

**Meeting:** IAASB  
**Meeting Location:** New York  
**Meeting Dates:** June 21–24, 2016

## Agenda Item 8

### Data Analytics

#### Objectives of Agenda Item

1. The objective of this agenda item is to obtain input from the Board on the Data Analytics Working Group (DAWG) publication – *The IAASB’s Work to Explore the Growing Use of Technology in the Audit*.

#### 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.

#### Data Analytics Working Group publication – discussion at the IAASB June 2016 Meeting

4. In response to the feedback received from the Board and the IAASB Consultative Advisory Group, the DAWG has drafted a publication (**Agenda Item 8–A**) to inform stakeholders about the IAASB’s ongoing work to explore effective and appropriate use of technology, including data analytics, in the audit of financial statements.

#### Matter for IAASB Consideration

1. The IAASB is asked to share its views on the DAWG publication, *The IAASB’s Work to Explore the Growing Use of Technology in the Audit, including Data Analytics*.

#### Material Presented

Agenda Item 8-A

DAWG – *The IAASB’s Work to Explore the Growing Use of Technology in the Audit, including Data Analytics*

## Draft Summary of the IAASB's Discussions at its March 2016 Meeting

### Data Analytics

Mr. Dohrer gave an update on the Data Analytics Working Group's (DAWG's) activities since the September 2015 IAASB meeting, the outcome of its information-gathering activities to date and the proposed way forward. Mr. Dohrer explained that the DAWG's information-gathering will continue, and highlighted the stakeholders with whom the DAWG has not yet engaged, noting that arrangements to speak with these stakeholders are in the process of being finalized. Mr. Dohrer outlined the proposed way forward, which includes the development of a working group paper to be discussed with the IAASB at its June 2016 meeting.

Mr. Dohrer summarized the discussions at the March 2016 IAASB CAG meeting, noting that Representatives and Observers:

- Advised the IAASB to remain focused on evaluating whether, and clearly articulating how, innovations in technology enhance audit quality;
- Questioned the impact testing whole populations would have on the existing audit model, which results in the auditor obtaining reasonable assurance. For example, some questioned whether a decrease in other procedures would be expected, or alternatively that there could be an increase in the level of assurance obtained by the auditor;
- Challenged the IAASB, while assessing the impact of current technological developments on the audit, to also consider the forward-looking developments as well (such as in the area of continuous auditing); and
- Emphasized the importance of moving forward cautiously in this area in relation to changing the auditing standards, so as to not inadvertently create barriers for some practitioners that are not able to invest in resources needed to support the experimentation with or use of data analytics.

The Board was supportive of the collaborative approach outlined in the agenda materials and encouraged innovation in this area, noting that data analytics can improve the effectiveness and quality of audits. However, the IAASB agreed that, before considering changes to the ISAs, there is a need to focus on some key questions – such as whether data analytics is able to achieve the same objectives of techniques and procedures that are currently addressed in the ISAs, or are they different, and if they are different, what are the implications of those differences?

The Board provided the following additional comments:

- The DAWG was encouraged to consider whether use of the term “data analytics” implies too narrow a focus and whether a term that would more closely link to the power of IT and its link to audit quality should be considered.
- While recognizing the challenge for all practitioners to have sufficient resources to develop auditing techniques that would make increased use of technology, it is not clear what the IAASB could do to minimize this. The Board commented that this is an area where national audit standard setters (NSS) and national institutes can be helpful to those practitioners that do not have the access to the resources to be able to adequately invest in developing their own tools, techniques and resources.

- One Board member noted that the current auditing standards were developed on the premise that the auditor is not able to audit all of the transactions and therefore the stages of the audit were developed (risk assessment, test of controls, substantive procedures) as part of the design of a risk-based audit. However, in an environment where it may be possible to test 100% of the transactions, the IAASB may need to reconsider whether the staged approach to the audit still make sense.
- The DAWG was encouraged to consider reaching out to other industries to understand their experiences in managing data, as discussing these matters with those outside of the profession that are further along their technological journey may be able to provide insightful input for the DAWG.
- Some Board members noted the role that those charged with governance play in standing between management and the auditor. Specifically, these members stressed the importance of TCWG understanding the use of data analytics, both broadly and in the context of the entity being audited, as well as the limitations of data analytics to minimize the risk of creating an expectation that these techniques can deliver more than they are currently able to in an audit.

**Agenda Item 6-A** included examples that explored challenges faced by practitioners with data analytics in the audit, with Board members providing input and thoughts where there was agreement and disagreement with the points raised. A number of Board members noted the capacity for these types of techniques and testing approaches to cross the traditional stages of the current audit model and an increase in the element of dual purpose testing can create a number of significant challenges for practitioners.

The Board was supportive of the DAWG's planned publication for issuance in the short-term, noting that it would be helpful basis on which to conduct further outreach to inform decisions about the way forward. The Board noted that the paper should have a focus of more than just raising awareness, suggesting that the publication:

- Identify some of the challenges encountered by practitioners to date and how some of these challenges / questions can be addressed under the current standards;
- Explicitly address the fact that the ISAs do not prohibit the use of data analytics; and
- Provide an indication of the IAASB's proposed way forward on this topic.

#### IAASB CAG CHAIRMAN'S REMARKS

Mr. Waldron agreed with Mr. Dohrer's summary of the comments received from IAASB CAG Representatives and Observers, noting that the IAASB CAG was particularly engaged in the discussion of this topic. Mr. Waldron further added that the link between data analytics and audit quality is an important focus area for investors.

#### WAY FORWARD

The DAWG will continue with its proposed activities as outlined in **Agenda Item 6-A**, taking into account the input provided by the Board, to inform the Board when standard-setting activities may be necessary and what approach this could take.