

Meeting: IAASB Consultative Advisory Group
Meeting Location: New York, USA
Meeting Dates: September 15–16, 2015

Agenda Item

L

Data Analytics

Objectives of Agenda Item

1. The objectives of this agenda item are to:
 - Inform Representatives and Observers of the Data Analytics Working Group's ("Data Analytics WG's" or "the WG's")¹ views of audit data analytics, and the IAASB's discussions to date.
 - Obtain Representatives' and Observers' views on issues related to the Data Analytics project.

Project Status and Timeline

2. This is the first presentation to the CAG by the Data Analytics WG. The WG commenced its activities in early 2015 and in preparing the materials has considered previous IAASB discussions on the topic of audit data analytics, input from national auditing standard setters (NSS) at the IAASB-NSS Liaison Group meeting in May 2015 and the results of further research and input from the WG members.
3. At its June 2015 meeting, the IAASB received a presentation from Bob Dohrer, Chair of the Data Analytics WG, on the WG's initial activities, outreach, and plans to progress the project. Following the presentation, the Board provided its views on the material presented, which included a discussion between Mr. Dohrer and other IAASB Members on matters for further consideration of the WG.

Background

4. The Data Analytics WG has the remit to monitor and gather information on the various applications of data analytics and the relationship to the audit, such as the effect on risk assessments, testing approaches, analytical procedures and other audit evidence. The WG will make recommendations to the IAASB, including whether there is a need for a standard-setting response, based on the outcome of these monitoring and information gathering activities.
5. The relevance of developments in information technology (IT), including data analytics, to international standard setting has been addressed by the IAASB's stakeholders via different avenues,

¹ At its April 2013 meeting, the IAASB approved the [Terms of Reference](#) of the Innovation Working Group (previously the Innovation, Needs and Future Opportunities Working Group). The Innovation Working Group has the remit to explore emerging developments in the audit, assurance and related services fields for the purpose of assisting the IAASB in identifying opportunities for relevant and effective standard setting, or determining other potential actions, in a timely and informed manner. At their respective September 2014 meetings, the IAASB and the CAG agreed, based on the Innovation Working Group's recommendation, to establish the Data Analytics WG.

including in responses to the December 2013 consultation paper on the *IAASB's Proposed Strategy for 2015–2019* and the *IAASB's Proposed Work Program for 2015–2016* (2015–2016 WP).

6. With regard to the 2015–2016 WP in particular, several respondents² mentioned the relevance of developments in IT, such as the use of data analytics, and their effect on the financial statement audit, and how these may affect the International Standards on Auditing (ISAs).
7. Also, responses received from NSS indicated the relevance of IT and, in particular, the enhanced possibilities involving data analytics. A survey was sent to the NSS in advance of the May 2014 meeting, to which a total of 15 responses (out of 17) were received. The survey included a question with regard to the relevance of topics (other than integrated reporting) initially identified by the Innovation Working Group as potential focus areas. Specifically, NSS were asked their views about the relevance of each topic to international standard setting. Together with sustainability reporting, data analytics was perceived as most relevant to international standard setting. Concerns were raised that the current suite of standards does not reflect the effects of developments in IT, in particular with regard to data analytics.

A. Key Views Expressed at the IAASB June 2015 Meeting

8. The Board agreed with the topics presented for discussion at its June 2015 meeting and supported soliciting further input on the Data Analytics project by means of outreach to the stakeholders identified in the agenda material.³ In addition to other input, the Board:
 - Was supportive of the general direction proposed by the WG 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),⁴ 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 WG 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.

² AUASB, CNCC-CSOC, CPAA, EAIG, EYG, FEE, ICAA, KPMG, NBA, PWC, RSM

³ See [Agenda Item 3-A](#) of the IAASB June 2015 Agenda Materials

⁴ 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 \(August 2014\)](#)

- 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.
9. 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.

B. Discussion at the IAASB September 2015 Meeting and Project Timeline

10. At the September 2015 IAASB meeting, in response to feedback received from the Board at the IAASB's June 2015 meeting, 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.
11. The IAASB's current forward timetable has Data Analytics being discussed with the IAASB as follows:
- September 2015 – Discussion
 - March 2016 – Discussion
 - June 2016 – Issuance of Discussion Paper or Similar document.

Matters for CAG Consideration

1. The Representatives and Observers are asked:
- a) for their views on the material presented in **Agenda Item L.1**; and
 - b) to provide further suggestions that may support the WG in its information-gathering activities.

Material Presented

Agenda Item L.1 Data Analytics – Presentation