

Panel discussion on audit innovation and judgment

In June 2023, the yearly conference of the Foundation for Auditing Research (FAR) was held at Nyenrode Business Universiteit. The main theme was 'Auditors and their judgments'. In this respect, also the role of technology was frequently discussed. 'Is artificial intelligence going to replace the auditor?', was the obvious, but important, thought-provoking question. This question was mainly discussed regarding the extent to which technology can help the auditor during the conduct of an audit. Routine actions will increasingly be taken over by technology. Also, technology is better able than humans to detect trends and inconsistencies. However, judgment will remain essential.

During the second panel session, Jan Bouwens chaired a discussion on innovation, with James Berridge (Saffery Champness), John Boulton (ICAEW), John Toon (Beever and Struthers and ICAEW) and Caroline Monk (Beever and Struthers). These experts are all involved in the area of innovation, technology, audit methodology and/or data analytics.

John Toon stated that the adoption of innovative technology is still often seen as a risk by audit partners. He wondered whether partners are the right people to implement these kinds of innovative changes. He also sees a contradiction between the education, creativity and enthusiasm of aspiring auditors on the one hand and the checklist-driven formalized rigid processes within which they have to function on the other hand. According to Toon, this situation is detrimental for the curiosity, interest and enthusiasm of the young auditors. They turn into robots themselves, while there is now a fear that robots will take over the work of auditors. Audit partners are also afraid of the regulator, which also hinders the adoption of technology.

John Boulton looks at technology in the same perspective as sustainability: it permeates all business processes. The ICAEW ensures that it has a role throughout the qualification process as an auditor. The institute works together with the audit firms on the necessary 'journey' that the auditors take. Boulton: 'but the responsibility for quality management is with the firm, so the use of technology doesn't absolve you from any duty that you may have; technology is a resource that can help you to better manage that that process'.

Caroline Monk believes that culture is the starting point of a good audit. There is a danger in taking technology as a starting point. 'Curiosity' is the magic word. And technology is the enabler. Routine tasks are being taken over by technology, freeing up more time for complex issues. There will be more time to talk to the client. According to Monk, this has been increasingly forgotten over the past few decades: 'you know, to audit means to listen!' Partners must also allow teams to get started with technology. And yes, that also means that sometimes things will go wrong.

James Berridge agrees that many auditors adhere strongly to the imposed auditing standards and audit methodology. If the regulator does not agree with a judgment made by the auditor, but the auditor acted according to the standards and methodology (and this has been properly documented), then this is more acceptable than when problems arise and actions have not been taken according to the well-defined rules: 'the second someone deviates from that methodology and there's an audit failure, they come down like a ton of bricks'. Nevertheless, innovative technological options are available that provide excellent audit procedures, for example concerning the turnover cycle, while they do not fit well within the rules. In fact, it is then no longer necessary to check invoices, while this is required according to the rules.

Toon stated that audit partners often do not fully understand how technology can contribute to the audit. After all, they never learned that themselves. According to Monk, also clients often do not understand it sufficiently. The result is that people often do what was done the year before ('same as last year').

The new auditor who can adequately deal with technological innovation, also in the context of auditing standards and audit methodology, is therefore a five-legged sheep, in which also matters such as confidentiality and ethics play a role. Monk said that not the individual but the team is the five-legged sheep. And the necessary flexibility will have to be introduced into the education, so that there will be more room for innovation and, for example, also people with a different background can be admitted to the profession.

Link to the livestream: <https://www.youtube.com/live/ltL16DJcsNc?feature=share&t=343>