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ACCOUNTING & AUDIT

New Approaches to Audits Gain Ground

With markets changing and capital becoming more constrained by the day, there is a rapidly heightened awareness of the role that due diligence and audits play.

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By **Tod McDonald.**

With markets changing and capital becoming more constrained by the day, there is a rapidly heightened awareness of the role that due diligence and audits play. In short,

with interest rates on the rise and recessionary fears growing, the tide is, at long last, going out — and when the tide recedes is when we see what truly lies beneath. Many experts predict that the years ahead will be fueled by financial fraud investigations and a heightened emphasis on the ability to conduct due diligence and ensure clear financial insights.

For many accounting firms this will mean increased opportunities, to sell not only M&A diligence services and financial statement audits, but broader services that allow for ongoing, regular reviews of financial data. In fact, some advisors predict that at some juncture in the future a once-a-year audit will transform into a firm's ability to review financial data for a client, in its totality, on a periodic basis, even monthly.

Getting there will require not only new technologies — but new approaches to human capital as well, but both are beginning to emerge just at the right time.

Just as due diligence demands are expected to rise, the new category of verified financial intelligence solutions are emerging, offering a new solution to the laborious work of establishing a concrete and complete database of evidence. The long-held practice of audit process mapping posits that client-supplied data is cross referenced with independently sourced material, a time-consuming process that can take as much as 80-90 percent of the billable hours on any engagement. These manual verification procedures are painstaking — and most often relegated to the audit professionals early in their career. In addition, the sheer magnitude of work involved means it has become industry standard for firms to manage large quantities of financial data — and the need to verify it — by sampling, conducting a detailed review of only a portion of the dataset.

With new solutions like Verified Financial Intelligence (VFI) platforms, firms can digitize information on bank and brokerage statements, check images, and monetary transfers, eliminating the need to undertake painstaking manual work while removing the risk-taking involved in manually verifying accounting transactions. VFI platforms aggregate data from accounting systems and banking systems — and use algorithms to compare that data and look at its interdependencies and relationships, tracing the full accounting cycle. The labor-intensive work of managing bank confirmations or data clean-up, VLookups, matching and pivot tables no longer consumes large amounts of billable time. Additionally, visualization of data, helps expose important stories and connections in the material, quickly and at-a-glance.

Ultimately, these new software platforms provide an opportunity to improve staff utilization, limit or eliminate the need for sampling entirely, and significantly speed up procedures and improve audit quality.

Freeing staffers from the routine and mundane tasks of data clean-up and re-directing them to more rewarding, consultative work, couldn't be happening at a better time, either. As accounting firms begin 2023 they have one thing top of mind — how to effectively recruit and retain talent. According to a [Wall Street Journal story on December 29, 2022](#), “More than 300,000 U.S. accountants and auditors have left their jobs in the past two years, a 17 percent decline, and the dwindling number of college students coming into the field can't fill the gap.”

According to Accounting Today's editor in chief Dan Hood in the January 2, 2023 issue, “From the [Top 100 Firms](#) down to small local shops, the inability to staff engagements and fill partnership spots is forcing the profession to up salaries (as at [KPMG](#) at the start of the year), investigate outsourcing and offshoring, and pursue automation as much as possible.”

Audits have opportunity for growth, change and improvement — and the technology exists today. And, with markets changing, and diligence becoming a critical need for clients, there are vast opportunities to eliminate manual verification — and move to technologies that provide verified financial intelligence as a baseline for data — and visualizations that provide financial storytelling. For firms looking to keep young professionals engaged, young professionals looking to work with the latest in statistical analysis and reporting tools, not static decades-old approaches, the adoption of new technology becomes a compelling strategic advantage for the year ahead.

Tod McDonald is co-founder, [Valid8 Financial](#), helping forensic accountants, fiduciaries, attorneys, investigators, and auditors eliminate data prep work associated with finding and analyzing evidence of financial records. In addition to being a CPA and CIRA, he was the lead investigator on an investigation that unraveled a \$150 million dollar Ponzi scheme in Washington. Tod was a senior auditor at Ernst & Young early in his career and has spent decades working to clean up and turn around complex accounting and financial situations.

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