

## Impact of E-commerce on Auditing

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### ABSTRACT

Since people expect more high quality and timely information, it changed the way companies conduct their businesses as well. In response to this trend, electronic commerce (e-commerce) has become an increasingly popular form of business that continuously proves its success and potential. However, businesses are not the only parties that need to incorporate e-commerce into their activities. Auditors too must consider how e-commerce will impact their line of work. More importantly, the emergence of e-commerce and its impact on changes in information technology functions increases audit risk. This study aims to identify the extent of the impact of e-commerce on auditing process and documentation. The study found the need to define the auditors of E-commerce and its institutions and its requirements so that auditors deal with this type of activity efficiently and effectively, and the need for increased training of scientific, practical and technological auditors will positively reflect on the process of checking e-business processes, and the need of specialized courses in the audits of E-commerce, as well as the importance of educating auditors by E-commerce dangers and how to deal with during the audit process.

**Key words:** Auditing process, Auditor, Documentation, E-commerce.

### INTRODUCTION:

The auditing profession was the professions that are related to the particular needs of human profession developing accounts through the ages associated with the development of economic life in communities and institutions and of developments that have accompanied globalization and economies witness emergence of the concept of E-commerce and related this concept, the activities and operations and establish accounting entries to these processes and thus the need to sift through those processes to establish the facts of the financial situation of the project.

The electronic commerce (E-Commerce) represents one of the challenges, which face both accountants and auditors, since many organizations have changed to adopt ECommerce. The E-Commerce has been dramatically increased in the last few years. It also represents a new type of business economic patterns at the global level, in the

information age, and advanced modern technology in this era where borders disappear and commas geography, and changed the concept of the determinants of capital. With E-Commerce has become imperative for the economic units that seek to strengthen its competitive position to adapt the electronic environment, by changing its accounting system radically or gradually and focusing on the so-called electronic accounting. After the emerge of new technologies in the business world as an extension of the electronic environment and development as one of the most important challenges in front of the new accounting and auditing. The modern revolution in Information Technology has become the backbone of E-Commerce. With the development of E-Business activities it becomes the perfect computer and communications networks to run, based on its strong dependence on computer systems,

holds a huge threat to the control ineffective. Inappropriate use may result in disastrous consequences, and the existence of computer viruses and "hackers" wanton attack, computer crime, and so have led to the risk of ECommerce information distortion.

Therefore, auditors need to audit reports and reliability of the received information; therefore it is important to know how to describe the E-Commerce of audit that affects audit evidence, audit documentation, identify issues for E-Commerce system and other specialized IT environment and improve the impact of E-Commerce on the external auditor's work.

### **DEFINING E-COMMERCE:**

Before diving into how auditors should approach e-commerce auditing, a thorough understanding of it is crucial to identifying its need for attention. E-commerce essentially covers all types of transactions that occur in traditional businesses with the exception that it conducts these transactions online. These business activities include business-to-business (B2B), business-to-consumer (B2C), extended enterprise computing, digital commerce (d-commerce), and mobile commerce (m-commerce). When selling goods via e-commerce, certain software functions run the main functions of the business's e-commerce web site which allows for product display, online ordering, inventory management, and such. Specifically, for the purpose of this report, understanding e-commerce from a business' perspective is most important because auditors are auditing from the client's perspective. Within e-business, all transactions are electronic and trading partners may be temporary since exchanges are usually over a short period of time. There are three components of the business to take note of:

1. Technology component: networking technologies for exchanging financial transactions; there is usually database technologies available for storing financial transaction records

2. Systems component: financial and accounting systems to process financial transactions; the systems can be web-based, enterprise systems, and legacy systems

3. People component: service providers (i.e. audit personnel and firm personnel), and stakeholders (i.e. customers, suppliers)

In conjunction with the servers and data lines, there is heavy reliance on interconnected networks in the e-commerce environment. Although e-commerce is not much different from a traditional business other than its steep integration with new technologies, all e-commerce systems have a distinct characteristic total involvement of the end-user at every stage of the purchasing process. Despite e-commerce's raising popularity and unique approach to conducting businesses, it continues to be vulnerable to the strain of day to day running of business transactions. As well, its lack of consumer and business confidence creates an overall fear amongst society and businesses. This being so, auditors must take action to provide more assurance towards this new area of technology by fully proving architecture models for e-commerce businesses.

### **IMPACT OF E-COMMERCE ON AUDITING:**

The accounting and auditing science is a social science primarily and it's a science of language figures, so it is natural that accounting and auditing profession to be impacted by developments the information technology that has become one of the most important elements of accounting systems; in which it is noted that the accounting systems in companies and various firms have come to rely mainly on the use of computers, and these systems get more complex in companies that work in the ecommerce field, and these technological developments have created huge challenges in front of the accounting profession practitioners. And Audit related to the design of accounting systems, and develops internal control systems to ensure the efficiency, and the effectiveness of accounting system operation. No doubt that it has become to the external

auditor and internal auditor for both the responsibility of qualifying themselves to deal with these advanced technology systems, which also should be said for accountants in various economic sectors, which should also be included in the curricula of accounting education in universities. It should be noted that American Institute of Certified Public Accountants (AICPA) experience aimed to increase the rehabilitation and development of accountants to deal with systems and internet technologies, particularly with regard to e-commerce where it The Institute aimed at providing a new service for accountants to provide them with developed programs aimed at enabling them to submit the possibility of reliability and confidence on the accounting information systems that based on advanced information technology, as appeared new services for examination carried out by the legal accountant to determine the efficiency and effectiveness of accounting information systems, and the possibility of Accreditation on reliability. Another challenge facing the audit profession in light of ecommerce is presenting the impact of the financial statements published via internet on accounting and auditing, and the extent of confidence in the financial statements contained in these statements and means to guarantee that confidence. It is clear that financial statements published via the Internet will lead to the effects on the methods of accounting and auditing, and will be the focus of accounting studies during the current decade.

### **IMPACT OF E-COMMERCE ON AUDIT REPORTING:**

Most public companies provide access to financial information through their home Web page. Visitors to a company's Web site can view the company's most recent audited financial statements, including the auditor's report. In addition, it is common for the company to include such information as unaudited quarterly financial statements, other selected financial information, and press releases often labelled as "About the Company" or "Investor Relations" on its Web

site. Even before the widespread use of the Internet, companies often published documents that contained information in addition to audited financial statements and the independent auditor's report. The most common example was and still is the company's annual report. Under auditing standards, the auditor has no obligation to perform any procedures to corroborate the other information. The auditor is, however, responsible for reading the other information to determine whether it is materially inconsistent with information in the audited financial statements. However, under current auditing standards, auditors are not required to read information contained in electronic sites, such as the company's Web site, that also contain the company's audited financial statements and the auditor's report. Auditing standards note that electronic sites are a means of distributing information and are not considered "documents," as that term is used in auditing standards.

### **IMPACT OF E-COMMERCE ON AUDIT EVIDENCE AND AUDIT DOCUMENTATION:**

Audit evidence is often available only in electronic form, and auditors must evaluate how this affects their ability to gather sufficient appropriate evidence. In certain instances, electronic evidence may exist only at a point in time. That evidence may not be retrievable later if files are changed and if the client lacks backup files. Therefore, auditors must consider the availability of electronic evidence early in the audit and plan their evidence gathering accordingly. When evidence can be examined only in machine-readable form, auditors use computers to read and examine evidence. Commercial audit software programs, such as ACL and Interactive Data Extraction and Analysis (IDEA) software, are designed specifically for use by auditors. These programs are typically Windows-based and can easily be operated on the auditor's desktop or notebook computer. The auditor obtains copies of client databases or master files and uses the software to perform a variety of tests of the client's electronic data. These audit software

packages are relatively easy to use, even by auditors with little IT training, and can be applied to a wide variety of clients with minimal customization. Auditors may also use spreadsheet software to perform audit tests. Auditors often use engagement management software to organize and analyse audit documentation. Using audit management software, an auditor can prepare a trial balance, lead schedules, supporting audit documentation, and financial statements, as well as perform ratio analysis. The software also facilitates tracking audit progress by indicating the performance and review status of each audit area. Tick marks and other explanations, such as reviewer notes, can be entered directly into computerized files. In addition, data can be imported and exported to other applications, so auditors may download a client's general ledger or export tax information to a commercial tax preparation package. Auditors also use local area networks and group share software programs to access audit documentation simultaneously from remote locations.

#### CONCLUSION:

The E-Commerce has an impact on current skills, knowledge and qualification of the auditors. The E-Commerce has an impact on the external auditor's report depend on the nature of E-Commerce processes where the criteria for the preparation of the report are governed the auditor's report. The evidences and procedures of audit process is documenting through reviewing operations in E-Commerce resulting from electronic information systems due to the quality of audit evidences and documentation. The E-Commerce has an impact on the implementation risks of audit process, which these operations are not usual, therefore the need of wide effort in assessing audit risks related to E-Commerce processes and to obtain as much as possible to confirm these operations.

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**Simplicity is the key to brilliance.**

**~ Bruce Lee**