

A supplement to *accountingtoday*

Fast forward

The future of the audit is here already



Fast forward

The changes coming for auditing will be about much more than just technology

By **Antoinette Alexander**

The future of audit is fast approaching and, in many respects, is already here. Fueled by advancements in technology, access to vast amounts of data, heightened client expectations and, of course, the impacts of the COVID-19 pandemic, many audit firms have shifted their transformation into higher gear to drive greater efficiencies, higher quality, and more value for their clients. Is your firm among them?

Sources agree that the audit profession will continue to see an increased focus on data, analytics and the use of advanced technologies in the coming years. But change will be about more than just technology. It will also mean embracing change management, exploring new areas of opportunity, and reimagining how auditors approach their work.

"Users of financial statements see value in assurance. In the past, assurance was seen as more of a compliance exercise, and I am pleased that is changing. With markets demanding more information — both financial and nonfinancial — auditors need to think differently and more strategically," said Sue Coffey, CEO of public accounting at the Association of International Certified Professional Accountants. "There will be an expectation — and in many circles, there already is — that auditors are looking at and associated with information that businesses put out about, for example, how their business impacts the environment, the health and well-being of their workforce, how their governance structures support good business decisions, how they are prepared for a cyberattack, how they are securing the privacy of their customers' information. The auditor's role in all of this is critically important."

Said Karen Larsen, a partner in Top 100 Firm Baker Tilly's professional practice group in Coudersport, Pennsylvania, "Clients are continuously expecting more out of their auditors. To meet those expectations and remain competitive, auditors will need to be increasingly more curious in order to understand our clients' business and what the data is telling us. Now, more than ever, we must be willing to think differently and develop new approaches that are relevant to audits today."

A 2021 survey of finance executives conducted by Big Four firm KPMG, in partnership with Forbes Insights, found that most respondents (66%) expect a "dramatically" changed external audit process within four to five years. Only a sliver of outliers (3%) expect no major change for at least 10 years.

Researchers suggested that, were it not for client-side

finance functions that can be slower to evolve, drastic change could occur even faster. Regardless, many auditors are working to stay ahead of the curve.

According to the survey, titled "Future-Proofed: How Technology Is Driving Change in Finance and Audit," most executives said they are confident in their own finance function's current and planned technology, but most (58%) also readily admit that their external auditors are adopting technology more rapidly.

Tech and the rise of data

In looking at the ongoing advancements in technology, it is clear that significant change is well under way. Such advancements are improving quality and outcomes and reshaping processes.

According to the KPMG/Forbes Insights survey, respondents said that the top technologies that are already a must-have for external auditors are:

- ▶ Cloud-based solutions (80%);
- ▶ Smart analytics, including data extraction and transformation and data visualization (70%);
- ▶ Artificial intelligence, including machine learning and natural language processing (61%); and,
- ▶ Business process automation (52%).

Executives agree that advanced technology used by external auditors enhances the quality of their audit (98%) by delivering deeper insights into areas of heightened risk, providing better benchmarking and increasing data coverage, according to the survey. The vast majority of executives also believe this technology enhances the client experience itself (94%).

"Having the data in the cloud is really enabling the transformation of the audit because now auditors can access this data and, through accessing this data and looking at the full data set and leveraging artificial intelligence and visualization, they can drive much, much more value and quality with the clients," said Erik Asgeirsson, president and CEO of CPA.com. "By looking at entire data sets, they're going to be returning an audit product that delivers a lot more integrity than an audit that just utilizes sampling and doesn't utilize all of the capabilities that are available today."

Kalil Merhib, vice president of growth and professional services at CPA.com, agreed, and said, "From a quality perspective, the standards do a wonderful job ensuring a quality audit, but when you look at the opportunities to incorporate things like data analytics and full data sets, you have the ability to not be driven off of a checklist, per

Spotlight on

CaseWare International



Matt Baxter
Chief technology officer

1. What do you think will be the biggest changes in the audit in the near future?

Auditors are increasingly expected to analyze larger and larger data sets from disparate systems, while also being held to a higher quality bar. To enable auditors to maintain productivity while incorporating these new demands into their roles, standards will evolve to allow the effective use of new technologies such as machine learning. The challenge will become knowing what technology has the highest level of repeatability, reliability and quality demanded by audit.

2. How are you helping auditors prepare for those changes?

For over three decades, CaseWare has strategically invested in building a core audit solution platform leveraged in 100-plus countries that enables auditors to meet their needs while preparing for success in the future. We are continually enhancing our solutions to incorporate advanced workflow processes and analytics that enable real-time risk analysis and continuous auditing, so that our users are equipped to embrace the digital transformation.

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se, or what was done last year compared to the environment this year for the client. That demand for greater quality and a focus on quality, having those new capabilities, allows for that process to be data-driven.”

Merhib also noted the increased demand for greater insights and said, “When you are looking at data sets, as a whole, you’re able to identify specific risks to that client based on their individual situation in the particular environment they’re operating in, and offer them greater insights into what might be going on as the auditor performs the engagement as well.”

New tools for the toolkit

Further fueling the transformation of audit is the development of the Dynamic Audit Solution platform. The multiyear initiative is aimed at developing a new standard for the future of auditing with contributions of time, talent and funding from a consortium of large CPA firms, CPA.com, the AICPA and audit software developer CaseWare International. The goal: to deliver a flexible and scalable platform that uses the power of automation, data analytics and updated methodologies to transform auditing.

“With our DAS initiative, it’s all about really taking a fundamental look at the process of the methodology of how the audit is done. That’s really going to be a game-changing moment when you move forward with something like the DAS initiative, which leverages the new technologies but, at the same time, changes how you approach the audit,” said Asgeirsson. He said the first commercial release is expected later this year.

“We have started building tools that go beyond our users’ functional needs so that as they evolve they are equipped to do their best work. An example of how this change is already evident in the industry is the demand for insights-driven engagements,” said CaseWare CEO David Osborne. “The auditors who are thriving and driving the industry forward are those who are able to delve into data and discover not only what happened but why it happened. The audit of the future will be about doing this type of work that is focused on finding insights that drive business intelligence to enable more informed decision-making. And we are building the tools to enable auditors to do this efficiently.”

Seeing a need for greater standardization and automation within audit, Melissa Yard, senior product manager for audit and accounting development at Thomson Reuters, said, “We believe that auditors will continue to migrate to web-native solutions and tools that provide for standardization and automation. We have not yet seen AI and machine learning fully implemented throughout the audit process, but we believe this is the wave of the future. In 2021, we added a tool to our Cloud Audit Suite that uses artificial intelligence to identify areas of risk that are common to the audit. Here,

data is aggregated and anonymized, and then AI provides insight into areas where auditors commonly identify risk, and at what percentage, when performing the same type of audit.” (Cloud Audit Suite by Thomson Reuters is a cloud-based, end-to-end solution that includes an online confirmation service and integration with third-party data analytics.)

Jen Wood, a partner at Rochester, New York-based Top 100 Firm The Bonadio Group, said one of the challenges when implementing new technology solutions is a lack of integration, and pointed to the importance of having an end-to-end, tech-enabled solution.

“Many firms, including my firm, pilot or subscribe to new innovations in audit technology, but those typically come as bolt-on applications. Those tools and analytics are not integrated with the software we use to document our audits, so they’re not integrated with the audit programs, and they’re not integrated with the methodology we use to perform our audits. I really believe that the audit profession needs an end-to-end, integrated,

‘Now, more than ever, we must be willing to think differently and develop new approaches that are relevant to audits today.’

tech-enabled audit solution,” Wood said.

Jumping aboard what Wood referred to as “the audit revolution,” The Bonadio Group is among the firms that have invested in the DAS initiative. “DAS development is a journey. It’s laying the foundation for a long-term audit solution that will advance with technology,” she said. “DAS isn’t simply automating tasks — it introduces a new methodology that is frankly unlike anything else on the market. The methodology drives the auditor to identify audit risks with laser precision, which enables the auditor and the technology to do the right work at the right time. I see DAS growing with us as a firm.”

Larsen at Baker Tilly said its firm invests in such technologies as data analytics and robotic process automation to keep the client’s audit at the forefront. The firm is also involved with the DAS development.

“The audit profession is transforming fast. As we look to the future several years, we expect there to be an increased focus on data, analytics and the use of technology that leverages the data in the audit. This shift is exciting and will allow us to better understand our clients’ businesses as well as enhance our insights and advisory services to maximize client value. That said, it will also be important for firms to prepare for the added challenges related to obtaining, ingesting and securing

Spotlight on

FloQast



Stefan van Duyvendijk
Accounting operations evangelist

1. What do you think will be the biggest changes in the audit in the near future?

The audit industry is in a perfect storm. Ever-increasing regulations and continued IPO transaction interest is driving demand for audit engagements. With current staffing constraints and fewer people entering the profession, audit firms are raising fees and being selective about the clients they keep, making easily accessible and credible audit documentation more important than ever.

2. How are you helping auditors prepare for those changes?

Auditors want clean and efficient audits. As a result, clients need to improve their financial reporting processes to assist with the audit effort. FloQast helps controllers and their teams prepare for the demands of today’s audit with greater financial velocity and accuracy. FloQast’s Accounting Operations Platform provides advanced workflow solutions to manage the financial close, providing greater visibility, collaboration and automation, while centralizing the capture of supporting evidence for the audit at the source.

FloQast delivers workflow automation software enabling organizations to operationalize accounting excellence. Trusted by more than 1,500 accounting teams — including Twilio, Coinbase, the Los Angeles Lakers, Zoom and Snowflake — FloQast was built by accountants, for accountants to enhance the way accounting teams work. FloQast enables customers to streamline processes such as automated reconciliations, documentation requests, and other workflows that impact the month-end close, financial reporting, and payroll, and is consistently rated No. 1 across all user review sites.





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client data," she said.

Continued Larsen, "Firms must help their clients understand the value proposition of sharing data for use within the audit and why that benefit outweighs the costs associated with data security concerns. To achieve this, we are prioritizing areas focused on data and analytics in our assurance learning strategies to enhance the skills of our audit professionals. Firms will need to continue to invest resources in technologies that expand the use of data in the audit, which includes exploring new tools and taking advantage of new learning approaches in these areas to push these initiatives forward."

Further underscoring the increased focus on data in audit, Jim Bourke, managing director of Top 100 Firm Withum's advisory services practice, said, "So many best-of-breed tools have come up in the audit space. The common link, the common message, around all of these tools is data — analyzing data, ingesting data, visualizing data. ... It's utilizing those audit tools and the best-of-breed data tools to minimize the manual tasks and put auditors into a position of auditing the data, instead of trying to assemble, crunch the data, and all of that. It is all about the data. That's the thing that we're going to see in the short term. We're starting to see it now, next year, and the year after."

To further leverage its best-of-breed tools, while also taking a remote audit to the next level, the Princeton, New Jersey-based firm has developed a tool it calls the Withum Experience, a next-generation client portal and employee workspace that catalogs information and helps organize, track, and keep a real-time pulse on the status of an engagement for Withum's audit clients.

"We go out there and look for the best-of-breed tools that are out there in the marketplace today and we embed those tools into our practice. So we said, 'How can we still utilize those tools and create a collaborative environment with our clients?' So, we built basically this dashboard that has a portal feature and it's called the Withum Experience," Bourke explained. "We've taken those technologies that we utilize on audit and we've created a way to still utilize them but to sort of share that experience with our clients through a web browser."

Withum developed the Withum Experience tool about three years ago, just prior to the start of the COVID-19 pandemic. Not surprisingly, the timing of the launch proved ideal, as so many professionals, including auditors, had to pivot to remote work environments essentially overnight when the pandemic struck.

"It was perfect timing. We had no idea the pandemic was going to hit. So, we developed it about three years ago and, looking back, it was probably one of the best things that we ever did. Three years ago, we developed this tool that allowed us to collaborate with our clients remotely," said Bourke. "Today, we are trying to make the Withum Experience the gold standard for client collabo-

ration, especially on the audit because it lends itself to that type of a technology."

The lasting impacts of COVID-19

Clearly, the impacts of the pandemic accelerated the industry's adoption of technology, with many investing in solutions that enabled staff to effectively work remotely and better collaborate with both their team and their clients. Today, more people may be heading back into the office, but there's no denying that the pandemic will have a long-term impact on the way auditors work.

"Auditors, like everyone else, had to adapt to new ways of working because of the pandemic. And like most of the world, those changes have had a permanent impact on the way auditors work. The journey to the cloud is one of the main outcomes, if not the main outcome," said CaseWare's Osborne. "Cloud functionality can facilitate the growing demand for efficiency and flexibility like no other solution can. And, as our research shows, those who have tried it know that is where they need to be in the future. Many industry leaders are moving their entire audit software footprint to the cloud, while others are embracing a hybrid cloud/desktop approach. Hybrid is a win-win because it allows auditors to keep exceeding their clients' expectations while they take a more gradual path to the cloud."

Echoing the sentiment, Larsen of Baker Tilly said, "The pandemic has already changed the way we work, where we work, and how we get our jobs done. It has impacted our interactions with each other and our clients. We have relied on innovative technologies to help us with the exchange of information as well as our interactions. The pandemic requires us to think differently, be more creative and experimental. Leveraging innovation and new ideas has been a silver lining of the pandemic that we will continue to embrace as we start to move toward a new normal."

Many industry sources, however, said it is important not to overlook the value of in-person interactions with audit clients.

"Technology will continue to play a larger role in audits, including how we communicate with clients. It already has. However, there are aspects of the auditor/client relationship that technology will not replace. There is no substitute for that personal interaction that is so important for building trust and for having the conversations necessary to explore and listen to clients' expectations and challenges," noted Deanna Merryfield, a partner with Baker Tilly.

Meghan Watson, a team leader in Withum's management consulting practice, agreed and said, "The pandemic has certainly accelerated change, with audits being conducted from remote locations using advanced technology. There is also a cultural acceptance tied to remote work that had not previously existed. Many audit

Spotlight on

Suralink



Tim Ballantyne
Founder and CEO

1. What do you think will be the biggest changes in the audit in the near future?

When asked what will change, Jeff Bezos said: "That's a good question. But a better question is: What's not going to change?" With the switch to remote audits, the fight to hire and retain top talent, and a recession looming, firms will face an audit landscape they haven't seen before and they'll need to be more efficient than ever to compete. They'll do that by connecting real-time data with actionable insights.

2. How are you helping auditors prepare for those changes?

We are helping auditors by distilling critical information quickly so firms can take action and focus on providing a better client experience. Everyone benefits when data works for you, not against you. You're getting fingertip access to critical engagement metrics and reporting that actually drive change. Easily accessible and shareable insights will continue to be a market differentiator in the accounting industry and our team is here to make that a reality.

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firms and clients alike have upgraded their systems or invested in other tools to manage remote work productively and securely. That said, while in-person interactions may be lesser than they once were when audits were conducted solely on site, auditors can now focus those interactions on topics that are of greatest value to the audit and to the client."

New areas of opportunity

As mentioned earlier, in many respects, the future of audit is already here. This is evident not only in the increased adoption of technology but also in new areas of opportunity that are swiftly emerging in audit. Among the more talked about: environmental, social and governance-related regulatory developments and cybersecurity.

Let's start with ESG, an area that a growing number of firms are exploring — and for good reason, given the increasing demand by investors, regulators and others for information about the impacts of ESG-related matters on entities and their financial reporting. Among the more recent developments, as of press time:

- ▶ The IFRS Foundation trustees announced in November 2021 the formation of the new International Sustainability Standards Board to set standards.
- ▶ The Securities and Exchange Commission proposed in March 2022 a set of rules to enhance and standardize climate-related disclosures for investors.

"CPAs are uniquely qualified to enhance the reliability of ESG-related disclosures and have to play a key role in this area. Some have suggested we don't have the skills in this space. I vehemently disagree. We are experts in assurance and knowing the skills we need and the specialists we need to bring to the table to provide reliable assurance. This is a great opportunity to continue to show our value to the marketplace, and we shouldn't be shy about jumping into this space," said the AICPA's Coffey.

The developments in this emerging space are not going unnoticed among firms, including Withum, which announced in October 2021 the expansion of its advisory practice to include ESG consulting services.

As it relates specifically to audit, Bourke said, "What's happening is [ESG] is creating verticals where auditors can excel. ... [The ESG space will] require audited or attest-type services to attest on a company's progress, to attest on a company's status, to attest on where a company would like to be. That's the process. So, again, auditors have the skill sets, they have the background, they have the education, and are perfectly positioned in that space."

Osborne agreed, and said, "ESG reporting is a perfect example of an area where auditors can apply their unique skill set. ... By bringing their well-honed advisory, assurance, reporting and risk-assessment skills into the

ESG picture, auditors can help ensure their clients are prepared for these relatively new demands, and that they are on the right track to ensuring sustainability in this time of rapid societal and environmental change."

Several industry sources also pointed to an increased focus on cybersecurity and IT risk management.

The Bonadio Group's Wood said IT risk management is another "hot topic" for the firm, as evidenced by the 2019 launch of its brand, FoxPointe Solutions, to support businesses' growing and evolving needs for information risk management services. FoxPointe Solutions offers a full range of IRM services, including IT internal audit, cybersecurity, HiTrust, PCI compliance, penetration testing, and more.

Then there's blockchain. A decentralized digital ledger that keeps a record of all transactions that take place across a peer-to-peer network, blockchain may still be in its infancy compared with other technologies, but its potential impact on audit in the longer term is not to be dismissed. Take, for example, Wolters Kluwer Tax &

'Technology will continue to play a larger role in audits... but there are aspects of the auditor/client relationship technology will not replace.'

Accounting's CCH Axcess Validate, with its blockchain-enabled workflow.

"We have a patented blockchain technology that we use inside of [CCH Axcess Validate] to turn a manual, really time-consuming task into a simple process that can actually be accomplished in five minutes, in five clicks. So, that's pretty revolutionary in this space," explained Colleen Knuff, vice president of audit product management.

How it works:

1. The auditor makes a confirmation request for financial information;
2. The client provides authorization directly through their bank's online authorization system; and,
3. Leveraging blockchain technology, a certified audit trail shows proof of all interactions and identities involved.

In thinking of the audit of the future, Knuff said, "I think for some of the most progressive firms, the audit of the future is actually here now. For those that are still on that journey, auditors of the future are really going to be those who can embrace a more data-driven audit and audit approach, and think about leveraging the best tools and going beyond just data analytics to actually leverage the data that they create throughout the entire audit process." **AT**

Spotlight on

Wolters Kluwer



Colleen Knuff
Vice president of audit product management

1. What do you think will be the biggest changes in the audit in the near future?

The next exciting frontier for auditors is data-driven audit, which goes beyond just data analytics. It's about leveraging data throughout the entire audit process, including:

- Ingesting data from outside sources;
- Leveraging the data created when performing audits; and,
- Visualizing that data for a better sense of data connections — like how risk connects to procedures and whether we're over/under-auditing.

Seeing those relationships, not just in an index file but visually onscreen, is the biggest change coming.

2. How are you helping auditors prepare for those changes?

Wolters Kluwer is innovating in several ways. First, we're heavily investing in our data-driven audit. Additionally, our cloud-based CCH Axcess Audit solutions make working remotely easier and more effective. Compliant, integrated solutions combined with automated analytics replace repetitive, time-consuming steps in the workflow. Leveraging an integrated approach, our ever-evolving data-driven audit provides firms with real-time data and real-time collaboration that streamlines and enhances the customer experience, for both their audit team and their clients.

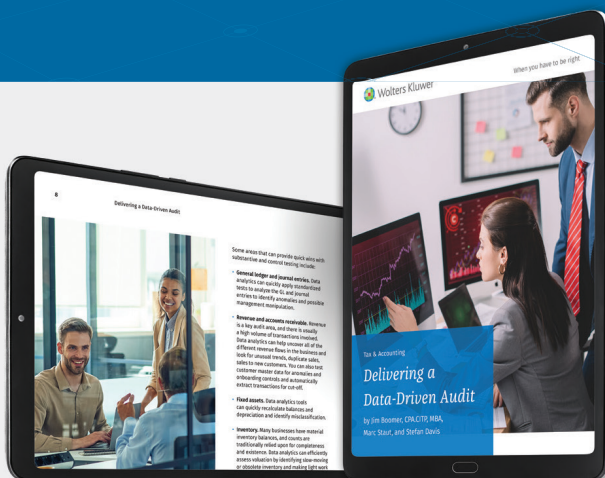
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What's driving the audit of the future?

Now it's tech, but soon it will be more about demand from markets and society

By Daniel Hood

The last great revolution in auditing — the foundation of the modern public company audit in the 1930s — was driven by regulatory and legislative fiat reacting to the massive market irregularities and frauds that helped trigger the Great Depression. With the field facing mammoth changes once again, the question remains: What's driving the revolution this time?

In looking ahead at the next decade, experts in the field point to two main drivers of change in audit: technology, and market demand for more and faster assurance around a much wider range of activities.

The impact of technology is, of course, already being felt, and will continue to be felt on several fronts.

"I think that in the next 10 years, you'll see even greater advancement related to how businesses use technology in their business, and then how we use technology to audit business as well," predicted Heather Paquette, national technology assurance leader at KPMG.

In other words, the new tools that clients are using will shape the audit as much as the new tools that auditors themselves are using. And while much of the focus in applying technology to auditing in the past has been about making previous methodologies more efficient and effective, the next decade will see technology changing the methodologies themselves, explained CPA.com president and CEO Erik Ageirsson. "You need new solutions to truly drive new ways of doing things, and with these new capabilities — be it a data-driven audit in the cloud, or access to all this information — you then need to step back and rethink how you want to go about providing this service," he said, citing the forthcoming Dynamic Audit Solution as a prime example of rethinking and reimagining the audit in response to new capabilities.

Because digital systems such as blockchain will become more and more important to businesses and the way they operate, Asgeirsson said that auditors will be called on more and more to attest to the quality of the configuration of the systems themselves, not just to the quality and accuracy of the data they produce.

Handling that kind of assurance, as well as all of the other tech-related changes coming to the field, will call for new kinds of auditors, and firms are already beginning to adjust their teams. "We've brought nearly 1,100 technology professionals into our audit practice," said KPMG's Paquette. "We've also upskilled more than 1,500 of our audit professionals on auditing technology, and we have trained more than 4,000 professionals on using data and analytics and other automation as part of the audit."

For all the complexity that new technologies will drive, and for all the change they'll require of auditors, the upside will be significant, according to Wes Bricker, vice chair and US Trust Solutions co-leader at PricewaterhouseCoopers. "Technology will make us more relevant, not less," he said. "It'll challenge us to build different skills, to not leave anyone behind; it'll challenge us to stay true to our core underpinnings of ethics and integrity and good independence; it'll challenge us to keep our standards current; it'll challenge us to have good methodology that stretches across boundaries; but technology will reinforce our relevance, because at the end of the day, people want to trust in something, they want to trust that the technology is working for them and they'll want to trust the profession."

The audit as we know it has centered primarily on the financial statement, and its scope and focus have been determined largely by regulators — but both of those will shift significantly in the coming years. "There's a whole new philosophy now on enterprise-grade and investor-level disclosures of data that's not core to the financial statements, and I think that will become equal to if not even more critical over the next decade in terms of the scope of what an auditor does," predicted Jon Raphael, audit and assurance national managing partner — transformation and assurance at Deloitte & Touche.

Auditors will be called in to bridge the gap between what companies are reporting and what markets and investors and the public want to know, in a range of areas.

"All of that is a spectrum of things that an independent service provider can provide insights on to stakeholders of companies," Raphael explained. "In enterprise value thinking, there are key performance indicators and non-GAAP performance measures, which I think more and more there's going to be interest in knowing."

Some of the call for assurance on those nonfinancial measures may well come from regulators, but more and more they'll come from fast-moving markets.

"Audits of historical financial statements today really don't move markets," said Al Anderson, the founder and president of AccountAbility Plus.

"We know that investors, when they're interested in something, they value assurance on it," added John King, vice chair of assurance for the Americas at Ernst & Young. "My perspective on this has always been that we want to be of value to investors and of value to our clients, and if something is valuable, they will ask us to get in and provide assurance." **AT**

Spotlight on

Fieldguide



Jin Chang
CEO and co-founder

1. What do you think will be the biggest changes in the audit in the near future?

Risk management and reporting are a board-level topic, and leaders are increasingly being held accountable for minimizing not only financial risk but all types of risks like cybersecurity and environmental. We have the opportunity to transform our role from a historical lens to forward-looking advice. Risk is never static and organizations are looking for solutions for minimizing risk and providing assurance that they have the right controls in place to secure their organizations.

2. How are you helping auditors prepare for those changes?

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