

# Audit & Assurance in the Future



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## Foreword

The world is going through a period of unprecedented change. The way we do business, the way we learn, the way we live, have all been transformed by the emergence of new and disruptive business models and developments in technology.


Consequently, the accounting and auditing profession needs to adapt to the changing world and evolving business landscape and embrace the new opportunities and challenges that might unfold. As the world becomes more interconnected and new [drivers of change](#) emerge to shape the business landscape, global accounting bodies have the opportunity to collaborate and tackle core issues affecting the profession together.

To stimulate the debate around the future of audit and assurance specifically, Chartered Professional Accountants of Canada (CPA Canada) and the Institute of Chartered Accountants of Scotland (ICAS) convened an audit symposium in Toronto in November 2017 to bring together senior representatives from business, the profession, regulators, standard-setters and academia to discuss and explore possible solutions to some of the challenges that lie ahead.

The day culminated in a call to action for all those involved in the areas of audit and assurance to:

- Innovate
- Collaborate
- Educate
- Adapt
- Experiment

Joy Thomas and Bruce Cartwright, respective CEOs of CPA Canada and ICAS, reiterate this call to action and look forward to continuing the discussion in Edinburgh on November 2, 2018.

The image shows two handwritten signatures in black ink. The signature on the left is a stylized, cursive signature that appears to be 'Joy Thomas'. The signature on the right is also cursive and appears to be 'Bruce Cartwright'.

## Audit & Assurance in the Future

*Every success story is a tale of constant adaption, revision and change. — Richard Branson*

In a world where disruptive technologies are changing the way we live and work, where new business models are transforming industries, the accounting profession is in a unique position to lead change—but only if we embrace it.

In November 2017, Chartered Professional Accountants of Canada (CPA Canada) and the Institute of Chartered Accountants of Scotland (ICAS), started a discussion about what audit and assurance could look like in the future. Led by three panels, 75 senior professionals (primarily auditors, with investors, audit committee members and educators) participated in this symposium. Panelists included representatives from CPA Canada, ICAS, the UK Financial Reporting Council (FRC), the International Auditing and Assurance Standards Board (IAASB) and the U.S. Centre for Audit Quality. The following reflects the views of both the panelists and the participants, as well as the future direction of CPA Canada and ICAS, as it relates to the audit and assurance profession.

The symposium highlighted five key calls to action necessary to evolve and advance the value and relevance of audit and assurance:

- **Innovate.** The dynamic business environment, developments in technology and artificial intelligence (AI) represent an opportunity for the profession to innovate and identify the services and activities that best meet their clients' and investors' needs. We need to grasp this opportunity.
- **Collaborate.** There is a need for all parties — professional bodies, standard-setters, regulators and the firms — to collaborate and share resources, money, time and expertise to support and create agile, efficient, technology-enabled audit and assurance services.
- **Educate.** The professional bodies' education programs need to ensure that people are being trained in the right skills and with the right mindset and reflect that lifelong learning and adaptability are now the norm.
- **Adapt.** There will be a greater need for multi-disciplinary engagement teams, for auditors to enhance their knowledge base beyond audit and accounting and to acquire new skills related to technology. Being able to adapt in this rapidly changing world is critical to success. We can't just embrace change, we need to be change-makers; we need to remain nimble to near-term changes while taking a long-term outlook.

- **Experiment.** We should follow the example of other experimental initiatives, such as experimenting with how to value natural capital, human capital and social capital in addition to the more familiar financial capital, to develop a framework that results in the generation of decision-useful, credible information. Only by doing so, can audit and assurance continue to play a pivotal role in society.

## The Symposium

In order to focus the discussion and address specifically how what is audited is changing, how technology is impacting what and how we audit and the skillsets auditors will need going forward, CPA Canada and ICAS selected three topics to start the conversation:

- Key Performance Indicators (KPIs) and misconceptions over auditor responsibilities
- The impact of technology on auditing, with a focus on audit data analytics
- The skills and competencies of the future auditor

Here is a summary of what we learned:

### KPIs and misconceptions over auditor responsibilities

In today's fast-paced, complex and rapidly changing world, companies face increasing pressure to provide a continuous flow of high-quality corporate reporting on a wide spectrum of issues. While, in the past, the only window into the results of a company may have been the audited annual financial statements, now information is being shared in many ways. From KPIs disclosed outside the financial statements in management commentary (e.g., Management's Discussion & Analysis (MD&A), Strategic Report in the UK, etc.) to press releases and tweets about business decisions.

Companies are also using a broader range of non-traditional metrics, such as customer base, new customers/subscribers, customer retention rate<sup>1</sup> and Environmental, Social and Governance (ESG) measures to explain their performance. This is especially true in emerging industries such as Software as a Service, fintech and ecommerce.

What does this mean for investors? They are increasingly exposed to different sources of unaudited information, which they are using to make their investing decisions, and they are rightly concerned about the lack of transparency,

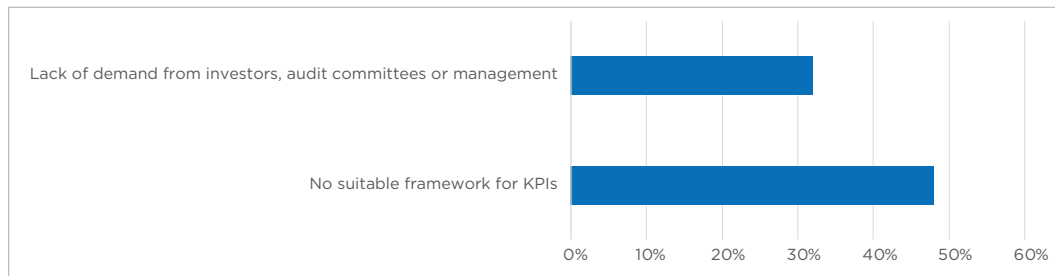
<sup>1</sup> [www.cfainstitute.org/Survey/KPIs\\_survey.pdf](http://www.cfainstitute.org/Survey/KPIs_survey.pdf)

comparability within industries and consistency in the reporting of these measures. Perhaps more importantly, they are not clear on what is assured or even what assurance means or should mean in this new era.

### Earning investor confidence

While investors recognize the importance of the credibility of company information, the symposium participants highlighted that there is currently a lack of demand from this stakeholder group for assurance over KPIs (including non-GAAP measures). This highlights why 63% of symposium participants noted they are currently doing no additional procedures over KPIs (i.e., over and above those which are required by the auditing standards). Additionally, there was a similar lack of demand from audit committees.

In terms of developing an assurance model for KPIs, symposium participants believed that the most significant challenges are:



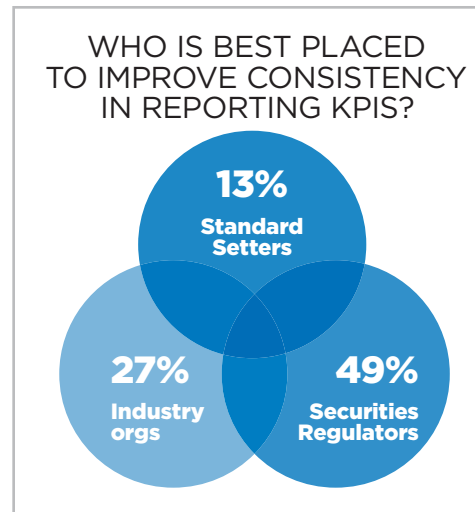
This lack of demand may stem from misconceptions over auditor's responsibilities. Despite investor outreach<sup>2</sup> confirming that the audited annual financial statements remain the foundation of any investor analysis, faced with the volumes of information now available, investors increasingly turn to non-traditional metrics in investment decision making. The belief by key stakeholders that all information disclosed by entities is equally reliable represents an expectation gap. Two issues exist:

1. A misconception from users that information outside of the financial statements is subject to some form of assurance
2. Even when it is understood what is audited, there is a lack of understanding of what an audit entails

So, as a profession, how do we address these issues? Participants believed that the greatest opportunity to enhance the assurance over KPIs is to provide assurance on the consistency, comparability and disclosure of specific KPIs (48%).

<sup>2</sup> [www.cpbab-ccrc.ca/Documents/Topics/Audit%20Quality%20Symposium/2017%20AQS%20Key%20Messages%20EN.pdf](http://www.cpbab-ccrc.ca/Documents/Topics/Audit%20Quality%20Symposium/2017%20AQS%20Key%20Messages%20EN.pdf)

This can only happen if we experiment and innovate beyond the traditional financial statements to include broader corporate reporting. What is considered decision useful information is different today than when the current reporting models were created. As a profession we need to embrace these changes as an opportunity and find ways to overcome the challenges that arise. We also have to be open to adopting new technologies that could make assurance on a broader range of KPIs possible.



On the ground, there are opportunities for:

- **Companies** to reflect on their use of KPIs, and determine whether each measure disclosed provides relevant and useful information to investors. This includes ensuring that internal controls over financial reporting and disclosure controls and procedures appropriately identify and address the risks associated with disclosures of KPIs.
- **Investors** to engage more actively and effectively with companies on their KPI information needs.
- **Securities regulators** to evaluate the suitability of existing continuous disclosure requirements addressing non-GAAP financial measures and consider what additional guidance is needed to support enhanced disclosures in this area.
- **Audit Committees** to play a more active role in the oversight of the disclosure and presentation of KPIs.
- **Auditors** to provide additional support to audit committees to assist them in meeting their responsibilities in areas beyond the financial statements.

We are already seeing greater efforts being made by standard setters and regulators to seek to improve the reporting of KPIs, for example:

- The Canadian Accounting Standards Board (AcSB) released a [\*Draft Framework for Reporting Performance Measures\*](#) in June 2018. The Framework seeks to enhance the usefulness and transparency of performance measures for users when management chooses to report them outside of the financial statements.

- The Financial Reporting Lab of the UK Financial Reporting Council (FRC) is undertaking a project on reporting of performance metrics. In June 2018, Phase 1 of the project resulted in a report, [\*Performance metrics – an investor perspective\*](#), which sets out investors' views on the reporting of performance metrics. It includes a framework and set of questions for companies and their boards to consider when deciding on how they report their performance.

ICAS issued a [guide for audit committees and boards](#) on obtaining assurance and providing transparency in KPI reporting. CPA Canada also issued guidance for [management](#) and [audit committees](#) to assist with reporting and oversight of reported KPIs.

Further, CPA Canada is starting a [research project](#) to explore how auditors can provide assurance on the information outside of the financial statements that is of use to investors.

### **The impact of technology on the audit, with a focus on audit data analytics**

There is no shortage of articles on how new technologies are impacting the audit. Thanks to learning algorithms and data analytics, auditors may be able to analyze 100 percent of a company's transactions. The use of artificial intelligence will automate time-consuming repetitive or transactional tasks freeing up human workers to take on more judgement oriented, value-adding work. The big firms see this and are investing significantly in new technology. It has been reported that the accounting profession spends between [US\\$3 billion and US\\$5 billion](#) on technology annually. Small and mid-sized auditors will also need to invest in technology if they haven't already. Generic data analysis and AI enabled tools are increasingly being developed by innovative technology companies.

More than two-thirds (68%) of symposium participants are already using data analytics to some degree to assist with risk assessment, in substantive analytical procedures and/or in tests of details. Eighty-two percent of participants expect to be using data analytics in all areas of the audit in the future.

### **Data analytics improve audit quality**

Symposium participants identified the largest benefit from using audit data analytics (ADAs) as a higher quality audit over audit efficiency and increased value to management and the audit committee. More specifically, ADAs are able to:

- Identify unusual or unexpected characteristics of transactions (52%).
- Provide greater insight into risk at the entity (26%).
- Test a greater portion of an entity's transactions (19%).



That said, symposium participants also cited several barriers to using ADAs extensively.

### Data capture and Transformation

While it may seem like an obvious positive shift to use ADAs on full populations of data, this is more difficult than it sounds. Challenges include, for example:

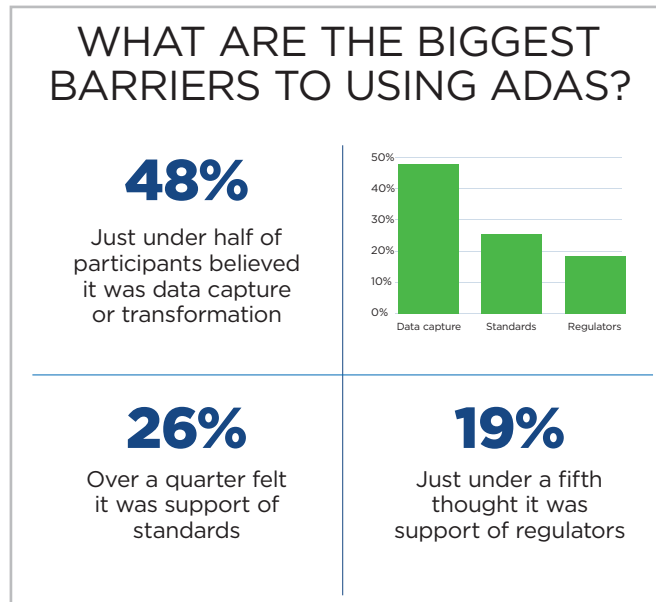
- **Getting full sets of data from clients.**

There are concerns over the privacy and the security of the data. While it is possible for auditors to obtain all of the transactions from the general ledger for journal entry testing, obtaining data from all sub-ledgers to truly have all transactions proves to be much more difficult. This becomes even harder when clients use customized Enterprise Resource Planning (ERP) systems or multiple ERP systems.

- **Determining the integrity of the data obtained.** What controls does the company have in place to help enable the auditor to be comfortable with the data? How much work is required over the controls and/or the data to determine its integrity? What procedures are required over the “information produced by the entity”?
- **Organizing and cleansing of the data,** so it is in a format recognized within a specific analytic tool.

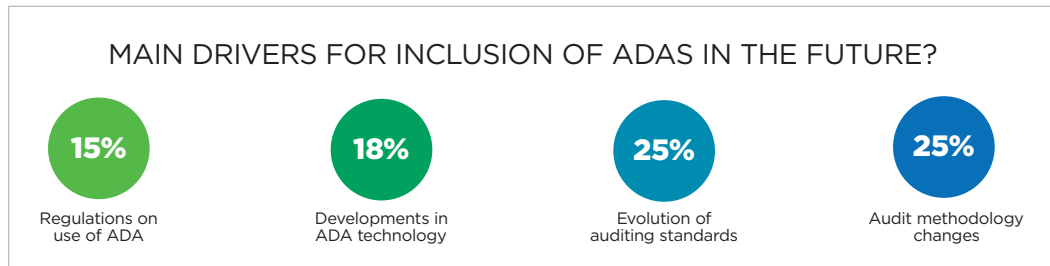
### Support of Standards and Regulators

Innovation in a highly regulated environment is difficult. Participants recognized that all interested parties, including the audit firms and regulators, need to work together to help advance audit. Standard-setters and regulators around the world are assessing the impact of technology on standards and regulation. For example, the IAASB has a data analytics working group exploring how they can respond to developments in data analytics in new or revised standards or guidance.



CPA Canada provides tools and resources to promote awareness, understanding and effective implementation of audit data analytics, see [www.cpacanada.ca/DataAnalyticsInAudit](http://www.cpacanada.ca/DataAnalyticsInAudit)

Symposium participants noted that the greatest drivers for increasing the opportunity for ADAs to shift the audit of today into the audit of the future as:



### Moving Forward

The profession is at a critical cross-roads. We can choose to embrace the complexities of today's business environment and use data analytics to help us in our role, or we can lag behind our clients' adoption of new technologies only to have to play catch up later. Yes, there are challenges to applying audit data analytics tools, including access to and the integrity of data, but there are strategies to address these challenges. For example, for entities with more complex data, multiple ERP systems or large amounts of volume, IT specialists may be required (both from the entity under audit as well as part of the audit team). Discussing what data is needed and in what format earlier in the audit process with the right people is critical. Experiment with the data, educate all parties on the purpose of the data and procedures being performed over the data and you will see the benefits. And the benefits are significant. With the increase in data and ever-advancing technologies, data analytics are the only way forward.

### The skills and competencies of the future auditor

The nature of the audit is likely to change significantly as the use of ADA evolves. In order to adapt, auditors will need to acquire new skills and adopt a mindset that encourages them to:

- Ask the right questions of the right people.
- Become proficient in the ability to extract, transform and load data.
- Apply the right techniques in the right situations.
- Interpret the results and share them in an understandable format with relevant stakeholders.

This is in line with a [research study](#) done by ICAS and the UK FRC that identified three main areas that need to be developed to equip the audit team of the future to undertake an audit that is more holistic and useful for shareholders and society. These are categorized as:

- Advanced business acumen skills
- Technology and data interrogation skills
- Soft skills

Symposium participants agreed that these were the key areas, with soft skills identified as the most important. Additionally, risk identification and professional skepticism with an understanding of cognitive biases will continue to be important.

### Change is required

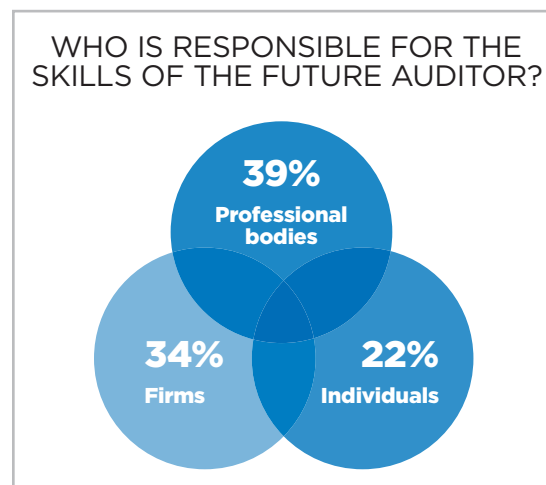
Almost everyone at the symposium (98% of participants) believe a change in the auditor training model will be required. They also acknowledged that will be easier said than done. How do you create an education system nimble enough to keep up with the pace of technological change and employer needs? One way forward is to focus on how the concept of adaptability can be introduced into the training syllabus.

It is not just education that has to change. The firms' recruitment models will also have to evolve. Already, some of the larger firms have established **multi-disciplinary audit teams** made up of several individuals from a variety of different backgrounds. The notion of the traditional audit engagement team being comprised only of qualified auditors, who have a background and qualification in accounting and audit, is changing.

What about those auditors in practice today who were not trained to use data analytics, don't know the benefits of machine learning and are hesitant or feel unable to make the shift? Firms can **encourage self-training on new tools**. There may also be a need to shift to a **lifelong learning approach**, moving away from the current model where the focus on training and learning concentrates on the early stages of an individual's career.

Some of these changes are already happening in practice. The bigger firms are investing in the development of new technology, skills and processes in response to the greater use of automation and AI by their clients. These skill requirements are just as likely to apply to other engagements and roles performed by the professional accountant. In the short term, it is likely that tailored and specific applications of technology will be created but, if we look into the future, the procedures will become standardized and commonplace. If the firms collaborate now, they could all move faster and have a greater impact on standards and regulation.

One group cannot accomplish this alone. While professional accountants must be prepared to adapt and embrace change, professional bodies and firms need to collaborate to determine the best way to support their members.



## REIMAGINING THE PROFESSION

Be part of the movement that's reimagining the future of our profession by joining a conversation to explore the drivers of change and how they will shape the future of the accounting profession.

CPA Canada is leading a multi-stakeholder consultation to determine the future of the profession—**CPA Canada Foresight: Reimagining the Profession**. The initiative builds on the **Drivers of Change**—the product of a multi-year process of roundtable events, outreach and research on five disruptors that are creating challenges and opportunities for CPAs and their organizations. CPA Canada Foresight will resume the conversation and look at the profession's most relevant issues.

As part of its assessment of the future of the profession, ICAS is currently seeking views on a new corporate reporting model in its discussion paper **Restoring Trust and Relevance for the Future of Corporate Reporting**.

### Continuing the Conversation

On November 2, 2018 CPA Canada and ICAS will continue the conversation in Edinburgh, Scotland. We will be discussing the scope and value of assurance on broader corporate reporting, and the impact of technology on the audit.



**CPA**

CHARTERED  
PROFESSIONAL  
ACCOUNTANTS  
CANADA

277 WELLINGTON STREET WEST  
TORONTO, ON CANADA M5V 3H2  
T. 416 977.3222 F. 416 977.8585  
[WWW.CPACANADA.CA](http://WWW.CPACANADA.CA)



CA HOUSE 21 HAYMARKET YARDS  
EDINBURGH, SCOTLAND EH12 5BH  
T. +44 (0) 131 347 0100 F. +44 (0) 131 347 0105  
[WWW.ICAS.COM](http://WWW.ICAS.COM)