

Technology Shaping the Audit Practice

New technologies are evolving everyday. Each one of them is having an impact on business around the world and therefore will have an impact on the Audit Profession too. Along with changes in technology, another more subtle shift is happening worldwide, which is not even visible. The shift is in the way businesses work.

All organisations are moving towards defined processes. One of the most visible displays of the power of processes was the ISO 9000 Series Certifications for Quality. Thereafter, it has moved from Quality to all aspects of business. Risk Management, Security, Human Resources Management and other aspects of business have moved to process orientation. Both these developments although look independent are in fact not. Each one is dependent on the other. The shift to processes would not have been possible without technology; and technology would not have been used so significantly unless Companies adopted processes and grew rapidly. The impact of these rapid and fundamental changes for Indian Chartered Accountants may be significant. The result depends on us Chartered Accountants and how well we are prepared for this onslaught of new technology and processes.

Changes in Environment

Some of the changes in environment in the last few years have been:

- Businesses worldwide are outsourcing their business processes to India.
- Regulations like the Sarbanes Oxley in the US and amendments to Clause 49 in India.

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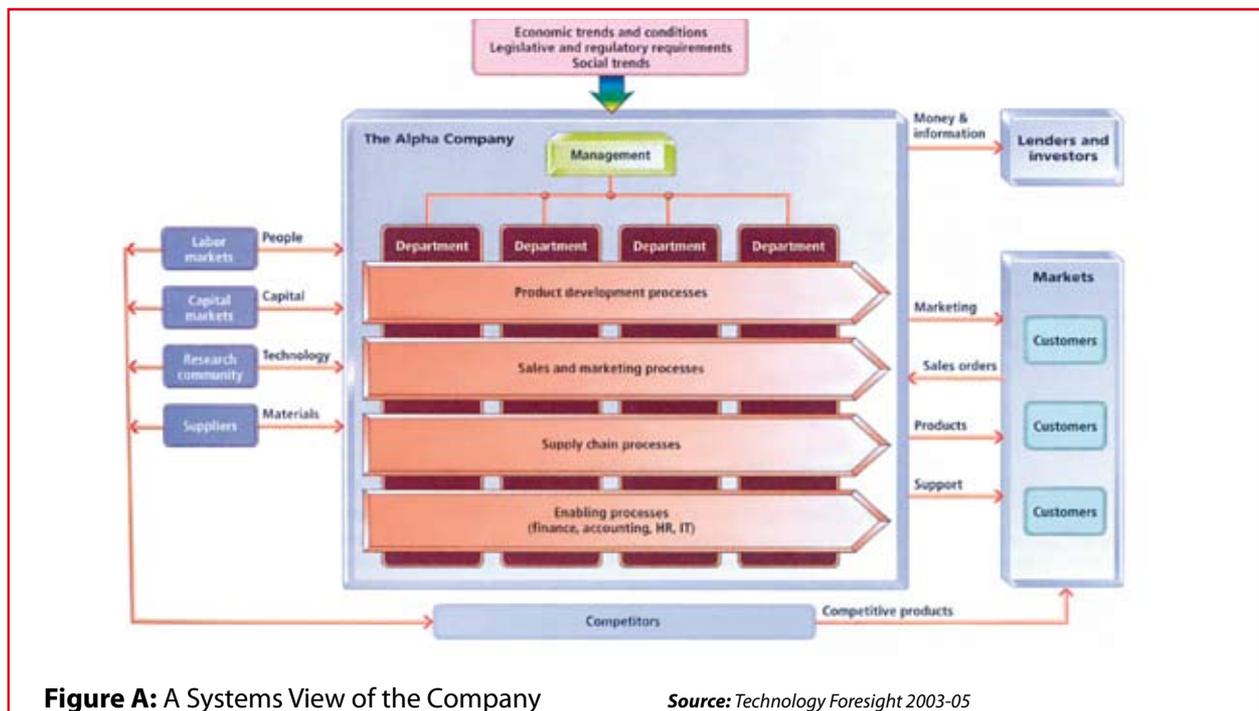
- More reliance on SAS 70 and AAS-24 Certifications.
- More and more companies within India are growing to scale and adopting Enterprise Resource Planning (ERP) Applications.
- Going beyond traditional ERP Solutions to Business Intelligence Solutions, Data Warehousing and Data Mining Solutions.
- Knowledge Management Applications.
- Applications moving from Client-Server Technology to Web Based Architecture Models.
- Increase in online sales.
- Increase in safe Payment options through the Internet.
- Adoption of Workflow technology by businesses.
- Development and Adoption of standards to improve corporate governance, customer service and Security.
- Basel II Norms for the Banking Industry.
- Emphasis on Privacy with regulations like the HIPAA for the Healthcare Industry.
- XBRL Standards are already being used in various countries of the world. SEC has started accepting filings in eXtensible Business Reporting Language (XBRL) format.
- Adoption of e-filing technology by Registrar of Companies (MCA-21 Project).
- Adoption of e-filing technology by Income Tax Department for TDS and IT Returns.

Chartered Accountants will have to adapt to these changes happening worldwide and capitalise on opportunities emerging out of the changes.

Let us look at some of these changes in a little more detail:

Process Orientation: The Technology Foresight 2003-05 published by a global accounting firm identifies that CEOs are asking their management teams to think of their Company in process-centered terms. They want managers to shift from thinking about the Company in terms of its major divisions and functional units to thinking in terms of the major processes the company supports. Business executives, including CEOs and CFOs are placing increased emphasis on business processes as the basis for organising, managing, and automating their operations. The figures A and B show how the Companies are redefining themselves.

Under the Sarbanes Oxley legislation and similar legislations worldwide, all the processes related to financial statements have to be audited, their controls identified and tested. Now since the processes have moved to India, it is cost advantageous and effective for the Company to get the controls identified and tested by Chartered Accountants. This is not an Audit of an Indian Company but an Audit of a Multinational Company carried out from India. This opportunity will grow proportionately with the growth of the Business Process Outsourcing in India. Initially, a Company abroad or its Auditors may opt to get their processes verified by Auditors in their Home Country, but with increasing cost pressures, scarcity of qualified accountants worldwide and growing recognition of Indian Professionals, Companies will have to appoint Chartered Accountants for the work in India. Rather this trend is already becoming visible.



Business Process Outsourcing (BPO): When a Company outsources its Business Processes to an Indian Company, it not only brings the business processes to India but also provides an opportunity to Chartered Accountants.

Certification for BPO Organisations: As a part of Internal Control evaluation, under SAS-70 and also AAS-24 (in India), outsourcing organisations will be subject to Audit of their processes from all clients. Alternately, they can

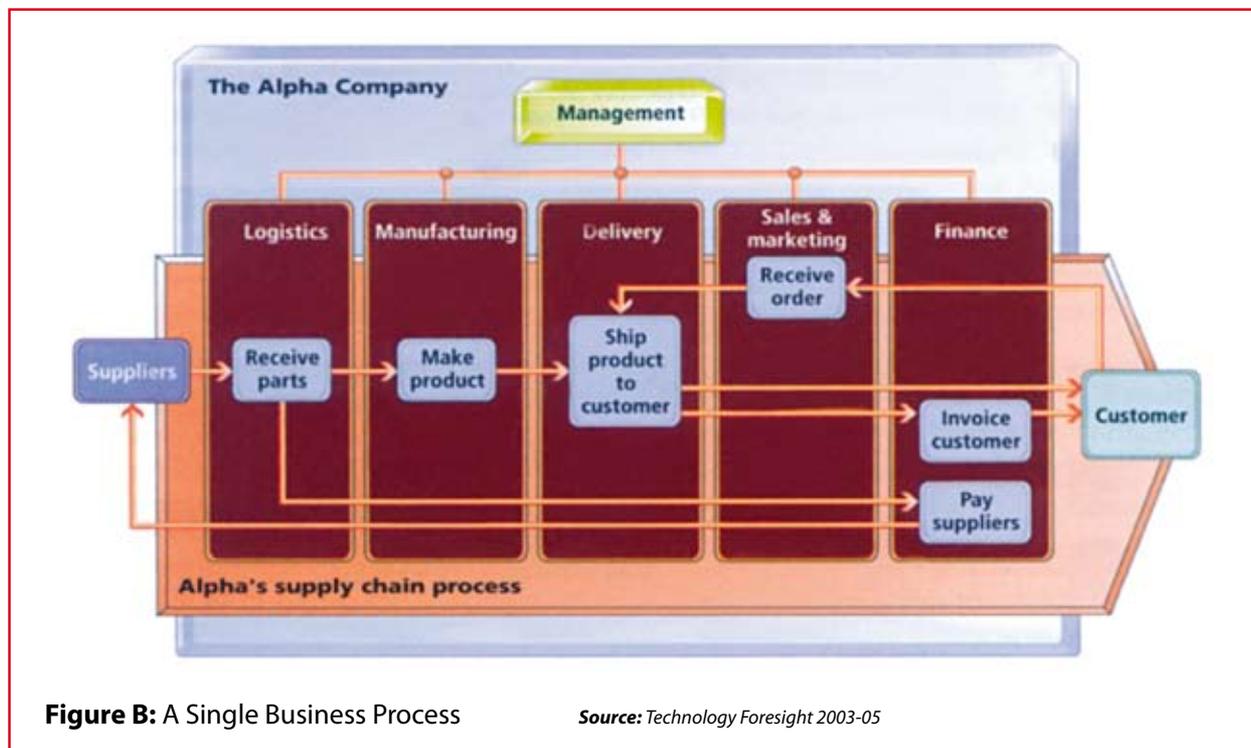


Figure B: A Single Business Process

Source: Technology Foresight 2003-05

get themselves SAS-70 or AAS-24 Certified. Once they do this, they just provide the Auditors report to the clients Auditors and reduce the number of audits they are subject to. This is a big opportunity for Chartered Accountants in India. The importance of this certification is not only for multinationals outsourcing their processes to Indian Companies, but also to a host of Indian Companies that outsource their activities. Indian Companies have already woken up to the benefits of outsourcing and many large organisations including banks, manufacturing companies, etc are outsourcing their non-core activities and business processes to outside firms.

Enterprise Resource Planning (ERP) Applications: There was a time when ERP Implementations used to be carried out only by large companies. This was because of the cost and time involved. Cost of the ERP Applications and also time required to implement them has also reduced significantly. ERP Vendors have come out with Shrink-wrapped packages for various verticals at a lower cost and with lesser time

required to implement. With buoyancy in the Indian Economy and growth in GDP, Small and Medium businesses are growing. These Companies are, therefore, implementing ERP Applications. Implementation of ERP Applications by SMB Companies brings opportunities to Chartered Accountants. Chartered Accountants who are already good at understanding Processes have an opportunity in carrying out pre-implementation and post-implementation reviews of applications.

Business Intelligence Solutions, Knowledge Management, Data Warehousing and Data Mining Solutions: Companies, which have already implemented ERP, are implementing Business Intelligence Solutions. Even companies that have not implemented ERP are implementing Knowledge Management, Data Warehousing and Data Mining Solutions. These solutions need enormous amounts of data. All data that goes into the Data Warehouses for use of Data Mining, Knowledge Management or Business Intelligence has to go through a process of validation. Professionals who understand this data,

the requirements for which this data is going to be used, have a huge role in validating the data before it is included in the Data Warehouse.

Online Applications: The web has finally come of age. The Internet has graduated as predicted from being a point of presence for companies to being a delivery channel for products and services. It is also being used extensively for collaboration, workflow automation and so on. All this has been brought about by the development and maturity of new technologies such as Java and .net. Payment Gateways, another critical element that is required for online business has also matured in this period. In India itself we have more than 10 Payment Gateways and thousands of sites selling products in Indian Rupees. The IT product portfolio of any Bank,

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Insurance Company, Manufacturing Company, Mutual Fund or any other manufacturing or service industry is incomplete without delivery channel which works online. Payment and Reconciliation Processes and also Security of these applications require a review by qualified professionals.

Workflow Automation: Like ERP Applications, Workflow Automation Software is being used by various entities and more importantly Government Departments. This software before being implemented requires a very clear definition of each process. Chartered Accountants have a role to play in defining the process.

Adoption of Standards: This decade can be called the decade of standardisation. A number of new Frameworks and Standards have been introduced in various areas by many standard setting bodies of the world. ISO 9000 Series for

Quality, ISO 17799 for Security, ITIL for Service Delivery, SEI CMM for Quality in Software Development, COSO ERM for Enterprise Risk Management and so on. The list is endless. Most of these standards require assessing the organisation before implementation, performing a GAP Analysis, Implementation and Post Implementation Reviews/Audits and finally Certification. Many of the certifications are for certain periods and require renewal at periodic intervals.

Consultants are required by companies to implement these standards and also for Audit. Consultants require to undergo training in the relevant standards, understand the process methodology and acquire experience before being awarded contracts. There are also industry-specific standards such as the BASEL II Norms for the Banking Sector, HIPAA for the Healthcare Industry and so on. The amount of money being spent by companies on complying with standards is estimated to be in the range of billions of Dollars. Indian and Multi National Companies operating in India also need to get themselves certified on many of these standards if they are to compete for business. Security Standards like BS7799 /ISO 17799 are required to be complied with by BPO Companies, SEI CMM by Software Development Companies.

XBRL: XBRL (eXtensible Business Reporting Language) is intended to create a common language between various applications and uses. It will eliminate the need for porting, translating, mapping and creation of interfaces for sharing data between various applications. A Company may be using a payroll application. Information from the Payroll may be used in variety of ways for giving payment instruction to banks, filing TDS details with Income Tax Authorities and booking Payroll expense in GL. In the present environment, data from the Payroll Application cannot be directly used by the other applications. If all applications are made compatible to XBRL, data can be without any effort exchanged between applications and even to outside agencies using whichever

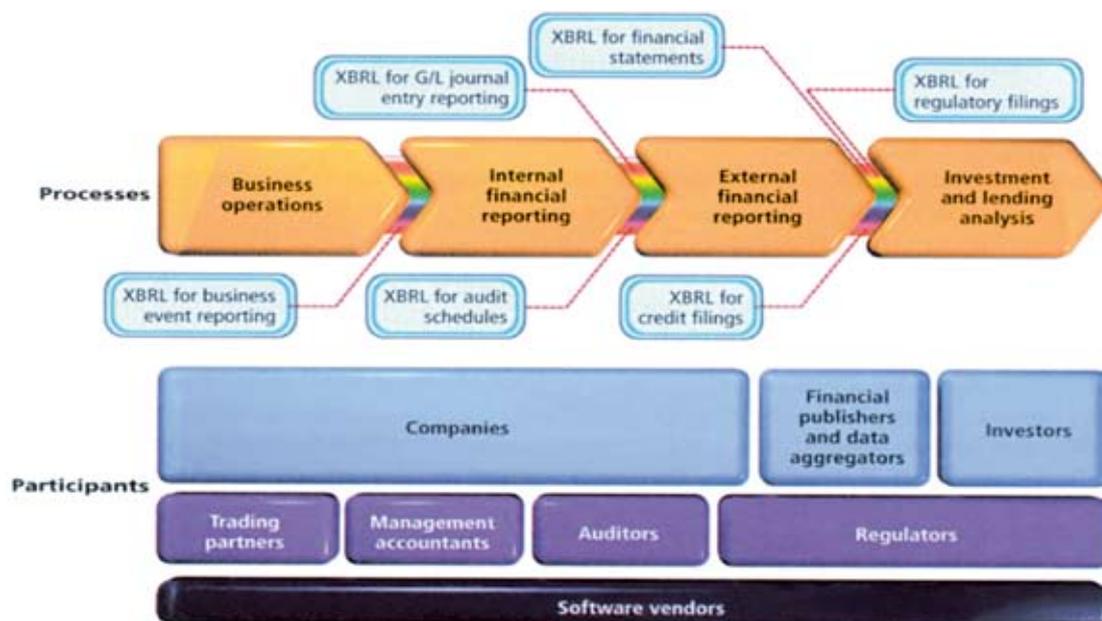


Figure C: XBRL Chain

Source: Technology Foresight 2003-05

application software they use. This will bring about tremendous transparency and efficiency in the way data is exchanged. XBRL is not only about applications sharing data using the same database or technical platform but is also about understanding the data. The same data can be reused for various purposes such as for compiling financial statements under Indian GAAP and US GAAP.

eGovernance Projects: Large scale eGovernance Projects like the MCA-21 and the Automation of the Income Tax Department have brought with them opportunities for Chartered Accountants. More and more Government Departments will also launch similar programs.

Global Auditor

The change in the Communications landscape has provided Chartered Accountants with another opportunity, that of a Global Auditor. He can, sitting here in India, carry out a part of the Audit of Global Companies. He

could be doing financial audit or by remotely logging in to servers anywhere in the world conduct security audits. He can also provide accounting services, reporting and MIS Services by connecting to the servers of Companies anywhere in the World. Distance has become irrelevant in the connected world. He may be sitting in the next room or half-way around

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the globe and it is one and the same. Already renowned firms are providing service in the field of Audit and other related fields to Global Audit Firms and Companies employing thousands of Qualified Chartered Accountants and other Professionals.

What You Need To Do

We have just touched upon a few possibilities that lie ahead for Chartered Accountants. Chartered Accountants will have to define and redefine themselves, the way they work and embrace new concepts and technologies to grab these opportunities and capitalise on them. Some of the steps that Chartered Accountants need to take are:

Audit Documentation: Chartered Accountants need to bring their documentation processes to international standards. They should use documentation tools available which allows for creation of electronic work papers. The tools should also enable them to document and review and also raise alarms for risks and incomplete works. There are many such tools already available in the market.

CAAT Tools: Chartered Accountants need to become well versed with Audit Tools such as ACL. Apart from Data Manipulation Tools, there are a lot of other Audit Tools available which enable you to carry out risk assessments, identify conflicting roles and responsibilities within an organisation, review security settings, etc. The Chartered Accountant in today's world will need to use these technologies not only to save time but also improve because it is imperative. In a large Company, which is automated, manual approach to Audit will not work.

Templates: Chartered Accountants cannot keep on reinventing the wheel in each Audit Assignment. They need to continuously document their experience and come out with templates which can be modified and tailored based on requirements. These templates should be available to everybody in the Audit Team and the Team needs to be trained in using them and their purpose.

Project Management Tools: Many Large and Medium Size Audits require the use of Project Management Tools for controlling the Audit Schedules for each individual assignment. Chartered Accountants have to operate their audit

practices like any other service provider organisation and use the best tools to deliver quality and timely results to its customers.

Training: Providing Services in this process driven, high technology and global world requires Chartered Accountants to understand the technology and standards such as the ISO Standards and other relevant standards. Some of the standards also require that the persons carrying out the work should be certified as trained. Chartered Accountants need to undergo specialised training such as the ISA,

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CAAT, Insurance Programme of the ICAI and also basic training in relevant standards and technologies.

Networking: It is not expected that every individual Chartered Accountant or even a small firm be an expert in all the above areas. And neither can they deliver services of nature working in isolation. Chartered Accountants should not shy away in establishing relationships with local, national or global Chartered Accountants/Firms to complement their skill sets, training, tools and technologies to build a large practice.

Opportunities like these do not wait for anybody. We need to perceive the opportunity, act accordingly and cash in on the same. The outsourcing wave started with small things such as Call Centres and Medical Transcription, has matured to Insurance Claims Processing, Accounts Outsourcing and Knowledge Management Outsourcing. It is upon us the Chartered Accountants to realise the opportunity to provide Audit Outsourcing Services. □