INTEGRITY | PUBLIC INTEREST | AUDIT QUALITY

INDEPENDENT REGULATORY BOARD FOR AUDITORS

STANDARDS DEPARTMENT

Artificial Intelligence Audit Risks Mitigation Update

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The information contained in this communique was generated by an Artificial Intelligence tool. It has been edited and reviewed by specialists and authorised for issue by the Director: Standards.

We bring to the attention of registered auditors and firms some developments in artificial intelligence (AI) and the potential implications for the audit profession. We highlight the emergence of new and improved AI tools, which have the capability to generate not only natural-sounding language, but also images, videos, and audio, based on input prompts. These tools have the potential to create more realistic and convincing false evidence or fabricated working papers, which can undermine the integrity and reliability of the audit process and the financial statements.

As registered auditors and firms may be aware, we issued a communique on 12 January 2023, titled "*Artificial Intelligence Audit Risks Mitigation*", in which we recommended some safeguards to mitigate the risks posed by generative AI tools in the audit profession. These safeguards included developing a clear policy on the use of AI tools within the firm and on audits, establishing procedures to verify the authenticity of

evidence and working papers, developing a protocol to monitor the use of AI tools within the firm and on audits, and including language in engagement letters that covers the use of AI tools in audits.

Below is a summary of the risks mentioned in the previous communique and updated on how they may have changed.

Risk	Description in 2023	Change in 2024
False evidence generated by the auditee and fabricated working papers created by the auditor	The use of GPT-3 and other AI tools to generate natural-sounding language, including written text, which can be used to create false evidence and fabricated working papers, leading to inaccurate conclusions and misstatements in financial statements.	The risk is likely increasing due to the development of more advanced AI tools, which can generate not only text but also images, videos, and audio, making it harder to detect falsified evidence and working papers.
Ethical violations	The use of AI tools to commit fraud and misrepresentation, leading to disciplinary action or legal penalties.	The risk is likely increasing due to the proliferation of and access to AI tools and the lack of adequate regulation and oversight, thus making it easier for preparers, those charged with governance, auditors and firms to engage in questionable conduct.
Quality management	The lack of clear policies and procedures on the use of AI tools within the firm and on audits, and the lack of training and monitoring for staff on the risks and proper use of these tools.	The risk remains present. However, the risk may be responded to where firms have successfully implemented the International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* prescribed by the IRBA, as ISQM 1 provides guidance and requirements for firms to establish and maintain a system of quality management, including the *Use of Technological and Intellectual Resources (Refer to ISQM 1.32(f)-(g) and A104).*

While confidentiality concerns were not explicitly mentioned in the previous communique, it has been recognised as an ongoing concern. The use of generative AI tools may lead to unintended disclosure of sensitive information, heightening the need for robust data protection measures. Other risks may have also emerged since our first communique, which we begin to address in the recommendations we make below.

We reiterate the importance of implementing controls and safeguards and urge registered auditors and firms to review and update their policies and procedures to reflect the latest developments in AI and the associated risks. ISQM 1 requires that as firms identify additional or modified risks, firms design and implement additional responses to those risks. In addition, at this stage, we recommend the following:

- The reliability of IT general controls at clients and firms remains a priority to support the integrity of the data used by AI;
- Apply professional scepticism and judgment when evaluating the evidence and working papers generated by AI tools and seek corroborating evidence from independent and reliable sources;
- Address the risk of over-reliance on the AI tool, coupled with the need to understand the AI model and

to explain its algorithm, and how it addresses bias. Ensure that AI models are transparent by maintaining an audit trail to make them explainable;
- Firms may consider developing a certification process for new technological resources prior to adoption on audits, ensuring that only certified tools are utilised and that necessary resources and skills are integrated into the certification process;
- Consider, when relevant, the use of appropriate tools and techniques to detect and prevent the use of falsified evidence and working papers, such as digital forensics, encryption, and other technology tools;
- Resourcing of engagement teams and service centres to appropriately apply the AI tool, and interpret the results as evidence for the engagement;
- Communicate with the audit committee and the management of the audited entity to identify the entity's use of AI tools throughout its control environment and, in turn, about the use of AI tools in the audit process and the risks involved;
- Report any instances of fraud or misrepresentation involving the use of AI tools in accordance with laws and regulations, the auditing standards and the IRBA Code of Professional Conduct for Registered Auditors (Revised April 2023); and
- It is advisable for audit firms or engagement teams to carefully evaluate whether the prompts and information entered into or shared with AI tools will be kept confidential.

By taking these steps, registered auditors and firms can help to maintain the quality and credibility of the audit process and protect themselves, their firms and their clients from some risks posed by AI tools.

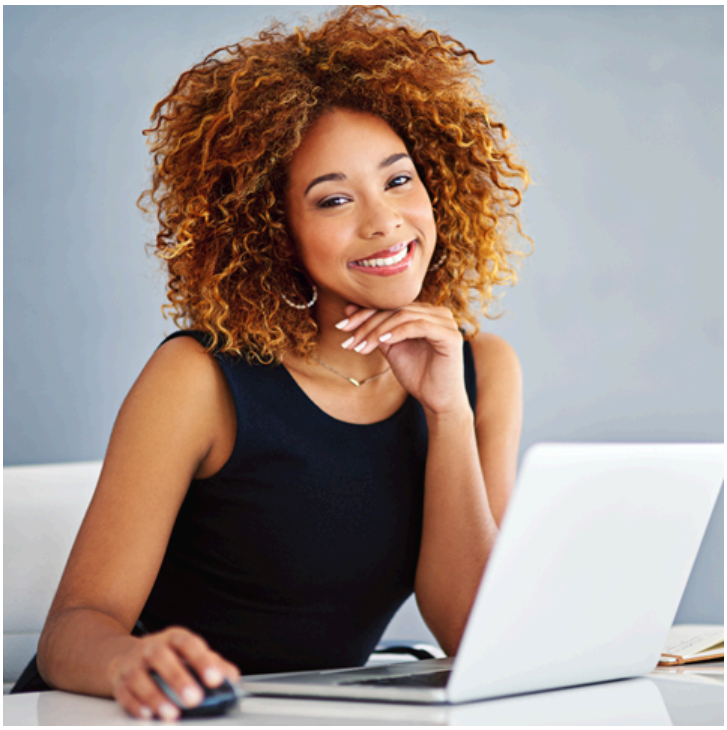
In conclusion, we want to remind registered auditors and firms that they play a critical role in ensuring the accuracy and integrity of financial information that is relied upon by investors, stakeholders, and the public. The use of AI tools in the financial reporting and governance processes, and specifically in the audit process, may provide certain benefits but it also poses significant risks that must be managed effectively.

Should you have any further queries, please do not hesitate to contact the Standards Department by emailing standards@irba.co.za.

Imran Vanker
Director: Standards

About the IRBA

The objective of the IRBA is to endeavour to protect the financial interests of the South African public and international investors in South Africa through the effective and appropriate regulation of audits conducted by registered auditors, in accordance with internationally recognised standards and processes.



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