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15 February 2017

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Dear Sir / Madam

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

Moore Stephens LLP is pleased to respond to the IAASB Data Analytics Working Group paper 'Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics'.

Attached to this letter you will find Appendix 1 with our comments on the contents of the paper.

If you wish to discuss any matters raised in this letter then please contact Steve Williams, Partner (+44 (0) 207 651 1952) or David Chopping, Partner (+44 (0) 207 651 1050).

Yours faithfully

Moore Stephens LLP

Appendix 1

Response to Request for Input – Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics

| Ref | Observation |
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| 1. | <p>The paper outlines a number of factors encouraging adoption of data analytics:</p> <ul style="list-style-type: none"> • Factors that determine the need for a risk-based audit approach, including technology limitations and increased complexity; • Changes to the technology in use at clients • Changing stakeholder expectations <p>We note that the technology to analyse the data, and the skills needed to do this, are becoming far more accessible to audit firms. There remains a challenge to re-train existing audit staff in data analysis, but many ‘new joiners’ already have the skills needed to perform basic data analysis.</p> |
| 2. | <p>The definition of ‘data analytics’ and, in particular, the difference between traditional CAATs and data analytics is unclear. While the reader will understand the basic principle, it is difficult to consider specific solutions to challenges posed by adoption of ‘data analytics’ in audit unless we’re absolutely clear on what ‘data analytics’ is.</p> |
| 3. | <p>The paper outline a number of circumstances and factors to be considered when designing an audit approach using data analytics, which we broadly agree with.</p> <p>However, in the challenges outlined, an assumption is made on the importance of general IT controls in relation to the financial statement audit.</p> <p>While an understanding of the IT process controls is important to understanding the entity and its internal control environment, we are not convinced that general IT controls as described offer a logical basis for supporting an audit approach based on data analytics.</p> <p>In our view, general IT controls are often considered to support an audit reliance on the operating effectiveness of programmed controls and as such are geared towards verifying a homogenous technology environment to allow a test of design and implementation to be extrapolated over the audit period. This differs significantly from measures to verify the ‘adequacy’ of information used to support an audit based on data analytics.</p> <p>So, for example, would proving the operating effectiveness of general IT controls really provide assurance over the completeness and accuracy of data used to support the data analytics. If so, what implied opinion is being given by IT auditors by confirming the operating effectiveness’ of general IT controls.</p> |

| Ref | Observation |
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| 4. | <p>The paper discusses challenges relating to information produced by the entity and how to ensure appropriate quality of information. We consider that this leads to two challenges:</p> <ul style="list-style-type: none"> • How to define data of appropriate quality in the context of a financial statement audit. For example, should the auditor fully understand the provenance of the data and the corresponding controls over quality before designing audit procedures? What parameters should the auditor use to determine data quality? How should the auditor consider materiality in the context of a complex information process? This is related to the assertion in 3. That testing general IT controls is an appropriate means to test this data quality. • Management's role in ensuring this data quality. Management has responsibility for maintaining internal controls over financial reporting. We assume that this responsibility extends to maintaining the quality of information used to monitor performance in as much as it relates to the financial statements, but are unclear as to how management should actually do this. |
| 5. | <p>The title of the paper is 'exploring the growing use of technology in the audit, with a focus on data analytics'. While we appreciate this implies a lot of discussion on data analytics, there appears to be little else relating to the growing use of technology in the paper. We consider that there are other topics which also warrant discussion (e.g. machine learning, artificial intelligence, nonlinear automated decision making).</p> |