SAICA_The impact of technology on the audit product

Johannesburg, 15 April 2021 – During SAICA's consultation with stakeholders around audit reform and the perception of the causes of the current state of the auditing profession, the topic of the impact of technology on the audit product was raised. Specifically, with the technological advances in terms of robotics and artificial intelligence, questions were raised around why auditing practices and procedures have not followed suit in evolving, writes Hayley Barker Hoogwerf, SAICA Project Director for Audit & Assurance.

The main concern noted related to whether audit firms are making the necessary investment in technology to ensure that they have the tools and resources required to remain relevant in continuing to meet the changing needs of users as business evolves. Another concern that was raised during the consultations is that although audit firms could be investing in technology to improve their audit processes, the auditing standards have not evolved sufficiently to allow for these developments.

The International Auditing and Assurance Standards Board (IAASB) is an independent standard-setting body that serves the public interest by setting high-quality international standards for auditing, assurance, and related services engagements, and by advocating for their adoption and implementation.

In exploring the impact that technology has on the audit product, the IAASB established a Technology Working Group, who then issued a consultation paper titled Exploring the Growing use of Technology in the Audit, with a focus on Data Analytics (Consultation Paper) in September 2016. In this Consultation Paper, the reasons for the focus on the growing use of technology were noted as follows:

1. The key role that the auditor plays in contributing to the creditability of the financial statements that they report on was acknowledged and that high-quality audits support financial stability.

2. Historically, there has been a shift in how the audit is executed, mainly in response to the change in the environment in which the businesses that they audit operate. The historical auditing process has been largely a manual process.

3. The rate at which technology changes have occurred, bringing in the capability to capture and communicate data digitally, on an unprecedented scale and almost instantaneously and as a result, businesses have changed their business models in innovative ways.

4. Stakeholder expectations regarding the use of technology in the financial statement audits are evolving, as tools with the ability to analyse data emerge.

The above have a specific technological focus and the main theme of these reasons are aligned to the findings identified during the SAICA consultations.

From the above, the concerns relating to technology and the impact on the audit product are clear and many auditing firms have been proactive in ensuring they make the necessary investment in technology and have the tools and resources required to remain relevant in an effort to continue meeting the changing needs of users as business evolve.

In many instances, auditing firms have developed programmes, known as bots, to perform functions that have typically been performed by trainee accountants. Wikipedia defines a bot as a software application that runs automated tasks over the internet. Some bots run automatically, while others only execute commands when they receive specific instructions.

In the auditing environment, a bot is typically run upon the receipt of a specific instruction. Certain auditing firms are currently using bots to assist with obtaining bank confirmations, selecting samples for substantive testing as well as completing debtors' confirmations; tasks that have typically been performed by junior trainee accountants. These bots can also stratify information to enable the

auditor to identify exceptions to the norm, thereby shifting the focus from testing a sample of routine transactions that generally have been processed through the right avenues, applying the necessary checks and balances, to a focus on the non-routine transactions where the risk of misstatement, either as a result of fraud or error, is more prevalent.

As the development and use of bots continue to evolve, it is foreseen that the role of the auditor will shift from the typical "ticking and bashing" to a focus on following up on exceptions that are identified by the tasks executed by the bot. Examples of exceptions that can be identified in the revenue cycle are:

- A revenue transaction recorded by processing a manual journal entry, as opposed to a system automated entry.

- A revenue transaction that has been recorded where the corresponding debit is not to receivables.

- An entry processed to receivables where no subsequent cash has been received.

- Entries to the receivables account that are not automated entries from the cash book because of the receipt of cash.

- Revenue transactions where there is no corresponding debit to cost of sales.

The above matters are non-routine and therefore exceptions that the auditor can investigate further. This may lead to a more effective auditing process in that the focus is directed at areas where misstatements are more likely to occur. The above can be applied in the audit of any business cycle, with the key to success is understanding the client's business and the accounting system used to process the transactions.

Another area where a bot can be effectively applied during an audit is performing the review of the statutory records of the company. A bot can be developed to identify specific characteristics thereby enabling it to analyse the statutory records and populate the necessary statutory information checklists. Similarly, a bot can be developed to identify and extract specific characteristics in a contract. The possibilities for using bots are endless.

To assist auditors in moving forward and remaining relevant, SAICA developed an *Accounts Production and Accounting Software Guide for Practitioners* (the Guide). The purpose of the Guide is to alert auditors to certain important criteria in relation to choosing appropriate software for accounts production and accounting purposes to assist in making an informed decision for their circumstances. The Guide also includes reviews of a range of software products by comparing them based on selected criteria, including a product overview as provided by each software provider. With this Guide, auditors will be able to consider different software products in deciding which products from a practical, service-delivery and financial point of view best suit their practice and client base.

We find ourselves in an era where information overload is a reality and it is easy to get caught up in the detail of complex business models and accounting systems. Auditors should not see technology as out of their reach but rather embrace it as a tool that assists in enhancing the effectiveness and efficiency of an audit and not as something that is making the profession redundant. Having said that, auditors should not forget to take a moment to reflect on the basics of accounting and auditing and the ultimate outcome that the financial reporting process needs to have. Standard setters should also ensure that auditing standards continue to remain abreast with developments in business.

And as for the future of the auditing profession, we should break the mould and push the boundaries in terms of what auditors are capable of. The question then will be, what can auditors do next? and not whether the profession will become extinct.�