

Technology in the Audit

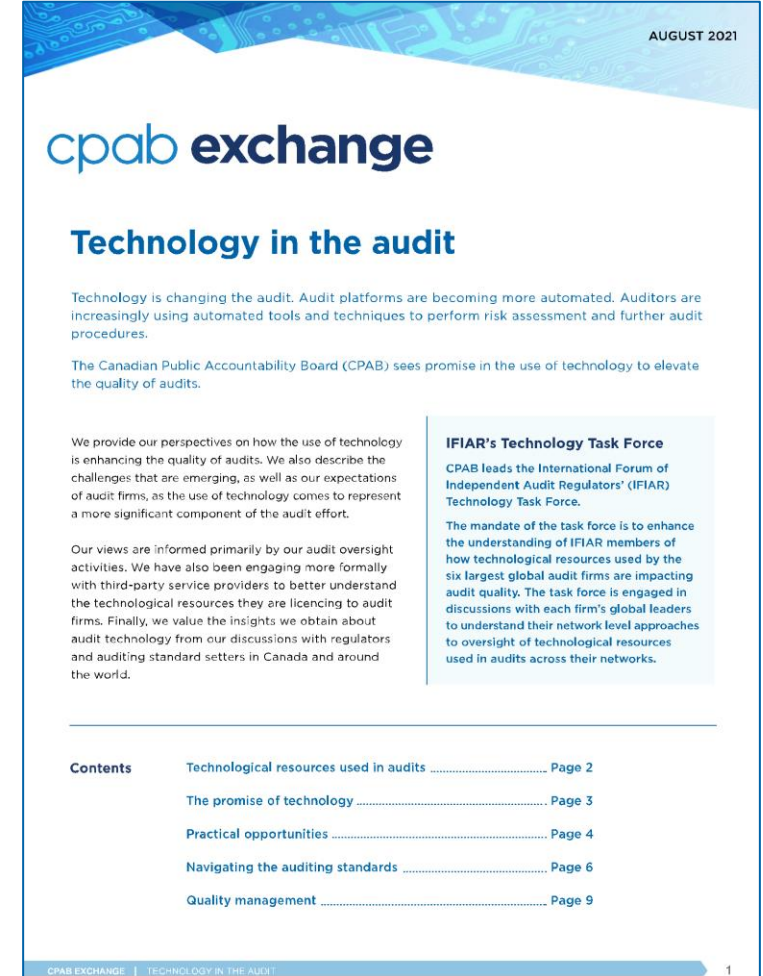
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June 2, 2023



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**.



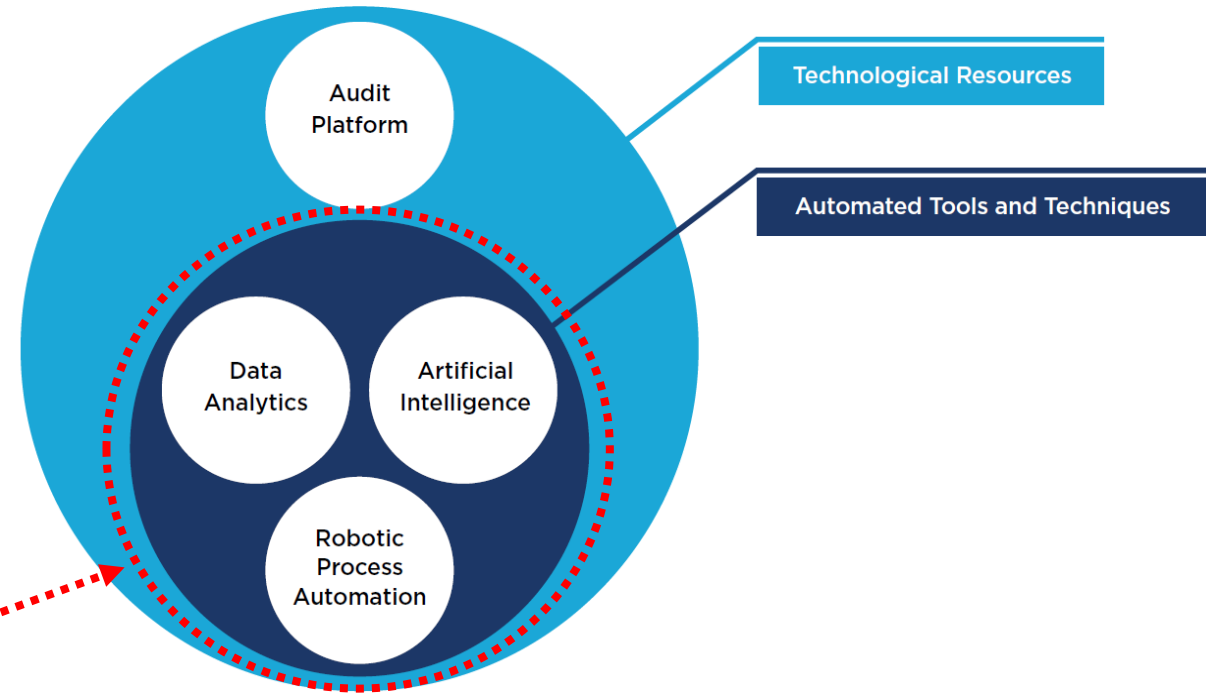
Overview

The background of the slide is a vibrant blue gradient. In the lower right quadrant, there is a complex, abstract graphic composed of numerous white dots connected by thin white lines, forming a network or mesh structure. This graphic flows from the bottom left towards the top right, creating a sense of movement and connectivity.

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**).



* 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** (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.

* ISA 220 (Revised 2019), paragraph A35.

Risk and audit quality considerations

The background of the slide is a vibrant blue gradient. In the lower right quadrant, there is a complex, abstract graphic composed of numerous white dots connected by thin white lines, forming a network or mesh structure. This graphic has a wavy, undulating appearance, suggesting a digital or data-driven theme.

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

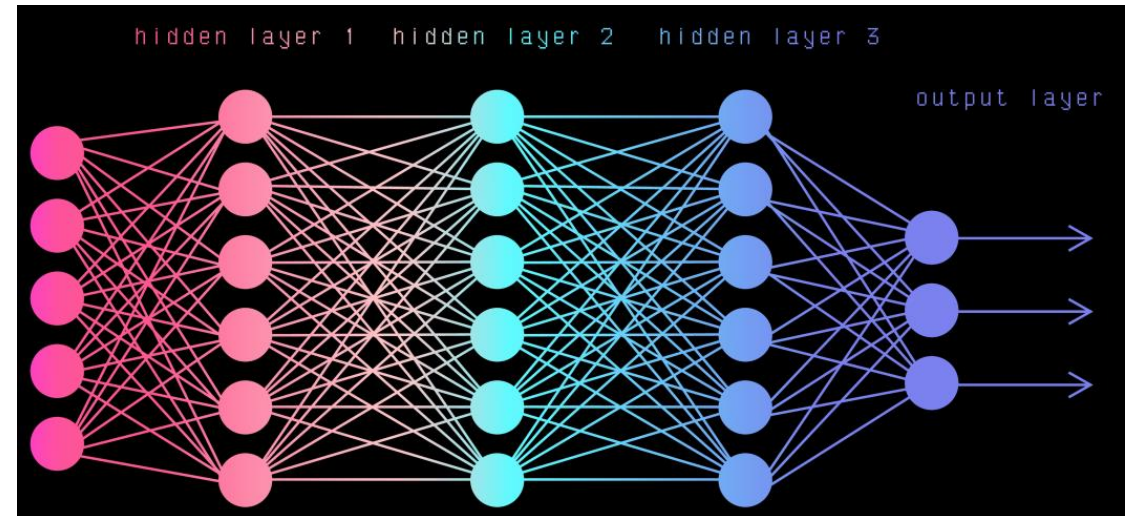
Examples: Complex Excel Macros, Alteryx Workflows

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



Artificial intelligence

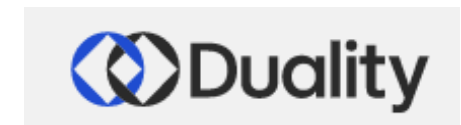
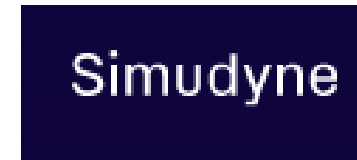
Question: How will AI-based tools be evaluated to ensure they function according to their objectives?



Service providers

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](#)

