



# Regulating AI in Auditing

Introduction to AI  
Breakout Session

**PCAOB SEIAG Meeting  
November 12, 2024**

**Created by PCAOB Emerging  
Issues Subcommittee**

(Preeti Choudhary, Dane Mott, Jim  
Hunt, Brian Croteau, and David  
Fabricant)

**Disclaimer:** The views expressed in this presentation may not represent the views of individual subcommittee members, their employers, or the EIA Subcommittee as a whole. Further the views expressed in this presentation do not necessarily reflect those of the PCAOB, any individual members of the Board, or the PCAOB staff.

# What is AI?...

- AI is a set of technologies with a different implementation approach than traditional software
- It has capabilities allowing it to solve complex problems
- It is not generally intelligent, self-learning, or creative
- It may not always be correct
- It may not solve problems the way you want it to

Organization for Economic  
Cooperation and  
Development (OECD)

a machine-based system that, for explicit or implicit objectives, infers, from input it receives, how to generate outputs such as predictions, content, recommendations, or decisions that can influence physical or virtual environments.

American Institute of  
Certified Public Accountants  
(AICPA)

the science of teaching programs and machines to complete tasks that normally require human intelligence.

# Applying governance to AI has some unique challenges

- Governance approaches often differ between those that are object centered versus people centered. One challenge with governing AI is that it may not easily be separated into these buckets.
- Risk of collusion is unique to AI. This is the idea where two or more AI algorithms can lead to collusion, which we typically consider as requiring human agents. This can lead to undesirable outcomes.
- Inappropriate training of the AI systems can lead to systematic biases
- Training AI requires use of data that may violate privacy rules and regulations
- The pace of change occurring with AI is much more rapid than other technological advancements

# Auditing Profession AI Governance Principles

Audit Profession AI Governance could refer to the framework of policies and guidelines that inform a profession's conduct, decision making, and practice related to AI. It could rely on underlying principles, such as

1. Accountability
2. Transparency refers to Explainability
3. Fairness refers to avoiding bias
4. Reliability refers to data integrity and accuracy
5. Security and Privacy

# Audit Regulation AI Framework Approaches

1. If the underlying auditing rules are sufficiently principle based then one view is that AI is just a tool, and a specific framework is not needed
2. Other extreme is that the regulator should develop an AI framework to ensure the use of the technology mitigates risks and is reliable and appropriate.
  - This can be done by adopting an existing framework such as COSO and modifying it for AI
  - Or adopting another entity's framework (such as government or other regulatory body) and modifying it to apply to the audit industry
  - It can be outcome focused or process focused, where process focus may require more updating with technological advancement.
3. A third approach is to require each auditor that adopts AI technologies in auditing to develop their own AI governance framework, where the PCAOB evaluates and establishes best practices and may even test whether the framework is being followed



## Poll Question:

Which of the following approaches do you think the PCAOB should take when considering governance of AI in auditing?

- a. the underlying auditing rules are sufficiently principle based and AI is just a tool, therefore a specific framework is not needed
- b. The PCAOB should develop an AI framework to ensure the use of the technology mitigates risks and is reliable and appropriate
- c. The PCAOB should require each auditor that adopts AI technologies in auditing to develop their own AI governance framework, where the PCAOB evaluates and establishes best practices and may even test whether the framework is being followed
- d. None of these approaches is preferred

# A Framework for AI in Auditing could address questions such as these

- 1) How does the auditor respond to management using an AI tool in financial statement preparation?
- 2) How will the auditor's testing of control design and operation evolve when applied to AI executed tasks?
- 3) What procedures should the auditor perform to understand how management determines whether, or the extent to which, management can rely on information produced using AI for both financial reporting and/or controls? How will the auditor assess the reliability of audit evidence related to these processes and controls?
- 4) As part of the auditor's risk assessment procedures, are there areas of financial reporting that pose more risks when performed by AI? Are there areas of auditing that pose more risk when performed by AI?
- 5) What responsibilities do auditors have including communications with audit committees when it comes to being transparent about the level and specificity of how they are using AI in their processes?
- 6) What standards or practice guidance should the PCAOB develop to help establish what is and is not permissible auditor behavior with these rapidly emerging technologies and how resulting risks of use are mitigated and monitored?

**Note that while useful our discussion will avoid how AI can aid the PCAOB in its oversight responsibilities**

# Breakout Discussions

**Group 1:** How do companies use AI in preparing financial statements(e.g., processes, controls, books and records)? What are the risks? What features make its use reliable? What are the potential future opportunities for using AI in preparing financial statements and what are the risks related to such opportunities? - led by David Fabricant

**Group 2:** How do auditors use AI to aid in auditing? What are the risks? How do auditors determine the use is reliable? What are the potential opportunities in the future for using AI to aid in conducting audits and what are the risks related to such opportunities? - led by Brian Croteau

**Group 3:** How does one consider the potential fraud risks from AI which can be used to create fake content? What is reliable audit evidence in the wake of this possibility? Can AI be used to detect fraud? What are the potential opportunities in the future to use AI to detect fraud? - led by Preeti Choudhary

**Group 4:** Should the auditor describe or provide any disclosure (either to audit committees, public disclosure in audit reports, etc.) about auditing AI outputs, use of AI in auditing, or risks? - led by Dane Mott and Jim Hunt