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Dear Sir or Madame,

European Federation of Accountants and Auditors for SMEs (EFAA) Response to the Request for Input, *Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics*

The European Federation of Accountants and Auditors for SMEs (“EFAA”) represents accountants and auditors providing professional services primarily to small and medium-sized entities (“SMEs”) both within the European Union and Europe as a whole. Constituents are mainly small practitioners (“SMPs”), including a significant number of sole practitioners. EFAA’s members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, tax and business advice) to SMEs. EFAA represents 17 national accounting, auditing and tax advisor organisations with more than 360.000 individual members.

EFAA has become increasingly concerned about the preparedness of the global accountancy profession, especially SMPs, in the face of rapid developments in technology. Hence, we have made digitalisation a key focus area, and will hold an international conference on this topic in June.

EFAA commends the IAASB on the consultation exploring the use of technology in the audit, and is pleased to provide its comments, which have been prepared with input from our Auditing Expert Group. The Request for Input is a comprehensive and well-articulated document. We agree that technology and data analytics in particular is fast evolving, and strongly support the initiative to better understand the developments and the challenges being encountered by professional service providers. Given the stage of the project, we have concentrated our response on some general observations. We look forward to providing more in-depth input as the project progresses.

General Observations

Technological Change

Technological change is possibly the most pressing challenge facing the accountancy profession. The [2015 IFAC Global SMP Survey](#) found that SMPs believed technology developments to be one of the most significant factors impacting their practice over the next five years. Data analytics is presently having a significant impact on the profession. However, other emerging technologies may have an even bigger impact, in due course for example artificial intelligence and Blockchain. The profession has yet to fully comprehend and understand the implications of these technologies.

The automation that these new technologies herald may, as [this IFAC article](#) stresses, pose an existential threat to many tasks associated with our profession. This threat will likely demand the

profession to redefine its core offerings. Richard and Daniel Susskind, father and son academics have researched the impact of technology on the professions, and their conclusion, summarised in their book [The Future of the Professions](#) and captured in this [radio broadcast](#), is that various tasks associated with the profession stand to be automated and that the profession's future rests on inventing useful new tasks.

Richard and Daniel go on to argue that technological change, especially artificial intelligence, will eventually usurp the need for professional judgement. They [stress that it is](#) incorrect to think that we will always need humans, since machines are unable to exercise judgement: but judgement is only necessary when there is uncertainty, and machines can deal with uncertainty better than human experts, as they can more quickly process far larger volumes of data and run algorithms and routines through them. [Others disagree](#) stressing that while machines may more quickly and completely identify patterns and anomalies in massive data sets, more value comes from investigating and deducing the reasons behind the pattern or the anomaly, and that only humans, such as the auditor, can tell the true story behind the data. In addition to artificial intelligence, some believe that Blockchain may diminish if not eliminate the need for the financial statement audit altogether.

In view of the potential impact of new technologies such as artificial intelligence, it is critical that the IAASB, in conjunction with IFAC and others, gain a more holistic understanding of how these technologies might impact the profession and its core service offerings, like the audit. This will likely demand engaging with leading technologists. EFAA is glad to support the IAASB to find the right responses.

Data Analytics

Given its potential to fundamentally reshape the audit model, and in turn enhance the efficiency, effectiveness, and value of the audit, as explained in [this World Bank article](#), auditors need to gain a strong awareness of data analytics issues. But awareness raising alone may not be enough. For the profession to fully embrace the opportunities, while understanding the challenges arising from data analytics, there is a strong case for the profession both to support the widespread and informed use of data analytics techniques by audit firms and to provide additional support especially for SMPs (the article above provides some examples of the support).

Limitations

While it is important to promote the use of data analytics, it is equally important to stress their inherent limitations. As the Request for Input notes, data analytics will not automatically lead to a better audit. The quality of the audit will ultimately not be determined by the quality of the data analytics but rather, in our opinion, by the auditors and their professional judgement. The advantages of using high specification data analytics tools can be easily undermined by poor judgements of inadequately trained auditors. Furthermore, using the same predictable approach and methods, both traditional and data analytics, year after year may impair audit effectiveness and give rise to a higher risk of fraud. If the analysis algorithm of the software will become known, those that wish to conduct fraud could bypass the analysis. We believe that specific training to exercise adequate professional judgement and the element of surprise will always be necessary for a high quality audit.

Standards, Guidance and Communications

The Request for Input rightly recognises that the IAASB has a public interest responsibility to develop both standards and guidance. Professionals are, however, not necessarily seeking new standards and

requirements. Rather they welcome standards that offer the flexibility and ease of navigation that accommodate these new technologies. Data analytics may in fact make it easier to achieve the objectives and comply with the requirements of the ISAs.

Some have argued that data analytics does not lend itself to the same type of documentation and audit methodologies currently reflected in the ISAs. While we do not wholly concur with this view we suggest it merits further investigation, as it may eventually demand adapting the standards. It is important that the standards do not impede the use of new technologies but rather promote innovation and proportional application.

New guidance may be necessary but this is perhaps best in the form of practical guidance separate from the standards rather than additional application material. The provision of guidance and education is the joint responsibility of the IAASB, IFAC, national standard setters (NSS) and professional accountancy organisations (PAOs). PAOs and NSS should be encouraged to undertake activities such as continuing professional education programs, raising awareness of data analytics and facilitating the market's development of data analytics tools. This could be reached for example, by providing a forum for suppliers of the tools to engage with and learn from auditors and by providing information about the nature of data analytics and its potential role in the audit. Guidance and communication needs to be practical, focused on the 'how to' and on the specific mechanics of the various approaches.

Support for SMPs

SMPs have the same need as all auditors that is, to get educated on the impact of, and on how best to leverage information technology and more specifically on data analytics and how to gain access to the right tools and techniques. The key challenges of resource availability and training of auditors identified in the Request for Input are even more acute for SMPs and SME audits. It is therefore essential that SMPs receive practical guidance on how to adopt a structured approach to the deployment of data analytics in the audit. Some SMPs, concerned about cost in gaining the necessary expertise and access to the tools, may be deterred from using data analytics or else only afford to do so on a collective basis. The cost may not be prohibitive: data analytics is already being integrated into standardised applications such as Excel. It's important that the IAASB, together with NSS and PAOs, educate SMPs on possible costs and how they might make a collective investment.

Many techniques and tools have been developed and are not necessarily adequate for use by SMPs. Some audit software vendors are adapting tools and integrating them with their standard SME audit software packages while other suppliers are developing bespoke data analytics software for the SMP market. Practitioners unaware of these developments will likely be at a disadvantage. There is also a lack of guidance as to how an SMP might go about identifying potential tools and evaluating which might be most suitable. SMPs need to understand that spreadsheet software programs such as Excel now provide both basic and advanced data analytics tools at relatively low cost and some software platforms offer free and low cost versions to SMEs generally.

There may be a case for the IAASB and / or IFAC creating a resource centre, in the same vein as the Clarity and Auditor Reporting centres, which serves as a 'one stop' repository for articles, guidance and tools developed by the IAASB and other relevant reputable organisations like PAOs and NSS, on data analytics, and possibly other technologies impacting the audit. A sample of such resources are shown in the box below. This centre could extend to a catalogue of data analytics software and other tools available that appear to be in conformance with the ISAs.

ICAS – <https://www.icas.com/technical-resources/webinar-the-changing-world-of-audit-and-assurance>

CPA Australia - <https://intheblack.com/articles/2017/01/10/data-analytics-set-reinvigorate-audit>

IFAC - <http://www.ifac.org/global-knowledge-gateway/audit-assurance/discussion/audit-data-analytics-opportunities-and-tips>

ICAEW - <http://economia.icaew.com/en/opinion/january-2017/the-biggest-challenges-facing-the-future-auditor-blockchain-brexit-eu-robotics-automation>

FRC - <https://www.frc.org.uk/News-and-Events/FRC-Press/Press/2017/January/UK-audit-firms-can-do-more-to-support-roll-out-of.aspx>

CPA - <https://www.charteredaccountantsanz.com/news-and-analysis/insights/future-inc/the-future-of-blockchain?ecid=E~SO~CA%20LinkedIn%20Blockchain%20Post%201~LinkedIn~201702>

CFO - <http://ww2.cfo.com/auditing/2017/02/artificial-intelligence-audits/>

Accounting WEB - http://www.accountingweb.co.uk/tech/tech-pulse/how-big-data-is-changing-accountancy?utm_content=buffer8a450&utm_medium=social&utm_source=twitter.com&utm_campaign=buffer

NBA – FAQ in process of being developed.

Specific Questions

(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?

Data analytics is making radical changes to larger external audits and it seems only a matter of time before SMPs and SME audits are impacted. While the impact and benefits of data analytics to micro entity audits with relatively small datasets may be limited for now, the impact and benefits to medium sized entity audits stands to be significant.

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

The list of standard-setting challenges seems adequate. We do not believe that the application of data analytics as such is changing the risk based audit approach. Should, however, the application of data analytics change the character of sufficient appropriate audit evidence then this area obviously warrants special attention. In general, we strongly encourage the IAASB to be sensitive to the potential impact of any future developments on both SMEs and SMPs and ensure that future proposals are scalable and proportional.

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

The DAWG should always question whether technological change is changing the audit approach and should, therefore, change the nature of a standard or whether it is merely a question of faster and more transactions within the same paradigm.

(d) Is the DAWG's planned involvement in the IAASB projects currently underway appropriate?

No comment.

(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 DAWG's work?

Rapid and unpredictable technological change will require an ongoing monitoring of initiatives.

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

The planned actions appear appropriate but we believe the last two actions to be paramount. We support in principle the DAWG having an active involvement in the current IAASB projects and the continued exploration of issues associated with the use of data analytics in a financial statement audit. Notwithstanding this, under our 'General Observations' above we caution against the premature development of new standards and requirements. Rather we suggest the need to ensure the standards are sufficiently navigable and flexible to facilitate innovation and proportional application. We also suggest a resource centre might be needed.

I trust that the above is comprehensive but should you have any questions, please contact me any time.

Yours faithfully,



Bodo Richardt

President