



How technology is enhancing audit quality

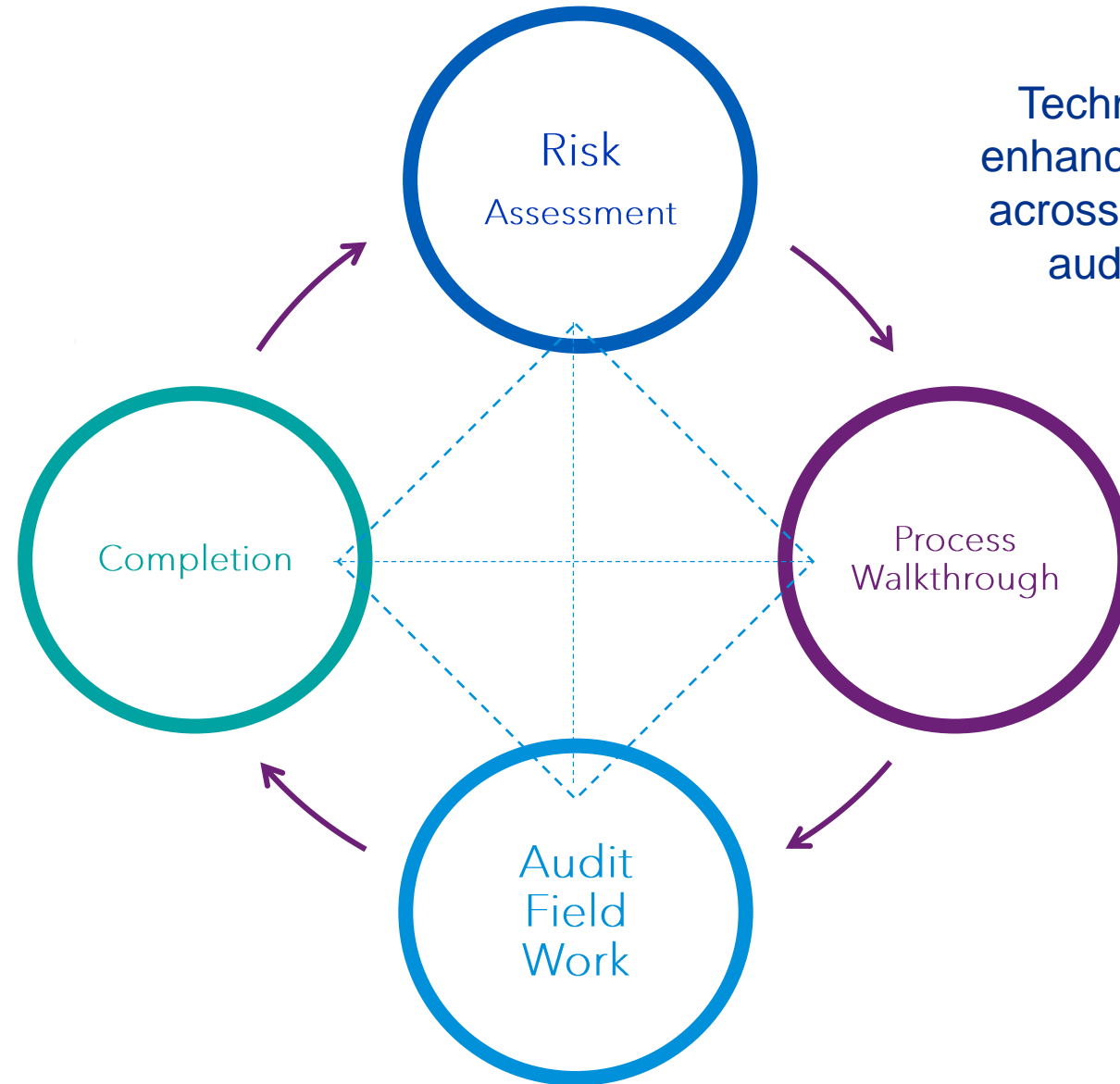
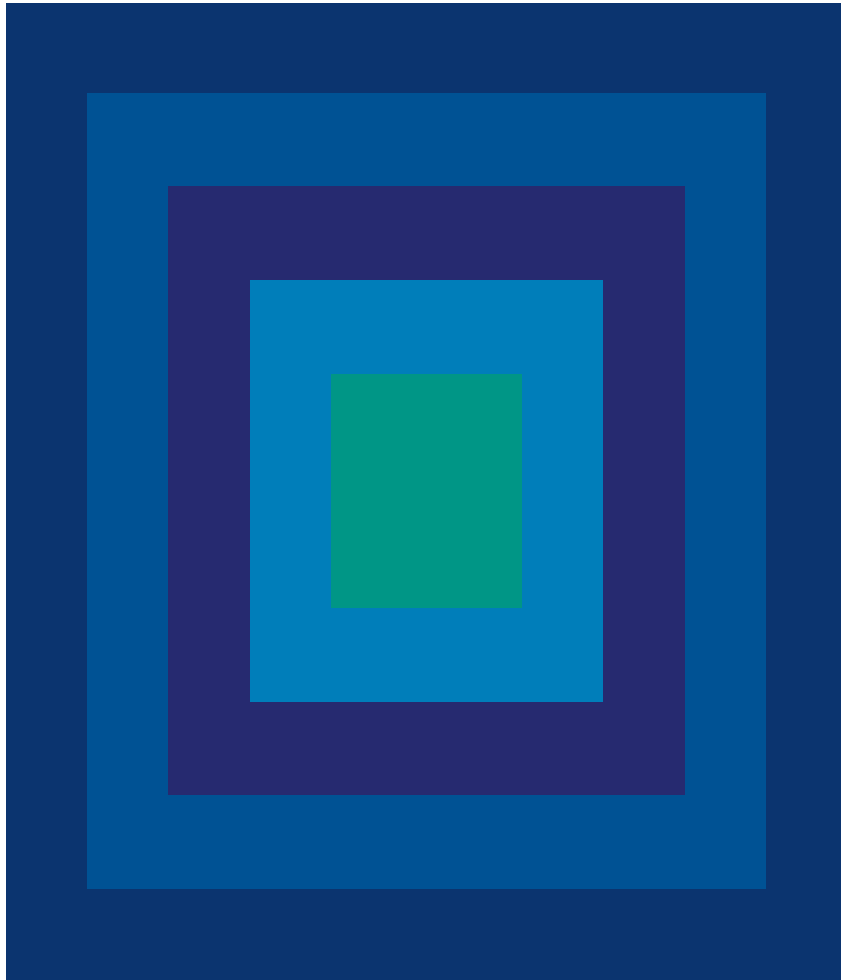
Nick Frost
KPMG – Head of Technology & Innovation



Agenda

- 1 Annual Audit Cycle
- 2 Risk Assessment
- 3 Process Walkthrough
- 4 Audit Fieldwork - Transactions
- 5 Audit Fieldwork – Judgements – Asset impairment
- 6 Audit Fieldwork – Judgements – Loan assessments
- 7 Completion
- 8 Challenges & the future

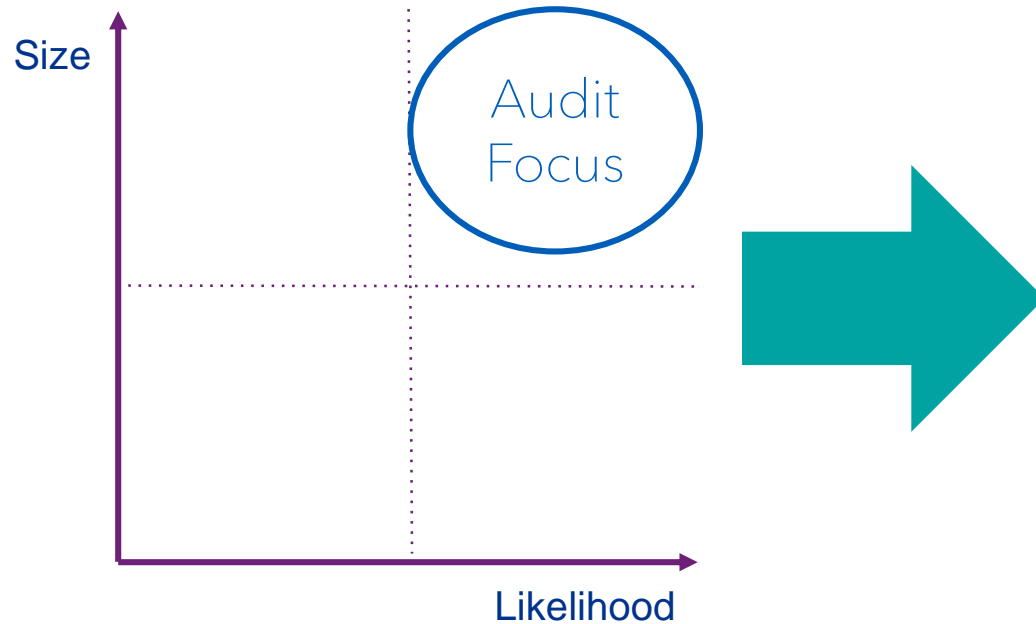
Annual Audit Cycle



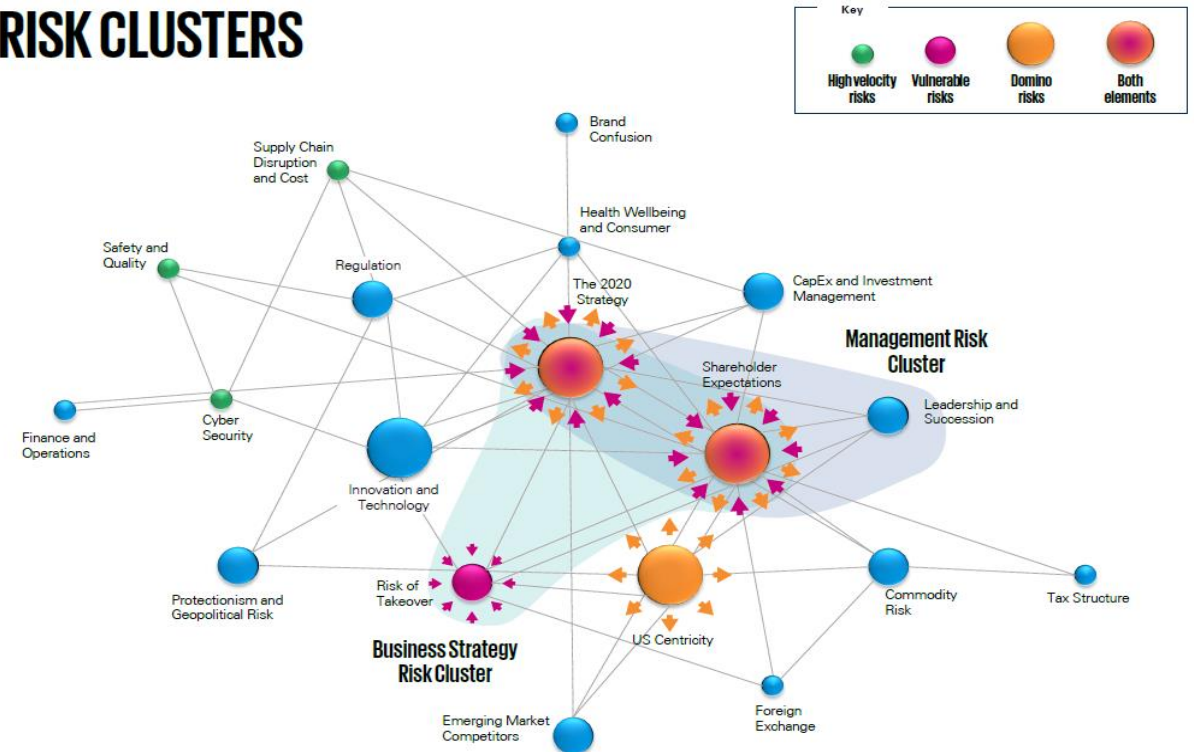
Risk Assessment

Old world risk assessment

Tech Enabled - Dynamic Risk Assessment

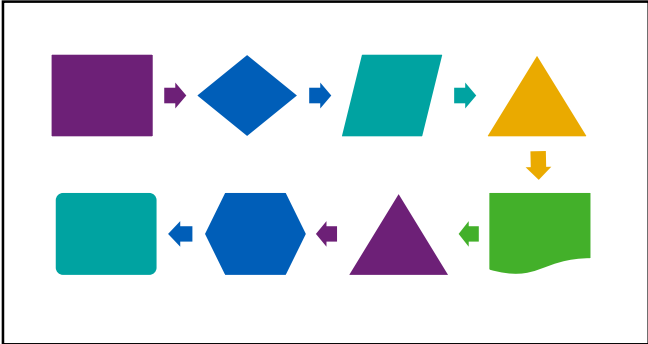
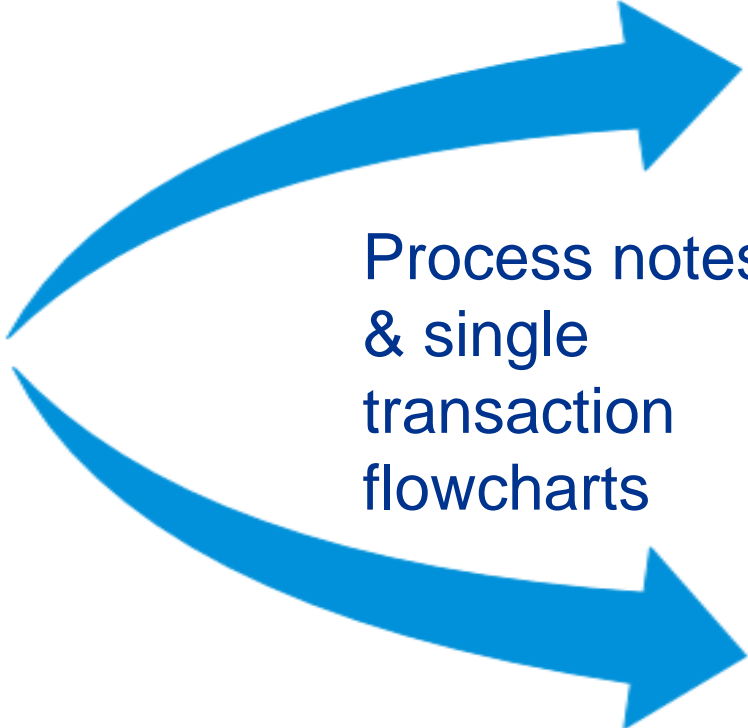
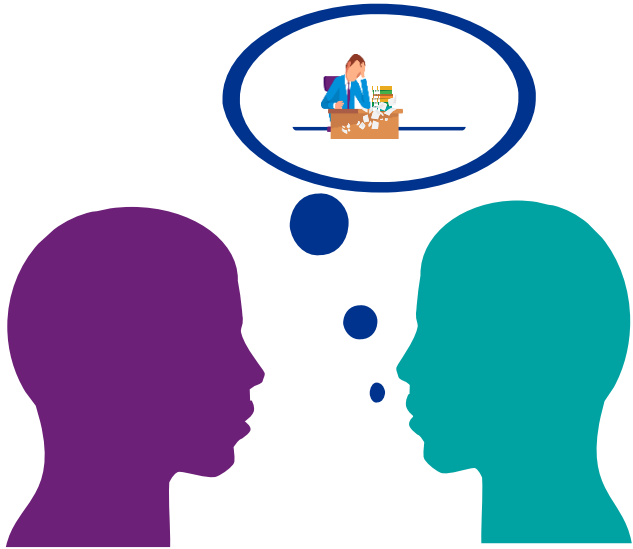


RISK CLUSTERS



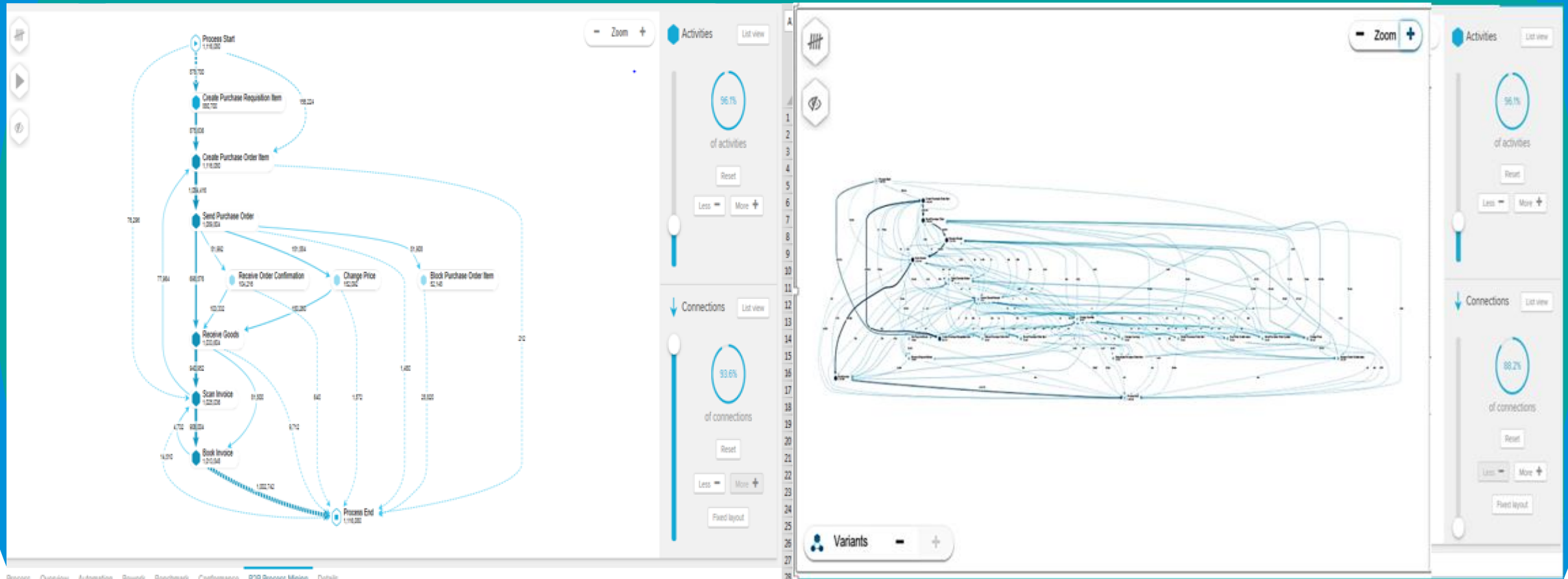
Process walkthrough – old style

Old world – manual process walkthroughs



Process Walkthrough - Technology Enabled

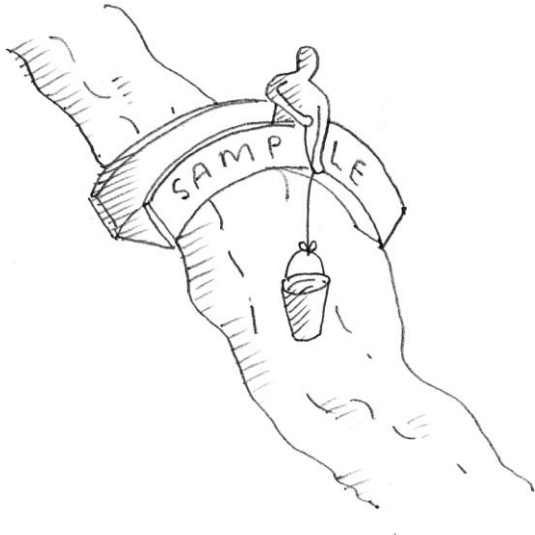
Technology enabled – automated transaction flows



Audit Fieldwork – Transactions testing

Old world

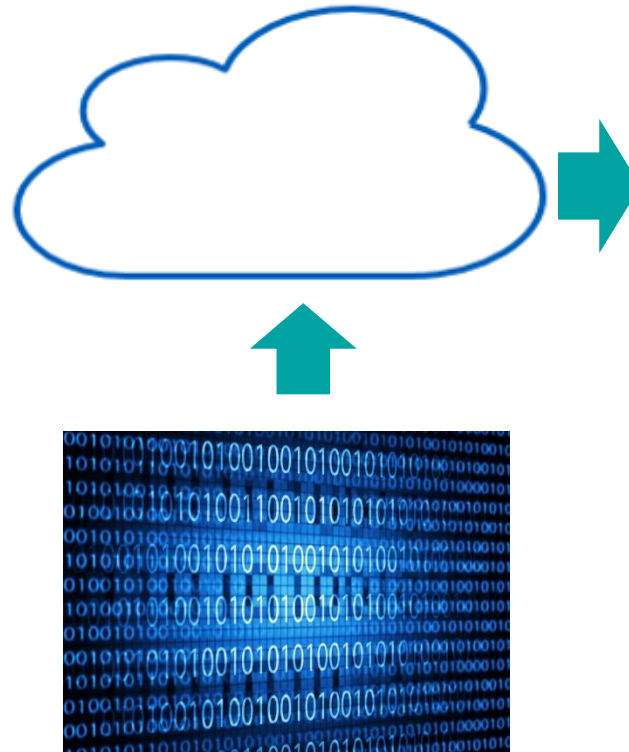
SAMPLE TESTS



Technology Enabled

100% AUTOMATED AUDIT TESTS

- Sales three-way matching
- Purchases three-way matching
- Revenue to cash receipt matching
- Revenue cut-off testing
- Sales/Purchases Process segregation of duties testing
- Purchase & sales approval/credit limits testing
- Fixed Asset sub ledger testing
- Inventory sub ledger testing



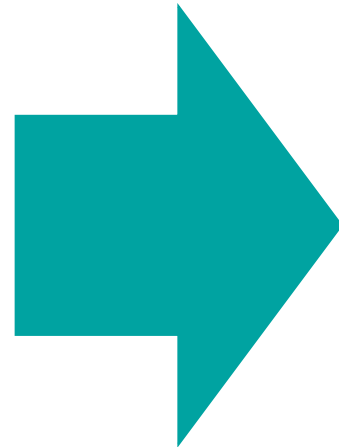
Audit Fieldwork – Judgements

Asset Impairment – Assessing discounted cash flows

Old world

- Sensitivity table using spreadsheets
- Limited insight & challenge
- Manual

Growth	6%	7%	8%
Discount rate			
3%	X	X	X
4%	✓	X	X
5%	✓	✓	✓



Technology Enabled

- Algorithms providing unlimited scenarios analysis
- Probability assessed predictions for valuation scenarios
- Higher quality of insight, debate & challenge



Audit Field Work – Judgements

Commercial mortgage loan assessment

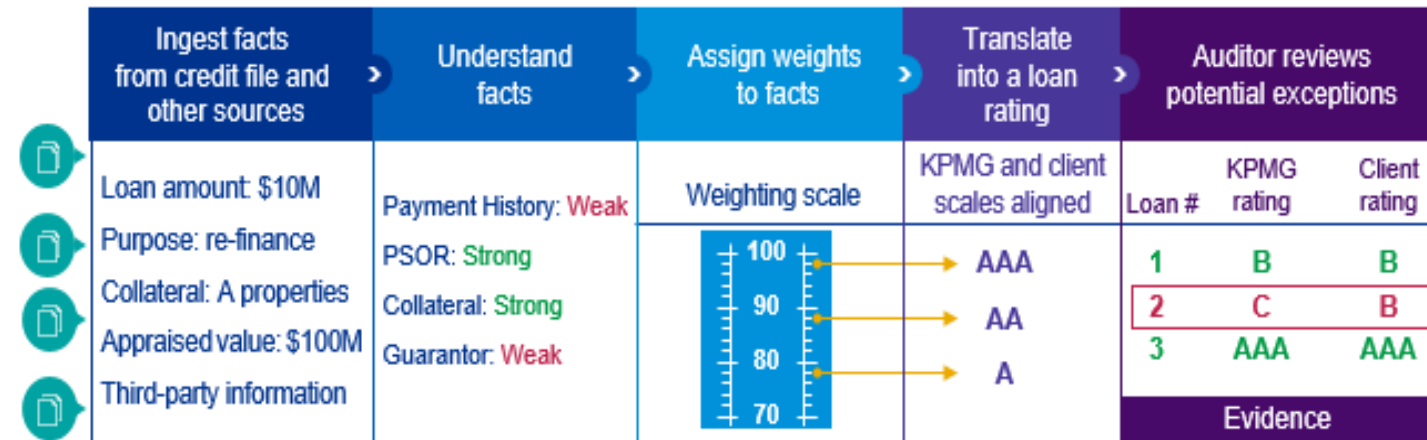
Old world

- Detailed sample based testing
- Manual reviews of (limited) documentation
- Contingent upon auditor knowledge



Technology Enabled

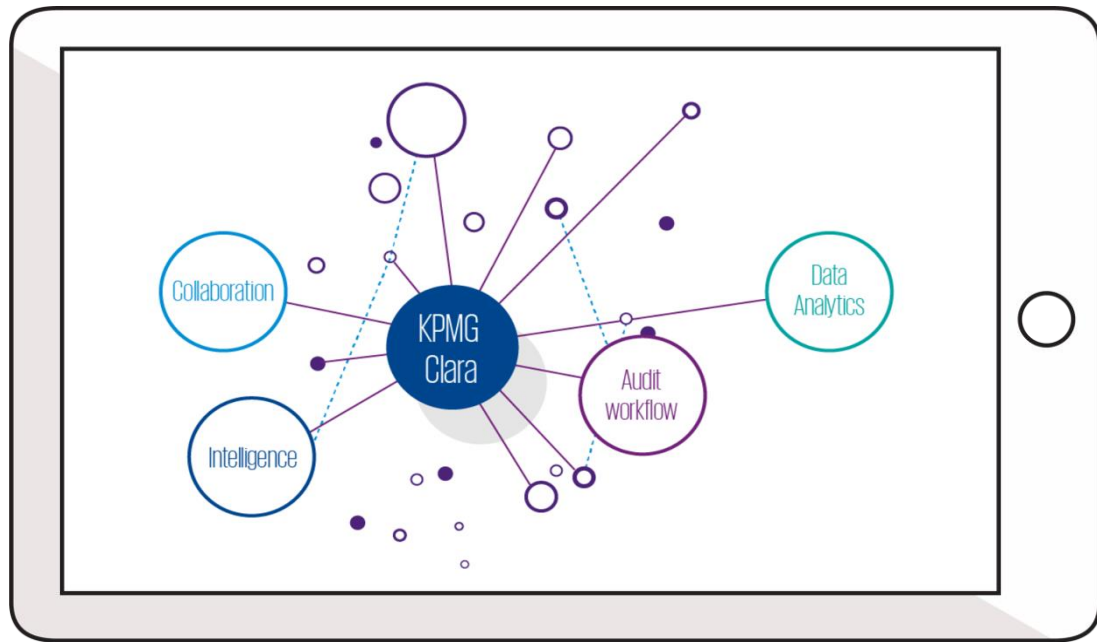
- Artificial intelligence driven assessment
- 100% population
- Uses multiple information sources



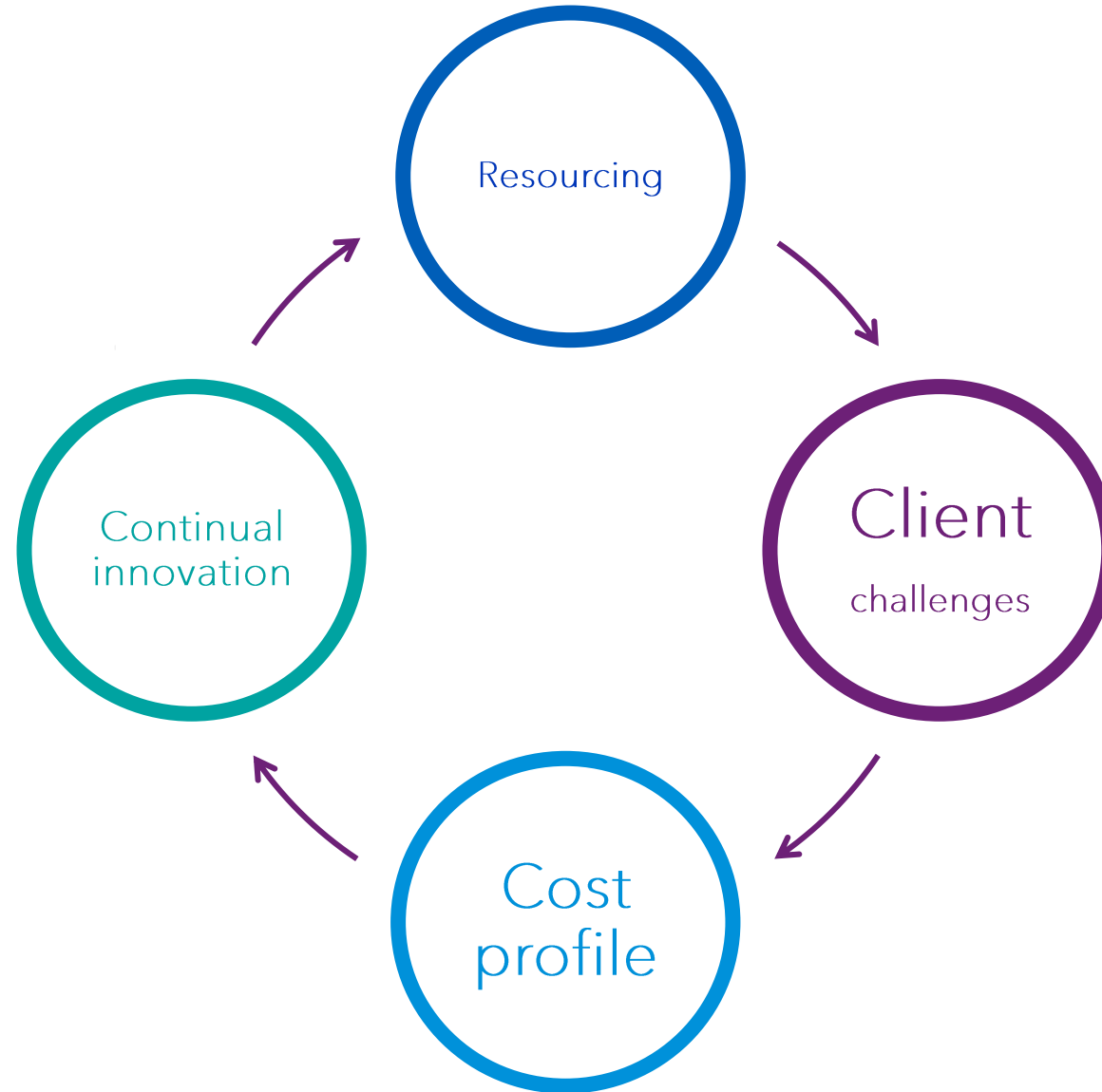
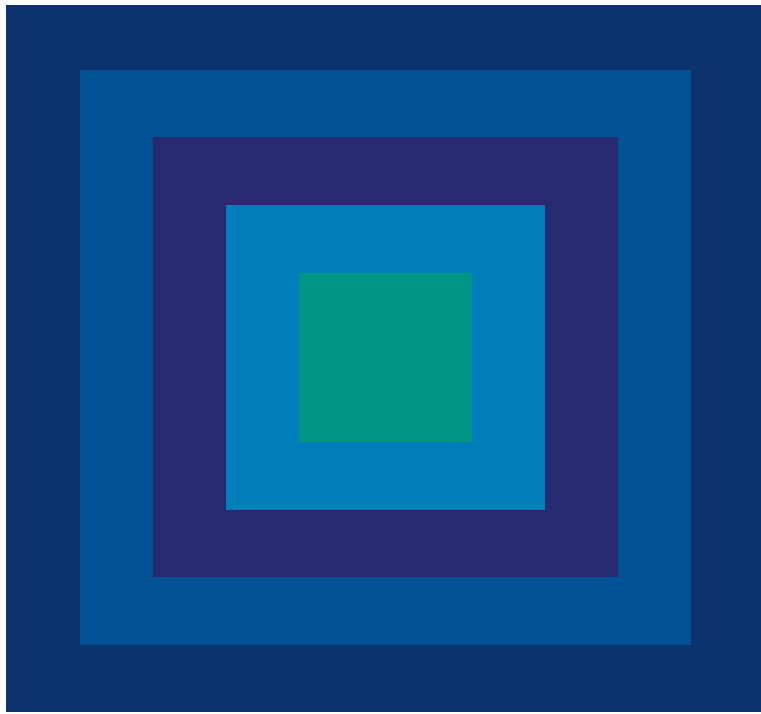
Completion

Technology enabled reporting and interactive visualisation

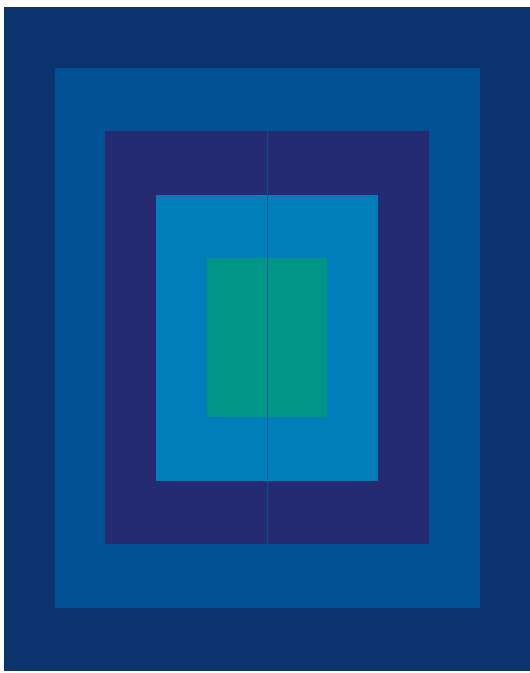
- Client interactive KPMG Clara platform
- Client interactive dashboards of analytics
- KPMG Clara operates for the entire audit cycle



Challenges & the future



Challenges & the future



Further references

Video based references

- Audit of 2023 video:
<https://home.kpmg.com/uk/en/home/insights/2017/10/kpmg-clara-dynamic-audit-technology.html>
- KPMG Clara video – a platform based audit:
<https://home.kpmg.com/uk/en/home/insights/2017/06/kpmgclara-video.html>

Reading:

- Audit's new focus: <https://home.kpmg.com/uk/en/home/insights/2016/09/audits-new-focus.html>
- Technology will improve audit quality but not eliminate all the risks:
<https://home.kpmg.com/uk/en/home/insights/2016/09/da-wont-eliminate-the-risks-that-cause-audit-failure.html>
- D&A allows a greater focus on risk & strategy:
<https://home.kpmg.com/uk/en/home/insights/2016/09/da-allows-greater-focus-on-risk-and-strategy.html>

