# DEVELOPMENT AND TRENDS

ICPAK 35th annual seminar

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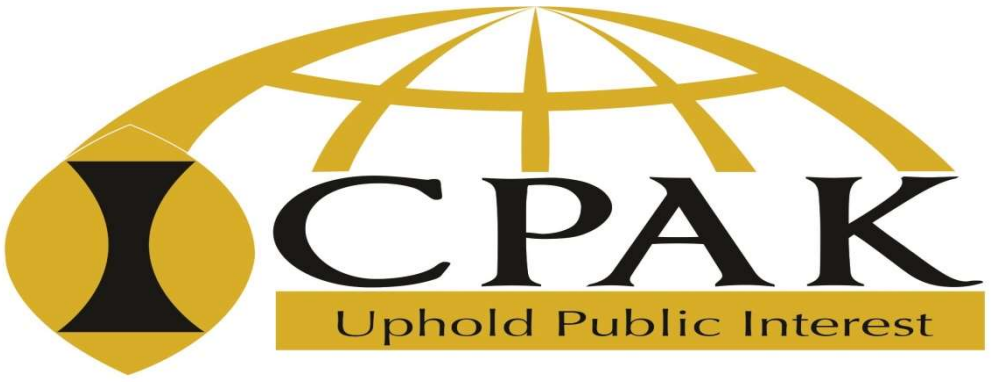
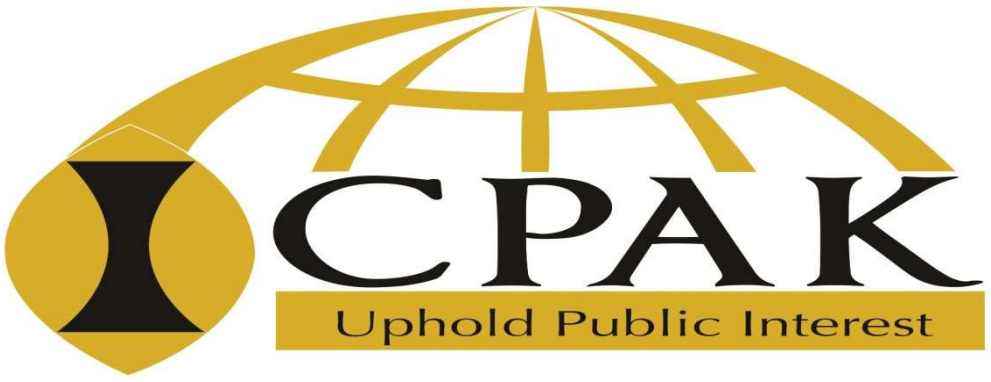


# CONVERGENCE
# Introduction & Overview

# Convergence in Accounting

- Refers to the goal of establishing a single set of accounting standards that will be used internationally.
- In a financial reporting context, convergence is the process of harmonizing accounting standards issued by different regulatory bodies.
- Convergence in some form has been taking place for several decades and efforts today include projects that aim to reduce the differences between accounting standards

# Convergence in Accounting

- The objective is to produce a common set of high quality accounting standards to enhance the consistency, comparability and efficiency of financial statements.

- There are two aspects to the current convergence debate:
  - International Convergence
  - National GAAP Convergence

# Arguments for convergence

- Facilitate better comparability of financial statements
  - Easier evaluation of companies
- Facilitates international merges and acquisitions
- Reduce financial reporting costs
  - Cost-listing would allow access to less expensive capital
- Reduce investor uncertainty and the cost of capital

# Arguments for convergence

- Reduce cost of preparing worldwide consolidated financial statements
  - Simplify audit
- Easy transfer of accounting staff internationally
- Raise the quality level of accounting internationally
  - Increase credibility of financial information
  - Enable developing countries to adopt a ready-made set of high quality standards with minimum cost and effort

# Arguments against convergence

- Significant differences in existing standards
  - Enormous political cost of eliminating differences
- Nationalism and traditions
  - Arriving at universally accepted principle is difficult
- Need for common standards is not universally accepted
  - Well-developed global capital market exists already
- May cause standards overload
- Difference in accounting across countries might be necessary

# International convergence issues

- The tax-driven nature of the national accounting regime
- Insufficient guidance on first time application of IFRS
- Disagreement with significant IFRS, such as financial statements and fair value accounting
- The complicated nature of standards such as financial instruments and fair value accounting
- IFRS difficulties in language translation

# IASB/FASB Convergence

- The Norwalk Agreement reached in 2002 between the IASB and FASB pledged
  - For compatible financial reporting standards
  - Proper co-ordination of work program to maintain compatibility

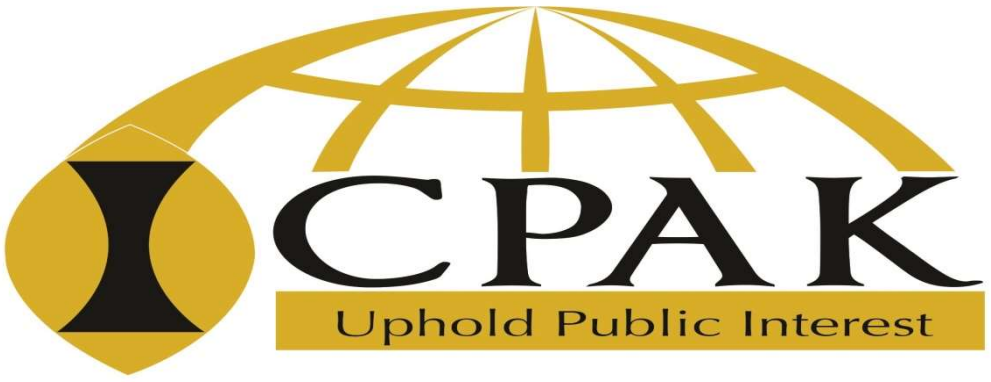
# IASB/FASB Convergence

- IASB's and FASB's key initiatives in the Norwalk agreement
  - Joint projects- boards work jointly to address issues
  - Short-term convergence- remove difference between IFRS and U.S. GAAP for issues where convergence is deemed most likely
  - Monitoring IASB projects- FASB monitors IASB projects of most interest
  - Convergence research project- identification of major difference between IFRS and U.S. GAAP
  - Convergence potential- FASB assesses agenda items for possible co-operation with IASB

# IASB/FASB Convergence

- Following global financial crisis both groups formed Financial Crisis Advisory Group (FCAG)
- July 2009 FCAG report addresses:
  - Effective financial reporting
  - Limitations of financial reporting
  - Convergence of accounting standards
  - Standards-setting independence and accountant ability

# AUDITING SOFTWARE
# Introduction & Overview

# Introduction

- Various types of software can be used to assist auditors in evidence collection.
- Some can be purchased off the shelf
  - IDEA (Interactive Data Extraction and Analysis)
  - ACL for windows (Audit Command Language)

- Others must be developed specifically to address audit need
  - ICPAK Audit software
  - Caseware software etc

# Generalized Audit Software

- A major tool that auditors can use to collect evidence on the quality of application systems
- It provides a means to and manipulate data
- It allows auditors to
  - Undertake their evidence collection work in a variety of hardware/software environments
  - Develop an audit capability quickly
  - Maintain the technical knowledge auditors need to be able to retrieve data from as well as to manipulate data in a computer based system

# Functional Capabilities of GAS

- File access
- File reorganization
- Selection
- Arithmetic
- Stratification and frequency analysis
- File creation and updating
- Reporting
- Data coding, record formats and data structures
- Sorting and merging
- Sampling selection/ evaluation
- Create and update work files based on client's production

# Industry Specific Audit software

- Industry-specific audit software is audit software that has been designed to provide a high level of commands that invoke common audit functions needed within a particular industry
- It may run only on a limited set of hardware/software platforms
- Moreover it may have been developed to access data maintained by a specific application package that is used widely

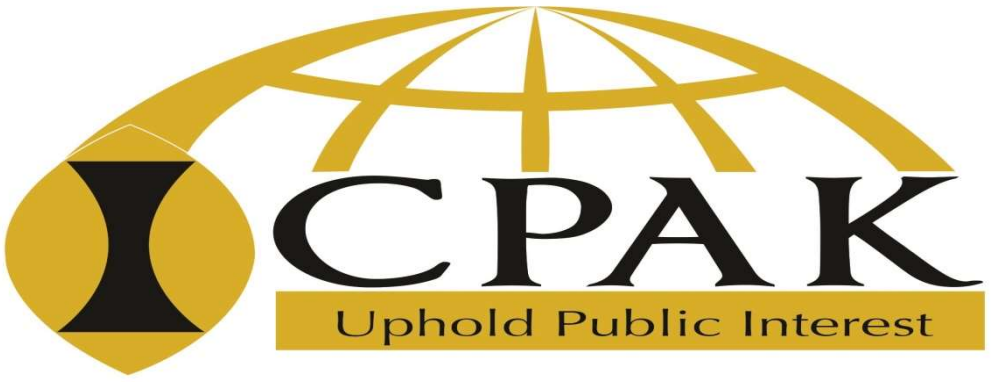
# Utility software

- Software that performs fairly specific functions that are needed frequently, often by a large number of users, during the operation of a computer system
- Reasons for using utilities:
  - Programs exist for specific security or integrity related functions
  - Formatting and downloading data
  - To do functions not included in GAS
  - More effective and efficient than GAS
  - Test and develop GAS programs

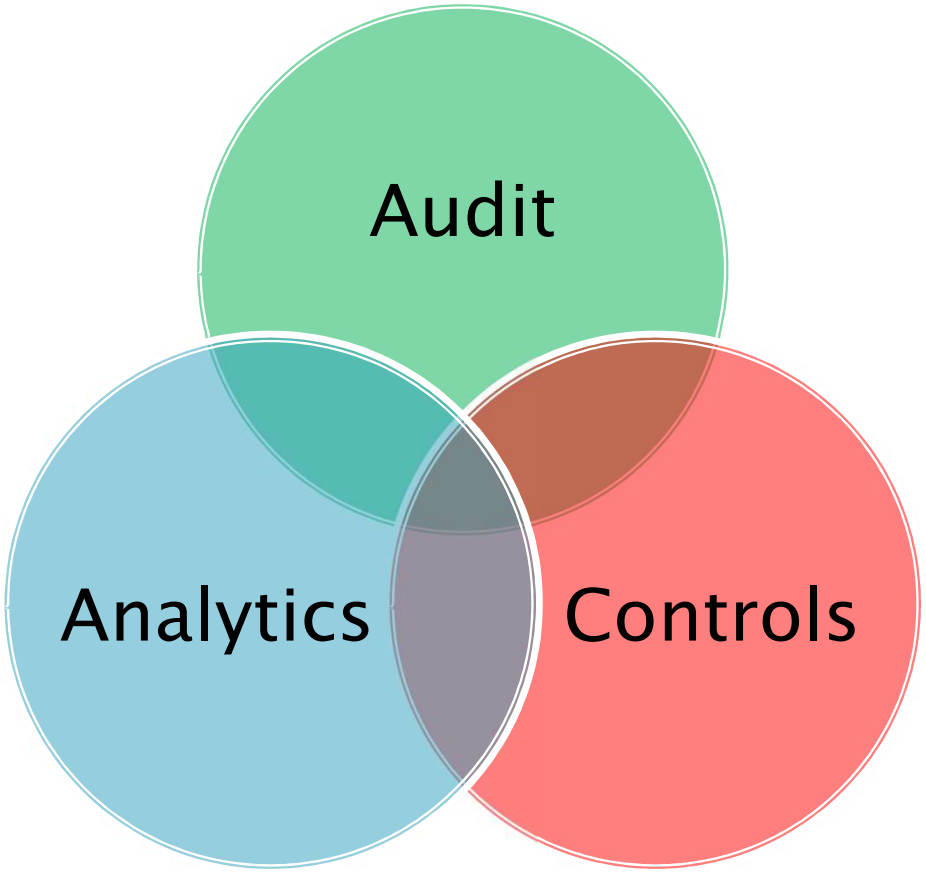
# Specialized Audit Software

- Reasons for developing specialized audit software
  - Unavailability of alternative software
  - Functional limitations of alternates
  - Efficiency considerations
  - Increased understanding of systems
  - Opportunity for easy implementation
  - Increased auditor independence and respect
- Development and implementation of specialized audit software

# Automation of Audit

# What comprises Audit Function – Ecosystem



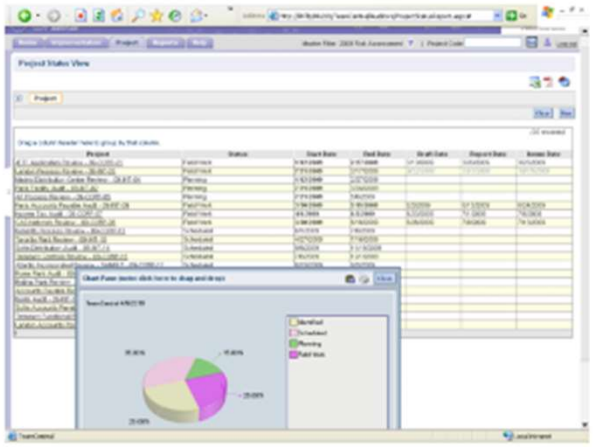
# Lines of Defense – Relationships

| Audit | Analytics | Controls |
|---|---|---|
| -Risk Assessment | -Library Source | -Risk & Control Assessment |
| -Audit Plan | -Audit Universe | -Self-Assessment |
| -Resourcing | -Users | -Testing |
| -Audit Execution | -Taxonomy | -Certifications |
| -Audit Reporting | -Issue Tracking | |

# 3 key drivers for Audit Automation

Instant audit report

Audit committee reports



Efficiencies

# Why Automate?

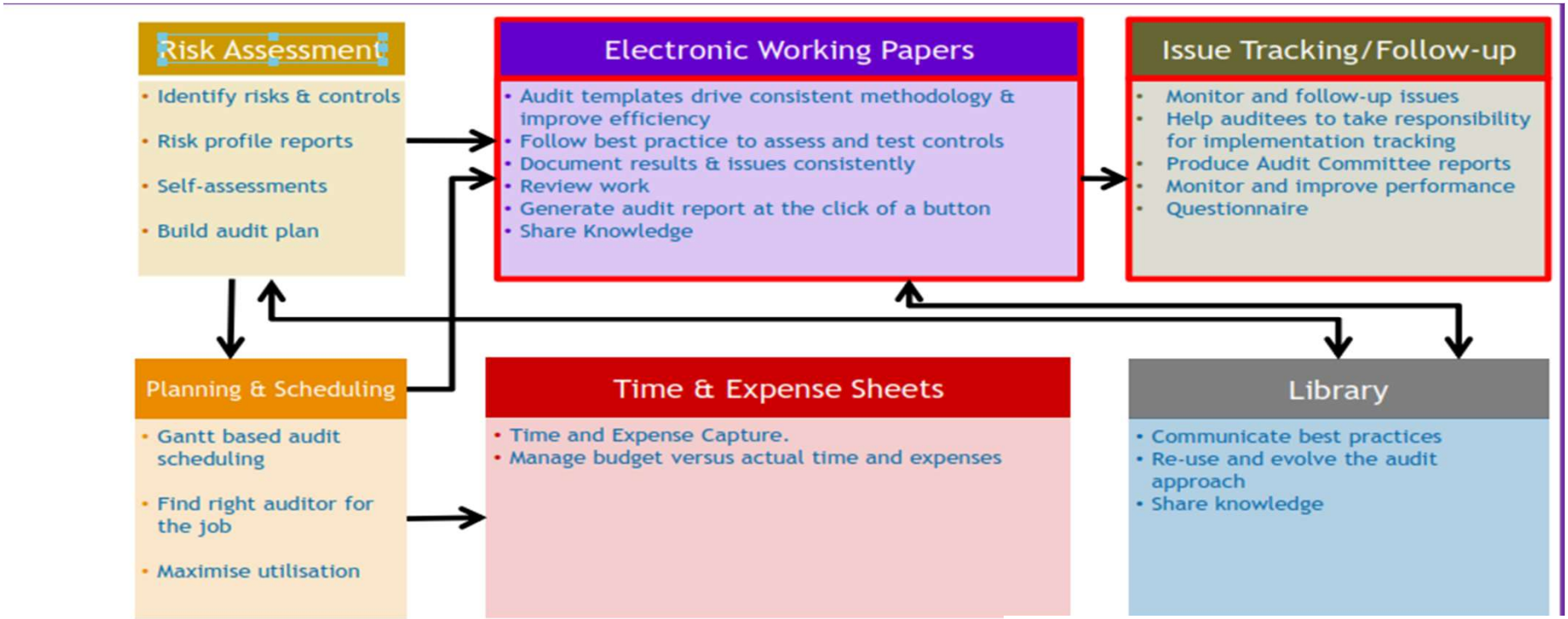
- Compliance with IIA Standards
- 2007 IIA Emerging Issues report included these recommendations following from results of external QA reviews
  - Formalize the annual audit planning and risk assessment process
  - Use metrics to compare actual use of resources to the budget
  - Develop and enforce working paper standards, including sample formats, documentation requirements, indexing etc.

# Why Automate?

- Enhance supervision of auditors by conducting/documenting reviews of audit work and results at key milestones rather than just at the end of the engagement
- Improve the timeliness of audit reports

- Add efficiencies and effectiveness in the following activities
  - Risk Assessment
  - Planning
  - Working papers/files
  - Reporting
  - Time and Expense Capture
  - Project Tracking
  - Issue Tracking and Follow up
  - Data mining

# Key Benefits to Automation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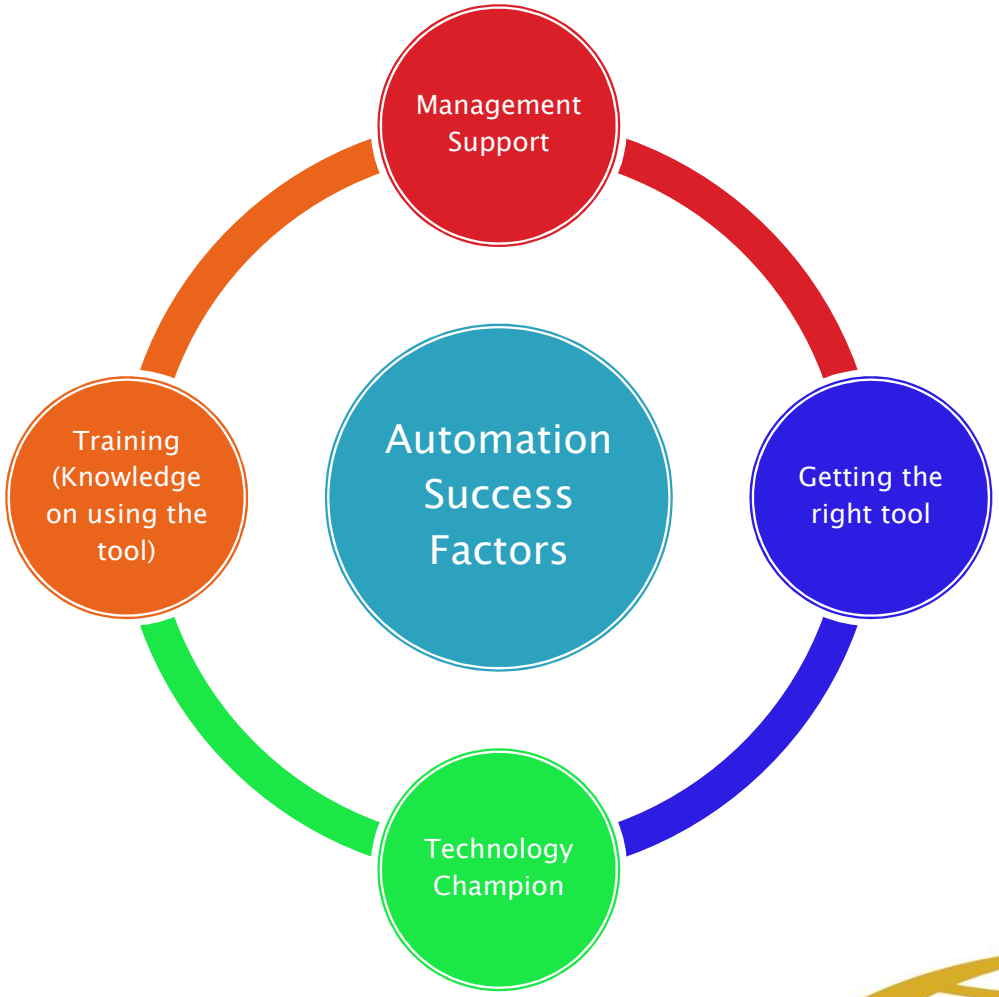
# Automation Success Factors



# Emerging trends

- Several technologies will converge to impact audit. One set of technologies will allow the collection of massive amounts of data. No matter how much data there is, all of it will be stored in the cloud. Then, algorithms, deep learning, and machine learning will sift through the data to come to new insights. Finally, such insights will be transmitted across the internet at 5G speed — which is 100 times faster than 4G.

# Emerging trends

- Some of the technological advancement include:
  - Artificial Intelligence and Robotic Process Automation
  - Cyber and data security
  - Data Analytics
  - Technology and Talent Development
- The world of auditing we grew up in is going to change because of such technologies as we will be moving towards continuous auditing.

# Continuous auditing

- A time is coming when these systems will be capable of auditing 100% of a company's financial transactions. These visionaries foresee the day when Artificial Intelligence will enable auditing that is a continuous and real-time process, not a prolonged exercise requiring large teams of accountants/auditors working overtime after the close of a fiscal year.

# Brainstorms

- How often do you hear senior auditing and accounting leaders talk about their 25 or 30 years of experience? In many cases, however, they have one year of experience repeated 25 or 30 times. There are certain things we learned early in our careers and they worked and we just kept doing them. And that's fine, in a world of linear change. But in a world of exponential change, what worked yesterday might not work moving forward

# Brainstorms

- But is Artificial Intelligence in auditing a good idea?
- Or do we even have a choice, is it just part of the data, focused technology wave that all companies must embrace?

# THANK YOU

Any questions

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