Transcript - IAASA Insights Podcast #7

AI: An IAASA Perspective

Eileen Townsend: Welcome to IAASA Insights, the podcast that explores the work of the Irish Auditing and Accounting Supervisory Authority to uphold quality corporate reporting and an accountable profession.

I'm Eileen Townsend, Head of Standards, Policy and Organisational Development here at IAASA. Today we are talking about artificial intelligence and more particularly what we're seeing in its use in accounting and audit.

There's obviously an enormous amount being said about AI at the moment, but what we want to focus on is its intersection with IAASA's work, what we're actually seeing in firms and companies, what AI might mean for audit quality and evidence, and what people should perhaps be asking when they're told about the capabilities of new technologies. And joining me to discuss this is Lisa Campbell, IAASA's Head of Operations. Lisa, welcome back.

Lisa Campbell: Thanks, Eileen. Great to be back.

Eileen Townsend: So Lisa, before we get into what we're seeing, I think it would be useful to clarify what do we mean when we talk about AI in our context? So it's a term that's used quite broadly and not always to describe the same thing. Can you give us a working understanding of what we mean by AI for the purposes of our discussion?

Lisa Campbell: Sure. So these days, pretty much any new piece of software can end up being called AI. But there are some useful distinctions because the technologies don't all work in the same way and they don't all have the same risks.

So at one end, you have what I'd consider to be traditional automation. And really that follows predefined rules. So if something happens, sort of if then statement. So if something happens, the system takes a particular action. So an invoice is above a certain value might automatically be sent for an additional approval, for example.

So machine learning then is a bit different because that's a model that identifies patterns in data rather than just relying on individual pre-programmed rules. So it might, for example, be able to identify transactions that are unusual or more likely to need attention.

Then there is the generative AI. So the distinction here is that it produces new material. So it might be text or summaries or code. By predicting a plausible output based on patterns in its training data and in the context that it's been given.

And then I suppose the most advanced thing that we're hearing about lately is agents. And actually the agents can go even a step further because rather than relying on you, so we've all used probably ChatGPT or similar, where you give it a prompt and it does the thing. An agent actually doesn't require you to give the prompt. It can go and act on its own accord, combine series of tasks and take different actions across different systems. But of course that operates within the defined permissions and controls that you give it.

So I suppose really AI isn't just one thing and the distinction matters because they work so differently and the risks and controls then that you need for each one can be quite different as well.

Eileen Townsend: Okay, so thank you for cutting through some of the terminology. Let's move on to what we're actually seeing then. So how extensively is AI being used at the moment in accounting and audit?

Lisa Campbell: So generally a lot of the current use is, you know, very practical and supportive. So, you know, things like drafting, summarising documents, searching internal guidance, you know, you can have extracting information, matching invoices, organising things and identifying unusual transactions.

So we recently had an audit committee briefing and Majella Mungovan from Meta, she spoke about Meta's finance operation in Dublin and how they use AI to drive efficiency across a very large finance function, where they're dealing with millions and millions of transactions. So that was an interesting example of something that's happening in a business in Ireland.

However, it's probably relatively unusual, or at least based on the survey that we recently did of listed companies that fall within IAASA's remit. So around 60% of those that we surveyed told us that they are using AI in some way, but that mostly it's focused on efficiency. The other 40% said they aren't using AI at all. And only one company said that they were looking at more advanced sort of applications, including use of agents. So still fairly limited use.

Eileen Townsend: And then what about in audit? Is it a similar picture there?

Lisa Campbell: So yeah, in audit, I would say maybe a higher percentage of firms are using AI, but it is still mainly focused on efficiency uses.

One thing we are seeing is that AI is making the rules-based technologies that were already in place a little bit more effective. So in terms of analysing large populations of transactions, it might be better now at identifying anomalies because of looking at that pattern analysis as to what is really unusual rather than having just that predefined limited set of rules.

It can also kind of extract and compare information, searching samples of contracts for particular words. An AI tool can scan a much larger population. It can identify the standard clauses and then flag the outliers.

But I think I said earlier, finding the exceptions that you need to look at is not the same thing as concluding. So the technology is directing the auditor's attention, but the auditor still actually has to understand the evidence and investigate the exception and decide what that means. And that's really what we mean when you hear people talk about keeping the human in the loop.

Eileen Townsend: So we're probably then at a relatively early stage of its use in accounting and auditing, but firms and companies are clearly investing significantly in the technology. So what are they telling IAASA about where this could go ultimately?

Lisa Campbell: Yeah, so there is, you know, a very varied range of development, I would say, going on. You know, the size of the firm obviously has an impact on that. So, some firms are developing tools in-house. But also we are seeing some tools being developed in the market, not by audit firms, but with audit firms in mind. So that, the audit firm, I suppose, is the potential customer. So that might be really useful for firms who don't necessarily have the in-house capacity to build bespoke tools.

And the types of things that these tools might do, so the firms tell us that they're developing ways that AI can support the audit, right from the very start to planning all the way through to completion. So, there can be monitoring of transactions or other business information, giving early warning of unusual activity or emerging risks, any control failures, possible fraud, rather than kind of waiting until the year-end audit to spot those things.

Also, they're looking at analysing entire populations of journal entries, contracts, other records. They're also looking at the ways it can support work on things like fraud, going concern, accounting estimates, and also, identifying gaps or inconsistencies within the audit file.

So, you know, look, we are hearing that there is the potential for AI agents to take on some routine multi-step procedures. But in all cases, I think what we're continuing to hear and what the standards require is that the auditor still needs to validate all of the information. They need to challenge the AI output and they need to make the key judgments. So the use of technology, it doesn't make the accountability disappear.

But, there is great potential there for earlier identification of risk, testing bigger samples. And then, that will free up time, I suppose, to allow the auditors to focus on those more challenging areas that require, more judgement, scepticism and experience.

Eileen Townsend: So then as AI moves closer to the areas involving that evidence and judgement, you mentioned professional scepticism becoming particularly important. So maybe tell us a little bit more about that.

Lisa Campbell: Yeah, exactly. So, the concern isn't that the AI will produce some, sort of ridiculous answer because that might be even easier to deal with because, you might spot that pretty quickly. The more challenging risk is that the answer looks entirely plausible. And, anyone who's asked ChatGPT a question, you'll know that it, you know, it answers in a very confident way. But of course it can be wrong.

And so it's really important to make sure that, when a human is approving that output, are they genuinely challenging it or are they just saying the AI did that, must be right. So, the risk of confirmation bias, I guess, or over reliance on the technology.

But this isn't a new issue, I suppose. You have that today with the technology tools that are not built on AI. And so it's just to maintain that scepticism and challenge. Even if the first 10 times you check the AI's output, everything is fine. You still want to give it that same level of challenge on the eleventh go.

Eileen Townsend: So then when a firm or an organisation is deciding how and where AI can be used in their accounting or audit functions, what do you think is the starting point for them?

Lisa Campbell: So I think I'd be sort of saying, what are the consequences of the task? Rather than looking up, sort of what the name of the technology is.

So, if it's a generative AI tool and it's being used to summarise notes or, search their knowledge library, prepare an initial administrative draft, that's fine, an error will be identified as that's being, reviewed and that can be corrected. But as you move closer to, extracting data, assessing audit evidence or contributing to a conclusion, there, the consequences of the error can be much more significant. So that's where the controls need to be stronger.

Eileen Townsend: And then there's probably the question that everybody asks in any discussion about AI. Will we ultimately need fewer accountants and auditors? What's your perspective?

Lisa Campbell: Yeah, again, common question. And, for me, I think, look, the way accountants and auditors work will certainly change. I mean, there'll be repetitive tasks, you know, traditionally done at a junior level. They might be reduced or carried out differently. But it doesn't mean that the profession will shrink. Because if I think about it, it's about 25 years since I started out. And what I did then is not what an audit junior would do today. It's not what an audit junior would have done five years ago. So the profession has evolved a lot. And if you go back further to the introduction of computers and even introduction of calculators back even further than that, the profession evolves continuously.

So I mentioned earlier our audit committee briefing and again it was Majella actually referred to a paper by a professor Eldar Maximov and that I may have pronounced that wrong but that argues that AI could actually increase the demand for accountants and auditors because he argues that there'll be an increased need for verification. There's definitely going to be more work in other areas like validation, systems assurance, fraud investigation, governance and professional judgement. So maybe it's wishful thinking on my part, but I personally don't think that we will have less accountants and auditors in the future.

Eileen Townsend: Okay, so not simply a workforce question or not a workforce question as much as it's about training and development?

Lisa Campbell: Yeah, and the skills, I suppose, as well that are needed. So, you know, the ability to use technology will be important and, you know, as well, really important is the ability to challenge it and to think critically around it. So if the AI is doing more of the initial analysis, human skills around judgement and scepticism and really understanding that evidence, that becomes even more important, not less important.

Eileen Townsend: Okay, so thank you for the thoughts on the future and where this is all going. We might just turn to what is IAASA doing? So having talked about companies and audit firms, where does IAASA fit into all of this? What's our role?

Lisa Campbell: Yeah, so we're very clear that our interest is, where AI intersects with our statutory functions. So how is it being used in corporate reporting, by the accountancy bodies, in public interest entity audits, sustainability assurance, and then, you know, within standards and enforcement as well.

So we're engaging with all of those regulated entities to understand how they are using and developing the technologies. We're talking to the PIE firms, we're talking to our issuers, to the accountancy bodies. And we're considering what the developments mean across the board. So for audit evidence, for quality management, also looking at the education and training of auditors into the future. And we're obviously as well building our own staff capability.

Eileen Townsend: And turning to that then, we are using AI within IAASA as well.

Lisa Campbell: Yeah, we are, but again, in a fairly controlled and limited way. So we use Microsoft Co-Pilot mostly for productivity purposes. We are trialling some more sort of

advanced uses, but only in parallel with our existing processes. So we have not replaced any of the work that's done by our humans with work done by AI. And at no point would we envisage moving any regulatory decisions to being made by the AI.

We have trialed some other tools as well. So we did trial one third party tool for automated disclosure checklists within corporate reporting. We thought that might have been useful. But again, we ran it in parallel to our human process and we found actually that the tool did not outperform our people. And maybe that's a good reminder to people not to assume that actually it's always going to do a better job or necessarily even a faster job than a human.

Eileen Townsend: And I think that's interesting because, it can be quite easy to fall into the one of two camps on AI. It's going to change everything or it's all hype. So our experience is probably somewhere in the middle.

Lisa Campbell: Yeah, absolutely. I think that's fair. There are definitely real opportunities here. You know, the technology should enable auditors to, you know, free up time and thinking space to analyse more information. To identify risks earlier, spend less time on those routine processes, and all those things can support audit quality if used correctly. But it does also create new risks and new questions. And it's our job, I suppose, to understand what it means for the areas we're responsible for and make sure our oversight as well continues to be effective as the practice changes.

Eileen Townsend: And then I suppose if there's one thing that you'd like accountants, auditors, audit committee members to take from this conversation, what would that be?

Lisa Campbell: Yeah, so I think it's that AI isn't magic and also that it isn't one thing. So, you know, if you don't just ask someone, are you using AI? It's like, well, what are you doing with it? What is it actually doing? What's it being used for? In accounting and audit, AI can analyse more information, identify unusual items, remove repetitive work. But the closer the output comes to that evidence, judgment or decision, the more important the human expertise and professional scepticism, the governance and the documentation of it becomes.

Eileen Townsend: Okay, so sum it up for us then. What do you think all of this means for accountants and auditors as AI does become much more widely used?

Lisa Campbell: I think we all, need to embrace it a bit, I suppose, learn how to use it, but definitely how to challenge it. So, and that's not, again, not new. So this is, a new technology, yes, but the fundamental question is familiar. It's what information do we have? Can we trust that information? And do we have evidence that supports it?

Eileen Townsend: Lisa, thank you very much for sharing your insights with us today. So for any listeners who'd like to know more about IAASA's work, visit IAASA.ie. There you can download our reports and find a range of other useful resources. And I think we'll have a report coming on the use of AI in corporate reporting based on the survey that we did of entities under our remit in the next few weeks. So do keep an eye on that on our website.

So thank you for listening to IAASA Insights. Until next time.