Digital Transformation in Provision of Audit Services: Lessons From Kenya

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Abstract

The World Health Organization declared COVID-19 a global pandemic on the 11th of March 2020, but the world is still reeling from its aftermath. Originating from China, cases quickly spread across the globe, prompting the implementation of stringent measures by world governments in efforts to isolate cases and limit the transmission rate of the virus. These measures have however shattered the core sustaining pillars of the modern world economies as global trade and cooperation succumbed to nationalist focus and competition for scarce supplies.

Against this backdrop, this paper presents a critical review of the impact of the pandemic on Provision of audit services and the digital transformation that has emerged out of the pandemic.

Introduction

The Covid-19 pandemic containment measures included travel restrictions, working from home, reduced contact with third party documents to avoid contamination and restriction on holding of physical meetings.

Proper execution of audit on the other hand requires travel to client premises, examination of documents, discussions with the client during the entry and closing meetings and in-course of the audit for clarification and evidence gathering.

This begged the question; **How Can one carry out a successful audit under Covid-19 restrictions?** The answer to this question would be it is not possible, but thanks to digital transformation successful audit execution has become a reality.

Transformation of the Audit Process

The Audit process consists of four main steps which include audit planning, fieldwork and review, Audit reporting and follow-up. Each of these steps involves extensive human contact between the auditor and the auditee, between the audit teams, between the audit team and reviewers and between the auditee, auditor and the stakeholders who include the shareholders and business regulators. We shall go through the digital transformation of each step of the audit.

Identification and Implementation of Audit Software

The audit in the past has been largely manual characterized by loads of box files that carried the auditors findings collected during the fieldwork from the client these include copies of payment vouchers, Invoices, contracts and agreements, local purchase orders, delivery notes, minutes of different committees, photos of properties and equipment. They also contain dozens of working papers documenting the tests and workings carried out by the auditor.

Innovation in the ICT sector has come up with off-the shelf audit software that have the capability to automate the otherwise manual process to a paperless process and allow remote access of the same to those authorized hence reducing the need for physical contact. Also available are tailor made software solutions that are modified to fit the needs for the client. The software solutions are available for as little as $ 10,000 and can be tailored for upto $ 1,000,000 depending on the modules and number of users. There exists an ICT audit solution for every audit firm.

Audit Planning

Audit planning involves developing of audit procedures that help in risk assessment and obtaining relevant audit evidence in-order to be come up with an appropriate audit opinion. Audit planning involves understanding the client organization including their mandates, budgets and other relevant financial and non-financial information. An audit software is able to store the standard templates and procedures for each of the area of interest such as cash and bank, operating expenses, debtors, creditors, loans, fixed assets among others.   The software is also able to store the dully completed planning information for each client for reference during the succeeding stages of the audit and also for future reference in the subsequent audit exercises.

Fieldwork and Review

This a critical stage of the audit where the auditor moves to the field to put in practice the audit procedure developed in the audit planning stage. This acts as the data-mining process. A lot of data is collected from the client which includes financial statements, ledgers, sub-ledgers, schedules, lists, pictorial and documentary evidence. The greatest strength of audit software lies in ability to hyperlink between the auditor tests and the clients source documents, hence making it easy to confirm and verify.

In-order to make sense of the large amount of data the data collected is subjected to data analytics module that is service module that is provided by most audit softwares. The data is analyzed into tables, graphs, pie-charts, trend analysis and descriptive statistics such as mean, mode, median, stand deviations among others are determined by touch of a button. This increases efficiency by reducing time that would otherwise be spent on manual analysis.

To reduce contact with the client during the Covid-19 restrictions period the client sends the required information via email either as scanned documents or as MS-word or MS-Excel files. These files are loaded into the software where they become available for the different members of the team with access rights, this further increases efficiency of otherwise sharing a manual file.

The audit reviewer is also able to review the audit procedures carried out and the output of the same and make notes and comments to the audit team.

Audit Reporting

This is the final product of the audit process. The audit software enables the auditor to produce the report efficiently by using the standard reporting templates available in the system and combination with the results from data analysis and output of the fieldwork from the previous stage.

The report unlike in the manual system which involves typing the report from scratch and attaching all the appendixes and annexes, the audit software simply consolidates the information already obtained in the different modules. The use of standard report templates standardizes the output and ensures consistency in the audit reports.

The audit report being the most important output of the audit is available for review, correction and amendment by the reviewer and enables remote communication between the audit team, the team leader and the reviewers.

Follow Up

Audit follow up involves communication between the auditors and the various stakeholders. The various communications are imbedded in the audit software including the submission letters to the client and to stakeholders such as the donors, the legislature and other interested parties. The matters that are left in abeyance are indicated as Kept –in View (KIV) for purpose of follow up during the next audit cycle. A audit trail is maintained in the system to enable efficient follow-up.

Conclusion

Audit is an important process which provides the assurance if a business organization is being run in an efficient and effective manner, if it is following the laid out laws, regulations and procedures and if its financial statements represent the correct position on its performance.

The ability to continuously execute the audits and reassure the stakeholders despite the limitations caused by different conditions including pandemics such as Covid-19, inability of client or the auditor to travel for meetings, bulky nature of documents , operations in remote and inaccessible locations long distance from the operations , is a welcome development which has been made possible by the digital transformation of the audit services.

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