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## Gaining Insights from Innovations in a Financial Statement Audit



Lara Abrash

New technology innovations, when embedded into audit practices and processes, can provide organizations with business insights that go beyond the core audit. [Lara Abrash](#), national managing partner, Audit Transformation, Deloitte & Touche LLP, discusses how advanced analytics and cognitive technologies are bringing value to audits. Further, Ms. Abrash discusses what the audit of the future might look like.

**Q:** How is the traditional audit being innovated, and how can innovation support the audit process?

**Lara Abrash:** Today's most far-reaching innovations, such as using predictive analytics to identify high-risk accounting areas and artificial intelligence to spot patterns in financial transactions, are bringing data-driven processes into the standard audit practice. These technologies allow for risk sensing, cognitive analysis, real-time access and near continuous analysis of client data. The power of advanced analytics encourages the use of risk-based methodologies during audits, moving auditors away from manual, sometimes low-value tasks and helping them focus on areas of interest, such as accounting policies that may not be applied properly.

Risk-based methodologies also can be used by auditors to target areas of concern earlier in the audit process by directing the auditor's focus to areas that require management judgements and assessments and more complex areas such as revenue recognition, leases, and contracts.

Identifying high-risk areas in a timely manner and gleaning additional insights during the normal course of the audit can provide CFOs and controllers time to think critically about auditors' questions and findings.

For example, consider how cash confirmation technology might be used during an audit of an investment firm. During the audit, it is not unusual for external auditors to confirm thousands of balances with third parties. Traditionally, this is a manual process that requires follow-up of confirmations by auditors and sign-off of each confirmation by someone in the controllership group. There are advanced technologies that can create a workflow to deal directly with third parties so audit teams can focus their time and effort on investigating outliers and exceptions.

**Q:** How does a risk-based approach to a financial statement audit work in practice?

**Lara Abrash:** An analysis can be run on all of an organization's investment data, including the nature of the investments, the drivers of the valuation, recent trades, liquidity of a security, and whether the security requires hand pricing or models. The results can then be plotted on a heat map that identifies the risk associated with each type of investment or transaction. Typically, auditors would pull that information on a sample basis. Instead, the organization's entire population of securities can be analyzed, allowing the audit team to, for example, spend more time reviewing hard-to-value securities.

**Q:** How can senior management and the board make optimum use of insights derived from audit innovation?

**Lara Abrash:** Innovation is clearly driving audit quality to new heights. The Deloitte Audit Value Survey indicates this. The majority of C-suite executives and audit committee members surveyed agree that audits of financial statements identify opportunities to improve business performance. Moreover, they believe audits provide valuable business insights and deliver a valuable outside perspective.

With these data-driven insights, auditors and organizations may want to have more focused, upfront planning sessions with management and spend more time reviewing insights extracted from audit findings. For example, if the audit calls for analyzing 100% of the revenue generated by a high-volume, low-dollar retail organization, the results may provide insights related to pricing in various markets that could provide value to management. From an accounting perspective, those pricing considerations likely won't be an issue. However, from an operational perspective the data and discussion around them might be of interest and value to senior management in the trends they reveal.

In addition to typical audit committee concerns, board members may be interested in audit findings produced by risk-sensing tools, such as results that compare an organization's disclosures to those of its peers. That data may be useful when developing an enterprise-wide risk profile, and particularly in peer-to-peer disclosures.

**Q:** How can artificial intelligence (AI) be applied to an audit?

**Lara Abrash:** Using AI, machines, for example, can be trained to read and review contracts and identify terminology that has an impact on accounting. In a software sales contract, for example, the AI might scan for terms, including, revenue recognition, lease accounting and stock compensation. By looking at all of the organization's software sales contracts, the AI could direct auditors to items where consistency of accounting treatment might be lacking, while also extracting data from the contracts to create related working papers.

Another example could involve the implementation of the new lease accounting standard. A cognitive tool could run through all of an organization's leases to find the accounting impacts and whether treatment is similar. It also could compare an entire set of electronic documents and pull out data that identifies potential side agreements, contract modifications, and which employment agreements have similar provisions. Cognitive technologies have also been used to analyze board minutes and indicate what board issues are discussed often and therefore might be of possible concern.

**Q:** How will audit innovation affect talent requirements for auditors and an organization's finance team?

**Lara Abrash:** Regardless of whether the audit process includes advanced technologies, organizations seem to be driving the use of more analytics to transform the finance function. In some instances, finance is moving technology applications to the cloud; in other situations in-house employees are being freed-up to do more analysis, leaving low-value tasks to be outsourced. As a result, the skills of a data-driven audit team are likely the same as those required of a data-driven finance team, including the ability to ask questions that go beyond queries about a sample set of transactions. The questions around outlier data, for example, likely will be more challenging, but also could provide additional insight.

Today, audit and finance professionals have industry, accounting, and audit standards knowledge. Going forward, they likely will not only need to understand the business and industry, but also be able to glean insights from data. Other skills that might be needed may include experience with technologies and the application of analytics. Of course, critical thinking and professional judgment will continue to be key skillsets.

**Q:** In light of disruptive technologies, such as blockchain, how do you see the auditor's role changing?

**Lara Abrash:** The auditor's role will evolve and may become more relevant as disruptive technologies proliferate. Some organizations won't have a physical presence, while others might conduct all their transactions in the cloud or through a blockchain; that could raise concerns over identifying the transaction and validating it. Today there's more comfort in walking into a bank and validating transactions. But I could see a future where banking and other institutions exist in the cloud as part of blockchain. As a result, the need for independent assurance could increase. From a regulatory perspective, the capital markets will likely continue to seek assurance over the information being traded on. It's not likely that the assurance role itself will be automated, but it will require an auditor who provides judgment and validation to provide assurance that the technology underlying transactions is operating as intended.

**Q:** What might the audit of the future look like?

**Lara Abrash:** As technologies converge and organizations become comfortable with using more sophisticated systems, the audit of the future may include an evergreen audit opinion because real-time access to data might allow for real-time audits. In addition, it may be possible for auditors to provide real-time controls assurance, and that could provide the capital markets more comfort when making investment decisions.

Audits of financial statements may evolve as the organizations being audited evolve. For example, the audit of the future may expand beyond core financial statements, and take into consideration items such as key performance metrics and other non-GAAP measures. Because many advanced technologies can be tailored, audits of organization-specific performance measures may be requested to, for

instance, provide assurance on the validity of sales pipeline data to validate the aging of sales or a commitment's volume. Of course, new assurance models would have to be developed if such technology advances were put into practice.

Finally, it's important to note that innovations in the financial statement audit are not only for large organizations. Although the type of technologies used may differ based on an entity's size, generally they can be scaled up or down to meet an organization's needs.

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  - [Chief Audit Executives Cite Major Skills Gaps, Lack of Impact: Global Study](#)
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