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Welcome to the Future of the Firm podcast.

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I'm Emma Carroll, Head of Content here at Source, and today we'll be taking a creative journey together as we rethink audit.

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To do that, I'm joined by Joe Roden, Executive Director at Tapestry Networks.

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And Joe has recently written a series of blogs for Source on the future of audit, and she'll be speaking on those in her personal capacity following the publication.

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And a personal tidbit to add here is that as soon as Joe and I met on a call to discuss this podcast, we were whipped back through the decades as we realised we studied biology together at Bath University in the Brighton distant past.

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So Joe, a special welcome to you.

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It's so nice to see you in person after all these years.

0:41

Thank you very much.

0:41

It's lovely to see you too.

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So I'm going to ask you to introduce yourself.

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Maybe you don't need to go quite that far back, but could you take a few moments to tell us about your career to date?

0:51

Sure.

0:51

Well, as you mentioned, Emma, we both studied applied biology at Bath and Science, and being curious about the future and what makes the world turn has always driven me.

1:03

I trained as a chartered accountant in London.

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I qualified and did a mixture of consulting, an audit and then moved over to Sydney and I worked in Sydney for 14 years.

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Audit, venture capital, due diligence, banking and in my more recent career, I was working in innovation and design thinking and applying that to audit to redesign the experience that we deliver to our clients.

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So it's not just about technology, it's not just about compliance and following the standards, It's about how people experience the audit you deliver and trying to use that to differentiate the product.

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As you mentioned in your very kind introduction, I've recently joined a firm called Tapestry Networks and in that capacity we bring audit committee chairs together to discuss the issues that matter most.

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So it's about the relationship and it's about how we communicate and share knowledge and ideas.

1:56

Perfect position for this future looking conversation.

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So as I said, you've written this fascinating series of articles on the future of audit to set the context for today's call.

2:06

What do you think are the big drivers of change in the audit market today?

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Thanks, Emma.

2:11

Well, technology's the obvious 1, and I suspect that's what most people would jump to and where you would start.

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As I say, it's obvious though, and what I think is important and the challenge with tech is to think further forward.

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I don't think the future of audit is simply about taking current state or even emerging tech and how we replicate the processes that humans currently do with that technology.

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I think the driver for change is to imagine what could be possible and then the best way to deliver that.

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So what do you want the product to be then?

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How do you combine technology with human capability to deliver that?

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And I think with my kind of design and customer experience perspective, I would say that the future of audit and assurance should be customer LED.

2:59

Who is the customer?

3:00

I think one of my blogs talks about who is the customer, who is the actual customer, What do they need and what do they want?

3:07

And then how do we put that together in terms of assurance or audit?

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One idea would be around really transparent stakeholder driven reporting.

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What if that was pull based?

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So rather than a set of static financial statements that are published that are historic, what if any user, whether it's a customer trying to make a decision around where to buy or a shareholder can pull a report, design report and somehow see in that tech where those numbers have been certified or audited or assured in some way.

3:40

It's imaginative, but if we don't imagine the future, we won't be able to build it.

3:44

So tech as a tool, but other things driving like specific stakeholder needs, Yes, yeah, absolutely.

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And that customer centric approach as opposed to the standard centric approach.

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So tech's the obvious one, and I've sort of talked a little bit about that.

3:59

And it's not just about replacing processes with tech, but there are other drivers for change.

4:04

And I think stakeholder soft power is really important.

4:07

They can put pressure on businesses and on brands to do better.

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And I think we don't tend to think about brand value and business value, but actually you can lose your brand value in minutes.

4:19

Now with social media, the world is connected and it's fast, so some bad comments about a big brand can travel around the world very, very quickly and implement impact.

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Not just share price, but the whole value of the company and whether you're going to attract more employees to it and whether people are going to buy from you can have a long term impact, not just a short market dip.

4:42

So I think understanding what consumers need and want from business could also be used to shape what the future of audit and assurance would be.

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It's not just about bottom line profit anymore.

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And there are models for this.

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I think I mentioned it in one of my blogs, B Corps, for example.

4:58

That's just one example where it's not just about bottom line profit, integrated reporting.

5:03

What is it that customers, stakeholders, suppliers, consumers really want from businesses and how can those businesses be held accountable?

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So if we were to take big picture, what's the future of audit and assurance?

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So I think we can look at a broader swathe of society because they want to see businesses take responsibility and accountability for the impact they have on the world.

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One of the phrases I like to think about is what is the footprint that a company leaves in the world?

5:33

And that footprint doesn't just mean financial return, it means the impact on the environment, the impact on the people, the impact on society around it.

5:44

OK.

5:44

And tiny aside, you just mentioned B Corp there, and we're actually really proud because we've just been accredited B Corp.

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So thank you for raising that.

5:50

Congratulations.

5:51

Thank you.

5:51

It's really hard to get, so congratulations.

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Thank you.

5:54

Do you propose in the set of articles, you do propose a model, a prototype model?

6:00

Why do you think that rethinking is really needed?

6:03

Yeah, Thank you.

6:05

I had quite fun, quite a lot of fun putting that model together, trying to articulate my thinking in a way that other people could understand.

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I believe in the value that humans can bring.

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I mean, people are relational creative, have so much capacity to do good and think about a positive future.

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I think we don't tend to have time to do that or to think that way.

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We're driven by the immediacy of reporting needs and of delivering whatever is required of us.

6:36

What I was trying to show in this model is the intersection of technology and the creativity of people and where humans can continue to add value at that leading edge.

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What I've tried to show on the right hand side, this concept of horizon scanning for unmet stakeholder needs, that's where people can go out.

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The designers of the future of audit insurance can go out and talk to different stakeholders, what is missing, what would help them to make decisions better.

7:03

And I think that creativity really extends into the realm of things that have not been imagined, have not been done yet.

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I don't think at the moment anyway, technology is able to imagine a different future.

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Technology, however, can deliver really strong outcomes in processes and procedures that have already been designed.

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I think they can respond to standards and we can see that replacement tech coming in.

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I don't think computers necessarily operate the same way that humans do, and that gives us some scope.

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I'm sure we'll talk about that later.

7:39

But what I'm trying to show in the model is, as we continue to move forwards on what is it that a customer needs, how do we design an assurance and an audit process around that?

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That's where we need to create and train and enable people to drive that forward leading edge whilst technology comes in behind and replaces the processes that can be standardised and can be done a different way more efficiently.

8:01

OK.

8:01

And you've talked about some of the thinking behind it, some of the real drivers of it.

8:06

Are there any other key features of the model you could pull out to bring it to life for people listening?

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And we will put a link on our website.

8:13

We'll also put a link to it can go through and look at it as they listen.

8:16

Sure.

8:16

One of the key phrases are using it that underpins kind of the bottom axis is this certainty to uncertainty continuum.

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So on the left hand side we've got things like you know the numbers, the back end of set of financial statements.

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There are strong standards have been in place for a long period of time around how to quantify and account for those numbers.

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That's quite certain.

8:38

And as we move from left to right in the model, we move from certainty to uncertainty, the front end.

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And yes, we have to check that for consistency as an auditor.

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The front end actually has a whole heap of storytelling in it.

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What is it the company is saying about its future, where it wants to be, its strategy?

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That's slightly less certain because it hasn't happened yet.

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And then even further forward, what are the new standards that are emerging?

9:02

Esg's obvious obviously 1 area and sustainability standards are becoming more certain.

9:08

What about governance standards?

9:10

What about societal standards?

9:11

And then further forwards, what are we going to have to start saying about technology and how we are able to account for the truthfulness of what technology does for us?

9:19

And then that front edge is what do we not know yet?

9:22

And that's where I think the creativity of humans can play.

9:26

Thanks so much.

9:27

And what about the big challenges?

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What are the big challenges that come with that model?

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It's a really good question.

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I think the challenges relate to a shift in thinking.

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And there's two fronts where I think that shift in thinking needs to happen.

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The first one, if we take this people centric approach, is how we train our people and what we train them to do.

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There is an opportunity here for us to be really optimistic about skills and capabilities.

9:55

There's a lot of narrative about people being replaced.

9:59

Can we shift that narrative and say what's the value people can bring in?

10:02

Can we train it?

10:03

I mean, traditionally we've taken super smart, ambitious graduates and pre graduates.

10:10

We put them into this machine of number crunching and ticking and bashing that.

10:14

I mean, that's a perfect field for technology.

10:17

But let's take those brains, that ambition and let's push it forwards.

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How do we teach those people to harness their creativity and their relational skills to create an idea of what the future could be and then go and build it?

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Can they shift the economic and the societal system for Better Business, improved outcomes for planet and for people?

10:39

Let's be optimistic.

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So that takes a big shift in thinking.

10:42

I don't think the challenge is how do we train people to use tech.

10:45

The challenge is how do we train people to really create a more optimistic future for everybody.

10:51

The second challenge I think is around the technology itself and again, taking imaginative approach to what it can do.

11:00

It's not about trying to train technology to do exactly what a human being does in exactly that that order and in exactly those steps.

11:07

They work differently, they think differently.

11:10

And this is a podcast.

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You wouldn't have seen my little air quotes, but they process differently.

11:16

And so there is an opportunity to rethink the way that we deliver the outcome we want from audit without trying to replicate the exact process that humans deliver.

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That's my view and I'm picking up there.

11:30

You're using the word creativity a lot, and it's not to say something we always think about along with audit, but you seem to think that is really key.

11:38

Yeah, people don't like the word creativity and accounting to be put together very much, do they?

11:44

I think it's one of the, and it's interesting.

11:46

It's a really good question actually, because a lot of people say there is debate around world, can technology be creative?

11:51

And obviously they've trained tech to write music and all sorts.

11:56

I think in terms of stepping into that uncertain future and imagining what it could be, I think that's a creative exercise.

12:07

I'm talking about human skills in that context and the ability to empathize with people around them, potential customers, stakeholders, users of not just financial but corporate reporting more broadly.

12:24

Maybe at some point tech will get there, but I don't see it at the moment.

12:28

And I think that's a space where people could add real value.

12:32

OK, thank you, Joe.

12:33

And we've talked quite a bit about tech, but I'm wondering what we haven't talked about about the role of tech.

12:39

And also what do you think of the outer limits of tech?

12:44

Yeah, outer limits.

12:45

Well, there's again, there's a lot of thinking out there already and there are more tech focused brains than mine.

12:51

Looking at this, if I'm allowed to give a plug for a different podcast, If you've listened to this year's Wreath lectures, the lecture was a gentleman called Rutger Bregman and he talks about in his last one, fighting for humanity in the age of the machine.

13:06

So I highly recommend you listen to that.

13:08

And people out there are researching the technology will take over as the power base for the world, the universe even.

13:19

And so where do we do human seed that power, that control?

13:23

Are we really top of the chain?

13:25

So I'm not an expert around that, but there are there is a lot of quite scary thinking out there around where tech could go.

13:32

So if you want to talk about the outer limits, there are some other thinkers around that.

13:37

OK, thank you.

13:38

And you've talked about some of the things that people can do rather than technology, but what about judgement?

13:45

Can tech be the thing that exercises judgement?

13:48

It's a really good question, and it's one that comes up quite a lot.

13:51

I might have talked about it in one of my blogs.

13:53

Whenever we were talking in practice around bringing in technology, the typical response would always be, oh, but technology will never be able to replace judgement and professional skepticism.

14:05

And my response to that would be, does it have to?

14:08

So as I mentioned before, computer systems technology operates very differently to humans and to human brains.

14:17

And so we're not trying to replace that judgement process.

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If we think about what judgement really is, it's decision making in the face of incomplete evidence.

14:27

It's pattern finding.

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It's making estimations based on those patterns and trends, using my judgement to decide is, are these numbers presented in a fair and in a materially correct way?

14:41

If you've got a computer system or technology that has been trained on, say, the entire world's worth of financial statements that have ever been published in every industry, and it also has access to trends and outcomes, it can compute what might be fair and reasonable the other way that the other particular example I've thought about it, and perhaps this is more around professional skepticism.

15:10

You can easily take a set of data and pass it through a computer system and see what happens to it.

15:16

We often use that for controls testing, for example.

15:20

Are the controls working?

15:21

Where does the data get sent?

15:23

Where are the workarounds happening?

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And you can do that using technology.

15:27

If you did that for the entire set of data that's passing through and ultimately producing the financial statements, then you don't need judgement and you don't need professional skepticism because you're actually testing 100%.

15:41

So I think we need to really challenge ourselves to say, are we trying to replace professional skepticism and judgement, or are we actually going to use computers in a different way?

15:52

So we're not trying to replicate those human processes.

15:55

Yeah.

15:55

So humans not trying, sorry.

15:58

Machines not trying to replicate what humans do and humans not trying to replicate what machines do.

16:02

Yeah, exactly.

16:03

And I think that's where the thinking needs to happen.

16:05

That's where my challenge to the profession is because it's so easy to go, what would we do now?

16:10

How do we make it more efficient?

16:11

How do we use a computer to do it?

16:13

But actually, let's take a white page and say, what could it be?

16:17

What's maximum value of assurance and avoid it.

16:21

We've talked about creativity, but where else will humans remain really important?

16:26

It's a critical question.

16:29

So in my view, people are generally quite relational creatures.

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We like to talk to each other.

16:36

We like to talk to other people, ideally face to face.

16:40

How often do you now hear the phrase, I just want to speak to a human?

16:44

I can't get past the bots?

16:47

And then you counter that with the fact that so many people are finding businesses, particularly are finding customer services, improved by the boss.

16:55

But if you're on the other end and you can't get past the bot, it feels really, really difficult and really awkward because they don't understand the nuances.

17:03

Again, that will improve over time, but that ability to connect relationally I think is really important.

17:09

Power to imagine the new and to envisage the future, I think is remarkable.

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And at the moment, it's an unparalleled strength of people.

17:19

Then the other thing that people can do is they can weave a story in a narrative around what might be.

17:26

What is the story around a better future?

17:28

You can take people with you with leadership skills.

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One writer I've been reading recently talks about the idea of myth.

17:36

To change society, to move the whole system, you have to believe together in something.

17:43

What is that something that ability to tell the story of a better future is?

17:48

It is really critical.

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And that's where I think humans can remain important.

17:53

Let's think about what a better future could be, Design it, build it.

17:57

And those build and development skills, I think are really unique.

18:02

And that's what I think we should be training people to do.

18:04

Yeah, it's interesting.

18:04

I mean, storytelling, visioning, imagination and relationships, I actually think they're quite different things than we were recruited for in our day when we first started training.

18:15

So yeah, yeah, you might remember.

18:18

I mean, if you didn't have maths, they did occasionally take people that didn't have maths.

18:23

But if you didn't have maths, it was, you know, a hard slog.

18:25

And what I learned over time as an auditor is, yes, you need to be able to add up the numbers, maybe less so now.

18:32

But actually what you need to do is look at the pattern of the financial statements.

18:36

If that one's gone up, why is that one not gone down?

18:38

You're actually looking at the pattern behind it, not looking at just being able to add them up together.

18:44

And trust.

18:45

I'd love to touch on trust as well.

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When we were chatting before, you talked about how it's even more crucial, you know, in a world of deep fakes, fake news.

18:53

Can you talk about where you see audit playing a part around trust?

18:58

I think audit or assurance and it's important to remember here, this means giving an independent opinion, that word opinion is critical.

19:06

This is where we differ from consulting.

19:09

Giving that independent opinion will become I believe even more valuable as we're inundated with data story and I'm deliberately not using the word information here.

19:22

And the reason for that is because information should inform.

19:26

And I think it's increasingly difficult to discern at first glance what's informing us and what's noise.

19:34

So the independent opinion can allow us to pull out information from noise and use that to make decisions.

19:45

And this is where I think the real potential is, if I can get a whole feed of story that a company is telling, which of those elements are materially correct and true, true and fair?

20:00

And which of those elements are noise that's been created by the bubble around that company?

20:08

Which of the elements that are misleading?

20:09

How can I use true information to help me make?

20:14

Decisions and not be overwhelmed by this huge flood of data that's coming at us from every direction.

20:23

So I think auditors and assurance providers could take a much bigger role as enablers of trust.

20:28

Yeah, and we also talked about audit becoming more proactive.

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Tell us a bit about that.

20:37

We've talked already about envisioning the possible future of audit and assurance.

20:42

Being proactive means being prepared to step out there and make it happen.

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And unfortunately, we live in a really litigious world, and that's just the nature of the world we operate in.

20:54

Giving an opinion is really risky, and if that opinion turns out to be incorrect, people take actions.

21:02

You should have been there.

21:03

You should have seen that coming.

21:05

So it is very difficult to innovate and try an experiment and try new things if you're operating in that environment.

21:11

Unfortunately, you know the current business model of professional services firms doesn't enable them easily to try something new to give an opinion on.

21:21

Well, I think that story feed, that data feed on that company is largely correct.

21:27

Just too high risk to be proactive.

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Though the challenge is again, a creative one.

21:35

How do we create an environment where we can experiment?

21:39

Is there some way of creating some sandbox we can try these different things where assurance could be really, really valuable?

21:47

And I think also it's important here that the regulators and policy makers need to step up and work with providers of assurance to say, yeah, there's a huge field out here where we need independent opinion.

22:00

Let's create a safe space for you to experiment with what you could do to help decision makers find the right information so they can make good choices.

22:10

And we've talked about lots of really fascinating stuff today, but what we missed that really excites or intrigues you about the future of audit?

22:18

I might go back to my model if I may.

22:21

It really is that leading edge.

22:22

I'm always excited by what's emerging.

22:25

It's just slightly over there in the mist.

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What's going to come out there?

22:28

Where can we make a difference?

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I would really like to see audit and assurance perceived as a noble profession because that's what it aspires to be.

22:38

If you think about its origin was to help people to make good investment decisions because they were losing money, wanted to do good.

22:45

It operates in the public interest.

22:47

I would love to see that perceived broadly through society that it is a noble profession.

22:52

And I think the more we can step into these areas where we can provide assurance across society on things that matter, the more we can create that perception of actually it's a noble profession.

23:02

I really love that idea of noble profession and combining it with future thinking, forward-looking, creative, being those things together.

23:10

That's a powerful, powerful vision.

23:12

And we always like to end on a really practical note.

23:14

So I'm thinking firms listening, what do you think is the sort of first valuable step they could take to really prepare themselves for the future of audit?

23:24

For me, I would focus on people.

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What do you want them to be and to do?

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What skills do they need to hone in a really human way?

23:34

And I'm not talking about training people to use tech, training people to be skeptical about AI and outcomes from AI.

23:42

I'm thinking about what is the future of human to human relationships in professional services.

23:50

How can they find out those customer needs and be at that leading edge of shaping, audit and assurance?

23:57

One way to do this is look at the most outstanding people that you have in terms of client relationships, innovation, and experience design.

24:06

Do you even have them in your audit practice?

24:09

Because you should look at those outstanding people.

24:12

What do they do and how do they do it?

24:14

Can you codify it?

24:16

If you can codify it, you can train it, and then you drive it deep into your culture and the ethos of your organization.

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And then those people will create your future.

24:25

Joe, thank you so much for being fascinating conversation.

24:29

And for those of you who are listening, we'd really like to read Joe's set of articles.

24:32

Then go to our website, sourceglobalresearch.com and you can look under insights.

24:37

You'll also be able to navigate to the podcast there if you want another listen.

24:41

And also, if you've enjoyed this podcast, The Future of the Firm, you might also enjoy our other podcast, Business Leaders Voice.

24:49

And there we talk to leaders of businesses.

24:51

So to clients, we talk about what's disrupting their industry, what's really occupying their headspace and what it's like for them to work with firms.

25:01

So looking forward to seeing you on a future podcast.

25:04

And thank you very much for joining Joe and I today.

25:08

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25:15

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