



**Welcome
to a new era
of audit quality
and efficiency.**

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By their very nature, audits are time-consuming and process-intensive – characteristics that have significant ripple effects throughout an audit firm, regardless of size. The more time auditors spend on laborious, repetitive tasks, the less time they have available to spend on more valuable, strategic tasks that require human insight. The effects on audit quality can be equally significant because the more time auditors spend on repetitive tasks such as data entry, the greater the opportunity for errors. For all these reasons and more, the lean, efficient audit is the Holy Grail for most auditors – and most would agree there is always room for improvement.

Ironically, the processes that make audits so notoriously complex are the source of new optimism regarding the potential for increasing audit efficiency. That's because new technologies could dramatically improve many of these processes – and they are

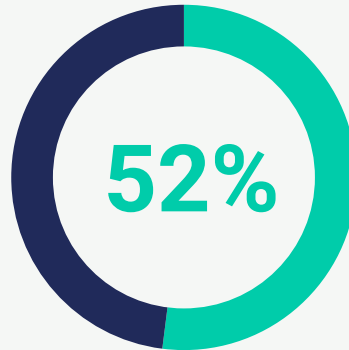
delivering. These technologies are not unique to accounting; in fact, many of them have been pioneered and tested in other industries, and are now being modified and applied to the accounting profession. The pandemic has accelerated the global shift to working remotely, while the pending audit reforms gather pace. There is increased talk of the role of an auditor in the context of a growing number of major fraud cases.

We surveyed 20 senior decision-makers across G7 audit firms across Europe and asked them several questions regarding their objectives and concerns for the future of audit. The results from our first, broad question offered no surprises. Over half of respondents (52%) identified “increase efficiency in audit” as their top goal for 2021. The next priority was to “gain new clients”, while their joint third goals, at 41%, were to “improve the client experience” and “implement new technology” – which makes sense given their desire to achieve greater efficiency.

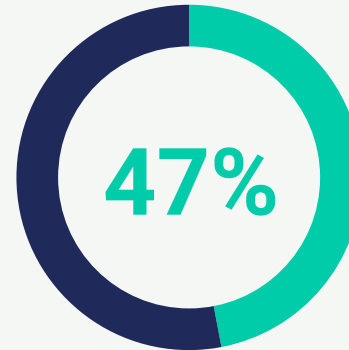


What are the leading goals for audit firms surveyed in 2021?

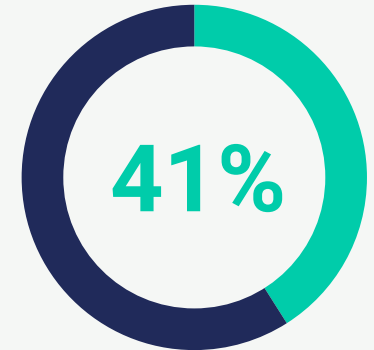
From our more detailed survey questions, we have gained several insights into the shift towards working from home, the pressures for audit reform, the opportunities of technology, and the audit confirmation process.



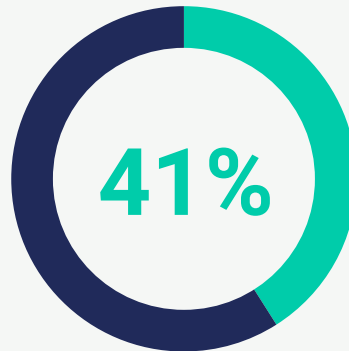
Increase efficiency in audit



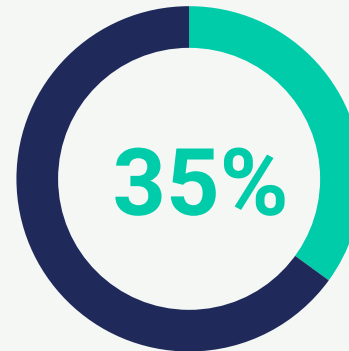
Gain new clients



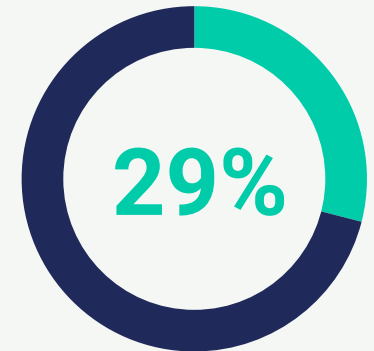
Implement new technology



Improve the client experience



Increase productivity

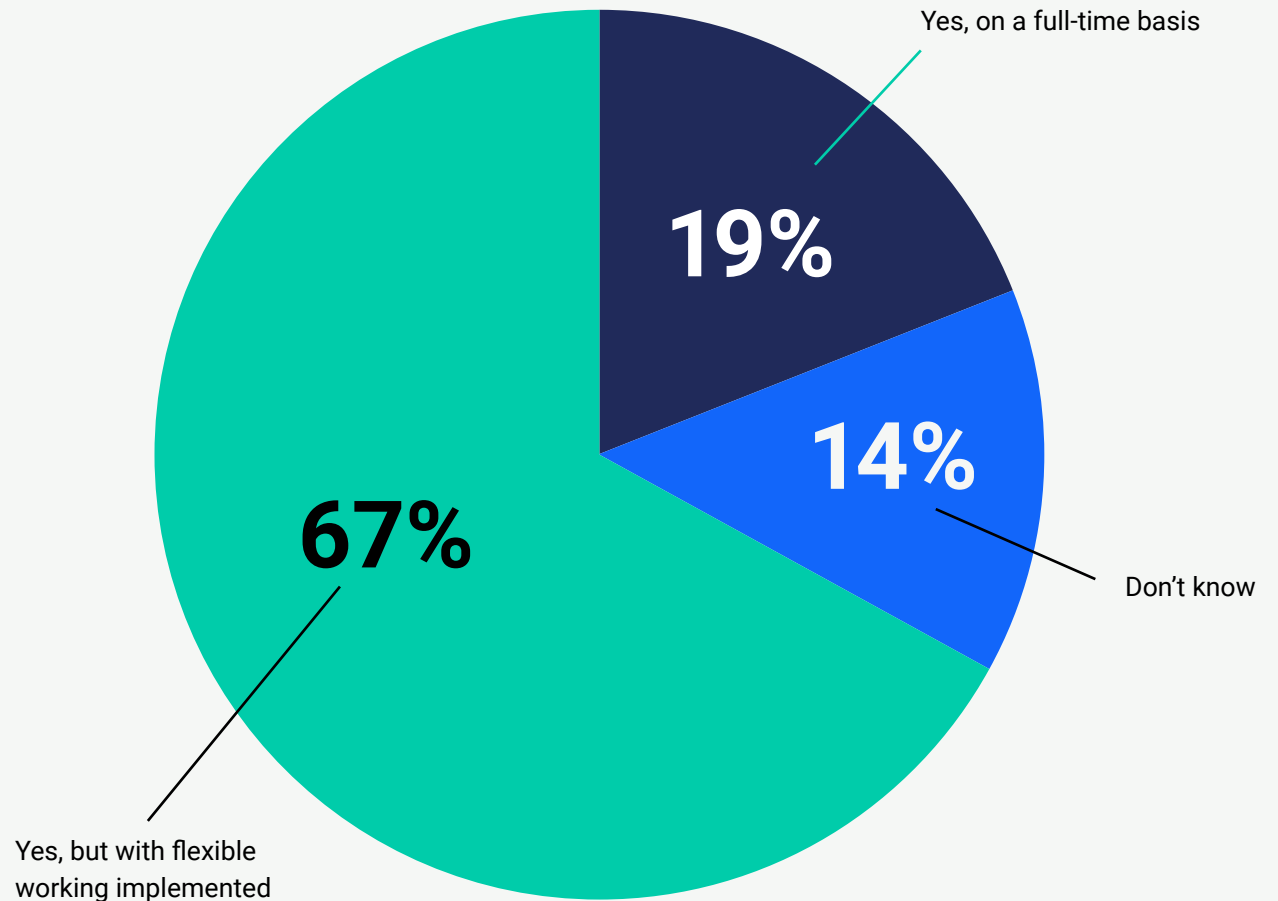


Recruit and retain top talent

Working from home is well established

It is evident from pronouncements by Big 4 firms like PwC that a hybrid model will become the norm for many auditors' working lives once government restrictions on the workplace have been lifted. We found that a surprising number of firms had yet to address the problem (14%) or expected a return to the office on a full time basis (19%), but nearly two-thirds (67%) of decision-makers' organisations planned to move to a more flexible model.

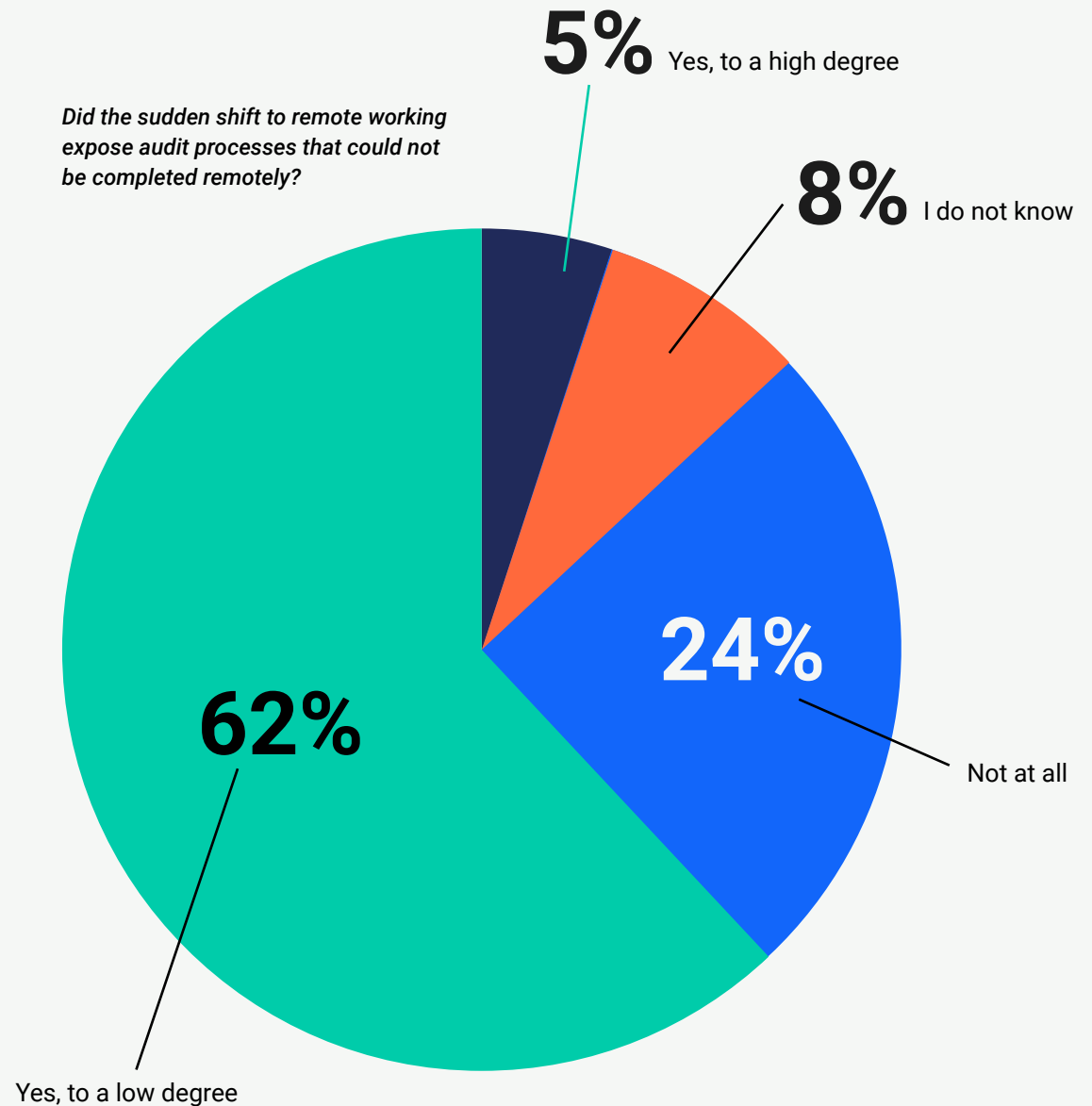
Is your firm planning to return the majority of staff to pre-pandemic working routines?



What does this move to greater remote working mean for the future of audit?

We have the evidence of over a year of working from home to inform our thinking. In roughly a quarter of cases (24%), it had no negative impact on audit processes, and in 62% of cases there was only a modest impact. The implication is that the bulk of auditing work can be carried out remotely, but there is an opportunity to underpin the increase in online auditing by developing more advanced and robust technology.

There were, however, 5% of processes that were significantly affected and could not be completed remotely. It is likely that these processes will need to be conducted in person, at least in part. For these exceptions, there will need to be more investment in technology. For example, during the early stages of the pandemic and the shift to remote working, several audit and bank clients of CONFIRMATION who had adopted API integrations reported they were able to continue business as usual, requesting and responding to audit requests in a timely manner.



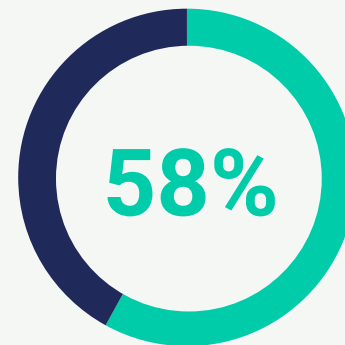
Audit reform is on the way

The UK's audit profession is about to experience major reforms. These have been set out in the Brydon report, the FRC's ISA 240 proposals, and the Department for Business, Energy & Industrial Strategy's consultation white paper, Restoring Trust in Audit and Corporate Governance. These publications focus on a decline in audit quality that has led, among other things, to an increase in prominent fraud cases and a greater number of substantial fines levied on auditors by the FRC. Most firms (58%) intend to respond by reviewing current practice, but there is a sizeable proportion (41%) that are content with the status quo.

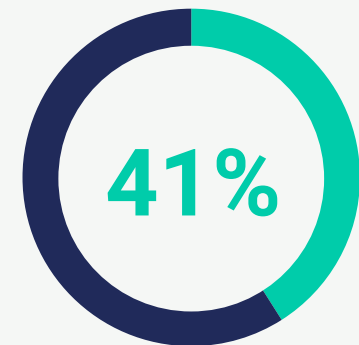




Is there increased pressure to review current external audit processes?



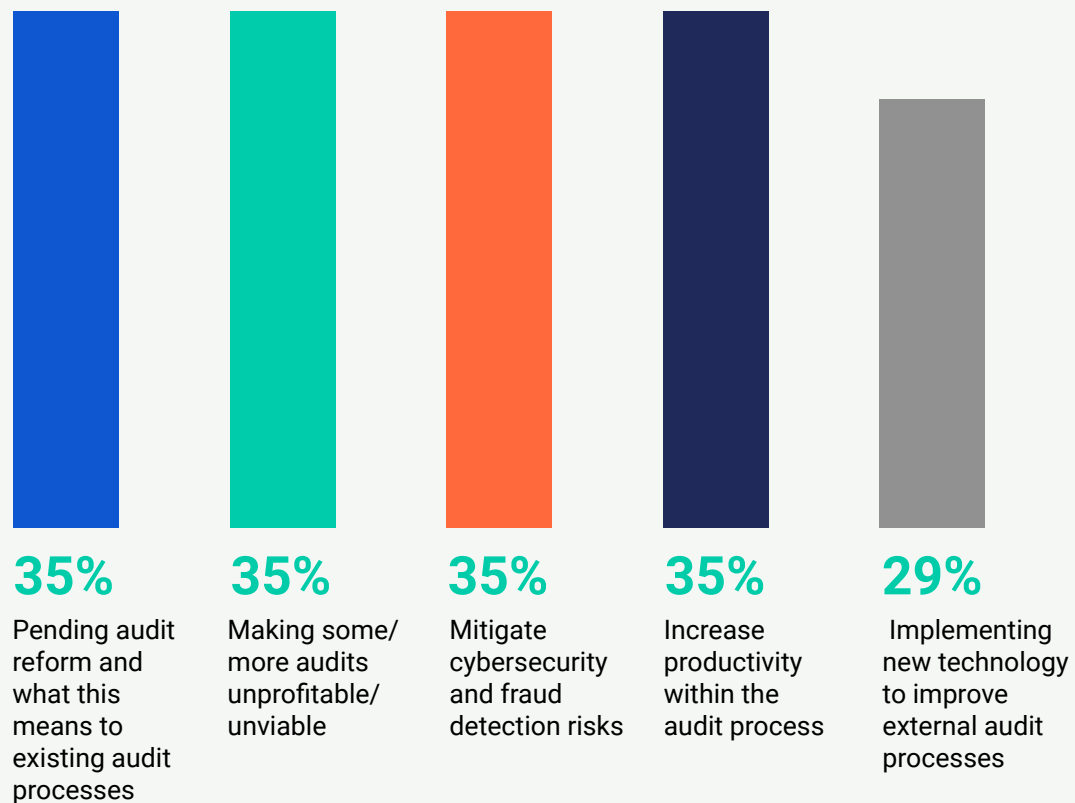
Yes, currently reviewing processes



No, keeping existing processes as they are

However, 35% of firms view pending audit reforms – and what that means for existing audit processes – as one of four joint top concerns for 2021. The other three are cost pressures, cybersecurity and fraud detection, and productivity.

What are your top concerns for 2021?



The need to implement new audit technology is still a significant concern (29%) as well as being a major goal, as we saw in the responses to our first survey question, what are the top goals for audit firms in 2021?



Deploying data more effectively

There is clearly a growing interest among auditors, to adopt modern technologies that help make audit more efficient. This is intensified by the growing pressure to deliver higher quality audits and more strategic guidance to clients and is set against a background of heightened competition and tighter margins.

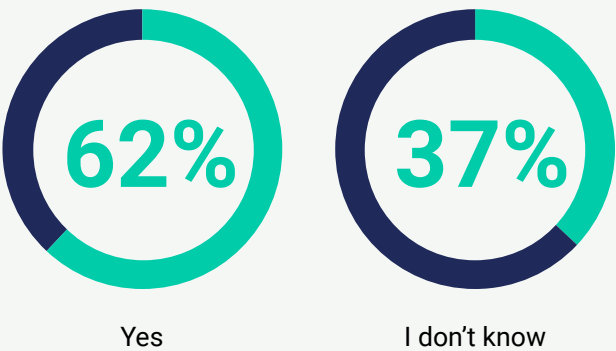
We asked our survey respondents whether Open Banking will have a significant role to play in enhancing the audit process. Open Banking will allow auditors to obtain transactional data more quickly and directly from validated sources; they can then use data analytics software, such as **Inflo**, to identify any unusual data patterns that indicate potential frauds or other issues of concern.

None of the firms we surveyed are using Open Banking to gain transactional data for their audits yet, with only 18% even reviewing this as an option. However, 62% of firms would find transactional data – received directly from their clients’ banks – to be valuable in carrying out audits.

Are you using Open Banking to gain transactional data for your audits?



Would you find transactional data, received directly from your clients’ banks, valuable in carrying out audits?



Confirmations are integral to audit efficiency

When we look back at the economic downturn caused by fallout from the pandemic, we see history repeating itself, like the Dotcom bust in the early 2000s and the Great Recession in the late 2000s, the emergence of fraud cases becomes more frequent. The pressure on auditors to maintain professional scepticism and control of the broad process has never been greater, which leaves us to consider, what part of the audit process is no longer efficient?

With increased audit efficiency being the top goal for auditors in 2021, and with most auditors stating that increased efficiency is a leading benefit of new technology, we wanted to know: how exactly are auditors using technology to achieve new levels of efficiency?

The audit is a complex, multi-stage, process-intensive undertaking, presenting many opportunities for efficiency-focused innovation. So, where to start? The audit confirmation process stands out as a prime target. It is replete with manual, repetitive, time-consuming steps such as testing the completeness of populations,

sampling and sending confirmations, comparing confirmations with client-provided information, resending confirmations, and more – many of which could be either replaced or assisted by technology. There are ample signs that this shift is already underway among auditors today.

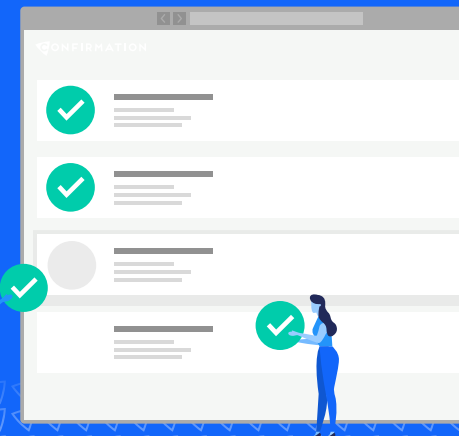
An aspect of the audit process that banks and auditors often overlook is validation which is an essential step in the audit workflow. Validation, a relatively new component of the audit confirmation process, ensures that companies and individual respondents have been authenticated – supporting a thorough and reliable audit.

Validating where confirmations are sent and authenticating individual responders allows auditors to maintain a bias-free process, support audit opinions with reliable evidence, and reduce the risk of confirmation fraud.

There are too many recent instances of major financial statement frauds for auditors to be complacent. Although enhanced technology exists to assist the auditor in the detection of fraud

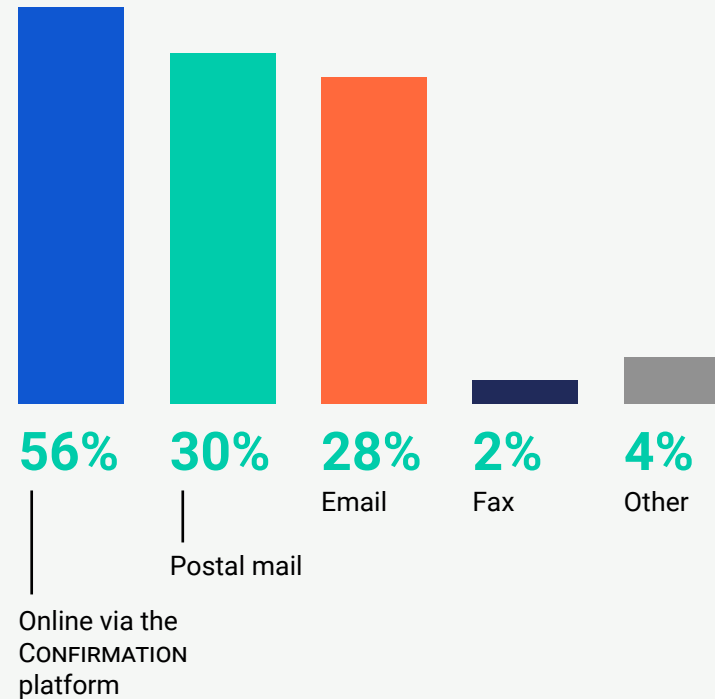
involving external confirmations, we have continued to see a steady stream of cases in the media where the external confirmation process has, in some way or another, gone wrong.

Online management of the confirmation request process is now the top method in use among auditors today, with 34% of survey respondents indicating that they use the CONFIRMATION platform to manage this important component of the audit. The post, meanwhile, is used by 30% of auditors and email by 28%. This is the result of a multi-year trend towards greater use of digital platforms.





*Which of the following methods are used
by your firm to request audit confirmations?*



This has big implications for auditors for several reasons, starting with the competitive environment. Auditors who are quick to adopt and deploy digital tools to help streamline the audit will certainly hold a significant competitive advantage over those who are yet to do so. Digitalisation influences every aspect of auditing from profitability, quality and reputation to talent recruitment and retention, and auditors are already seeing the results of this important shift.

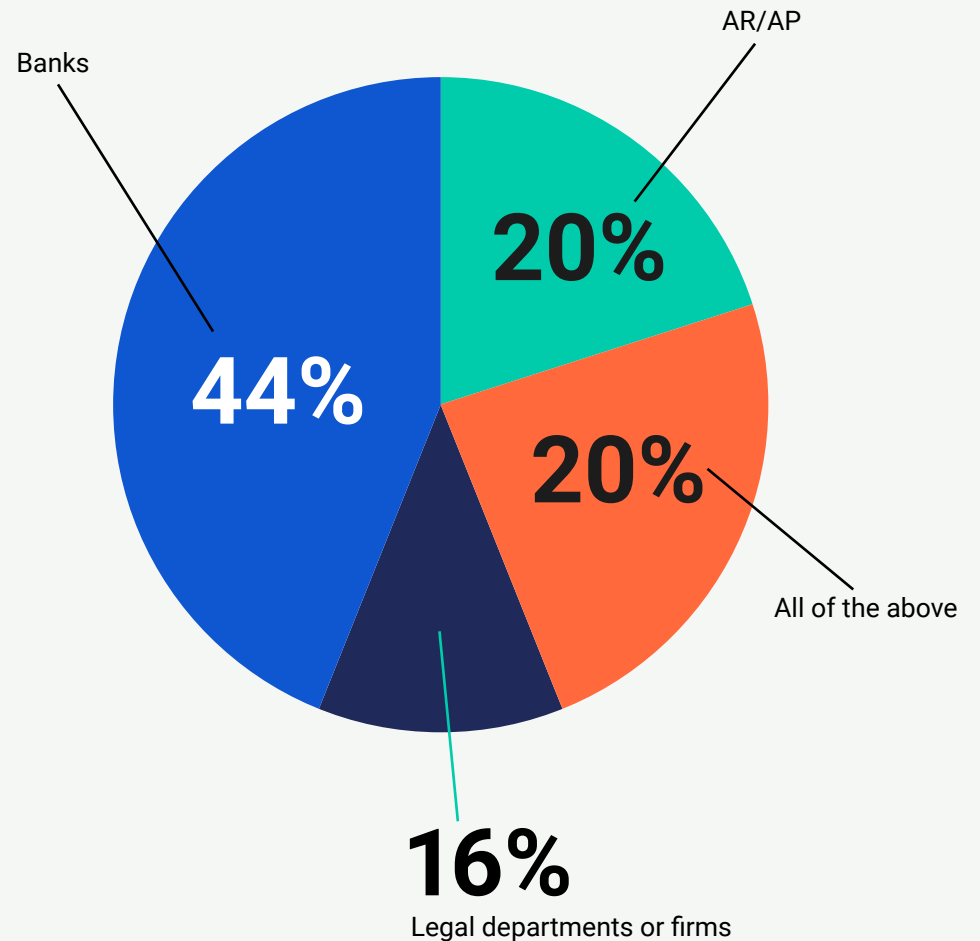
One step at a time

For audit firms seeking to use advanced technology to achieve greater efficiency in the confirmation process, the first question is: where should they start? The truth is that today's confirmation-focused technology is well suited to all confirmation types, so this decision is a function of the unique variables at play in each individual firm.

It is evident that auditors have an array of choices. Survey respondents reported that they are responsible for a range of confirmation types, including bank, accounts receivable and accounts payable (AR/AP), and legal. This range presents an opportunity for auditors, who can test their approach on one type of confirmation, then progress to others as their processes mature and they find successes that can be replicated elsewhere. Many auditors choose to begin with bank confirmations, which loom large over the audit confirmation process. Auditors report that they request 44% of audit confirmations from banks, 20% from AR/AP, and 16% from legal.

While different types of confirmations have their own nuances, the activities required are broadly similar. This means that, wherever auditors start, their findings and best practices are easily transferable. In addition, auditors who use a standard, commercially available digital platform can benefit from the industry-level best practices built into the platform itself, which are informed by the experiences of others who have already used it in earnest.

What types of audit confirmations are requested?



Responding to reform, digitalisation, and change

As auditors seek to increase efficiency and quality, turning to new and emerging technologies to achieve their goals, the confirmation process is a prime target for their efforts. There is a clear trend towards greater adoption of digital confirmations, and we have little reason to suspect that this trend will abate, especially given the degree to which SMEs rely on older, more manual confirmation methods such as postal mail and email. Our analysis of CONFIRMATION users' time-savings shows that 14% of audit team members save over 6 hours a week per full time employee, although savings for the majority (60%) are more modest, at less than 3 hours per week per full time employee.

Confirmation benefits – how much time does your team save by using CONFIRMATION?



Where auditors extend their adoption of platforms such as CONFIRMATION, they should expect to benefit from streamlining the often cumbersome audit process. But this benefit introduces a new imperative – as they see greater efficiencies, auditors must find ways to redirect their efforts from routine manual tasks into more strategic efforts that create greater value and quality for their audit customers. That is the imperative for auditors, and it arrives at a critical moment for the profession, as clients have higher expectations of the time and financial resources they invest in the audit.

Will auditors rise to the challenge? Will they do so in time to gain an advantage over their competitors? The stakes are high, not only for individual firms but for the health of the world economy and its financial systems in an era of audit reform, digitalisation, and changing practices. It is time for auditors to lead the way.

About CONFIRMATION

CONFIRMATION, part of Thomson Reuters, is the digital platform and global network trusted by audit firms, banks, law firms, and other businesses to verify financial data quickly and securely. CONFIRMATION invented electronic confirmations 20 years ago, reshaping the audit confirmation process. Today, CONFIRMATION helps 1.5 million users across 170 countries confirm more than \$1 trillion in financial data every year.

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