

THE PPC ACCOUNTING AND AUDITING UPDATE

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Using Data Analytics to Transform Audits



Technology continues to advance rapidly, but audit procedures are in many ways the same as they've always been. New technologies can create opportunities for auditors to improve audit quality and efficiency. Audit data analytics (ADA) is the application of emerging technologies to develop a more data-driven approach to planning and performing financial statement audits. Use of these technologies is not currently required but should be considered.

What is ADA?

New technologies include artificial intelligence (AI), machine learning, and robotic process automation. They are changing the way many clients process their own data. Auditors can apply ADA to change audit procedures by extracting data and using it to gather audit evidence and analyze data in new ways.

AI is the concept that machines have the capacity for knowledge and learning. AI automates repetitive tasks, like gathering data, and creates the opportunity

to automate systems involving large amounts of data. Auditors can use AI to collect client information from the news and regulatory filings, analyze contract terms, extract data from financial statements and calculate ratios, and identify patterns in large volumes of data.

Machine learning is a subset of AI. Using computing power instead of programming lines of code to create AI, the computer is "taught" patterns and behaviors in the data by processing voluminous amounts of data inputs through the system. Auditors can apply machine learning to review an entire population, instead of relying on samples, and to perform data analysis by identifying data patterns and predicting outcomes.

Robotic Process Automation (RPA) is software that eliminates repetitive manual tasks and automates them by applying rule-based algorithms. Many companies are using RPA to collate data from different systems, perform data entry, and automate processing of invoices or payments. Auditors can apply RPA to

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automate the repetitive low-value tasks and collect and collate audit evidence.

Advantages of ADA

Data Management. One of the most difficult parts of the audit can be getting complete and reliable data, and significant audit time may be spent reviewing multiple reports and formatting data. Technology can solve this problem and save time for both the auditor and the client. Auditors can move away from the traditional audit approach of using spreadsheets to organize and analyze data and move towards more data-driven conclusions to support audit opinions.

More Efficient and Effective Audits. By having more insight about clients upfront and spending less time gathering data and performing repetitive tasks, ADA can increase the speed and efficiency of audits. Audit quality improves when auditors have a broader understanding of the client, spend more time performing higher level review and analysis, and focus on areas of risk and professional judgment. Audit consistency improves by standardizing processes and using consistent techniques across engagements.

Required Audit Evidence

In July 2020, the ASB issued SAS 142, *Audit Evidence*. It provides expanded guidance on evaluating whether sufficient appropriate audit evidence has been obtained, including examples of how auditors may use ADA and other automated tools and techniques. It includes an exhibit illustrating the use of an ADA that simultaneously accomplishes the objectives of both risk assessment and substantive audit procedures. SAS 142 is effective for periods ending on or after December 15, 2022.

Practical Consideration:

SAS 142 is available on the AICPA's website at www.aicpa.org/content/dam/aicpa/research/standards/auditattest/downloadabledocuments/sas-142.pdf.

Potential Obstacles

Over the last five years, much has been written about emerging technologies and the development of ADA. As a result, auditors are under some pressure to develop and use ADA. However, there are a number of barriers for auditors to consider for its successful application.

Data Acquisition. In most audits, one of the most difficult tasks is getting complete and reliable client data in a workable format. For ADA to be employed, disaggregated data in client systems must be available, consistent, and reliable, and auditors must be able to extract, transform, and load it.

Investment. While many large firms have invested substantial resources in ADA in recent years, many smaller firms don't have the human capital and financial resources to develop emerging technologies. A significant barrier for auditors is having sufficient time while still focusing on their current clients. Implementing and using ADA requires significant expertise, so there may be a need to invest time and money in developing auditors' skills in this area, along with the use of automation in general.

Methodology. To implement new audit technologies, auditors need to evaluate their current audit approach and how ADA can fit into their audit plans. Some existing procedures will be eliminated, and others will be added. Effective change management requires auditors to look at the work being performed, who is doing the work, the processes, and the audit team's skill sets at all levels. Auditors must continue to comply with auditing standards, including reperformance and documentation, and continue to apply appropriate professional judgments in an ADA context.

Technology. Auditors need to evaluate their current technology capabilities, processes, and controls, along with what they would like them to be in the near term and longer term. This includes both hardware and software. There should be an implementation plan where technology and ADA can be introduced in phases in order to make the change more achievable. Cultural and training issues specific to adopting changes in technology should be considered.

Practical Consideration:

The AICPA has resources on audit data analytics on their website: www.aicpa.org/interestareas/frc/assuranceadvisoryservices/auditanalytics.html?cid=referral:insightsblog:ADAvideos:AuditDataAnalyticsHomepage2:aicpa&utm_medium=referral&utm_source=insightsblog&utm_campaign=ADAvideos&utm_content=AuditDataAnalyticsHomepage2.



PEEC Recent Activity

The AICPA's Professional Ethics Executive Committee (PEEC) recently issued a number of interpretations and guidance.

Temporary Policy Statement

On December 21, 2020, the PEEC issued ET 0.600.030.02, "Temporary Policy Statement Related to Amendments of Rule 2-01 of Regulation S-X." The PEEC agreed to evaluate the SEC's October 16, 2020 final amendments to certain auditor independence requirements in Rule 2-01 of Regulation S-X, which will be effective on June 9, 2021, with early adoption permitted, and will determine if any revisions should be made to the AICPA *Code of Professional Conduct* for the SEC amendments. While this evaluation is underway, the PEEC will consider members to be in compliance with the Code if they implement and comply with the SEC amendments or comply with the existing Code. This temporary enforcement policy is effective until the PEEC rescinds it.

Practical Consideration:

The Policy Statement is available on the AICPA's website at www.aicpa.org/content/dam/aicpa/interestareas/professionalethics/community/exposedrafts/downloadabledocuments/2021/2021JanuaryOfficialReleaseTemporaryPolicyStatement.pdf.

Records Request Interpretation

On February 9, 2021, the PEEC issued ET 1.400.001, "Revised 'Records Requests' interpretation (ET sec. 1.400.200) under the 'Acts Discreditable Rule' (ET sec. 1.400.001)," of the AICPA *Code of Professional Conduct*, which is effective on July 31, 2021. Its goal is to help members better understand their ethical responsibilities relating to requests for records. The revised interpretation changes the requirement for members to *provide* member-prepared records and member work products to a requirement to make such information *available* in any format that is usable and accessible, whether electronic or otherwise, regardless of the format in which the records were received.

In addition, the interpretation also discusses whether a member should be able to withhold client records when the client fails to pay the member reasonable

fees related to providing the records. The interpretation states that a member may charge reasonable fees for the time and expense to retrieve, copy, and ship such records. However, the interpretation precludes members from withholding client-provided records when the client refuses to pay the fees.

Practical Consideration:

The interpretation is available on the AICPA's website at www.aicpa.org/content/dam/aicpa/interestareas/professionalethics/community/exposedrafts/downloadabledocuments/2021/2021-March-records-requests-official.pdf. In addition, the PEEC plans to issue four Q&A's to assist members with implementation questions.

Staff Augmentation Arrangements Interpretation

In March 2021, the PEEC issued new interpretation ET 1.275.007, "Staff Augmentation Arrangements," under the Independence Rule (ET 1.200.001), effective on November 30, 2021. In staff augmentation arrangements, or loaned staff, members provide human resources as a service to clients. In these cases, the client is responsible for directing and supervising the activities of the loaned staff. The Interpretation indicates that these arrangements will impair independence except when certain safeguards are in place. The safeguards include staff augmentation arrangements—

- performed due to an unexpected situation that would create significant hardship for the attest client to make other arrangements
- not expected to reoccur
- performed only for a short period of time (not more than 30 days)
- where augmented staff doesn't participate in or influence an attest engagement covering the period that includes the staff augmentation arrangement
- where augmented staff only perform activities not prohibited by ET 1.295
- where the member is satisfied that client management has designated individual(s) with suitable skill, knowledge, and/or experience to be responsible for determining the activities to be provided by the augmented staff, supervises and oversees the activities,

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and evaluates the adequacy and findings of the activities

As a result of the Interpretation, the PEEC also revised and adopted the following independence interpretations:

- "Client Affiliates" (ET 1.224.010)
- "Agreed-Upon Procedure Engagements Performed in Accordance with SSAEs" (ET 1.297.020)
- "Scope and Applicability of Nonattest Services" (ET 1.295.010)

Practical Consideration:

The Interpretation is available on the AICPA's website at www.aicpa.org/content/dam/aicpa/interestareas/professionalethics/community/exposedrafts/downloadabledocuments/2021/2021-March-staff-augmentation-official.pdf.

