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International Auditing and Assurance Standards Board  
529 5th Avenue, 6th floor  
10017, New York  
US  
Paris, 6 March 2017

Ref: JBO.BNB.CBO.20170090

Subject: IAASB’s Request for Input: Exploring the Growing Use of Technology in the Audit, with a focus on Data Analytics

Dear Sir,

The Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l’Ordre des Experts-Comptables (CSOEC) are pleased to provide you with their comments on the IAASB’s Request for Input, Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics.

Traditional audit methods served auditors for decades but as technology advances and stakeholders’ expectations evolve, so does the need for auditors to innovate and transform their approaches in order to keep pace with demand.

The IAASB’s discussion paper is really well thought. It presents a good synthesis of the insights into the opportunities and challenges with the use of data analytics in the audit and outlines the insights gained from the DAWG’s activities to date.

We support the IAASB’s efforts to focus on technological innovation and its potential impact on International Standards on Auditing (ISAs) which, as you mention, were written in a completely different technological era. However, we believe that the IAASB should be careful not to prematurely commence standard-setting activities related to data analytics, especially if doing so could have unintended consequences, such as restricting innovation. We reiterate the need for principles rather than rules based approach to standard setting.

We are convinced that new technologies, especially the use of audit data analytics, can offer opportunities for audits of entities of all sizes. Nevertheless, not all audit firms are at the same level of sophistication as far as the use of technology is concerned. With the possibilities that data analytics are increasingly opening up, there is an increasing need for standard setters to ensure flexibility in audit standards rather than prescribing e.g. specific sets of procedures. We also note that different entities have different levels of sophistication in terms of their financial reporting and accounting systems and internal controls, which needs to be factored into the auditor’s approach.

Responses to the specific questions raised in the Consultation Paper are set out below.

If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours faithfully,

Jean Bouquot  
President of CNCC

Philippe Arraou  
President of CSOEC
Respondent Information

Question 1:

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?

In the discussion paper, the IAASB has considered a number of circumstances and factors that exist in the current business environment that impact the use of data analytics in a financial statement audit. However, we consider that the IAASB should further focus on the data circulation, data privacy as well as the legal and regulatory challenges.

- Paragraph 18(a) mentions data acquisition as a challenge for the use of data analytics. We consider that the IAASB should further consider practical issues such as the reluctance by the company being audited to give direct admission to live operational systems. In such circumstances, the auditor or IT specialist have to spend time negotiating with the IT department of the client to allow them to access the certain data. There might also be reluctance by other firms (such as component auditors) in a group audit to provide access to the infrastructure of their tools.

- Paragraph 18 (c) mentions concerns regarding data security and privacy, but also jurisdictional law and regulation that, in some cases, prohibits data from leaving the jurisdiction with which the entity is located. The transfer of data to information technology (IT) facilities that are located outside of jurisdiction of the entity may therefore be a concern for the auditors, particularly for international group audits. However, in practice, the entities have found solutions to overcome such prohibitions since information and data circulate in multinational groups or entities which use the services of services organizations. Accordingly, this matter should not be an issue for the auditors.

We therefore recommend the IAASB to focus on the groups practices to overcome the issue of legal and regulatory challenge and provide requirements applicable in all jurisdictions.

The IAASB could further elaborate on the fact that if data analytics is being seen to effectively test 100 percent of the population, then there is a risk that this would reduce the interaction between the auditor and the client about the nature of some of the operational day to day activities, and hence actually reduce their understanding of the entity. We also note that different entities have different levels of sophistication in terms of their financial reporting and accounting systems and internal controls, which needs to be factored into the auditor’s approach.

Question 2:

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

We consider that the list of standard-setting challenges is accurate and presents a good summary of the main challenges encountered by the auditor. We have however identified few other areas where the IAASB could have referred to or clarified in the paper. These are listed here below:

The paper should provide a clearer explanation of what is meant by “Data Analytics” and the difference with “Big Data”. The IAASB could refer to the definitions provided by the Centre for Financial Reporting reform, (“CFFR”), in its document entitled Audit Data Analytics: Opportunities and Tips:

- “Big data” is an evolving term that describes large amounts of complex data coming from a variety of sources and processed at high velocities. “Big data” itself has very limited value until it has been mined and explored further for information.
- “Data analytics” is the process of examining raw data with the purpose of drawing conclusions and supporting decision making. Data analytics is used by many companies to make better business decisions, predict future outcomes and manage risks.

- The discussion paper should also deal with education and IT skills, i.e. initial education for students as well as on the job training for auditors in audit firms. We believe that there is a real need to enhance education and skillset of auditors to follow innovations at the same pace as audit practices and encourage innovation in order to progress audit quality;

- The paper discusses in paragraph 19(e) how data analytics should be classified in relation to obtaining sufficient audit evidence and whether these procedures represent substantive audit tests and/or tests of controls. Moreover, if they are classified as substantive, does that require further tests of controls on a sample of the population even though 100 percent of the population has already been tested? Correspondingly, where the auditors are expected to test 100 percent of the population but turns out that they are not able to do so i.e. because of hurdles in getting the right data format form from the client, we wonder what percentage will be considered reasonable for the auditor to obtain confidence that the audit evidence is sufficient; do we return to traditional sampling techniques?

- Paragraph 19(g) deals with the appropriate level of work effort to perform when exceptions have been identified. Due to the potential effects in such cases, we consider that the IAASB should place more emphasis on the necessity for the auditor to appreciate, before deciding to use data analytics, the aim he wants to reach, the assertions he wants to verify and the extent of work he will have to perform in case of exceptions identified;

- The discussion paper should also address the subject of exceptions in light of fraud. It should specify that the use of data analytics does not eliminate the fraud risks, especially in case of collusion. This is why the IAASB should focus on the understanding of the entity’s control activities, and especially general IT controls that maintain the integrity of information and security of data;

- Auditors aside, there is also a growing interest from businesses to analyze their own data in a similar manner. The discussion paper does not make any reference to the audited entity’s functions use of data analytics. However, this will have a direct impact on the work of an auditor. Another challenge is therefore posed where the internal audit function of the audited company or the management have integrated data analytics tools into their processes. Management’s expectations might increase in relation to the focus and scope of external audit. The auditor may also encounter difficulties upon evaluating if and how their work is reliable and can be used as forms of audit evidence or face data protection and independence issues. The effectiveness of their work could be determined predominantly by the quality of the information that has been reviewed by the management and internal auditors;

- The IAASB should also tackle the following issue: from a standards’ and regulator’s perspective, is an audit performed with the use of data analytics higher quality than the other that did not use it?

Question 3

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

Based on the challenges listed, we are of the view that the auditing standards need to remain suitably principles based so that auditors whatever their location and environment can scale their procedures to the audited entity’s circumstances, firm’s audit methodology as well as degree of technology available. We do not support the solution that would consist in producing a specific standard. Moreover, not all audit firms are at the same level of sophistication as far as the use of technology is concerned. With the possibilities that data analytics are increasingly opening up, there is an increasing need for standard setters to ensure flexibility in audit standards rather than prescribing e.g. specific sets of procedures.
We believe that the priority for the IAASB is to provide specific guidance that would address the following issue:

- How to deal with the implications of analysis of 100 percent of a population?
- What kind of audit evidence does data analysis provide, e.g. whether further substantive audit procedures/control tests have to be performed beyond data analysis, impacts of the work to perform in case of exceptions;
- Consider data analytics impact on the concepts of inherent and control risk;
- Consider the impacts of data Analytics on each requirement. For example, we have identified that ISA 230 was not listed in paragraph 41 whereas we consider that the use of data analytics may have impacts on this auditing standard;
- Consider the limits of data analytics, i.e. the necessity for the auditor to challenge the results obtained (e.g. the way tools are used in practice, the data used, the method of calculation retained, ...) and the importance of professional scepticism in such circumstances. The guidance should also highlight the limits of the IT experts. Before using the mechanism of data analytics, it is crucial for the auditor to understand the clients' business and environment. IT skills are not enough.

Question 4

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

We agree with paragraph 42 that mentions that the IAASB must be careful not to prematurely commence standard-setting activities related to data analytics, especially if doing so could have unintended consequences, such as restricting innovation. We reiterate the need for principles rather than rules based approach to standard setting.

Although some application guidance is needed as a matter of urgency, as tools and techniques mature, there will ultimately be a need for a more detailed review of standards themselves.

Question 5

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?

Yes there are other initiatives that could interest the DAWG. These are listed here below:

First, the Compagnie Nationale des Commissaires aux Comptes has developed a specific technology solution based on data analytics methods to "facilitate" the audit the SMEs. This tool is called SmartFEC. This technology was developed on the basis of the files that the entities have to produce to the French tax authorities, i.e. the Fichier d'Ecritures Comptables (FEC files).

Since January 2014, all companies that keep their accounts by means of a computer program have to produce audit documentation in the electronic format prescribed by the French tax Authorities. Entities are therefore required to create and archive the FEC and make it available to tax auditors in case of audit by the French tax authorities. Similar to a journal entries files, the FEC has to contain data of all accounting transactions for a given fiscal year and meet the standards codified by the French tax authorities.

The tool runs with Excel and contains pre-programmed IT request. It enables auditors, who have installed it on their computers, to perform data analysis based on the FEC files. Smart FEC is available for free download on the CNCC web site.

Then, we can mention the publication of the Center for Financial Reporting Reform relating to the audit Data analytics and the one of the FRC entitled Audit quality thematic review - the use of data analytics in the audit of financial statements.
Question 6

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

We believe that the next steps for the IAASB’s and DAWG’s should be to tackle the following issues:

– The blockchain technology

Blockchain promises a world where all transactions can be logged, viewed and monitored in real time. There are potential implications for a wide variety of sectors and professions, not least accountants and auditors.

– Artificial intelligence and robotics

Artificial intelligence has already been implemented in multiple industries. Many industries are already using robotic process automation systems to crunch numbers and sift data on a daily basis. Robotic Process Automation is also used in industries where precision in repetitive tasks is important, such as book-keeping, financial processes, but also manufacturing processes.

These recent advances in technology may also have implications for the auditors.

However we consider that these issues should not delay the ongoing project of the IAASB’s Data Analytics Working Group.

Question 7

Please provide any other views that the IAASB has not yet considered in relation to the use of data analytics in a financial statement audit.

We fully support that auditors, audit oversight authorities, standard setters and other stakeholders need to work together in exploring how the use of data analytics could support enhanced audit quality.

As mentioned here above, we also encourage the IAASB to focus on education and ongoing training for students but also auditors.

*ISA 520 – Analytical Procedures