

LZRA

LATVIJAS ZVĒRINĀTU REVIDENTU ASOCIĀCIJA

Possibilities and reality of digital auditing.

Challenges for an average auditor.

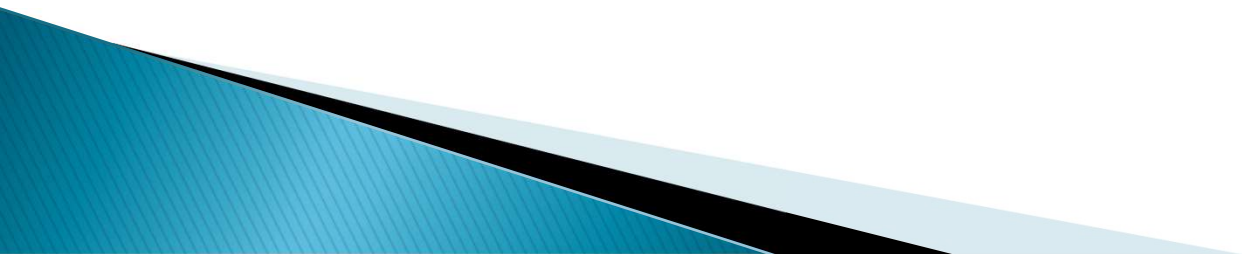
Lolita Čapkeviča

Chairperson of the Latvian Association of Certified
Auditors

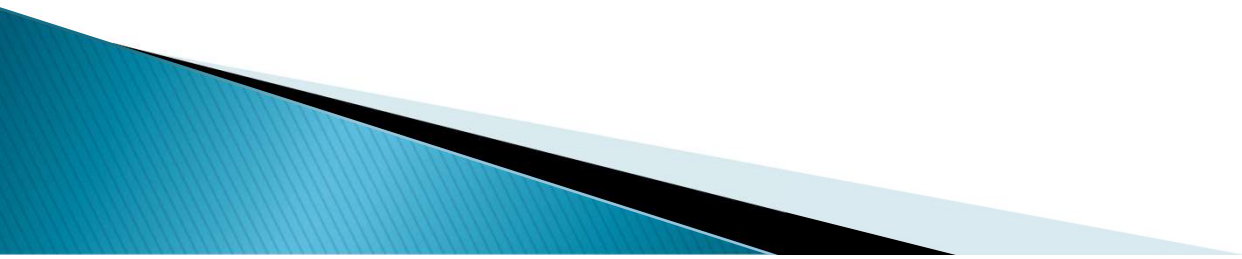
08.09.2023

Digital auditing

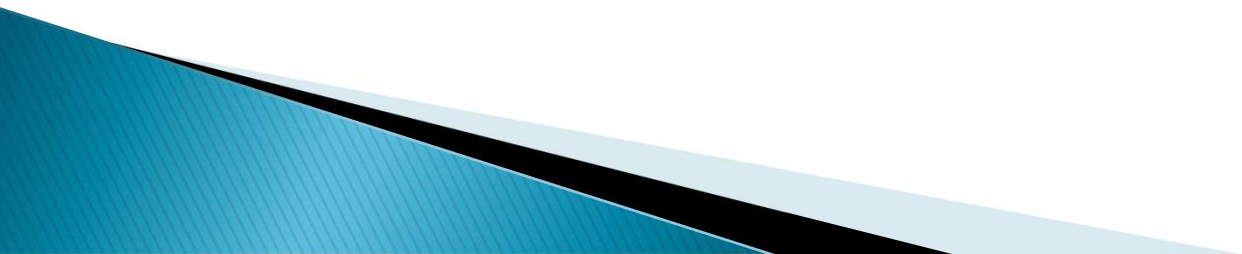
- ▶ Technology-driven auditing that involves utilization of digital tools and technologies to conduct audit processes more effectively and efficiently.



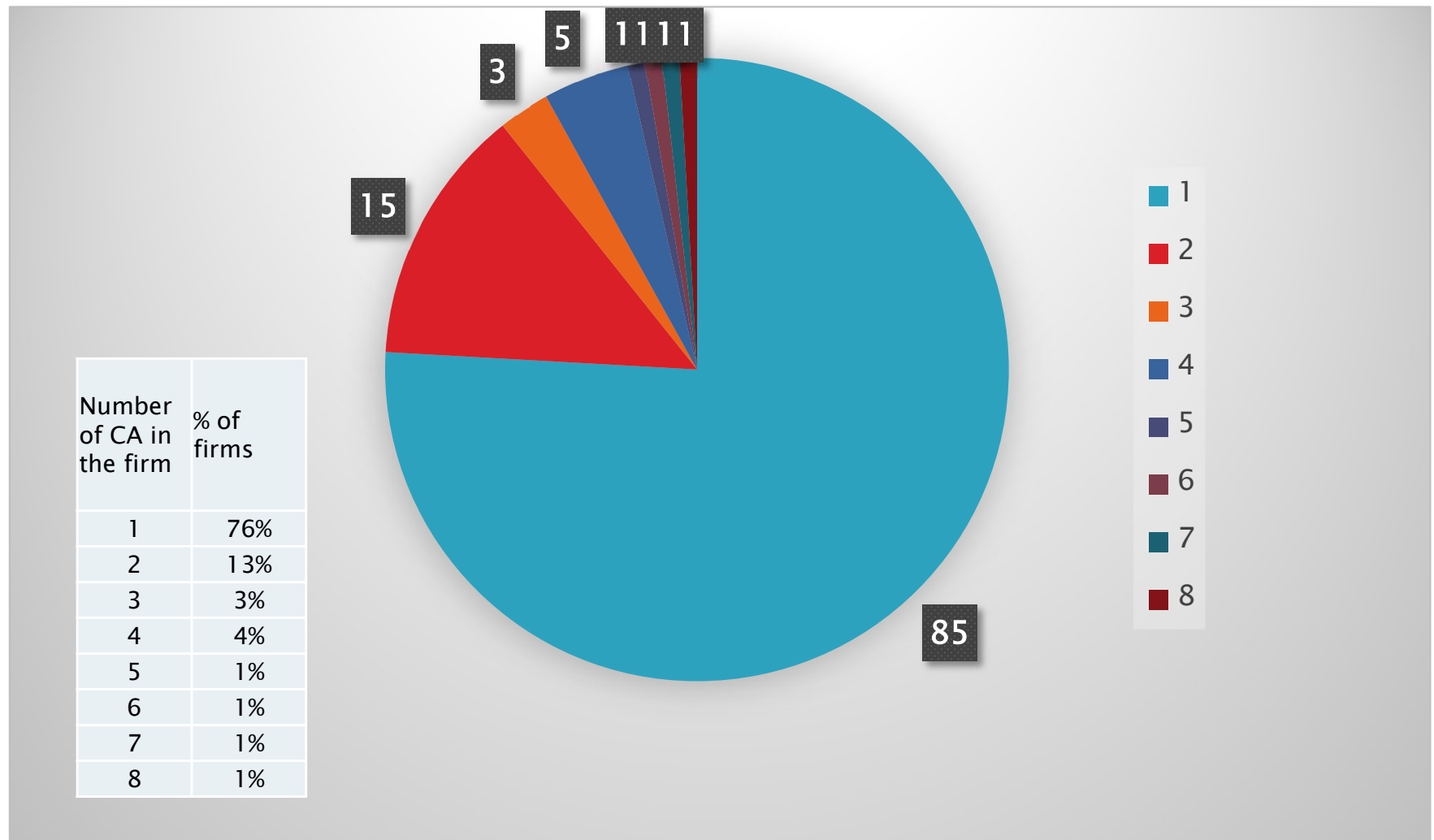
Examples of opportunities for auditors using AI

- ▶ **Data Analysis and Processing** – processing vast amounts of financial and non-financial data, identifying patterns, anomalies, and trends.
 - ▶ **Risk Assessment** – identifying potential risks by analyzing historical data, market trends, and industry benchmarks.
 - ▶ **Fraud Detection** – algorithms that can detect unusual or fraudulent transactions by comparing them to established patterns.
 - ▶ **Automated Testing** – automation of routine, repetitive tasks.
 - ▶ **Natural Language Processing** – review contracts, agreements, and correspondence more efficiently and extract relevant information.
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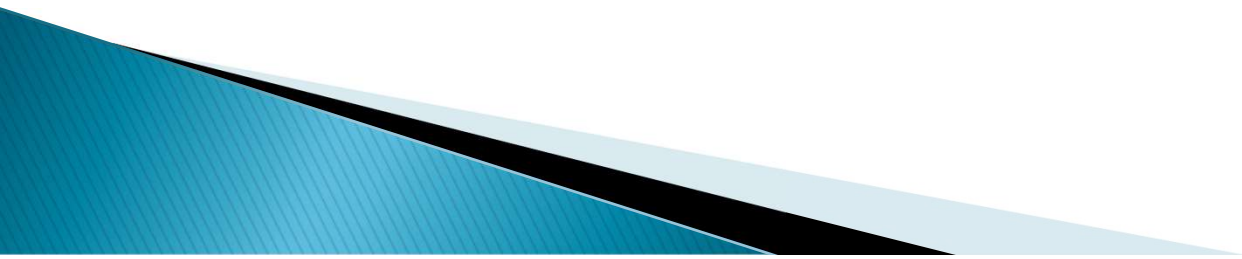
Prerequisites for successful digital auditing

- ▶ **Technology Infrastructure** (e.g., hardware, software, and network resources)
 - ▶ **Data Accessibility** (well-organized, easily accessible, and available in digital formats data that can be integrated with auditing software)
 - ▶ **Data Quality** (complete, accurate and consistent data to prevent errors and misinterpretations during the audit process)
 - ▶ **Digital Skills** (solid understanding of digital tools, data analytics and relevant software applications; necessity for training and upskilling)
 - ▶ **Security Measures** (robust cybersecurity measures: strong data encryption, access controls and other security protocols to protect data integrity and confidentiality)
 - ▶ **Integration Capabilities** (digital auditing tools should integrate seamlessly with existing auditing processes and systems).
 - ▶ and several more....
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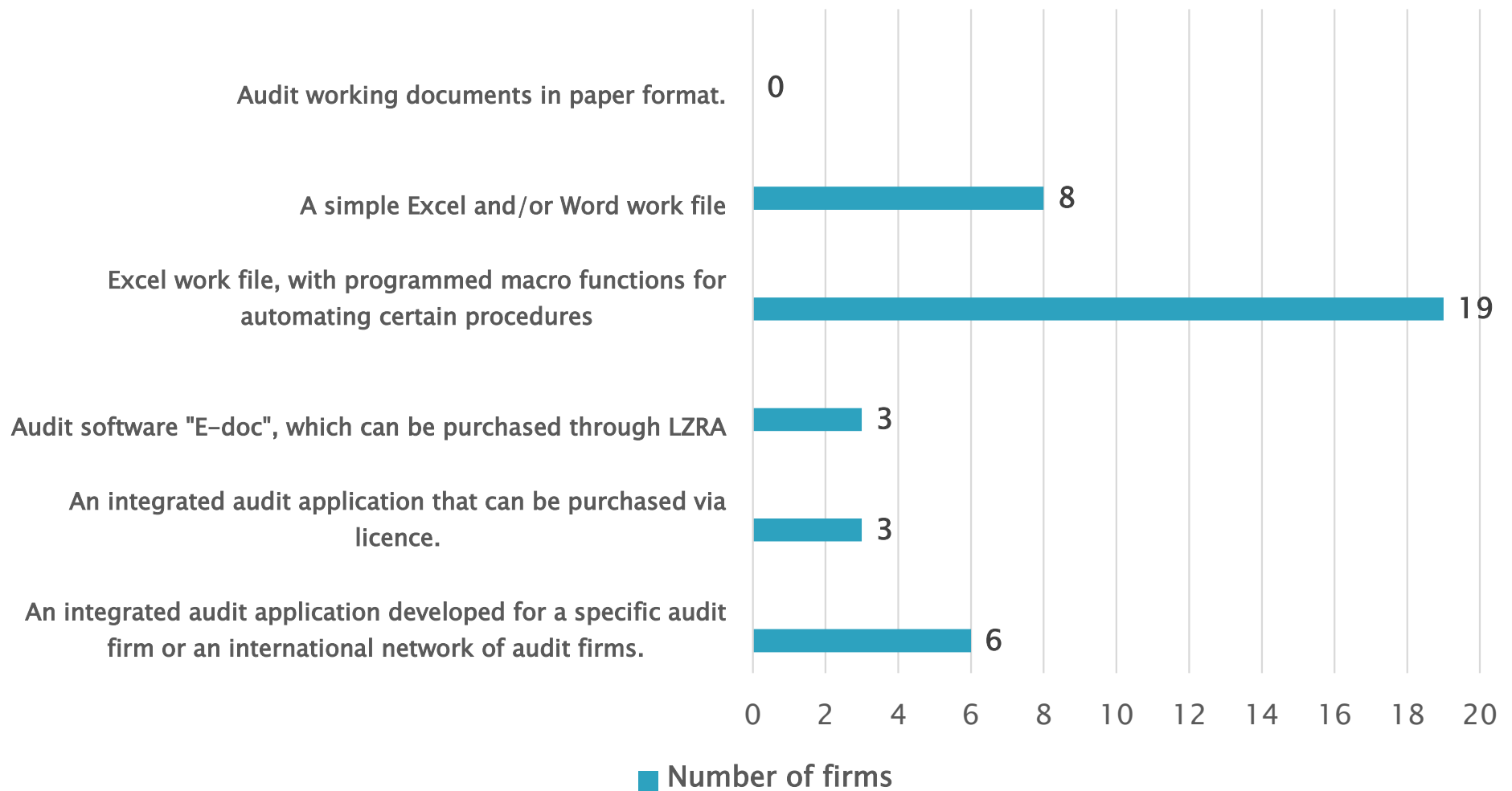
Latvia: number of audit firms by number of certified auditors employed



Survey performed in August 2023 on use of IT tools in audit

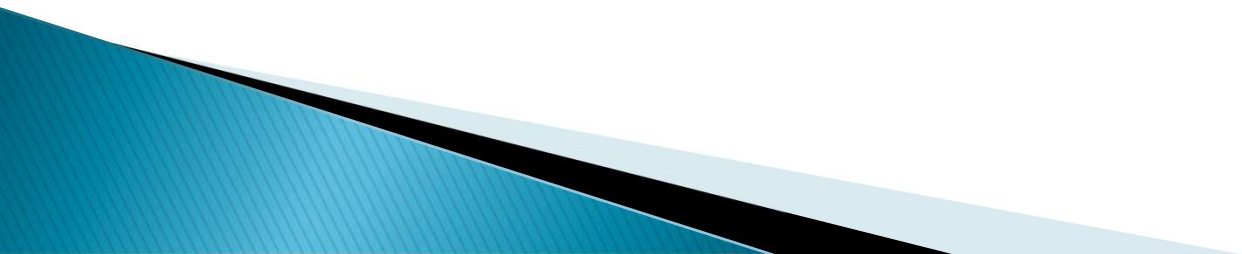
- ▶ Received 39 replies from 109 requests sent out (response rate 36%);
 - ▶ Big4 – 3 replies (8% from responses);
 - ▶ Medium firms – 4 replies (10% from responses)
 - ▶ Small firms – 32 replies (82% from responses)
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Audit primary documentation tools used by audit firms in Latvia

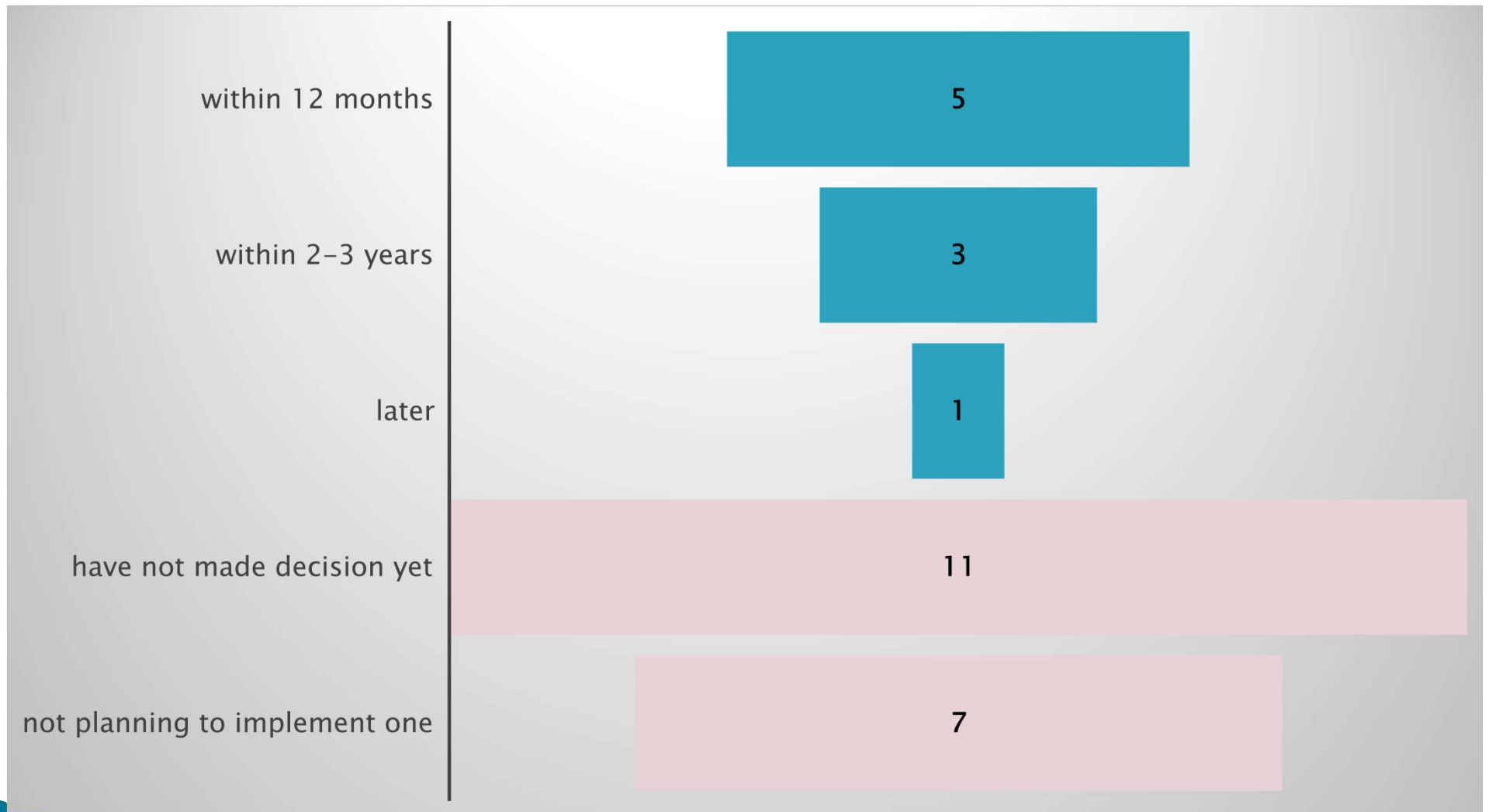


Digital/IT audit tools most widely used in the audit process

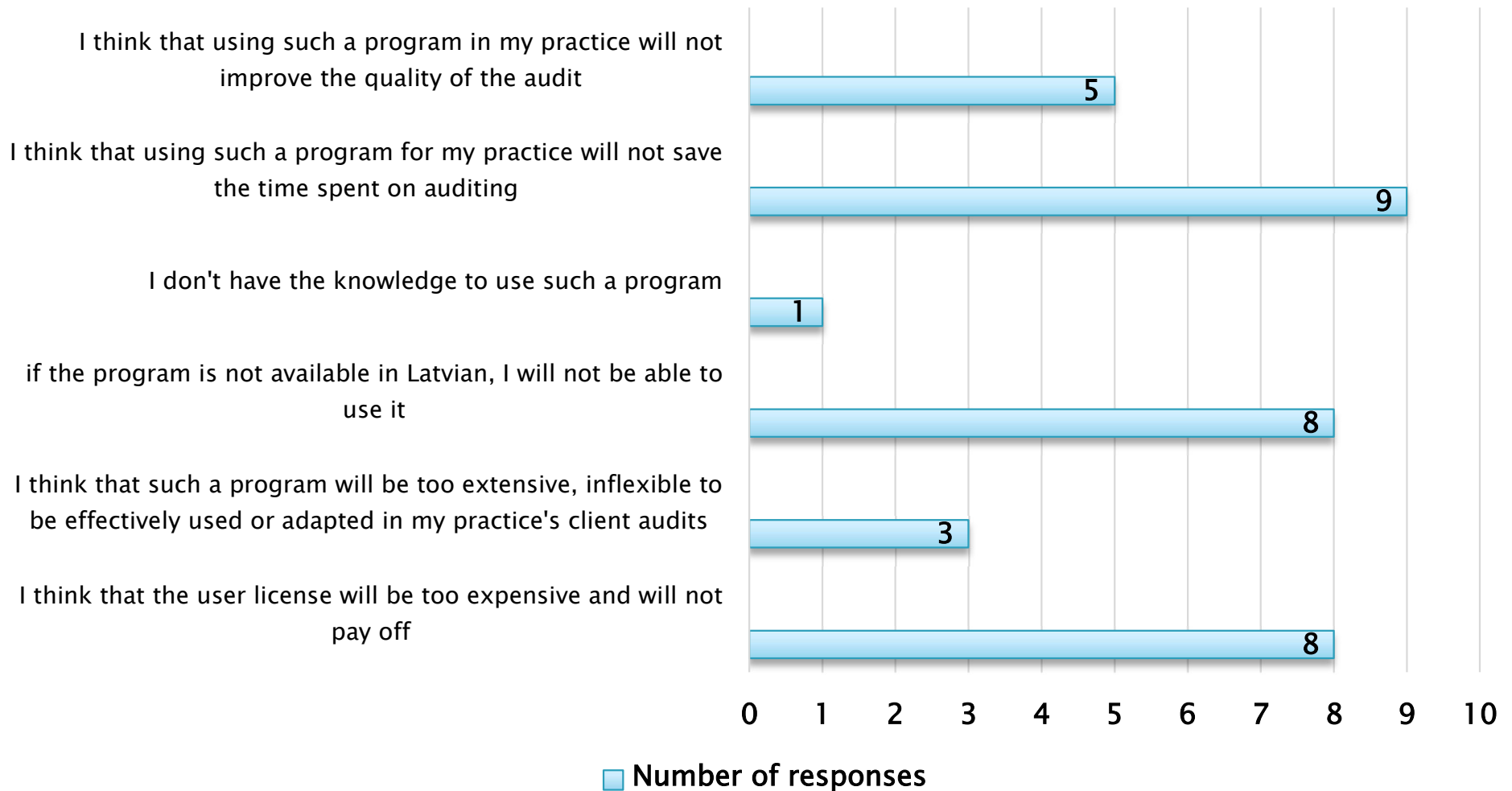
- ▶ Tax returns analysis tool;
- ▶ Internet banking transactions analysis tool;
- ▶ Journal entries testing tool;
- ▶ Sampling tool;
- ▶ General ledger and other analytics tools



Plans for purchase/implementation of integrated audit software



Reasons for not planning the implementation of audit software (18 firms)

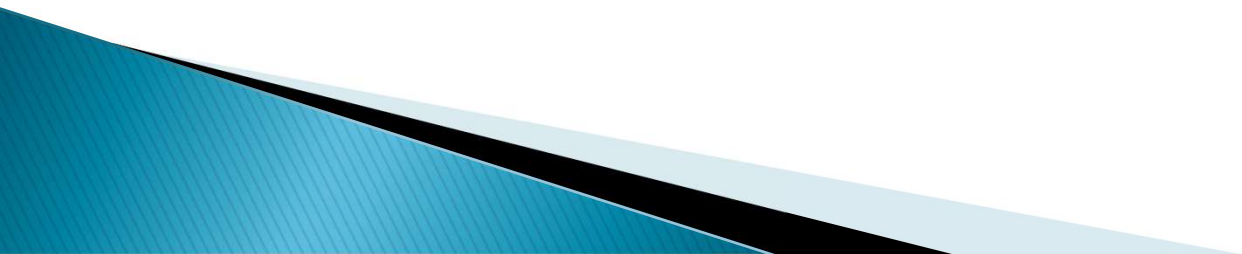


Opinions about using AI tools in their audit firm

- ▶ Big4 – use the tools provided by the network
- ▶ Other firms:
 - Most have heard about AI tools;
 - Several have considered;
 - Very few are using (e.g., Datasnipper)
- ▶ Main concerns:
 - data security, confidentiality;
 - not necessary for small clients;
 - no confidence in reliability of provided results.



Main challenges of audit digitalisation in Latvia

- ▶ Insophisticated audit performance tools for majority of the audit firms
 - ▶ Cost aspects of procuring or developing specialised IT tools for a small firm
 - ▶ Insufficient IT capability of auditors,
 - ▶ Issues with quality of data produced by audit clients' accounting programs / outsourced IT maintenance
 - ▶ Digitalisation level for most clients – low
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Overall conclusions regarding future of audit digitalisation in Latvia

- ▶ Big4 and possibly other largest int'l network firms – will lead in implementation and use of AI in audit in integrated way;
 - ▶ Smaller firms:
 - will start using separate AI tools in non-integrated way;
 - as younger auditors join the profession, more audit firms will switch to more sophisticated audit tools;
 - ▶ Available audit software for smaller firms:
 - Only one option in Latvian language (E-doc);
 - Several ISA-compliant software options available on the market in English language.
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▶ **THANK YOU**

