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## NEWSLETTER

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# FUTURE OF AUDIT – DATA ANALYTICS AND BIG DATA



Changes in the financial and technological environment, as well as changes in the expectations of the users of financial statements inevitably lead to changes in the planning, implementation and audit findings of the financial statements. In the modern business world, audit should not only provide a credential of the accuracy of the financial statements, but should also give added value to users.

Although the essence of the audit must remain the same, auditors will be forced to analyze large amounts of data. In that sense, two new audit terms are mentioned: data analytics and big data.

Data analytics (DA) is a process of qualitative and quantitative study of a set of data in order to draw conclusions about the information they contain, with the help of specialized systems and software.

Big Data (BD) is a process of studying a large number of data in order to identify hidden repeat schemes, unknown correlations, trends, deviations, and other useful information that can improve business systems.

Data Analytics and Big Data will, in the near future, begin to increasingly affect the way audit is performed, since they will primarily enable auditors to accurately analyze the entire set of data over a short period of time. Namely, today the audit procedures are conducted on a relatively small sample of transactions, after which extrapolation of

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**DATA ANALYTICS (DA) IS A PROCESS OF QUALITATIVE AND QUANTITATIVE STUDY OF A SET OF DATA IN ORDER TO DRAW CONCLUSIONS ABOUT THE INFORMATION THEY CONTAIN, WITH THE HELP OF SPECIALIZED SYSTEMS AND SOFTWARE.**

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conclusions on the entire set of data is performed. In the future, auditors will use DA and BD to examine up to 100%

of client transactions, as well as to analyze, sort and filter data in order to detect anomalies and identify hidden risks.

Areas where the use of DA and BD is possible are, for example, the risk of fraud, irregularities and anomalies in data, identification of inefficient internal controls, etc.

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In such an environment, it is very certain that certain audit companies will be available on the market that will be able to provide services at an advanced level, which will also benefit from improved knowledge of data analysis and thus provide a proactive approach to the audit process that will be recognized as an added value by financial statements users.

Therefore, in the near future it will be necessary for auditors to upgrade their education and knowledge in areas such as risk management, forensics and IT. Accepting an altered framework for the performance of auditing companies and transforming the entire audit organization will certainly be a process that will take some time, but it will prove to be necessary and with no alternative.

# AMENDMENTS TO THE VAT LAW - PLACE OF PROVIDING SERVICES



When it comes to the new Law on Value Added Tax (VAT Act – ZPDV on Serbian), the most important one is the amendment to Article 12 which determines the place of providing service that has been harmonized with the EU acquis.

The current general rule in the Law on VAT that the place of service providing is according to the place where the service provider performs its business, is replaced by a general rule according to EU regulations where the place of providing service is determined by the place where the recipient of the service performs the activity.

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**THE BASIC PRINCIPLE APPLIED IN THE EU, WHICH WAS APPLIED FROM APRIL 1, 2017 IN SERBIA IS THAT THE PLACE OF SERVICE IS CONSIDERED TO BE THE PLACE OF THE SERVICE RECIPIENT, IF THE RECIPIENT OF THE SERVICE IS A TAXPAYER, AND IF THE RECIPIENT OF THE SERVICES IS NOT A TAXPAYER, ACCORDING TO THE PLACE OF THE SERVICE PROVIDER.**

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According to the general rule of Article 12, par. 1. and 2. of the Law on VAT which will be effective until and inclusive March 31, 2017, the place of service is the place where the service provider performs the activity, that is, the place where he has a business unit through

which he provides a service, regardless of whether the services are provided to taxpayers or non-taxable persons, whereby certain exceptions to the general rule have been prescribed.

The basic principle applied in the EU, which was applied from April 1, 2017 in Serbia is that the place of service is considered to be the place of the service recipient, if the recipient of the service is a taxpayer, and if the recipient of the services is not a taxpayer, according to the place of the service provider. For certain services exceptions to these general rules have been prescribed.

The aim of the change is to comply with EU regulations and eliminate double taxation/non-taxation of certain services.

The new Article 12 governs the place of business depending on whether the services are provided to a taxpayer (relation business to business) or to a non-taxable person.

# THE NEW FORMAT OF AUDITOR'S OPINION

Worldwide, the business has become more complex over the last few years, impacting areas of judgment and estimation.

Hence, financial reporting, reflecting the business of the entity, had to evolve in order to keep pace with changing environment. However, the auditor's report, being the key deliverable addressing the output of the

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SINCE USERS OF FINANCIAL STATEMENTS HAVE DEMANDED THAT THE AUDITOR'S REPORT PROVIDE MORE TRANSPARENCY AND INSIGHT INTO THE AUDIT, THE AUDITOR'S REPORT IS BEING CHANGED, AFTER A FIVEYEAR PROJECT, CONDUCTED BY THE INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB).

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audit process, has been a standard pass/fail report for decades, with limited information that relates specifically to the entity which is being audited.

Since users of financial statements have demanded that the auditor's report provide more transparency and insight into the audit, the auditor's report is being changed, after a fiveyear project, conducted by The International Auditing and Assurance Standards Board (IAASB).

New and amended International Standards on Auditing (ISAs) are released which will transform the auditor's report. The IAASB intends for the new and

revised auditor reporting standards to result in an auditor's report that increases the transparency of and confidence in the audit and the financial statements. The transformation of the auditor's report is critical to the perceived value of the financial statement audit and to the continued relevance of the auditing profession.

Main changes are following:

- The elements in the report will be reordered so that the most important information comes first - the audit opinion
- For listed companies, the auditor's report will include a section about key audit matters after the opinion section
- The IAASB's amended standards are effective for audits of financial statements of listed companies for periods ending on or after 15 December 2016.
- In Serbia the new standards will become effective only after Ministry of Finance issues official translation of the new standards

# HOW TO DEAL WITH A FINANCIAL SETBACK



In the business world, there are bumps on the road and financial setbacks. In this situation, it is easy to panic and look for someone to blame.

Instead, the first action should be to devote time to looking at ways to return the top line and margin to its former strength. Whilst looking to cut costs may support some

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**FINANCIAL SETBACKS HAPPEN AND WE LEARN FROM THEM BUT IT IS ALWAYS BETTER TO BE PREPARED WELL IN ADVANCE AND TO HAVE A GOOD ACCOUNTING ADVISOR ON YOUR SIDE.**

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short term gains, this may damage the long-term structure and ability to recover – leave cost cutting until the top line review has been concluded.

We found more interesting tips about how to overcome financial setbacks on Forbes magazine, where three experts offered the following advice:

Sometimes cuts need to be made – What to cut? What not to cut? W. Michael Hsu, Founder and CEO of DeepSky, says that you can't cut coffee and accounting. By coffee,

he means small perks around the office. "Do you want to irritate your team when you most need them to help take you out of the situation? Accounting is also an essential part of overcoming financial setbacks and you need it more than ever for a clear picture of what's going on".

Step back and reconfigure – Elle Kaplan, CEO and Founding Partner of LexION Capital Management believes that step back and reconfigure plans are essential when addressing a financial setback. 'Avoid myopia by stepping back and evaluating when you should strategically prune an idea,' she says.

Focus on the future – firstly it's necessary to turn off emotion during setbacks, suggests Fourlane President and CEO, Marjorie Adams. 'Anytime we have a setback in business, it is easy to look for blame, feel anger, frustration or fear.' She advises focusing on what needs to be done and move on.

Financial setbacks happen and we learn from them but it is always better to be prepared well in advance and to have a good accounting advisor on your side.

## ABOUT US

Kreston MDM is a company that provides service in audit, consulting, tax and financial advisory. The company was founded in 2005 as MDM Audit with the goal of using its own resources to build a dynamic business relationship with clients and providing the highest service quality.

In February 2015, after an extensive due diligence and strict selection process, MDM Audit became an exclusive member, for Serbia, of KRESTON global network of independent high ranking accounting firms with extensive experience and knowledge of local markets providing daily support to its customers in over 100 countries.

Kreston International continual success depends on hard work and dedication of every affiliated company and all employees. It is the quality of each individual that allows us to maintain the basic

values of the brand, given that we firmly believe that 'people do business with people who are familiar with the brand they know, like and trust.'

Kreston MDM offers a wide range of services including audit of financial statements and accounting services, valuation of companies, financial and tax consulting, financial and tax due diligence. Our primary goal is to find solutions to real problems in the areas of finance and accounting.

Our team of highly professional experts with extensive years of experience uses business skills and experience to help organizations mitigate risks and cope with challenging environment.

Every day our employees strive to expand their knowledge and give new perspective to every project.