

Digital Disruption & its impact on the accounting profession

David Smith | February, 2016



Smithink

Security

APESB
Accounting Professional & Ethical Standards Board

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**



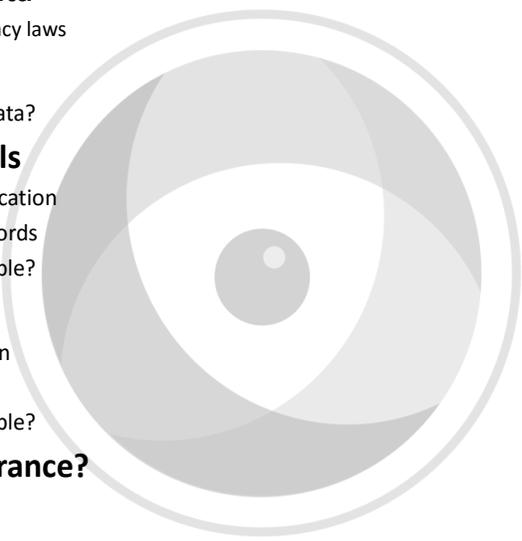
Going to the cloud checklist

- ☉ **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

CryptoLocker

Your personal files are encrypted!

Your important files **encryption** produced on this computer: photos, videos, documents, etc. [Here](#) is a complete list of encrypted files, and you can personally verify this.

Encryption was produced using a **unique** public key **RSA-2048** generated for this computer. To decrypt files you need to obtain the **private key**.

The **single copy** of the private key, which will allow you to decrypt the files, located on a secret server on the Internet; the server will **destroy** the key after a time specified in this window. After that, **nobody and never will be able** to restore files...

To obtain the private key for this computer, which will automatically decrypt files, you need to pay **300 USD / 300 EUR** / similar amount in another currency.

Click «Next» to select the method of payment and the currency.

Any attempt to remove or damage this software will lead to the immediate destruction of the private key by server.

Private key will be destroyed on
10/9/2013
4:25 PM

Time left
95 : 56 : 35

Next >>

©2015 SMITHINK | All rights reserved



The challenge of Shadow IT







Reliance




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 their be audit style assurance?







Real Time






- About BDO
- People
- Locations
- Audit
- Tax
- Advisory
- Sectors
- Resources
- Careers
- Contact Us

Home > Advisory > Information Systems > Business Intelligence

- Business Advisory Services
- Business Recovery & Insolvency
- Corporate Finance
- Forensic Services
- Business Training & HR Services
- Risk Advisory
- Information Systems
- Business Process Mapping
- Software Selection
- ▶ Business Intelligence
- Hardware Selection
- Contacts



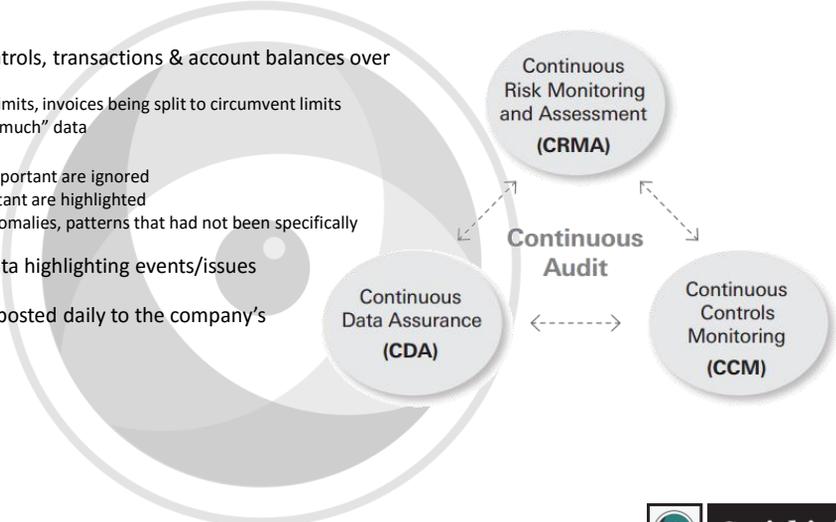
BUSINESS INTELLIGENCE, REPORTING & PLANNING

BDO NZ launches world-first real-time advisory service



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

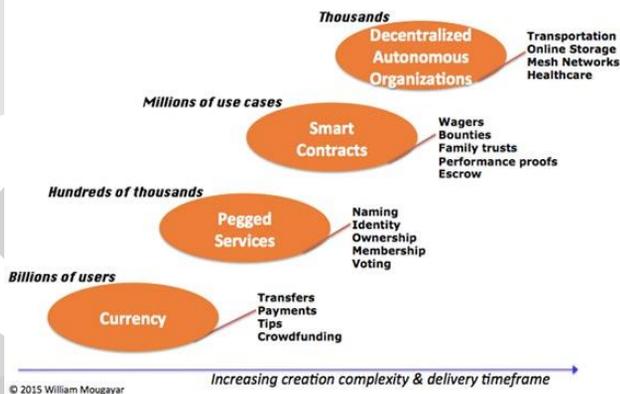


A large blue rectangular slide. At the top center is the Smithink logo. In the center of the slide, the word "Opportunities" is written in a large, bold, italicized black font. At the bottom left is the APESB logo, and at the bottom right is a small version of the Smithink eye logo. The background features a large, faint, circular graphic element.

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



Attract and retain talent

“T” professionals



Register for our free monthly newsletter



Smithink

David Smith / Director | **Smithink**
david.smith@smithink.com

www.smithink.com

©2015 SMITHINK | All rights reserved

