Proposed ISA 220 (Revised) – Respondents’ Comments on ED-220

Question 4 – Resources/Technology

Question 4 asked:

*Does ED-220 deal adequately with the modern auditing environment, including the use of different audit delivery models and technology?*

Q4B – Agree

4. Accounting Firms

GTIL

However, we are of the view that the proposed standard is ‘technologically agnostic.’ As such, it is not specifically embracing new technologies nor is it preventing new technologies from being employed on audit engagements.

KPMG

We welcome the enhancements in this area as we believe it is critical to address the evolving nature of audits, as they become increasingly more complex, and as they involve the use of more sophisticated audit techniques. Such techniques have undergone significant development in recent years, for example in the area of Data and Analytics (D&A).

We therefore welcome the recognition, in addressing resources, that these include not only human resources, but technological and intellectual resources. We support, in particular, the application material at paragraphs A56-58, which explains how such resources may be deployed on an audit engagement, including that they may assist with effective and efficient engagement management, as well as with enhancing the auditor’s ability to exercise professional skepticism, and in ways that may enhance audit quality.

MZRSUS

As written, ED-220 is sufficiently flexible with respect to the modern auditing environment, including the use of different audit delivery models.

Q4B – Agree But With Further Comments

2. Regulators and Oversight Authorities

IRBA

ED-ISA 220 only partially addresses issues related to technology, at the firm. Insufficient emphasis is placed on evolving and disruptive technologies, and the resultant changes in audit delivery models, systems and technological resources. The constant change poses a high risk for many audits and we urge the IAASB to further highlight this risk. In doing so, the IAASB may be mindful of not referring to specific types of technologies or terminologies, as technology is pervasive to almost all audits, and technology and technical terms continue to evolve.

Paragraph A57 of ED-ISA 220 states that the firm’s policies or procedures may set forth required considerations or responsibilities for the engagement team when using firm approved technology. The extent to which the engagement partner must satisfy himself as to the appropriateness (including reliability) of the technological resource for use on that engagement is not clear. We would prefer that this be made much clearer. Also, if the engagement partner becomes
aware of a problem with the firm supplied resource, (for example, that the IT programme has a security weakness), what is their responsibility in this regard?

3. National Standard Setters

AUASB
The ability for the engagement partner to practically meet the review requirements of ISA 220 is further impacted by the use of technology in the audit. In an environment where the use of technology and handling large volumes of data becomes common, engagement partners may not have the specialist knowledge required to review the outputs of such tools.

CAASB
However, as technology continues to evolve, ED-220 may become outdated.

NBA
In general ED 220 has the right balance although the guidance is not really extensive. We wonder whether extensive guidance is necessary. If extensive guidance is provided it might be outdated before the standards are issued.

4. Accounting Firms

BDO
We also support the increased emphasis on technological resources (as outlined in A56-A58) which allow engagement teams to gather more information, perform more in-depth analysis and increase the quality of the overall audit. As ED ISA 220 (Revised) is finalised, the IAASB may wish to reconsider whether ISA 230, Audit Documentation, remains in alignment in this area.

CG
The performance of audit is changing rapidly. We welcome the inclusion of a section in the standard on “engagement resources” supported by application guidance. However, the language used is cautious, such as “the use of technological resources may assist the auditor” (A56). There is a risk that the use of cautious language means that the standard and its application guidance could become obsolescent not long after its issue.

MZRS
The proposed standard is not overly detailed or complex and we believe it is appropriate as technology evolves quickly; it is much better that the content is principle-based, as it may less be outdated or become irrelevant over time.

PKFSA
There is no explicit reference in the main body of ED-220 to the use of different audit delivery models or to technology. Given their relevance and importance to the modern auditing environment, we recommend that paragraph 23 of ED-220 be expanded to state that “Engagement Resources” includes human resources, audit delivery models and technology.

PwC
Paragraph 24 Resources:

We note that in the context of a group audit, the group engagement partner is unlikely to be able to make the determination required under this requirement for all members of component audit teams.

We suggest that further clarification is needed in relation to the use of technology in execution and review of audit work, and how to determine whether a particular technological resource is appropriate for use in the audit. We believe that
paragraph A58, in particular, could be clarified to provide additional factors that an engagement partner may take into account in determining whether a particular technological resource is appropriate for use in the audit (when not addressed by the firm’s policies and procedures).

5. Public Sector Organizations

SNAO

We do not think that it is appropriate that the engagement partner uses new technologies if these specific technologies are not allowed by firm policies and procedures. There are many loops including information security that needs to be observed.

Therefore, we would suggest revising A58 to read: if new technologies are found to be relevant and efficient but not allowed to use due to firm policies and procedures the engagement partner should not use. The engagement partner may suggest to the firm to include them in their policy.

Another suggestion would be to include that the engagement partner could use new technologies approved within the firm ensuring efficient internal communication (skype meetings, chats, etc.) with the engagement team etc.

6. Member Bodies and Other Professional Organizations

IBRACON

We suggest include examples of the use of technology in the audit, and linking this to the relevant firm’s policies – for instance, if the firm has developed internally or has acquired some resource or tool and its impact in the audit process.

ICAS

We also welcome the reference to the use of technology in ED-220 but believe that there is scope for further guidance on the use of different audit delivery models. We agree that ED-220 is not necessarily the appropriate location for such guidance but some supplementary guidance, for example in a separate Practice Note, would be helpful.

ISCA

With regards to technology, one area which practitioners grapple with is the extent of work to be performed on evidence in electronic form. One common problem that practitioners face is the extent of work to be performed over authenticating electronic confirmations, where the expectation of rigorous authentication procedures may offset the efficiency benefits of obtaining them in electronic form. Also, engagement teams tend to file the hardcopy audit evidence in addition to the electronic evidence due to uncertainty over whether such electronic evidence will be challenged. In this respect, the auditing standards can provide more clarity.

We also believe that more guidance is needed to recognise the potential impact of technology on the execution and review of audit work and the importance of the firm’s system of quality management in supporting the use of approved technology. For example, if the firm has developed an artificial intelligence tool for identifying higher risk transactions, the engagement team would likely need to place reliance on the firm’s processes for developing and maintaining tools that are reliable and fit for purpose. It would be helpful to specifically recognise this linkage with the firm’s system of quality management in the application material of this section.

We believe that paragraph A58, in particular, could be clarified to provide additional factors that an engagement partner may take into account in determining whether a particular technological resource is appropriate for use in the audit (when not addressed by the firm’s policies and procedures). Relevant factors may consist of experience of past use by the team or other teams, including testing that the technology operates as intended, and considering its compliance with firm policies and procedures, including aspects relating to data handling and security.
Only referring to the engagement partner’s professional judgment in para. A58, when dealing with specific technological resources that are not covered by the firm’s policies or procedures, could benefit from some additional guidance.

8. Academics

AAA-ASC

We support the identification of technological resources that the engagement partner has responsibility for determining if and how to use in connection with the audit engagement (paragraphs A56-A58). As described in our Overall Commentary, we also agree with the Board’s concerns about the potential for auditors’ overreliance on technology. This idea is consistent with recently expressed regulatory concerns in the United States (e.g., Harris 2017). However, there is at least an equal likelihood that auditors may under-rely on advanced technologies used in the audit. Audit firms are currently making substantial investments to build advanced cognitive technologies to assist with evidence gathering activities traditionally performed by human specialists (e.g., Alliott Group 2017). Consistent with research in psychology and management science (e.g., Eastwood, Snook, and Luther 2012; Dietvorst, Simmons, and Massey 2015; Yeomans, Shah, Mullainathan, and Kleinberg 2017), emerging research in auditing and accounting finds auditors rely less on their own firm’s evidence when it comes from an artificial intelligence system rather than from a human specialist (Commerford, Dennis, Joe, and Wang 2019). We therefore encourage the risk of under reliance also be considered in ED-220. Specifically, paragraph A56 could be modified to, “Inappropriate use of such technological resources may however increase the risk of overreliance or under reliance on the information produced for decision purposes…”

UNSW

In addition, we note a number of instances where the focus on threats to, and to a lesser extent, facilitators of, audit quality are reflected in the provision of specific examples (e.g., paragraphs A27, A29, A33, A43, A62, A72, A82). We are concerned that the inclusion of these examples limits the responsiveness of the standard to quality innovations arising from, for example, a better understanding of audit quality, advances in technology, changes in the audit environment, practitioner experience and research findings. In particular, there is a considerable amount of research currently being undertaken with a view to helping auditors exercise an appropriate level of professional skepticism. This research will likely reveal new and innovative ways in which the requirements of the standard may be implemented to fulfil auditor responsibilities as they relate to the exercise of professional skepticism. As presently drafted, it will not be possible for the proposed standard to be responsive to these likely developments. We raise for the IAASB’s consideration the option of guidance, associated with, but issued separate from the standard, as a means of providing the examples illustrating exemplars of actions fulfilling the requirements of the standard. With such an approach, the exemplars may be updated over time to reflect advancements in achieving audit quality without having to re-open the standard.

Q4B – Disagree with Scope of Guidance

3. National Standard Setters

CNCC-CSOEC

What has been included in ED-220 about the use of different audit delivery models and technology is light. These are increasingly important aspects of delivering audits and will become even more widespread in the years to come. If these suites of standards are going to be fit for tomorrow then these aspects need to be more fully considered by the IAASB.

MAASB

We acknowledge the IAASB’s effort to not only cover human resources involved in an audit engagement, but also the technology and intellectual resources. However, we do not agree that ED-220 deals adequately with the modern auditing environment in terms of technology. Further example on how automated tools and techniques are used in audit
engagement would be helpful. We would also like to further understand the IAASB’s Data Analytics Working Group’s efforts in terms of exploring the use of technology on audits and how the discussion has contributed to the development of this standard.

4. Accounting Firms

NSW

Given the fast-changing nature of technology, and the different levels of usage by different sizes of firm, we understand the IAASB’s desire not to be too specific in this area. However, if the IAASB’s intention is to encourage the improvement of audit quality through greater use of technology, in our view the language in ED-220 is too general to achieve this.

5. Public Sector Organizations

ACAG

ACAG does not believe ED-220 provides sufficient guidance to deal with the modern auditing environment, given the current and increasing use of different audit delivery models and techniques.

ACAG acknowledges the guidance in paragraphs A56 – A58 on the use of technological resources on engagements. This is high level and does not help the engagement partner ensure the quality of audit evidence generated through existing or upcoming technological resources.

ACAG recommends the IAASB provide additional practical guidance for engagement partners in the form of what they should consider / be mindful of, when:

- assessing the work/conclusion of specialists that use technological resources on the engagement (in cases where the engagement partner does not have the skills to do so)
- evaluating or analysing the output of technological resources.

AGSA

No, although the standard mentioned the use of technology, more material is required on the impact thereof on the engagement manager’s responsibility. In most cases the engagement partner will use the technology provided by the firm and would not be able to evaluate adequacy thereof.

6. Member Bodies and Other Professional Organizations

CalCPA

Where is this discussed? Engagement Resources paragraphs 23-26? If yes, it’s too oblique. The application material in A52 – A67 has more, but it’s pretty general and really just scratches the surface. In all it’s very principles-based language. This may a place where a tighter tie-in to firm level resources is needed.

FSR

Especially, we believe more guidance is needed to recognise the potential impact of technology on the execution and review of audit work and the importance of the firm’s system of quality management in supporting the use of approved technology. For example, if the firm has developed a tool for identifying higher risk transactions, the engagement team would likely need to place reliance on the firm’s processes for developing and maintaining tools that are reliable and fit for purpose. We think it would be helpful to specifically recognise this linkage with the firm’s system of quality management in the application material in this section.

9. Individuals and Others

CAA-TAS
The ED does not address the Partner’s responsibility when it comes to the use of technology for example some network firm or firm procedures may dictate application control testing or IT expert testing which the audit team may not have specialized understanding of. According to our experience most EPs tend to file reports without application of the results from the specialists or firm technology due to a lack of understanding of how the results impact their audits. The standard need to be explicit and specific on the EPs responsibility in responding to technology risks and circumstances for each engagement based on a full understanding of any of the technology used in the engagement.

We are of the opinion that the ED does not address how technology can be leveraged to achieve sufficient and appropriate involvement by the EP when it comes to monitoring of the engagement especially if the EP is absent since the ED made submission that engagement team can working on the same engagement whilst they are in different location(s).

We do not believe that the ED comprehensively the issue at stake especially in light of instantaneous changes in innovation and technology which has amplified audit risk e.g. bitcoin (cryptocurrency).