25% or less of their technology is in the cloud, accessed online. And in conversation with smaller firms, one of the challenges cited was in finding solutions that are both practical and affordable.

Where should firms focus their cloud strategies to achieve transformation? Firms that have successfully adapted their cloud strategy to support transformation point to three insights that can lend critical focus:

- **Approach cloud as an ecosystem challenge.** Selecting the right individual cloud solutions is important but should not be done in isolation. Carefully consider how the complete ecosystem of cloud-based tools and solutions can be marshaled together to meet both firm and client needs.

- **Prioritize client and firm challenges.** Just because a challenge can be addressed with cloud capabilities does not mean it should be. Prioritize cloud-relevant challenges to clarify where the firm should focus its efforts, and where it can get the most value from its time and resource investments.

- **Don’t just duplicate – improve.** Some firms look to simply replicate existing processes in the cloud, benefiting from marginal efficiency improvements. Moving to the cloud presents a much more significant opportunity to create sustainable improvements – use cloud-based transformation to find ways to improve how the firm works, not just to make small updates on existing approaches.

In polling over 400 accounting professionals from firms of all sizes about cloud adoption, the most common audit and assurance challenge cited is the overall wrangling of documentation and information provided by clients. And while many firms are using cloud tools, they have not truly embraced how the cloud can enable a new, better way to collaborate with clients. For example, simply removing an emailed PBC list and replacing it with an online list and repository isn’t a true transformation, although it’s still progress.
Evaluating and implementing new cloud-based technology solutions requires significant effort and dedicated resources, starting with time, and people with relevant skills. However, with thoughtful planning, firms can lay the groundwork for making a successful, non-disruptive transition to the cloud. For example, by implementing and testing new capabilities into the audit workstream gradually over time, staff have shown to be more receptive to changes – a critical factor in facilitating smooth transitions.

At Cherry Bekaert LLP, Jessica Helms saw the benefits of a gradual approach firsthand. “People were a little hesitant to use cloud-based AI in their audits,” says Helms. “It was a little slow to start – people just didn’t fully understand it. But recently we’ve been hearing from a lot more stakeholders about how it’s working. The more they use it, the more excited they are. I tell our people it’s like a series of stepping stones: ‘You’re already using this part of the technology, and that had a benefit to you. So let’s take the next step to build on that and make more changes.’”

What does “connect” mean for transformation? From a methodology standpoint, it’s about enabling a truly data-driven audit through a fully-integrated workflow. This translates to using client data and auditor knowledge to drive a dynamic linkage of understanding the entity, to the identification of risks, to related controls and procedures.

Connecting also means engaging directly with clients. How does the firm get relevant information from clients? How do clients, in turn, get the information they need from the firm? And how do these activities connect with the overall client relationship? These are the types of questions that can help guide successful audit transformations from the perspective of facilitating client interaction and collaboration.

Jeff Rowland, Partner at Finch, Rowland & Shoopman, says that having too many tools can make it more difficult to connect with clients – even when the tools were implemented at the request of clients.
"With so many unintegrated systems and tools in place, we were duplicating steps in our procedures," says Rowland. "We were also relying on inconsistent methods for exchanging information with clients – email, DropBox, Sharefile, and more. Often, we were using the client’s preferred method for sending documentation, which ultimately created challenges in managing files and tracking information."

Through the course of the audit, connections in the following areas should eventually happen seamlessly, with little to no extra effort required:

- Drafting the appropriate language on an engagement letter, based on input from the auditor during engagement planning
- Optimizing relevant documents and procedures based on input from auditors during engagement planning and fieldwork
- Including appropriate disclosures based on input from the auditor during fieldwork
- Alerting auditors that the choices they made may be non-standard, or in conflict with standards
- Linking client PBC documents and requests with the applicable steps or procedures – at the time the information is relevant

For many firms, these actions still require manual processes and redundant effort – and result in suboptimal outcomes. When determining how to transform your audit, look to identify entirely new ways to connect.

When reviewing current workflows, for example, it can help to ask questions in areas such as:

**Planning**
- How much effort is involved in arriving at the appropriate procedures and tasks?
- Does any of it seem redundant?
- How confident are you that you are not “overworking” the engagement?

**Client interactions**
- How transparent are your client interactions today?
- How often are you or anyone on the team attempting to track down the status of a request?

**Onboarding**
- How is a less experienced auditor guided to perform the audit appropriately?
- Does a significant amount of work by a less experienced auditor need to be “fixed” or redone once it gets to review?

**Deliverables**
- What is involved in drafting and reviewing an engagement letter?
- What is required to draft and review a financial statement?
- What processes contribute to the final auditor’s report?
Create

In an audit transformation, “creating” refers to developing a new methodology that maximizes the potential of technology to transform the audit.

A new methodology, buoyed by newer technology such as machine learning, will help enable auditors to audit more effectively, primarily by helping refine the focus to only what matters for the audit. The potential benefits of an evolution of audit methodology that maximizes the potential of technology to transform the audit are compelling. “When you combine methodology with technology, you’re able to tap real-time insights on where the audit is – or the market overall,” says Jonathan Kraftchick, Cherry Bekaert’s Partner in charge of innovation. “To make things even more interesting, you could be able to see where all audits are, and have a clear window into overall market trends as they relate to assurance. That’s powerful. But we won’t get there using the same tools and approaches that have been in place for decades.”

If your firm could create a brand-new methodology from the ground up, enabled by the latest technology, what would it look like? This is the question firms should be answering in the Create phase of transformation. Fortunately, this is a question that a number of leaders in the profession are already seeking to answer. The AICPA, CPA.com, and CaseWare International, through the Dynamic Audit Solution (DAS) initiative, are creating a clear picture of the modern audit, enabled by technology advances.
Core characteristics of successful DAS delivery

- Eliminate redundancy and reduce the execution of unnecessary procedures by reusing procedures that can provide evidence for multiple identified audit risks
- Support quality through a simplified review process and through built-in expert guidance for staff performing the work

The extensive linking of information within DAS goes beyond what firms have ever experienced in their audits. “One of the benefits we’ve seen is how everything is linked together,” says Helms whose firm, Cherry Bekaert is engaged within the DAS initiative. “That means based on how you answer a question, the system may present certain work papers, or other related questions. Removing these manual aspects of the audit help with efficiency as well as audit quality and consistency – our people no longer feel like they’re wasting time documenting the same things over and over. In the future, I expect processes to be even more integrated, leading to even higher-quality audits.”

The early learnings from the DAS initiative have been quite promising, and some of the hallmark capabilities that will truly transform how firms approach auditing are coming into focus. Based on direct feedback from firms participating in the DAS initiative, here are some of the expected positive outcomes that the DAS initiative will bring to fruition for the profession:

- Facilitate compliance with documentation requirements and workload
- Focus on what matters most by leveraging data to hone in on the most relevant risks as opposed to taking a “same as last year” approach
Think back to transformative developments in business over past decades, from the rise of the internet to mobility, cloud computing, and more. In each case, some organizations chose to embrace change, while others sat on the sidelines and waited for developments to unfold before making their moves. Ultimately, regardless of approach, they were all transformed. The difference is that those who took a proactive approach were able to evolve on their own terms, while those who took a reactive, wait-and-see approach had less control over their paths to transformation.

Active change management strategies play a significant role in helping ensure the success of technology-enabled audit transformation efforts – because audit transformation can be disruptive by design, introducing new challenges and revealing deep-seated cultural resistance to change. In this environment, creating positive anticipation for upcoming change and securing buy-in for it throughout the firm is critical. This type of change management is a skill – one that can be cultivated, developed and applied following proven approaches.

A clear, disciplined approach to change management is how transformation plans become an everyday reality in the firm. By building trust and communicating openly across the firm, the team leading the transition can have a positive impact on firm-wide perceptions of planned changes.

Change leaders need to:

- Demonstrate the highest level of commitment
- Understand change cannot be forced on others
- Clearly communicate the advantages others will gain from it
- Produce short-term wins and celebrate success

The journey of evolving your firm’s auditing services to meet new business realities and client needs can and should begin today – and CPA.com offers targeted resources that can help. Our consulting services team can not only help you set your firm’s strategy and goals for audit transformation, we can help guide this transition. For more information on these services, and to find out how to start the conversation, please visit CPA.com/OnPoint-Professional-Services.