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**Re.: IAASB Data Analytics Working Group ‘Request for Input “Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics”**

Dear Matt,

We would like to thank you for the opportunity to provide our comments on the IAASB Data Analytics Working Group (DAWG) Request for Input “Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics” (hereinafter referred to as the “paper”).

We believe that, on the whole, the Working Group has done an excellent job of identifying most of the important issues and has performed a reasonably thorough analysis of these. Of course, there are some matters where we believe additional considerations can be addressed – we have identified these in our responses to the questions posed in the paper.

There are two issues that we would like to emphasize. First, the greater the extent to which data is generated directly by electronic means without non-electronic source documentation, the more important controls over the reliability, validity and completeness of data and over data security become – in particular general controls. Although the operation of electronically embedded controls can be tested by electronic means, the operation of the controls involving human intervention, and the design of controls, currently need to be tested using professional judgment. It is important that the limitations of data analytics in this respect be considered.

GESCHÄFTSFÜHRENDER VORSTAND:  
Prof. Dr. Klaus-Peter Naumann,  
WP StB, Sprecher des Vorstands;  
Dr. Klaus-Peter Feld, WP StB;  
Dr. Daniela Kelm, RA LL.M.

page 2/5 to the comment letter to the IAASB DAWG dated February 2, 2017

Second, we expect developments in data analytics, and in particular, related developments in artificial intelligence, to accelerate over the next few years. How to resolve differences between the conclusions reached by AI systems and practitioners would become a difficult issue to resolve. For these and other reasons noted in our responses in the Appendix to the question posed by the paper, we believe that standard setting activities for data analytics at this stage may need to be limited to application material clarifying the role of data analytics in the current audit model. Seeking to write robust requirements that appropriately take into account the issues discussed in the paper and that would stand the test of time given the rapidly changing environment appears to be premature at this time.

We would be pleased to provide you with further information if you have any questions about our response and would also be pleased to be able to discuss our response with you.

Yours truly,



Klaus-Peter Feld  
Executive Director



Wolfgang Böhm  
Director, Assurance Standards,  
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page 3/5 to the comment letter to the IAASB DAWG dated February 2, 2017

## **Appendix:**

### **Response by Question**

**(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?**

We believe that the Working Group has identified the important circumstances and factors that exist in the current business environment that impact the use of data analytics in a financial statement audit.

**(b) Is our list of standard-setting challenges accurate and complete?**  
**(c) To assist the DAWG in its ongoing work, what are your views on possible solutions to the standard-setting challenges?**

On the whole, we believe that the list of standard setting challenges is accurate and complete, but we do have some comments in relation to some of the challenges identified that we believe are worthy of consideration. In the standard setting challenge item (e) relating to the current risk and response nature of the ISAs, the question is raised what the role of controls testing is when auditors analyse 100 % of the transactions in a particular area of the audit. In our view, the more data is generated electronically, the more important controls over completeness, reliability and validity of the data becomes because these are the matters than may not be susceptible to audit via data analytics.

Furthermore, we believe that, analogously to dual purpose tests (tests that represent both tests of controls and substantive audit procedures), the ISAs do not prohibit multi-purpose tests that may cover risk assessment, tests of controls and substantive procedures. Consequently a mutually exclusive classification of some data analytics as only one of tests of controls, tests of detail or substantive analytical procedures as suggested in paragraph 11 (b) of the paper may not be necessary as long as these tests meet the requirements for each of these kinds of testing. We also note that it is impossible to design data analytics without some expectations so as to be able to define the parameters for the analytics. In this sense, those expectations would meet the requirements for the development of expectations for substantive analytical tests. It may be important to emphasize in standards that the expectations implicitly embedded in these parameters might need to be documented in an explicit way if one seeks to apply data analytics as a substantive analytical procedure.

page 4/5 to the comment letter to the IAASB DAWG dated February 2, 2017

In relation to the standard setting challenge item (g) on the appropriate level of work effort for exceptions identified, we would like to note that the normal principles that apply to other testing would also apply with respect to outliers identified by means of data analytics: The auditor needs to consider what causes the outliers. In these circumstances, auditors may draw a sample of outliers to help redefine the parameters for further data analytics in an iterative approach. We are not convinced that simply ignoring some outliers without understanding what causes them is an acceptable approach.

With respect to standard setting challenge item (h) on risk measurement, we believe that what the auditor needs to do depends upon the assertion that the auditor is seeking to address and how precise the measurement of risk actually is.

We are surprised that some take the view as noted in paragraph 14 of the paper that the lack of reference to data analytics in the ISAs signifies that gathering evidence from data analytics does not necessarily change the nature or extent of other procedures required by the ISAs today: The impact of any evidence gathered (whether from data analytics or otherwise) on the nature, timing and extent of other audit procedures needs to be considered in an audit. If evidence from data analytics had no impact on other audit procedures, there would be no point to performing data analytics

**(d) Is the DAWG's planned involvement in the IAASB projects currently underway appropriate?**

We believe that the planned involvement is appropriate.

**(e) Beyond those initiatives noted in the Additional Resources section of this publication, are there other initiatives of which we are not currently aware of that could further inform the DAWG's work?**

At the IDW we have become aware that the larger accountancy firms are engaging in heavy investment in data analytics. The so-called mid-tier firms may have difficulty in matching such needed investment on an individual basis. For this reason, the IDW has commenced a project to determine whether a group of mid-tier firms (the "next ten") might be able to cooperate in some form of common venture by pooling their resources and engaging appropriate software providers. The question arises whether other professional accountancy bodies in other countries are also engaging in similar activities that could be coordinated in some way.

page 5/5 to the comment letter to the IAASB DAWG dated February 2, 2017

- (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:**
- (i) Focusing attention on revisions, where appropriate, to ISAs affected by the IAASB's current projects.**
  - (ii) Exploring revisions to ISA 520.**
  - (iii) Hosting one or more conferences with interested stakeholders to collectively explore issues and possible solutions to the identified challenges.**
  - (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.**

We agree that data analytics should be considered in current projects, but it is likely to be too early to go beyond application material at this stage due to the difficulty in resolving some of the issues identified in the paper and because of the speed of change. The same applies to ISA 520, where clarification in the application material might be needed that the nature of the expectations required to set the parameters for data analysis also meet the requirements for setting expectations for substantive analytical procedures. We are not necessarily convinced that hosting conferences in this respect is particularly useful: It may be more useful that the Working Group seek to engage with stakeholders on an individual basis with the benefit of the confidentiality of private conversation. Certainly more outreach is needed prior to any formal standard setting activities beyond possible application material.