

## How AI Is Changing the Audit and The Way Auditors Work: In Their Own Words By Gundi Jeffrey



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AI is changing every business and organization, including auditing and how it is performed: automating, accelerating and enhancing business processes, helping to transform at scale and drive value. Today's auditors believe that means delivering even higher-quality audits. For example, AI is expected to help accounting firms to better identify high risk transactions, allowing them to sustain their focus on risk assessment and obtain audit evidence over much larger, more complex sets of data. Also, by removing some of the more time-consuming tasks for auditors, AI will free them up to apply valuable skills in other areas, again enhancing the audit for everyone.

In a recent post on its webpage, PwC Global points out that “generative AI is poised to revolutionize how we work, live and interact. It's clear that we are now at a tipping point. Generative AI will change business models and how work gets done and, in the process, reinvent entire industries.

For example, says Sebastian Stöckle, Head of Innovation, Global Audit, at KPMG International, “in financial services, we are seeing AI promoting greater inclusivity by analyzing broader and larger amounts of data. This could lead to more customers being offered mortgages and that could give a lender a significant competitive advantage.”

Stöckle adds that it is critical, therefore, that AI be being built with the most accurate, unbiased and relevant data available. Second, companies often focus their investment in AI on growth strategies, customer focus or frontline operations and often underprioritize the investment in AI support, governance, risk and compliance. There are ethics and resilience issues to consider here too. Guidelines are needed and due to constant change, aspects must be continually monitored and addressed.

A key risk around AI, which is very relevant to audit, is “explainability.” This means that we still need to understand and explain why the technology may be highlighting certain items and trends. That's why, says Stöckle, “we believe it's important to have people working alongside AI to prompt deeper thinking and challenge where necessary, rather than removing people from the loop entirely. At the same time, this will help training the AI continuously through human input.”

Lastly, he points out, that “as with any new technologies, companies need to think carefully about the skill sets they need within their organization to achieve and to maximize the possibilities, recognizing that it won't be perfect straight away.”

*ThinkTWENTY20* wanted to learn more about the impacts of AI on audits and how they are performed. So, we went to two differently-sized accounting firms in Canada for information on how they are handling the changes: Peter Hargitai, Partner, National Digital Risk Solutions Leader, PwC, and Anita McQuat, National Assurance Leader, PwC Canada; and Stephanie Pileggi, CPA, CA, Partner, Professional Practice, Crowe Soberman LLP.

***ThinkTWENTY20:*** *There is a lot going on in the audit and assurance area and AI these days. How are audit services changing as a result and what new services in this area are most in demand by your clients?*

***Stephanie Pileggi:*** Crowe Soberman's audit and assurance clients expect the performance of high-quality engagements to service their needs. Our services will adapt and evolve alongside the changing needs of our clients, incorporating advanced automated tools and techniques. While AI has not altered the performance of our audit and assurance services, or our service offerings currently, we are in the process of exploring mechanisms to increase our effectiveness and efficiency.



***Peter Hargitai:*** With the help of increasing computing power, machine learning and AI-enabled audit tools, large volumes of data can be analyzed to find exceptions and identify insights, patterns and connections that are not readily apparent to the human brain. This enablement is transforming our audit and assurance practices. However, human involvement is critical to understand the output, to determine if the information represents a true deviation and for related impact assessment.

As clients implement AI-enabled tools into their processes, new offerings for assurance engagements are emerging:

- Assurance over the AI tool, with its algorithm or parameters driving output to establish if any bias exists in the underlying data or the algorithm,
- Assurance over the AI tool, with controls and processes in line with Service Organization reporting standards.
- Assurance over the appropriate use of AI, such as governance and compliance with regulatory or ethical requirements.

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***ThinkTWENTY20:*** *How are you using AI to do audits? What benefits have you gained as a result?*

***Hargitai:*** AI has the potential to drive enhanced quality and efficiencies while recognizing the challenges and considerations of implementing automation within analytics across each phase of the audit, from planning activities through to reporting. It's imperative to gain an

understanding of the tools and applications available for automation and who in the organization has the lead responsibility. Being strategic about the audit leverages opportunities will drive successful outcomes, an ideal place to start is with high-outcome, low-effort opportunities. Processes that lend themselves to automation are consistent and repetitive in nature, for example spreadsheet reviews, filtering and sorting information and manual data entry to the systems of record are typical areas of consideration. Digitizing audit processes has also become a priority practice, where evidence is sourced in electronic format to build fully-electronic audit files.



**Pileggi:** Like many other mid-size firms, we are in the early stages of our digital transformation journey, looking to incorporate new technologies including AI into our services to provide greater support to our clients.

**ThinkTWENTY20:** *Does the use of these new tools provide new benefits to clients also? What are they?*

**Pileggi:** Our clients expect us to understand their businesses and act as trusted advisors. We expect that AI and other technologies will further assist in this respect. It is too early for us to comment on what any new benefits

to our clients may be in this area.

**Hargitai:** AI has proven to drive improved productivity and innovation for businesses. Simplification and automation of tasks that free up employees time to focus on insight-oriented and higher value-adding work is a primary benefit of such technology. Transactional tasks are increasingly being automated, taking advantage of the power of algorithms and their ability to spot insights in data sets, and pinpoint fraud or identify new opportunities such as savings, improved efficiency and profitability, at times leading to new markets, or pivots to market opportunities.

**ThinkTWENTY20:** *How do the many new requirements for ESG, sustainability and integrated reporting affect how you perform your services? Will you be offering assurance of some type on these services as a result?*



**Anita McQuat:** We've been providing assurance over sustainability information for over 15 years and, as the investors' use of this information has grown, so has the demand for our assurance services. As auditors, we already have the necessary skills to assess internal controls, data accuracy and completeness, and review disclosures, and we have ESG specialists on our team. As we think about the future of our audits, integrating financial and ESG reporting is where it's heading. We have seen significant calls from the investor community to see credible financial and sustainability information together (and at the same time) as both are being used in their evaluation of companies risks and opportunities. So, we are seeing more and more integration between the two – and the great

news is that our assurance teams are made up of both financial statement and ESG assurance providers, ensuring that we are going to our clients with the right skills in this rapidly evolving environment.

**Pileggi:** Crowe Soberman will continue to monitor advancements in this area and the impacts they may have on our clients.

**ThinkTWENTY20:** *Are your auditors having to acquire new skill sets in this changing work sphere? And, if so, specifically what would they be? Are you providing the new training for them?*

**Pileggi:** For Crowe Soberman, it is early days in the process of identifying new automated tools and techniques to expand our capabilities in delivering high-quality audit and assurance engagements. As always, when we implement new tools, we provide training to ensure that our people are set up for success and equipped with the appropriate skills and resources.

**We need to retool ourselves to increase our knowledge and comfort with the disciplines of data science, data management and become familiar with machine learning techniques.**

**McQuat:** Many of our core audit skills are transferable to providing assurance over ESG, AI and other digital risks. If we take ESG as an example, the part that we are layering on is the specific understanding of common climate metrics, which systems the data comes from, and an understanding of all the new standards as they are released. We are providing both classroom and on-the-job training so that our people can add these skills to their toolbox. We've also hired several specialists that don't have traditional accounting backgrounds, and we work together as an integrated team.



**ThinkTWENTY20:** *Or do you need to hire technical consultants to help the auditors do their work?*

**Hargitai:** Advanced technologies provide enhanced levels of at times complex information for auditors. It enables them to make appropriate judgments. However, the auditor is still on the hook to conclude and make that judgment. We are seeing changes by moving towards investing in multidisciplinary teams that include a range of CPAs, with varying expertise, and specialists with additional technical background. Audit and assurance professionals need to retool themselves to increase their knowledge and comfort with the disciplines of data science, data management and become familiar with machine learning techniques. We are seeing a high demand for resources that have an understanding of IT, OT, data analysis and capture and cloud-enterprise resource planning systems combined with critical analysis, thinking, and agility.

**Pileggi:** All options are on the table as we undertake our digital transformation journey. Depending on the complexity of the tools, we decide best suit the needs of our practice and our clients, we may hire technical consultants, as we have in the past, to assist with tasks such as data extraction, validation and cleansing.

**ThinkTWENTY20:** *I've heard that there's so much more to AI than automating simple tasks like analyzing data. Experts say that AI can support all areas of the audit – from helping auditors to make more insightful judgments to providing a more robust challenge to management too. Would you agree? If so, exactly how does this play out for your auditors?*

**Hargitai:** Yes. AI deployment in the audit process can be viewed as a lifecycle opportunity to use these techniques in all phases of the audit including planning, risk assessment, execution, reporting. This, in turn, allows us to focus conversations on the high-risk areas and arms auditors. This will provide more focused and timely information, for healthy and challenging conversations with the auditee.



Some gaps in expectation have emerged between standards set for an audit vs. what clients and users expect. AI and the use of automation in the audit creates an opportunity to narrow this gap, but could also increase it. AI tools facilitate the effective handling of big data. It creates the opportunity to assess the full population of financially relevant data sets vs. tests using the audit sampling methodology. While this approach increases the opportunity to drive

insights during the audit, it also may raise expectations that all errors or missing transactions will be detected. Auditors have to carefully navigate these expectations to drive a balanced approach that delivers a quality, insights driven, risk-based audit while managing the “expectation creep” from reasonable to absolute assurance.

**There are additional complexities and risks associated with using AI, such as the ability to rely on and explain the results.**

**Pileggi:** Absolutely – there are many possibilities for the use of AI on audit and assurance engagements. There are, however, additional complexities and risks associated with using AI,

such as the ability to rely on and explain the results. Further, challenges with respect to maintaining client confidentiality must be considered. As a mid-size firm, Crowe Soberman will take a cautious and calculated approach to adopting AI solutions to ensure that our engagement teams are appropriately supported, and client confidentiality is maintained.

**ThinkTWENTY20:** *Apart from the benefits that AI is expected to offer, are there risks in using it for audits? What have you learned about this so far?*

**Pileggi:** Further to the risks I mentioned earlier, simply relying on AI to respond accurately all the time can be dangerous. There must be checks and balances in place to ensure that any outputs from an AI-based tool can be relied upon from an audit perspective.

**Hargitai:** Along with the benefits, there are risks associated with AI. There are three critical areas to highlight:

- The underlying data quality and reliability impacts the effectiveness of the AI tool.
- Designing procedures that govern the quality of data used in these tools become critical. The accuracy of the information generated by these tools depends on it.
- The concept of “garbage in, garbage out” is compounded with these technologies.

In addition, the power of AI is its ability to consume large amounts of data, including confidential data, in order to develop the patterns and apply them to predict an outcome.

Auditors face increased complexities in assessing the risks associated with data and privacy, and will need expert engagement team support to assess the design of security controls.

Furthermore, client management needs to be able to explain and justify AI’s results for the audit.

AI tools have the potential to give biased or incorrect predictions if they are trained using biased data. A deep understanding of these protocols is required to manage the risk of overreliance for the audit.

**My hope is that AI will help with some of the more audit and assurance routine tasks, to free us up for the more human-led activities.**

**ThinkTWENTY20:** *There has been some fear expressed that AI will replace the jobs that auditors are doing or make some of their work redundant? Do you believe this will be the case?*

**McQuat:** Like most businesses, I think that we all hope that AI will make us more productive! However, there are parts of an auditor’s job that are very dependent on building strong client relationships, coaching and mentoring new staff, and using professional judgment to assess a situation. My hope is that AI will help with some of the more routine tasks, to free us up for these more human-led activities.

**Pileggi:** I do not believe this to be true. AI will change the way we work, just like the introduction of the computer, internet and cell phones. We will learn to adapt to new technologies that allow us to become more effective and efficient in our tasks.

**ThinkTWENTY20:** *What other changes do you think will AI bring about in this rapidly evolving sphere of audit work? What will the future for your auditors look like?*

**Pileggi:** The possibilities are quite broad; however, I believe that the use case needs to make sense for the size of our firm and the needs of our clients. It will be critical for us to take a calculated and steady approach to implementing new technologies, including AI. Our goal will be to increase the effectiveness and efficiency of our auditors using AI and other technologies.

**McQuat:** One of the best parts about being an auditor is that we get to learn all about our clients' businesses. I'm very excited to see how my clients decide to incorporate AI into their business models and their processes, and I don't think we can predict all of the ingenious ways it might be used. New uses will mean new risks, new disclosures, new accounting, and new skills, which translates to a bright future for auditors.

