

Digital Disruption & its impact on the accounting profession

David Smith | February, 2016



Going to the cloud checklist

- 👁️ **Data Access**
- 👁️ **Availability**
 - 👁️ Service levels and track record
- 👁️ **Penetration testing**
- 👁️ **Where is the data stored**
- 👁️ **How easily can the data be exported**
- 👁️ **Does the supplier have effective disaster recovery plans**
- 👁️ **How is data transferred between users and the service secured**
- 👁️ **Is the system scalable**



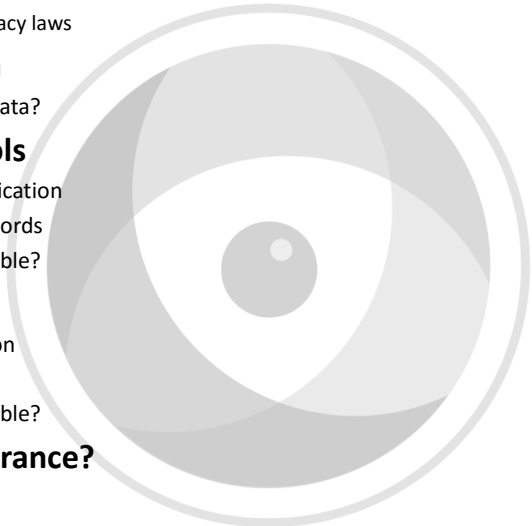
Going to the cloud checklist

- 👁️ **What happens if the supplier becomes insolvent**
- 👁️ **Does the supplier vet its personnel for criminal records**
- 👁️ **How do scheduled outages occur**
- 👁️ **How often is the application updated**
- 👁️ **Is transaction rollback a core component of the product**
- 👁️ **How does the vendor monitor, administer and manage the system**
 - 👁️ How does the vendor guarantee security of these workstations
- 👁️ **What is the vendor policy to notify customers of security breaches**



Security

- Location of data
 - Jurisdiction / privacy laws
- Collaboration
 - Who owns the data?
- Access controls
 - Level of authentication
 - Quality of passwords
 - Who is accountable?
- Cyber attack
 - Access prevention
 - Stolen data
 - Who is accountable?
- Need for insurance?



RansomWare

Slide 6



The challenge of Shadow IT



**Smithink**



Reliance



APESB
Accounting Professional & Ethical Standards Board



Reliance

🕒 Reliance on data feeds

- 🕒 Need for GS007 or similar standards?

🕒 Reliance on accounting data

🕒 Reliance on analytics algorithms

- 🕒 Use of prediction technologies
- 🕒 Who owns the data?

🕒 Trusting machine learning

🕒 Data visualisation

- 🕒 a need for standards?



"That's okay, I don't know what the chart means either."

Use of audit data analytics

- Accepting or continuing an audit engagement
 - Prediction of business failure, management fraud
 - Accepting or continuing an audit engagement
- Risk of material misstatement
 - Evaluating design and implementation of controls
 - Potential for fraud
- Performing analytical procedures based on audit assessment of risk
- Reliance on client's data analytics?
- Can the level of assurance be increased beyond 95%
 - Tests performed on 100% of the data?



Big Data Analytics

- Using analytics to identify and analyse patterns are correlations that reveal matters of audit interest
 - Looks at all the data not just a subset
- Examples
 - Journal entries that might be fraudulent / unusual
 - Re-statement risk, fraud risk, insolvency risk
 - Correlations with data filed with regulators
 - Check 100% of debtors for post balance data payments to focus on remaining outstanding
 - Correlation with non financial measures
 - Ore dug from a mine, weather, disasters, exchange rates



CA ANZ Kairos Initiative

- 👁️ **Predictive analytics**
 - 👁️ Scaled for SMEs
- 👁️ **Microsoft / Westpac partnership**
- 👁️ **What happens if the algorithms give misleading information**
 - 👁️ Who is accountable?
 - 👁️ Should there be audit style assurance?



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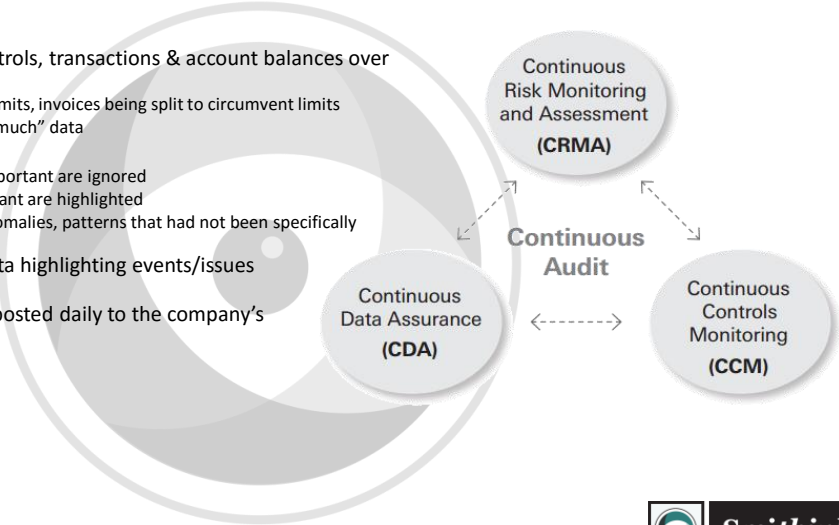


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Continuous Auditing

- Continuous monitoring of controls, transactions & account balances over 100% of data
 - Examples – approval limits, invoices being split to circumvent limits
 - The challenge of “too much” data
- Use of machine learning
 - Events that are not important are ignored
 - Events that are important are highlighted
 - Looking for trends, anomalies, patterns that had not been specifically considered
- Dashboard presentation of data highlighting events/issues
 - Drill down to data
- Audited financial statements posted daily to the company’s website



AICPA Audit Data Standards

- Goal – make data available to auditors on demand
- Working with ERP vendors & audit tool developers
- Common data store regardless of base system that replicates enterprise data



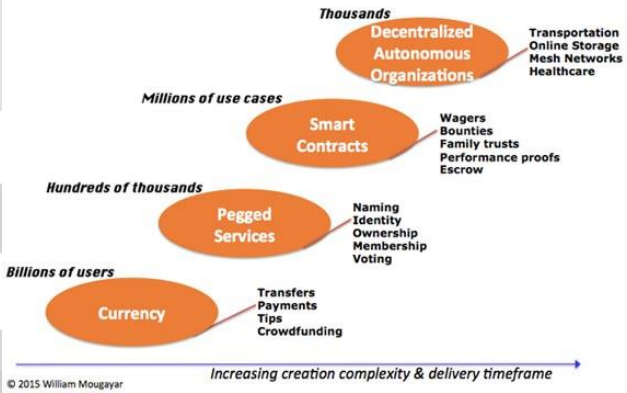
Opportunities



Blockchain

- Trusted transactions
- Transaction can be any property
 - Payments
 - Voting
 - Identity
 - Licences
- Disintermediates middlemen
- Reliance – need for accounting services?

Blockchain Apps: End-User View



AICPA – Reimagining Audit in a Wired World (August, 2014)

- To date, emphasis has been in efficiency not harnessing the potential leap from new technologies
 - Should deconstruct and re-engineer processes
 - Harness data science and related technologies
 - Extending audit theory to adopt new approaches
 - Modify audit standards
 - Modifying how and where auditing occurs
 - Enabling continuous auditing







What is an audit – what does the customer want?

- **Can technology:**

- Help close the expectation gap
 - Help an auditor be a bloodhound and a watchdog
 - Most big firms already have forensic teams
- Increase the level of assurance provided
- Keep costs down
- Enable more effective reporting
- Enable continuous reporting



Auditing non financial data

-  **Ore dug from a mine**
-  **Weather statistics**
-  **Traffic pattern statistics**
-  **Consumer behaviour**



Practice Performance

- AICPA – Future of Practice Monitoring Concept Paper – Dec 14
- When and how fast did reviews happen
- Queries raised by individuals, when were they cleared
- Ensuring training is happening
- Staff at the right levels doing the work
- Continuous monitor
- Dashboards to highlight issues/potential issues
- Performance ratings – think PS4 awards!
- Monitoring by regulators
 - Accounting bodies Quality Reviews



Key Document Completion		
A1	Review Points (A1)	28/07
BA	Review Points	19/19
AA2	Audit Team Planning Meeting	5/18
AK3	Internal Audit Planning Worksheet	16/18
EL33(2)	Audit Report	1/1
AA2	Audit Team Planning Meeting	5/18



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