

Data and Analytics

Nikos Dimakos

As the case may be, auditors base their work on a relatively small population when compared to the total. They test a sample of transactions and activities, and relying on specific findings extrapolate their conclusions for the remaining population. Using Data and Analytics (D&A) tools, they can make analyses of past events more insightful. When using D&A tools instead of sampling, auditors can analyze all transactions processed. It enables them to identify anomalies and drill down on the items that show the highest potential risk, thus enhancing their ability to produce high quality audit evidence.

At the same time, perceptions and expectations with regard to the value of audits are evolving quickly. Audit committees, management and shareholders are demanding broader insight as well as efficient and effective audits. It is clear that D&A will have a fundamental impact on the audit profession in the decades to come.



Current Challenges

D&A will help explore historical financial information in depth and in length with a view to gaining fresh insights into the areas of corporate reporting that audit firms have traditionally focused on. But it also gives auditors the tools to go beyond the current financial statements in three ways:

- A critical and independent examination of corporate managers' projections of future business trends that can impact reported financial balances
- An analysis of non-financial data that are often regarded by investors as more significant drivers of value than financial data
- An examination of external data that affect the company under audit, such as trends in relevant markets.

All three of these areas raise a host of issues for auditors, regulators and the public. The global financial crisis has taught everybody that history alone is no longer a reliable guide to future financial results. This has implications for the way in which valuations of tangible and intangible assets (both on and off balance sheet) are derived.

Auditors are required to think outside the traditional parameters so that companies, auditors, regulators, lenders and investors will be better prepared for any next crisis. In addition they have to find better ways of assessing business risk as part

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of their audit engagements and there is a need to develop sophisticated techniques to make this happen.

Moving Forward

D&A provides new tools to find correlations, but how can and should auditors test the relevance and reliability of externally produced data before it is used as a key component of an audit procedure? To what extent can externally produced data constitute audit evidence to test management's internal valuations? There are no easy answers to these questions, but with the rapid proliferation of available data, there is a need for an open discussion among auditors, regulators, standard-setters, companies and investors in order to find common ground.

Auditors will continue to have a mandate to report on historical information, and several aspects of a company's financial statements are already dependent on management's forward-looking views on financial performance (such as the impairment model of intangibles, including goodwill, which depends on forecasts of future cash flows). The valuation of a business relies on an assessment of future performance, and this depends on weighing alternative financial scenarios and stress-testing the company's balance sheet by assessing the risks it faces. Historical financial performance only provides part of the information needed to assess a company's future prospects. While currently it is not necessarily the responsibility of external auditors, there is a growing need for an independent assurance of corporate reporting aspects beyond the statutory summaries of profit and loss, cash flow and balance sheet.

The audit must remain an unambiguous pillar of confidence while providing greater value, relevance and benefit around financial reporting analysis. Auditors must embrace this evolved approach to understanding an organization's most critical information, to ensure that all stakeholders continue to be well served by the audit profession.

Benchmarking

Through the use of D&A, audits will also become "smarter." Over time, the audit database will expand, building on itself to recognize repetitive patterns, enhance understanding of the company's financial character and risk profile, and improve audit insight and quality year after year. Since these processes will take place for nearly all companies, there will also be greater ability to benchmark an individual company's performance against broad, complete industry or geographical data sets, giving audi-

tors a far more valuable body of information which may be shared with key stakeholders.

The Focus Points for the Next Decade?

D&A promises to transform the audit profession as profoundly as in other areas of business. Auditors have always analyzed data, but the volume of business data and the ability to analyze them has grown rapidly in recent years and will continue to do so. When this is fully exploited, auditors will be offered opportunities to provide independent assurance on areas of corporate activity hitherto outside the audit purview that are of great interest to a wide range of stakeholders. Although this is something that the internal management can provide, an external, unbiased view is valuable if provided by industry experts with sufficient understanding of the macro-economic environment.

What Will the Audit World Look Like in 30 years?

In 30 years, the audit profession will no longer have the same mission as today. More and more automated and sophisticated systems and controls will be in place to cross check the operations and transactions of the companies and safeguard the investments and interests of all stakeholders.

By looking ahead and anticipating scenarios, an audit can play a major role in identifying future risks facing an organization and quantifying the impact they could have on performance. It can also help identify opportunities, giving organizations the foresight to take advantage. Through predictive analytics, by using historical performance trends and giving effect to current market events, organizations are better prepared to assess future performance. The future cannot be predicted, but having a fair idea of what it is likely to bring can make all the difference – also when it comes to audits.

Nikos Dimakos has 16 years of experience in management consulting and is in charge of IT Consulting of KPMG Greece. His main function is in Business Analytics and performance management systems with extensive experience in banking and consumer products. Having been with KPMG for most of his career, he has been involved in numerous projects for both international and local clients, managing several engagements with a view to analyzing their reporting requirements, designing and developing effective management information systems and exploiting big data to support the decision-making process of his clients. Today he is supporting the audit function to utilize data and analytics tools to enhance the value of our audit engagements.