

IAASB Data Analytics Working Group
Request for Input

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

response to request for input

15 February 2017

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As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

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Our ref: Responses/ 170215 SC0232

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International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
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Submitted electronically
February 2017

Dear Matthew Waldron

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

CIPFA is pleased to present its response to this publication, which has been reviewed by CIPFA's Accounting and Auditing Standards Panel. In providing our views, we have had regard to the experience of current and former staff of the national audit agencies in the United Kingdom, both in the mainstream audit of financial statements and in specialist IT functions and user groups.

CIPFA welcomes this paper – it is certainly worth considering whether current ISA drafting remains relevant in changing operational environments, having regard to all the tools available to auditors. Nevertheless, CIPFA considers that the risk based approach to the audit of financial statements remains valid, and we do not see data analytics as posing significant challenges to the risk model. We see the challenges of implementing data analytics and evaluating the results as primarily methodological. Standards should continue to be drafted mainly in terms of the evidencing objectives/requirements, rather than process or methodology.

We therefore do not consider that ISAs are urgently in need of amendment to reflect the growing use of technology. Indeed, we consider that redrafting of ISAs would be premature except where required to address unintended drafting consequences of current practices, and would be best progressed as part of IAASB's general improvement of ISA standards in ongoing projects.

ISAs need to be read with intelligence and understanding, and applied with judgment, just as they do when more traditional testing is undertaken. Based on what we have seen so far, we do not see data analytics as providing a new category of evidence that needs to be handled differently. The main potential benefit from data analytics is that it can provide better information; sometimes it provides information more quickly and with less effort. Both of these offer scope for better, higher quality audits, and scope for improved added value, but we do not see them as affecting the conduct of the audit under ISAs.

CIPFA strongly agrees with the discussion in paragraph 8 of the paper, on the limitations of data analytics. We particularly support 8(a) which explains that auditors need to have a clear understanding of the data they are analysing: we would add that it is essential for the auditor to have gone some way toward obtaining an understanding of the business before undertaking data analytics – data analytics cannot be the starting point for the auditor's understanding. The discussion at 8(d) around 'potential overconfidence' also resonates strongly, especially as in some discussions with proponents of data analytics we have been concerned that the

significant analytical capabilities of software might lead practitioners to equate proofs of apparent consistency with proofs of substance.

Some of the problems articulated (for example, in connection with outliers) seem to be at a methodological level, and for these items the solution is in methodology, not through changes to ISAs. In the same way that ISA 530 does not set out detailed methodology for sampling and the evaluation of sample test results, it would not be appropriate or practical for ISAs to provide detail on the application of data analytics techniques for testing and evaluation. Auditors will need to use their understanding of the risk based approach, probabilistic and other techniques for the evaluation of evidence, and auditor judgement. Insofar as the main users of data analytics are the large accountancy firms, the technical teams should be well placed to promulgate standard practices for the use of their DA tools, and to provide guidance on implementation and evaluation. In some cases it might be possible for higher level issues to be addressed in Practice Statements or other IAASB educational material, but only if the problems and solutions identified are of a sufficiently general nature. In line with our earlier comments on equating consistency with substance, CIPFA is also concerned that some of the discussion of '100% testing' is confused because the testing provides a strong consistency check but is not sufficiently directly related to the audit assertions,

Having said this, it may be that because of the way they have been drafted, some of the requirements in ISAs reflect details of traditional less-automated practice, and could helpfully be rearticulated to be more technology neutral. For example, the ISAs may envisage completion of audit steps in a particular order reflecting more traditional approaches. In these cases, perhaps the ISAs should be framed in terms of the logical dependencies involved, rather than chronological ordering. However, we would note that ISA 230 paragraph A2 already provides auditors with considerable flexibility.

Response to the Request for Stakeholder Input

CIPFA comments on the specific questions in the Request for Stakeholder Input are provided in the attached annex.

I hope this is a helpful contribution to the development of the Board's work in this area. If you have any questions about this response, please contact Steven Cain (e:steven.cain@cipfa.org, t:+44(0)20 7543 5794).

Yours sincerely

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(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?
<p>The circumstances and factors identified by IAASB include data acquisition, conceptual and legal and regulatory challenges, resource availability, regulatory oversight and the investment in re-training and re-skilling auditors.</p> <p>CIPFA has not identified any additional circumstances and factors.</p>
(b) Is our list of standard-setting challenges accurate and complete?
<p>CIPFA broadly agrees that each of the challenges needs to be addressed.</p>
(c) To assist the DAWG in its ongoing work, what are your views on possible solutions to the standard-setting challenges?
<p>As explained in our covering letter, CIPFA does not see the challenges as being primarily ones which require significant changes to ISA standards, although it would be natural when conducting other ISA improvements to confirm that the framing of the standard is technology neutral and does not inadvertently favour traditional methods over those utilising newer technologies.</p>
(d) Is the DAWG's planned involvement in the IAASB projects currently underway appropriate?
<p>Yes</p>
(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?
<p>No.</p>

(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 520.2

(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.

CIPFA mainly supports (i) pursuing improvements through the IAASB's current projects.

Having said which, (ii) ISA 520 has a natural read across to data analytics and related techniques, especially as some substantive analytical procedures are essentially carrying out 100% substantive testing through an automated process. So work on that standard could be progressed earlier.

Otherwise, we consider that it is important to continue to explore the issues to determine whether a standard setting solution is appropriate.