

Beyond numbers: reporting trust in a digital world

Tobias Pachlatko & Evgenia Loushanskaya, KPMG Switzerland

We live in a world that is constantly evolving. The speed of change has never been faster, yet it will never be this slow again. The change impacts every aspect of our lives, every industry – and audit is no exception. Evolving technology including artificial intelligence (AI), machine learning, big data and continuous auditing as well as shifting shareholders' expectations and developing risks are reshaping the future of audit. These are exciting developments with the potential to unlock significant new value for organizations and boards, including enhanced assurance and trust, real-time insights, robust risk mitigation and stakeholder confidence. It is therefore crucial for boards to stay abreast of these trends and ensure that their organization's external auditor leverages technology efficiently, considers emerging risks and new shareholder demands while also sharing with the organization and the board the benefits of a future-proof audit.

Digital revolution

The speed at which technology is advancing is unprecedented. Some statistics cite 2x growth in processing capacity every 18 months. Over 89% of big data has been generated in the past two years.¹ The time span between when technology is first introduced as a proof of concept to the point it is used widely is becoming shorter. Therefore, it is important to understand and monitor technology trends even when they initially seem to be far away from becoming reality. Key technological trends that are shaping the future of audit include:

AI and machine learning: pioneering the next era of auditing

Beyond the hype of the moment, AI and machine learning (ML) are true game changers. These technologies enable companies to automate, accelerate and enhance their business processes and analyze ever-growing amounts of data. These techniques help auditors to recognize patterns in organizations' data that are invisible to human eye. This, in turn, can help flag individual transactions which look unusual or suspicious. These techniques support auditors in their risk assessment, driving the right focus in audit execution. The value of this approach lies in combining the

¹ www.mediapeanut.com, Technology statistics: How fast is Tech advancing? [growth charts] 2023

technology with the auditor's understanding of an organization's business and processes. When this happens, the result is enhanced audit quality and valuable insights for business leaders into their organizations' data.

Furthermore, AI helps automate mundane tasks. Optical character recognition (OCR) and AI algorithms support auditors in vouching documents – invoices, receipts and other documents – automatically, matching them with the corresponding entries in an organization's accounting system. This also contributes to higher quality audits as it eliminates human error and frees up auditors' time to focus on complex tasks and those requiring judgment.

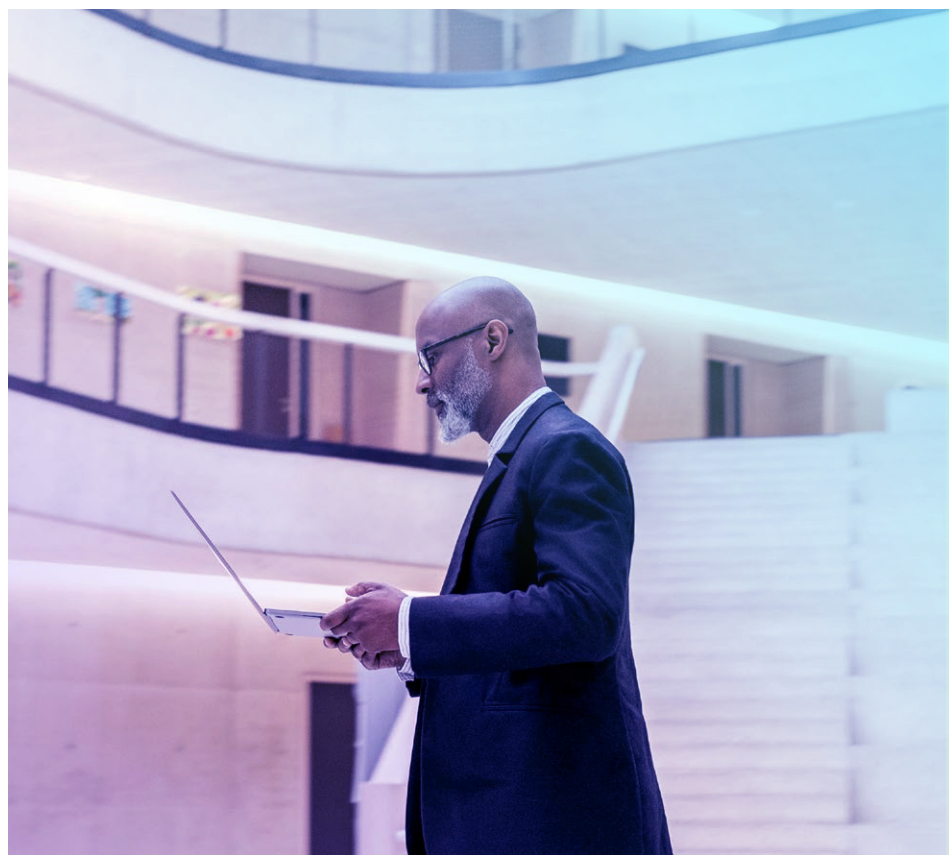
Human auditors will remain instrumental in delivering the next generation of audits. Besides understanding the organization's business, processes and risks, they possess unique skills, such as professional skepticism – a fundamental factor in delivering a high-quality audit. AI and ML will act as co-pilots to human auditors, but will not take over on auto-pilot.

Big data: transforming audit depth and scope

The increasing volume, velocity and variety of data generated by businesses requires new audit approaches. To deal with the growing complexity of data, auditors deploy various data and analytics solutions that are capable of handling and analyzing vast amounts of structured data more efficiently, uncovering insights that were previously unattainable and identifying risks relevant to the audit.

The majority of data generated each day comes in an unstructured form. This data contains insights and trends that are valuable for business and for audit. Technology is also used to automate the analysis of unstructured data such as text files, images, audio and video, social media, etc. OCR and natural language processing (NLP) can convert unstructured data into structured and analyze it to identify and summarize. Example applications include key terms, conditions and other relevant information of organizations' contracts. NLP also aids in performing a sentiment analysis via textual data such as social media posts, customer reviews or an organization's reporting to the financial market. With the help of such processing technology, data can be turned into insights and actions.

While many organizations are and will continue to invest in data lakes that combine financial and non-financial, structured and unstructured data in one place, we expect to get even more value out of these technologies in the near future. This exciting development paves the way to deploy various modern analytics and data processing tools. Auditors will be able to identify risks and pinpoint unusual patterns by looking not just at a company's financial transactions but combining these with industry, economic and social trends. Moreover, relevant unstructured data contained in emails, social media, audio files and videos could also be analyzed and enhance the quality of audits.





Continuous auditing: enabling real-time assurance

Cloud technologies and application programming interfaces (APIs) have a profound impact on how auditors access organization's data. One effect is that they allow auditors to analyze financial transactions and controls more frequently, and potentially even in real-time. The timing of audit procedures shifts from point in time to over time. Continuous auditing has the potential to identify and address issues more promptly, allowing organizations to correct course in a timely manner.

Another approach to continuous auditing is leveraging analytics deployed in the enterprise resource planning (ERP) systems of organizations. With real-time access to the outputs of the analytics, auditors can share observations with organizations in a timely manner and spread the audit workload across the year.

Recommendations

- Understand how current technological trends impact your organization's business processes, systems and internal control environment.
- Understand how your auditor leverages the company's investment in digitalization in their audit approach.
- Understand whether and how your auditor uses technology in their processes and what their audit transformation roadmap is.

Evolving shareholder expectations

As the economic and business environment grows in complexity, shareholders are increasingly looking to understand how organizations are managing ESG-related risks and incorporating their response to these in the long-term strategy. Many companies are already today communicating to shareholders and other relevant stakeholders on ESG-related topics; however, a lack of standardization, quality and transparency are often mentioned as downsides of the current ESG reporting many organizations produce.

Regulations around ESG reporting in Switzerland and the EU are aimed at standardizing and enhancing quality of organizations' reporting on non-financial matters. These regulations, when enacted, will also introduce an external assurance requirement.

A recent study² found that the majority of finance teams are now also responsible for assessing and reporting on ESG matters. While such reporting will initially be stand-alone, we expect companies to integrate their financial and non-financial reporting over time. This means that financial and non-financial data will eventually become subject to the same processes and controls. Shareholders and other stakeholders will receive one integrated report providing a holistic view of a company's performance and impact. From the audit perspective, this will bring synergies as auditors will be able to assess risks, design their response and deploy technology that addresses both financial and non-financial reporting as part of an integrated audit.

² www.protiviti.com, Global Finance Trends Survey 2023 | Protiviti United States

Recommendations

- Understand how your organization is preparing for complying with applicable ESG reporting regulation(s) and who in the organization is responsible for assessing ESG risks and communicating on those to shareholders and other relevant stakeholders.
- Understand how relevant data is identified, collected and governed.
- Understand the level of external assurance provided on current reporting and assess whether it meets requirements and stakeholders' expectations.
- Assess the current setup of external assurance over financial and non-financial reporting and determine whether this is still appropriate for the future.

Evolving risks

As the overall complexity of the business, economic and regulatory environment continue to grow, organizations are becoming more agile and quicker in adapting to a fast-changing environment. They introduce new organizational structures, create new products and services, invest in new technologies, and explore new markets to stay competitive and relevant in the global marketplace. This change gives rise to new risks that are becoming increasingly more important and need to be considered by auditors.

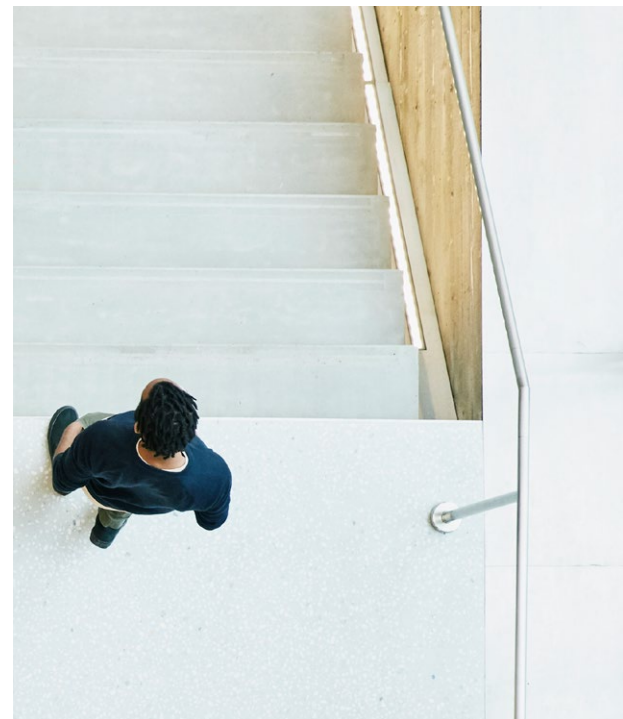
For example, emerging technologies can benefit business significantly, making organizations more efficient and competitive. However, they can also introduce new risks, such as the enhanced risk of cyber-attacks. Auditors need to be alert and assess new risks introduced by the deployment of these solutions and evaluate controls organizations put in place to sufficiently mitigate these risks. Auditors may require a new and different set of skills to be able to respond effectively to a new array of risks.

Recommendations

- Understand changes in your organization and key risks that come with them, including the governance model around innovation and how emerging technology trends are leveraged in business processes.
- Understand processes and controls implemented by management to appropriately identify new risks and implement internal controls that can effectively mitigate them.
- Understand how your auditor considers/covers those risks as part of the audit.

Conclusion

The audit of the future will be different from what we know today, with technology enabling the analysis of ever-growing amounts of data, both financial and non-financial, internal and external. This will allow auditors to focus on riskier transactions and areas of management judgments and estimate. As stakeholder expectations continue to grow and ESG risks increasingly impact organizations, assurance over non-financial data will become an integral element of auditors' responsibilities. Finally, new risks and challenges will emerge and will need to be incorporated into the audit. By embracing technology and adapting to these changes, auditors will be better equipped to provide high-quality audits that meet the evolving needs of stakeholders and contribute to the integrity and reliability of financial reporting. For a deeper dive into the subject, we invite you to explore our comprehensive piece, [Clarity on the Future of Audit](#).





Questions to ask your auditor

- How are advanced technologies like AI, ML, and big data analytics integrated into the audit process?
- How do you leverage organizations' technology in your audit?
- How do you stay abreast of the fast-changing technology landscape and what principles do you apply to choose technological solutions for use in the audit?
- How are you addressing the growing importance of sustainability and ESG factors in the audit process?
- How do you ensure that your teams have the right skills and expertise to respond to the fast-changing technological, business, economic and regulatory landscape?



Tobias Pachlatko
Partner, Audit Innovation
KPMG Switzerland

+41 58 249 71 48
tpachlatko@kpmg.com



Evgenia Loushanskaya
Director, Audit Innovation
KPMG Switzerland

+41 58 249 63 98
evgenialopushanskaya@kpmg.com

This article is part of KPMG's Board Leadership News. To receive this newsletter three times per year, please [register here](#).

About the KPMG Board Leadership Center

The KPMG Board Leadership Center offers support and guidance to board members. We equip you with the tools and insights you need to be highly effective in your role, enabling you to focus on the issues that really matter to you and your business. In addition, we help you to connect with peers and exchange experiences.

Learn more at kpmg.ch/blc

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received, or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation. The scope of any potential collaboration with audit clients is defined by regulatory requirements governing auditor independence. If you would like to know more about how KPMG AG processes personal data, please read our [Privacy Policy](#), which you can find on our homepage at www.kpmg.ch.

© 2023 KPMG AG, a Swiss corporation, is a subsidiary of KPMG Holding AG, which is a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.