

Auditing - Mitigating Risk & Uncertainty in a Digital Era



An international author and expert in auditing and assurance, Prof. Arnold Schilder became chairman of the International Auditing and Assurance Standards Board (IAASB) in January 2009. He was nominated by Nederlandse Beroepsorganisatie van Accountants (Royal NBA, formerly Royal NIVRA). From 1998 to 2008, he was a member of the Managing Board of the Dutch Central Bank. In addition, he served as the chair of the Basel Committee on Banking Supervision's Accounting Task Force from 1999 to 2006 and as a member of the Public Interest Oversight Board from 2005 to 2008. He studied theology and accountancy and earned a PhD in business economics in 1994 with a thesis on auditor independence. In 2001, he was awarded a Knighthood in the Order of Orange Nassau. In 2014, he received the Lifetime Achievement Award from the International Accounting Bulletin.

In this special write-up for the Chartered Accountant journal, Prof. Schilder talks about key initiatives of IAASB, particularly about an innovative working group to stay abreast of technology, cybersecurity and artificial intelligence — the Data Analytics Working Group. He has also sought inputs from ICAI, including to the IAASB Strategy Survey and to the upcoming Exposure Drafts of revised auditing standards. Read on to know more...



Prof. Arnold Schilder

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ICAI is nearing its 70th anniversary. As I have just become 70 years old, I know what a pleasure that is, if you are in good health. ICAI certainly is. I am always impressed when I browse through its website and read about the many activities. And the IAASB



has the pleasure of the membership of CA. Abhijit Bandyopadhyay, past AASB Chair, supported by his Technical Advisor CA. Sanjay Vasudeva, AASB Vice-Chair. Also, AASB Chair CA. Shyam Lal Agarwal is often observing our meetings.

That is not all. The IAASB has established an *Innovation Working Group* to stay abreast of important developments, such as on technology, cybersecurity and artificial intelligence. As an offspring of this group, we constituted a separate working on data analytics, the *DAWG (Data Analytics Working Group)*. I am pleased to note that CA. Sanjay Vasudeva is a member of this DAWG. His membership of the ICAI Digital Accounting and Assurance Board is an important asset.

This DAWG has been fairly active since 2015. An overview of its activities and publications can be found on <http://www.iaasb.org/projects/data-analytics>. The DAWG summarises its **purpose** as follows: “Technological change is occurring at a rapid pace, ushering in the capability to capture and communicate data digitally, on an unprecedented scale and almost instantaneously. This has resulted in an increasing focus on data, whether structured or unstructured, and whether generated internally or externally to the entity.

The use of data analytics in the audit of financial statements is at an early stage. Auditors are expanding the areas of use and audit regulators and oversight bodies are just beginning to see the impact of the use of data analytics in the audit through inspection activity. Academic studies of the role that

data analytics can play in enhancing audit quality are also underway. Wholesale change to the ISAs at this time is likely to have unintended consequences due to the fast paced nature of the developments with data analytics in the audit of financial statements.

The DAWG will continue:

- To explore and understand how the use of technology and more specifically, data analytics, is able to enhance audit quality (thus retaining the audit’s place in the financial reporting chain and enhancing the reliability of the audit in an increasingly technology driven environment).
- To remain focused on evaluating whether and clearly articulating how innovations in technology enhance audit quality.
- Its dialogue with auditors of all sizes, regulators and audit oversight bodies, preparers, investors, those charged with governance, other relevant stakeholders in the external reporting supply chain and national auditing standard setters to further understand relevant issues and to leverage the work that has been done by others. This dialogue will also help the IAASB to understand how auditors are innovating to meet emerging public interest expectations.”

In September 2016, the Data Analytics Working Group released a Working Group Paper, Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics (<http://www.ifac.org/publications-resources/exploring-growing-use-technology-audit-focus-data-analytics>). This was followed by presentations to the IAASB about the results, as well as a Feedback Statement published early this year (<https://www.ifac.org/publications-resources/feedback-statement-exploring-growing->

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Special Write-Up

use-technology-audit-focus-data). Its Key Messages were summarised as follows:

- “1) Respondents expressed strong support for the work of DAWG, praising both the summary of the current data analytics landscape and its role in developing consensus around key issues and contributing to the improvement of audit quality.
- 2) The ISAs aren’t “broken” and should remain principles-based, but need to reflect the digital era in application guidance. Respondents overwhelmingly described a strong desire for practical guidance on the use of data analytics technology. Most respondents believe that the principles in the extant ISAs are still appropriate and accommodate the use of data analytics, and caution against prematurely rushing to change requirements in the standards.
- 3) Applying Professional Skepticism when using data analytics remains paramount, as professional skepticism is integral to understanding the benefits and limitations of data analytics in view of its intended use in the audit.”

Chairman Bob Dohrer also appeared in *three videos*, in one together with two DAWG experts (<https://youtu.be/GiZGrJkv3H8>). This video was launched at the February 2017 Inspections Workshop of the International Forum of Independent Audit Regulators IFIAR) in Athens, and well received.

I should also note the establishment of a *Project Advisory Panel* to the DAWG, and we are very pleased with these experts’ interest and commitment (<http://www.ifac.org/news-events/2017-06/iaasb-data-analytics-project-advisory-panel-members-announced>).

In accordance with the Key Messages from the Feedback Statement, the IAASB has started to introduce application material in some key auditing standards that are currently under revision. The

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best example is ISA 315 (Revised)¹. Also, ISA 220 (Revised)² has several proposed new paragraphs on Technological Resources (A10-A10C).

ISA 315 is of great importance in relation to the title of this article. Agenda Paper # 3 for the IAASB June 2018 meeting contains an interesting overview of the new proposed Application Material:

Data Analytics—refer paragraphs 19–21

Agenda Item 3–B: Paragraph reference and summary of content (Application material)

A2	Emphasising that technology may be used on large volumes of data, which may result in evidence that informs the identification and assessment of risks of material misstatement.
A4b	Clarifying that the auditor may use automated tools and techniques to perform risk assessment procedures, including for analysis, recalculations, re-performance or reconciliations.
A16a	Describing that: <ul style="list-style-type: none"> • Risk assessment analytical procedures may be automated, for example by using visualisation techniques to analyse data to identify more specific areas of possible misstatement. • The application of automated analytical procedures to data may be referred to as data analytics.

¹ International Standard on Auditing (ISA) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

² International Standard on Auditing (ISA) 220, *Quality Control for an Audit of Financial Statements*

The IAASB launched in May 2018 an online Strategy Survey to inform its future strategy for the period 2020-2023: <http://www.ifac.org/news-events/2018-05/envisioning-future-survey-iaasb-s-future-strategy>. Technology is of course an important feature there as well.

Agenda Item 3–B: Paragraph reference and summary of content (Application material)

A24b	Highlighting that the auditor may be able to enhance the understanding of the entity and its environment by using automated tools and techniques, and providing an example.
A96b	Explaining the option to use automated techniques to assist in confirming that the information system has been implemented.
A100i	Describing that automated tools may be used to understand the nature and extent of controls over journal entries.
A127b	Clarifying that automated techniques may be used to confirm whether all significant classes of transactions and account balances have been identified by, for example, analysing types of transactions and their volume.

To further illustrate this I provide the literal proposed text of para A96b (italics mine)³:



“A96b. These risk assessment procedures may also be used by the auditor to evaluate the design of the information system and determine whether it has been implemented. In doing so, the auditor may select transactions and perform walk-throughs of the relevant processes or procedures. *The auditor may also use automated techniques by obtaining direct access to, or a digital download from, the databases in the entity's information system that store the accounting records of transactions.* By using this information, the auditor may *confirm the understanding obtained about how transactions flow through the information system by tracing journal entries, or other digital records* related to a particular transaction, or an entire population of transactions, from initiation in the accounting records through to recording in the general ledger. *Analysis of complete or large sets of transactions* may also result in the identification of variations from the normal, or expected, processing procedures for these transactions, which may result in the identification of additional risks of material misstatement related to nonstandard procedures.”

It is the beginning of a challenging journey, and in line with the strong feedback on the consultation by the DAWG. There will be much more to do, and with Agenda Item 7 on the June meeting we will further discuss this.

In addition, the IAASB launched in May 2018 an **online Strategy Survey** to inform its future strategy for the period 2020-2023: <http://www.ifac.org/news-events/2018-05/envisioning-future-survey-iaasb-s-future-strategy>. Technology is of course an important feature there as well. The IAASB notes as one of the ‘Continuing challenges’ (p.9) : “ Keeping the standards ‘fit-for-purpose’ with the current pace of change in relation to technology and its consequential effect on the environment—this includes how technology is causing audit firms to challenge traditional approaches to auditing and to transform the manner in which audits are being performed. ”

I am looking forward with great interest to the further **input from ICAI**, including to the Strategy Survey and to the upcoming Exposure Drafts of revised auditing standards.

We cannot escape from Risk and Uncertainty in this Digital Era— but yes, **it is the public interest core of auditing: Mitigating both Risks and Uncertainty. Also in this Digital Era!** ■

³ IAASB June 2018 meeting, Agenda Item 3-B