

The future of assurance



New realities emerging from economic upheaval have changed the role independent auditors play in the economic recovery. The pace and importance of technology adoption in the audit process has increased which will permanently alter auditing, even after the pandemic.

From physical to virtual audits

Globally, pandemic lockdowns quickly prevented auditors from performing on-site visits—a crucial aspect of the audit process. On-site visits, during which auditors interview management and those charged with governance, observe processes and count inventories (in the case of a bank, cash), give auditors a qualitative understanding of a bank's operations. It also gives them a chance to understand an organization's culture and assess the reasonableness of representations being made.

When on-site visits were replaced by virtual audits, the personal element of the process was diminished, which required clients and auditors to adapt to maintain the ongoing audits and start new ones with minimal disruptions. Virtual audits don't simply entail video and teleconferencing; they require clear documented evidence; otherwise an audit is not an audit, it's a conversation.

Prior to Covid-19, the winds were already changing. Accountants

had already been experimenting with new technologies and working with big data to perform higher quality and more efficient and focused audits. KPMG became an early adopter and has been embedding digital innovation into its audits through such things as data and analytics (D&A), advanced technology enabled risk assessment tools and rules-based anomaly detection for more than a decade.

High uncertainty and lower predictive value of historical information

Economic uncertainty and a changing risk profile have required auditors to approach their work with a greater degree of professional skepticism and challenge. While banking business models are largely intact, many of their customers are going through transformation. The complex risk models used by banks to assess these business models rely heavily on historical trends along with scenario analysis of future events.

Accounting judgements or estimates that rely on forecasts or

planned future activities are much harder to assess as the historical track record is no longer the yardstick of what the future might hold. Auditors need to dig deeper into new data and ask tougher questions of their clients. This has widened the understanding gap as to what is expected of assurance providers.

The main accounting impacts of Covid-19 are related to the general uncertainty over what the future holds for companies. For banks, expected credit loss (ECL) estimates have come under scrutiny from regulators and auditors because of their importance in ensuring banks are adequately capitalized for future pandemic-related defaults.

Reliance on specialists

Demand for IT auditors and specialist supporting auditors in financial risk management, valuations and cash flow analysis has increased, resulting in a significant change in the required talent profile. The mix of team members now requires more code writers, data scientists and IT security specialists as part of core audit team. While this means additional costs at a time when many clients' ability to pay normal audit fees has decreased, this has great promise of transforming the audit profession to take it to new heights.

KPMG Clara

In recent years, technology has been reshaping the audit to make it more efficient and more relevant—allowing for better-informed business and investment decisions. In particular D&A is

defining the future of audit. With D&A, audits become more aligned with business agendas, more real time and more precise; it also brings exciting opportunities for benchmarking.

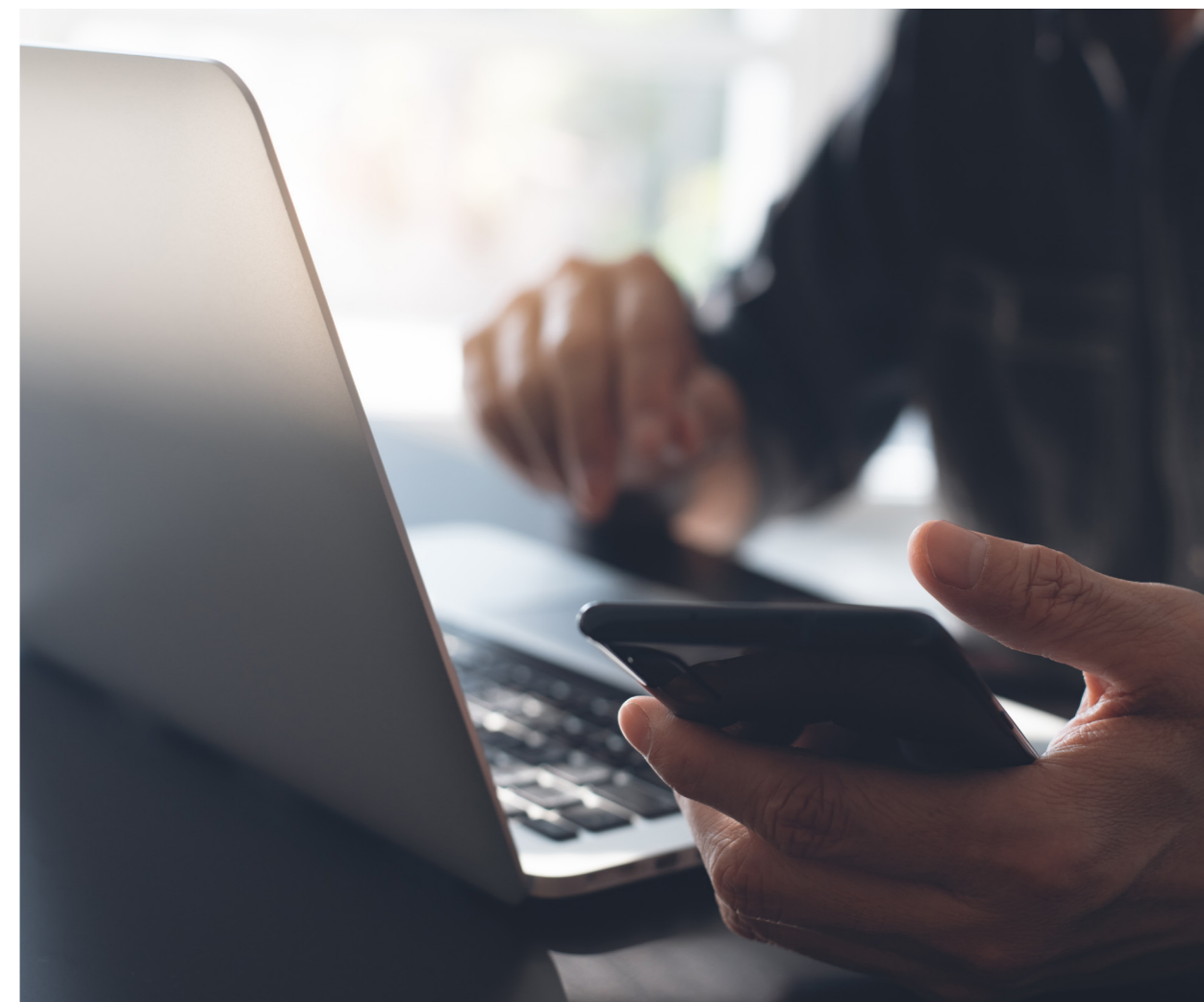
For banks, vast new regulation demands robust financial assurance processes and massive amounts of data across a wide range of operational areas. The new standards for bank data quantity and quality require a model of assurance that is moving from 90%-95% confidence levels to something much higher. These capabilities can analyze a full population, rather than applying sampling techniques. By developing algorithms that use statistical sciences that are similar to sampling today, but consider other data points as well, KPMG's analytical procedures are more robust.

Clara, KPMG's smart audit platform, uses powerful D&A tools which are integrated into a secure and encrypted web-based platform. KPMG Clara is a digital connection to KPMG firms, providing one coherent, interconnected ecosystem. It's a collaborative and interactive environment in which two-way and interactive communication between clients and the audit team is hugely enhanced. Importantly, KPMG Clara allows for real-time access to information, insights and alerts from the auditing team, decreasing the chance that issues become events.

KPMG Clara provides clear, understandable visualizations of unusual activity in a banks' financial data. By focusing more on the exceptions and outliers for a business, Clara enables more focused conversations about risks and what they mean for the audit and a business.



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