



# Grant Thornton

**February 15, 2017**

International Auditing and Assurance Standards Board  
International Federation of Accountants  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York, NY 10017

Antony Nettleton  
Global Leader – Assurance Services  
**Grant Thornton International Ltd**  
Grant Thornton House  
Melton Street, Euston Square  
London, NW1 2EP  
United Kingdom  
T +1.312 602 8740  
F +1.630 886 1399  
www.GTI.org

Via IAASB website at [www.iaasb.org](http://www.iaasb.org)

## **Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics**

Dear Board Members and Staff:

Grant Thornton International Ltd appreciates the opportunity to provide input on the International Auditing and Assurance Standards Board's ("IAASB" or "Board") Request for Stakeholder Input – Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics ("Request for Input").

The use of, and reliance on, data is fundamental to a financial statement audit. Advancement in technology has led to a significant increase in the availability of data and the development of new "tools" to analyze that data. Establishing the relevance and reliability of the data and understanding the evidence provided by using these new tools is one of the biggest challenges that faces the profession. The data can be structured or unstructured and can be obtained from a number of different sources, including those external to the firm. Further, not all available data will be relevant to the financial statements. The performance of a data analytic technique, requires the underlying data to be both relevant and reliable. For internal data, this may require consideration of how a control deficiency will affect the ability to use a data analytic technique or how it will affect the audit evidence gained from its use. For external data, this may require consideration of alternative sources and the scale of the data, for example an isolated data point may not be a sufficiently reliable source.

It will also be important to understand the cost / benefit ratio from the performance of data analytic techniques. We will need to understand the potential improvement to audit quality, including whether the data analytical techniques can be applied in a scalable manner, the areas of the financial statement audit where the auditor will obtain the most evidence from performing the data analytic, and the potential benefit that stakeholders may derive from the performance of such techniques.

We are of the view that the performance of data analytic techniques represents another step forward in the continuous improvement of the performance of quality audits. However, it is important to establish the sufficiency of audit evidence that can be provided by a data analytic technique and appropriately integrate such techniques in the body of audit work, which may

ultimately result in the reduction or replacement of some of the more traditional audit procedures performed in a financial statement audit.

Data analytical techniques may also represent a move towards the performance of continuous audits, where such techniques may be used to identify the transactions that need to be further tested. To effectively and efficiently facilitate continuous auditing, it may be necessary to develop means to ensure secure remote access to the client's systems and data.

For auditing and assurance services to remain current and relevant, it is imperative that data analytical techniques are defined in the auditing standards and that consideration is given as to whether changes would be needed to the auditing standards to clarify evolving interpretations of the types of audit procedures, for example what constitutes a test of detail. Any proposed updates to the auditing standards will need to be sufficiently principles-based to allow future innovation in this area.

We respectfully submit our detailed responses to the IAASB's Request for Input which are enclosed. We would be pleased to discuss our comments with you. If you have any questions, please contact Sara Ashton at [sara.hm.ashton@uk.gt.com](mailto:sara.hm.ashton@uk.gt.com) or at +44 207 728 2236.

Sincerely,



Antony Nettleton  
Global Leader – Assurance Services  
Grant Thornton International Ltd

Enc Responses to request for comments

## Responses to Request for Input

The following provides our input in response to the IAASB's requests for stakeholder input on the IAASB's publication: *Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics* (Request for Input).

### QUESTIONS

**(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?**

The circumstances and factors included in the Request for Input represent a comprehensive and well described list of current circumstances to be considered. Additional circumstances and factors that may be considered include those related to the reliability of data, the standardization of techniques and the recruitment model as follows:

*Reliability of data* – Challenges may exist in assessing the reliance that can be placed on the opening balances in an entity's financial statements in situations where there is a change in the auditors of that entity. For example, to assess the opening balances, an understanding of any data analytic techniques employed by a predecessor auditor may be necessary. However, these data analytic techniques may be unfamiliar to the successor auditor or the successor auditor may not possess expertise in these techniques.

*Standardization of techniques* – The interpretation and definition of the procedures that constitute data analytic techniques is currently wide and varied. It is important to emphasize that data analytic techniques consist of many different methods and techniques, each of which may be used for different purposes and provide varying levels of audit evidence. Challenges may exist in developing a consistent understanding and definition of what data analytics comprise, how these different techniques can be applied in different circumstances and the evidence that they contribute.

*Recruitment model* – In addition to the investment in re-training and re-skilling auditors, it may also be necessary to consider a fundamental change to the way in which many firms operate. The use of data analytical techniques may result in the need for audit teams comprised of members with a range of different skill sets in addition to those in audit, for example, team members that are data scientists, and as such may change the way in which firms recruit, train, and staff audit engagements. The profession may also have to consider how to work with schools and universities to ensure that the next generation of recruits are receiving appropriate and relevant education.

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

The list of standard-setting challenges included in the Request for Input appropriately focuses on the relevance and reliability of data, the audit evidence it provides and the documentation required. The challenges explored in the Request for Input represent the more important challenges, however, further standard setting challenges may also include:

- Audits of the financial statements of a group – consideration of how the application of data analytical techniques would be different in group situations, including whether data analytical procedures could change the approach to auditing groups such that the identification of components and the use of component auditors is no longer necessary.
- Use of an auditor's expert – evaluation of whether the use of a data analytics professional would be considered the use of an auditor's expert under ISA 620, *Using the Work of an Auditor's Expert*.
- Definition of an exception – it will be necessary to reconsider, as a profession, what is meant to be an exception. Using data analytical techniques, it will be possible to analyze 100% of a population instead of performing audit procedures on a sample of that population. This analysis may involve applying various filters to the population to identify groups of transactions that may be considered "notable." A further analysis of these notable items may be required to find the "true" exceptions.
- Categorization of exceptions – exceptions identified from the performance of the data analytic techniques is also important. Where an identified exception is indicative of fraud, consideration may need to be given to the reliability of the underlying data. However, data analytical techniques may also be more effective in identifying potential fraud exceptions.
- Results of the data analytic technique – conversely, the filtering and analysis of a population may result in no exceptions. This may be especially true in situations where low risk groups of transactions are identified within a population. Guidance would be required to determine what type of additional procedures, if any, should be performed on that population.
- Classification of the type of procedure – traditional auditing procedures are currently classified into risk assessment procedures, test of controls and substantive procedures, including tests of details and substantive analytical procedures. Data analytical techniques can cut across all of these types of auditing procedures. Consequently, determining the type of procedure the specific data analytic technique represents and the type of audit assurance provided by the technique may become redundant. The auditing standards, in particular ISA 315 *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*, ISA 330 *The Auditor's Responses to Assessed Risks*, and ISA 500 *Audit Evidence*, may need to be updated to recognize this.

- Limited assurance engagement – other standard setting challenges outside of audit include challenges related to the application of data analytical techniques in a limited assurance engagement, for example, well run data analytical techniques may provide sufficient support for a limited assurance engagement.

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

We are supportive of the process outlined in the Request for Input and agree with the issues and actions as outlined.

As we noted above, currently no consistent definition of data analytical techniques exists. What constitutes a data analytical technique and the uses of that technique may mean different things to different stakeholders and similar data analytical techniques may be used for different purposes at different stages of the audit. Further, we note that the differentiation between an analytical procedure under ISA 520, *Analytical Procedures*, and a data analytical technique may at times be blurred. Providing clarity in this area would be a logical next step, would form the foundation of any future standard setting and would help to drive better solutions to standard setting issues. This could, in part, be achieved by:

- clarifying the relationship between an analytical procedure and a data analytical technique;
- analyzing practical examples of data analytical techniques, the type of data analytical technique employed and the evidence obtained from its performance to assist in the identification of issues encountered in performing data analytical techniques and thus provide a more informed basis from which the IAASB could provide more practical guidance; and
- recognizing that an analytical procedure or a data analytical technique may initially be considered a risk assessment procedure but as the procedure is further refined and modified, it may become a substantive procedure.

Also as noted above, the classification of the type of procedure that a specific data analytical technique represents a potential challenge to the existing auditing model and for standard setting. As an alternative to classifying the type of audit procedure that a data analytical technique represents, an explicit statement could be included in ISA 500 *Audit Evidence*, that an effective risk assessment data analytical technique supported by effective controls may constitute sufficient appropriate audit evidence. Further, guidance including examples of the type of data analytical techniques that could be performed at each stage of an audit could be provided.

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

Yes, the DAWG's planned involvement in the IAASB's current projects is appropriate. A similar level of involvement in the upcoming ISA 500, *Audit Evidence* project, will be crucial to the success of that project and in furthering consistency in the use of data analytics.

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

We are not aware of any current initiatives in addition to those identified.

**(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, *Analytical Procedures***

**(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 agree with the proposed actions outlined above. We are of the view that the potential uses and implication of data analytical techniques in a financial statement audit are still being explored and, as such, the DAWG should commence with the proposed actions in (iii) and (iv), continuing stakeholder outreach, including through hosting conferences and exploration of data analytical techniques in a financial statement audit, as a matter of priority.

As discussed in our response to (c) above, we are of the view that a better understanding of available and emerging data analytical techniques, how they are being used, and the audit evidence they provide should be obtained before consideration of updates to the ISAs.