The Technology Driving New Audit Practices

By Judy Warner

The subject was innovation and how business transformation spurred by new technology is a topic occupying a greater share of board agendas. Cohosting the April roundtable in New York City with NACD were audit and tax specialists from Grant Thornton and a guest participant from Amazon Web Services, among this decade's single most disruptive companies.

Mauricio Rainey, a professional practice leader at Amazon Web Services, encouraged directors to broaden their knowledge by visiting innovation labs and research centers at companies such as Amazon.com to both learn and be inspired. Amazon Web Services, Rainey said, has grown through strategic partnerships and many acquisitions. It's currently working on myriad projects involving artificial intelligence and machine learning, the Internet of Things, and cloud computing applications. Last year, Amazon Web Services introduced some 1,400 new offerings to the marketplace.

Rainey also implored the 19 directors convened for the luncheon discussion at the University Club to develop a deeper understanding of the company's business partners and their approaches to innovation.

Building on Rainey's advice, Grant Thornton's Nichole Jordan asked a pointed question to participating directors: "How are they thinking about the future in your particular industry sector? I'm not asking that you share your company's secrets, by any means, but are you engaging in discussions around the future of your business? That is absolutely a number one leading practice that we see."

James J. Grogan volunteered that after attending CES in January—on a director-centric tour of the mammoth consumer electronics show in Las Vegas cohosted by NACD and Grant Thornton—he returned to one of his boardrooms and recommended the creation of a board-level technology committee. Another director said that he routinely asks management what he considers a two-part baseline question: "If our business was to be disrupted, how could it be disrupted and by whom?"

Enormous Changes Ahead

The audit and accounting field has changed little since the advent of personal computers and spreadsheets circa 1985. Grant Thornton's Trent Gazzaway said that the next five to 10 years, by comparison, will see changes of enormous magnitude, particularly for audit committees. Gazzaway, national managing partner of quality and innovation, audit services at Grant Thornton, devotes significant time exploring the potential applications of robotics, machine learning, data analysis, and the like to improve and innovate the firm's audit and accounting practices for its clients.

Some routine accounting procedures, Gazzaway said, are already being centralized or moved offshore for greater cost efficiencies. Among the technological advances Gazzaway predicted would become advantageous in the years ahead is robotic process automation. He cited a recent collaboration between two of his firm's teams—one in India and the other in the U.S—that demonstrated the auditing of fixed assets, once a largely manual and time-consuming process that was accomplished in a matter of seconds. AI tools will enable better, more timely detection of potential problems while surfacing keener insights into what's driving growth in different parts of the business.

Grant Thornton is working on developing its own private ledger using blockchain technology, he said. The challenge is to employ data scientists and those who can provide auditors and accountants with "discoveries from massive amounts of data.

Tax Reform Adds Up

In addition to technology, tax policy is another area that is undergoing rapid change. The passage in December of the first tax reform

JOSEPH AUGSTEIN/LONGVIEW

Participants

Kathryn L. Carson
Director, Executive Women's Golf Association

Gil Chapman
Director, Northfield Bank, Northfield Bancorp, NACD New Jersey Chapter

Teresa M. DeLuca
Director, Surgery Partners

Denise L. Devine
CEO, Nutripharm
Director, Fulton Financial Corp., Villanova University

Jeannie H. Diefenderfer
Director, MRV Communications, Westell Technologies, Windstream Holdings

Jamie Fowler
National managing partner, tax services, Grant Thornton.

Ellen Gallagher
Senior vice president, CFO American Museum of Natural History
Director, Catholic Guardian Services, King's College, Tessitura Networks

Trent Gazzaway
National managing partner, quality and innovation, audit services Grant Thornton

James J. Grogan
Senior EVP, Director Cancer Treatment Centers of America, AMERCO

Shaun B. Higgins
Director, Lincoln Hall Boys' Haven, Loop Industries, Carmine Labriola

Sheila Hooda
Director, Virtus Investment Partners, Mutual of Omaha Insurance Co.

Risé F. Jacobs
Senior vice president Astoria Bank
Director, Long Island Software & Technology

law since 1986, which becomes effective Jan. 1, 2018, provides boards with a new imperative, said Grant Thornton's Jamie Fowler: to examine every part of the business and operating model.

The inflow of new funds as a result of tax reform should spur board-level conversations with management about how these funds should be deployed with an eye toward facilitating and enhancing innovation. Fowler recommended focusing on five primary areas: mergers and acquisitions; balance sheet optimization (i.e., use excess cash to pay down debt, liabilities, or pensions); share buybacks; updating technology infrastructure; and investments in culture, including training. That triggered a pointed question from a director: "When you speak about investing in culture, what specifically are you spending money on?"

"We sought outside help to get inside discipline," Fowler responded.

Every internal meeting at the firm now begins with a brief culture conversation. The objective, explained Gazzaway, "is to reinforce the values, activities, and behaviors that we believe in. Our values are reflected in everything we do and every decision we make: it's built into our performance scorecards, our conversations, and who we hire, fire, and promote. Culture is any company's most valuable asset."

The culture at Amazon, Rainey added, is collegial but competitive. There is what's called a "two-pizza rule" when building teams. That is, no team should be greater in size than what could be fed by two large pizzas. "This goes to the heart of our organizational structure. One example: Our finance department had grown to more than 100 employees. Where is the innovation coming from in finance? We decided to break up the department into multiple teams. From these teams comes an almost natural innovation. I have a counterpart and quite frankly he is trying to figure out what I am doing that works and I am trying to figure out what he's doing that really works and then that's what take forward to the entire body. It allows us to figure out new ways of doing things.

"One of my great learnings from my years in business is that culture is expensive to maintain but it's even more expensive to fix," Rainey said.

Culture is the provenance of the CEO, said one director. To have a culture that fosters innovation requires the board to constantly be asking of themselves: What is the greatest threat to our business? "The pace of business demands it," said this director, "and we can't necessarily wait until the next quarterly meeting for answers. We need to be out there digging around and creating urgency because if we don't, we may not exist. That goes for everything the business is involved in and if insights can be provided by harnessing new technology, even at the audit level, then we as board directors must push for that."

The potential to disrupt almost any industry exists right now. "Those that stay on top of it, pay attention to it, look for signs of it, and seek opportunities," said Gazzaway, "are the ones that are going to be the most successful and survive."



Mauricio Rainey (left), James J. Grogan, and Trent Gazzaway

Participants

Network (LISTnet), Society for Information Management (New York metro)

Nichole Jordan
National managing partner—clients, markets, and industries
Grant Thornton

Brian Kinkead
Director, Horizon Blue Cross Blue Shield of N.J.

Robert E. Klatell
Director, TTM Technologies

Randal Klein
Director, Chassix Automotive, MagnaChip Semiconductor Corp., LTR Group Holdings

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Margaret E. Pederson
Vice chair, Amirexx
Director, TextureMedia Inc., Xamax Industries, NACD Connecticut Chapter

Valerie Rahmani
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Director, Advent Claymore Family of Funds, Sprint Industrial Holdings
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