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**From:** Graham Ward [mailto:graham@ward.us]  
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Rulemaking Docket 026: Proposed Auditing Standards Related to the Auditor's Assessment of and Response to Risk; Proposed Conforming Amendments to PCAOB Standards  
[Comment: Graham Ward, Atlanta, Georgia. February 18, 2009.](#)

As someone who began an auditing and risk management career some 25 years ago, I have observed and participated in many changes in financial and information technology audit. The current proposed standards are an excellent step in the ongoing evolution of audit and risk, and the PCAOB has performed a sterling job in pulling together and further developing the many existing risk statements and guidelines. Furthermore, the intent that the proposed standards, *inter alia*, “serve as an improved foundation for future standard setting” is clearly very worthwhile — one inevitability is that audit approaches and methodologies will continue to evolve and adapt, and the new standards need to cater for such changes.

However, one area where the proposed standards seem to be more retrospective than prospective is regarding the use of technology to mitigate risk and to perform substantive procedures. The proposed standards do mention, in two sections (A-4-6, para. 12c & A-5-15, para A1.c) the use of ‘computer-assisted audit techniques’ (itself a 25-year old term), but these mentions are trivial. Likewise, although the standards discuss consideration of risk factors such as the complexity and distribution of information technology, there is no mention of the potential use of technology by management to provide continuous monitoring of controls and transactions.

Firstly, the use of specialized analytics to inspect 100% of a data set should surely be an expectation of today’s public company audit, rather than a briefly-mentioned consideration. Analytical packages, such as ACL and IDEA (and Excel 2007), allow sophisticated review of large data volumes — today’s auditor should be using these tools as a matter of course. Although it is recognized that substantive tests cannot support a conclusion regarding the effectiveness of a financial control, such tests can undoubtedly identify failures of internal controls. The use of these data analytics should surely be advocated more forcibly by the new standards.

Secondly, the last few years have seen dramatic advances in the capabilities of continuous monitoring applications and their use by management. Configuration monitoring and segregation of duties tools, such as Approva, are now used by many large companies. Governance, Risk & Compliance applications are also used by many organizations to oversee and manage both the operation and testing of internal controls. Advanced continuous transaction monitoring software and services, provided by companies such as Oversight Systems, can be used to not only assess the reliability of financial transactions, master data, and associated controls, but can also be used to improve key processes and profitability (and can reduce audit costs). Although some of these technologies are relatively new, their use is increasing rapidly and they will undoubtedly be a key factor in the audit of the future. At the least I would expect the new standards to mention that the use of such software and processes should be considered by auditors in their assessment of risk; better still, the standards should discuss these technologies in some detail.

Lastly, seven auditing standards are proposed. Given the related subject matter of each standard, consideration should be given to combining the standards into two or three, rather than seven.

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