New realities emerging from economic upheaval have enhanced the role independent auditors have to play in the economic recovery. Like many aspects of business during the pandemic, the pace and importance of technology adoption in the audit process has increased. Since there were tech-solutions always available but adoption by audit teams and clients was a mindset challenge, now overcome.

From physical to virtual audits
Globally, movement restrictions and 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 largely lost, which required the clients and the auditors to adapt to this new normal to maintain 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. When done correctly, a virtual audit is a digital transformation of the experience, which revamps the auditing process into something entirely new. 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
The uncertainty that the pandemic brought with it requires auditors to approach their work with a greater degree of professional skepticism and challenge. The Pandemic has changed the face of certain industries and sectors completely. Many business models face existential threats and some are showing great promise too. 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 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.

This means that auditors would appear to be asking tougher questions and sound more demanding. Clients on the other hand would want handholding during uncertain times so they can ride this wave. This has widened the understanding gap as to what is expected of assurance providers.

Reliance on specialists
Demand for IT auditors and specialist supporting auditors in financial risk management, valuations and cash flow analysis has tremendously increased, resulting in significant change in who and where to get talent from. The traditional mix of team members has completely changed, and we now have code writer, 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.

Data & Analytics and KPMG Clara
In recent years, technology has been reshaping the audit to make it more efficient and more
For banks, vast new regulation demands robust financial assurance processes and massive amounts of data across a wide range of operational areas.

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 percent confidence levels to something much higher. By developing algorithms on entire populations of data that use statistical sciences for sampling, but consider other data points as well, KPMG’s analytical procedures are more robust today.

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 us to have a more focused conversations about risks, and what they mean for the audit and a business.

Predictive analytics and cognitive technologies
As emerging technologies – from artificial intelligence and machine learning to the blockchain and predictive analysis techniques – become mature, there will even be more potential to reshape the audit.

KPMG Clara will evolve over time, adopting added capabilities and harnessing new technology as it matures — so that an audit’s level of insight increases. Predictive analytics capabilities will be developed further, enabling auditors to take information from multiple sources and apply it to the outlook and risks facing a business.

Cognitive technologies such as artificial intelligence (AI) and machine learning will also become increasingly incorporated into the audit. Initially enabling auditors to analyze unstructured data, cognitive computing will produce evidence and insights that will enhance the takeaways from an audit and improve audit quality. In the future, cognitive technologies can also allow auditors to obtain and analyze information from non-traditional sources, such as all forms of media — print, digital and social — and, combined with other information, draw a deeper, more robust understanding of potential business risks.

Changes to forecasting and reporting
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 pandemic-related defaults.

There are also a number of first-time items for banks and their auditors to consider. Under SAMA’s broad Covid-19 stimulus programs, banks have been the primary facilitators of government support to SMEs. Under IFRS Standards, the accounting for government assistance depends on the nature of the assistance. The requirements of the standards differ significantly on when to recognize that assistance and how to measure it.

In conclusion
Audit is transforming. While main purpose of audit (i.e. providing assurance) remains intact, our ability to deliver timely, efficient and robust audit is hugely dependent on new tools and technology. Technology has long been shaping the audit process, but never with as much urgency as now, during the pandemic. The role of technology will continue to increase, but – as with the introduction of any new technology – its effectiveness depends on its users’ capacity to understand and manage it, both from a people and operating model perspective. Auditors will be best served by learning and acting upon the many lessons taught by auditing during a pandemic.

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