Digital Business Environment and Audit Quality

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The event of the global financial crisis is a stark reminder of the importance of audit quality. As various stakeholders grapple with the series of business failures and corporate scandals, the need to re-examine the veracity of audit reports as well as the quality of these audit reports has taking a center stage. Today’s business landscape is increasingly seeing the emergence of new digital technologies like analytics, big data, cloud, social media, mobile etc. Such digital technologies are reshaping existing products, creating new products and services as well as turning digital resources within organizations into a new revenue streams [1-2]. These digital technologies are creating new audit landscape requiring auditors to alter audit processes, controls and tests [3-4]. Navigating through the plethora of cross-functional technologies in a vastly digital world is requiring a new breed of auditors. For instance, cloud computing platforms allow enterprises to run business processes through a network connection while eliminating the conventional IT hardware and software infrastructure that supports these business processes. Auditing in a cloud based enterprise presents various unconventional audit-related risks that may impact on the internal control system and overall audit quality. Risk-based assessment for firms using cloud computing platforms is convoluted because the technology infrastructure and control mechanisms are house and managed outside the enterprise being audited. Cloud computing adds additional layers into the audit procedures as auditors may have to examine the cloud service provider, data center and in some cases third party vendors to establish inherent risk and potential control risk.

Similarly, data analytics has become a critical part of the audit process thus, creating the need for auditors to acquire new skills and alter existing audit procedures. With the growing trend of big data and data analytics in audit practices, concerns have been raised about the effectiveness of conventional audit processes and procedures to meet the standards of an evolving audit landscape [1,5-6]. For instance, rather than perform the typical sampling of clients record, big data analytics enables auditors to look at the general ledger and examine outliers and exceptions. In fact, some studies have argued that the underlying assumptions and premises of many audit procedures are no longer applicable to the current auditing environment [6,3]. There is a need for audit firms to seek ways to leverage cutting-edge data analytical tool that will provide greater insights into corporate books and records. Data analytics tools can positively impact audit quality. First, analytics tools can be used to gather insight regarding the level of auditing risk and potential control risk. Moreover, analytics tools can also be used to identify potential frauds by picking out deviations and outlier transactions.

Emerging digital technologies can provide value-adding benefits to auditors and can potentially contribute to audit quality. However, auditors have to evolve from the traditional audit procedures and in order to conduct an audit in a post-digital environment. Without a concerted effort, auditors will grapple with clients that have unconventional business models and high digital intensity. As businesses move toward digitization, more concerns will be created for auditors in the areas of access controls and risk of material misstatements. However, auditors must crave new procedures that will leverage cutting-edge data analytical tools and technologies that are capable of providing greater insights into corporate books and records. Such insights will not only make auditors more effective but will also improve the overall audit quality.

References

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Received October 06, 2013; Accepted October 06, 2014; Published November 30, 2014


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