



November 28, 2016

By e-mail: [Edcomments@ifac.org](mailto:Edcomments@ifac.org)

Hunter College Graduate Program  
Economics Department  
695 Park Ave.  
New York, NY 10065

International Federation of Accountants  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, NY 10017

**Re: Exposure Draft of Exploring the Growing Use of Technology in the Audit, with a focus on Data Analytics**

To Whom It May Concern:

The Advanced Auditing class (Eco 775) at Hunter College Graduate program in New York City appreciates the opportunity to comment on this exposure draft.

The class discussed the above proposed exposure draft and have attached our comments. If you would like additional discussion with us, contact Professor Joseph A. Maffia, at 212-792-6300 ext 404.

Sincerely,

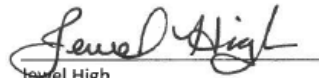
Professor Joseph A. Maffia, CPA

**Hunter College Graduate Program  
Economics Department  
Advanced Auditing Class  
Eco 775**

**COMMENTS TO THE INTERNATIONAL AUDITING AND ASSURANCE  
STANDARDS BOARD ON EXPLORING THE GROWING USE OF  
TECHNOLOGY IN THE AUDIT, WITH A FOCUS ON DATA ANALYTICS  
EXPOSURE DRAFT**

**November 28, 2016**


**Principal Drafters**

  
\_\_\_\_\_  
Jewel High

  
\_\_\_\_\_  
Nat Harriott

  
\_\_\_\_\_  
Tracey Spurr

  
\_\_\_\_\_  
Sarah Davies

  
\_\_\_\_\_  
Christine Poh

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Economics Department  
Advanced Auditing Class  
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**GENERAL COMMENTS**

The Advanced Auditing Class has reviewed the above-referenced IFAC Exposure Draft and offers the following comments for consideration by the International Auditing and Assurance Standards Board. Please note that our comments can be separated into two main categories: response to IAASB's question pertaining to the business environment and limitations in the current audit standards.

**Response to the Business Environment Question:**

We thank you for the opportunity to comment and would like to briefly address whether the IAASB's Data Analytic Working Group has considered all circumstances and factors that exist in the current business environment that impact the use of data analytics in a financial statement audit. Today data analytics gives auditor unprecedented access to a company's information that auditors have never been privy to before. With this new access comes an increase in population size. Ordinarily when an auditor audits a company's books he may have 75% of the information whereas data analytics gives the auditor access to the entire population for the specific audit period. This means that auditors now have the ability to test the entire population in a lot less time than it used to take. The auditor can then draw a conclusion from the entire population especially when using key software like IDEA to stratify the entire data. This begs the question, is sampling still needed when an auditor has electronic access to the entire population?

Data acquisition is the number one challenge for auditors especially when data comes from multiple systems. Currently the ISA does not have a requirement for means of which data is obtained. One recommendation to ensure that data is not corrupted or contaminated is to require that the data be transferred via a secured site/network or via a

VPN (virtual private network). If this option is too costly the other alternative is to utilize an encryption of the data transferred.

Another very important aspect of the challenge posed by circumstances in the business environment was the limitation of staff members' experience and background with data analytics. For years accountants have studied systematic approaches with an underlying need to exercise judgement based on rules to determine appropriate application of standards. With limited changes to accounting academia throughout the years, it will be necessary for accounting firms to provide on the job training for both experienced auditors as well as those newly recruited; a task that has enormous potential to become costly and inefficient for the firm's resources. For those hours spent on training could be spent with a client providing services.

New standards should be manageable regardless of the size of the firm. As suggested in the publication, the larger the firm the more resources available to hire or train. Enabling those firms to advance and excel further than those lacking the money or staff or such long projects. This is strongly linked to why it is important to prepare accountants in education. By preparing industry wide standards and implementing them, all auditors can develop skills necessary to perform audits effectively and efficiently.

Data analytics is undoubtedly uncharted waters. This is unlike anything that the industry has experienced prior, but times are changing and it's important that the audit framework remains relevant. With that in mind, we believe the IAASB's Data Analytic Working Group has considered all circumstances and factors that exist in the current business environment that impact the use of data analytics in a financial statement audit. Is data analytics alone sufficient for assessing risk? Today most transactions are stored electronically. Often approvals review and sometimes sign electronically via a data warehouse. All this information is traceable creating an audit trail, which is vital in testing controls. The auditor is still required to test the completeness and accuracy of the data. IT professionals from both the firm and client must strive to work together to overcome conceptual challenges and ensure that systems are producing reliable data.

#### **Limitation in Current Audit Standards:**

In today's world of rapidly innovative changes to technology, the IAASB is faced with the ability to modernize standards that were created based on rules and regulations dating back to the 1930s. However, in this 21st century the auditor still uses limited technology to deliver audits. The development of technology benefits the audit process, especially in data analytics. This is effective when technology enables the auditor in obtaining sufficient and appropriate audit evidence. However, the current audit standards are limited in its ability to incorporate technological advances that optimize audit results.

Auditors encounter various types of programs used by companies, which is often customary to their business. In order to guarantee that the output is correct, it is necessary to start with verifying accuracy of the data. This is then used to determine validity of data analytics. To ensure a high-level assurance quality of the financial statement audit and provide users the comfort they should expect when relying on the reports to make

business decisions, it is very important that the IAASB and DAWG work together on this extremely complex project. Any changes need to essentially accommodate for developments of the future, all while maintaining an auditor's ability to provide reasonable assured opinions. With the proper considerations, data analytics has the capabilities of enabling auditors the tools to provide more efficient audits.

The scope and timing of audit engagements relate mainly to the size and complexity of the engagement, and because of this, there are no explicit standards as to the information and data availability that client's supply to auditors. This poses a challenge in regards to gathering evidence and information to analyze data and patterns in extracting useful data on the subject matter. Information is usually gathered and audited once a year and audit data may be analyzed long after economic events are recorded. The continuous audit is a methodology that enables auditors to get a better picture of the client's data throughout the audit period. The continuous audit methodology provides information that would otherwise not have been captured, and it provides a major step in the right direction of gaining information that can be analyzed to better depict the true position and nature of the client's financial and nonfinancial situation. There are several faults that make the continuous audit method less effective. The continuous audit needs to be implemented at the beginning of the fiscal or calendar year to accurately gather data for the full audit period, which is not feasible in some situations. Analyzing partial data that is gathered from a continuous audit methodology beginning after the audit period has commenced will not provide auditors with clear information that will allow the auditors to model or visualize the information for planning purposes or for performing the audit.

While some scholars argue that the continuous audit method is not necessary for every client, there needs to be a streamline process that allows auditors to gather data to fully understand the scope and timing of the engagement. Having a standard for accurate and timely data will create much more information from the data gathered throughout the process of the continuous audit. With more stringent guidelines on information required to be analyzed and reviewed, auditors will be able use data analytics in a way that will allow the auditors to make more sense of data. When the auditors have a clear depiction of clients' financial positions, it will lead to investors making more informed decisions from the accurate and complete information supplied by auditors and gathered through the continuous audit method.

We respectfully submit these comments with the hopes that the final decision of the Federation is in the best interest of the profession as a whole. Should you desire further explanations, please do not hesitate to contact us.