

Foresight: The CPA Podcast

Season 5 Episode 1: The rise of the continuous audit

Neil Morrison: Welcome to season five of Foresight: The CPA podcast. I'm Neil Morrison.

This season, we are looking at emerging and developing issues, the forces, the factors, the fundamental shifts that will impact the workplace, and as a result, will drive change in the accounting profession over the next five to 10 years. Some of this pressure to evolve is coming from the usual sources, technological change, automation, and AI, and we're going to dive into all of that, but some of it is coming from within the accounting profession itself. For example, there's a drive in the US to have accounting recognized as part of the group of subjects known as STEM: science, technology, engineering, and mathematics. That's something we're going to explore this season.

Of course, CPAs aren't insulated from the broader shifts in society. You don't need to be glued to Twitter to recognize we are becoming increasingly polarized. What happens when those divisions enter the workplace? What skills will CPAs need to manage them? Liane Davey, the author of *The Good Fight*, will be here to help answer those questions. Another social current that is propelling change in the profession is more of a wave, really, the rise of Generation Z, the cohort born in the late nineties, and after, are now entering the workforce and they've got their own ideas about what they want out of being a CPA. All of this is coming up over the next six episodes, and we're going to start with the rise of the continuous audit.

Kevin Kolliniatis: My name's Kevin Kolliniatis and I'm the audit partner in charge of audit technology within the KPMG Canadian firm.

Neil Morrison: Kevin is the driving force behind the shift towards continuous audit at KPMG Canada. The continuous audit represents a dramatic break from both the rhythms and the methods of the traditional audit. As Kevin puts it, "This is the dawn of something brand new in auditing."

Kevin Kolliniatis: This is the new age auditor, if you want to call it that, the new age CPA.

Neil Morrison: According to Kevin, the demand for this new age CPA, this new age auditor, is only going to grow, not just because the technology makes it possible, but because businesses are going to expect it.



Kevin Kolliniatis: The market is going to demand it. It's the evolution, just thinking about the speed at how everything's going, I think it's the only way to go.

Neil Morrison: I want to get into what you need to have in place to be able to execute on a continuous audit. But before we go any further, we should probably take a second to just define, what is a continuous audit? What are we talking about?

Kevin Kolliniatis: All right, so continuous audit. If you look at the definition of it, there's many different components to it, but the concept being there's continuous information flowing and continuous reviewing or identification of triggers, outliers, exceptions that can be dealt with in a timely fashion rather than the traditional point in time look-back type procedures that audit typically does.

Neil Morrison: It's ongoing. There's no break, it's not periodic, it's not shortening the period between the audits. It's an ongoing flow of information?

Kevin Kolliniatis: Correct. Bang on. If you get to the root definition of it, that's exactly what it is, constant. You basically have a pipeline that feeds information from your core client system to your system where you're applying, let's say, continuous analytics on it, that the data just constantly flows and you're constantly monitoring it, flagging it, et cetera. Absolutely.

Neil Morrison: What is the advantage of this over a traditional audit?

Kevin Kolliniatis: Yeah, so it's very beneficial in a few ways. If we look at historical audits, historical, audits that we do today and we've been doing for a long period of time, we're always going in at points in time to execute the audit. You may be going in on a quarterly basis, you may be going in semi-annually where you do an interim period of work, you do a year-end period of work. But what you're doing is you're taking information at that point in time, you're processing the information and you're identifying potential exceptions at that point in time, and you're trying to tackle those problems when other things may have happened after the fact. You're not catching it when something actually occurs.

Where continuous auditing comes in and you have information flowing between systems and you're looking at transactional data on a continuous basis, if something gets identified, that item, you can follow up with management and say, "Hey, we noticed that this transaction went through. This transaction doesn't look normal. It looks like it's out of your tolerance ranges. Maybe you have a control issue because your tolerance limits for your matching of your transactions, your purchase order to the invoice came in, looks like it's above that threshold you set for \$2,000 as an example. This is \$10,000. You might want to look at that."



That's really powerful because your client can react right away and they can go and investigate and see, "Did someone erroneously by mistake or worse, was it fraudulently tweaked, to allow for these types of transactions to go through, therefore, impacting my control environment?" That's in the control context, but even on a transaction perspective, looking at just your regular transactions going through, "Well, this revenue transaction doesn't fit the mold." Maybe it's a duplicate. Maybe your account's a receivable clerk or your sales clerk that was entering the invoices hit a duplicate so it gets popped out, it gets flagged right away.

The client's customer isn't being billed twice where then they may upset their customer, but from an audit perspective, it's double counting of revenue. We catch it. It's very beneficial from a timeliness perspective, and the nice thing about continuous audit in my mind is, it is beneficial to the client, one, to make sure their books and records are appropriate, et cetera, but it can also have a downstream impact to their business because the way they interact with their customers. They go back and they could correct that duplicate in that example where it never goes to the customer. There's a huge advantage to moving towards continuous audit, but there's a lot of process and tech around it to enable it.

Neil Morrison: Yeah, we're almost there. We're going to get to that in one second, but first, so that's the advantage for businesses. I guess, just listening to you, another advantage that comes to mind is the traditional audit is really just a sample. It's a decent sample, but you're sampling, you're not doing the entirety of the transactions. It sounds like, if I'm understanding you correctly, the continuous audit is doing everything. It's not sampling, it's covering every transaction that occurs.

Kevin Kolliniatis: Yeah, so you're right, Neil. It's moving away from traditional audit techniques where sampling is one of those techniques. We have other techniques we use around substantive analytic procedures and other types of audit procedures. But yes, you're absolutely right. Moving away from a traditional where you sample 250 items because it's a representative sample, you're now testing a hundred percent of the transactions and you're identifying items to do detailed work on, but better yet, you're able to explain why these items got flagged. It's a very different conversation with a client rather than, "Here's my list of 250 transactions, please provide me support." Very different.

Neil Morrison: When did you first begin thinking about or getting involved in the idea of continuous audit? I know this is something that you've been connected to for a while. When did that begin?

Kevin Kolliniatis: If I look back, this has got to be, oh, about 10 years ago I had written a paper or a presentation with the technologies that we had at that time and where the future potentially



could go. The concept of continuous auditing has been around for a very long time, but we didn't have the technologies to get there.

Neil Morrison: Right. Was that the real obstacle at that point, just that the tech wasn't up to speed?

Kevin Kolliniatis: It wasn't just the tech, the tech's part of it. It's the process on how things work, and it's also the people being both us, but also our clients, as well. You put those pieces together, but the tech is one of the leading elements to it, because the tech has come a long way even in the last 10 years.

Neil Morrison: Right. Once the tech becomes available, then you start having to think about these other things and how to execute and how to put in place. What have you discovered about what needs to be in place to execute on a continuous audit?

Kevin Kolliniatis: Early on, one of the things that we knew was we wanted to get this to the state of nirvana, which is what we call continuous audit. There's a lot of steps before you get to continuous audit, and quite frankly, we're not there yet today. There's different reasons for that, and we can chat to that in a bit. But I had just previously mentioned there's three things I look at. Even before the tech, we stepped back and we said, "Okay, tech's one part of it. The tech's got to come along, and there's various elements to that tech to get you there. But we also recognize that our people needed to change and need to understand continuous audit, as an example, and they also needed to have a tech flare to them."

We worked in partnership, and this goes back to 2017, 2018, with Simon Fraser University. We built a program where folks from our firm go and study, they get a grad certificate in analytics and can go on to a master's in analytics and cognitive analytics. That was a really important stepping stone because you got to up-skill your workforce to understand. Also at the time, over the last number of years, you've got a number of individuals coming in that in the university programs they were taking have more analytic type skill sets coming in. They were looking for that as well. The point being we needed to get the workforce to a certain level of understanding in order to apply it. That's the first part of the people side. The second part of it is we also needed a layer in there of purely different skill sets. We also needed a layer of people who understood data science, computer science, data, database-type folks.

We early on put a layer in of those individuals because they help the engine work at the end of the day. That's an important part. The third part to the people side of the house is actually our clients. Going back to the COVID era, a lot of our clients were sitting on on-premises type ERP systems, accounting packages, et cetera. What we saw over the pandemic, because, they had to pivot just



like we had to pivot, but our environments were set up to work virtually. A lot of folks got stuck, and some of our enterprise clients struggled to do that pivot because their financial systems were on-prem.

Trying to make that work. We've seen a big pivot to the cloud, and that's a natural to start to allow you to get to the continuous auditing model because that tech stack allows you to talk more frequently to other cloud systems by APIs. But that's getting into the tech layer of it all. But from a people perspective on the client side, they have to come along as well because you're now introducing continuous questioning.

Neil Morrison: Well, there's two other elements of people side that came to mind when you were talking. One is the client side. You now need to train your client to expect regular emails or meetings pointing out errors, and they need to have in place the ability to respond to those errors on a quick basis. Then there also seems to me on the people side, for the CPAs that you're hiring, they used to have, let's say, an audit crunch period, but is it now just a 12-month-a-year audit crunch period? They're just constantly in that audit frenzy?

Kevin Kolliniatis: They're both excellent comments. On the client side of the house, I fully agree. The client needs to be able to staff up manage on a continuous basis. I'll talk to the benefits of that in a sec, but from our side of the house, yes, you get into that continuous audit mode where you're constantly resourcing. You get away from the peaks of December year-ends, you're driving hard through January and February with your public companies. Then you have a bit of a lull, let's say in the back half of March, beginning of April, but then all your private companies hit you hard and you got these huge spikes again. What continuous auditing can do is it allows you to smooth the curve at the end of the day, where you distribute that work, hopefully, over the whole year, which is a good thing for both sides of the house, the way I see it.

Yes, the client's got to shift and you're reacting more frequently. You have more questions, more interactions. But that's a good thing, because by the time you get to the year-end, hopefully you don't have these big spikes because the auditor understands the business real well, understands the transactions that have gone through in the year. You're doing more of the year-end balance sheet stuff, if you want to call it that, confirming the bank, doing your inventory counts, things like that, and you're staying away from the more transactional type data because you've done it all throughout the year.

Neil Morrison: Right.

Kevin Kolliniatis: Right. Now, that helps the lives, I think, on both sides of the house. To be honest, you look at the Gen Z class coming out that we have, they're looking for those



opportunities. They're looking for, let's say, I'll call it a regular workday, but what's a regular workday these days? But it's that smoothing, and I think the continuous auditing actually helps our industry, keeps it appealing to people to come in.

Neil Morrison: Right. Yeah. It has an appeal for Gen Z, who we're talking to in this season, on that smoothing out the curve as you described, allowing for a little bit more work-life balance or predictable work-life balance. But it also seems to help in that it removes some of the... I don't know, the more rote or more tedious aspects of it, because a lot of that's been handled in what the new CPA, who's coming in, if they're doing continuous audit, they're coming in at a slightly higher analytical level, more interesting analytical level, I would think.

Kevin Kolliniatis: Absolutely. You hit that right on the head, Neil. You're getting people away from what the traditional auditors always thought when they would come into the business in your first and second year, where... Going back to the sampling example. Go in and get 250 items and you're going and tick and tying back to invoices, back to source documents. You're moving away from that. You're smoothing it out through the year, which then frees them up to work on more challenging areas, estimates as an example, looking at inventory, different facets. Also, it allows them to apply analytics within the audit, which is what they've been trained to do in university. We augment it within the firm as well. We're on the right path for sure, and it's going to benefit, I think, everybody at the end of the day.

Neil Morrison: What are the obstacles right now to... You mentioned the nirvana state, you're not quite at the nirvana state, so what are the obstacles right now, the biggest ones?

Kevin Kolliniatis: I think there's a few. I think first, tech isn't fully there in the sense if you look at the breadth of clients within our area, there are literally hundreds of accounting packages out there. Trying to figure out a solution to enable the continuous, the true purest form of continuous audit where you've got a pipeline of data coming through, that's a challenge. You still have a number of clients that have the on-prem solutions, so they're not cloud-based. It's a little more complicated to pull data out to enable the continuous auditing concept. I think change management as a whole, and I know that's a term that's thrown around a lot, but it's true in with our clients with an organization to have the processes in place and be able to adopt continuous auditing. There's a lot of work there. It's been worked on for a number of years, but getting to the right spot there.

A lot of it's driven by the tech, though. The cloud adoption is still a big thing. We still have tons of clients still sitting on-prem. But I think if I look back, and Neil, you asked me the question around when I looked at it and when I created my first presentation on it, we look at back at the experiences, and when you look at the last, I'll say the last five years, and the pandemic, I would



say accelerated, not the adoption, but the driving of the technology in that, as well. The last five years, there's been a big change in tech to start to allow even pieces of this to actually happen, but inevitably, continuous audit is going to be the way of the future.

Neil Morrison: Right. You said that things really accelerated over the past five years. Five years from now, is continuous audit, for the most part, I'm not looking at a hundred percent of firms, but for the most part, does it become standard, do you think?

Kevin Kolliniatis: I would like to say it does in five years. I think we will see it maybe in certain sectors. We may see it in different industries that adopt it and enable it. Could it be fully embedded 10 years from now? Hopefully I see it in my lifetime where it's fully enabled in the sense of my years left within practice and that sort of thing, which I'm sure that's what's going to be the case. But I think will it be a fraction in five years, 10% of our client base, 20%? I couldn't tell you the specific statistic, but the adoption's going to be there. We're getting to that spot, for sure.

Neil Morrison: Well, I hope you get to see it before you end your career, because then you will have been there at the beginning and you'll get to see it when it's complete.

Kevin Kolliniatis: To me, that's fascinating as a CPA, when you can be involved in something like that. To see that come to fruition is a pretty cool thing.

Neil Morrison: Yeah. Fantastic. Kevin, thank you so much for talking to me. I really, really enjoyed this.

Kevin Kolliniatis: Absolutely. Same here, Neil. Thanks very much for having me.

Neil Morrison: Kevin Kolliniatis is the audit partner in charge of audit technology with KPMG Canada. You heard Kevin speak about a Data Analytics program KPMG launched in partnership with Simon Fraser University. If that interests you, CPA Canada offers an Advanced Data Management Certificate Program that is also a partnership with SFU and KPMG. The program will teach skills that benefit those in finance and accounting roles, from analysts to senior managers, or those who want to take on the responsibilities of working with and analyzing data. We will put a link to the program in the show note.

On our next episode we will speak with Jan Taylor. Jan is the academic-in-residence and the senior director for academic and student engagement at AICPA, the Association of International Certified Professional Accountants. She is leading the push to have accounting recognized as part of the STEM group of subjects, science, technology, engineering and mathematics. She says, this designation recognizes the massive change in accounting over the past few decades and importantly the central role technology now plays in the profession.



Jan Taylor: And that is what we are trying to do, get that word out, that this is not your parents' accounting profession anymore. It is, when I started, we were just kind of getting into the computer age of accounting, if you will. I do remember doing some manual books back in the day. So, we've come a long way, um, over the last certainly 30, 40 years, and the technology just continues to grow.

Neil Morrison: That is Jan Taylor the academic-in-residence and the senior director for academic and student engagement at AICPA, speaking on our next episode.

Foresight: The CPA Podcast is produced for CPA Canada by PodCraft Productions. If you enjoyed this episode, please leave us a five-star rating or a review wherever you get your podcast. Please note, the views expressed by our guests are theirs alone and do not necessarily reflect the views of CPA Canada. Thanks so much for listening. I'm Neil Morrison.

Disclaimer: The views and opinions expressed in this podcast are those of the guest and do not necessarily reflect that of CPA Canada.