



# The Digital Audit Series: Introducing the Digital Audit

# A Digital World

**Our society becomes more digitally savvy, mature, and reliant every day.** Digital experiences pervade everything we do and continually advance to provide higher quality and more efficient customer and user experiences. This in turn drives expectations for all businesses, particularly professional service businesses such as accounting firms.

Over a decade ago, accounting firms moved from paper-based audit systems to paperless. In most cases, this simply moved a 'document-centric' audit approach from paper to electronic but continued the same 'audit binder' approach that has been in place for decades. As a profession, we've changed our storage media and document formats, but we've not meaningfully changed processes, outputs, or client value. Fundamentally, the way the audit is conducted has remained essentially the same.

## Enter the Digital Audit

Accounting firm clients, as well as existing and prospective staff, expect accounting firms to be not just digitally savvy, but to be digitally progressive. They expect their accounting firm to be financial data experts, using new technologies to continually improve the client and the staff experience. Achieving this level of expertise and leadership with authenticity will require firms to pursue digital opportunities and embrace digital transformation.

Digital transformation is about responding to the changes that digital technologies have caused, and will continue to cause, in our society, our daily lives, and in business.

The profession can hold onto old approaches and technologies for only so long.

**“The longer a firm puts off its digital transformation, the more susceptible it becomes to competition from more innovative firms and even new market entrants.”**

Young accountants launching new practices will not be aspiring to simply adopt the same tools and service models that currently pervade the profession.

They will be looking to gain competitive advantage and attract clients by adopting new technologies which allow them to provide clients with better service and greater value.

In short, the digital audit will soon become a must-have for any firm expecting to remain competitive and relevant in the accounting profession.

# What Does Digital Mean?

Becoming digital means leveraging digital technologies, digital expertise, and digital infrastructure to achieve client-centered, data driven business outcomes.

The physical world is made up of physical matter – elements and atoms. The digital world is binary – ones and zeroes. It's driven by data, networks, and communities. It's about the utilization of data and digital information to unlock experiences and ways of working that previously were not even possible.

## What Makes Digital Possible?

*Progressive technologies such as:*

Artificial Intelligence	Machine Learning	Data Analytics
Robotics Process Automation	Cognitive Systems	Hybrid Intelligence
Augmented Analytics	Internet of Things	Mobile Social Communities
Data Security	Devices	Blockchain

*...and this list will continue to grow as new technologies emerge, evolve and mature.*



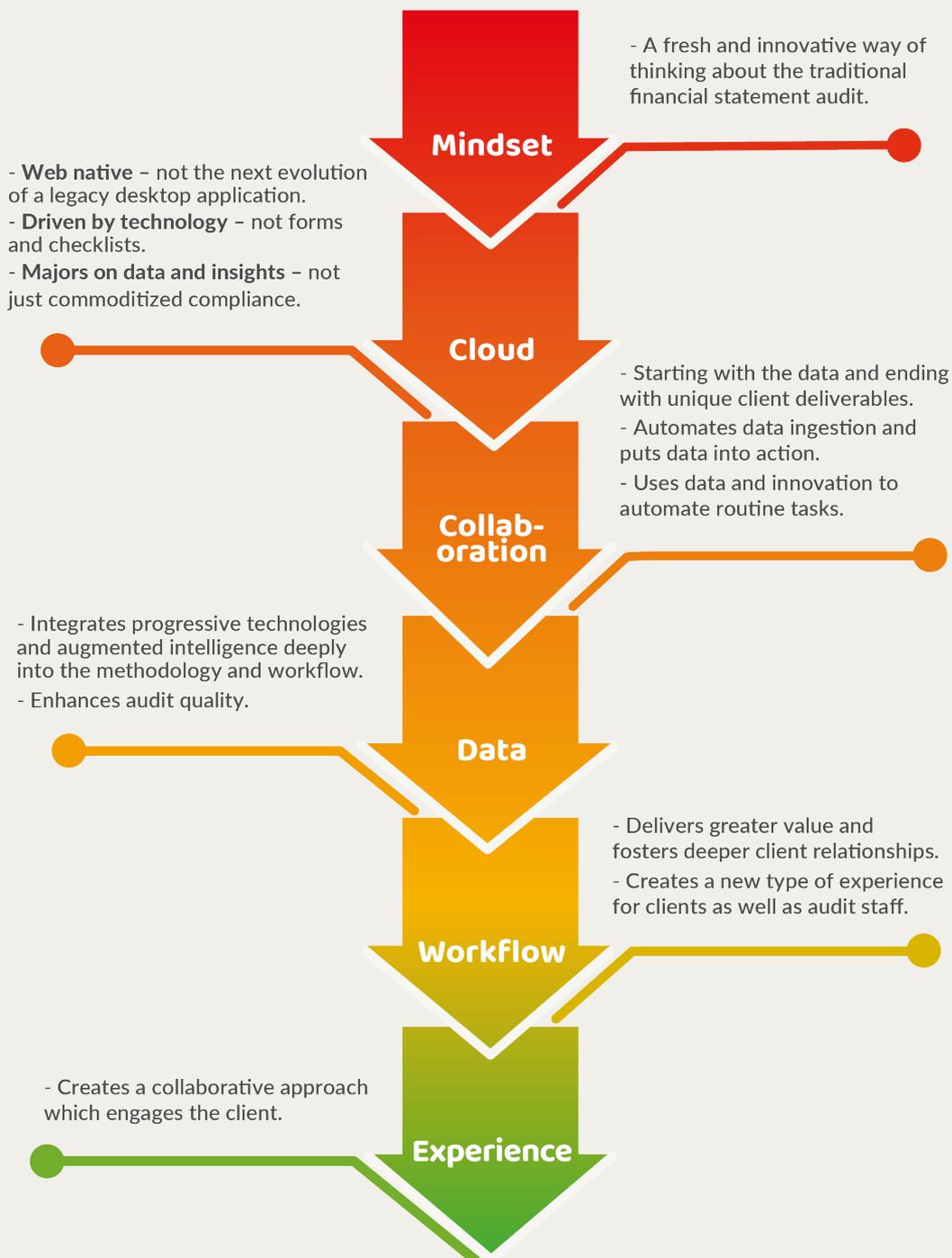
# What is a Digital Audit?

The digital audit is transformational. It's a new way of thinking about the value of the audit. It's a new way of conducting the audit.

It involves rethinking how and why your firm provides audit services, and it enables an entirely new service experience and level of value for your audit clients as well as your staff.

The accounting business is built on people, relationships, and services. The digital audit enables new digital experiences which enhances each of these elements.

## Anatomy of the Digital Audit



# A New Client Experience

The Digital Audit changes how you engage with audit clients, allowing you to place the client at the center of your audit process. This in turn provides you with critical information and data to better understand what its like to be a client of your firm.

Focusing on the client experience need not be done at the expense of independence or objectivity. Accounting firms operate in a highly competitive environment, and the overall customer experience that your firm provides in combination with the quality of your audits will define your growth trajectory, reputation, and brand.

## Understanding and Optimizing the Audit Customer Experience is Crucial in a Highly Competitive Market



By allowing you to interact with clients in real time within a secure platform, the digital audit makes it possible for you to re-imagine your customer experience without being constrained by legacy approaches and processes.

Having feedback about client interactions before, during and after your audit engagement allows your firm to both improve areas of need and capitalize on opportunities to bring value in entirely new ways. With rich data such as this, you are well-positioned to understand and continually improve the customer experience which your firm provides.

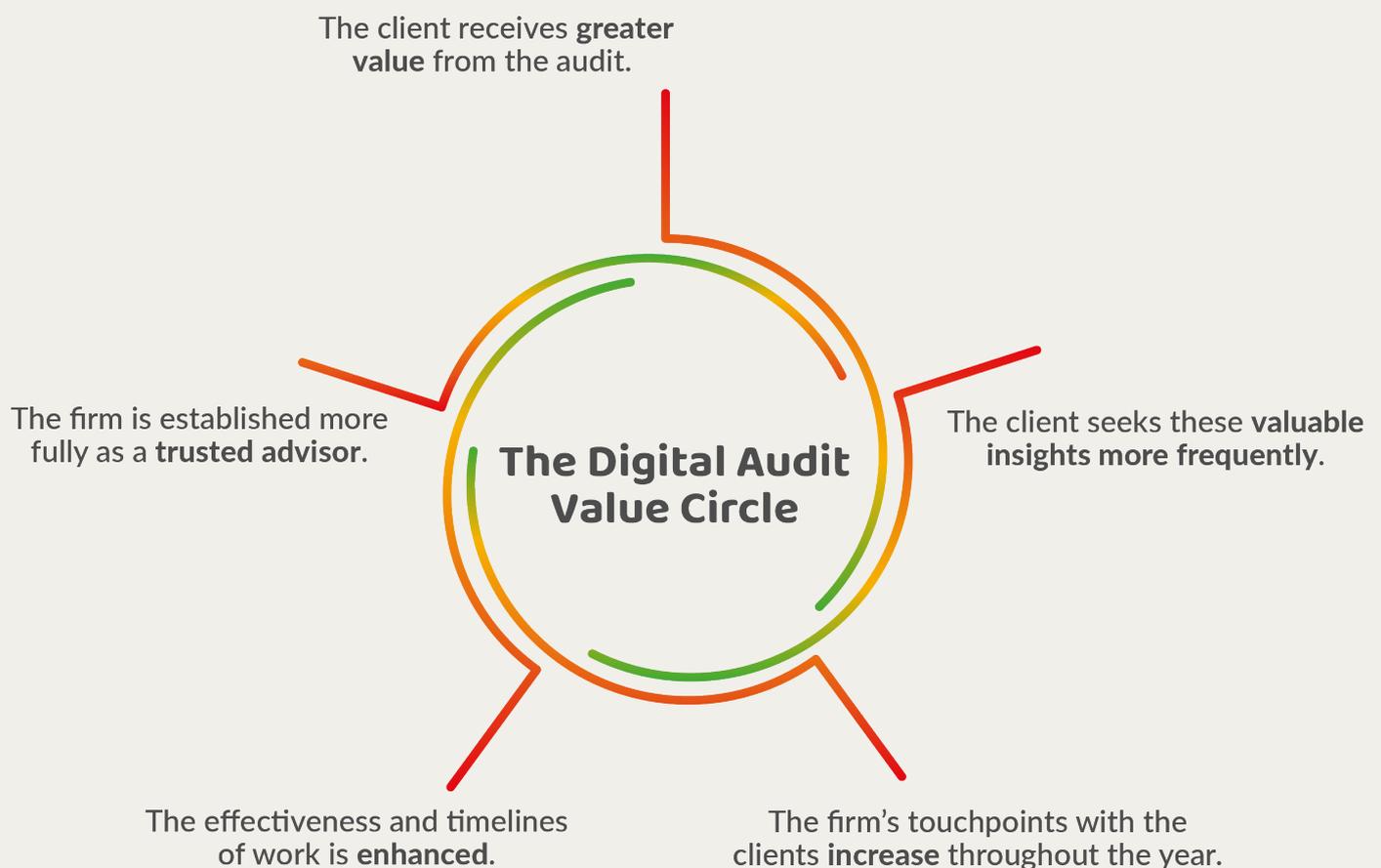
## Client Perspective

The digital audit is customer-centric and data-driven. It enables a range of client benefits, many of which also benefit your firm and your staff.

- An entirely new level of collaboration and remote working enablement
- Increased transparency leading to more effective project management
- Unparalleled data interrogation
- New insights and analysis, both macro and micro
- Greater security over confidential information

One of the more powerful aspects of the digital audit is that, if done correctly, it can change how your clients view the audit. Rather than viewing the audit as a once-a-year compliance grind, clients begin to see the audit as an ongoing source of value for their business.

## Circle of Value



# Enhancing Audit Quality

Well-designed digital platforms foster new levels of audit quality by fusing progressive technologies such as data analytics and artificial intelligence directly into the audit engagement workflow.

This way, the right technologies are delivered at the right point in the engagement and auditor learning curves are reduced. Auditors are better prepared to apply these technologies in ways that enhance the quality of their work.

This can be applied in numerous areas throughout the audit:

- **Risk assessment.** By making the exchange of information between the client and the audit team seamless, less of the auditor's time and effort is spent simply obtaining the client's initial explanations. The auditor works directly with the data – drilling down to efficiently identify unusual items and craft well-informed questions. This frees auditors to spend their time thinking critically and challenging client assertions – an essential characteristic of any high-quality audit.
- **Designing responses to risk.** Higher quality and more effective risk assessment techniques will in turn enable more focused and effective responses, allowing auditors to key in on specifically identified risks rather than simply completing standardized workprograms.
- **Substantive testing procedures.** Traditional testing can be replaced with superior techniques or automated. This includes highly efficient whole-population testing, as well as analysis of populations allowing auditors to identify and focus on unusual or higher risk items.



## Three Digital Audit Quality Examples

Additional attributes of digital audit platforms which enhance quality and save time:

1. Workpapers are auto-created, savings hours of manual time and elevating the quality of the documentation.
2. Interdependencies are mapped so that teams decide once, and all related areas are appropriately updated.
3. Safeguards are put in place to ensure compliance with fixed requirements of standards.

## Empowering the Auditor

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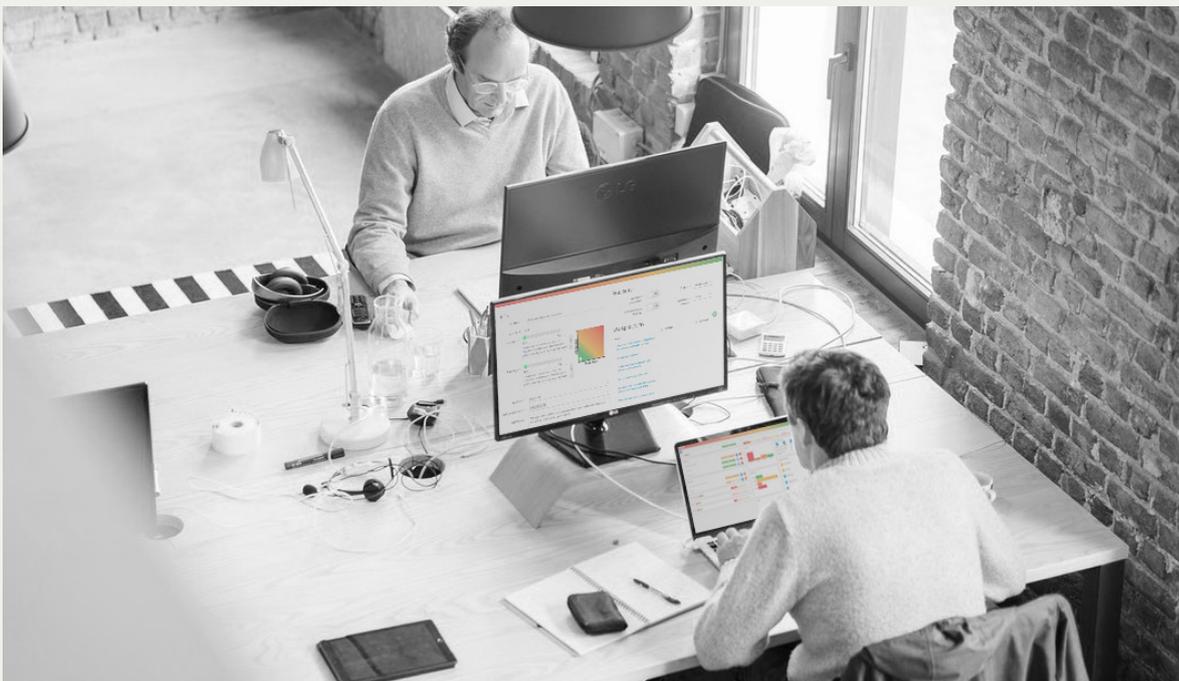
**In addition to being empowered, digital auditors are energized by the work they do.**

**“By being data-driven and genuinely enabling the use of new technologies, the tools and solutions that make up a digital audit generate a new level of excitement from audit staff.”**

Automation technologies are applied to instantly create standardised workpapers, and augmented intelligence is used to perform initial analyses of data.

With the routine, administrative, and mechanical aspects of the audit becoming automated, staff no longer need to spend their early careers performing tedious manual tasks. Instead, they are empowered to think critically and move more quickly into higher-value activities.

Staff are challenged to think differently and are finally able to break free from a same as last year checklist mentality to the audit, changing the perception of what it means to be an audit professional.



# Transformation Steps

Change management in a business is constant. No business can stand still and remain competitive and successful. Accounting firms continually evolve by responding to new challenges and capitalizing on new opportunities – this is nothing new. What is unique though about a digital transformation is the degree of interconnectedness necessary to make a digital business (a digital firm) successful.

Digital transformation is fundamentally about responding to the changes that digital technologies have caused, and will continue to cause, in our society, our daily lives, and in business. Digital transformation for an accounting firm is not just about technology. It involves tangible transformation of **people, platform, and process** to fully leverage the opportunities brought on by the digital audit.



A successful digital transformation has long-lasting benefits, positioning firms to develop core competencies necessary to succeed in rapidly changing environments – whether due to technological innovation, changing customer demands, staffing challenges, regulatory changes, or new growth opportunities.

## Risks of Overlooking Any of the “Three P’s”

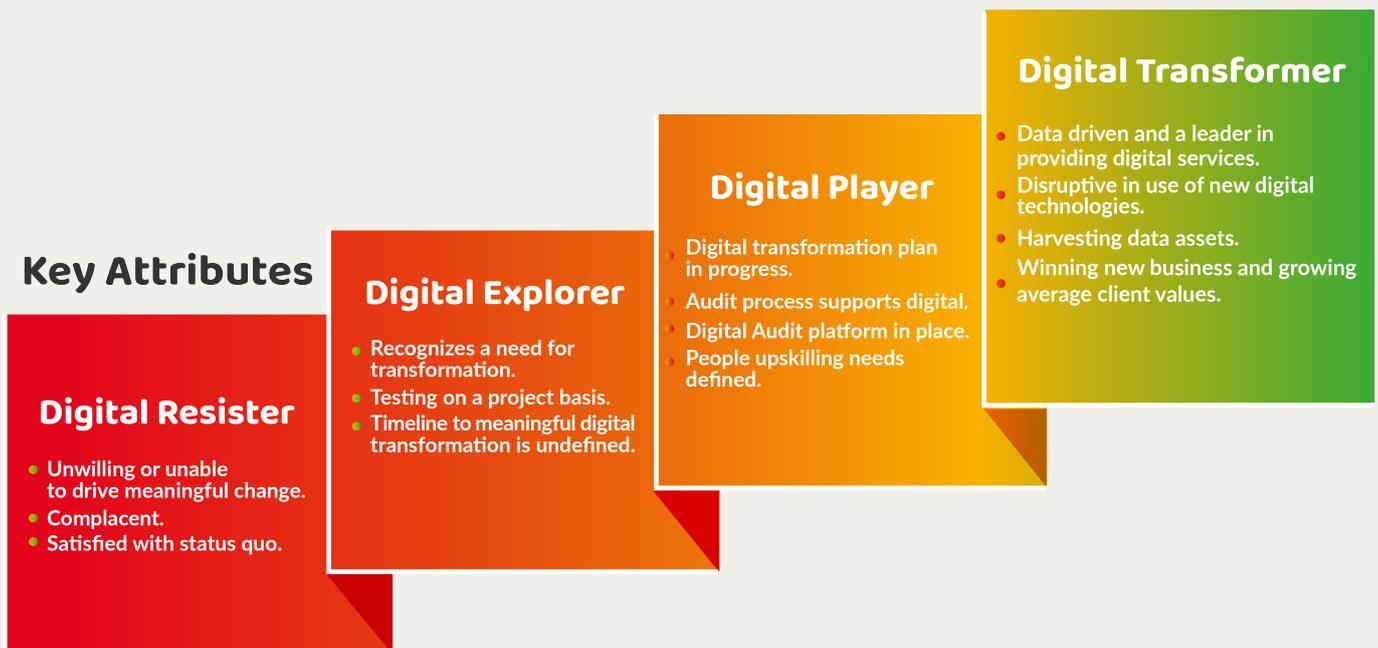
Failing to fully plan for each of the “Three P’s” will cause the firm to fall short of its transformation objectives.

	 People	 Process	 Platform	 Result
People	Yes	Yes	No	Unscalable
Process	Yes	No	Yes	Frustration
Platform	No	Yes	Yes	Rejection

# A Phased Approach

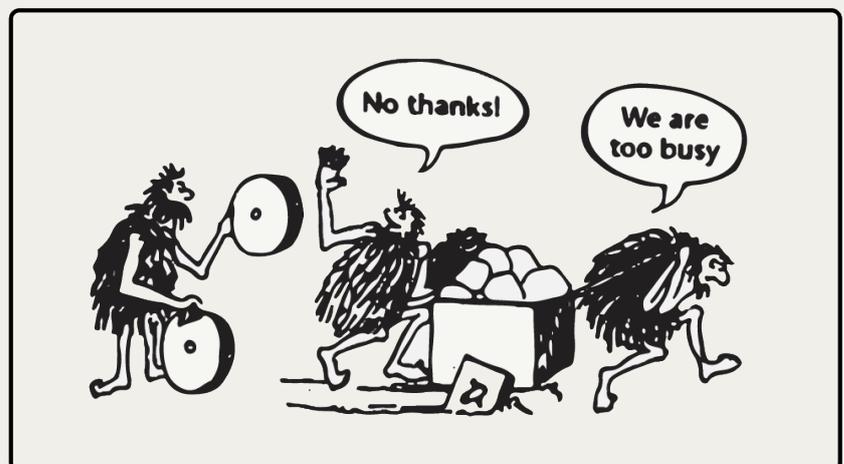
Most accounting firms are not ready for profound digital transformation across the entire business. Gaps in the digitization of data and between systems and processes are too much to overcome in a single stroke, and decades of commoditization and compliance mindsets will take time to change.

Firms will typically progress through these phases of digital adoption:



A digital transformation must be done in a strategic and prioritized way, with present and future shifts in mind. The customer and the customer experience are key factors, but components such as staff satisfaction and owner value/business outcomes must also be factored in. And the human element is key to all levels of digital transformation, from goal setting to key components such as collaboration, systems, skills, culture, empowerment.

This transformation will not happen overnight and will not be achieved as a single stand-alone project. It will require a series of incremental steps. What's critical, however, is that firms begin to **find practical, tangibles ways to get started** – and avoid being these guys.



# Key Considerations



## People

- What skillsets do we need to define our digital future and design our transformation plan?
- What skillsets do we need to execute on our transformation plan?
- Are we hiring the right people with the right skillsets?
- Do job responsibilities and job descriptions need to change?
- Do we have the right upskilling programs in place?



## Process

- What does a truly digital future process look like?
- Is firm leadership aligned around a common vision?
- What are our key processes now; where should we start first?
- Which of these can be -
  - Eliminated
  - Simplified
  - Standardised
  - Automated



## Platform

- Is our audit platform designed with digital audit in mind?
- Does it deliver the array of technologies we need?
  - Client collaboration
  - Risk assessment
  - Data ingestion
  - Data analytics
  - Value-add insights
  - Client reporting
- Are the technologies embedded in a methodology vs. one-off single use applications?
- Does the platform provide the modularity necessary for phased adoption?

Learn More About the Digital Audit

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