

7 June 2019

Dear Sir Brydon,

Thank you for this opportunity to contribute to your review.

I am currently a research associate at the FinWork Futures Research Centre, King's College London, where we are examining how technology is transforming the financial professions - of which audit is a key focus. Prior to this role, I spent many years working in a Big 4 audit firm, in both their audit and forensic practices, followed by some years in industry as Head of Finance engaging with auditors. This was followed by a doctoral thesis on audit quality at the LSE. The views in this letter are my own and have been informed by over twenty years of either working in, working with, or researching audit.

As already noted, the history of audit has had a difficult journey with many cycles of high-profile failures, governmental reviews and efforts at reform. Standing back, the question does arise as to whether this latest spate of failures and reviews just forms the next chapter in this history. The issues you have highlighted in your Call For Views have all been raised before and each have a history in their own right (including the role of technology). They sit uncomfortably as perennial tensions around the audit and are perhaps most interesting, if nothing else, for this profound persistence.

Part of the issue with the persistence is that nebulous notions such as quality, independence, expectations which plague the audit are not observable, measurable or even stable concepts. These shift over time, shaped by influences which may be entirely 'external' to the audit. In this respect, the audit will therefore always be subject to failure as it plays 'catch up' to these expectations (Q4). In addition, whilst it may be a useful exercise to try to unpack the elements of the expectations gap, I believe the main gap is the expectation of the general public that an audit is more of a forensic exercise than it really is, designed to detect fraud and to definitively sign off on a company's viability (Q5 and Q6). This, confounded with the current societal accountability and blame culture, means that failures such as Patisserie Valerie and Carillion seem to attract more public attention to the auditors as opposed to the company directors themselves.

It may be possible to meet part of this gap, and the added procedures on going concern already in motion will help, but deliberate fraud executed well will always be difficult to capture. A further reality not often mentioned is that audits take place usually in a confined period, reviewing work by client employees who are in the business throughout the year. There is a real information asymmetry which relies very much on cooperation, asking the right questions and the skill of the auditor to

overcome. As the sheer volume of information to be audited is only increasing, this raises basic questions on practicality, reasonableness, and even possibility, that an audit will ever be able to provide that level of assurance which underpins the expectations gap. Moreover, a more forensic style audit will significantly raise costs, and it is unclear whether or not the market will bear this (Q58).

Your current views on audit quality in Chapter 5 (Q23) are interesting although I'm not sure it is possible to disentangle audit quality of the process to that of the product. The starting point for most to understand the product will be as an output of the process. However, re-thinking the overall *value* of that product would be a worthwhile exercise. With respect to Q24, my current research on how technology is reshaping the audit seems to preliminarily suggest that there might be a 'tipping point' of regulatory requirements and that past that point, further regulation may have unintended consequences such as crowding out the exercise of judgement or simply losing the best people in the profession. The tension between having an auditable audit trail versus a true focus on judgement has been identified in academic research and therefore, creating that true space for judgement without fear of not being able to retrospectively justify it is important. This is particularly so since many cases requiring judgement usually involve contexts where full information is not available.

Given the issues which are so entrenched and interrelated within audit, I do not believe that large scale reforms such as breaking up the firms will be effective. The lack of academic research to support such reforms tends not to help. Moreover, whilst the audit partner has ultimate signoff, audits are conducted by vast teams whose day to day work are quite removed from such reforms. However, all this is not to say that the audit as it currently stands cannot 'do better'. I believe that technology can form part of the solution, in terms of raising levels of assurance (through auditing 100% of transactions as opposed to a sample, Q45), providing relevant insights (and therefore increasing both audit quality the value of the audit to companies), and potentially resolving in part, and in time, the cost issue. However, this is not without its risks and history also reminds us that the technology promise has tended to underdeliver in the past. The challenges with technology will be getting the balance between supporting and supplanting judgement (although in this respect, our research indicates that the use of AI is in its infancy within audit), ensuring that audit staff, within a more automated environment, still gain the relevant audit training to exercise judgement, and that the current divide between the Big 4 firms and others are not reinforced due to the availability of investment in technology. Ultimately, a space for innovation will need to be encouraged for all.

I hope you will find some of these views useful.

Best wishes,

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