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Submitted via IAASB's website

Zurich, 15 February 2017

IAASB's Request for Input: "Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics"

Dear Sir

We thank the IAASB for the opportunity to give our view on the important subject of the use of technology in auditing in general and data analytics in particular. We hereafter provide you with our comments on your respective Request for Input: „Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics".

We as EXPERTsuisse - the Swiss Expert Association for Audit, Tax and Fiduciary – represent some 5,000 Swiss certified auditors, tax and fiduciary experts as well as some 900 professional services firms managed by them. Our members are directly affected by the implications which are discussed in your document.

In principle, we welcome that the IAASB is reflecting this important subject and especially the implications that the developments in the area of data analytics could have on the different International Auditing Standards (ISAs) and how it will affect the audit methodology as a whole. We encourage the IAASB's endeavours to include technological innovation in the International Standards on Auditing, which, as you note, were composed in a different technological era.

EXPERTsuisse has the following overall comments (we refer directly to the respective paragraph in the IAASB paper):

Ad 1)
Data analytics is already in use today and auditors are often in situations where technology is developing faster than the standards and guidance on how technology impacts the auditor's work and especially the transaction testing. Consequently, we encourage the Data Analytics Working Group of the IAASB to develop short-term guidance for the auditors in terms of recommendations, manuals or practice notes, before revising the relevant ISAs as this is a rather long-term project. Guidance on how data analytics fits into the current risk based audit model and how data analytics can substitute other recognised audit procedures is deemed important

for the profession.

Ad 5)
Stakeholder expectations regarding the use of technology in the financial statement audit are evolving. On the other hand, it could be that the expectation gap of stakeholders even expands as they expect that the auditor identifies and reports every single outlier (material or not), if the full population of data is tested or could be tested.

The usage of data analytics and process mining technologies might – to a certain extent – replace the audit approach of sampling. The results of such new techniques can provide added value to stakeholders.

Ad 7)
We do agree that data analytics may improve the auditor's understanding of the organisation, its business and IT processes. The use of data analytics is another option for auditors in using Computer Assisted Audit Techniques (CAATs).

Ad 8a)
This aspect holds true in the digital age, and thus data should - in any case - require validation of completeness, accuracy and reliability, independent of its origin.

Ad 8d)
The effective use of technology can support the auditor in obtaining sufficient and appropriate audit evidence. However, when stating that "100% of the population is tested" means only that the whole population of transactions were 'analysed', but not to conclude that this corresponds to "100% tested" or "100% confirmed". This could lead to an overconfidence of technology and will increase the expectation gap.

It would be useful if the IAASB would develop criteria to support the auditor in identifying under which preconditions it will be advisable or not to apply data analytics. In general, there is a risk that an audit performed by using data analytics could be regarded as being of a different quality than one that is based on the current audit evidence model.

Furthermore IAASB should give guidance on how far data analytics can compensate audit evidence in the current audit model within ISA and whether data analytics itself is sufficient enough to obtain appropriate audit evidence. When testing for instance Accounts Receivables with data analytics, does the auditor still have to require confirmations from third parties? Is a third party evidence likely to be a better source of evidence than an inquiry of management or an observation of the application of a control or even data analytics?

Ad 11)
In principle, the use of data analytics can increase the effectiveness of an audit. However, the use of data analytics will not necessarily and by itself lead to a more efficient audit approach. It is currently unclear whether audit evidence derived from data analytics alone is appropriate or should be accompanied by other audit procedures based on the current audit evidence model.

There is a certain threat when using data analytics tools that all exceptions detected have to be followed up, which would finally lead to inefficiency. The principles of the ISAs should be

adopted in a manner that, with the use of data analytics, the auditor, based on his professional judgement, still focuses on the most relevant exceptions in terms of the risk based approach used in the audits of financial statements.

Ad 12)

We do not believe that the principles of the ISAs should completely be rewritten due to techno-logical advancements and developments in data analytics. Data analytics and process mining should be incorporated in the existing ISA methodology and its audit risk model.

Besides our comments above, we generally suggest that the following aspects should be taken into consideration:

a) It is our impression that the challenges that come with "continuous audit" as an aspect of the growing use of technology are currently not in depth covered in your Invitation to Comment. Questions in this context could involve the following issues:

    i. Technology might provide the ability to automatically and instantaneously audit the going concern assumption of an entity. Ideally the ("remote sitting") auditor is alerted from the client's accounting system as soon as the balance sheet of the client shows a capital loss or a situation of overindebtedness. One might ask if this influences the auditor's duty to respond to such critical situations (especially in the context of existing national capital maintenance regimes) or if it constitutes a duty for the auditor to continuously draw the client's attention to errors.

    ii. Auditing could evolve from "after the occurrence of events" to "simultaneously with the event" to "making sure preventative measures are implemented in the system before the event". The question is therefore how this would influence the auditor's responsibility.

    iii. Auditing simultaneously or even before the event (see above) will affect the way auditors interact with their clients. The client could be influenced in the prepara-tion of the financial statements by being audited on a continuous basis. There might be an increasing risk that the auditor is influencing the preparation of the financial statements without intent. It has to be challenged whether this might in-fluence stakeholders' perception of independence.

    iv. Continuous auditing could also open new ways to incorporate an element of un-predictability into the audit (cf. ISA 240 par 29(c)) by having the possibility of log-ging into the client's system at any time.

    v. Last but not least, and this seems to be a fundamental if not philosophical ques-tion: If auditors are more and more adapting to a continuous audit approach, what will this mean for the auditor's reporting? Will it still be regarded appropriate to merely report on the audit once per year or will an annual report be regarded an anachronism? Is the auditor of the future still providing assurance on financial statements / financial data as the output of the client's finance function or will the auditor (additionally or even exclusively) provide assurance on controls, ERP and accounting systems?

b) The potential implications of blockchain technology on businesses and the audit function have not been addressed in your Invitation to Comment and we urge the IAASB to reflect on this aspect.

c) Not all companies, especially SMEs and SMPs, are ready to apply a data analytics audit approach. Data analytics imply the existence of data extraction tools and ERP and bookkeeping systems at the client's side allowing for data extraction. Secondly, the audit firms' data extraction and data analytics software packages may not be compatible with IT systems applied at the client's side. Therefore, data analytics should be – at least in the foreseeable future – considered to be just one possible concept to conduct an audit. Furthermore, the auditor may choose to test only a sample of the full population even though he would be capable to test the entire population.

d) The growing use of technology has also an impact on data protection, the storage and retention of data, especially in cross-border audits. The trend towards cloud computing is also an important topic for our profession with respect to permanent data access, data security and the predominant aspect of data confidentiality (professional secrecy rules). Although these are not primarily issues in the context of data analytics we suggest to the IAASB to take these points into consideration.

e) The use of data analytics tools could also have an impact on the auditor's communication in general, either in the short-form report or long-form report to those charged with governance. Such reports might be complemented by graphics, tables and diagrams which visualize the results of the audit. This could be a chance for the profession to refine the current reporting and to gain an improved perception by the stakeholders due to differentiation.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them further, please do not hesitate to contact us.

Kind regards

EXPERTsuisse

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Dr. Thorsten Kleibold
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