

February 15, 2017

IFAC Small and Medium Practices Committee Response to the IAASB's Request for Input, *Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics*

INTRODUCTION

The SMP Committee (SMPC) is pleased to respond to the IAASB Data Analytics Working Group (DAWG) on the Request for Input, *Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics*. The SMPC is charged with identifying and representing the needs of its constituents and, where applicable, to give consideration to relevant issues pertaining to small-and medium-sized entities (SMEs). The constituents of the SMPC are small-and medium-sized practices (SMPs) who provide accounting, assurance and business advisory services principally, but not exclusively, to clients who are SMEs. Members and Technical Advisers serving the SMPC are drawn from IFAC member bodies representing 22 countries from all regions of the world.

One of the three main activity areas of the SMP Committee is to develop and share practical guidance with a focus on implementation of international standards, practice management, and business advisory services. For example, the IFAC [Guide to Practice Management for Small- and Medium-Sized Practices](#) has been developed and is being updated in 2017. This includes a new chapter on technology and e-business, which incorporates topics such as cloud computing, cybersecurity, software and hardware options, as well as new and emerging technologies. In addition, the 2017 IFAC SMP-SME Work Plan specifically includes developing and sharing intelligence on the impact of technology developments on SMPs.

The SMPC welcomes and supports the DAWG's work to explore effective and appropriate use of technology, with a focus on data analytics, in the audit of financial statements and that the IAASB has an open mind as to the way forward. Given the stage of the project, we have limited our response to primarily high-level comments. We note the inclusion of considerations specific to audits of SMEs and of SMPs and look forward to providing more in-depth input on these areas in particular, as the work of the DAWG progresses.

OVERALL COMMENTS

Technology Developments

We agree that technology change is occurring at a rapid pace and is creating many challenges, threats and opportunities for the accountancy profession. An awareness of data analytics issues is critical for SMPs, especially given its potential to transform the existing audit model, increase audit effectiveness and improve client services. The [2014 Global SMP Survey](#) (5,083 responses from 135 countries) found that the majority of SMPs predicted that each of the six different technologies presented would have at least a moderate impact on their practice over the next 5 years. The area considered to have most impact was 'Business Intelligence and Data Analysis Software and Tools' (47% high and very high impact).



The types of techniques currently being developed and used by larger firms have not yet been adapted for widespread use in smaller firms, anywhere in the world. However, some providers of widely used auditing software are attempting to adapt tools developed for other sectors and to integrate them with their standard audit software packages. Others, including start-ups are developing bespoke data analytics software for the SMP market and others again are adapting existing data extraction and validation techniques to the SMP market. It will be some time before it becomes clear as to which, if any, of these approaches takes root, and how that affects the audit services provided by SMPs. It seems clear however, that practitioners unaware of these developments will be disadvantaged. There is a lot of ‘noise’ around data analytics and some SMPs are, understandably, somewhat skeptical. In order to address these concerns, it is critical that communication about the use of data analytics focuses on the basic mechanics of the various approaches, and not just on the purported benefits of enhanced audit quality, efficiency and productivity.

The *2016 Global SMP Survey*¹ (5,060 responses from 164 countries) found that technology developments was second (after the regulatory environment) as the factor that respondents believe will most impact their practice over the next five years. Notably it is up at 52% (high or very high impact) from 43% in 2015. In addition, 31% of respondents reported that ‘Advances in Data Analytics’ is having a high or very high impact on their practice. There were significant differences due to the size of practice (e.g. sole practitioners compared to those with 21 or more partners) and location, which are factors the DAWG may wish to consider as the project moves forward. For example, technology issues were, in general, viewed as having the greatest impact on African SMPs, with the anticipated impact over the next five years viewed as highest in Central and South America. It is important to remember in this context that some IFAC member bodies are still dealing with issues arising from the lack of a reliable power supply or possibly, reasonable internet speed and low levels of implemented IT systems.

Resource Challenges

Some of the key challenges identified in the Request for Input of resource availability and training of auditors are even more pertinent in an SMP/SME environment. SMPs are only likely to make the necessary investments in expertise, hardware, software, and customized data analytical tools on a collective basis due to the costs involved, and because of the potential loss of billable hours in the short-term and uncertainty of the return on investment. If software providers do not develop tools and solutions which are accessible, easy-to-use and affordable to encourage SMPs to adopt such technologies, data analytics will not develop in this sector. The IAASB should consider the need to engage with providers, including professional bodies on this issue.

The Request for Input notes that the IAASB has a public interest responsibility to develop both standards and guidance. In the short-term, priority could be given to developing guidance (e.g. a staff Q&A publication) on how data analytics fits within the existing standards to allow practitioners to have comfort when they are using the techniques ahead of any changes being made to the ISAs. In addition, we consider that guidance

¹ The 2016 Global SMP Survey Report is due to be published in March 2017.



and education is the responsibility of other stakeholders, including IFAC Member Organizations. These should be encouraged to undertake activities such as continuing professional education programs, raising awareness of data analytics and encouraging the developments of data analytics tools in the market place, by providing a forum for providers to address SMPs, and by providing basic information about the nature of data analytics and its potential role in audits, including its limitations.

Education is needed on information technology, statistics and data modeling, but it is important to recognize that widely used spreadsheets such as Excel now provide both basic and more advanced data analytics tools at relatively low cost for those who are prepared to learn how to use them. Software platforms such as Tableau and Qlik, used by some large firms as a basis for their proprietary data analytics offering, offer free and low cost versions to smaller businesses generally and SMPs will already be learning about these developments from their clients.

We also believe that data analytics provides an excellent opportunity to address some of the concerns about talent recruitment and retention in the accountancy profession and can be used to highlight the attractiveness of a career in audit and assurance.

Standard-Setting Challenges

We support the acknowledgment of the linkages with the International Accounting Education Standards Board (IAESB) and International Ethics Standards Board of Accountants (IESBA) and believe that the coordination of any relevant activities is important going forward.

The list of standard-setting challenges seems accurate and complete. In general, we strongly encourage the DAWG to be cognizant of the potential impact of any future developments on both SMEs and SMPs and ensure that future proposals are proportional.

The Request for Input notes that academic studies on the role that data analytics can play in enhancing audit quality are underway. Recent research by the Financial Reporting Council (FRC) [*The Use of Data Analytics in the Audit of Financial Statements*](#) found that the use of data analytics in the audit is not as prevalent as the market might expect in the six largest UK audit firms. It is likely to be far less in smaller practices. As SMPs make up the majority of firms in public practice, it is important that the DAWG has the necessary information and a comprehensive evidence base on firms of all sizes in order to fully inform its deliberations about the way forward.

Next Steps

We agree that the use of data analytics in the audit of financial statements is at an early stage and there is a risk that without more information, making wholesale changes to the ISAs in the near-term may have unintended consequences (including obstructing innovation). Nevertheless, the pace of change is fast and it is beholden on the IAASB to ensure its standards remain “fit-for-purpose” over time and that it remains “ahead of the curve”, so that audit remains relevant and is a valuable client service. In our view, a back to



basics, objectives- and principles-based approach to standard-setting is now more necessary than ever, especially to prevent the ISAs being out of date as soon as they are updated. Therefore, at this point in time, we believe that it will be appropriate for the IAASB to expand or develop guidance in this context rather than looking to revise the existing requirements.

In general we support the DAWG approach to have an active involvement in some of the current IAASB projects and the continued exploration of issues associated with the use of data analytics in a financial statement audit. In addition, as data analytics is distinct, some believe it may present an opportunity for the IAASB to demonstrate innovation outside of the existing standards, as well as considering more holistically how audit and assurance may need to evolve in the future.

Additional Resources

Other initiatives that could further inform the DAWG's work includes research by the Institute of Chartered Accountants Scotland (ICAS) and the UK FRC, which has investigated the skills required for the audits of the future:

- [*Skills, Competencies and the Sustainability of the Modern Audit*](#)
- [*The Capability and Competency Requirements of Auditors in Today's Complex Global Business Environment*](#)

CONCLUDING COMMENTS

We hope that the IAASB finds this letter useful. We are committed to helping the DAWG in whatever way we can to build upon the results of the Request for Input. We appreciated the opportunity to provide feedback as part of conference call in April 2016 and would welcome further such calls if it is helpful as the project progresses.

Please do not hesitate to contact me should you wish to discuss matters raised in this submission.

Sincerely,

A handwritten signature in blue ink that reads 'Monica Foerster'.

Monica Foerster
Chair, SMP Committee