

**JOHNSON GLOBAL<sup>®</sup>**  
**Advisory**

June 13, 2024

**AI: An Auditor's Perspective**

# **JOHNSON GLOBAL<sup>®</sup>**

## Advisory



**Santina Rocca, CA, CPA, MBA, ACC**  
**Managing Director**

Santina is a senior executive with more than 36 years of international experience in financial oversight, audit public policy, and stakeholder communication. She has expertise in evaluating the quality control environment of domestic and international affiliates of global network firms and draws from this experience to advise firms on change management and compliance with global standards, including SEC regulations and PCAOB rules and standards.

She previously served 14 years with the PCAOB, most recently as a Deputy Director leading the Office of the Director in the Division of Registration and Inspections. She led, oversaw, and reported to the Board on firm inspections including the evaluation of firms' systems of quality control.

Santina is a Certified Leadership Coach and applies her coaching strategies to JGA's work helping firms improve their processes, particularly through the Engagement Quality Review Coaching Program.

# A Moment in History

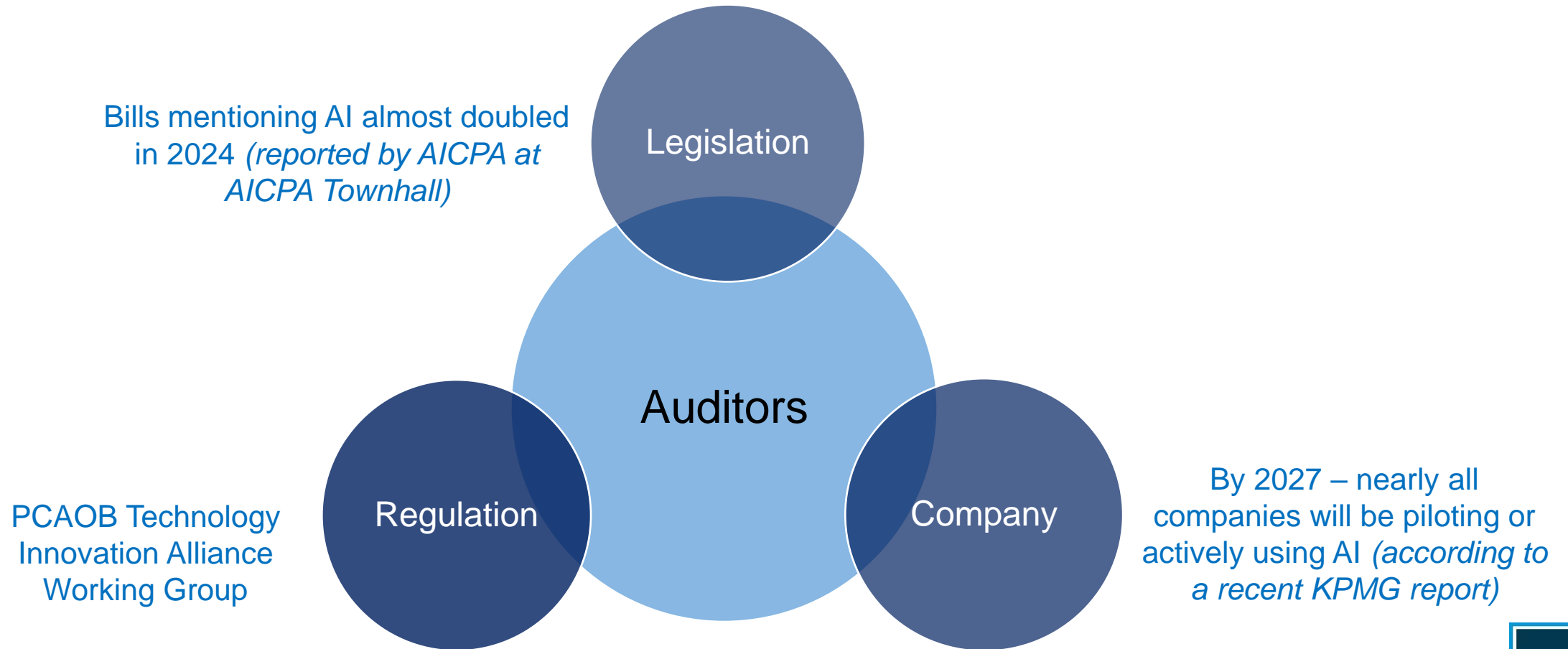
“

This is the Promethean moment we've entered – one of those moments in history when certain new tools, ways of thinking or energy sources are introduced that are such a departure and advance on what existed before that you **can't just change one thing, you have to change everything...it's how you create, compete, collaborate, work, learn, govern** and, yes, how you cheat, commit crimes....”

- *Thomas Friedman*

*(2023, March 21). Our new Promethean moment.  
New York Times.*

# Auditor Role: Gatekeeper of Financial Reporting Ecosystem



# AI and the Audit

# Audit Activities

## Activities that auditors should prioritize using GenAI

**Risk mitigation and internal controls**

**Data analysis and quality management**

**Risk/abnormality identification**

**Fraud detection**

Improve responsiveness and flexibility

Document and data gathering

Real time auditing throughout the year

Predictive analysis and forecasting

Speed of delivery

Gather value-added audit insights

As the right questions/challenge

Understand economic and industry trends

# Areas of Risk to Consider – AI and Auditing

Governance

Regulatory

Knowledge and Skills

Fraud

Data Privacy

Security

Selection and Design of GenAI Technologies

Use of a Foundational Model

Model training and development

Model Performance

Prompts

Ongoing Reliability and Monitoring

# AI Risks in Audits



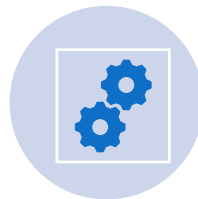
Governance



Data: Accuracy  
and  
completeness



Data: Reliability



Technology: Underlying  
models and algorithms



Bias



# AI for Financial Audits

## Risk Identification

- Prevention
- Detection

## Scenarios

- Planning
- Control Testing
- Substantive Testing

## Example: Data Snipper

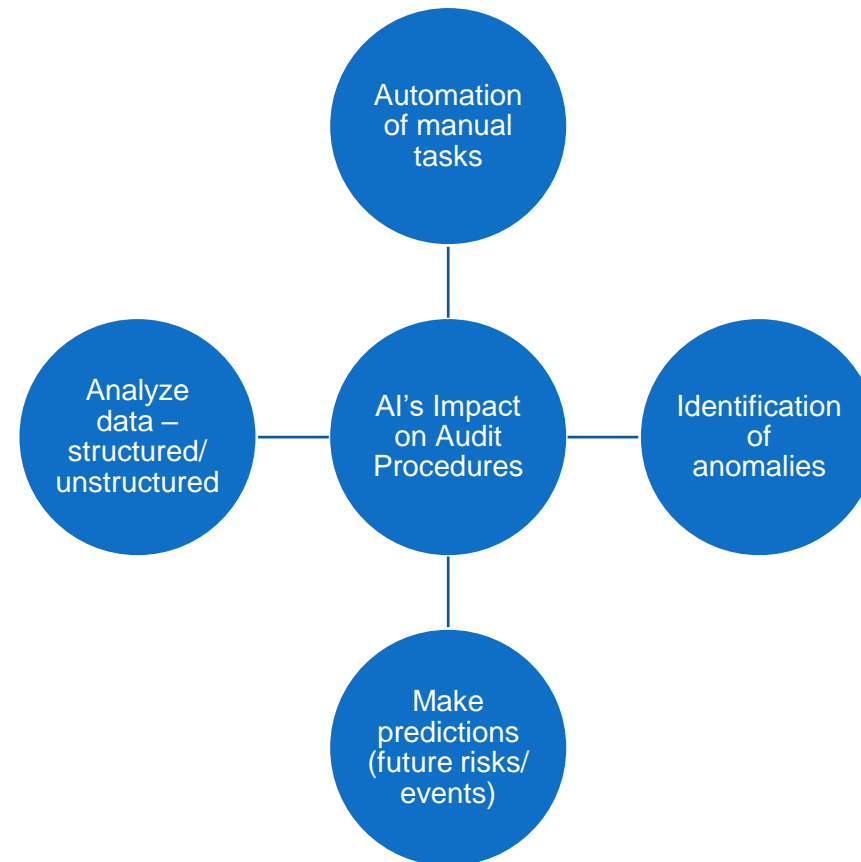
- Extract, cross-reference and verify data
- Saves time and increases accuracy

# AI and Engagement Monitoring

“Our results show that investing in AI helps improve audit quality, reduces fees, and ultimately displaces human auditors, although the effect on labor takes several years to materialize.

Specifically, a one-standard-deviation change in recent AI investments is associated with a 5.0% reduction in the likelihood of an audit restatement....”

- A. Fedyk, J. Hodson, N. Khimich, and T. Fedyk. (2022, July 7). *Is artificial intelligence improving the audit process?*



# AI and Firm's System of Quality Control

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## Risk Identification

- Prevention
- Detection

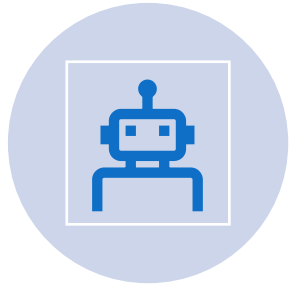
## AI for Firm Monitoring

- Rule Based AI
- Machine Learning
- Expert Systems
- Cognitive Computing
- Generative AI

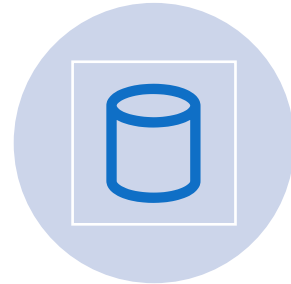
## Generative AI Scenarios

- Acceptance and Continuance
- Independence and conflicts of interest
- Scheduling and Resource Optimization

# AI and Firm's System of Quality Control



**Automate manual tasks**



**Analyze the complete volume of structured and unstructured data**



**Identify anomalies** such as unusual payments or activities



**Make predictions about future risks** and events based on historical transaction data

# PCAOB Developments

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Technology Innovation Alliance Working Group



**Standard-setting:** Open Meeting June 12<sup>th</sup> to adopt amendments to two existing standards:

*AS 1105, Audit Evidence, and AS 2301, The Auditor's Responses to the Risks of Material Misstatement, to address aspects of audit procedures that involve technology-assisted analysis of information in electronic form*

# PCAOB Perspective

“Technology or computer-assisted analysis is a tool that can enhance, but **cannot replace**, professional skepticism and professional judgment. Consequently, the foundational principles for the audit remain paramount, which is why the Board has not elevated technology-assisted analysis to an audit procedure.”

- *Kara Stein, PCAOB Board Member*  
(2023, June 26). *Algorithms, audits, and the auditor.*





# AI Considerations for Auditors

# Concerns in Using AI for Audits



Regulations



Errors in data



Security, privacy, and ethical concerns



New skills for auditors - don't want to be left behind



Human interaction

We have to be bold and responsible at the same time.

*James Manyika*

*SVP, Google-Alphabet*

*(2023, May 10). Being bold on AI means being responsible from the start.*

# Way Forward: Ask questions, Collaborate

I have said publicly before that data and technology can improve audit quality and enhance investor protection, but embracing it effectively and responsibly requires expertise, collaboration, and ongoing interactions in an agile and transparent environment.

– *Christina Ho, PCAOB Board Member*  
(2023, November 3). [Can artificial intelligence transform auditing and our fear of that transformation?](#)

Asking the right questions is a critical human skill that we must retain in this age of AI.

- [Hal Gregerson, MIT Researcher](#)

Questions?