Validis

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To: brydonreview@beis.gov.uk

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Re: Independent Review into the Quality and Effectiveness of Audit - Call for Views 07/06/2019

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Introduction

In response to the above referenced document, we (Validis) respectfully submit for your review our thoughts on the changing face of technology in the audit space.

We firmly believe that there is a technological revolution occurring across financial and professional services that, coupled with changing consumer expectation and behavior, creates an opportunity to drive a step change in the quality and effectiveness of the audit practice.

There's no doubt that technology will have a fundamental impact on the Accounting profession. Auditors spend many hours of their client engagements extracting data and verifying ERP transactions with accounting evidence. Data extraction and verification against 3rd party bank data can be almost fully automated to free up valuable resource to focus on other audit tasks.

The key areas we see technology impacting the audit are:

1. Automating existing data-related audit tasks – a range of tools already exist that can extract and normalise the data mapping and tagging it directly from a client's accounting system. This allows for huge reductions in time both by client and auditor to prepare financials and conduct the audit planning and preparation phase. Time can then be spent on the decision and actually auditing rather than simply building reports. Use of such a system can give a more immediate and complete picture and commonly save circa 25% of the time to conduct an audit.
2. Vast improvements to coverage and quality by using computing power and machine learning – If a technology platform is used to extract and manipulate all the available data you can deliver a full test and not just on a data sample, providing the auditor a risk map across 100% of transactions and not a sample of 5% to see if a problem can be found. At the same time with a tagged and normalised chart of accounts the data can be combined with other data assets (such as transactional bank statement information) to verify complete populations of revenue or expense, another step improvement in audit quality and completeness.

Validis responses

Our response to your specific comments in '*Chapter 10 – Other Issues*' are as follows;

Paragraph #122 *"New technology offers the promise that audit could move away from sampling of transactions and instead look at most or all of them. Data analytics could be more widely applied to identify trends or anomalies and flag up areas for further investigation and study. The Review is keen to understand how far there is actual delivery*

on this promise and across audits currently, and whether this varies according to the audit form or the scale or the geographic spread of the audit."

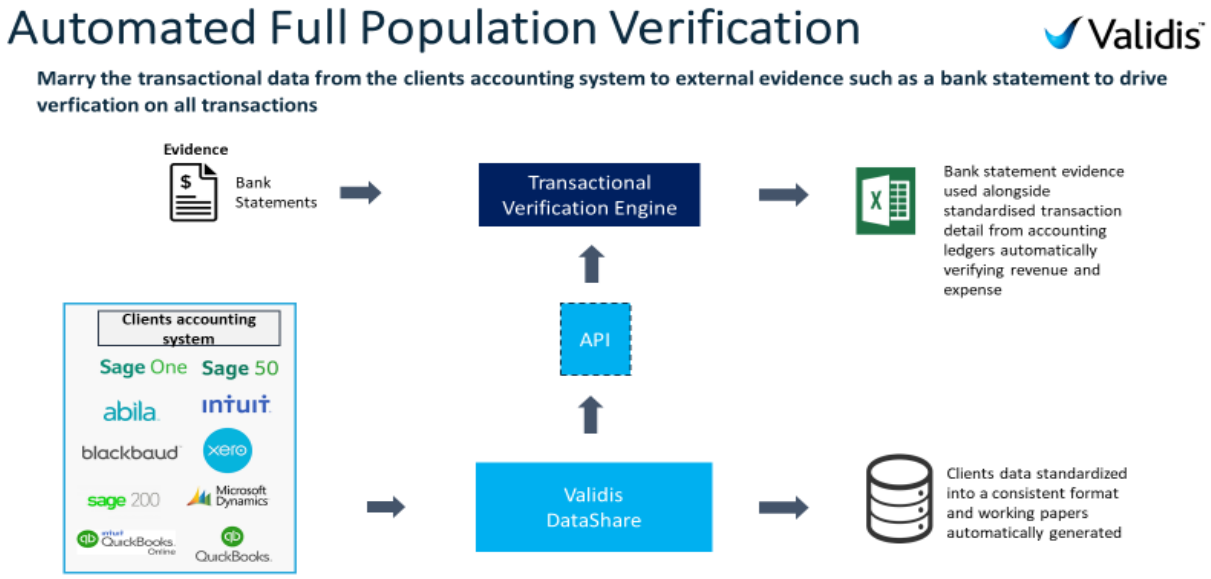
Validis response – Technology can be utilised to move away from sampling of transactions and identify trends in the data.

The end of transaction sampling – Powerful AI verification engines can now match business accounting income statement data with verified bank data to ensure all transactions are evidenced (see below for example workflow). The production of verification work papers, that summarise the matching exercise for auditors, frees up vast amounts of manual hours of data preparation and review but also gives the auditor more time to improve the quality of the audit through data / risk analysis.

Improved trend analysis – Accounting data can also be analysed to provide auditors with insights such as the quality of financial management of the business. Key financial ratios and other indicative trends signpost areas for analysis to the auditor. We call this analysis a "Quality Score" which accelerates the discovery of trends and behavioral anomalies.

This technology is already available to audit firms of any size where client account data is available and can be utilised regardless of geographic spread. The AI engine can understand financial information from any .pdf file, supports multiple currencies, and will support the Open Banking format later in 2019.

The diagram below shows a flow of how full population testing works.



Paragraph #123. *"As well as greater breadth of coverage, the underlying opportunity of this application of technology is that it should enable greater intelligence to be applied within the audit. Auditors would be freed from the more mechanical aspects of audit and enabled to focus on the anomalies and issues apply due skepticism and judgement to unearth any matters of concern."*

Validis response - The automated production of verified workpapers provides a disposition on whether bank statement evidence exists for every cash transaction in the client's ERP system. This also shows the auditor where

audit evidence does not exist. This approach can free up large amounts of audit time on a given audit to allow focus on anomalies and other matters.

In addition to **Chapter 10**, we believe technology plays a key role in **Chapter 2** – The Expectation Gap.

Paragraph #25 *states, "A variant on the expectation gap argument is that it is actually an 'audit quality gap'. This is the suggestion that audit currently fails to do a good enough job in addressing certain key legal requirements, such as those regarding the adequacy of accounting records, capital maintenance and the avoidance of the inappropriate dividend payments. Should audit better fulfill these requirements, these commentators argue, perceived gaps in expectations may narrow or even disappear."*

Validis response – It is well understood by auditors in many different firms, sizes and geographies that the general public's understanding of what "audited financial statements" means is generally inaccurate with what the output of their work is. With AI technology, an audit firm could enhance the public's trust by clear articulation of their usage of the latest AI technologies to analyse every transaction and verify where 3rd party banking evidence exists. AI and machine learning are rapidly changing how auditing is done and the more technology advanced firms are using these technologies to provide their clients with an enhanced level of quality and service.

Conclusion

The technology to move away from sampling and move towards 100% testing already exists. This technology also allows for continuous auditing. It is currently being used in Canada in the SME market and will have equal application across geographies and at scale. It will revolutionise the way audits are performed and allow more time for examination of transaction anomalies and deeper predictive analytics.

About Validis

Validis (www.validis.com) is a London-based software company focused on extracting and standardising accounting data from the world's leading mid-tier accounting systems for use in commercial audit.

Validis provides a cloud-based service that accesses, standardises, analyses and surfaces a client's accounting data, offering unparalleled granularity and superior insight to the audit provider.

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