

Meeting: IAASB
Meeting Location: New York
Meeting Dates: March 14–18, 2016

Agenda Item **6**

Data Analytics and the International Standards on Auditing (ISA)

Objectives of Agenda Item

1. The objectives of this agenda item are to:
 - a) Update the IAASB of the discussions with the IAASB Consultative Advisory Group (CAG) at its March 8 – 9, 2016 meeting;
 - b) Update the Board on the Data Analytics Working Group's (DAWG's) information-gathering activities;
 - c) Inform the IAASB about developments in data analytics that may have an impact on international auditing standard setting, as identified by the DAWG, and obtain further input from the Board on the topic; and
 - d) Obtain views from the Board on the DAWG's proposed way forward.

Data Analytics Working Group

2. The DAWG is comprised of the following members:
 - Robert Dohrer, IAASB Member and chair of the DAWG
 - Fiona Campbell, IAASB Member
 - Sue Almond, Partner, Grant Thornton
 - Peter Eimers, Partner, PwC and National Auditing Standard Setter (Netherlands)
 - Alan Young, Partner, Ernst and Young

Activities since the last IAASB Discussion

3. The DAWG has held two teleconferences and one physical meeting to develop the material contained in these agenda papers.

Discussion at the IAASB March 2016 Meeting

4. The DAWG has performed outreach with various stakeholders since the September 2015 IAASB meeting. While additional outreach is planned, there are key themes that have emerged from the outreach performed to date that are discussed in Section I of **Agenda Item 6-A**. Refer to Appendix 1 for an overview of the outreach conducted since the September 2015 IAASB meeting.
5. At the September 2015 IAASB meeting, Mr. Dohrer, along with outside presenters, discussed a number of illustrations of the uses of data analytics in the audit and the associated challenges with

the ISAs that practitioners are encountering. Building on the September 2015 discussion, further examples of challenges that practitioners encounter when using data analytics in the audit are explored at the March 2016 IAASB meeting. **Agenda Item 6-A** includes three practical examples of data analytics procedures that are being performed in audits today and a discussion of the challenges practitioners encounter in applying the ISAs to those data analytics procedures.

6. **Agenda Item 6-A** also contains the DAWG's views on, and seeks IAASB input on:
- Interactions with other IAASB projects and how the DAWG may be directly involved in those projects as they progress; and
 - Possible steps to be taken by the DAWG in progressing its work.

Material Presented

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| Agenda Item 6-A | Data Analytics and the International Standards on Auditing (ISA) |
| Agenda Item 6-B | ISAs that contain reference to Computer Assisted Audit Techniques (for reference only) |

Outreach Activities since September 2015 IAASB Meeting

The DAWG has conducted outreach with the following:

- Teleconference with global representatives from PricewaterhouseCoopers (Dohrer, Williams)
- Teleconference with global and United Kingdom (UK) representatives from KPMG (Dohrer, Williams, Kirpalani)
- Teleconference with global and United States representatives from Deloitte (Dohrer, Williams, Kirpalani)
- Teleconference with global representatives from Ernst & Young (Dohrer, Williams, Kirpalani)
- Physical meeting with representatives from the American Institute of Certified Public Accountants (Dohrer, Williams)
- Teleconference with representative from the UK Financial Reporting Council – Audit Policy (Dohrer, Almond, Eimers, Young, Williams, Kirpalani)
- Teleconference with representatives from Chartered Professional Accountants Canada (Dohrer, Williams)

Summary of the IAASB's Discussions at its September 2015 Meeting

Data Analytics

Mr. Dohrer gave an update on the DAWG's activities since the June 2015 IAASB meeting as well as further insight into the topic of audit data analytics (ADA).

Along with two individuals representing the Rutgers University Continuous Auditing and Reporting laboratory, Mr. Dohrer discussed a series of illustrations to demonstrate techniques that may be used in the future to benefit the effectiveness of audits of historical financial statements. The Board was also asked to consider and provide further input into a number of challenges and questions that arise in considering the use of these techniques.

The Board confirmed that the DAWG had identified the right questions that need to be addressed. The Board also noted that, while technology is an enabler in an increasingly high volume electronic data driven environment, the ability to analyze the data, validate the integrity of the data being used in the analysis, and exercise professional judgement (including the extent of corroboration) remains key to the execution of a quality audit, as the engagement partner is required to be satisfied that sufficient appropriate audit evidence has been obtained. In addition, the Board:

- Suggested that it would be important to understand how ADA techniques are different from the audit evidence gathering techniques that exist today in order to understand the potential impact of ADAs on the ISAs. In addition, the Board noted the risk of over confidence in the technology utilized without an appropriate understanding of the auditing methodology and science behind it.
- Suggested the DAWG consider the implications for auditor skills and education to effectively execute these techniques and what should be included in the core competencies of auditors to sustain the confidence in the audit opinion when ADAs are used on audits.
- Highlighted that the DAWG will need to consider where the boundaries are in relation to what is capable of being addressed with these techniques in an audit and what is not. The Board suggested taking a holistic view of ADA in the context of obtaining sufficient appropriate evidence, as not all evidence is represented electronically, or captured in an easily accessible form. The Board also noted the relevance of professional judgments that are made on information that is not captured in data sets discussed in the illustrations provided, such as assumptions contained within complex calculations in spreadsheets.
- Noted in the area of risk assessment, while such techniques can be powerful to identify risks within the data set being analyzed, assessment of risks that may exist outside of the data set as well as an appropriate understanding of the flow of transactions will continue to be important elements of the risk assessment process. In addition, if the structure of the analytic is not sound and if the expectations of the anomalies in the data set that are being looked for are not identified correctly, there could be errors in the data analyzed that might not be captured.
- Noted it will be necessary to consider the implications of the ability to obtain audit evidence over a larger portion of the population by using ADAs, both with regard to judgments on further procedures to be performed as well as the confidence in the quality of evidence obtained.

IAASB CAG CHAIRMAN'S REMARKS

Mr. Waldron noted that CAG Representatives and Observers found the presentation on ADA informative and were supportive of the project, providing the DAWG with valuable input to progress its information gathering. In particular, the need to consider the implications of completeness and accuracy of the data being tested and potential misconceptions about the level of assurance that could be obtained using ADAs was stressed.

PIOB OBSERVER REMARKS

Prof. Van Hulle commented that auditors may need to consider the implications on auditor liability. In his view, if these techniques are available and can be effectively executed, there may be an expectation that auditors should be using these techniques if they would benefit audit quality.

WAY FORWARD

The DAWG will continue with its planned outreach activities, with a focus on understanding the use of ADAs in practice through outreach activities and whether there might be implications to the ISAs resulting from the increased use of ADAs.