Special Report
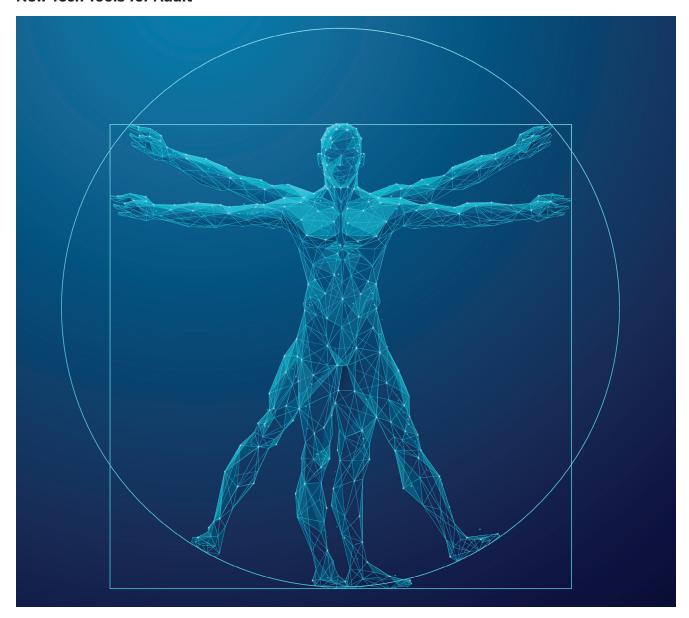
New Tech Tools for Audit

Ready for a renaissance

The art of the audit is getting a major technological boost

Changing the art of the audit

New technologies are transforming the way auditors work

By Antoinette Alexander

The convergence of innovative technologies and increased client and staff expectations is spurring notable changes within the audit profession.

"Audit and advisory are experiencing its renaissance moment with the convergence of cloud-native applications, data and analytics, and generative AI," said Jin Chang, CEO and co-founder of Fieldguide, a provider of automation and collaboration software for assurance and advisory firms.

Said Demetrios Frangiskatos, assurance managing partner for Top 10 Firm BDO USA, "What was historically highly manual, time-consuming and siloed is evolving into an increasingly data-driven and holistic audit process. Modern technologies like digital analytics tools, machine learning, natural language processing and AI have disrupted the market, and, as a result, we're likely going to see more sophisticated audits with deeper analysis."

He continued, "The audit of the future will span throughout the year. It will provide auditors with a seamless workflow, end-to-end automation, and data integration for employees and companies throughout the process. From prospect identification through engagement reacceptance and reengagement, modern technologies are already changing the audit process for firms, and this is just the beginning."

According to Caseware's "State of Internal Audit Trends Report 2023," respondents said moving from manual to digital processes (37.9%) and adopting new audit technology (35.6%) were the top overall challenges they have faced in the past two years. Furthermore, the survey revealed that the use of analytics software and cloud-based solutions, and a reliance on continuous auditing, continue to take hold. However, there remains room for additional growth.

"When you move to the cloud, when you move to what we call an 'insight-driven engagement' or an 'insight-driven audit,' you really need the auditors and the firms to think about change management, to embrace that change," said Scott Epstein, chief product officer of Caseware, a provider of cloud-enabled solutions for audit, assurance, financial reporting and data analytics.

Too often, firms and their audit teams are hampered by disparate and on-premise systems, manual processes, and collaboration challenges, placing a strain on staff, increasing the risk of errors, and making it difficult to deliver a high level of services.

"Practitioners typically work with a disparate technology stack that isn't conducive to modern workflow and collaboration needs. As a practitioner myself, I have firsthand experience in these day-to-day workflow and collaboration challenges. In fact, the disconnected and manual workflows were a key factor driving me to leave the profession," Chang said.

Echoing the sentiment, Frangiskatos said of the profession in general, "Auditors may experience fragmented workflows including various systems, manual tools, and poorly integrated data sets, making automating elements of the audit process difficult. ... Collaboration is also a challenge auditors face. Collaboration is especially impeded when teams do not have the right tools in place to work in hybrid and remote environments."

Tools for the future of audit

Looking to improve audit quality and the experience of audit professionals, software vendors are focused on developing solutions that drive greater efficiencies, improve workflows, and enable auditors to better analyze vast amounts of data and detect anomalies. The gateway to such capabilities is the cloud. While cloud-based solutions are certainly not new, many industry sources noted that the profession has, in general, been relatively slow to sever ties with on-premise solutions and fully migrate to the cloud.

"The profession has been relatively slow to adopt, but recently, cloud adoption is really accelerating in the audit and assurance space, which brings numerous benefits to auditors, to their customers. So, there's a huge movement and push towards cloud," said Caseware's Epstein. "And with cloud, it enables advanced data analytics capabilities as well. Large amounts of structured and unstructured data really all focused around automating manual tasks, driving improvements in productivity, quality and efficiency."

Said Kalil Merhib, executive vice president of growth and professional

services for CPA.com, "Largely speaking, audit has not been 'moved to the cloud,' so to speak, and so auditors are faced with using a lot of on-premise solutions. … I think the move to the cloud, in and of itself, to get fully, pure cloud-based for an audit technology stack of solutions, is going to be a fundamental game changer."

Migrating to cloud-based solutions provides auditors with greater access to real-time data and the ability to leverage technologies like analytics and artificial intelligence.

According to a 2021 survey of finance executives conducted by Big Four firm KPMG, in partnership with Forbes Insights, most respondents (66%) said they expect a "dramatically" changed external audit process within four to five years. Which specific technologies will "dramatically transform" the external audit? According to the findings, much of the focus is on AI (61%), smart analytics (50%), and robotic process automation (48%).

Furthermore, respondents said the top technologies that are already a must-have for external auditors are:

- Cloud-based solutions (80%);
- Smart analytics — including data extraction and transformation and data visualization (70%);
- Artificial intelligence — including machine learning and natural language processing (61%);
- Business process automation (52%); and,
- RPA (41%).

AI takes the spotlight

In speaking with industry sources, there's no doubt that AI is basking in the spotlight — and for good reason.

While AI adoption within the audit profession remains in the early stages, the impacts on audit are already evident. "AI is poised to help improve efficiency, effectiveness and qual-

ity, while also helping auditors better identify risks," explained Frangiskatos. "When completing a risk assessment, for example, AI can help auditors identify risks more quickly and effectively by detecting patterns and anomalies. Auditors can then focus their time on addressing problematic areas and providing value to their clients. While the profession has yet to fully define outlier and anomaly frameworks that are malleable enough to be applied while ensuring audits remain consistent, it is a challenge that we predict will be addressed."

Also noting the importance of AI, Chang of Fieldguide said, "We're seeing firms really start to embrace the notion of AI-enabled audits. In general, we've found that practitioners are surprised at how well AI can assist them with common tasks like drafting test procedures, creating evidence requests, and analyzing evidence. … We're now actively collaborating with firms to give them even greater flexibility and personalization capabilities so that their unique firm methodologies and practices can truly shine."

Referring to AI as the "technology step-change our industry needs," Chang said that Fieldguide is building AI for drafting, analyzing and coaching:

• **Draft:** AI for drafting suggests drafts of tests, requests and more.

• **Analyze:** AI for analyzing reviews the quality and suitability of evidence being tested.

• **Coach:** AI for coaching acts as a knowledgeable companion, offering greater insights and suggestions regarding firm methodologies, audit guidance, and task optimization.

Added Merhib of CPA.com, "AI is a driver of a lot of the other types of evolving technologies, such as machine learning and RPA, that we talk a lot about. So, AI today is driving the learning for algorithms and analysis

Finland
1,310 cups

United States
1,132 cups

Italy
658 cups

France
482 cups

*Cups per year per capita

In a country with people that drink more coffee than anywhere else, taking productivity to a higher level goes without saying.

Our Finnish roots are as much a part of us as the best-in-class information management solutions we've implemented across the globe. By partnering with M-Files, you're getting a relationship with people driven to help transform your company into a productivity powerhouse.

M-Files®

Better information management from start to Finnish

being performed, so the data analytics that are being applied."

Pointing to such modern platforms as Caseware's OnPoint suite of applications, Merhib said, "You have AI driving logic in the methodology based on answers and inputs to the system that then also, as the work is performed though that audit process, it starts driving automation of documentation and other inputs all the way from risk assessments through the creation of the footnotes and the financials. You look at the way AI connects the processes being performed — it is very dynamically linked and allows for those things to flow. And then things like dynamically generating the list of documents that need to be provided by the client based on questions you are answering and the way you are looking at that client's entity."

Enter the Dynamic Audit Solution initiative: This multiyear initiative is aimed at creating a new technology-embedded methodology for the future of auditing. It was developed by a coalition including CPA.com, the American Institute of CPAs, Caseware and a cohort of firms. As Karl Busch, senior director of product management at the AICPA, explained to *Accounting Today* on the "Get ready for DAS," podcast episode, "The goal of the DAS is to provide a transformative audit methodology that utilizes data along with embedded knowledge and advanced technologies to help inform auditor judgment through the selection of relevant procedures performed at the appropriate time. So in a nutshell, it's a completely new audit methodology."

To bring "transformative solutions" to market, CPA.com and the AICPA partnered with Caseware, which has developed the OnPoint A&A Suite, a suite of applications built on the Caseware Cloud platform and driven by AI. Core applications of the suite include OnPoint Audit, OnPoint EBP, OnPoint Collaborate, and OnPoint PCR. More recently, the initiative involves the testing of the Dynamic Audit Solution, which is anticipated to be commercially available this year to early-adopter firms.

Said Epstein of Caseware, "We are laser-focused on driving, or powering, what we call this insight-driven engagement approach. It is a different approach through leading-edge, cloud-based technology that can handle all structured and unstructured data; that can do analysis on 100% of data; that embeds analytics into processes and procedures; and automates, enables, and drives the focus on the right things to eliminate, or at least minimize, time-intensive tasks."

As stated by CPA.com and the AICPA, the "longer-term vision is that once a DAS is commercially available, firms that offer both audit and PCR engagements will access a single, integrated OnPoint PCR and DAS platform to meet their needs. The platform will include modules that firms can select based on their engagements and specialized industries."

Generative AI

Then, of course, there's generative AI, which is an emerging form of AI that can perform such tasks as creating original articles, music, or even computer code. Generative AI recently made headlines with the debut of ChatGPT, a sophisticated, next-generation chatbot developed by OpenAI. Generative AI has the potential to significantly impact accounting; however, the profession is treading very cautiously, with the majority taking a wait-and-see approach before adoption.

In fact, Thomson Reuters recently surveyed legal, tax and accounting professionals across the United States, the United Kingdom and Canada to gauge the sentiment on generative AI,

and revealed a mix of optimism and caution in the adoption of the technology. The greatest concern: risks to privacy, security and accuracy.

According to the findings, 68% of respondents from tax, accounting and audit firms said they believe that ChatGPT and generative AI can be applied to tax or legal work. However, less than half (49%) of respondents from tax, accounting and audit firms said that ChatGPT and generative AI should be applied to tax or legal work. Furthermore, only 6% of tax, accounting and audit firms said that they are currently using generative AI in their operations, with an additional 9% planning to do so. Twenty-nine percent said that they are currently deciding whether or not to adopt the technology.

Among those who have adopted or are planning to adopt generative AI technologies, tax research was the primary use case of interest cited by respondents (79%).

Among those within the profession expressing cautious optimism is Frangiskatos of BDO, who said, "Modern technologies like AI are transformational. However, as an industry, we're trying to figure out how quickly these technologies can be reliable. There is no doubt that generative AI, for example, will take over certain audit tasks. The bigger question remains — which parts of the audit will need to be done by humans, and which are better suited for technological solutions like AI? But the bottom line hasn't changed: A trained audit professional must always evaluate the outcomes of the technology's work, analyze the data, and assess accuracy with thoughtful, professional judgment."

Speaking to the potential impact of generative AI, Jeremy Smith, chief technology officer of Suralink, said, "Generative AI, in general, is obviously really strong on the content creation side. As you look forward, you think about things where you have to potentially generate content in order to interact with your client or internally. So whether that is email, or engagement letters, or potentially automatically generating things like request lists or PBC lists, in general, in order to suit a particular need and/or customize it toward a particular engagement. … Anything you can do to speed that process is potentially really interesting."

Suralink is a provider of request list management and approval workflow software for accountants.

To help the profession better understand the technology, CPA.com recently announced plans to launch a multipart generative AI initiative. A series of tools and resources are being developed, including an AI symposium, an AI-specific cohort within the 2024 AICPA and CPA.com Startup Accelerator, a scan of solution providers, and AI-focused training.

"Simply said, AI will increase our productivity and spark our innovation potential by allowing us to make new connections between disparate ideas," said Pascal Finette, co-founder and CEO of Be Radical, in a statement announcing the CPA.com initiative. "It's not a question of 'if' generative AI can fit into a practice, but 'how' — and that will vary by firm and use case."

The ABCs of RPA

As noted earlier, KPMG research found that RPA ranked among the technologies that will "dramatically transform" the external audit. There's no doubt that, in recent years, the rate of RPA adoption has been on the rise as firms look to drive greater efficiencies.

RPA is a software tool that can be programmed to automate manual processes across applications. This helps reduce the burden of repetitive, simple tasks on staff. "RPA is a great

Make Every Moment with Your Clients Matter

The Tax & Accounting profession is defined by moments — opportunities to delight your clients with valuable advice and superior service. With highly automated solutions that minimize low-value work so you can focus on your clients, and exciting new tools that turn unorganized data into actionable insights, Wolters Kluwer helps you prepare for these high-value moments and deliver for your clients when it matters most.

Celebrating 10 Years of Cloud-Based Innovation

Wolters Kluwer is proud to celebrate ten years of dependability in the cloud with CCH Axcess™. The industry's first cloud-based platform, CCH Axcess remains the most complete and reliable solution of its kind. Learn why 94 of Accounting Today's Top 100 Firms trust CCH Axcess!

→ **EngageTax.WoltersKluwer.com/10Years**

CCH Axcess™

Wolters Kluwer

When you have to be right®

augmenter of staff time when you talk about capacity challenges, if you talk about staffing challenges, if you talk about compression and what needs to be done. It is a great way to automate low-level or transactional-level-type tasks," said Merhib. "It is also a way that AI and machine learning can become smarter as it does so. ... We've seen capabilities in the market from some providers around extracting and reading data from employee benefits plans and plan documents. We've seen applications of AI and RPA in the reading of lease documents and making sure those types of activities can become more efficient."

Said Colleen Knuff, vice president of audit product management at Wolters Kluwer Tax & Accounting, of RPA usage among firms, "It is generally used to flow data between applications and documents that are not integrated today to create automation of simple, repetitive tasks."

Among those firms leveraging RPA to help weed out manual tasks and drive greater automation is New York-based Top 100 Firm Citrin Cooperman.

"RPAs are probably a better example of some of the tools that are out there on the market that have been proven and tested and we are currently using within our practice," said Jessie Kanter, the firm's partner-in-charge of methodology and innovations. "We do use one RPA that automates a lot of the manual tasks that our staff are doing in Excel. So, when they are producing their audit workpapers and they need to match a bunch of information within our audit workpaper to the client's supporting information, we have a tool that we can do that with a click of a button."

Looking back, Kanter recalled a time when staff had to sift through papers manually. "Now, we can just take that all in Excel format and upload any file that we want into the system. ... We

tell the system, 'OK, now match what I have in my Excel to all of the supporting documents that my client gave me' and it produces it in two seconds," he said.

Echoing the sentiment, Frangiskatos said, "Automation, including robotic process automation, helps auditors drive consistent results with high-quality execution, while also saving time. Auditors are using automation applications to automate the extraction, integration and manipulation of their clients' data. ... By automating repetitive tasks like downloading reports, contract renewals, and billing, auditors are not only reducing the potential for human error but are also freeing up their time to focus on more strategic, value-adding work."

Evolving roles and skill sets

The audit profession will continue to see an increased focus on data and the use of advanced technologies in the coming years. However, the change will be about more than just technology. It will also mean that the role of auditor will continue to shift, as will the skill sets that firms desire.

"I think [the profession] focuses a lot on the data analytics skills, which are important, but understanding the data flows that actually happen inside the applications — do we have the skills for that? What happens to data during processing? Where do the outputs go? That's a data literacy skill set that I think a lot of firms are still struggling with," said Wolters Kluwer's Knuff. "And it is not just that the technology of the business has changed, but the operations have changed too. So, ensuring that staff are trained on change management and how change management should work so that they can think about how change has affected the businesses of the clients they are [serving] is also important. These skills will be key in discovering

insights within the client, but they can also take these skills back and apply them to their firm processes."

Frangiskatos believes that with the continued advancements in technology also comes the need for evolving skill sets. "In addition to technical skills and the ability to work with data and technology appropriately, soft skills like being agile, analytical, collaborative and resourceful have become increasingly important to remain competitive," he said. "Auditors must also remain skeptical, challenging the output of the technology and utilizing complex professional judgment to evaluate the audit evidence received. Upskilling the workforce to adapt to changes in technology is critical in today's market."

"We think that the role of the auditor will become more efficient and effective. We think AI tools will help in that, but we think the combination of the auditor, plus AI and other technology tools, will be able to maximize the effectiveness of the role of the auditor," said John Hiller, vice president of product management at Thomson Reuters.

Continued Hiller, "We also think it is important that the auditor still has an understanding of what the technology is doing. ... We want to ensure that auditors remain in control. They have full oversight over the process and what the technology is doing, but we don't have any intention for auditors to need to be technologists to fine-tune what the underlying system is doing."

With the continued development of innovative tools, the future of audit is likely closer than many think. Hiller agreed: "With the emergence of new technology, such as generative and analytical AI and machine learning, the future of audit is already here," he said. "Now is the time for firms to ensure that they have the technology in place to optimize the way they work." **AT**