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Audit Survey 2024

Bridging the technology gap



Audit Survey 2024: Bridging the technology gap

Audit firms have great hopes for progressive technology, but staffing and development issues present a challenge

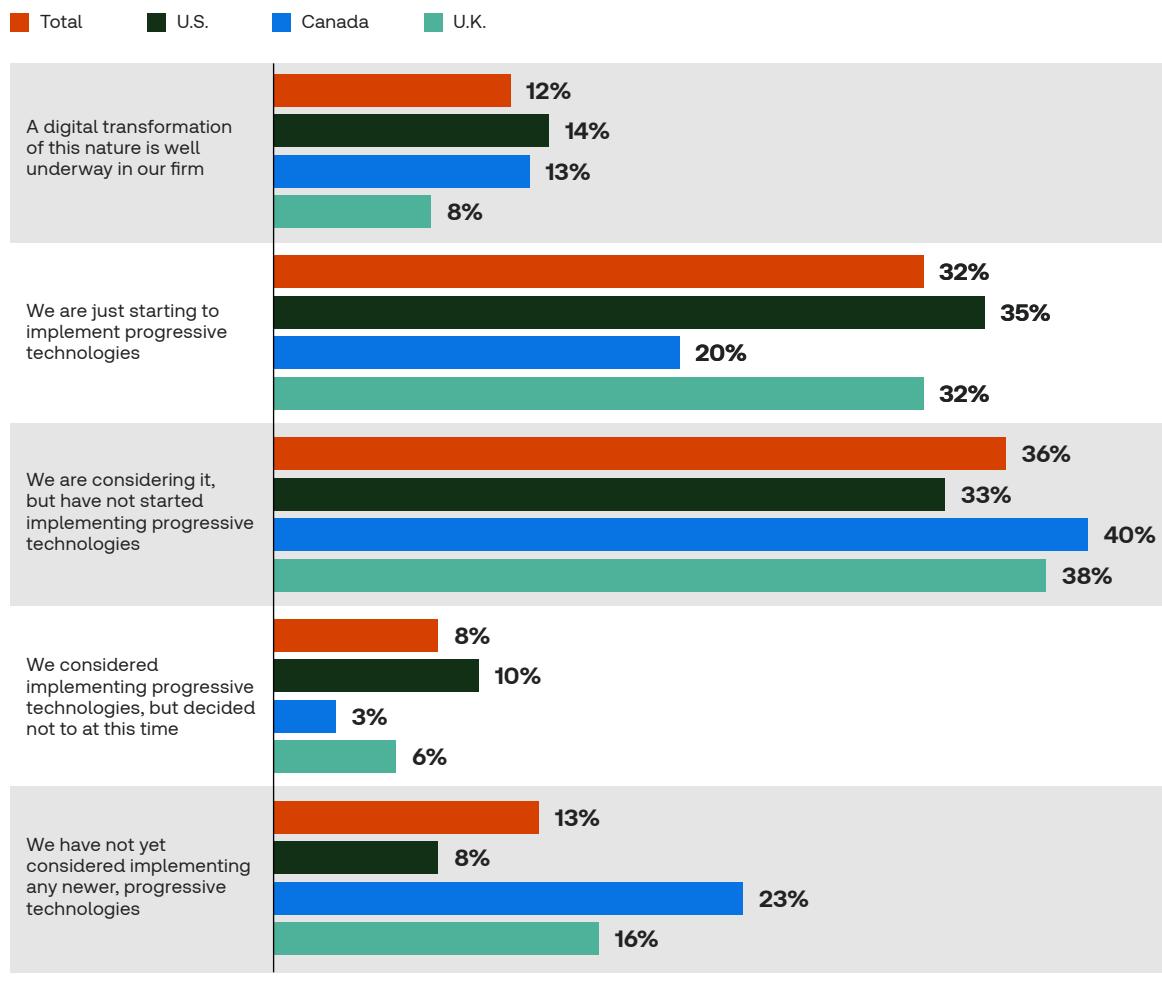
When faced with progressive technologies like generative artificial intelligence (GenAI), many audit firms need to bridge the divide between ambition and execution.

Professionals within audit firms may be intrigued by next-generation technologies, and they hope to use them for across-the-board transformations in their practices, but these desires collide with the reality of where many firms are in terms of *implementing* these technologies, according to a new survey. A good amount of *wait and see* is still going on, and while firms are fine kicking the tires on new systems, they remain wary of taking the car off the lot.

To delve into this further, the Thomson Reuters Institute has published its 2024 *Audit Survey*, compiled from its survey of 180 audit firm professionals across three countries — the United States, the United Kingdom, and Canada — conducted in February and March of this year. The survey report finds an industry at a crossroads. Roughly two-thirds of all respondents said their firms are considering adding progressive digital technologies to their audit workflow, with the greatest percentage saying this hailing from the United States (74%), compared with 67% of Canadian respondents and 55% of those from the United Kingdom who said this. Audit professionals regard these moves as playing catch-up, however, as only a minority said they believe their firm is harnessing technology to its full potential. Indeed, a slight majority in each country said their firms have yet to implement any progressive digital technologies.

Many respondents concurred that their audit firms need to evolve in their adoption of progressive technology. They've considered in detail how systems like GenAI could greatly enhance their audits; however, they also said that achieving this transformation is a daunting prospect for many, in part because of the perceived shortages in qualified personnel who are most capable of understanding and exploiting the benefits of these technologies.

What is the current state of your firm's digital transformation?



Source: Thomson Reuters 2024

The slide above provides a snapshot of where audit firms stand in terms of technology adoption. Respondents were asked to describe their audit group's *digital transformation* or any extensive implementation of, or any significant increase in, the firm's use of progressive technologies, which include AI, GenAI, and other automation.

Almost half of all respondents (44%) said their firm had implemented or recently had started implementing progressive technology. About 36% of all respondents said their firms were considering doing so, but that they had yet to start. And roughly 1-in-5 of all respondents (21%) said their firms either haven't considered implementing new technologies or have ruled against doing so.

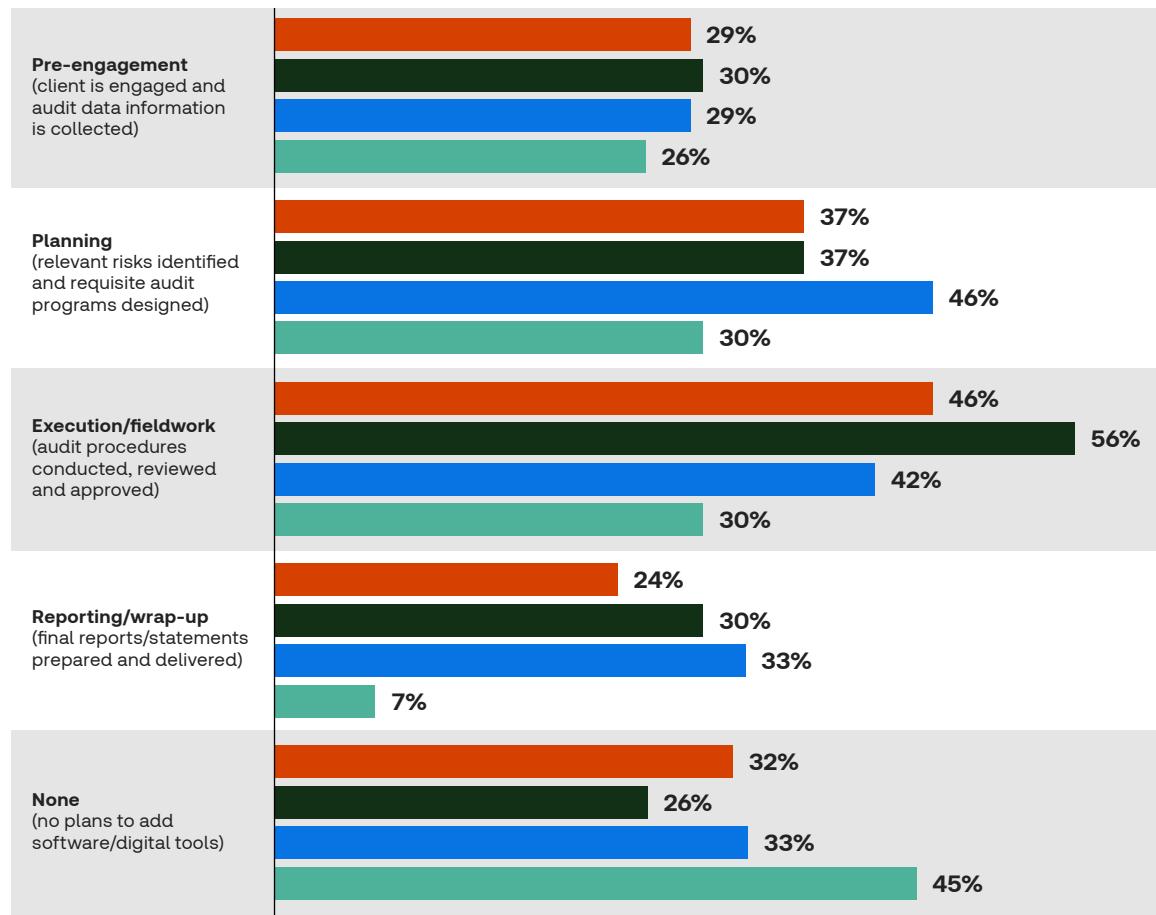
Interestingly, the US is the most adventurous of the three regions surveyed, with 49% of US respondents saying their firm had implemented or recently had started implementing progressive technology. The UK lags behind the US in terms of technology adoption, while Canada brings up the rear — only one-third (33%) of Canadian respondents said a digital transformation was underway at their firm and more than one-quarter (26%) said their firms had yet to implement technology or had not yet considered the prospect.

What firms want from progressive technology

The survey found that many respondents said their audit firms were anticipating major operational improvements at all five distinct stages of the audit process by adopting these progressive technologies. The area which offers the greatest value is in the *execution/fieldwork* phase of the audit — the conducting, approving, and reviewing of audit procedures — in which almost half of all respondents (46%) said their firms were anticipating major operational improvements in this stage. *Planning* ranked second, with 37% citing this stage; and the *pre-engagement* (29%) and *reporting* (24%) stages also stand to benefit from technology-related savings and efficiency improvements, respondents said.

Stages at which software or digital tools are being considered

■ Total ■ U.S. ■ Canada ■ U.K.



Source: Thomson Reuters 2024

Asked whether their firm was considering adding (or were planning to add) digital tools in any of the five distinct stages of audit workflow, almost 70% of all respondents said that *execution/fieldwork* tops the list, with 71% of respondents from US firms considering adding digital tools for such operations, compared to 67% and 61% of respondents from UK and Canadian firms, respectively. Also, more than half of all respondents cited the *planning* stage (55%), in which audit programs are being designed and risks reviewed, as the part of the process in which they are considering adding or planning to add advanced digital tools.

Indeed, UK accounting firms appear to be much less inclined than their American counterparts to consider technology upgrades, according to the survey, as roughly 45% of UK-based respondents said their firms are not planning to add new digital tools.

The pre-engagement stage: Making client integration easier

In the pre-engagement stage of an audit, audit firms engage with a client to collect audit-related data and other critical information. Not surprisingly, survey respondents anticipate much greater automation of clerical tasks, and believe that using next-generation technology will enable them to greatly transform and enhance client-firm relationships via AI-related systems. For example, these systems could automate how a firm corresponds with clients and receives vital information from them.

“We are looking to implement more dynamic technologies and spread them across our various teams so that work can be co-sourced within each team and cross-collaboration can occur,” said one audit firm respondent. “Too often people are siloed and developing technology that more people can work on will help this.”

Audit firm respondents said they desire more thorough and intuitive data input and analysis programs. At present, this can be a laborious process entailing multiple phone calls, email exchanges or face-to-face meetings. By using an AI interface, audit professionals could on-board clients at their own pace and time, with no staff intermediary needed.

Firms are also curious about technology spurring in-house efficiency improvements, such as scheduling audit staff with greater flexibility. The prospect of automating much of a firm’s workflow management and data entry/analysis is another commonly cited area of prospective improvement.

The planning stage: a new type of risk assessment

Central to audit planning is conducting risk assessments, so it's no surprise that survey respondents hope for progressive technology to bolster this process. AI systems could enable audit firms, in their assessments, to better identify pertinent trends, locate anomalies, and fully assess any high-risk areas.

Through streamlining and automation of risk assessment procedures, audit firms could achieve greater consistency in predictive analytics, which in turn could lead to more in-depth risk assessment results.

Firms also want to use progressive technology to stay abreast, in real time, of changes in audit and accounting standards, as well as regulatory issues which could potentially impact an audit. This could be a regulatory change with implications for a client's business practices or a standards change affecting a client's accounting treatment.

Almost three-quarters of all respondents (73%) cited keeping up with changing professional standards as being a high priority area, including 83% of respondents from Canada, 71% from the US, and 70% from the UK. Indeed, monitoring these changes is of particular interest to UK firms (40% of UK respondents said that it was a main challenge for them, compared to just under one-quarter of respondents from US and Canadian firms).

"Audits of the size we perform are high in hours and low in recovery, based on the high level required to meet compliance standards that provide little value to the audited client," said another audit firm respondent. "It would be beneficial to have tools to increase the efficiency of audits."

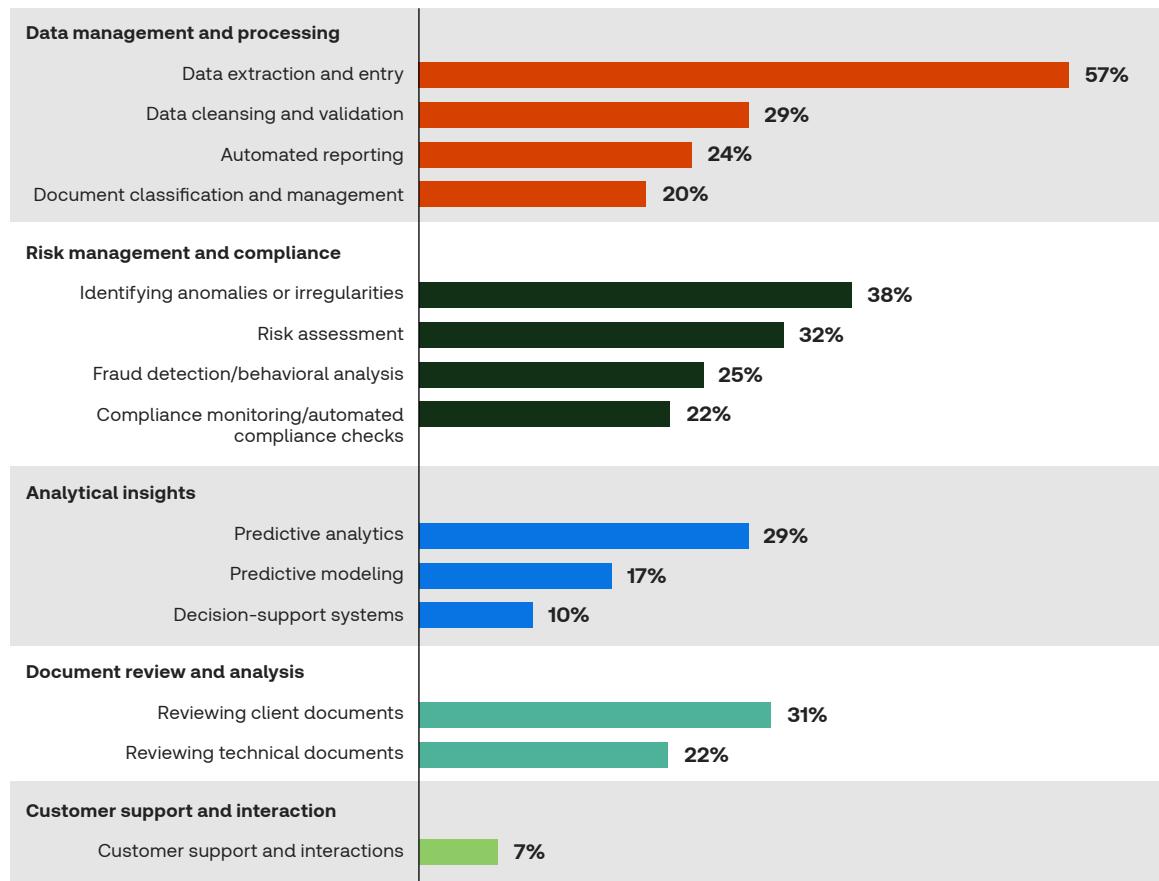
The execution and fieldwork stage: A speed revolution

Almost half of all survey respondents (47%) said that the strongest potential impact of implementing technology lies in the execution and fieldwork phase of an audit.

For one thing, AI systems could increase the speed and ease of executing the audit by automating such tasks as data processing, data management, and data extraction. Roughly 8-in-10 respondents listed these tasks as being a primary area of interest for technology adoption. Using AI to enhance data management and compliance is another significant area of interest, with 68% of all respondents saying their firms were either considering or using it for this purpose, including 63% in the US, 75% in Canada, and 77% in the UK.

Interestingly, there are more UK firms utilizing AI to identify anomalies and irregularities (46%), compared to US (38%) and Canadian (23%) firms. Whereas significantly more Canadian firms (50%) are using AI in risk assessment and fraud detection than their counterparts in the US and UK.

Tasks in which audit departments are using or planning to use AI/GenAI



Source: Thomson Reuters 2024

There's also the promise of automating audit testing and basic audit procedures, using AI systems to run compliance checks, for example. Other uses abound in fieldwork duties, including automating sample selection, testing entire populations, and having AI systems review all relevant client documents.

Additionally, many respondents said that a major benefit of applying progressive technologies during fieldwork lies in using data analytics to process large volumes of information quickly, extracting all potential insights and compiling all data anomalies.

Another respondent said that their firm's "vision is to integrate advanced technologies such as data analytics, AI, blockchain, RPA [robotic process automation], cloud computing, and cybersecurity tools into our audit practice. Overall, our goal is to deliver higher quality audits and better serve our clients' evolving needs in the digital age."

The reporting and wrap-up stage: next-level summarizing

Audit firms regard progressive technology as a means to make their post-audit analyses more coherent, more informative, and more timely, according to the survey.

Respondents said their firms hope to leverage AI-powered systems that will enable them to produce well-designed, relevant, and accurate summary reports for clients upon the conclusion of an audit. These technologies could scour preliminary drafts for accuracy and consistency, and help ensure that any stated conclusions are fully supported with evidence.

There's also the potential of using AI systems to enhance, or even automate, financial statements and related note disclosures, saving time and reducing human error. New visualization tools could quickly translate a host of complex data sets into clear, concise data summaries or charts. By doing so, these tools give internal and external stakeholders deeper insights from the audit.

One survey respondent whose firm was using such visualization tools, said the tools can be used to "help translate complex data sets to make it clearer and concise," which in turn, will help the firm "improve the risk assessment and communication of audit findings to both internal and external stakeholders."

Challenges to progressive technology implementation

Of course, no single obstacle stands in the way of audit firms adopting next-generation technologies; and as seen above, firm leaders are well aware of the possible benefits. The delay in adoption, rather, is because of a variety of challenges. Many respondents said their firms lack the resources, the personnel, and simply the time to integrate new, complex technologies into their operations.

The time element — Respondents said they are concerned that the staff within their firms does not have the ability or the space to fully investigate prospective technology resources. Leaders at each audit firm needs to determine which platforms and technologies are the best fit for their priorities, but doing so takes time — time that a busy, possibly understaffed firm may lack.

The cost element — While more than one-quarter of all respondents said they face pressures related to increased competition and fees, those respondents in the US may feel this pressure to a greater extent than their UK and Canadian counterparts. Roughly one-third of US respondents said they felt these pressures at their firms, compared to 10% of those from Canadian firms and 24% of those from UK firms.

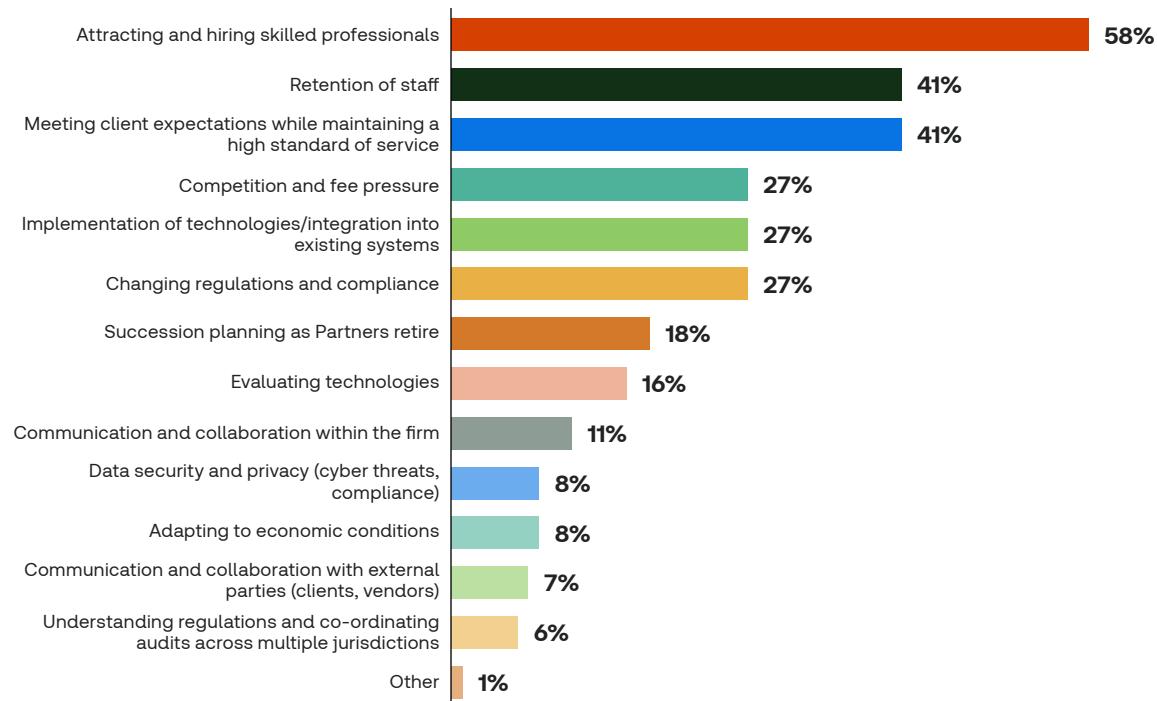
So, if a firm sees that its fee structures are being challenged by aggressive competitors, and that overall client revenue looks to be stagnant or in decline, this situation may have a domino effect on investment decisions. Devoting a substantial portion of a firm's budget to a new technology rollout could become a hard sell to an embattled firm's management during this time.

The staffing element — The survey further confirms that this is a sector with a substantial staffing problem: Not surprisingly, respondents cited an industry-wide shortage of qualified professionals as the top challenge that firms face. Indeed, attracting and retaining skilled professionals is considered a high priority by more than two-thirds of all respondents (68%), with the portion of US respondents higher (75%) followed closely by 63% of Canadian firms and 58% of UK firms. Overall, almost three-fourths of respondents (74%) said that their struggle to attract and hire skilled professionals and retain staff presents a hurdle to achieving strategic goals.

What makes this more difficult is that many audit firms aren't merely looking to fill a chair. They need a specific type of professional, someone who has substantial technical knowledge and the mental agility to handle unexpected situations that arise.

Thus, more than half (54%) of all respondents said their audit firms are on the hunt for employees with critical thinking and problem-solving skills, with 61% of US respondents saying this, compared to respondents from Canada (53%) and the UK (42%). And nearly half of respondents (49%) said their firms were looking to hire talent with technical audit and regulatory compliance knowledge (Canada 63%, the UK 58%, and the US 40%).

What do you see as the top challenges that your audit firm is facing?



Source: Thomson Reuters 2024

Human Resources strategy — one that encompasses the attracting, hiring, and retaining of top talent — stands out as being especially crucial for audit firms with multiple stated priorities. Almost 40% of all respondents cited their highest-priority area is in attracting and retaining skilled professionals, with 43% of US respondents and 34% of Canadian respondents saying it was their firms' highest priority. Those from UK firms ranked the need to attract professionals equally with the need to keep up with accounting standards and regulations.

These staffing challenges could influence firms' planned reliance on vendors to support their digital transformation efforts. Only about 20% to 25% of respondents said their firms would manage all implementation work internally. All others indicated that they would rely on vendors in whole or in part. It's also notable that while half of respondents from UK firms prefer for their vendor(s) to handle all the implementation work, a larger majority of North American firms (US 66% and Canada 70%) said that they won't solely rely on technology vendors.

Conclusion

For audit firms, it's not a matter of getting up to speed on the industry-shaking potential of next-generation technologies. Many audit professionals can clearly see how AI could improve their auditing processes, from the client onboarding stage to finalization and wrap-up. The most pressing question for firms is rather: How do we get there from here?

Each firm needs to go at its own pace, of course, but the danger lies in falling too far behind competitors that have already adopted progressive technologies and are now reaping the benefits. Determining when and how to move into the next stage will be one of the most important decisions that an audit firm can make over the next few years.

Methodology

The findings in the Audit Survey 2024 are based on a 10-minute survey undertaken in February and March 2024. Participants were 180 audit professionals located in the US, Canada, and the UK.

Participants were screened to ensure that they were decision-makers or influencers involved in purchase decisions in their audit firms, are involved in performing or managing audit work for clients, and use digital tools for performing and managing audit-related tasks.

All 100 US respondents were from firms with more than 30 employees. Other regions' respondents were split between midsize and large firms: Canada (30 respondents, roughly equally divided) and the UK (50 respondents, 30 of which were from large firms).

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