Dear FRC,

RESPONSE TO FRC: TECHNOLOGICAL RESOURCES: USING TECHNOLOGY TO ENHANCE AUDIT QUALITY

Thank you very much for giving us this opportunity to comment and offer suggestions on this very important issue of technology in audits of financial statements and other information. The technological developments taking place in the audit field are truly remarkable. The Brydon review and other publications from regulators, academia and tech companies have strongly indicated that ways in which audits are conducted is changing. However, it is important to recognise that audits have a history of technological changes and in many cases the promotion of these technologies in public perception does not translate or reflect the actual changes in the audit field.

As an academic who lectures auditing and with research interests in audit technologies, I believe that milestones are being made in making sure that audit work is data and technology driven. However, I feel support and various collaborations are needed with educational institutions such as universities to make sure that relevant skills are developed for future auditors.

Therefore my responses cover questions that deal with benefits of technology, training and ethical issues associated with technology.

Question 1: Do you agree that the increasing use of technological resources, including AI and other advanced tools, enhances the quality of audits, beyond the benefits derived from efficiency gains. If so, what are the indicators of enhanced quality?

Overall, there is a sense of optimism in the audit community that technologies such as Data Analytics and Artificial Intelligence are addressing some of the concerns and criticisms associated with audit quality. These technologies offer auditors with opportunities to extensively search for audit evidence and to discover new forms of audit evidence. The technologies also have properties and capacity that can enhance the level of detail (granularity) in the evidence collected. The scalability in quantity of evidence and the ability to analyse and present the audit findings in various ways enhance the quality. I believe the quality is derived from auditors being more creative and confident when approaching stakeholders such as management, audit committees and regulators to communicate their findings, to ask crucial questions and to visualise data using their audit methodology. The technologies if properly utilised give them the comfort that was not available with previous technologies such as statistical sampling.

Question 2: Do you believe that challenger firms are currently at a disadvantage in the use of new technology? If so, what remedies would you suggest?

The Big 4 have indeed spent a fortune to develop new technologies. In many cases, they have leveraged technologies developed by big tech companies to build their own capabilities. However, because of how the tech industry works, we are seeing more of such technologies being developed and offered at a reasonable price to anyone interested in using them. This is an area where, I think challenger firms would benefit. We are seeing companies like Inflo, Alteryx developing data analytical tools that could rival or even parallel proprietary tools by the Big 4. This is where challenger firms can take advantage to build their own capabilities to offer similar opportunities.

Question 3: Other than investment, what do you believe are the key challenges auditors face in the increasing utilisation of automated tools and techniques within the audit process? Again, what remedies would you suggest to overcome these challenges?

I know the focus in many academic and regulatory publications in this area has been very much on the auditors' skillset as being lacking/inadequate. However, my concern is with "who audits the algorithms" in the automated tools? This question has to be addressed as soon as possible given that the direction of travel indicates that we are moving into a technology driven audit environment at a faster pace. I think we need an accreditation system that is highly regulated to test and certify the technology before being deployed for audit purposes. I understand the big audit firms have in-house mechanisms and policies in this area. However, if trust is to be created or enhanced amongst the stakeholders, then surely we need an accreditation system that certifies the technologies as "fit for purpose" for audit purposes.

Further, there is an issue of ownership of these technologies within the audit firms. Some audit firms have reorganised their functions and place audit within the data functions. What could be interesting is to see who owns the technology within the firm? Is it the auditors or the data analysts? This is important because it can tell us who has more say and influence on the development and direction of use.

Question 5: Do you believe the current level of training given to auditors – both trainees and experienced staff – is sufficient to allow them to understand and deploy the technological resources being made available?

More work has to be done on the current level of training. There is evidence that trainees are keener to using technology than experienced staff. However, we need strong collaboration between audit firms and educational institutions to develop courses in auditing that are data and digital driven. At the moment, audit firms are targeting top universities to forge these collaborations. However, if we are to make gains in this area, then we need an inclusive approach or a platform where universities are given opportunity to establish links with audit firms in this area.

Further, clarity has to be provided to experienced staff that these technologies are not replacing them but to make them better auditors who can provide quality audits. Fear of the unknown could be a contributing factor in developing skills necessary to use these technologies.

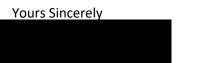
Question 8: What do you see as being the main ethical implications arising from the greater use of technology and analytics in an audit?

There are several ethical issues associated with greater use of technology. The first one is about data privacy. This is concerned with how confident we are that the technology will safeguard the privacy of the data they collect? The second one is concerned with the algorithms used in these technologies, how ethical are they in making sure that "discriminatory tendencies "are not embedded in them? We have seen in the past where automated decisions have disadvantaged other areas of the society.

The introduction of technologies such as facial recognition, have been criticised for profiling certain ethnicity as an example. If such technology is introduced in audits, what safeguards do we have in place to make sure that this does not happen?

Will the greater use of technology create a divide between audits of companies in technologically advanced situations and those which are less developed? This is important to create a situation whereby audits in other economies can be seen as being lower in quality. This would have an impact on access to finance or other opportunities.

I hope these responses would be of much help.



Dr George Salijeni FCCA,MSc, FHEA

Lecturer & Departmental Research Director- Accounting (Aston University)