How to enable audit innovation

Tysiac, Ken
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AUDITING / PRACTICE MANAGEMENT

How to enable audit innovation

Ideas, strategic alliances, and user-friendly tools help Deloitte make technological improvements.

By Ken Tysiac

Technological innovation in the audit process starts at Deloitte with questions for the firm’s engagement teams.

What problems are they encountering? What challenges do they face? What tasks take too much time or are tedious? How can teams enhance the application of critical-thinking skills? What stands in the way of enhancing the quality of an audit? The firm keeps a current list of these items. The availability of technology to solve such auditor problems—while improving audit quality and providing clients with additional insights—can perhaps provide answers to some of these questions and has led to a new, intense focus on innovation.
Recruiting the right people to use the tools and come up with more new ideas may be the most critical part of the innovation process.

in auditing. Deloitte, for example, is using a new artificial intelligence application to read and analyze documents such as lease contracts; analytics to test huge populations of journal entries; and mobile technologies to improve counting of inventory. (To read more about particular technologies and innovations that Deloitte is applying to reshape the audit process, see “Rethinking the Audit,” page 29.)

For the many firms that are seeking ways to implement automation for audit applications, creating the infrastructure to generate these process improvements and valuable new insights may be just as important as the technology itself.

START WITH AN IDEA

In addition to asking audit teams for problems they encounter, Deloitte holds a yearly in-house competition asking for ideas on how processes can be improved. Those whose ideas are deemed most promising are invited to present their cases to senior management. The best ideas win funding.

The winners of the innovation challenge in 2016 were members of a team that found a new way to use robotic process automation in the audit. None of them had been with the firm for more than a year and a half.

“It’s got nothing to do with level or experience,” said Jon Raphael, CPA, Deloitte & Touche LLP’s chief innovation officer. “It’s good ideas, and they’re all rising up.”

SOURCES OF TECHNOLOGY

Deloitte leaders constantly are looking for startups and other firms that have developed technology that could be used to innovate the audit process, which historically has been slow to undergo innovation.

For example, the firm collaborated with Kira Systems to build an artificial intelligence platform called Argus, which uses machine learning to read documents such as contracts to extract and analyze key information. Firms like Kira have the technology, and Deloitte’s professionals find ways to apply it.

“Startups pour tremendous energy and dollars into adapting or creating new technologies,” said Craig Muraskin, Deloitte LLP’s managing director for U.S. innovation. “But often they aren’t in a position to translate their capabilities into practical value for companies. That’s where we come in.”

Some of the collaborations, like the one with Kira, are exclusive. Most times, though, Deloitte uses technology that the partners also may make available to others. In such cases, carefully crafted nondisclosure agreements sometimes may be necessary for both sides to protect each side’s individual interests while enhancing the value of the relationship.

In other cases, Deloitte has developed technology internally.

MAKE IT EASY TO USE

Simplicity for users is a baseline requirement for any technological improvement Deloitte makes to the audit process. These tools are not effective if it takes many days or weeks to train each user or it is unclear what benefit the tools will provide to the audit process and audit quality.

“We are training all of our first-years on all of our tools, so everyone needs to know how to use them,” Raphael said. “Our partners use them, too. I think it’s critical that people learn them and continue to evolve.”

Meanwhile, as the firm’s people use the tools, they come up with new ideas for applying them, and the innovation process is perpetuated.

FIND THE RIGHT TALENT

Recruiting the right people to use the tools and come up with more new ideas may be the most critical part of the innovation process. Raphael is finding that early-career professionals, in particular, get excited about the opportunity to use technology to make process improvements and provide useful insights to businesses.

The technological shift can make early-career tasks more fulfilling for young people in the accounting profession. In the past, a person in his or her first few years at Deloitte may have been charged with verifying accounts receivable by confirming them with company clients. Now, with the confirmation process automated, that same early-career professional spends time instead on more interesting tasks, such as understanding data populations, identifying and investigating anomalies, and finding creative ways to gain assurance as to the propriety of the financial statements.

“Forget about your long-term view, whether you
want to be in public accounting for 20, 30, 40 years or not," Raphael said. "The first couple years, the learning opportunities are so massive, and having this kind of technology should make it so we can attract the best and the brightest. So we need to get the technology out there, not just at Deloitte, but at all the firms, to rapidly accelerate the development of critical thinking and, importantly, to support the future and vibrancy of the profession."

**STAY AHEAD OF THE CURVE**
Ultimately, the goal of any innovation process is to develop an advantage over your competitors while driving audit quality. Raphael said this is critical for audit firms.

"It's hard to differentiate an audit," he said.

"...Technology is an opportunity to truly differentiate because it really looks and feels different to the client."

Unfortunately for those who develop the technology, it won't look or feel different for long. Raphael recognizes that over time, many other audit firms will have access to the underlying technologies that his firm has implemented. But the key is to stay one step ahead. As other firms catch up on one technological improvement in the audit process, the leaders in innovation will be implementing new improvements.

The key is bringing the ideas, the technology, and the talent together with an infrastructure that allows for quick implementation of process improvements.

"Yes, everyone will catch up," Raphael said.
"But we believe that differentiation is the real value over time, so you always need to stay ahead of the curve."

Ken Tysiac is a JofA editorial director. To comment on this article or to suggest an idea for another article, contact him at Kenneth.Tysiac@aicpa-cima.com or 919-402-2112.

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