Rapid, fundamental changes are sweeping the finance function – with the pace and direction primarily set by digitalisation. But that is not all. The challenges faced by CFOs vary from sector to sector. In industry and commerce it is cost pressure and improving business performance; for banks and insurance companies it is also compliance and the heterogeneity of IT. This is a journey the digital auditor (Auditor 4.0) is wise to undertake hand in hand with the CFO. By joining forces, they can make a great contribution to value creation.

The finance function is the nerve centre of an organisation. It is where data from most corporate functions come together for quantitative analysis. Ideally, it also provides strategic impetus, serving as an internal control organ with a direct influence on the performance of the business. The auditors verify the relevant data and information in the form of accounts and consolidated financial statements.

Hand in hand

Today’s chief financial officer (CFO) faces many challenges. Data quality and security are gaining in importance along with fact-based decision-making. Management expects transactions to be processed more cheaply and quickly. Besides assuring efficiency and quality, the CFO has to serve as an “internal” consultant adding value to the business and building the corresponding data analytics capabilities within his or her team. This enables them to upgrade the growing volumes of available data into information that facilitates decisions and increases the value of the business. A value-driven approach like this enables CFOs to help CEOs improve the performance of their organisation. CFOs of banks and insurance companies also have to contend with new regulations and tighter transparency requirements and address the challenge of harmonising what are often heterogeneous system landscapes.

Given the number of tasks involved, the question inevitably arises as to where the finance function will be in five years, and what, ideally, it is going to look like. Rapid technological change is transforming the way both CFOs and auditors operate. There are many parallels and dependencies between the way their work is developing.
The digital auditor (Auditor 4.0) has access to industry-specific toolboxes. From these they choose the appropriate algorithms for their clients. There are two main aims behind technology-driven audit tools:

a) Gaining insights that will help the client  
b) Enhancing audit certainty and efficiency

The extent to which the auditor can use new technologies is determined by the available data, ERP systems, applications and processes within the organisation they are auditing.

Auditors can use their insights to work closely with the CFO to help the company accelerate and steer the process of transforming the financial function and thus add value to the business. Ideally, the CFO and the auditor embark on the journey of digital transformation hand in hand. The use of digital audit tools depends on the client’s system landscape and its maturity, the ability to extract data efficiently and securely, and the relevant audit standards (see Disclose, issue 1/2018, "Audit 4.0, Part 2, High-performing Auditors").

Sectors with varying needs

This development will fundamentally influence the role of both partners in the years to come. But it is not only driven by digitalisation. Other economic and regulatory megatrends are also a factor, in some cases as a result of digital transformation. To get a more differentiated view of the path this journey can take and the pace at which it can proceed, let us take a look at two sectors: industry and commerce, and banking and insurance. What follows is an overview of the most important challenges facing those operating in these marketplaces, and our responses as auditors.

Industry and commerce: cost pressure and homogeneous IT

Right at the top of the finance function’s agenda in industrial and commercial companies are automation, efficiency, costs, and gleaning insights by way of data analytics capabilities. The pressure on margins and costs is omnipresent. Thanks to SAP, the IT landscape in medium-sized and large organisations is usually uniform. This homogeneity allows the standardised and largely automated collection and analysis of data. The finance function can cut its costs by standardising, automating and centralising manual processes. This kind of transaction processing helps to raise the quality of data and address risks rapidly and efficiently by way of an integrated system of internal controls.
As long as the audited entity makes the necessary data available digitally and the auditor uses the right tools, auditors can lead the way to more rapid transformation and help enhance the quality and maturity of the finance function. Figure 1 summarises the benefits of a technology-driven audit for industrial and commercial companies. Below we will look at two of the categories of benefits and some examples.

**Figure 1: Benefits of technology-driven audits for industrial and commercial companies**

- **Secure your top line**
  Identify your areas to enhance revenue generation or stop revenue leakage

- **Save your cost**
  Gain insights to standardise and automate processes and control execution

- **Mitigate your risks**
  Gain insights to improve control design and automate control execution and increase security from the financial audit

- **Accurate and integer your data**
  Gain insight to improve data quality to prepare for data analytics

- **Comply with law and regulations**
  Identify transactions which do not comply

- **Accelerate Finance Function transformation**
  Accelerate the transformation of your finance function
Securing revenues: At first glance this might appear to be beyond the auditor’s remit. However, by using appropriate audit algorithms we can identify discrepancies in prices (listed prices versus prices actually paid) and nonstandard bonuses, discounts and rebates. At the same time we can visualise the corresponding processes and controls, which we compare with best practice, the blueprint or internal rules to glean valuable insights that can help the company optimise its revenues.

Saving costs: We can use data analytics to visualise the process from purchase to pay. We compare the automatic current state controls with best practice controls, or compare the control landscapes at different subsidiaries. In our experience this approach often yields surprises. It helps the company improve processes and automate and standardise controls as effectively as possible. This creates interesting potential for cost savings and centralisation.

Banking and insurance: regulation and heterogeneous IT

The global financial crisis forced the banking and insurance industry to concentrate on responding to a wave of regulation. This development has obliged bank and insurance CFOs to engage much more closely with compliance issues. At the same time, margins in this segment are coming under increasing pressure, with the CFO also confronted with drastically mounting challenges in this area. Added to this, insurance companies with international operations are affected by IFRS 17, triggering fundamental changes in the methodology used to measure contracts and policies.

Unlike SAP implementations in industrial and commercial companies, where SAP dominates, banks and insurers in particular in Switzerland often have ageing data systems they built up themselves a long time ago and developed over the years. The result is heterogeneous data storage systems which can create an enormous minefield in terms of quality, uniformity, interfaces and availability – a state of affairs made even trickier as expectations mount and data protection rules are tightened on an ongoing basis. This confronts the finance function with the herculean task of assuring the stability, consistency, quality and security of the available data. It also means auditors have to apply their digital auditing tools in a heterogeneous IT context.

The benefits of a technology-driven audit for banks and insurance companies can be summarised as follows:

a) Reducing risks: When we audit a bank, we check all the input factors for material banking-specific profit and loss items (commission and interest income) and automatically recalculate income with the help of
technology-enabled audit tools. Until now the practice has been to check these items on the basis of an unstructured selection and random spot checks. Now auditors have the ability to do a 100% structured analysis of transactions. Not only does this allow the entire population to be audited, but it also enables all outliers (for example excessively high or excessively low interest and commission payments) to be identified and included in detailed checks. With the help of visualisation tools we can elucidate connections and situations that previously went undetected.

These insights create a sound and reliable basis for reinforcing the bank’s own risk analysis set-up and optimising processes and controls.

b) Regulatory compliance: Regulatory compliance is one of the key challenges facing the financial industry going forward. There has been a veritable explosion in the responsibility financial services C-suites have to assume. Those affected have to find ways of addressing this growing risk. It requires more refined and sophisticated approaches to controlling and monitoring transactions, plus harmonisation of the landscape of tools used. As an auditing firm we endeavour to provide our clients with innovative, analytics-based audit tools that give them valuable insight beyond the scope of the audit.

**Summing up**

Digitalisation is dictating the pace of change in audit and the financial function more than ever. Depending on the industry, cost pressure, efficiency, security, business contribution, regulation and IT architecture are also factors influencing the speed and direction of these developments. Ideally the CFO and Auditor 4.0 should be embarking on this journey together. This way they can not only add to value creation, but multiply their contribution.