Data Analytics and Current EDs

Auditors play a key role in contributing to the credibility of the financial statements on which they are reporting. In an ever-changing world, the IAASB needs to ensure that the International Standards are fit for purpose – no matter what auditors face.

Feedback from stakeholders indicates that the current ISA standards are not ‘broken’ and do not prohibit the use of technological advances in the performance of an audit. However, and equally important, feedback also indicates that practitioners are seeking guidance from the IAASB on how to best apply the ISAs and that current standards should be modernized as projects to revise standards are undertaken by the IAASB.

Below are some areas where the IAASB is reflecting technology in its standards.

**ISA 315 (Revised) ED**

In the proposed standard the IAASB noted the need to explicitly recognize the importance and the use of automated tools and techniques to perform risk assessment procedures. The proposed standard includes examples of how these automated tools and techniques are used to perform various risk assessment procedures. For example, using technology to perform procedures on large volumes of data to provide information that is useful for the identification and assessment of risk of material misstatement. Such procedures may also provide evidence to support the conclusion that the possibility of a material misstatement is remote.

**Quality Management Standards**

The IAASB developed application material related to automated tools and techniques for the new quality management standards at a firm level (ISQM 1) as well as at the engagement level (ISA 220). Examples include explicitly recognizing technological resources as an input to the assurance process and the use of automated tools and techniques in the assurance process. Proposed ISA 220 (Revised) also notes that inappropriate use of such technological resources may increase the risk of overreliance on the information produced for decision purposes, or may create threats to complying with relevant ethical requirements.

“The use of data analytics in an audit of financial statements will not replace the need for the auditor to exercise appropriate professional judgement and professional skepticism.”

Background

The IAASB established the Technology Working Group (originally known as the Data Analytics Working Group) in mid-2015 as a way to inform the Board on how and when to respond to developments in technology most effectively in the public interest. Since its inception, the Working Group has performed outreach with various stakeholders.

The Working Group’s activities have also included monitoring and gathering information on the various applications of data analytics and the relationship to the financial statement audit (such as the effect on risk assessments, testing approaches, analytical procedures and other audit evidence). And in 2016, the Working Group published a Request for Input (RFI) with targeted questions for stakeholder response. The feedback from this RFI was published in January 2018 in the form of a Feedback Statement.

(Please follow the link for the RFI and Feedback Statement by clicking the pictures below)
The IAASB believes that its work on technology goes beyond data analytics. Below are relevant information and articles on the use of artificial intelligence in the audit of financial statements:

- **A CPA’s Introduction to AI: From Algorithms to Deep Learning, What You Need to Know**, Source: American Institute for Certified Public Accountants
- **Transforming audit and interaction with AI**, Source: Institute of Chartered Accountants of Scotland
- **AI Optimizes Intel’s Business Processes: An Audit Case Study**, Source: Intel
- **Process Audit: How to Prepare Your Team for AI**, Source: Tenfold
- **Practice Q&A: Audit and AI**, Institute of Chartered Accountants in England and Wales
- **The impact of Digital and Artificial Intelligence on audit and finance professionals**, Source: Association of Chartered Certified Accountants

**Interaction with Other Groups**

The Working Group is interacting with similar groups set up by other standard-setting boards and committees.

- The IESBA recognized that there is a pressing need within the global accountancy profession to better understand and address the implications of technology trends and developments on the role and responsibilities of both professional accountants in business and in public practice. In Response, the IESBA established the Technology Working Group in January 2018 and approved the *Working Group’s Terms of Reference* at its December 2018 meeting.
- The IFAC Global Knowledge Gateway has a Technology section, which includes over 300 articles, videos and resources, including the Guide to Practice Management, which was recently updated with a new module on ‘Leveraging Technology’. The IFAC Technology Advisory Group (TAG) focuses on raising awareness on emerging technology trends and issues impacting business and the global accountancy profession. It recently held a webinar on Data Analytics.