

27 January 2017

Professor Arnold Schilder
Chairman
International Auditing & Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York
NY 10017
USA

Dear Professor Schilder

Request for Input *Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics*

Crowe Horwath International is delighted to present a comment letter on *Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics*. Crowe Horwath International is a leading global network of audit and advisory firms, with members in some 130 countries.

IAASB's paper is important because a rapid change in the use of technology by auditors is taking place. IAASB's were largely prepared in a very different technology environment and there is an increasing concern that these standards no longer reflect the way that audits are being performed. IAASB has an ambitious programme for revising its standards, but the consultations issued so far do not necessarily reflect the technology issues that are covered in the data analytics paper. The exposure drafts that emerge will need to reflect the technology environment that auditors are working in.

Our responses to the questions in the Invitation to Comment are given in the Appendix to this letter. We particularly draw attention to the following:

- An unintended expectations gap may be created as stakeholders (including users of audited information and regulators) come to assume that auditors are testing larger samples because of the possibilities offered by data analytics. In developing standards that reflect the technology environment that auditors are increasingly working with, IAASB has to be alert to the possibility of new expectations gaps.
- The approach to substantive testing, particularly involving the use of confirmations, has not changed for many years. Obtaining evidence from independent third parties is, and will remain, a powerful and pervasive source. IAASB has to consider how a balance is struck between "traditional" and "new" techniques.

- Information security becomes a greater concern as auditors become more dependent on technology. IAASB standards, including quality control standards, have to include information security risks to the audit process.

We trust that our comments assist the IAASB in its standard setting activities. We shall be pleased to discuss our comments further with you.

Kind regards

Yours sincerely

A handwritten signature in black ink, appearing to read "David Chitty". The signature is written in a cursive, flowing style.

David Chitty
International Accounting and Audit Director

**Appendix – Crowe Horwath International response to IAASB Request for Input
Exploring the Growing Use of Technology in the Audit, with a Focus on Data
Analytics**

Question	Response
<p>a. Have we considered all circumstances and factors that exist in the current business environment that impact the use of data analytics in a financial statement audit?</p>	<p>The Paper is comprehensive in its discussion about the circumstances and factors that impact upon the use of data analytics in a financial statement audit.</p> <p>The following are additional areas that ought to be considered:</p> <p>Interaction. Greater use of data analytics increases the potential for remote working and potentially reduces personal contact between audit personnel and client personnel. Personal contact has always been an important part of the audit process, and needs to be explored in the context of data analytics. If the analysis of data is performed effectively through personal contact then this problem could be addressed, and the quality of contact improved.</p> <p>Information security. Increasing use of data analytics results in an increase in confidential client information that is at risk of being inappropriately accessed. Future work by the IAASB has to address information security risks. For example, revisions to ISQC 1 could include references to the audit firm’s information security environment.</p> <p>Recruitment & retention. The Paper refers to “re-training” and “re-skilling”, and “strains upon resources available”. Another perspective, not discussed, is that better embracing technology makes the audit profession more attractive as a career, both at the initial trainee stage, and at the qualification stage when retention becomes a challenge.</p>

	<p>Expectations Gap. Changes in audit techniques through the use of data analytics may create an unintended expectations gap. The use of data analytics creates an opportunity for testing larger populations efficiently. Stakeholders understanding of “reasonable assurance” could be expected to change, creating wider issues for the performance and conduct of audit.</p> <p>Investment. Potentially significant investments are required to make effective use of data analytics. The level of investment might become a barrier of entry to the audit market for firms. Suppliers of proprietary audit software products may be unable to develop solutions that could overcome this barrier.</p> <p>Connectivity of Systems. For data analytics to be successful, the firm and the clients systems need to be able to be connected. This gives rise to compatibility issues and data security questions.</p>
<p>b. Is our list of standard-setting challenges accurate and complete?</p>	<p>The list of challenges presented is good for discussion purposes. In addition, IAASB could consider the following:</p> <p>Materiality. Data analytics presents a challenge to the established concepts of materiality. Paragraph 19g, for example, refers to an “appropriate level of work effort for exceptions identified”, but materiality is a wider issue that should be discussed in its own right.</p> <p>Group audits. Group audits are mentioned elsewhere in the Paper and should receive specific mention in the list of challenges.</p>
<p>c. To assist the DAWG in its on-going work, what are your views on possible solutions to the standard- setting challenges?</p>	<p>Data analytics has to be actively considered in all of IAASB’s current and proposed projects. IAASB has an ambitious programme of standards revision in progress, and the projects have</p>

	<p>to embrace data analytics so that the exposure drafts and subsequent standards reflect the technology that audits are working with.</p> <p>The analysis of the IAASB projects in progress is good. However, language such as “DAWG anticipates active involvement in some of these on-going projects to contribute to their further progress” (Para. 27) is rather cautious and raises the question as to what consideration has been given so far to data analytics. Data analytics has to be considered in all projects, and has to be reflected in the exposure drafts that IAASB is preparing.</p>
<p>d. Is the DAWG’s planned involvement in the IAASB projects currently underway appropriate?</p>	<p>As noted above, data analytics is integral to all the projects that IAASB is undertaking. Therefore involvement by DAWG in all projects is essential.</p> <p>Paragraph 45 does not mention the project on the assurance of Integrated Reporting / Non-Financial Reporting. The very nature of data sources and data testing for these areas means that data analytics is a vital consideration.</p>
<p>e. Beyond those initiatives noted in the <i>Additional Resources</i> section of this publication, are there other initiatives of which we are not currently aware of that could further inform the DAWG’s work?</p>	<p>We are not aware of any other initiatives.</p>
<p>f. In your view, what should the IAASB’s and DAWG’s next steps be? For example, actions the IAASB and DAWG are currently considering include:</p> <p>i. Focusing attention on revisions, where appropriate, to ISAs affected by the IAASB’s current projects.</p> <p>ii. Exploring revisions to ISA 520.</p> <p>iii. Hosting one or more conferences with interested stakeholders to collectively explore issues and possible solutions to</p>	<p>We note, and agree, with IAASB’s proposed actions. Consideration of data analytics in IAASB’s current, and planned, projects for the revision of ISAs are essential as the resulting standards have to reflect the environment that auditors are working in. Engagement with stakeholders, including particularly regulators, is important. IAASB has to understand the issues that regulators face with the changing technology environment and address regulators who might be perceived</p>

<p>the identified challenges.</p> <p>iv. Continuing with outreach and exploration of issues associated with the use of data analytics in a financial statement audit, with a view towards a formal Discussion Paper consultation in advance of any formal standard-setting activities.</p>	<p>as “impeding progress”.</p> <p>IAASB should also consider:</p> <ul style="list-style-type: none"> • Addressing data analytics in other projects such as assurance on Integrated Reporting / non-financial information; and participating • Participating in externally organised events such as the Worshipful Company of Chartered Accountants in England & Wales <i>True & Fair</i> lecture (London, 16 March 2017, lecturer Professor Richard Susskind) and the <i>FEE Digital Day</i> (Brussels, 29 March 2017).
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