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Mr Bob Dohrer
Chair
Data Analytics Working Group
International Auditing and Assurance Standards Board
New York

Dear Mr Dohrer

COMMENTS ON IAASB PAPER – EXPLORING THE GROWING USE OF DATA TECHNOLOGY IN THE AUDIT, WITH A FOCUS ON DATA ANALYTICS

The Data Analytics Working Group (Working Group) of the International Auditing and Assurance Standards Board (IAASB) has invited comment on a paper *Exploring the Growing use of Data Technology in the Audit, with a Focus on Data Analytics* (the Paper).

We appreciate the effort made by the Working Group to provide information about the IAASB's work and the opportunity to comment on the Paper. We are pleased that the IAASB is promoting discussion about the implications of technology, in particular data analytics for audit of financial statements.

Our observations about the likely effect of data analysis on a financial audit are based on carrying out our financial statement audits (which include the audit of non-financial performance information) and performance audits. We attach brief responses to the questions raised by the Working Group in Appendix 1 to this letter. However, our substantive views are as set out below.

We congratulate the Working Group on a timely publication, which we found a useful and thorough discussion on a range of data analysis issues. Through our work we experience many of the issues outlined in the Paper, which we are working to find solutions to. For instance, in our performance audits we are dealing with questions such as when we have a complete, but very large, dataset, when and how to apply statistical procedures. In our annual audits, performance measurement information presented often uses information generated or owned by other entities and so we have practical experience of addressing the question of the circumstances and procedures by which auditors can rely on this information.

In our view, the main omission from the Paper relates to the non-financial performance information that accompanies financial information in the financial statements. In some ways exploring the relationship that exists between financial and non-financial information has the effect of confirming the integrity of both information sets (or otherwise). In addition, analysis of both financial and other datasets offers the potential of providing analytical support to the judgement an auditor is called upon to make in reaching an audit opinion. As a result, although at present analysis of other datasets tends to occur as assurance services in addition to the audit, our view is that data analysis within an audit will increasingly encompass other entity data sets, in addition to financial system data.

In our view, other datasets are likely to become increasingly important in supporting the audit as evidence. Immediate examples of such data include asset management, human resources and contract management information systems. However, as data analysis expectations and practices stabilise and become mainstream, we anticipate that such variation analysis will become standard practice ways of assessing risk and carrying out systems based financial audits.

In our view, exploring this relationship in an annual audit will challenge current understandings about the 'currency' of evidence being reasonably relied on in carrying out audit procedures and change the way that statistical procedures are used in an audit. At present, data analysis such as variation and exception analysis, uses the data generated by the entity during the time period over which the audit gives assurance. Statistical procedures are used primarily to establish the sample size that should be reviewed in audit testing.

In our Parliamentary reporting on the results of our annual audits and in our performance audits, we are increasingly incorporating standard financial ratio analysis, comparing entities in a single year and over time series. Our view is that time series and comparative data, along with statistical procedures over these is also likely to develop in the context of our audit assurance. In particular, such analysis should provide evidence and analytical support for auditor judgements, for instance on matters such as going concern and the reasonableness of valuations.

Overall, we agree that the approach of the IAASB needs to be evolutionary rather than revolutionary. However, although there has been a burgeoning effort into transaction variation analysis, significant effort has not yet been directed into understanding how the annual audit can be carried out more effectively or efficiently to give assurance.

It is important for the future of the profession that the IAASB remains active in scanning and anticipating how this disruption can be directed to shape the future of annual audits so they continue to be based on objective and independent examination that gives maximum assurance to the users of general purpose information.

We look forward to the opportunities the Working Group proposes to share experiences in using data and analysis and as a result to consider the implications for auditing standards.

We trust these comments are helpful. If you have any questions about our submission, please phone me on 021 222 9751 or email me at ann.webster@oag.govt.nz.

Yours sincerely



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APPENDIX 1 – OUR RESPONSES TO QUESTIONS RAISED BY THE DATA ANALYTICS WORKING GROUP

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

The Paper provides a useful discussion of the circumstances and factors, and standard-setting challenges as they are known at this time. These circumstances and factors, and their effect on standard-setting will continue to change so the scanning and development work proposed by the Working Group is welcomed.

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

Although the Working Group has providing a useful discussion piece, we think it is early days for solutions. We suggest the emphasis of the IAASB and the Working Group should be on observing the responses of practitioners to these challenges both in performing financial audits but in other related assurance work.

- (d) *Is the Working Group'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 Working Group's work?*

The International Organisation of Supreme Audit Institutions, at its Congress in December, agreed to establish a Data Analysis Working Group. The inaugural meeting of this group will be held in April. The work and reflections of this group may eventually be of interest to the IAASB.

- (f) *In your view, what should the IAASB's and Working Group's next steps be? For example, actions the IAASB and Working Group 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.*

This list looks appropriate and useful. We look forward to the opportunity to contribute and learn from others.