

SIGNIFICANCE OF TRANSACTION AUDIT IN THE CONTEXT OF DIGITALIZED AUDITING PROCESSES

Hayrettin USUL*

* Prof. Dr., İzmir Kâtip Çelebi University, Faculty of Economics and Administrative Sciences, Business Administration, hayrettin.usul@ikc.edu.tr, <https://orcid.org/0000-0002-3930-0866>.

ABSTRACT

Accounting legislation is constantly adapting to meet the evolving needs of society. This evolution, inherent in legal norms, eventually manifests itself to meet societal or stakeholder demands. Accounting auditing, an integral facet of accounting law, endeavors to keep pace with the swift transformations within the accounting profession, striving to expedite its own evolution. The rapid advancement of digitalization has prompted a shift in accounting practices from traditional document-based to transaction-oriented methodologies, consequently leading to a shift in auditing practices from document-based to digital-driven approaches. This acceleration in the auditing sphere is anticipated to outpace previous transformations in the imminent years. Unlike prior evolutions largely propelled by internal dynamics of the profession, this impending transformation is primarily steered by external factors, compelling accounting law to recalibrate in response. This paper aims to explore this ongoing transformation and scrutinize the anticipated shifts in accounting auditing attributable to digitalization in the field.

Keywords: Transaction Audit, Digital Audit, Accounting Auditing, Blockchain, Artificial Intelligence.

1. AN EXAMINATION OF PROCESS CONTROL IN ACCOUNTING: ADAPTING TO DIGITAL TRANSFORMATIONS

Before delving into the intricacies of transaction auditing, a foundational understanding of "transaction accounting" is essential. This aspect has evolved alongside various transformations within the accounting profession, wherein the emphasis has shifted from traditional "What is" accounting paradigms to predictive "What will happen" models. This transition has significantly complicated accounting information systems, positioning them at the forefront of the digitalization wave. As articulated by Usul & Bozkurt (2022), this paradigm shift has led to complex transformations that have redefined business philosophies and models, necessitating swift adaptation to digital technologies.

The contemporary accounting landscape demands more than tax filing and regulatory compliance from professionals. Kalil Merhib, CPA, aptly notes that clients now seek trusted partners capable of decoding data intricacies

to steer strategic business decisions. Notably, industry giants like Deloitte have established initiatives such as the Artificial Intelligence and Technology Academy to empower professionals in harnessing advanced technologies and utilizing resultant data (Alexander, 2022).

Accounting law, intricately linked to stakeholder expectations, historically evolves in response to societal needs. Significant historical junctures, such as the era of geographical discoveries, birthed concepts like export-import dynamics, debt-credit relationships, and the subsequent emergence of double-sided registration systems. Similar correlations exist between industrial revolutions, the evolution of management theories post-World War II, and the advent of behavioral accounting, all instigating the evolution of accounting law. These developments underscore the interdependency between accounting law and societal shifts.

The pervasive impact of digitalization on accounting practices cannot be overstated,

with tools like blockchain technology, robotic process automation (RPA), artificial intelligence (AI), and machine learning rapidly revolutionizing transaction volumes and resource efficiency (Williams, 2020). Workflow software, for instance, streamlines tasks like data aggregation, invoice processing, reconciliation, and adherence to accounting standards, significantly minimizing repetitive manual efforts.

This digital transformation in accounting renders traditional "document recording" practices obsolete, replaced by AI-based algorithms that autonomously identify and monitor transactional events (Busulwa & Evans, 2021). The shift from human-driven recording functions to automated platforms signifies a critical shift from document accounting to transactional accounting, triggering substantial changes in complementary auditing practices.

The metamorphosis from document to transactional accounting not only impacts auditing but necessitates a fundamental review of auditing techniques. The transition from document review to transaction review, driven by digitalization, emphasizes a departure from sample-based evaluations to holistic population assessments. Real-time, automated auditing processes eliminate the relevance of confirmation or verification documents, redefining the audit landscape (Alexander, 2021).

2. BENEFITS OF PROCESS AUDIT: NAVIGATING THE DIGITAL FRONTIER

While the roots of auditing trace back to ancient Egypt, its modern iteration emerged with the industrial revolution, focusing on informing business owners and lenders. Over time, auditing has continuously adapted to evolving accounting laws, with its most recent transformation catalyzed by digitalization. As affirmed by Karl Busch, CPA, the audit profession's rapid digital evolution necessitates substantial advancements to align with emerging technological landscapes (Alexander, 2021). Surveys, like the one by Forbes insights and KMP, highlight the

increasing reliance on cloud technology, smart analytics, and artificial intelligence among auditors (KPMG, 2021).

The evolution from document auditing to transactional auditing amid digitalization has accentuated the demand for skilled professionals. According to an AICPA study, the scarcity of qualified personnel remains a significant challenge for audit firms (AICPA, 2022). Additionally, evolving client expectations now prioritize value-driven insights, elevating the role of auditors to real-time, forward-thinking partners.

In response to these evolving demands, auditors are expected to possess an array of skills beyond traditional competencies. Mastery of complex business operations, adeptness with emerging technologies, agility, and the capacity to adapt to dynamic environments and legislative changes are now imperative (Thomson Reuters, 2023).

Traditional auditing methodologies, reliant on retroactive approaches, account balances, and manual evaluation of internal controls, face considerable challenges. The labor-intensive nature of manual auditing procedures and the physical presence of audit teams at business premises underscore the necessity for intelligent audit tools that enable real-time reporting and diminish expectation gaps.

3. CONCLUSION

The landscape of accounting has undergone a profound metamorphosis driven by a convergence of evolving stakeholder expectations and technological progressions. The inexorable trajectory of technology, spanning from antiquated bookkeeping systems to computerized methodologies, and presently from traditional document-centric accounting to an emergent era of transaction-oriented practices, constitutes a dynamic narrative within the domain of accounting literature. These transformative dynamics reverberate significantly within the sphere of auditing practices, prompting a fundamental restructuring of established methodologies and standards in direct response to the pervasive assimilation of artificial intelligence

and digitalization within the professional realm.

This disruptive evolution from conventional document-focused accounting to the unfolding terrain of transactional accounting represents a watershed moment not only in the evolution of accounting methodologies but also in the fundamental conception, processing, and utilization of financial information for decision-making. The consequential ramifications transcend the confines of conventional academic discourse, necessitating an astute and agile recalibration of audit methodologies and standards.

As the inexorable march of digitalization continues to redefine the contours of accounting and auditing paradigms, the requisites for adept professionals evolve concomitantly. The contemporary auditor is not merely a custodian of historical financial records but rather a pivotal collaborator harnessing predictive insights and real-time analyses, deftly navigating the intricate confluence of technological advancements, regulatory frameworks, and the evolving demands of stakeholders.

This evolving milieu mandates a comprehensive reimagining of the auditor's role, demanding a versatile skill set transcending conventional competencies. Agility, adaptability, technological adeptness, and a discerning acumen for deciphering intricate business operations now emerge as imperatives for auditors navigating this dynamic and perpetually evolving terrain.

In essence, the current trajectory signifies not solely a paradigm shift but an epochal transition that marks an unprecedented chapter in the narratives of accounting and auditing. It underscores the imperative for continual learning, adaptation, and an unwavering dedication to harnessing nascent technologies to fortify the integrity, pertinence, and efficacy of the profession in an epoch defined by ceaseless innovation and transformative upheaval. As the contours of this digital expanse continue to unfold, the synergy between technological prowess and

the nuanced craft of auditing emerges as the linchpin propelling the profession toward an increasingly dynamic and promising future.

REFERENCES

- AICPA (2022). <https://us.aicpa.org/content/dam/aicpa/interestareas/peerreview/resources/transparency/downloadabledocuments/56175896-annual-report-oversight-2021.pdf>
- Alexander, A. (2021). The Future, Faster : The COVID-19 Pandemic has Accelerated the Ongoing Change in Auditing to Whole New Levels . *Accounting Today*.
- Alexander, A. (2022). Special Report: The Future of Bookkeeping, A Time for Transformation. Traditional Bookkeeping is on the Verge of Major Changes.
- Busulwa, R. & Evans, N. (2021). *Digital Transformation in Accounting*. Routledge.
- Cong, Y., Du, H. & Vasarhelyi, M.A. (2018). Technological Disruption in Accounting Oath Auditing, *Journal of Emerging Technologies in Accounting*, 15(2), 1-10.
- KPMG. (2021). *Digitalization in Accounting 2021*. KPMG AG.
- Thomson Reuters (2023). Three keys to the future of audit. White Paper.
- Usul, H., & Bozkurt, B.B. (2022). Fourth Period of the Accounting: Paradigms that are Changed by the Digitalization, *Süleyman Demirel University IIBF Journal*, 27(3), 409-421.
- ISACA Journal, 15 Feb. 2022, isaca.org/resources/isaca-journal/issues/2022/volume-1/the-evolution-of-audit-in-the-wake-of-the-pandemic