Mr Jason Bradley
Financial Reporting Council
Via; e-mail: AAT@frc.org.uk

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Dear Jason

The Institute of Certified Public Accountants in Ireland welcomes the opportunity to comment on:

FRC's Discussion paper - Technological Resources: Using Technology to Enhance Audit Quality

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 agree that the increasing use of technological resources enhances the quality of audits, beyond the benefits derived from efficiency gains. Advanced audit tools allow auditors to analyse 100% of a population rather than a selected sample. A sample size of 100% allows auditors to identify higher risk and outlier transactions from the general population rather than a random selection which is a lot less than 100%.

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?

We agree that challenger firms are currently at a disadvantage in the use of new technology. Challenger firms are at a disadvantage because the use of AI is only feasible on large audits where it's use can be justified. Although challenger firms in some jurisdictions are making gains into the audit market dominated by the Big 4, most audits of plc's and large organisations, where the use of AI is appropriate, is dominated by the Big 4. The remedy will come from third party providers developing advanced audit applications for small and medium practices' (SMP).

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?

1. The availability of Out of the box (OOTB) software;
2. The availability of data in a usable form;
3. Training and development of auditors to understand the audit tools.

The remedy will be driven by a commercial interest identifying an opportunity in a regulated market to fulfil a statutory requirement by developing an application that can be used by SMP's who don't have the same resources as Big 4 firms who can develop their own AI and audit tools in house.

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?

We agree that the current assurance model or the auditing standards represent an obstacle to technological innovation. The current assurance model represents and obstacle to technological innovation in the SMP sector due to an over reliance on standardised audit programmes rather than an understanding of the objectives of an audit.

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 are not in agreement that the current level of training given to auditors, both trainees and experienced staff, is sufficient. The level of training given to auditors is still heavily based on the current assurance model, particularly around substantive and analytical testing. Even where technological resources are being used in Big 4 firms, its usage requires technical staff outside of audit departments.

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 firms should have the following controls in place at a minimum;
- Software tools deployed by adequately trained individuals. There is a risk that users who are not trained properly in the use of such techniques will deploy the software incorrectly and cause the audit team to draw a conclusion that is inconsistent with the underlying data.

- Ensure that the Audit tools are appropriate to the software systems used by the audit client. There is a risk that 'off the shelf' audit tools that are becoming more widely available will not be compatible with bespoke systems or perhaps older versions of accounting packages. Again, the risk is that a sample will be not be properly tested and an improper conclusion drawn. This risk is also present in bespoke or in-house developed audit tools.

- Ensure that audit team and audit partners are sufficiently familiar with the operations of the audit software to be able to interpret the results of machine testing to the same level as that undertaken manually by the audit team. There is a risk that reliance placed on machine testing without a proper understanding of the mechanics of the test, the parameters used in setting the test and how to interpret the output/results of the test will lead to an incorrect conclusion on an audit test.

- Ensure that there is a consistent approach to the deployment of machine testing across all audit engagements. There is a risk that an inconsistent approach to the use of machine testing will lead to inconsistent results across audit teams within the same audit firm.

- Ensure that there are sufficient and proper security measures in place to guard against a data breach where the machine testing is performed by a cloud-based technology. This is a risk with off the shelf or SAAS type audit tools.

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 not aware of the use of new technologies to analysing and interpreting information provided by auditors – including the audit report.

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

We see the main ethical implications as;

- Objectivity, there is a risk objectivity could be compromised where an overreliance is placed on the result of machine testing techniques where the audit partner does not have clear oversight or understanding of the parameters, techniques and limitations of such techniques.
- Integrity, there is a risk integrity could be compromised where there is a lesser degree of professional scepticism applied to the results of an audit test due again due to an overreliance on the results of machine testing.

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 there is value in developing a common data standard to support the audit entity. We believe that there are many forces coming into play in the developing of such a standard and it will be difficult for such a standard to be driven solely by the FRC for the purposes of the provision of audit services. We have moved to an era of open source banking where bank feeds into client software are common, clients are using AI to scan and record invoices in their accounts payable systems. Many clients use open APIs to source extract data to report tools and web interfaces. We believe that a UK and Ireland/EU data standard will be driven by the commercial interest of business rather than as a tool to aid in audits. When there is a common data standard this will greatly help auditor in the use of AI and other machine-based audit tools.

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?

We believe that the threat to auditor independence should be no greater than it is currently. If an auditor applies, the ethical standards as they are required to the risk to independence should be similar to that where AI or machine testing is not used. We also believe that where AI and machine testing is widely available and widely used that consulting firms will offer services with similar outcomes and reports to the techniques used by auditors. The current EU legislation in place for the provision of non-audit services to PIEs should be sufficient to mitigate any risks.

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.

We agree that audit documentation can be more challenging when an audit has been conducted with automated tools and techniques. In our opinion the difficulty with automated audit tools and techniques, the auditor does not have control over the selection process. In addition, with automated tools, the predefined criteria for conclusion is not known. The automated process does not explore the findings of any irregularities and it is possible the automated process will not identify all irregularities. Management also can learn the selection criteria of an automated audit log tool, thus exploiting the system for their own benefit and eradicating their irregularities from suspicion. In the meantime, digital working papers are useful and help complete the audit in an efficient manner. Statistical software provides data trends which an auditor can use to perform analytical analysis.

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?

We have not encountered any challenges in dealing with the volume of 'exceptions' at this date.

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?

We are in agreement that the use of third-party technology vendors raises potential ethical challenges for auditors Safeguards could be in the form of "cloud" based software, being that software operates offsite and is not accessible by general management or other parties; rather the audit team, (being internal and external) and significant persons charged with compliance and regulation.

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 are in agreement that increased usage of third-party providers presents challenges in audit documentation. The auditor is not in control of the selection process, so is unable to document the selection criteria for testing.

We have had limited relevant experience in this scenario.

If you have any questions on the above, please do not hesitate to contact me.

Yours sincerely,

Cath Matthews

Secretary, FRSC CPA

On behalf of - David Roxburgh, Chairperson, Financial Reporting Sub – Committee