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Disrupted: The Future of the Audit

October 12, 2023



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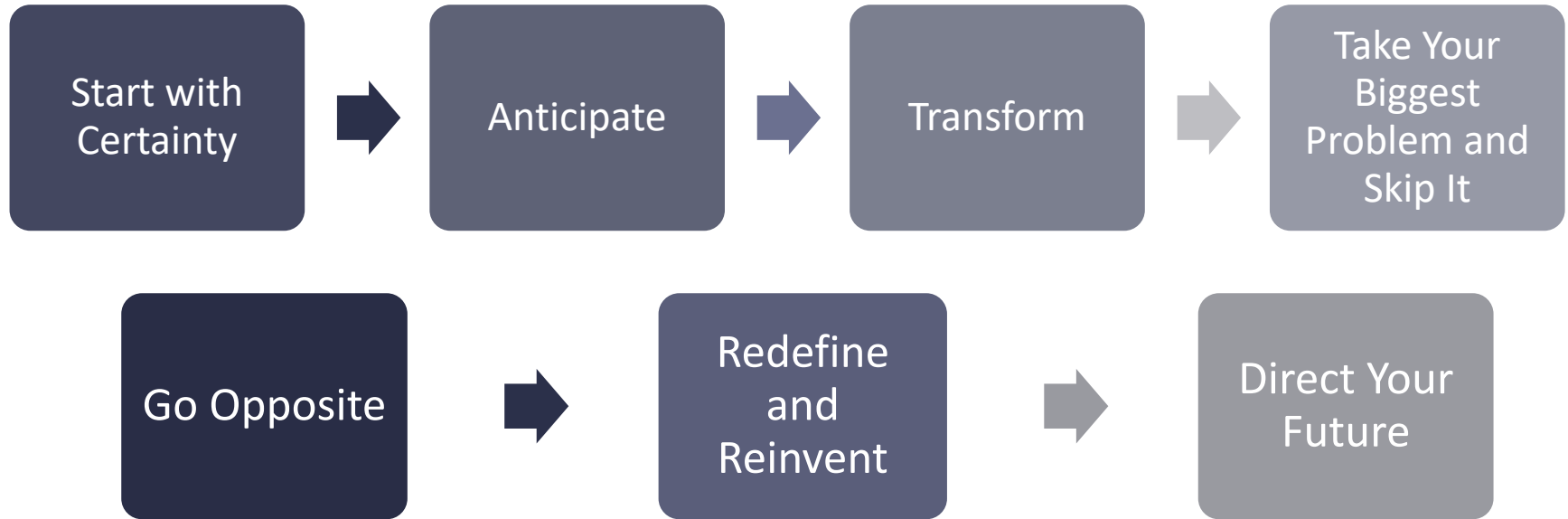
Learning Objectives

At the end of this session, you will be able to:

- Explain the major disruptors to financial and compliance audits.
- Discuss the industry trends that are driving change.
- Identify the strategies CLA is implementing to overcome these disruptors.



How to predict the future?



What are some areas involved in the accounting/audit process that you consider to be certain?



Capital Markets Ecosystem



Source: <https://pcaobus.org/news-events/speeches/speech-detail/the-future-of-auditing>





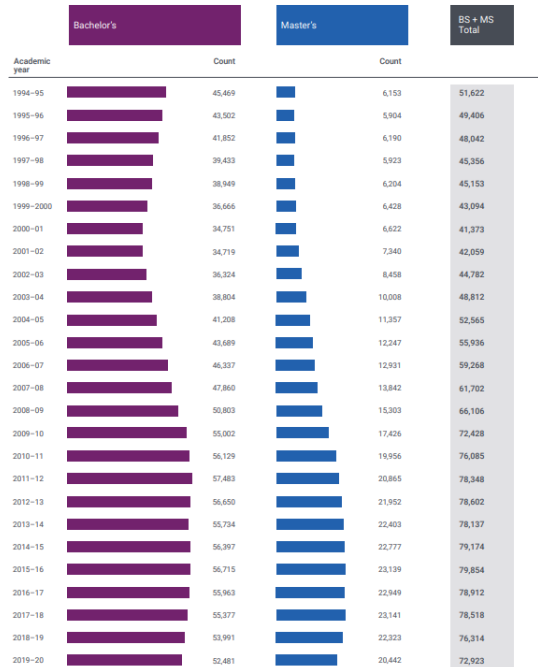
People



Certainty- People

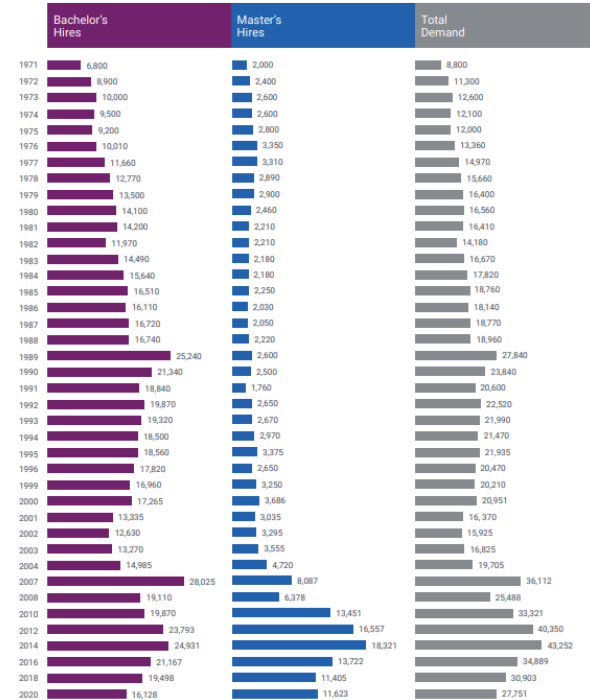
Supply

1.1 Trends in accounting degree completions – bachelor's and master's | 1994–2020



Demand

3.1 Trends in new accounting graduates hired into accounting/finance functions of U.S. CPA firms | 1971–2020



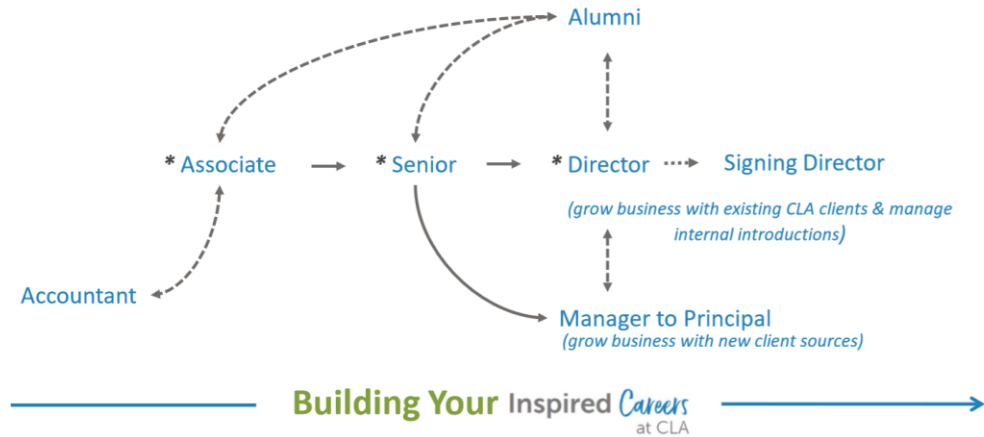
Staffing Model

- Tried and True Leverage Model?
- Millennial and Generation Z Talent Pool
 - Purpose
 - Flexibility
 - Client Interaction



Staffing Model

- Inspired Careers
- Marketplace Value
 - “Tours of duty”
- Flexibility
 - Industry
 - Location
- Career progression at your own pace



Certainty-How we work



Virtual Audit

The Case for....

- Advances in Technology
- Reduction in overhead costs
- Approximately 3.7 million Americans work from home at least half of the time
- Access to increased talent Pool
- Staff Retention

And Against...

- Less cohesiveness
- Lack of camaraderie
- Reputational Risk
- Security and compliance



Virtual Audit-Approach

- Assurance Information Exchange (AIE)
- Virtual Communication
- Seamless Assurance Advantage (SAA)
 - Industry Specialized Expertise on Demand Audit
- EyeQ (CLA integrated system)



The screenshot displays the EyeQ software interface, which is split into two panels. The left panel shows a table of audit requests with columns for Type, Reference, Summary, Status, Stage, and Responsible. The right panel shows a summary table with columns for Entity ID, # Conf's, # Att's, and Actions.

Type	Reference	Summary	Status	Stage	Responsible
AUD	A/W-958	Mgmt letter response	Client	Planning	Steve Stevens
AUD	A/W-999	3rd party loan services	Extensive Pending	Interim	Steve Stevens
AUD	A/W-083	Loan	Submitted	Interim	Steve Stevens

Entity ID	# Conf's	# Att's	Actions
HG-2	1	3	[Icons]
HG-1	4	2	[Icons]
HG-2	1	0	[Icons]



Future Ready Competencies

- Competent, Flexible, Innovative
- Future Ready Competencies (BLI)
 - Leadership
 - Anticipating and Serving Evolving Needs
 - Critical Thinking and Problem Solving
 - Communications
 - Technology Savvy & Data Analytics
 - Integration & Collaboration
 - Functional & Domain Expertise





Regulations



Regulators

GASB

FASB

GAAP

OMB

Grantors

Debtors

MSRB

Federal

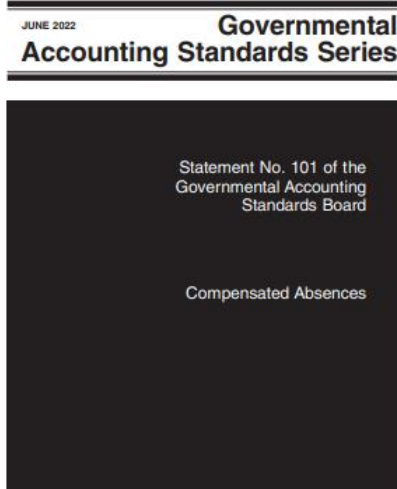
State

GAAS

GAS



Certainty- Regulations



GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

GASB Statement No.	Effective Year
67/68 Pension Reporting	2014
72 Fair Value	2016
74/75 OPEB Reporting	2018
84 Fiduciary Reporting	2020
87 Leases	2022
94 PPP	2023
96 SBITA	2023



Certainty- Timeliness

- GFOA reviewed approximately 4,400 in the COA Program from 2018-2020
 - Required within 6 months
 - 13 within 100 days or fewer (.3%)

Issuing Financial Statements *Faster*

Preparing financial statements takes time, but these tips can help governments speed up the process.



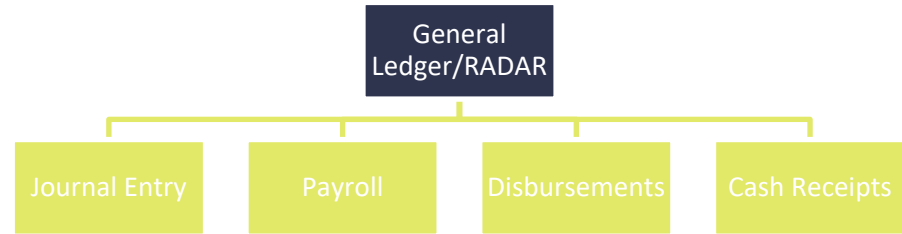
Financial Data Transparency Act

- S4295
 - Signed into law Dec 2022
 - New rules issued by 2024, Mandates will be effective around 2026-2027
 - Cost burden falls on the governments
- Unfunded mandate?
 - Reconfiguration of financial systems
 - Implementation of new software
 - Authorizes “joint rulemaking” of entities with no jurisdiction
 - Identical taxonomies across all types of public entities



CLA Data Analytics

- Standardized Analytics for the following:
 - Risk Assessment (RADAR)
 - Understanding transaction classes
 - Journal Entry
 - Payroll
 - Cash Disbursements
 - Cash Receipts
 - Year over Year Analysis (all processes)



Continuous/ Real-time Audit

- Continuous Audit (Red Book)
published by the CICA and AICPA in
1999
- Risk based auditing, emergence of
big data, and analytics have changed
the landscape
- Robotic Process automation,
embedded Audit Modules



Continuous/ Real-time Audit-Approach

- Access to GL system for year around audit
- Outsourced Internal Audit Services
- Customized audit scripts



Anticipate/Transform Industry Specialization

- Audit Quality
 - Complexity of Standards
 - Industry specific training and expertise
- Economies of Scale
 - Geographic service

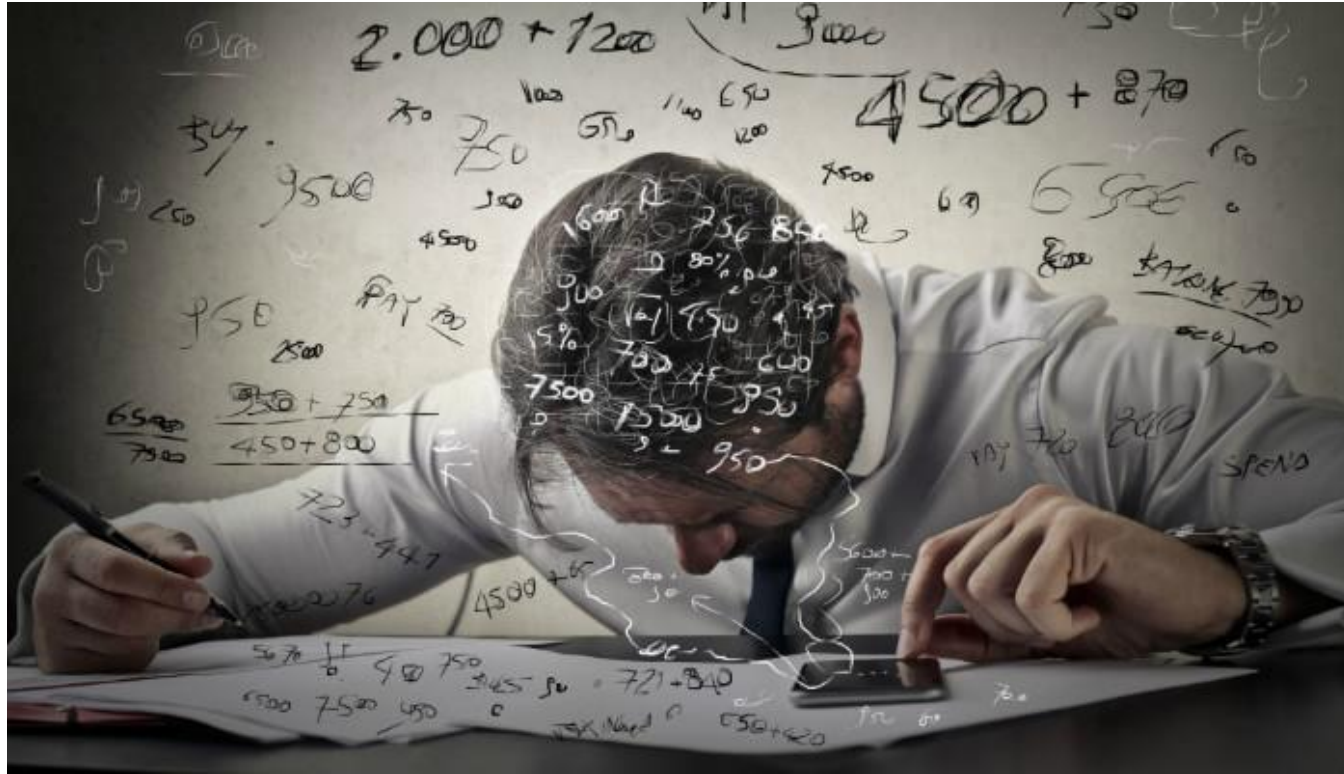




Deliverables



Certainty- Technology



Source: <https://www.linkedin.com/pulse/too-much-data-enough-insight-action-denise-anza>



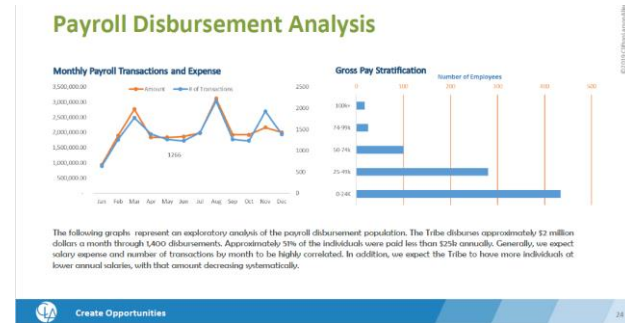
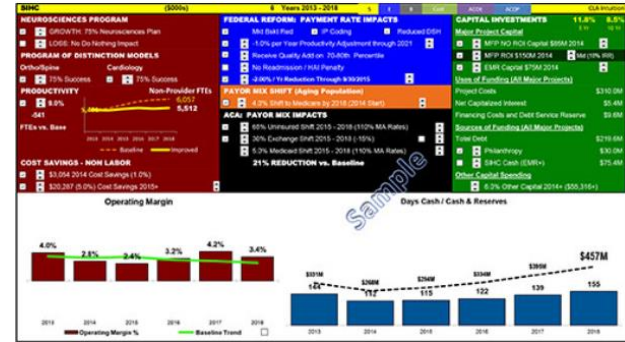
Financial Statements

- Financial Reporting still falls short
 - Comparability (Estimates and Judgements, revenue recognition, fair value, universal standards)
 - Intangibles
 - Non-financial performance (environmental, social, governance (ESG))
 - Historical (real time)



Visualization

- Delivering Insight & Detail
 - Dashboards
 - Future Projections
 - Risk Assessments
 - Transaction Class analysis



Emerging Trends in Finance/Emerging Trends

- Accumulate Data
 - Blockchain
 - AI/ChatGPT
- Analyze and Write Reports
 - Complexity
 - Version Control
- Present to other interested parties
 - Check books
 - Real time analysis

Blockchain Technology Local Government Applications and Challenges



- Cook County, Illinois-Real Estate Conveyance, Land Registry
- Estonia-Taxation, citizen identification, voting, health, and public safety
- British Columbia, Canada- Cannabis Tracking
- Austin Texas-Identity and Vital records for Homeless population
- Brooklyn, New York-Energy Microgrid
- Berkeley, California-Municipal bonds
- State of Delaware-Business filing and stock tracking

The GFOA and ICMA released a white paper entitled "Blockchain Technology: Local Government Applications and Challenges" which explores potential blockchain applications in U.S. local governments as well as more established international applications in other levels of government. State and local governments have increased their exploration of innovative approaches to deliver essential public services. Early applications in local governments suggest that innovative blockchain solutions should be approached with an open mind and a healthy dose of skepticism.



Create Opportunities

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Conclusion/Questions



Expanded Auditor Skillset



More Regulations/More Timely



More Opinions from a Continuous Audit



Removed Barrier between Stakeholders and Auditors

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Questions?