



Australian Government
Auditing and Assurance Standards Board

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Mr Matt Waldron
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International Federation of Accountants
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Dear Matt,

AUASB Submission on IAASB Request for Input, Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics

The Australian Auditing and Assurance Standards Board (AUASB) is pleased to comment on the Request for Input (RFI) from the IAASB's Data Analytics Working Group (DAWG).

The AUASB is strongly supportive of this initiative, particularly given the growing use of technology and the increasing importance of data analytics in the conduct of assurance engagements. We commend the comprehensive and robust analysis provided in the RFI, in addressing the opportunities and challenges facing assurance practitioners and standard setters. Given this, the focus of our response will be to highlight the key issues identified by the AUASB and its stakeholders.

In formulating its response, the AUASB has sought input through the hosting of two roundtable meetings with stakeholders from a broad range of backgrounds including practitioners, regulators, professional accounting bodies, education bodies, academics, and public sector representatives. The roundtable sessions provided valuable insights into the varied use of and perspectives on data analytics, by the Big 4 firms, small to medium practitioners, government, academia and regulators.

There was enthusiastic consensus that data analytics are being used, and their use will continue to grow, with the potential to transform the audit profession. However, as explored in the RFI there are significant challenges being faced by practitioners, in particular in understanding how audit evidence derived from the use of data analytics are compliant with the current ISAs, and demonstrating compliance with existing standards. The lack of guidance and clarity on this matter is significantly impacting the efficiency of the audit process, and has the potential to inhibit the use of data analytics in the future. There was broad concern about regulatory scrutiny, and the need for standard setters to provide practical guidance on how the use of data analytics can improve audit quality and efficiency. There was also broad agreement in relation to regulatory challenges faced by the auditing profession if standard setters don't act quickly.

The following key points were identified by the AUASB and its stakeholders for the IAASB's DAWG's consideration, which are elaborated on further in the attached response:

- In the shorter term prioritise the development of principles based guidance on how data analytics can be applied within the existing auditing standards framework. In particular, how the use of data analytics complies with the requirements of ISA 500 *Audit Evidence*, ISA 520 *Analytical Procedures*, and ISA 530 *Audit Sampling* (for example how outliers are assessed when a population is analysed).
- Given the fast moving change in this area, practitioners should be given the opportunity to explore alternate approaches without being in fear of regulatory repercussions.

- In the medium term consider the need to revise these auditing standards to accommodate the diverse range of current and future data analytic techniques. The IAASB should continue with a principles based approach to standards setting to avoid the risk of being out-dated.
- The need to work closely with regulators in each jurisdiction to reduce the risk of adverse findings during audit inspection and surveillance programs. Options such as “regulatory sand boxing” via flexibility in relation to existing regulatory frameworks needs to be progressed.

The AUASB’s responses to the specific questions asked in the request for input are included in this letter as Attachment 1.

Should you have any queries regarding this submission, please do not hesitate to contact Anne Waters (awaters@auasb.gov.au) or Mark Dowling (mdowling@auasb.gov.au).

Yours sincerely,



Merran Kelsall
Chairman

Attachment 1 - AUASB Submission on IAASB Data Analytics Working Group RFI – Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics

(a) Have we considered all circumstances and factors that exist in the current business environment that impact the use of data analytics in a financial statement audit?

Response.

The AUASB and its stakeholders are satisfied that the RFI has adequately captured most key circumstances and factors in relation to the use of data analytics in a financial statement audit (including: data acquisition, conceptual challenges, legal and regulatory challenges, resource availability, regulators and audit oversight authorities and the re-training and re-skilling of auditors). The key issues in relation to impacts on the SMP/SME community were also well addressed.

Based on feedback received from the AUASB and its stakeholders who attended our roundtable sessions, we provide the following additional circumstances and factors for consideration:

- There is an expectation from clients and other stakeholders that auditors use data analytics and have appropriate skills to effectively use technology in the financial statement audit. This will assist in the continued and increasing use of data analytics by auditors.
- The importance of professional judgement, professional scepticism and critical thinking should be continue to be emphasised, as these are integral in determining the appropriate data to use, the procedures to perform, the relevance to the audit, the nature of audit evidence, and evaluation of the results of data analytic procedures.
- Additional consideration of newly emerging technologies such as the use of audit procedures utilising artificial intelligence (machine learning) and the use of automated self-learning controls (providing a continuous audit).
- Additional content in relation to the use of data analytics on non-financial data (including implications for the reporting of non-financial information such as greenhouse gas emissions).
- The need to determine the relevance and reliability of internal and external data, and what and when procedures need to be conducted before reliance can be placed on the completeness and accuracy of the information.
- Small to medium practices are likely to use third party developed tools to perform data analytic procedures. Consideration should be given to providing guidance on the level of and nature of procedures that should be performed to assess the relevance and reliability of these tools. Issues in relation to the ownership of the software and related IP need to be considered.
- Issues around data ownership, transfer, privacy and retention are important for auditors to consider and manage.

(b) Is our list of standard-setting challenges accurate and complete?

Response.

The AUASB and its stakeholders found that the RFI identifies the key standard-setting challenges (including regulatory considerations) well. In particular, we emphasise:

- The nature of audit evidence obtained via data analytics and whether the current distinction in the auditing standards between risk assessment, controls testing and substantive procedures is relevant when using data analytics. These are important matters to be addressed by standard

setters. Data analytic procedures can cross over these areas and be used as dual or triple purpose procedures.

- Regulatory risk has been identified as a key issue and we believe this has the potential to be a major deterrent to the increased use of data analytics in the audit. This issue was particularly raised by small and medium sized practitioners.
- Matters relating to education and training are also critical and there was agreement on the importance of standard setters working closely with academics to ensure the currency of accounting and audit curriculums through an increased focus on data analytics. The education of regulators was also considered to be an important factor.

(c) To assist the DAWG in its ongoing work, what are your views on possible solutions to the standard-setting challenges?

Response.

The AUASB and its stakeholders agreed that the RFI provides solid coverage of possible solutions. Discussion at our roundtable sessions and additional feedback obtained from our board members, identified the following areas for prioritisation:

- In the shorter term development of practical guidance on the use of data analytics including the extensive use of examples for all stages of the audit. Stakeholders raised challenges in relation to sampling in particular, in addition they also raised risk assessment, testing of controls, and audit evidence as areas in need of guidance. Our stakeholders were of the view that prioritisation should be given to ASA 530 *Audit Sampling* and the following standards:
 - ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* (including clarification of whether analytical procedures provide any audit evidence.)
 - ASA 230 *Audit Documentation* (including retention requirements for internal and external data and re-performance of tests based on point in time data.)
 - ASA 330 *The Auditor's Responses to Assessed Risks* (including when controls testing, substantive testing (including tests of detail) are required to be performed and whether this is still appropriate when using data analytics to analyse a population.)
 - ASA 500 *Audit Evidence* (how data analytics can provide relevant and reliable audit evidence and for what assertions, and the use of information produced by the entity.)
 - ASA 520 *Analytical Procedures* (determining the reliability of information, and the requirement to set an expectation.)
 - ASA 530 *Audit Sampling* (appropriateness of the current requirements and guidance in relation to deviations or misstatements identified when using data analytics when analysing a population for controls and substantive testing. The current approach to the determination of thresholds and sampling risk may need to be revised.)
- Increased collaboration with regulators with a view to providing clarity in relation to the application of auditing standards, with a focus how data analytics can be used to provide sufficient and appropriate audit evidence in relation to substantive procedures. The stakeholders were concerned that regulators in Australia are likely to adopt a rigid approach in relation to this and are likely to stick closely to the auditing standards in this area (e.g. the continued use of traditional sampling procedures). The stakeholders were supportive of the concept of a “regulatory sandbox” or “safe haven” to enable additional exploration in relation to alternative audit procedures. The Australian Securities and Investment Commission (ASIC) has used a regulatory sandbox approach in the financial services sector as a means of

facilitating innovation and improving customer experiences. We would be pleased to provide more information in relation to regulatory sandboxing if required.

- Providing clarification in relation to the extent of testing of general IT and application controls and the impact on the use of data analytics (including the ability to rely on information generated by the organisation subject to audit as well as information produced by third parties). The stakeholders are keen to understand what level of testing is required before they can utilise client or third party provided information in data analytics procedures.
- The need for guidance on the impact on existing data documentation and retention requirements given the real-time nature of data analytical procedures. The stakeholders expressed concern in relation to their potential exposure in regards to re-performance requirements, privacy and other regulatory issues (including non-financial regulators).
- Going forward, the revision of auditing standards needs the adoption of a principles based approach in relation to the use of data analytics. Changes to auditing standards need to accommodate the diverse range of current and future techniques to avoid the risk of being out-dated.

(d) Is the DAWG's planned involvement in the IAASB projects currently underway appropriate?

Response.

Whilst the AUASB and its stakeholders are encouraged by the level of involvement to date, our stakeholders are of the view that the data analytics project be given an increased priority in the current IAASB work plan given its pervasive impact on the current auditing environment and the rapid evolution of technology. The stakeholders expressed their concern that any further delays will have a significant impact on the economics of an audit. Our stakeholders were also of the view that further delays are impacting client expectations in relation to provision of value added information obtained through the use of data analytics. There is also a risk that non-audit practitioners will fill the gap in this area (e.g. accounting software providers) and obtain a first mover advantage.

(e) Beyond those initiatives noted in the Additional Resources section of this publication, are there other initiatives of which we are not currently aware of that could further inform the DAWG's work?

Response.

The AUASB agrees with the NZAuASB submission that the IAASB should consider output from the International Organisation of Supreme Audit Institutions Data Analytics Working Group.

- (f) *In your view, what should the IAASB's and DAWG's next steps be? For example, actions the IAASB and DAWG are currently considering include:*
- (i) *Focusing attention on revisions, where appropriate, to ISAs affected by the IAASB's current projects.*
 - (ii) *Exploring revisions to ISA 520*
 - (iii) *Hosting one or more conferences with interested stakeholders to collectively explore issues and possible solutions to the identified challenges*
 - (iv) *Continuing with outreach and exploration of issues associated with the use of data analytics in a financial statement audit, with a view towards a formal Discussion Paper consultation in advance of any formal standard-setting activities.*

Response.

The AUASB and its stakeholders support the above steps and welcome the move to extend beyond short term guidance to the more formal approach of revising the auditing standards. Per our responses above, the prioritisation of these steps is vitally important and eagerly anticipated.

Refer above to the other standards we believe should be considered for revision.