

Meeting: IAASB
Meeting Location: New York
Meeting Dates: September 21–25, 2015

Agenda Item 6

Data Analytics Working Group

Objectives of Agenda Item

1. The objectives of this agenda item are to provide the IAASB with:
 - a) An update of the discussions with the IAASB Consultative Advisory Group (CAG) at its September 15 – 16, 2015 meeting;
 - b) illustrations of some actual audit procedures using data analytics techniques in the context of an audit of historical financial statements, including where the ISAs are creating practical challenges for practitioners; and
 - c) a look into what the audit of the future may hold.

Data Analytics Working Group

2. The Data Analytics Working Group (“Data Analytics WG” or “the Working Group”) is comprised of the following members:
 - Bob Dohrer, IAASB Member and chair of the Data Analytics WG
 - Fiona Campbell, IAASB Member
 - Sue Almond, Partner, Grant Thornton, United Kingdom
 - Peter Eimers, National Auditing Standard Setter (Netherlands) Representative
 - Alan Young, Partner, Ernst and Young, United Kingdom

Activities since Last IAASB Discussion

3. The Working Group has held two teleconferences to develop the material contained in these agenda papers.

Discussion at the IAASB September 2015 meeting and project timeline

4. At the September 2015 IAASB meeting, in response to feedback received from the Board at the IAASB’s June 2015 meeting (draft minutes are included in the Appendix), Mr. Dohrer and external presenters, through the presentation and discussion of a number of illustrations, will facilitate enhancing the Board’s understanding of some of the practical uses of data analytics currently being performed in audits of historical financial statements and the associated challenges with the ISAs that practitioners are encountering.

5. The external presenters at the September 2015 IAASB meeting are:
 - Miklos Vasarhelyi – Rutgers Business School and leader of Rutgers Continuous Auditing and Reporting (CAR) Lab and Audit Data Analytics work.
 - Phillip McCollough – KPMG Partner, Global Services Center and member of Rutgers CAR Lab Advisory Board
6. The IAASB's current forward timetable has Data Analytics being discussed with the IAASB as follows:
 - March 2016 – Discussion
 - June 2016 – Issuance of Discussion Paper or Similar document.
7. Subsequent to the September 2015 IAASB meeting, the Working Group will continue to perform outreach with relevant stakeholders and present, for the IAASB's consideration at its March 2016 meeting, details of the key messages from that outreach activity.

Material Presented

Agenda Item 6-A

Presentation – Audit Data Analytics

Matter for IAASB Consideration

The IAASB is asked to consider **Agenda Item 6-A** and related discussion at the IAASB September 2015 meeting and provide its views on the completeness and validity of the challenges identified within each of the illustrations in **Agenda Item 6-A**. The Working Group is not asking the IAASB to answer the questions associated with the challenges identified.

Summary of the IAASB's Discussions at its June 2015 Meeting

Data Analytics

Mr. Dohrer gave an update on the Data Analytics Working Group's (DAWG) initial activities, outreach, and plans to progress the project. The Board agreed with the topics presented for discussion and supported soliciting further input on the Data Analytics project by means of outreach to the stakeholders identified in the agenda material. In addition to other input, the Board:

- Was supportive of the general direction proposed by the DAWG and the intent to focus the WG's efforts on audit relevant data (that is, information / data areas that are relevant to the audit being performed). In relation to the proposed definition of Audit Data Analytics (ADA),¹ some members suggested considering a more narrow focus to prevent "scope creep", particularly in the context of the extent of the current stage of development of ADAs.
- Asked the DAWG to facilitate the Board's further consideration as to whether individual ISAs may be viewed as prohibiting the use of ADAs, and where changes to the ISAs could be helpful to acknowledge the use of ADAs and the benefits and challenges of doing so. The recent work of the Assurance Services Executive Committee of the American Institute of Certified Public Accountants (AICPA) in this area was noted. The Board agreed further consideration of the implications of the use of ADAs on audit quality would be helpful, as there may be an expectation that the IAASB should facilitate or encourage their use as techniques evolve.
- Was supportive of the proposed outreach to stakeholders and other proposed activities. The Board noted the importance of targeted outreach to practitioners across jurisdictions and other relevant stakeholders to explore how ADAs are used more prominently in financial statement audits. The Board noted that the input from audit regulators regarding observations from audit inspections will assist in identifying areas of concern relating to ADAs.
- Emphasized that the needs and capabilities of small and medium practices (SMPs) need to be carefully considered in the light of ADAs, specifically with respect to the types of changes that may be suggested to the ISAs or additional guidance provided. While not specifically recommended by the DAWG, some Board members expressed an initial view that mandating the ADAs would not be appropriate as a result of the potential impact on SMPs.

In addition to the abovementioned specific comments, some members of the Board emphasized caution in moving forward too quickly. The Board agreed with the WG's plans to continue to do more research and information gathering with those identified stakeholders, prior to determining whether or not changes to the ISAs are necessary or if other methods of providing guidance or direction to auditors may be appropriate.

¹ Agenda Item 3-A defined ADA as 'the science and art of discovering and analyzing patterns, identifying anomalies, and extracting other useful information in the data underlying or related to the subject matter of an audit through analysis, modeling and visualization for the purpose of planning or performing the audit.' AICPA White Paper – Reimagining Auditing in a Wired World (August 2014)

IAASB CAG CHAIRMAN'S REMARKS

Mr. Waldron noted that investors will be interested in developments in ADA as a way to understand the work performed by the auditor, in a similar way as initiated by the new and Revised Auditor Reporting standards. He suggested a focus of the IAASB's discussions on ADAs should be on the benefits to audit quality and the potential audit efficiencies that may result from their use.

WAY FORWARD

The DAWG will continue with its planned outreach activities, with a focus on understanding the use of ADAs in practice and how individual ISAs may be impacted by the use of ADAs. The DAWG will also look for opportunities to further educate the Board on how ADAs are used in practice.