

Revamping the Audit Approach with Accounting Equations: Processing XBRL-tagged Data in an XBRL-tagged Top-cycle

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Abstract

Pieter de Kok, who recently took the lead in an audit reform movement in the Netherlands, asks a bold question in the public debate on www.accountant.nl: “What if the mandatory, statutory audit is halted today: will our clients still call us for our added value tomorrow?”

Let’s take this question one step further:

1. What’s the *pull* in the audit market?
2. What’s the *push* from new developments?
3. How to *match* them to create new added value services, with *Return On Investment (ROI)* for both audit mandate provider and audit profession community?

To clearly understand the pull in the audit market it is helpful to mentally reconstruct the original market mechanisms, thus before regulation made audit mandatory. These authentic market mechanisms are actually the *raison d’être* for the audit profession, since regulation by law followed later. Recall that these original market mechanisms actually never disappeared, they were just less visible due to regulation. To avoid confusion: it is not the statutory *status* of the audit, but instead *what* it is that has been made statutory, that is up for renewal.

Now, what are these original pull mechanisms? How were *management-ordered* audit and *owner-ordered* audit traditions integrated? Why are accounting equations the weapon of choice to revamp the audit approach? And, to give a clear diagnosis, what are the exact main reasons to revamp the audit approach?

How the Carmichael and Blokdiik (pronounce Blockdike) interpretations of Limperg’s Theory of Rational Confidence guides giving direction to revamping the audit approach. And how to relate this to IFAC’s Financial Reporting Supply Chain initiative, and the NBA/Royal NIVRA’s Sharing Knowledge project initiative.

Where do the continuous accounting equations come from? What is a top-cycle? Where does this come from? How does it connect accounting cycles? What are *Soll* (To Be) and *Ist* (As Is) modalities? How does a 40,000 feet sketch of the revamped audit approach look like?

Why and how to extend the audit mandate to include key elements of the nexus micro-macro. Allowing the audit profession to position countervailing control measures for financial institution’s moral hazard.

Why US audit innovation investors are eager to internationalize the *method* of the owner-ordered audit, integrated with the management-ordered audit, in a setting that continues allowing management to pick up the audit bill. What is the investment strategy? What is the ROI? Where are sustainable gains in productivity? What are example new added value audit services?

What's data-based process analytics? What's process mining? What's process mathematics? What's a Domain-Specific Language? What's the goal of the Jacquard project "Next Generation Auditing: Data-Assurance as a Service" (2010-2015)?

The paper proposes a remediation to address today's audit challenge, with a first discussion of pro's and con's and how to deal with obstacles on the road ahead.