



## Explaining the information systems auditor role in the public sector financial audit



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### ABSTRACT

This paper addresses the research questions, “What is the role of the IS auditor in supporting the financial audit?” and “What key determinants affect that role?” through the development of an explanation theory for the role of the IS auditor in the public sector financial audit. Results are based on semi-structured interviews with 55 senior auditors and IS auditors. These auditors worked in ten practice offices in the Australian, Canadian, New Zealand and United Kingdom public sectors. We manually coded 23 interview transcripts and used the Leximancer tool to extend this coding to the remaining transcripts through automated text analysis. The analysis allowed the identification of relevant “common statements” representing the prominent and shared perceptions of the IS auditor role amongst these auditors. These common statements provided a basis for the development of an initial explanation theory. One new construct presented in this theory is the practice office’s “IS audit emphasis”, which represents the practice office’s emphasis upon the relationship between the IS auditor role and the audit team. The explanation theory provides a richer description of current audit practice regarding the IS auditor’s role in public sector financial audit than currently exists. Consequently, this research provides insights for those involved in the education and training of auditors by developing a foundation for a more complete understanding of the IS auditor role.

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## 1. Introduction

The objective of the financial auditor, according to the International Standards on Auditing (ISA) and paragraph 11 of ISA 200, is to obtain reasonable assurance that the financial statements of an audited entity are free from material misstatement (International Auditing and Assurance Standards Board [IAASB], 2009a). ISA 315 (paragraphs A53 to A56) requires the auditor to obtain an understanding of IT systems and controls (IAASB, 2009c). The auditor need not be completely self-reliant, however. ISA 220 allows the auditor to include Information Systems (IS) auditors with specialized expertise in auditing as members of the engagement team (IAASB, 2009b), while ISA 620 allows the auditor to consult an IT expert for technical advice (IAASB, 2009d).

We refer to IS audit work that supports the financial audit as “Financial IS Audit” (Muthukrishnan, 2008). Here, IS auditors examine an entity’s IS and advise the auditor in planning the audit and assessing audit risk (Curtis et al., 2009). The nature of financial IS audit work is well known (see, for example, Singleton, 2010). However, the value of the IS auditor role in the

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audit is often poorly communicated and indirect (Bagraff and Vandrzyk, 2000) and, in practice, the level of engagement between auditors and IS auditors is low (Janvrin et al., 2009).

A tension underlies this relationship. ISA 315 requires the auditor to obtain an understanding of the IS in place (IAASB, 2009c), but the business Information Technology (IT) environment is increasingly more complex and dynamic. The auditor may find complex IS difficult to understand without support from IS auditors, and the auditing standards provide only vague guidance. The auditor may be reluctant to use the work of IS auditors due to the limited resources available to undertake the audit (Canada et al., 2009). The underlying tension is therefore between the need to gather sufficient evidence supporting the audit opinion and the need to provide efficient financial audits.

The auditor needs a clear understanding of the IS auditor role to balance this tension. While others have studied the work of IS auditors in the financial audit (e.g., Bauer and Estep, 2014, 2015; Janvrin et al., 2009; Vandrzyk and Bagraff, 2003), we know of no work to date that has produced a comprehensive framework describing the reasons for, and the nature of, IS auditor involvement in the financial audit. Therefore this study develops an explanation theory (Gregor, 2006) that identifies key determinants of the IS auditor role in the financial audit. Such a theory explains “what is, how, why, when, and where”, and aims to provide “greater understanding or insight by others into the phenomena of interest” (Gregor, 2006, pp. 619–620).

This paper addresses the research questions, “*What is the role of the IS auditor in supporting the financial audit?*” and “*What key determinants affect that role?*” The specific research context considered is the financial audit of government-owned entities (“public sector financial audits”). The research questions were examined through semi-structured interviews with 55 experienced auditors at ten government auditor entities (“practice offices”) in four different Commonwealth countries (Australia, Canada, New Zealand, and the United Kingdom). In the Commonwealth context it is usual for the audits of public sector entities to be performed by public sector auditor entities (Barrett, 1996; Free et al., 2013). These interviews were analysed to identify the auditors’ prominent and shared understanding of the IS auditor role through their “common statements” addressing the “who, what, why, when, where and how” of financial IS audit using manual and machine coding. These statements are then used to develop a “theory for explaining” (Gregor, 2006, p. 624) the role of the IS auditor in the public sector financial audit. The theory and research findings provide a richer description of the IS auditor role than currently exists.

The rest of the paper proceeds as follows. Section 2 reviews the existing literature relating to the IS auditor role. Section 3 explores the nature of an explanation theory and its implications for the research approach. Section 4 presents the research method for developing an explanation theory, and Section 5 sets out the interviewees’ prominent and shared understanding of the IS auditor role as “common statements”. Section 6 develops an initial theory explaining the IS auditor role in the public sector financial audit. Finally, Section 7 sets out the contributions of this research, acknowledges its limitations, and identifies opportunities for future research.

## 2. Background

### 2.1. Auditing and the business IT environment

The auditor needs a deep understanding of the business itself to formulate their audit opinion (IAASB, 2009a). It is important that the auditor obtain an understanding of IT systems and controls in the audited entity as required by ISA 315 (IAASB, 2009c). Generally, auditors have a reasonable understanding of the technologies in place at the audited entity (Hinson, 2007), and these technologies are increasingly more sophisticated (Curtis et al., 2009; Dowling and Leech, 2014).

In addition, businesses place a great reliance upon IS as part of their business strategy and operations (Kinney, 2005). Businesses innovate and change by adopting new business technologies and practices. Such innovations increase the complexity of the business IT environment, and the auditor may require specialist knowledge to understand the technologies in place.

In the case of material changes to complex information systems, the auditor must still understand the new technologies and practices. The auditor must also be aware of the different risks arising from the adoption of these new technologies. For example, the auditor must understand the implications of implementing new and revamped IS (Vilsanoiu and Serban, 2010), changing to integrated web-based businesses (Kotb and Roberts, 2011), and adopting cloud computing (Alali and Chia-Lun, 2012). The auditor also needs to understand the emerging issues of information security (Steinbart et al., 2016) and cyber security, arising from the increased integration of digital technologies into business models (Joe et al., 2015). Such innovations increase the complexity of obtaining and evaluating the evidence required to assess IS controls (Janvrin et al., 2009). Consequently, the auditor may have a higher need for specialist support.

### 2.2. Auditing standards guidance on the use of IT specialists

The ISAs recognize that the auditor need not be expert in all matters. ISA 220 allows the auditor to include others with specialist expertise in areas such as IT auditing to gather and interpret evidence as members of the engagement team (IAASB, 2009b).

The auditor may also engage an expert in a domain other than audit to assist with evidence-gathering under their direction. As these experts do not have specialist expertise in auditing, they operate as an auditor's expert under ISA 620 (IAASB, 2009d) rather than as a member of the engagement team under ISA 220 (IAASB, 2009b). For example, such an auditor's expert might be an asset valuation specialist (Griffith et al., 2015). In the case of the business IT environment, an IT expert might review a specific software or infrastructure technology to address a specific need identified by the auditor.

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