

Forbes

INSIGHTS

AUDIT 2025

THE FUTURE IS NOW



IN ASSOCIATION WITH:



TABLE OF CONTENTS

| | |
|--|----|
| FOREWORD | 2 |
| INTRODUCTION | 3 |
| METHODOLOGY | 4 |
| KEY FINDINGS | 5 |
| AUDITORS SHOULD LOOK TO THE FUTURE | 6 |
| A MORE HOLISTIC VIEW | 8 |
| ORGANIZATIONS ENCOURAGE CONSTRUCTIVE CHALLENGES | 10 |
| TECHNOLOGY, COMMUNICATION AND CRITICAL THINKING SKILLS ARE KEY | 11 |
| BIGGEST CHALLENGES AUDITORS FACE | 12 |
| LOOKING FORWARD | 13 |
| ACKNOWLEDGMENTS | 14 |

FOREWORD

KPMG and Forbes Insights conducted a survey of CEOs, CFOs and other financial executives regarding their views on the future of audit in relation to quality, insights and overall value. We were specifically interested in knowing how new technologies and the “explosion” of data were changing the profession since the release of the “Audit 2020: A Focus on Change” report in 2014.

What became clear is that the auditing profession has continued to see unprecedented change. The accelerating pace of change in advancing technologies relating to data, advanced analytics, robotic process automation, cognitive and emerging innovations will play a pivotal role. New technologies are important and need to be matched with people who know how to effectively use these tools. Clients also increasingly expect the auditor to provide a more forward-looking view of the world and insights that can add value as management and boards seek to effectively move their organizations forward.

In this most recent report, “Audit 2025: The Future Is Now,” we returned to the C-suite and other financial executives to see if their perspective and views on the profession had changed over the past several years. As you read through the findings in this report, you will see that the vast majority of respondents believe auditors should use bigger samples and more sophisticated technologies for data gathering and analysis. Most significantly though, those surveyed say the audit should help identify risks, present a forward-looking view of data and provide greater transparency.

We hope you find this Forbes Insights and KPMG-sponsored report informative and thought-provoking. Along with the latest views from directors, management and academia, you will find comparative data that highlights some of the mindset changes around the audit.

At KPMG, we are applying innovative new tools, including data analysis and analytics, robotics and cognitive technology, to help our talented professionals transform the financial audit and to promote the quality of work we perform for the capital markets and other stakeholders that we serve.

KPMG LLP

INTRODUCTION

With technology advancing at an unprecedented pace and enabling organizations to harness and analyze more data than ever before, the financial audit is poised for profound and rapid change. Technology, combined with the expertise of today's skilled auditor, allows audit professionals to take a much deeper dive into the financial facets of an organization and provide insights that result in more-informed decisions in support of a high-quality audit.

To learn more about what organizations expect from audit in the future, Forbes Insights, in conjunction with KPMG, surveyed 200 CFOs, chief audit officers, chief tax officers, audit committee members and other financial executives. We found that organizations are seeking enhancements in a number of areas, including risk management, fraud protection, a forward-trending view of data and identifying critical issues for management.

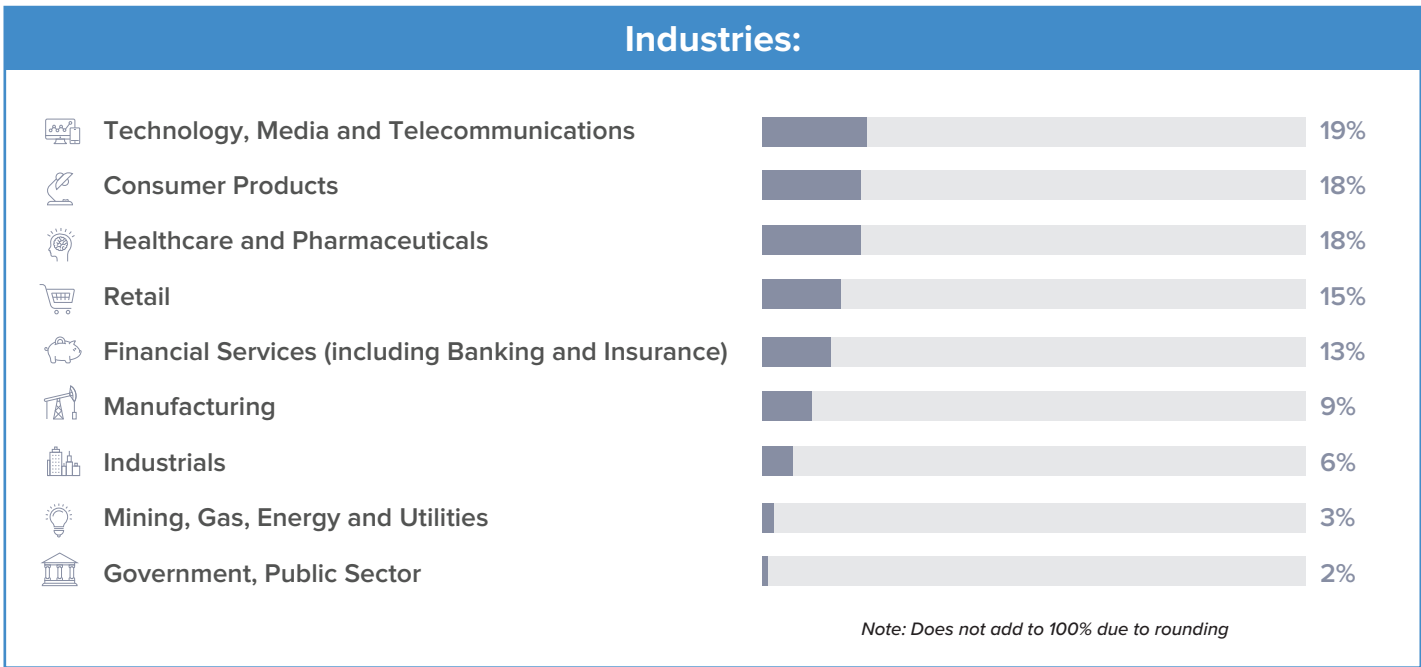
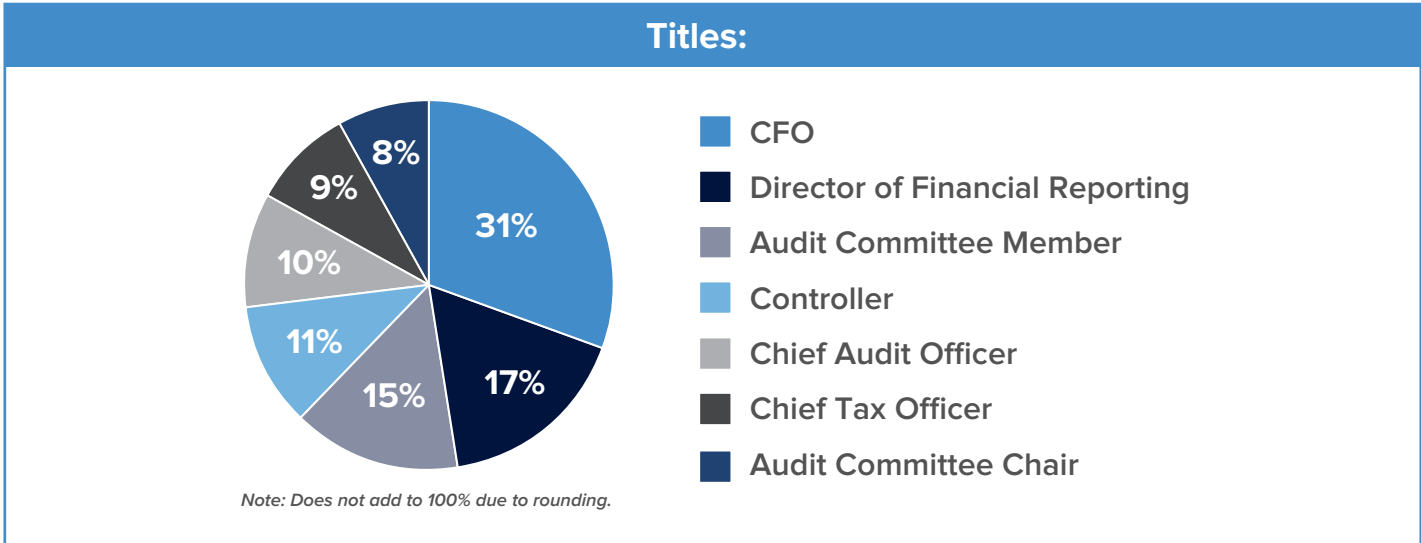
Nearly 80% of respondents say auditors should use bigger samples and more sophisticated technologies for data gathering and analysis in their day-to-day work. Nearly half say auditors should perform a deeper analysis in the areas they already cover, and two-thirds say auditors must improve their communications skills, critical thinking skills and technology skills.

This report analyzes areas in which audit needs to evolve and what auditors need to do to keep pace with the changing expectations of clients. Organizations are increasingly expecting more from audit and a more forward-looking view that helps identify and address critical issues. More important, while organizations understand that technology will continue to evolve, they want to see some significant changes in the approach to audit sooner rather than later. The future is now, and auditors must embrace it.



METHODOLOGY

This report is based on a survey of 200 respondents in the U.S. in October 2016 (46 audit committee chairs and members, 62 CFOs, 19 chief audit officers, 18 chief tax officers, 21 controllers and 34 directors of financial reporting). Responses came from a range of sectors, including, but not limited to, financial services, consumer products, healthcare, technology and retail. All came from organizations with \$500 million or more in annual revenue.



KEY FINDINGS



Nearly 80% of respondents believe that in their day-to-day work auditors should use bigger samples, and 78% believe auditors should use more sophisticated technologies for data gathering and analysis. Almost half (47%) say auditors should perform a deeper analysis in areas they already cover.



Nearly two-thirds (62%) of respondents want their auditor to articulate a clear point of view on critical issues. While 56% want to leverage data and analytics into actionable insights, another 47% want auditors to constructively challenge client management.



Sixty percent of respondents believe audits should help in assessing risks and risk management practices. More than half (52%) are looking for a forward-trending view of risks, and 48% are looking for a forward-trending view of data.



Nearly half (47%) want more transparency about arriving at the audit opinion and what has been learned during the audit. Forty-three percent of respondents seek more insight on proactive quality assurance and regulatory compliance, and the same number would like to gain more understanding of areas not covered by audit. Forty-two percent would like a more holistic view of the state and prospects of the organization.



Respondents believe that the biggest challenges to enhancing the impact of audit are the regulatory environment (66%), budget (57%), the litigation environment (55%) and data security (55%).



Clients are also looking for increased technology skills (67%), communication skills (66%), critical thinking skills (65%) and investigative financial skills (59%).

AUDITORS SHOULD LOOK TO THE FUTURE

It is clear from the Forbes Insights and KPMG study that auditors need to be more forward-looking on several fronts. In addition to calling for auditors to analyze bigger samples and perform a deeper analysis, nearly half (45%) of survey respondents say that the scope of the audit should be expanded to include coverage and findings related to fraud risks and the organization's risk management processes, improved focus and analyses with respect to IT systems, and other issues valued by stakeholders.

Risk and risk management practices—with an eye toward the future—was a recurring theme among respondents. As Chris Stansbury, CFO of Arrow Electronics, says, “Clients are no longer looking for just a rearview mirror view, but a view through the windshield on where we are going and how to navigate the landscape of risks, opportunities, changing regulations, competition and globalization.”

“Clients are no longer looking for just a rearview mirror view, but a view through the windshield on where we are going and how to navigate the landscape of risks, opportunities, changing regulations, competition and globalization.”

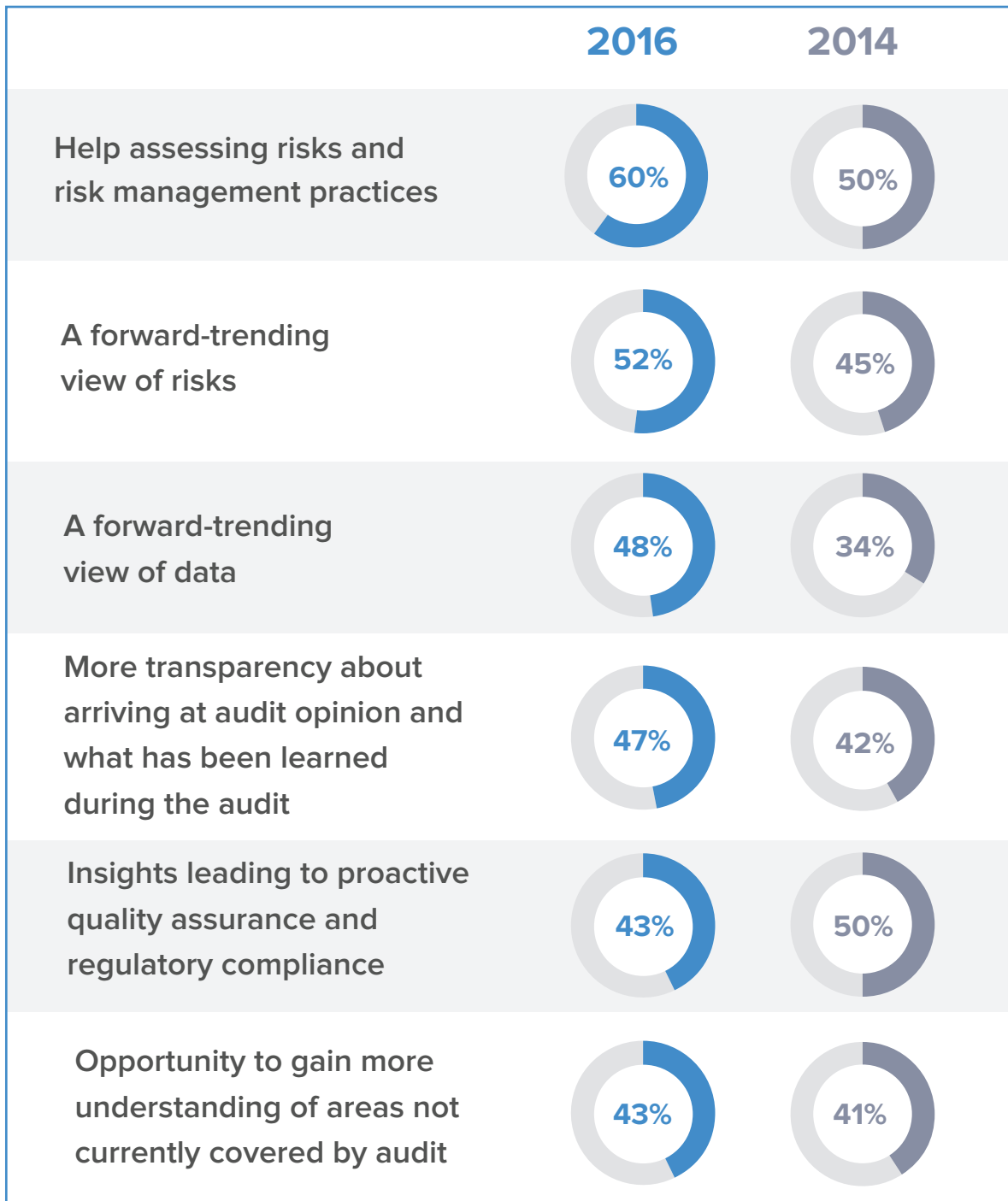
— Chris Stansbury
CFO, Arrow Electronics

Like many, Stansbury says the most important role of both internal and external auditors is to provide assurance with respect to controls and the financial statements; when done effectively, the audit findings can support the organization's efforts to anticipate potential issues and eliminate surprises. They also expect the auditor to communicate effectively, sharing information clearly, in a timely way and with candor. “There shouldn't be anything that we're not aware of, and having an auditor who can bridge from the past to the future is critical,” he says.

Important components in building that bridge include a true sense of partnership and continuity, says Brenda Stasiulis, CFO of MIQ Logistics. “I was an auditor for 15 years, and I understand that their day job is to deliver the audit. However, auditors have such a broad view of our industry that I expect them to act more like a partner and provide insights that we may not be aware of that can help us run our business better,” she says.

“I also think that continuity is very important. We have had the same auditor and the same senior manager on our account since we became a stand-alone entity in 2010. He has taken the time to learn our business and to understand what's important, what's not important and how we are different from other companies in our industry. That type of continuity and leadership is invaluable,” Stasiulis adds.

When asked about which insights would be most valuable from an audit, executives cite a number of outputs, including a forward-trending view of risks and insights leading to proactive quality assurance and regulatory compliance. Interestingly enough, these outputs have changed from 2014.



A MORE HOLISTIC VIEW

On the whole, respondents give audit high marks for providing more insights to help make more-informed business decisions, with 67% saying audit provides insights that lead to proactive quality assurance and regulatory compliance—up from 58% in 2014. More than half (54%) say auditors are providing greater transparency about arriving at the audit opinion and what has been learned during the audit, and a similar number (56%) say they already receive insights about assessing risk and risk management. Finally, more than a third (40%) report that they gain more understanding of areas not covered by audit. In short, respondents want a more holistic view of the state and prospects of the organization, and many believe their auditors provide this.

Clients are also looking to auditors to provide specific observations and recommendations that can add value—not just a laundry list of ideas. While audit will always produce multiple findings, clients want their auditors to take things to the next level—to weigh and prioritize risks and opportunities based on their in-depth knowledge of the organization, its controls and processes, so more-informed decisions can be made to guide the organization forward.

Arrow Electronics' Stansbury agrees: "In today's world, we are working at the highest level and talking with the board about a broad range of topics, from the SEC and tax issues to organization-specific and industry-specific issues. The better auditors are the ones who can translate their findings into actionable information for the organization."

Clearly, auditors who look at the total landscape and drill down on the issues that are most relevant and important to a given organization can add the most value. Increasingly, clients are not only expecting this, but demanding this.

How do you define a quality audit?

According to Jeffrey Haber, accounting professor and department chair at Iona College, a quality audit is one that is properly planned, staffed and executed. "Proper planning means considering the environment, audit risk and what the auditors expect to accomplish. The audit team should have the right level of expertise and qualifications for each of the functions as well as appropriate industry expertise."

When asked which of the following valuable insights they received as an output from their audit, respondents in 2016 and 2014 reported:

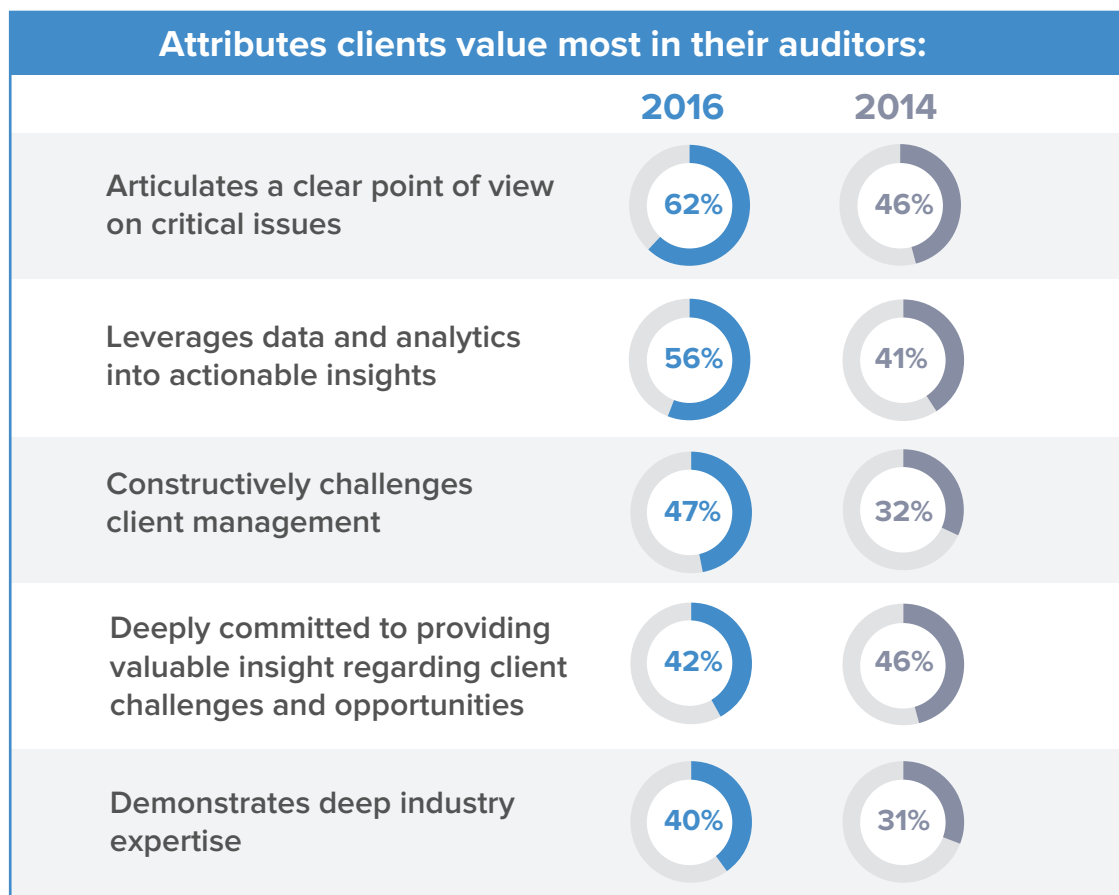


ORGANIZATIONS ENCOURAGE CONSTRUCTIVE CHALLENGES

In addition to performing a quality audit, organizations are looking to their auditors to speak up about issues and provide insights—even if some are unpleasant. Specifically, the survey reveals that organizations value auditor insights that are not consistent with the corporate view, and clients want auditors to point out problems and challenge management in a constructive way.

Long gone are the days when auditors said, “You are in compliance. End of report.” Organizations want more from audit and value the fact that auditors have access to industry-wide information and trends. Nearly two-thirds of survey respondents say they want their auditors to articulate a clear point of view on critical issues, and nearly half say they encourage constructive challenges.

“To produce a high-quality audit, auditors must exhibit professional skepticism,” says Jeffrey Cohen, professor of accounting at Boston College. “They must be able to question clients in an objective and constructive way. In addition, auditors must have a distinctive level of competence so they can convey their views to management. It’s not enough to have one or the other, you need both.”



TECHNOLOGY, COMMUNICATION AND CRITICAL THINKING SKILLS ARE KEY

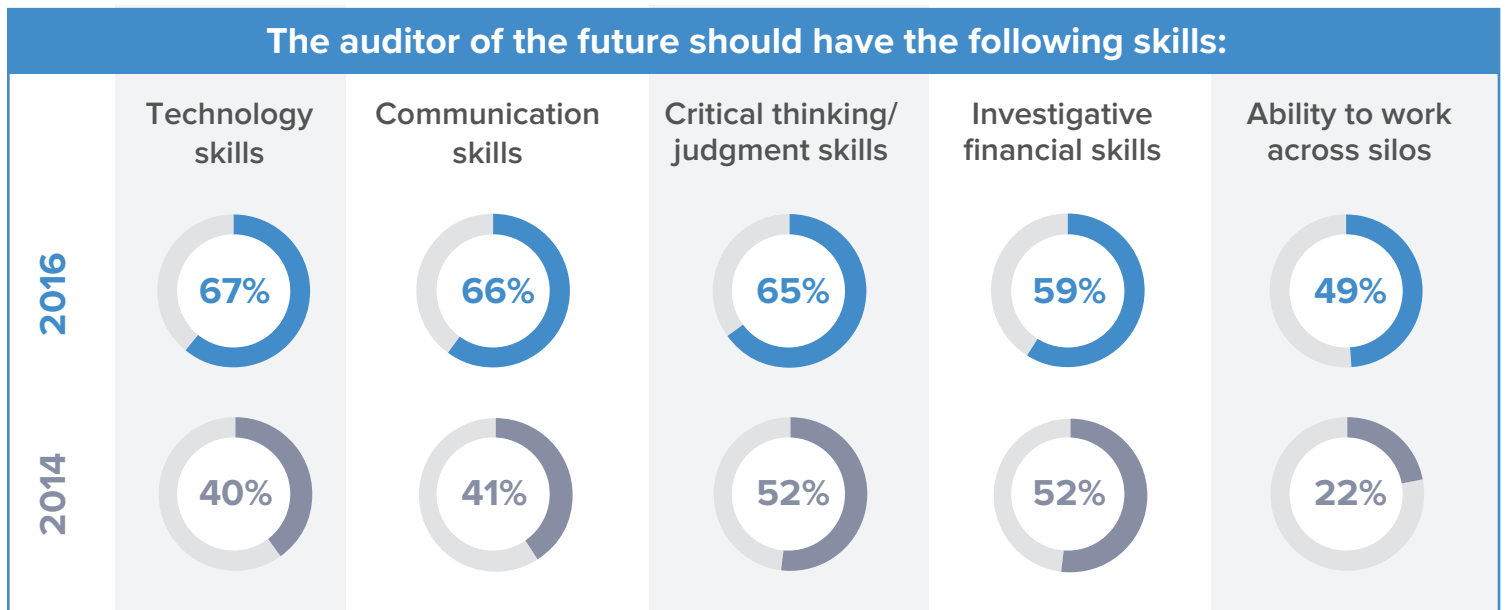
According to the survey, the top three skills clients look for in an auditor are in the areas of technology, communication and critical thinking, followed closely by investigative financial skills. Further, nearly half would like their auditors to have the ability to work across silos to provide a more complete picture of the organization.

Clients expect their auditors to be current with new technology and looking ahead as technology evolves. They rightly believe that technology has improved the quality of audit and will continue to do so. But clients are also looking for other benefits from technology, including tracking trends and alerting organizations to emerging issues. Again, this means auditors must take a more holistic and forward-looking view when gathering and analyzing data. Better, more comprehensive audits are expected by clients, but they are also looking for value-added observations and insights.

To add value, however, auditors must focus on their critical thinking, investigative and communication skills.

It's not enough to have the latest technology—auditors must be able to mine data for information that is important to clients, such as that affecting relevant risks, internal controls and important processes, and be able to communicate it clearly and candidly.

"I'm impressed when auditors ask the right questions and make suggestions that show they understand the industry their client is in and how the organization functions," says Jeffrey Haber, accounting professor and department chair at Iona College. "It's a real benefit when auditors can provide ideas for making an organization more efficient and enhancing internal control."



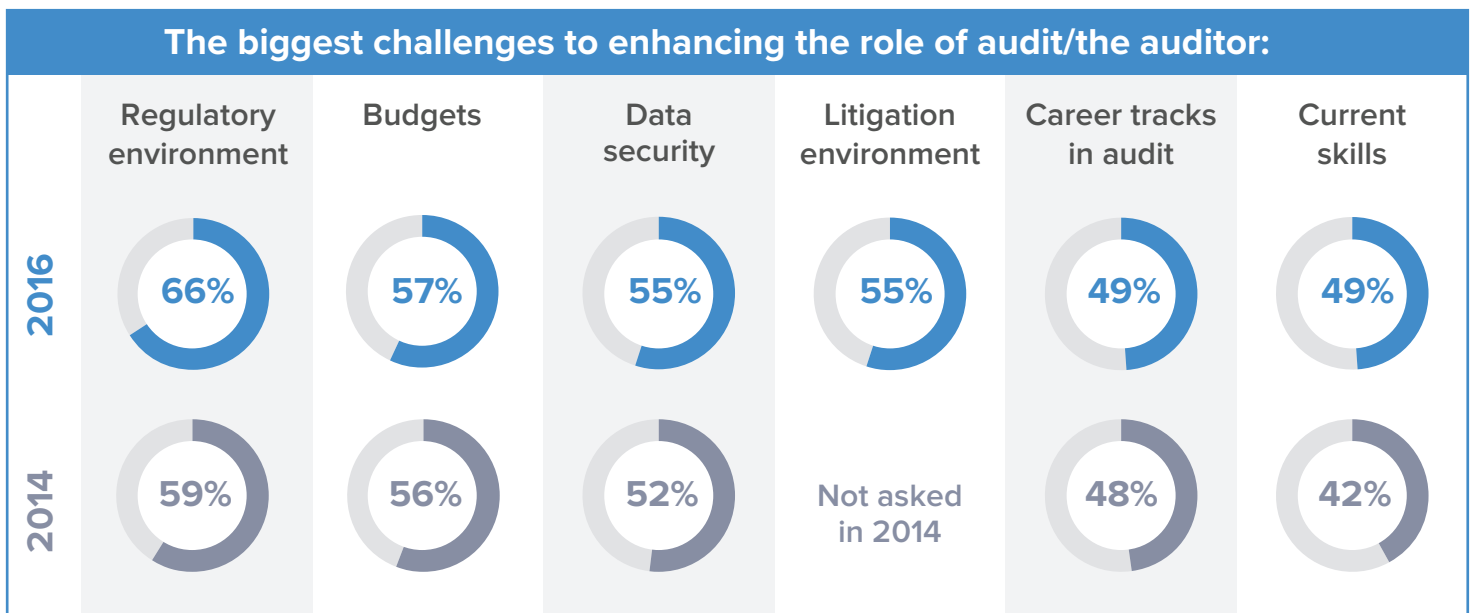
BIGGEST CHALLENGES AUDITORS FACE

As for the profession itself, Boston College’s Cohen says some of the best and brightest accounting students are being lured away by other financial professions. “At Boston College, many students double major in accounting and finance, and often opt for a finance position because it offers double the salary. The Big Four accounting firms are still very popular choices for accounting students, but entry-level compensation needs to be looked at.”

Another issue, according to Cohen, is the regulatory environment. “My sense is that the PCAOB has done a lot of good, but it has also made the profession less desirable. Many people don’t want to have their judgments second-guessed, and you don’t get that in finance. I think regulators have done a little too much.”

MIQ Logistics’ Stasiulis adds that firms may want to look at their branding to attract the best and the brightest.

“A big buzzword right now in middle schools and high schools is STEM, which stands for Science, Technology, Engineering and Math. Engineering firms have capitalized on this popularity and are attracting new talent in droves,” she says. “Accounting firms need to connect with a current theme—big data, for example—and drive that same elevated interest. Accounting needs to be seen as more forward-looking, futuristic and high-tech to capture the interest and imagination of young people.”



LOOKING FORWARD

As this report demonstrates, audit is changing at an unprecedented pace as technology continues to evolve and clients increasingly expect more. These two intersecting trends mean that audit professionals must continually acquire new skills and up their game to meet the rising bar on audit quality. Clients will settle for nothing less.

The days when auditors simply focused on financial reporting and compliance with accounting standards and provided a historical view of an organization have passed. To meet audit demands of the future, firms and individual auditors must:

- Stay ahead of the curve on evolving technology and the changing regulatory environment
- Sharpen technology, critical thinking and communication skills
- Thoroughly understand a client's industry and what makes the client unique in that industry
- Develop long-term relationships with clients and other stakeholders, based on integrity, candor, professionalism, objectivity and their ability to share valued insights based on these capabilities
- Look ahead and provide insights on future challenges and opportunities

Moving forward will not be without its challenges. Regulatory environments, budgets, data security and litigation can slow progress in enhancing the role of audit. These challenges must be recognized and properly addressed. The audit profession will undoubtedly continue to change, and only those who evolve and innovate will succeed.

ACKNOWLEDGMENTS

Forbes Insights and KPMG would like to thank the following individuals for their time and expertise:

- **Jeffrey Cohen**, Accounting Professor, Boston College
- **Jeffrey Haber**, Accounting Professor and Department Chair, Iona College
- **Chris Stansbury**, CFO, Arrow Electronics
- **Brenda Stasiulis**, CFO, MIQ Logistics

ABOUT KPMG

KPMG LLP, the audit, tax and advisory firm (www.kpmg.com/us), is the U.S. member firm of KPMG International Cooperative (KPMG “International”). KPMG International’s member firms have 189,000 professionals, including more than 9,000 partners, in 152 countries.

Forbes

INSIGHTS

ABOUT FORBES INSIGHTS

Forbes Insights is the strategic research and thought leadership practice of Forbes Media, a global media, branding and technology company whose combined platforms reach nearly 75 million business decision makers worldwide on a monthly basis. By leveraging proprietary databases of senior-level executives in the *Forbes* community, Forbes Insights conducts research on a wide range of topics to position brands as thought leaders and drive stakeholder engagement. Research findings are delivered through a variety of digital, print and live executions, and amplified across *Forbes'* social and media platforms.

FORBES INSIGHTS

Bruce Rogers
Chief Insights Officer

Erika Maguire
Director of Programs

Andrea Nishi, Project Manager

EDITORIAL

Kasia Wandycz Moreno, Director
Hugo S. Moreno, Director
Steve Rose, Report Author
Kelly Stahley Crean, Designer

RESEARCH

Ross Gagnon, Director
Kimberly Kurata, Senior Analyst
Sara Chin, Research Analyst

SALES

North America

Brian McLeod, Commercial Director
bmcleod@forbes.com
Matthew Muszala, Manager
William Thompson, Manager

EMEA

Tibor Fuchsel, Manager

APAC

Serene Lee, Executive Director

