Response to:

Financial Reporting Council (FRC):

Discussion Paper: ‘Technological resources: using technology to enhance audit quality’

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CA House 21 Haymarket Yards Edinburgh EH12 5BH
enquiries@icas.com +44 (0)131 347 0100 icas.com

Direct: +44 (0)131 347 0234 Email: [redacted]

Background

ICAS is a professional body for more than 22,000 world class business men and women who work in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Almost two thirds of our working membership work in business; many leading some of the UK's and the world's great companies. The others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

We currently have around 3,000 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest.

ICAS was created by Royal Charter in 1854. The ICAS Charter requires us to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Any enquiries should be addressed to James E Barbour, ICAS, Director, Policy Leadership.

General comments

ICAS welcomes the publication of the recent Financial Reporting Council (FRC) Audit Quality Review (AQR) Thematic paper, "The use of technology in the audit of financial statements", and this related discussion paper. As the FRC recognises, it is important that this is an area that is closely monitored as the use of technological tools on an audit starts to evolve.

Specific comments

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?

We do believe that the use of AI and other advanced technological tools has the capability of enhancing audit quality, beyond efficiency gains. The indicators will ultimately be a higher quality of audit evidence although the nature of that evidence may evolve. The ability to interrogate large populations of data offers the ability to more effectively identify outliers that require investigation e.g. in key transaction streams such as revenue. As highlighted in the AQR Thematic Paper the ability to utilise predictive analysis in areas such as the valuation of long-term contracts and financial instruments will provide further scope for where technology will enhance audit quality.

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?

There is little doubt that the largest accountancy firms have invested significantly in technology. However, certain types of technological tools are available from third party software providers that allows other firms, should they choose, to utilise such tools on their audits.

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?

As identified in the FRC Thematic paper, one of the key challenges in a number of instances remains the extraction of the data from client's systems. The extent to which this is an issue obviously varies from entity to entity and very much depends on their respective systems. Exploring the introduction of common data standards may be a potential way forward in this respect. Furthermore, auditor buy-in may be an issue if the technology is not developed and rolled out in an appropriate manner. Auditors need to feel engaged in the process and to understand the benefits of the technology in order to best facilitate the tools being fully adopted and utilised.

Question 4: Does the current assurance model or the auditing standards represent an obstacle to technological innovation? If yes, then what specific standards, objectives, requirements or guidance cause practitioners particular difficulties?

Whilst the current standards have not prevented firms from utilising technological innovation, one must question whether the standards as drafted, appropriately take account of such developments. One of the key standards currently under consideration by the IAASB is ISA 500, Audit Evidence. Stakeholders have identified a number of areas where they believe this standard needs to be revised to better reflect developments in audit, including those related to technology. As the FRC notes, the IAASB also recently revised ISA 315, partly to better reflect the increased usage of technological tools by some audit firms.

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?

We believe that the current level of training being given is generally sufficient. The professional bodies are also making changes to their respective student curriculums to enhance the amount of learning provided in relation to technology related skills.

Question 6: What firm-wide controls do you believe are appropriate to ensure that new technology is deployed appropriately and consistently with the requirements of the auditing standards, and provides high quality assurance which the firm can assure and replicate more widely?

We believe that the deployment of such technology needs to be controlled centrally and subject to rigorous development and piloting before being introduced. An appropriate governance framework is a prerequisite for the effective use of such technology. This should also help to mitigate against some of the ethical risks that may arise. Firms also need to have clear policies on the use of such technology and for receiving feedback on its performance. Those utilising the technology also need to be given appropriate training to ensure that they understand its functionality including any potential limitations, and are aware of where it is suitable for use on an audit.

Question 7: Are you aware of the use of new technologies in analysing and interpreting information provided by auditors – including, for example, auditor's reports? If yes, then do you foresee implications for the form and content of auditor's reports?

We are aware of such technologies but have no experience of seeing them being applied and the related output. There are obviously potential dangers in such an approach if the audit report was to be considered in isolation to the information being provided by the entity.

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

As highlighted by the FRC, there is a potential risk that the increased use of technology may result in the auditor inadvertently providing services which have implications for the auditor's independence and objectivity. Additionally, there may be threats to the professional competence of the auditor if they do not properly understand the nature of the technology tool. There will also be issues related to confidentiality in ensuring safe storage and retention of any client data and in ensuring that this data is not used inappropriately.

Question 9: Do you believe there is value in the UK having consistent data standards to support high quality audit, similar to that developed in the US?

We believe that there is potential value from having consistent data standards. This is therefore something that the FRC should further explore.

Question 10: Do you agree that threats to auditor independence may arise through the provision of wider business insights (not as part of the audit itself) drawn from the interrogation company data? If so, what measures would mitigate this risk from crystallising?

There is a risk but ultimately this is a matter to be mitigated by the audit team complying with the applicable ethical requirements.

Question 11: Do you agree that audit documentation can be more challenging when an audit has been conducted with automated tools and techniques? If so, please identify specific areas where is a problem.

Not answered.

Question 12: Have you encountered challenges in dealing with the volume of 'exceptions' arising from the use of more complex or comprehensive data analytic procedures?

Not answered.

Question 13: Do you agree that the use of third-party technology vendors raises potential ethical challenges for auditors and, if so, which potential safeguards would you see as effective in reducing this threat to an acceptable level?

The use of third-party technology vendors does raise potential ethical challenges for auditors. As highlighted in the FRCs Thematic Review "The use of technology in the audit of financial statements" it is essential that audit firms are transparent with audited entities regarding the role of the third party, the relative responsibilities with regards to handling data and continue to ensure all audit related activities are conducted in accordance with ISQC 1. The audited entity needs to have confidence in the process and that its data will be stored securely and not used inappropriately. The independence of the third-party provider from the audited entity would also need to be considered.

Question 14: Do you agree that the increasing usage of third-party providers presents challenges in audit documentation and, where relevant, how have you dealt with this?

We agree that the increasing usage of third-party providers presents such challenges, but we do not believe these to be insurmountable.