

# **Technology in the Audit**



### **CPAB Publication: Technology in the Audit**

### 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**.

AUGUST 2021

### cpab exchange

#### **Technology in the audit**

Technology is changing the audit. Audit platforms are becoming more automated. Auditors are increasingly using automated tools and techniques to perform risk assessment and further audit procedures.

The Canadian Public Accountability Board (CPAB) sees promise in the use of technology to elevate the quality of audits.

We provide our perspectives on how the use of technology is enhancing the quality of audits. We also describe the challenges that are emerging, as well as our expectations of audit firms, as the use of technology comes to represent a more significant component of the audit effort.

Our views are informed primarily by our audit oversight activities. We have also been engaging more formally with third-party service providers to better understand the technological resources they are licencing to audit firms. Finally, we value the insights we obtain about audit technology from our discussions with regulators and auditing standard setters in Canada and around the world.

#### IFIAR's Technology Task Force

CPAB leads the International Forum of Independent Audit Regulators' (IFIAR) Technology Task Force.

The mandate of the task force is to enhance the understanding of IFIAR members of how technological resources used by the six largest global audit firms are impacting audit quality. The task force is engaged in discussions with each firm's global leaders to understand their network level approaches to oversight of technological resources used in audits across their networks.

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CPAB EXCHANGE | TECHNOLOGY IN THE AU

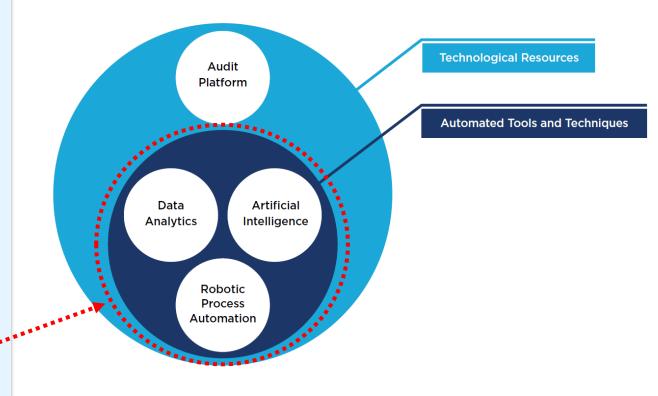




### **Technological Resources: Key terms**

**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).



## 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** (JEs).

#### Risk assessment

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

#### **Substantive procedures**

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

#### **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.



Risk and audit quality considerations

### Auditing the reliability of data inputs

- 1. For data inputs in ATT used to perform <u>substantive tests</u>, auditors may need to understand internal controls related to that data.
- 2. For data inputs in ATT used to perform <u>risk assessment</u>, 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

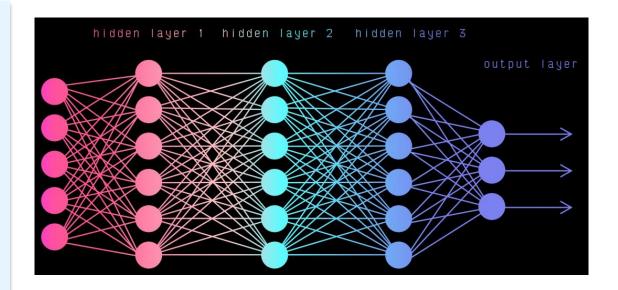
# **Examples: Complex Excel Macros, Alteryx Workflows**

- 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?



### **Service providers**

### **Quality objective (firm level):**

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















<sup>\*</sup> 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** 

