

03 July 2020

**Strictly Private & Confidential**  
**For the attention of Jason Bradley**  
Financial Reporting Council  
125 London Wall  
London  
EC2Y 5AS

Our ref: /BS08/33020109

Dear Sirs

**Technological resources: using technology to enhance audit quality**

We are pleased to respond to your discussion paper on using technology to enhance audit quality. We have responded to the questions posed in the consultation paper in turn below.

**1. Do you agree that the increasing use of technological resources, including AI and other advanced tools, enhances the quality of audits, beyond the benefits derived from efficiency gains. If so, what are the indicators of enhanced quality?**

Yes, we absolutely agree that technology has improved audit quality and will continue to do so. The advances in technology in recent years have allowed for analysis of thousands of transactions very easily. In terms of indicators, the ability to move from selecting a small sample of items haphazardly to being able to look at whole populations has improved audit quality. Furthermore, the use of tools that analyse whole populations has acted as an educational tool for clients to value the quality of their data/metadata and historic issues that haven't been picked up through traditional auditing have been identified and rectified.

**2. Do you believe that challenger firms are currently at a disadvantage in the use of new technology? If so, what remedies would you suggest?**

As a binary response, we would say that yes, challenger firms are at a disadvantage compared to the larger firms, but these issues can be mitigated through using third party providers and being able to develop bespoke solutions tailored to their client base. Clearly the larger firms have an advantage as they can invest more and deal with larger audits with fees that allow for bespoke work.

However, having said this, challenger firms are able to use technology to improve audit quality and by using third party providers. Using systems such as MindBridge and Osmo alongside systems we have developed in house we have certainly been able to utilise new technology in our audits.

**Moore Kingston Smith LLP**  
Chartered Accountants and Business Advisers  
Devonshire House, 60 Goswell Road, London EC1M 7AD  
020 7566 4000 [www.mooreks.co.uk](http://www.mooreks.co.uk)

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A key issue has been standardising data extracted from client's systems to ensure that the solutions work across the board for our largely SME client base. One remedy may be to encourage more challenger firms to work with other firms, in a similar way to the consortium behind Engine B. Similarly, many challenger firms are members of international networks and associations and firms can work together to help determine a strategy.

**3. Other than investment, what do you believe are the key challenges auditors face in the increasing utilisation of automated tools and techniques within the audit process? Again, what remedies would you suggest to overcome these challenges?**

We feel that one of the biggest issues is that there is a lack of transparency in what might be considered best practice. We are aware that the largest firms have more contact with regulators to discuss what they might be considered best practice and what would be acceptable. One step the FRC could take is to widen the scope of these discussions to include challenger firms.

Another issue is the lack of standardised data. Much of the challenge in using technology is the fact that client data needs to be manipulated to be used appropriately. In addition to this many clients are unable to extract the required information from their systems, either through limitations in the systems they use or limited IT support available to them.

Another challenge is selling the value of an enhanced audit to some clients. Many smaller entities perceive the audit as a cost sensitive annual compliance exercise and are unwilling to invest more time to get a better quality product from us.

**4. Does the current assurance model or the auditing standards represent an obstacle to technological innovation? If yes, then what specific standards, objectives, requirements or guidance cause practitioners particular difficulties?**

The issue with the current auditing standards is that they are a one size fits all solution to be used globally by firms of all sizes and for very small audits of a scale that simply are not undertaken in the UK. As a result the current and future standards refer to new technology as a "could" requirement rather than mandating it. One solution may be a UK specific standard or UK specific guidance notes setting out what is expected. We would welcome a formalised push towards using these techniques rather than an informal move to this through regulator feedback.

Any guidance issued needs to include specific examples. Whilst the knowledge that larger firms are using data analytics and AI is useful, it would be valuable to have specific examples of what functions these tools have and how they have been applied to a specific audit risk.

**5. Do you believe the current level of training given to auditors – both trainees and experienced staff – is sufficient to allow them to understand and deploy the technological resources being made available?**

Our experience is that the level of skills vary within any given intake of graduates, especially in simply using Excel to manipulate data. The industry faces a challenge to upskill people and we are trying to do it. We are actively encouraging audit trainees to learn to code in Python, or at least understand what might be possible with the right skills and the code freely available on the internet. These skills will be vital in the future and training will be expanded. Though in the future we expect platforms will develop to be more plug and play rather than requiring coding from scratch. We feel

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that expanding the skillset of most accountants in the business is better than having a separate team of data specialists. This allows people with understanding of the clients able to create specific solutions tailored to the problems at hand.

We welcome the fact that data analytics has been included in the latest ICAEW exams but are concerned that it only features one third party product.

**6. What firm-wide controls do you believe are appropriate to ensure that new technology is deployed appropriately and consistently with the requirements of the auditing standards, and provides high quality assurance which the firm can assure and replicate more widely?**

We have set up clear controls on using data analytics platforms, in particular concerning the weightings given to each control point within MindBridge that assesses the risk of each transaction in the year. Our firm's settings fit the majority of our clients and any deviations from those need to be documented, justified and reviewed by the RI. A key stage is reviewing the output from the systems and understanding why the items flagged for follow up have been selected.

Ensuring staff using the platforms have adequate training is critical to this. It is vital that the people using the software understand how the technology works and how their inputs will affect the outputs. We have mandated the use of MindBridge on audits (subject to a minimum fee threshold) and as such everyone who works on audits has received training on it tailored to their role.

**7. Are you aware of the use of new technologies in analysing and interpreting information provided by auditors – including, for example, auditor's reports? If yes, then do you foresee implications for the form and content of auditor's reports?**

We are aware of the new technologies, particularly natural language processing techniques used by law firms in interpreting large contracts. We believe these will be helpful, but not without concerns as to how an algorithm may interpret text within an audit report. We do not want to see an approach that leads to boiler plate text that will lead to poorer quality information provided about our audit work to the users of the accounts.

**8. What do you see as being the main ethical implications arising from the greater use of technology and analytics in an audit?**

As with many of these systems, we have a worry that in built bias may create systems that look at problems in one way and fail to spot issues. Furthermore we need to ensure that people receive the right level of training in order to be able to use the tools properly and use their judgement to critically assess the results, we see this tools as a way to augment our expertise and replace our auditors. At this point in time there is a great level of healthy scepticism about the tools which may not be the case in the future.

There is also a risk in educating clients to be able to prepare a consistent data set for internal purposes as well as for the audit. This may become a regular non-audit service and auditors need to be aware of the threats posed. Furthermore auditors are now receiving vast quantities of data compared to only a short time ago, auditors need be wise to data security threats and ensure that contractual arrangements about the ownership arrangements relating to client data used by third party providers.

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**9. Do you believe there is value in the UK having consistent data standards to support high quality audit, similar to that developed in the US?**

We absolutely do believe that there is value in having consistent data standards, indeed going further than the developments in the US. We are actively involved in the Engine B project and feel that it would be a very big step forward for this.

**10. Do you agree that threats to auditor independence may arise through the provision of wider business insights (not as part of the audit itself) drawn from the interrogation company data? If so, what measures would mitigate this risk from crystallising?**

As audits are largely looking at historic information some time after the year end. The provision of any commentary that may be considered to be business insights will be past the point of the decision so any threats are minimal. Where the potential threats arise is perhaps during a non-audit service providing real time or monthly information, perhaps using dashboards to present data to the client. As auditors we will need to make sure that we do not step into the role of management and that any information provided is purely to help management make decisions.

**11. Do you agree that audit documentation can be more challenging when an audit has been conducted with automated tools and techniques? If so, please identify specific areas where is a problem.**

Yes, we do agree that audit documentation can be more challenging when using automated tools and techniques. The outputs from third party suppliers have, in the past, been limited and ensuring we have appropriate audit documentation to explain the testing, the rationale for using the automated tool (where it has not been mandated) and the output must be included on every audit file. We are pleased to see that the third party suppliers we work with have responded to this and developed new ways to extract the information in a way that it can be integrated into our working papers easily.

**12. Have you encountered challenges in dealing with the volume of 'exceptions' arising from the use of more complex or comprehensive data analytic procedures?**

We have indeed found this, particularly in the early stages of trialling new tools. It can be an issue and we feel that there are several ways to mitigate this. The first is to ensure there is sufficient understanding of why the exceptions have been found. Armed with this knowledge it may be possible to group exceptions into categories and address the risk properly. Secondly the tools need to be used in the right way with the right inputs in order to get an appropriate output.

However, we would welcome guidance and examples of best practice for this to ensure that our approach is in line with the rest of the market and the expectations of the regulators.

**13. Do you agree that the use of third-party technology vendors raises potential ethical challenges for auditors and, if so, which potential safeguards would you see as effective in reducing this threat to an acceptable level?**

We acknowledge that there is a potential threat, but this will likely be greater in coming years with more complex technology. There may be a point where the tools need to be treated in the same way as an auditor's expert and the considerations of ISA 620 considered. At this point in time,

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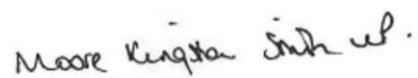
however, the risk is low as there is a very good understanding of what the tools do and how they work.

**14. Do you agree that the increasing usage of third-party providers presents challenges in audit documentation and, where relevant, how have you dealt with this?**

Please see our answer to question 11.

We hope that our comments are helpful to you. If you have any questions on any of this, then please contact either Becky Shields or Tim Gonzaga.

Yours faithfully



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