Data Analytics – Update and Overview of Responses to Request for Input

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IAASB CAG Meeting, Madrid

Agenda Item M

September 12, 2017
Purpose of the Session

• Update on activities by the Data Analytics Working Group (DAWG)

• Provide high-level observations from comment letters received from the Request for Input: Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics (RFI)
Activities of the DAWG Since Last Meeting

• Comment period closed and summaries of questions prepared
• Held an initial introductory call of the Project Advisory Panel (PAP) which included obtaining their high level views on the responses from the Request for Information
• Announced the PAP on the IAASB website (will also further promote via eNews, social media, etc.)
• Participated in a conference call with the PCAOB regarding their research project on DA
• Other outreach
RFI High-level Feedback from Respondents

- 50 responses received from a wide-variety of stakeholders

<table>
<thead>
<tr>
<th>Stakeholder Group</th>
<th>Number of Responses</th>
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<td>Member Bodies and Other Professional Organizations</td>
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<td>Accounting Firms</td>
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<td>National Auditing Standard Setters</td>
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<td>Individuals and Others</td>
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<td>Regulators and Oversight Authorities</td>
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<td>Investors and Analysts</td>
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<td>Academics</td>
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RFI High-level Feedback from Respondents

• Much support for the IAASB to undertake the initiative
• Positive remarks that the RFI identified many important issues and early stage analysis
• Encouraged continued active participation in standard-setting activities as current projects progressed
• Strong and consistent recognition that data analytics has ability to enhance audit quality
• Must provide a clear explanation of what is meant by data analytics
• Caution regarding the way-forward
  – Targeted changes vs. separate standard
  – ISA by ISA review
Reflections on Circumstances and Factors that Impact Use of DA (Question A)

• Professional skepticism and judgments should not be replaced by DA
• Cost of DA techniques may be a barrier to entry (large vs small firms)
• Concerns over underlying data provided by client for use in DA
  – Ownership
  – Transfer and privacy
  – Security
  – Third-party sources
  – Reconciliation of data obtained from outside the ‘core’ system
Reflections: List of Standard-Setting Challenges Accurate/Complete (Question B)

- General support that the RFI captured many of the standard-setting challenges
- Impact on sufficient audit evidence
- Impact on hours and fees
- Use of technology is both cultural and educational
- Data architecture challenges (integrating financial and non-financial systems)
- Development of cross functional skills (possible deficiency between those who provide the data and those who must interpret the data)
- Must include the regulators in the process of any changes
Reflections: Possible Solutions to the Standard-Setting Challenges (Question C)

• Link any changes to standards with audit evidence requirements
• Provide a high-level plan as to what areas will be considered over the medium-term
• Consider IAPNs to deliver guidance
• Clarify extent of testing general IT controls and the impact of using DA
• Address disparity among firms and how they use DA
• Address specific issues that arise from applying DA to audits of SMEs
Reflections: DAWG’s Involvement in Current IAASB Projects (Question D)

• General support that the DAWG’s perspective and involvement in the IAASB projects is essential
• Some comments that the DAWG’s activities should be accelerated
• Encouragement that the IAASB and the IESBA work closely to assess potential issues related to independence, professional skepticism and quality control
• Caution against prematurely commencing standard-setting
• Respondents provided references to a number of publications and initiatives already underway

• Encouraged interaction with many other groups (IFAC SMPC, CPA Canada Audit Data Analytics Committee, GPPC, PCAOB, INTOSAI Data Analytics Working Group, etc.)
Reflections: DAWG’s Next Steps (Question F)

• Host roundtables with audit firms
• Host webcasts/podcasts to educate stakeholders
• Consider impact of DA across all ISAs (500, 230, 620,520, 315, 540, etc.)
• Issue non-authoritative guidance
• Seek views of TCWG of entities where auditors have applied DA
Next Steps

• Detailed analysis and summary of 50 comment letters
• Call with DAWG to discuss the detail analysis of responses to the RFI
• Re-engage with ISA 315 Task Force
• Data Analytic specific discussions with Quality Control, ISA 220 and Group Audits Task Forces
• Arrange targeted roundtables with firms (perhaps others) to discuss status and issues