

Automation Driving Overhaul of Audit Evidence Rule

By Amanda Iacone

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- Audit Standards Board meets in Nashville, expect to vote to issue exposure draft
- Evidence rule targeted first as part of modernization project

Auditors of privately-held companies should soon have clarity related to the use of emerging technology and automated tools.

The Audit Standards Board plans to finalize major changes to its evidence rule when it meets in Nashville, Tenn., beginning May 20. The board, part of the American Institute of CPAs, expects to vote May 23 whether to propose the rule change, which could be released mid-summer.

The project is several years in the works and is expected to lay a foundation for more updates to private company audit standards to address the rapid pace of audit innovations. The ASB's modernization effort could eventually shape standard changes for public company audits, too.

The Public Company Accounting Oversight Board (PCAOB) is exploring how to address the rapid evolution of audit technology in its own rules. It is monitoring the work of the ASB and other standard-setters as part of its ongoing research, the U.S. audit regulator told Bloomberg Tax.

The AICPA rules are silent, for example, on whether auditors can use the new tools and techniques to test a complete set of journal entries rather than testing just a sample size. "And that's where people hesitate," said Bob Dohrer, chief auditor for the AICPA.

"There was nothing encouraging the use of automated tools and techniques, which actually might lend itself to enhancing audit quality," Dohrer said.

The proposed rule aims to change that and would make reference to drones for inventory counts, and even blockchain, the distributed ledger technology. Just mentioning them in the rules will lend legitimacy to those techniques, he said.

A First Step

Drafters hope to provide a framework for auditors to help them evaluate the reliability and trustworthiness of data and other evidence they gather regardless of the source of the information or how it was obtained—from the client, social media or another external source, Dohrer said.

The automated tools work only if the data are reliable and any known biases accounted for. So the board tackled the evidence rule first.

Dohrer believes the changes will unlock technology, tools, and techniques to obtain information and use it as audit evidence, he said.

The AICPA evidence rule outlines a fundamental aspect of the audit report: whether the assurance is based on sufficient and appropriate evidence. Any changes to it would be significant, said Thomas Ray, a former PCAOB chief auditor who now teaches at Baruch College.

Auditors have been asking for clarity and guidance around the use of automated tools. But the changes go beyond technology, bringing into the standard professional skepticism of auditors and how to apply it to the new information they have on hand, Ray said.

"I think there are some real opportunities there to help auditors understand that," Ray said.

Next Steps

The proposed rule, if finalized, wouldn't take effect for private company audits until 2021.

Standards for risk assessment—including the use of data analytics—and procedures to respond to that assessment will likely end up on the board's modernization agenda next, Dohrer said.

"The focus is to modernize our auditing standards to make them relevant in the business environment that exists today, which is certainly increasingly dominated by use of technology," he said.

In the meantime, the board plans to issue technical guidance to respond to auditor questions about the use of the new tools as they relate to current standards, Dohrer said.

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