

REQUIREMENTS FOR COMPLETING AUDIT DOCUMENTATION WHEN USING AUTOMATED TOOLS AND TECHNIQUES

¹*Liudmila LAPIŢKAIA, PhD*

Email: liudmila@ase.md

²*Alexandru LEAHOVCENCO, PhD Student*

^{1,2}*Academy of Economic Studies of Moldova*

61 Banulescu-Bodoni Street, MD-2005, Chișinău, R. Moldova,

Phone: (+373 22) 40 27 57, www.ase.md

Abstract: Properly prepared audit documentation is the basis for the auditor's opinion on the reliability of the financial statements. The audit opinion is based on reliable and relevant audit evidence that can be obtained, including using automated tools. Currently, the revised ISQM 1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements", which is due to be adopted in September 2020, provides certain requirements for automated tools as one of the ways to obtain audit evidence and document it accordingly. However, there was a need to consider issues related to automated tools, taking into account the quality management policies and procedures for audit firms.

Key words: automated tools, techniques audit documentation

JEL CLASIFICATION: M42

INTRODUCTION

In modern conditions of rapid technological progress, clients of audit firms use the latest technical achievements in the implementation of their economic operations: blockchain, artificial intelligence, etc. In this regard, auditors should improve their audit procedures by using various automated tools, or the latest techniques. Among them are various applications of artificial intelligence, the use of robotics or drones, etc.

Requirements for completing audit documents are contained in the ISA 230 Audit Documentation, in addition the International Auditing and Assurance Standards Board (IAASB) issued Support material related to technology: audit documentation when using automated tools and techniques. It should be noted that ISA 230 Audit Documentation does not distinguish between requirements for audit documentation when using automated tools and the manual methods.

For example, ISA 230 Audit Documentation sets out the nature and purpose of audit documentation, which is maintained even when using automated tools and includes:

- *documenting relevant and reliable evidence as a basis for expressing an audit opinion,*
- *evidence that the audit was planned and conducted in accordance with ISA's and applicable legal and regulatory requirements,*
- *based on the fact that the audit team members were assisted and supervised by the engagement partner,*
- *ensuring that quality control and inspections can be carried out in accordance with ISQC 1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements",*
- *documentary basis for the possibility of conducting audit in accordance with applicable legal, regulatory or other acts.*

Despite the fact that the requirements for audit documentation are the same for automated and manual tools, however, the use of modern methods and tools can significantly affect the audit documentation.

DISCUSSIONS

The use of automated tools can provide auditors with the ability to view and analyze large arrays (databases) data's. However, when using such tools, the auditor is required to document the results of the analysis of data sets. This can be done by visualizing the results, for example, operations that:

- * *were registered during normal business hours,*
- * *associated with a unique purchase order number or,*
- * *were approved by the same user.*

Thus, when using automated tools, there may be different audit documentation due to the different nature of the techniques and methods used. For example, when determining the expected losses from bad receivables, the auditor can use automated tools to analyze the entire list of debtors, and the audit program will analyze this list according to various criteria.

The auditor independently decides on the tools and techniques that will be used during the audit, however, the use of automated tools may lead to conclusions different from those that would be made by the auditor using traditional methods. So, for example: if the auditor uses a drone to conduct a stock taking of agricultural products, the result that he will receive may differ from what he received when using traditional methods.

The form, content and volume of audit documentation depend on factors such as:

- *size and complexity of the audited entity,*
- *the nature of audit procedures,*
- *risks of material misstatement of information,*
- *significance of the audit evidence obtained,*
- *the nature and extent of the errors identified.*
- *audit methodology and tools used.*

The audit documentation reflects the procedures performed by the auditor and the conclusions reached throughout the audit. When using automated tools to perform audit procedures, the following aspects should be noted that may be relevant when considering the form, content and scope of audit documentation:

- *name of the automated tool and description of the source data used in the analysis. Sometimes the tool used (for example, a database, etc.) cannot be saved as audit documentation on paper,*
- *detailed information about data collection: data extraction and delivery process; validation and reconciliation procedures performed by the auditor,*
- *the essence of the procedures being performed and the resulting visualization (it can be either an exported report or a screenshot) related to the procedures being performed,*
- *attracting external experts to perform services for the extraction or processing of the data.*

One of the unique characteristics of using automated tools is that it performs many different procedures and calculations. For example, an auditor may develop and perform several procedures at once, applying different filters to the data, before reaching a final conclusion. As noted in ISA 230 Audit documentation, the auditor's preliminary working documents should not be included in the audit documentation.

However, the auditor may include different visualizations, results of applying different filters, or iterations of algorithms when, in the auditor's opinion, they help to understand the nature, timing, and scope of the audit procedures performed and the results obtained.

Often, using automated tools (database analysis) allows to get an initial idea of the account balance or class of transactions, which can be confirmed by subsequent checks. The auditor may retain documentation of the results of an earlier automated audit procedure when an analysis of its results can confirm his professional judgments or they were made in the design of the analytical system.

The use of certain automated tools should be reflected in the audit firm's quality control procedures and policies. However, when conducting an audit of financial statements, auditors can also use automated tools that are not approved in the quality control policies of the audit firm. In such cases, questions may arise about differences in the nature and scope of the auditor's documentation when using automated tools that are approved by the audit firm, as opposed to using tools that were not the subject of a formal firm approval process (for example, when the audit team develops its own software solutions or changes or revises proprietary standard algorithms to achieve a specific testing goal).

In this case, the engagement team must confirm any considerations regarding:

- whether automated tools that are not approved by the audit firm are suitable for ensuring consistent performance of quality tasks; and
- does the engagement team have the appropriate qualifications or experience to use automated tools?

In accordance with the requirements of the project International Standard on Quality Management 1 (Revised) Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, the audit firm must set appropriate quality goals that relate to the proper receipt, development, use, maintenance, and distribution of resources, including human, technological, and intellectual resources that allow the design, implementation, and operation of the quality management system in a timely manner.

When implementing an information technology application, especially a customized it application that was developed specifically for an audit firm, it must be tested, which includes:

- ✓ *checking whether the data entered is correct and whether the data is kept confidential.*
- ✓ *testing processes to make sure that the IT application works as intended and achieves the purpose for which it is intended.*
- ✓ *staff understanding of how to interact with the IT application,*
- ✓ *understanding the common IT controls needed to support its continuous operation.*

The audit firm's quality policies and procedures may establish the responsibility of the engagement team when using automated tools to perform audit procedures, and may require the involvement of individuals with special skills or experience in evaluating or analyzing such tools.

The audit firm's quality control policies or procedures may specifically prohibit the use of certain technology resources (for example, software that has not yet been specifically approved for use by the firm), or may include requirements for obtaining permission to use a new technology resource. In some circumstances, an audit firm's quality control policies or procedures may not specifically address the use of a specific product or technology resource (for example, a spreadsheet developed by a group of auditors).

In these circumstances, the engagement partner may exercise professional judgment when considering whether to use a technological resource for conducting audit procedures.

Factors that can be taken into account when determining whether a particular a technology resource that has not been specifically approved for use by a audit firm that is suitable for use in an audit assignment.:

- *how the used technology resource is consistent with the audit firm's policies and procedures, including: policies and procedures related to data processing and security.*
- *rules for the operation of a technological resource.*
- *the competence and capabilities of the personnel necessary for the use of the technological resource.*

When an audit firm has approved automated tools, at the level of quality control policies and procedures, the following documentation discloses these issues:

- ✓ *the audit firm's quality management policies and procedures should include a list of such tools and a justification of their suitability for achieving the purpose of auditing financial statements,*
- ✓ *other information confirming the approval of automated tools.*

However, when automated tools were not subject to the formal approval process by the audit firm for use in all or some of the audit assignments, the engagement team 's considerations about the appropriateness of using automated tools should be documented, which should be reflected in the working documentation.

When using automated tools in the course of an audit, in terms of risk assessment or further audit procedures, the auditor is required to comply with the documentation requirements contained in ISA 230 Audit documentation and all other relevant ISA's, especially ISA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment and ISA 330 The Auditor's Responses to Assessed Risks.

ISA 230 Audit documentation sets that audit documentation may be recorded on electronic or other media, when it should contain:

- *Audit strategy and plan,*
- *Analytical procedures,*
- *Memorandum (in the case of small business entities)*
- *Test sheets,*
- *Correspondence with lawyers and third parties,*
- *And other documentation (for example: copies of accounting registers, contracts, etc.)*

Audit documentation must provide evidence that the audit complies with the ISAs. However, for the auditor, it is not necessary, but probably not feasible to practically document each issue on which the auditor expressed his opinion, made by professional judgment in the course of the audit.

However, the following documents are required for the completeness of the working documentation:

- ✚ *an audit plan that indicates that the auditor has planned to conduct the audit at the appropriate level,*
- ✚ *a signed audit engagement letter indicates that the auditor has agreed the terms of the audit with the client's management,*
- ✚ *an auditor's report containing a properly qualified opinion on the financial statements.*

Documenting audit skepticism is a complex issue. However, the audit documentation may nevertheless provide evidence of the auditor's professional skepticism in accordance with the ISA. Such evidence may include specific procedures performed to confirm, such as management's responses to the auditor's requests.

CONCLUSIONS

Analyzing the above, it should be noted that the use of automated tools significantly facilitates the audit, but at the same time can provide a wider range of audit evidence, in contrast to those that would be obtained by the auditor during the audit by traditional methods.

Thus, automated tools are subject to certain requirements in terms of quality control both at the level of the audit firm and at the level of the audit mission.

The following figure shows how the use and approval of automated tools may affect documentation at the audit firm level or engagement level.

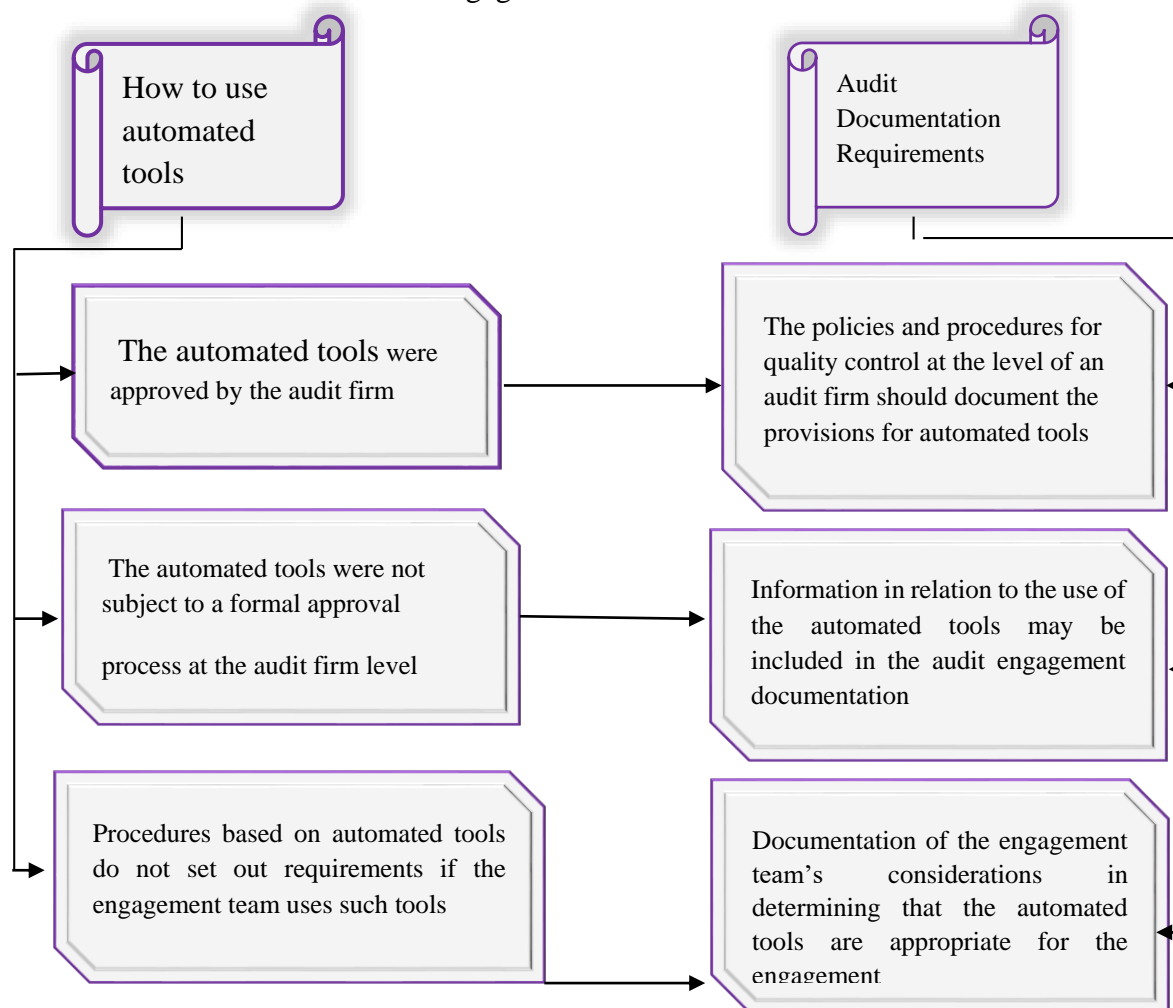


Fig.1 Requirements for documentation prepared when obtaining audit evidence using automated tools.

Source: compiled by the authors based on Non-authoritative support material related to technology: audit documentation when using automated tools and techniques

Thus, it should be noted that the use of automated tools during the audit will primarily require changes to the policies and procedures of quality control of audit firms, as well as an appropriate level of training for auditors and a willingness to apply the latest developments in information technology that can help achieve the goals set during the audit of financial statements.

REFERENCES

- 1) ISA 230 Audit documentation <https://www.iaasb.org/projects/audit-documentation>
- 2) <https://www.iaasb.org/publications/non-authoritative-support-material-audit-documentation-when-using-automated-tools-and-techniques>