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Ms. Kathleen Healy
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, New York 10017
USA

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

Dear Ms. Healy,

BDO International Limited¹ (BDO) is pleased to have the opportunity to provide input on the International Auditing and Assurance Standards Board (IAASB) Request for Input: *Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics*. We found the document to be informative, thought-provoking, and to have largely captured the critical issues and opportunities surrounding data analytics as they exist within both the current financial reporting environment and current International Standards on Auditing (ISAs). Our input on the paper and the proposed future course of action of the IAASB follows. Given the complex nature of data analytics and interdependencies across a number of areas, we have chosen not to directly align our responses with the questions posed in the paper.

Overall Response - As mentioned above, we believe that the paper has identified the most challenging areas currently facing practitioners intending to use data analytics tools and techniques in audit engagements. In addition to the factors and circumstances cited in the paper, we believe the work to be performed by the Data Analytics Working Group (DAWG) and the IAASB around data analytics would be enhanced through consideration of the following:

Actions - We agree with the view put forward in the paper that the current ISAs neither prohibit nor promote the use of data analytics. However, the increasing availability of data as well as analytical technology and tools have advanced so rapidly, and will continue to do so, so the posture within the ISAs of neutrality on data analytics is likely to create more challenges in the future. As these challenges are laid out within the paper, and given the outreach already performed by the DAWG and IAASB, we would recommend that efforts are now directed towards the impact of data analytics on the ISAs.

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Holistic view of data analytics - There are certain aspects to data analytics which we believe should be emphasized during the standard setting process. The paper appears to us to focus on *financial* data analytics. There are also technologies which allow for analysis of text and process flows, which are also being used within audits. Given the potential for these technologies to provide the auditor with completely new perspectives on audited entities, we believe that it would be in the public interest to include these technologies in your considerations as to where the ISAs need to be revised.

Placement within the ISAs - As noted within the paper, data analytic techniques can start off as a risk assessment procedure and transform into an evidence gathering procedure. The capacity of data analytic techniques to crossover planning and execution phases of the audit also creates a potentially blurred distinction between requirements that have traditionally been separated within the ISAs. Even within the performance of an individual data analytic technique, there is fluidity between the nature and sequencing of the activities being performed. In this regard, any changes or new requirements within the ISAs designed to address these techniques will need to consider that fluidity and ensure that the appropriate framework is established to recognize this reality, either:

- Within one ISA that addresses such techniques pervasively; or
- Across revisions to several ISAs (for instance ISAs 315², 330³ and 520⁴).

Using the Work of Internal Auditors - As data analytics technology is increasingly available to practitioners performing external audits, it has also become available for use by management and internal auditors of entities in carrying out their responsibilities of analyzing, controlling, and preparing financial information. In many aspects, there is overlap in the procedures performed by both an external auditor and an internal auditor. ISA 610⁵ should also be revisited to ensure that there are no factors which would unintentionally or unnecessarily inhibit the external auditor's ability to rely on the work of internal audit as it pertains to data analytics.

Audit Documentation - We believe that ISA 230⁶ should be among the ISAs revisited as part of the data analytics project. It could be that the definition of audit documentation may need to be revisited. Further consideration may also need to be given by the DAWG and IAASB about whether there is a need for additional guidance to help engagement teams document data analytic procedures in order to meet the 'experienced auditor' understanding threshold contained within ISA 230.

Additional Considerations - Following our recent response to the IAASB's Invitation to Comment and our other responses to IFAC standard setting boards (SSBs), we would encourage the DAWG and IAASB to continue to work with the other SSBs in order to ensure that data analytics is not considered solely in an ISA context, but also reflects an:

- Educational perspective - whether additional learning outcomes or expertise are required as part of Continuing or Initial Professional Development; and

² ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*

³ ISA 330, *The Auditor's Responses to Assessed Risks*

⁴ ISA 520, *Analytical Procedures*

⁵ ISA 610, *Using the Work of Internal Auditors*

⁶ ISA 230, *Audit Documentation*

- Ethics perspective - whether there are additional matters for consideration in terms of competence requirements, confidentiality of data as well as potential data protection issues as technology continues to develop.

Should you have the need for further detail behind our thinking on any of the foregoing observations, please do not hesitate to contact me.

Yours sincerely,
BDO International Limited

Chris Smith
Global Head of Audit and Accounting