PKF International Limited

PKF

International Auditing and Assurance Standards Board (IAASB)
529 Fifth Avenue - 6th Floor
New York, New York
10017

15 February 2017

Dear Sirs

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

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We welcome the opportunity to comment on the IAASB's 'Request for Input – Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics' ("the paper"). We are supportive of the IAASB and the Data Analytics Working Group's (DAWG) continued efforts to improve the International Standards on Auditing.

Our responses are appended to this letter in terms of the stakeholder input and perspectives questions provided by the IAASB and DAWG. In addition, we provide some overall comments in this letter, including to additional themes not specifically addressed in the appended answers.

Of particular importance, while we appreciate the observations around the need for the IAASB to be careful not to prematurely commence standard-setting activities related to data analytics, especially if doing so could have unintended consequences - such as restricting innovation, we do urge the IAASB not to delay the process. Par. 42 of the paper states that the "journey is evolutionary rather than revolutionary", and we believe that this should apply to the standard setting. We expand on this observation in response to question (f) below.

If you would like to discuss any of our comments, do not hesitate to contact me.

Yours sincerely

Theo Vermaak

Chairman: International Professional Standards Committee
PKF International Limited

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Request for Stakeholder Input

The following contains our responses to the IAASB and the DAWG:

(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?**

Yes.

While alluded to throughout the paper, in addition to matters discussed in paragraph *18 (f): Investment in re-training and re-skilling* auditors, we suggest that a specific challenge will be the customisation of financial statement packages and accounting software, which will require the auditor to have an in-depth understanding of client-specific software to utilise the underlying data and its inter-relatedness, and to analyse the results of analytics that would yield a better understanding of the entity and an enhanced auditor's risk assessment and response. Further, insufficient understanding of the source data may lead to incorrect interpretation of the analytic results. This may require additional training and investment time for re-skilling the auditor, and provide opportunities for specialisation.

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

Yes.

While alluded to in paragraph 19, in addition to matters discussed in we suggest specific consideration of the following:

19 (e): Current risk and response nature of the ISAs, 19 (g): What is an appropriate level of work effort for exceptions identified? and *19 (h) Risk measurement -* Where data analytics are used to enhance the quality of the auditor's risk assessment, the ISAs would need to provide guidelines for defining paraments for qualitative and quantitative exceptions on determining the impact on the risk assessment at the planning stage.

19 (f): Nature of audit evidence - The structure of the ISAs requires a response to assessed risk and the gathering of audit evidence to address such risks. For assertion level risk, we believe that there is risk that the auditors may not adequately address assertions when using data analytics to obtain audit evidence. The ISAs should emphasise the linkage between audit evidence obtained through the use of data analytics and identified assertion level risk.

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

We comment below on both environmental factors and standard-setting challenges.

18 (a): Data acquisition - While the IESBA's Code of Ethics for Professional Accountants addresses confidentiality, the engagement letter can set out further protocols and responsibilities of the auditor to ensure and maintain data integrity and security. These protocols should address all forms of data transmissions. Auditor access should be "read-only" and commands should have an audit trail.

18 (e): Regulators and audit oversight authorities – The audit plan should, in sufficient detail, explain the types of data analytics to be performed, the level of reliance to be obtained from the data analytic results and the parameters for exceptions**.**

19 (a): General IT and application controls – At a minimum, general IT controls and application control procedures, should address physical and electronic access, proper segregation of duties and evidence of inspection and review of internally generated exception logs. Clear guidance will be required on the impact of deficiencies, and whether specific tests of data sets can overcome any concerns around the control environment.

19 (b): Information produced by the entity – As a secondary level of assurance, the accuracy and completeness of information produced could be included as a specifically addressed item in the management representation letter.

19 (c) Considering the relevance and reliability of external data – We believe that reliability of audit evidence obtained from an independent source outside of the entity (such as direct confirmation) should not be confused with data obtained from external data providers for the reasons cited in the paper.

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

Yes.

(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?

None identified.

(f)   In your view, what should the IAASB's and DAWG's next steps be?

While we appreciate the observations around the need for the IAASB to be careful not to prematurely commence standard-setting activities related to data analytics, especially if doing so could have unintended consequences - such as restricting innovation, we do urge the IAASB not to delay the process.

Par. 42 states that the "journey is evolutionary rather than revolutionary", and we believe that this should apply to the standard setting. Enhancements can be made to the current standards to recognise some of the challenges and risks when applying data analytics, providing principles-based guidance around many of the challenges raised in the paper, including the need to continue applying professional skepticism, the need to ensure data integrity, address the risks of confirmation bias, define parameters for dealing with exceptions, emphasising the iterative nature of data analytics and the link between risk assessment and response, etc.

Failing to do so may in fact result in restriction of innovation, especially through the impact of actions of regulators and oversight authorities, who may question the impact and results of data analytics and related documentation requirements in the absence of a recognition of the possibilities and related guidance in the ISAs.

We further suggest that basic guidance around the types of data analytics that can be performed to any computerised environment and that can provide auditors with possible tests and clear principles around documentation and audit trails, would be of great assistance in the interim.