



Tax & Accounting

Delivering a Data-Driven Audit

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What do you want your firm and your team to be, do, create and experience over the next five years?

If you're like most firm leaders, you're looking to grow. According to a recent survey performed by Accounting Today for Wolters Kluwer, 96% of firms are taking steps to grow their business in the next three to five years.¹

Two significant roadblocks stand in their way: staffing shortages and burnout.

The labor shortage in the accounting profession isn't new — firms have been talking about it for years — but the problem is poised to get worse without action. Just consider the following:

Projected bachelor's, master's and Ph.D. accounting enrollments were down 4 percent, 6 percent, and 23 percent in 2018, and the number of new CPA exam candidates hit a 10-year low.²

Among accounting graduates who do not plan to become CPAs, top reasons for not pursuing the CPA credential include not seeing value or relevance to their careers (32%) and not seeing the return on investment (28%).³

Stress brought on by the pandemic has worsened employee burnout, with 52% of workers saying they feel burned out.⁴

Firms are looking for ways to attract talent and retain the talent they have. Providing flexible working arrangements, competitive salaries, and similar initiatives are effective ways to entice and retain staff.

Data-driven audits are another way to make the profession more attractive to potential employees.

Many professionals may think of data-driven audits as adding value for clients — and they do. However, a data-driven audit also benefits auditors by reducing the more tedious parts of their jobs and making them more efficient while maintaining and improving audit quality.

This white paper will define the data-driven audit and dig into why data-driven audits are transforming the auditing profession. We'll also provide tips for deploying data-driven audits in your firm, whether your team has three auditors on your team or 3,000.

¹ Wolters Kluwer Tax and Accounting. "[A Deep Dive into the Strategic Goals of Today's Accounting Firms](#)," accessed January 23, 2022.

² AICPA. "[2019 Accounting Graduates Supply and Demand Report](#)," accessed January 23, 2022.

³ Illinois CPA Society. "[A CPA Pipeline Report: Decoding the Decline](#)," accessed January 23, 2022.

⁴ Kristy Threlkeld. "[Employee Burnout Report: COVID-19's Impact and 13 Strategies to Curb It](#)," Indeed, accessed January 23, 2022.



What Is a Data-Driven Audit?

Data is the foundation of a data-driven audit. Auditors pull in client data, starting with the trial balance and general ledger, and leverage these to perform a robust data-driven risk assessment. That data, along with subledger and other sources, is used throughout the audit, tailoring the audit approach and audit programs using a methodology that enables auditors to choose the right procedures to address the identified and assessed risks.

It can be tough to determine where to focus time and resources in any audit. Auditors should already use a risk assessment to drive the procedures they perform, but this approach can have its limitations with traditional auditing methods.

First, auditors may not be able to identify or adequately assess all the risks that are present.

Second, they can struggle with designing or tailoring audit procedures to address those risks.

Third, audit procedures are still largely sample-based. Testing the bulk of transactions is cost- and time-prohibitive; auditors can't manually review every transaction, receipt, or invoice.

As a result, auditors tend to:

- Over-audit by performing substantive tests of detail on low-risk areas
- Perform the same procedures that they did last year
- Overlook misstatements that aren't picked up by traditional sampling

In a data-driven audit, the data helps auditors to make decisions about which areas present the most significant risks by delving deeper into current year data and incorporating data from prior years and external benchmarks.

For example, data analytics tools can help identify unusual spikes in activity, adverse longer-term trends, new transaction flows, etc. All this analysis can be completed in a fraction of the time that it would take the audit team to perform manually and presented in a way that makes them easy to interpret.

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Knowledge-Based Audit Methodology

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Data-driven audits can leverage data beyond the general ledger and subledgers. The right tools can help uncover areas previously un- or under-utilized. With the right tools, this “dark data” can not only be uncovered but also used to provide additional insight and foresight beyond the financial statements.

Data-driven audits are the future of audit — and not just big audits — because they:

- Improve efficiency by reducing audit scope for areas that are lower risk and replacing time-consuming manual testing with data analytics.
- Reduce risk through a more robust risk assessment and data analytics, enabling auditors to examine 100% of transactions.
- Add value by providing more actionable insights for clients, helping firms to overcome the commoditization of audits and fee pressure.

“We started down the road with data-driven audits about three years ago with a focus trying to incorporate data analytics into our everyday procedures. One of the biggest drivers behind that was efficiency — trying to gain some realization for our audits, knowing that some areas in our audits were taking way more time than was necessary. There were better ways to do it.”

Andy Hines, CPA
Senior Manager, Whitley-Penn



Data-Driven Audits: A New Employee Benefit

The workplace has seen a dramatic shift since 2019. Hybrid and remote work is here to stay, and employees are demanding more flexibility and a better work/life balance. They want to work for organizations that care about their well-being and career development.

Data-driven audits can help your firm address these expectations by supporting remote audits and automating time-consuming and manual audit procedures. When data can flow easily from the client to the auditor, technology can screen for fluctuations and anomalies and flag any that require further review.

To be clear, technology isn't going to replace the auditor — auditor judgment and decision making will continue to be crucial. Technology will provide the auditor with the information and insights needed to make the right decisions more efficiently and effectively.

Also, the future of audit doesn't demand that every auditor is a data scientist or can write code. Well-designed software solutions enable them to use their existing skills more effectively.

More junior staff members no longer have to spend hours verifying large samples, cross-checking transactions, and inputting information into audit programs. Instead, they can focus on more challenging analytical or client-relationship tasks that match their talents and interests.

With the solutions available today, your firm doesn't have to have a huge IT budget or data specialists on staff, and becoming more data-driven doesn't have to be all-or-nothing. You can start by incorporating data analysis in your risk assessment process, implementing journal entry testing or replacing key substantive tests with data analytics alternatives. Taking the first few steps is often the hardest, but from there, incremental improvement is much easier.

“Often in our work, we receive large sets of data from our clients, and it’s difficult to manually dissect that information and identify what’s relevant and meaningful for us in the audit. It can become a huge time drain and burden to teach newer staff to work through that data. So, for us, we saw analytics — and TeamMate Analytics — as a tool we could implement at every level of our audit and achieve a solution to those problems: efficiency and quality.”

Morgan Martin, CPA
Senior Associate, Rödl & Partner



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With the easy-to-use tools available today, the people running pre-defined analytics need minimal training.

Keys to Successful Analytics

One success factor contributing to a successful data-driven audit is having the right analytics skills and experience. There are four basic steps for using analytics in your audit.

1. Decide when to apply analytics.

This step requires the most knowledge. The person deciding when to apply analytics needs a good understanding of audit methodology and how to apply analytics. The person chosen doesn't necessarily have to be highly experienced.

An auditor with a couple of years of experience can handle this role if they're interested in and excited by data analytics. This knowledge can be baked into your methodology and audit programs to avoid needing the skills on every audit.

2. Determine how to employ analytics.

This option is slightly less difficult. It requires an understanding of how to employ analytics tools in practice — in other words, knowing how to design the test you need using the tools you have.

This skill can be learned, but it's also helpful for the person performing this role to have some experience. Standardized pre-defined analytics and workflows can be shared across many audits to dramatically simplify this step for the auditor on the ground.

3. Run the analytic procedure. With the easy-to-use tools available today, the people running pre-defined analytics need minimal training.

4. Follow up on the results. The people performing this step need general auditing skills, such as having contact with the client and the ability to follow up. This step should be done by the auditor on the engagement.

Note the same person doesn't have to perform all of the steps. We tend to see three broad approaches to deploy data-driven audits.

- Option #1: Train all auditors to perform analytics themselves. This approach can work, but not all auditors are naturally inclined to manipulate and understand data or have experience applying analytics tools in different situations.

- Option #2: Leave analytics to specialists. Some firms have a couple of people handle analytics for all the firm's audits. This approach can be difficult to scale — especially during busy season because the demand is focused on a short period.

This approach may be inefficient, with highly experienced people doing significant routine work and running the same analytical procedures on many audits. In addition, the specialist most likely won't know the client or the context of the results they see, making it difficult to leverage them effectively.

- Option #3: A hybrid approach. In most firms, the best approach is to have specialists or analytics champions create a standard analytics suite, handling the first two steps (deciding when and how to employ analytics).

The audit team can simply run the standard analytics on the engagement and follow up on results. This champion-based approach ensures you're using people's skills and knowledge most effectively.

7 Areas Where a Data-Driven Audit Can Add Value

The AICPA's Assurance Services Executive Committee's Emerging Assurance Technologies Task Force continues to develop Audit Data Standards, which provide a standard data format for the files and fields needed for financial statement auditing.⁵

While these standards are voluntary for your clients, auditors are required to obtain a comprehensive understanding of client data, including the business and its processes, its ERP system, and databases.

Starting by automating some of the highly manual, routine substantive tests your firm runs on every client will help your firm comply with this requirement, reduce the burden on your team, and appeal to prospective talent.

Once your audit team sees the efficiency and quality gains, they'll be motivated to continue learning and working toward a more data-driven audit.



TeamMate® Analytics

With ever-evolving AICPA Standards and stricter requirements, it's critical that every auditor has access to an easy to use data analytics tool.

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⁵ AICPA. "Audit Data Standards," accessed February 11, 2021.



Some areas that can provide quick wins with substantive and control testing include:

- **General ledger and journal entries.** Data analytics can quickly apply standardized tests to analyze the GL and journal entries to identify anomalies and possible management manipulation.

- **Revenue and accounts receivable.** Revenue is a key audit area, and there is usually a high volume of transactions involved. Data analytics can help uncover all of the different revenue flows in the business and look for unusual trends, duplicate sales, sales to new customers.

You can also test customer master data for anomalies and onboarding controls and automatically extract transactions for cut-off.

- **Fixed assets.** Data analytics tools can quickly recalculate balances and depreciation and identify misclassification.

- **Inventory.** Many businesses have material inventory balances, and counts are traditionally relied upon for completeness and existence. Data analytics can efficiently assess valuation by identifying slow-moving or obsolete inventory and making light work of reconciling count results.

- **Joining and comparing ring sources.** Data analytics make comparing two sources of data easy — bank statements to cash entries, employee to vendor master data to uncover fraud, three-way matching of sales and purchases.

- **Confirmations.** Using technology, not people, to perform bank and account confirmations.



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How Wolters Kluwer Helps Firms Deliver a Data-Driven Audit

Wolters Kluwer's audit approach supports a data-driven audit and collaborative client experience. Our reliable, integrated suite of solutions reduces manual, repetitive tasks while improving productivity, increasing audit quality and helping you grow revenue.

The audit approach doesn't take auditor judgment away. It focuses audit processes on auditor judgment. It also facilitates the auditor's ability to make informed decisions by ensuring that the audit is tailored for each client, and that the work performed is linked to assessed risks.

That unique approach focuses on the entire end-to-end audit workflow by combining:

- Powerful, methodology-driven tools like [CCH Access™ Knowledge Coach](#) or [CCH® ProSystem fx® Knowledge Coach](#)
- The efficiency of [CCH® ProSystem fx® Engagement](#), [CCH Access™ Engagement Essentials](#), [TeamMate® Analytics](#), and [CCH Access™ Validate](#) for bank confirmations
- The comprehensive content of [CCH® Accounting Research Manager®](#)

Conclusion

Data's impact on the audit is growing every year. Data's importance to and impact on audit engagements was magnified by the COVID-19 pandemic, which accelerated the pace of change in where and how we work. We've learned that improving audit quality while creating a better experience for your team and clients is possible.

Leveraging analytics in the audit is no longer new or novel — it is becoming essential for understanding the client, gathering audit evidence, performing audit procedures, and delivering valuable insight to clients.

In a world where competition for clients and talent is intense, staying on top of your audit game is crucial. Invest in tools to help you navigate these new expectations and develop a more data-driven audit approach. Both audit quality and your team's morale will soar.

Next Steps

Choose the right tools.

Look for tools that integrate with your firm's existing solutions. The tool should be relatively straightforward for auditors to pick up without extensive data analytics experience.

Get started.

Develop a standard set of analytics and require your audit team to run them on every audit. Once your audit team sees the benefits, they'll be motivated to continue learning and advancing the data-driven audit.

Expand usage.

Schedule ongoing discussions with audit teams on the potential for expanding the use of data analysis in the audit.



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