

## Competition and Markets Authority

7<sup>th</sup> Floor, Victoria House,  
37 Southampton Row,  
London, WC1B 4AD



21<sup>st</sup> January 2019

Dear Sirs,

### Statutory Audit Market – Update Paper – Invitation to Comment

We are delighted to provide our comment into the Competition and Markets Authority's (CMA) update paper regarding the ongoing review of the Statutory Audit Market.

Inflo is an independent audit technology provider. We were founded by multiple ex-Big 4 auditors with specialist skills in developing and implementing advanced technology to improve audit work. The mission behind our organisation feels of great relevance to the CMA's review and has compelled our response as remedies are now proposed regarding the Statutory Audit Market.

Inflo was founded to make advanced auditing technology, which had previously only been within the investment reach of the Big 4 firms, available to all mid-tier and independent audit firms (termed challenger firms in the update paper).

Our core aspiration in founding our organisation was to improve the quality of audit work and the associated value of an audit in the eyes of stakeholders. We seek to bridge the gap in the capabilities of the Big 4 firms against other firms in order to enhance the level of competition in the market.

When considering our perspective it is important for us to share that we count [ ] of the 16 audit firms who responded to the original invitation to comment (as at the date of writing) as customers of our business. This market share, which includes [ ], demonstrates the enthusiasm the audit sector has shown in the last 24 months in embracing new technologies to improve audit quality.

The impact of these firms implementing new capabilities is immature at the point of the current CMA review because:

- implementation often takes multiple years given firms are careful to phase the implementation of transformative technologies,
- firms often focus initially on implementing such techniques on lower risk audit clients, i.e. not FTSE 350 clients, and
- the nature of the current regulatory review process means the impact is only assessed and seen some time after implementation has occurred.

Technology has been cited both directly within, and indirectly within media coverage of, the study as playing a role in being both a cause of the current environment and a solution to progression the profession.

Rather than deliberating the update paper, to which we feel the CMA has and will receive ample responses, we share the views of audit technology specialists in order to provide our perspective on the current market dynamics and how technology developments are contributing to competition and quality.

Specifically, our response focuses on how technology could expedite the impact of the remedies proposed by the CMA to allow for the swift implementation of change. We cite illustrative examples of how our technology can be used by audit firms to improve the quality of their audits – not to be promotional but to provide clarity regarding the current state of the audit technology market.

We remain open to further comment should our insights be of additional value to the CMA.

Yours faithfully,

Mark Edmondson - President & CEO, Inflo

## Remedies discussion

### Mandatory joint audit and peer reviews

A key implementation concern regarding mandatory joint audits, and to a lesser extent peer reviews, is the risk of duplication of effort. This is not only relevant to the activities of the audit firms, but also in how organisations will facilitate the provision of information, data and supporting evidence to multiple audit firms.

Collaboration technologies, where an organisation securely transfers to an audit firm the information they require, are proprietary technologies for each of the Big 4 firms. However, challenger firms have commonly adopted third-party solutions to facilitate this part of the audit process. Firms utilising technology, which could provide synergies where audit clients can transfer consistent information to multiple audit firms, will be an important component in reducing the risk of duplication of effort for audit clients.

Similarly, Big 4 and challenger firms alike are reliant upon being able to obtain transactional data from the audit client's accounting system. This requirement has become essential to performing more progressive auditing techniques which are acknowledged to improve the quality of audits, in particular in the areas of assessing audit risk and testing for fraud.

Inflo has implemented an approach where audit clients provide this data in an identical approach to all audit firms. This service provides to an audit firm detailed, reliable and accurate data from any audit client accounting system in an identical format. Audit firms are benefiting from Inflo's established data extraction and transformation approach (often called Data ETL) and the associated Inflo Common Data Model. Given the level of adoption of Inflo, an opportunity exists for the data required by auditors to be obtained from the audit client accounting system only once before being passed to all the audit firms involved in the engagement, to reduce the duplication on an organisation and to ensure each audit firm is provided with identical and reliable data for analysis.

It is worthy of note that this would not impact the hypothesis shared in the study that two different auditing technologies interrogating the audit client accounting system could be advantageous, as several of the firms within the scope of the study, analyse the accounting data extracted by Inflo in their own proprietary audit analysis tools. This is most common with Big 4 firms, therefore the proposed structure of joint audits commonly consisting of a Big 4 firm combined with a challenger firm would ensure multiple technologies would analyse consistent data extracted from the audit client accounting system.

### Licencing technology of larger firms

The study has indicated the CMA is not inclined to promote technology sharing in the remedy package, which we feel is appropriate. Even within the last 2 years, the technology available from third-party providers serving accounting firms has rapidly advanced. As mentioned, the impact of these advancements is yet to be fully felt due to the time required for audit firms to implement such technologies and the lag in the performance of retrospective regulatory review.

Technology is a broad field in relation to auditing, but can be bracketed into four key categories:

- **Audit Documentation:** responsible for documenting the audit process from planning to completion, including key areas such as the assessment of risk. More advanced platforms incorporate and execute the firm's audit methodology;
- **Collaboration:** responsible for the secure transfer of information between client and auditor. Specialist software can also extract transactional data from an audit client accounting system and transform to a common data model format ready for analysis;
- **Data Analytics:** responsible for the analysis of the data extracted from the audit client accounting system. This field is also advancing to include the use of artificial intelligence; and
- **Other Specialist Tools:** responsible for a variety of niche activities performed during the audit process, for example to intelligently read contact documents.

## Licencing technology of larger firms (continued)

In tendering processes, emphasis will often be placed on how technology can differentiate audit firm services. As such, Data Analytics technology is one of the most visible areas audit committees and other stakeholders might envisage a gap between the capability of the Big 4 firms against challenger firms.

However, such emphasis would be misplaced when considering the source of any difference in quality or capability between Big 4 firms and challengers. The audit technology market has advanced rapidly in the data analytics space in recent years with many challenger firms now utilising third party solutions which provide comparable audit techniques to the technology developed by Big 4 firms.

Instead, the focus of any technology sharing consideration should centre around audit documentation technologies and associated audit methodologies. The Big 4 firms have each developed over many years, and at incredible expense, global audit documentation tools and audit methodologies which are considered state-of-the-art. These technologies have been in operation for many years. Some of the largest challenger firms have also adopted this strategy, developing proprietary global technologies and audit methodologies. Yet the impact of these investments are yet to be felt as the largest challenger firms are only just implementing these technologies on their audit engagements.

Firms other than the Big 4 and the largest challenger firms are reliant upon the solutions available from third-party audit technology and methodology providers. These markets have, in our view and the view of many of our customers, experienced under-investment over recent years. This has caused a stagnation in audit quality at a time when advancements in technology have created significant opportunities to enhance audit quality.

The area of audit documentation platforms and in particular audit methodologies is the key source of the quality differential between a Big 4 firm and a challenger firm. While the largest challenger firms are bridging-the-gap, this is the key area where technology and knowledge sharing would have a significant impact to audit quality and how challenger firms are viewed in the eyes of ACCs, thus enhancing competition.

## Reducing barriers to switching

Related to the points made here-in, one of the challenges posed to increasing competition are the costs associated with change. Changing statutory auditor means an audit client will currently have to change established communication, collaboration and data extraction technologies where the incumbent and replacement firms each use proprietary technologies in these areas.

The market share and traction Inflo has achieved with UK audit firms allows for a far more effective and lower-cost transition between an incumbent and replacement firm where both are using our technology to support the audit process. The audit client experiences an almost identical audit process with regards to the provision of information and extraction of accounting data, significantly reducing some of the key areas which currently reduce the desire for organisations to change their statutory auditor.