Technology in the Audit

Giuseppe Spinelli
June 2, 2023
August 2021

- To serve as a **foundation for discussions** about audit technology.
- To **encourage** the use of technology in audits.
- To describe the **challenges** and CPAB’s **expectations**.
Overview
**Technological resources** include IT applications used to perform engagements including:

a. To prepare and compile engagement documentation (i.e., the **audit platform**).

b. To store the firm’s **intellectual resources** (e.g., methodologies, etc.).

c. To perform risk assessment procedures and/or further audit procedures (**automated tools and techniques**).

* ISQM 1 Implementation guide (p.49)
Benefits of using Automated Tools and Techniques (ATT)

1. To obtain deeper insights, identify unusual trends and to more effectively challenge management’s assertions (enhances professional skepticism). *

2. To go beyond the accounting records to obtain more persuasive audit evidence.

* ISA 220 (Revised 2019), paragraph A63.
Examples of ATT (included in CPAB’s publication)

- **Fraud procedures**
  - Used to identify unusual or inappropriate journal entries (JE).

- **Substantive procedures**
  - Example: Three-way match – Matching details of sales transactions.

- **Risk assessment**
  - Example: Process mining – Used to identify deficiencies in internal control and/or misstatements.

- **Tests of controls**
  - Example: Security configurations, to assist auditors in their testing of general IT controls (GITCs).
Some challenges...

1. Technological innovation **outpacing** auditing standards development.
2. **Over-reliance** on technology.
3. **Black box** problem.

* Automation bias - Tendency to favor output generated from automated systems.

* ISA 220 (Revised 2019), paragraph A35.
Risk and audit quality considerations
Auditing the reliability of data inputs

1. For data inputs in ATT used to perform **substantive tests**, auditors may need to understand internal controls related to that data.

2. For data inputs in ATT used to perform **risk assessment**, the work effort to test the data is more extensive when the ATT is the primary determinant of the assessed risk.
Auditing the ATT’s output

**All exceptions or outliers are potentially misstatements!**

Considerations:

1. **Sampling** – homogenous clusters (aka clustering).
2. **Materiality**.
3. **Risk assessment/substantive tests**.
ISQM 1 – Technological resources

Firm-level objectives
• ATT operates as designed and achieves its intended purpose.
• Effective Information Technology General Controls (ITGCs)
• Support - Training, specialist resources and documented guides.

Audit-level objectives
• Compliance with the firm’s policies and procedures.
• ATT purpose approved by the firm.
• Adequate competence and capabilities

EFFECTIVE DATE:
December 15, 2022

IAASB QUALITY MANAGEMENT STANDARDS

- ISQM 1
- ISQM 2
- ISA 220 (REVISED)
ATT developed by engagement teams

Examples: Complex Excel Macros, Alteryx Workflows

- Ensure ATT functions as intended before using it in the audit; and
- Compliance with firm policies and procedures.
Artificial intelligence

**Question:** How will AI-based tools be evaluated to ensure they function according to their objectives?
Quality objective (firm level):

ATT licensed from service providers are **appropriate for use** in the performance of audit engagements.*

* Adapted from ISQM 1, paragraph 32h
Learn more

Publication:
CPAB Exchange: Technology in the audit

Website:
www.cpab-ccrc.ca

LinkedIn:
Canadian Public Accountability Board