THE 100 GROUP

Main Committee

Brydon Review Secretariat
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Email: brydonreview@beis.gov.uk

Dear Sir Donald Brydon,

Independent review into the quality and effectiveness of audit - Call for Views

We support the aims of the Brydon Review. As with any service, it is appropriate that audit is reviewed to ensure it is meeting the demands and expectations of users and is keeping pace with changes to the market in which it operates. It is equally important to look to the future so that any changes do not become quickly outdated. The UK economy is at a critical time of change, and any recommendations must protect the attractiveness and competitiveness of UK businesses for investment.

The focus of this Review is on the purpose, scope and quality of audit. A number of the points raised seek to extend the scope of current external audit reporting without changes to corporate reporting requirements. Enhanced reporting in the annual report and accounts ("ARA"), to better address the needs of users should ordinarily be driven by changes to corporate reporting requirements and not by changes in external auditor requirements. We are supportive of the work the International Integrated Reporting Council are doing and adoption of their guidelines for the ARA may help to better address users' needs than the current UK requirements.

We have not responded to all of the questions raised in the consultation as certain questions are best left to individual companies or other stakeholder groups. Appendix 1 details our responses further and our key points on certain chapters are as follows:

Chapter 3 - Audit and wider assurance

As the number of stakeholders and awareness of wider business issues increases, ensuring that users fully understand the scope and inherent limitations of assurance becomes more complex. If the remit of the external auditors was broadened to include "other information", we believe the level of assurance would have to vary given the inherent judgemental nature of this information and lack of comprehensive standard against which to audit. We are supportive of certain types of "other information" being subject to assurance, such as alternative performance measures (APMs), management incentive schemes and sustainability reporting, provided the inherent judgement is acknowledged.

Chapter 4 - The scope and purpose of audit

If users believe that further information from directors in respect of risk management and internal controls would be of benefit we would be supportive of including this. However, as noted above this should be driven by changes to corporate reporting, not to external audit requirements. We question the benefit of extending auditors responsibilities in relation to controls with no change to their remit as this would bring added time and cost with no change to the level of assurance provided. A forward-looking audit would be significantly more judgemental and there is risk that users may rely on forward-looking statements as being factually accurate and make decisions based on this. Alternate sources of information are already available to investors to assess the future performance of the business.

Chapter 5 - Audit product and quality

We believe the value and quality of audit go hand-in-hand. Long-form audit opinions have been well received by investors and we would support further reviews to enhance the insight they provide. Graduated audit findings may not be of value to users unless accompanied by sufficient narrative in the audit report. Comparability of audit reports provided by different audit firms is of the utmost importance, it is therefore critical that a method to ensure comparability is maintained if graduated findings are introduced.

Chapter 6 – Legal responsibilities

It is the company's responsibility to ensure compliance with all applicable laws and regulations. In order to provide users with more information of how this is implemented by companies, the first step should be to enhance corporate reporting requirements, not auditor reporting requirements. We would support disclosure of distributable and non-distributable reserves only in the parent company accounts. We are not supportive of disclosing these on a consolidated basis, as it would not portray the true dividend paying capacity of the group. We would support the current guidance (issued by the Institute for Chartered Accountants England and Wales) being assigned to a formal body, such as BEIS or the new regulator, and for them to undertake a detailed review.

Chapter 7 - The communication of audit findings

In our view, the first point of call for users wanting to discuss the audit should be the Audit Committee Chair (ACC). Shareholders have the right to request meetings with the ACC at any time. ACC's have the appropriate business knowledge and are empowered to discuss such matters, and those relating to the audit, as such we believe this is the most suitable avenue for discussion. When users specifically want to meet with the auditor, we believe it should be on a joint basis with the ACC.

Chapter 10 – Other issues

Technology enables greater insight into transactional flows, a more efficient audit and provides opportunities to report information by exception, however analysis by someone with business acumen and detailed knowledge of the company, is still needed in order to provide greater assurance.

Providing an audit opinion on culture is inherently judgemental and the auditor would only be able to comment on whether the culture they see and observe, during their relatively limited time with the business, is congruent to the culture as stated by the company.

Please feel free to contact me at brian.gilvary@the100group.co.uk, if you wish to discuss our comments.

Yours sincerely,

Brian Gilvary
Chairman, The 100 Group

<u>Appendix 1</u>

<u>Chapter 1 - Definition of audit and its users</u>

1. For whose benefit should audit be conducted? How is it of value to users?

Audit underpins effective capital markets, provides independent assurance and is a vital service for companies, shareholders and wider society. The current perception is that audit provides assurance over more than just the financial statements. We agree that there is a need to address this misconception. We know that an audit (i.e. binary opinion over the financial statements at a point in time), together with its scope and inherent limitations, is generally understood by well-informed investors and is appropriate to their needs.

The ARA is formed of a number of constituent parts, at a high level these are known as the "back-half" (the financial statements) and the "front-half" (compromised of all other reporting requirements). Rather than establishing mechanisms for specific reporting of new business regulations requirements are often added to the ARA. As such the ARA has become a repository for information and is no longer a concise summary of the business operations and historical financial performance for investors. This inhibits users' understanding of what has and has not been audited, exacerbating the expectation gap.

Users of the "back-half" financial statements are predominantly shareholders, buy-side and sell-side analysts and creditors. There is value for investors of historical backward-looking financial statement audit. It provides investors with assurance over the stewardship and governance of the company and how their capital is being used by the business to meet its strategic objectives.

The front-half is of interest to wider user groups. These groups are much more diverse and can be anything from institutional investors, NGO's, and through social media any number of interest groups. There is however increasing overlap of these audiences in certain areas, for example investors becoming increasingly interested in environmental, social and governance (ESG) factors.

Other information, contained in the front-half, is primarily checked by the auditor for consistency and understanding only. This level of assurance is less well understood and therefore the value attributed by the relevant user group may not be appropriate.

2. Should the audit be designed to enhance the degree of confidence of intended users in the entity or just in the financial statements?

We believe that, it is right that those who provide risk capital or debt are given a higher level of assurance, via an audit, than those using other information only in the front half which is subject to review. We are supportive of introducing assurance over certain elements within the front half of the ARA, where there is a clearly defined information set. Proliferation of, or complete lack of, standard global frameworks for certain disclosures, means it would not be possible to audit the information to the same extent of a financial statement audit and would therefore require negative/limited assurance. We have outlined how this could work in practice in our response to questions 21-22.

As noted in our response to question 1, the scope of the ARA is ever increasing. This is at odds with the Financial Reporting Council's (FRC) *clear and concise* project, which we support. The ARA boundary should therefore also be subject to review and we support the work the FRC is doing into the *Future of Corporate Reporting.*

3. Should UK law be amended to provide greater clarity regarding the purpose of an audit, and for whom it is conducted? If so, in what way?

We have no specific objection to defining the purpose of an audit within UK law. However, any amendments would have to be worded in a way that limits the need for future updates, as changes to laws can take considerable time and may take a backseat to more pressing political matters of the day. We would therefore question if this would be of value particularly given the pace of change in the audit market.

Chapter 2 – The expectation gap

4. Do respondents consider there is an expectation gap?
5. If so, how would respondents characterise that gap?

Yes, we consider there to be an expectation gap between what certain user groups understand an audit to be and what an audit actually is. There is a lack of understanding over what is and is not audited in a set of accounts, the level of assurance an audit provides and how an audit is performed (for example on a sample basis).

We agree with paragraph 23, which outlines that users often attribute responsibility to the auditor rather than the directors, and believe this to be a key part of the expectation gap.

Chapter 3 - Audit and wider assurance

7. What should be the role of audit within wider assurance?

Audit is a form of assurance and therefore is one element of the wider assurance landscape. We believe there is value for investors of historical backward-looking financial statement audit. It provides investors with assurance over the stewardship and governance of the company and how their capital is being used by the business to meet its strategic objectives.

The primary focus has to be making company reporting simpler to understand. Any changes need to enhance clarity and transparency over what has or has not been assured and the level of assurance given i.e. audit vs limited assurance. As the number of stakeholders and awareness of wider business issues increases, ensuring that users fully understand the scope and inherent limitations of assurance becomes more complex.

It is appropriate that wider assurance is an amalgamation of different information from different providers. We would have concerns if there was a move to assimilate all assurance into one source verified by one assurance provider i.e. the external auditor.

8. Can the level of assurance that an audit provides legitimately vary in different circumstances, for example depending on the business sector in question, and the nature of the entity's business risks?

Regardless of the business sector in question, an audit opinion should provide the same level of assurance that the financial statements, at a point in time, are free from material misstatement whether due to fraud or error.

In sectors where key accounting standards involve a high degree of judgement and/or estimation, the audit approach will be fundamentally different to a transactional business. A well informed investor understands the varying levels of inherent judgement and estimation between businesses in differing sectors and similar companies in the same sector; and the impact this has on the audit opinion.

If the scope of audit was broadened to include "other information", we believe the level of assurance, notwithstanding the comments above, can legitimately vary. This is due to the methodology applied and information source. We have outlined these sources in our response to question 21.

Another feature of the expectation gap is that not all users fully understand the difference between different types of assurance. There is a risk that some users interpret limited assurance as being equivalent to an audit, and make decisions on that basis. Therefore, it is of utmost that the procedures performed and the level of assurance given is clearly explained.

9. Are the existing boundaries between internal and external audit clear?

Yes, the boundaries between internal and external audit are extremely clear.

10. To what extent should external auditors be able to use evidence obtained from work performed by internal auditors in drawing conclusions?

We would support removing the UK provision prohibiting the external auditor from relying on internal audit work as this would align the UK to the International Standards of Auditing. This could increase the efficiency of the external audit to the benefit of shareholders, companies and external auditors.

11. Do current eligibility requirements for external auditors focus too much on independence at the potential expense of market innovation and the quality of the audit product?

We do not consider independence to hinder innovation, quality or competition in the market. Allowing sufficient lead time between tender and appointment so that the incoming audit firm can become independent ensures participants are incentivised to provide innovative and high-quality services.

Chapter 4 - The scope and purpose of audit

12. Should directors make a more explicit statement in respect of risk management and internal controls? If so, should such a statement be subject to audit?

If users believe that further information in respect of risk management and internal controls would be of benefit we would support enhancing the current ARA disclosure. The extent of this needs to be considered once a UK control regime, as recommended by the Kingman Review, has been decided upon. The extent to which this can be audited will depend on whether there is a defined framework or a narrative disclosure. In the absence of a defined framework we would support auditors commenting on whether any disclosure is in line with their understanding. We are supportive of this Review, and that of the Kingman Review, into UK control frameworks and the role of directors. However, our members have mixed views on the introduction of a UK control framework, similar to that of US SOX, and would first support a review into the UK control environment to determine what, if any, framework should be introduced. We would have concern if such framework was as onerous as US SOX given the cost benefit of implementation. Should a framework be introduced, it is critical that equivalence is given to UK companies adopting frameworks already in existence in other jurisdictions or sectors.

13. Should auditors' responsibilities regarding assessing the effectiveness of an entity's system of internal control be extended or clarified?

Paragraphs 46 – 48 clearly outline the current external auditor requirements in relation to relevant internal controls. We question the benefit of extending the auditors responsibilities with no change to their remit as this would bring added time and cost with no impact on the level of assurance provided. If, as a result of the Kingman Review, a UK control framework is adopted and there was a call for independent reporting on company compliance with this framework, we would be supportive of the external auditor performing this.

14. Auditors are currently required to report to audit committees their views on the effectiveness of relevant internal controls for listed and other relevant entities. Should auditors be required to report publicly these views?

The introduction of long-form audit opinions requires auditors to outline the procedures performed in relation key audit matters, and the results of those procedures. These, more often than not, make reference to controls in place and the results of the testing performed. We would be supportive of this disclosure being more explicit in relation to the testing if users believe this would be of benefit. We do not think it would be appropriate, or of value, to disclose the detailed business practices and control processes, unique to individual companies.

15. Is the current regulatory framework relating to going concern fit for purpose (including company law and accounting standards)?
16. Should there be greater transparency regarding identified "events or conditions that may cast significant doubt on the entity's ability to continue as a going concern"?

As an initial step, and as recommended by the Kingman Review, we would support a review of the purpose of the viability statement and how this can be improved, taking business models into account or abolished if not. We would support consideration being given to the possible extension of the going concern statement as an alternative to viability statements.

We would also support a review of how the accompanying narrative can be expanded to provide additional information to better outline how the board have reached their conclusion, including events or conditions that may cast doubt.

Consideration should be given to business models and planning timeframes, as the level of confidence and granularity on future forecasts varies over the different periods, for example a five year strategic plan versus 12 month operating plan, and hence there may be issues in expanding the going concern coverage period without increasing the level of inherent judgement and estimation applied, which in turn makes the statement less certain.

17. Should directors make a statement about the sustainability of the entity's business model beyond that already provided in the viability statement?
18. Should such a statement be subject to assurance?
19. Who might be capable of giving such assurance?

As noted above, we support the review of viability statements as we do not believe they are adding the value and providing the insight expected of them when introduced. We are aware that the quality of business model reporting varies across FTSE constituents, and that best practice is generally those companies that have prepared the ARA in line with the International Integrated Reporting Council guidelines. We are and remain supportive of integrated reporting and believe that this could be a helpful mechanism to address this concern.

Providing assurance over forward-looking information is a complex process and requires a different skillset to that required for a financial statement audit, for example detailed knowledge of how future macroeconomic factors will impact the business is needed. As such, external auditors are not necessarily best placed to provide this assurance. As noted previously, future-looking information is inherently more judgemental and therefore the level of any assurance would be lower than that of an audit. We would not support a requirement that led to "working capital statement" standards, which would be costly, time consuming and of limited benefit in the majority of cases.

20. Is there a case for a more forward-looking audit? What would be the main benefits and risks?

As noted in question 1, we believe there is value for investors of historical backward-looking financial statement audit. Investors, analysts, creditors and debt providers utilise a range of sources when assessing a business. The ARA is one example of such information, others include credit rating reports, their own independent research and external market factors. Given this, and the points noted in our responses to questions 15 – 19, we question the need for a forward-looking audit, the value of this for users and whether this can be provided by the external auditor.

21. Would audit or assurance over financial and non-financial information outside the annual financial statements (for example KPIs or non-financial metrics, payment practices or half-yearly reports) enhance its reliability and therefore be of benefit to users?

22. If so, what information might usefully be subject to audit or another form of assurance and why?

We note that in many instances auditors perform detailed reviews on information outside of the ARA (e.g. over half-yearly and other interim reports), and ensure that KPIs are reported on and, where relevant calculated on, a consistent basis. Therefore it should be relatively easy to implement a more formal assurance process over this information, if this would be of benefit to users. This information can be grouped into three categories:

1) Those with a clearly defined and mandated calculation methodology, such as gender pay reporting. This information is capable of being audited.
2) Metrics which have no mandated framework, for example management KPIs, share incentive schemes and APMs. As there are no common external frameworks for calculating such metrics, companies will have a clearly defined methodology which the auditors should be able to verify has been followed and can therefore provide limited assurance.
   We do not support the development of external frameworks that seek to try and define such metrics. Companies need to retain the flexibility to develop and adjust these metrics to ensure they reflect changes to the business. We do support enhanced disclosure around changes to these metrics which many companies already provide.
3) Other data, for example environmental sustainability reporting, where there are a plethora of frameworks in existence. There is limited/no requirement for companies to report on these statistics or to adopt a framework and in some cases internally developed metrics are more appropriate. There is therefore deviation in application by companies, which means the level of assurance could vary from metric to metric and company to company. To avoid confusion only limited assurance should be given to any such metrics.

<u>Chapter 5 - Audit product and quality</u>

23. Do respondents agree that the value and quality of the audit product should be considered separately from the effectiveness of the audit process?

We believe that these two factors go hand-in-hand. It is the responsibility of the Audit Committee (AC) to ensure that the audit is effective in delivering quality and therefore value.

24. Do respondents consider that emphasis placed by auditors on 'completing the audit file' for subsequent FRC inspection can eclipse the desired focus on matters requiring the exercise of considered judgment?

We consider this to be part of the "delivery" gap mentioned. Our members have noted that in their experience audit appears to be moving towards a more tick-box exercise focused on documentation. The primary focus should be on professional scepticism and challenge of management, and there is a risk that this could shift over time if detailed documentation becomes the primary focus of the auditor or if the regulator only uses documentation as a method to test audit quality.

25. What additional benefit might a switch from a binary audit opinion to a more graduated disclosure of auditor conclusions provide?

26. Could further narrative be disclosed alongside the opinion to provide more informative insights?

Greater narrative in audit reports provides users with a better understanding of the audit approach and the auditor's views on significant matters. The recently introduced long-form audit opinion demonstrate this and we believe has been well received by investors. We are supportive of further reviews to enhance the insight it provides if there is demand from users.

Introducing graduated findings would not be of value unless accompanied by sufficient narrative in the audit report. Comparability of audit reports provided by different audit firms is of the utmost importance. It is therefore critical that a method to ensure comparability of audit reports is maintained if graduated findings are introduced.

There is a risk that publishing graduated findings, or this graduation moving to a "score", becomes the focus of conversations between management, the audit committee and auditor rather than being on complex accounting matters and areas of judgement.

As a first step, we believe further enhancement of narrative disclosure in the external audit opinion would be an appropriate way to better explain the conclusions reached by auditors.

Chapter 6 - Legal responsibilities

29. What role should auditors play in determining whether the directors are complying with relevant laws and regulations, including with respect to matters of capital maintenance? Is it appropriate to distinguish between matters which may materially affect the financial statements and other matters?

30. Does a perceived inconsistency between company law and accounting standards as regards distributable reserves inhibit auditors from meeting public expectations? How might greater clarity be achieved?

With respect to laws and regulations, it is the primary responsibility of the company and its directors to ensure they have implemented appropriate processes and controls to confirm compliance. Companies are required to disclose how they manage risk and comply with laws.

If users require additional disclosure on the company's compliance with laws and regulations, the existing corporate reporting requirements should be amended rather than changing the audit requirements. Enhanced reporting in the ARA, on any topic, to better address the needs of users should be driven by changes to corporate reporting requirements and not by changes in external auditor requirements.

In relation to capital maintenance, we understand there are concerns by a small number of investors that the legal definition of distributable reserves does not directly correlate to the transactional accounting treatments under IFRS. It is the responsibility of the company to ensure that any distributions made are in line with UK law and the auditor's responsibility is to audit this. We would support the current guidance (issued by the ICAEW) being assigned to a formal body, such as BEIS or the new regulator, and for them to undertake a detailed review.

31. Should distributable and non-distributable reserves be required to be disclosed in the audited financial statements?

We support disclosing the total distributable and non-distributable balances only at the parent company level, i.e. the reserves from which the dividend is paid. We would not support this disclosure being made on a consolidated level, as this does not reflect the dividend paying capacity of the group, nor would we support disclosure of subsidiary amounts and this would be of limited use without detailed understanding of the legal structures of the groups.

Chapter 7 - The communication of audit findings

33. Should there be more open dialogue between the auditor and the users of their reports? For example, might an annual assurance meeting open to all stakeholders prove valuable?

In our view, the first point of call for users wanting to discuss the audit should be the Audit Committee Chair (ACC). Shareholders already have the right to request meetings with the ACC at any time. ACC's have the appropriate business knowledge and are empowered to discuss such matters, and those relating to the audit, as such we believe this is the most suitable avenue for discussion.

The nature of audit means auditors knowledge of a business is necessarily more limited in scope and time. Any queries relating to general business matters and outside the audit remit, are best left to the business. If shareholders are of the view that they require a meeting with the auditor, we believe it should be held jointly with someone from the business, ideally the ACC.

We are supportive of the growing practice of companies hosting "governance" days at which the chairs of committees and other Non-Executive Directors available to meet with shareholders.

34. Should more of the communication and resulting judgments that occur between the auditor and the audit committee be made transparent to users of the financial statements?

As noted in our response to questions 25-27, we would support a review of the current external audit reporting requirements. From a company perspective, we consider the AC report to be an effective tool to explain the communications between the AC and the auditors. If information in the AC report is not sufficient, this should be fed back to the company, as noted in our response to question 30. Enhanced disclosure should be driven by changes to corporate reporting requirements not by changes to audit requirements.

35. Should there be enhancements to the extended audit report, such as an obligation to update on key audit matters featured in the previous audit report?

As noted in our response to questions 25 – 27, long-form audit opinions has been well received by investors and we support further review on how these can be enhanced, which may include why key audit matters have changed year to year.

Chapter 8 - Fraud

36. Do you believe that users' expectations of auditors' role in fraud detection are consistent with the requirements in UK law and auditing standards? If not, should auditors be given greater responsibility to detect material fraud?

The primary responsibility for the prevention and detection of fraud lies with the company and its board and not with the auditors.

We do not believe that users' expectations of fraud detection are consistent with the legal requirements and consider this to be part of the expectation gap. This should be addressed by greater clarification in relation to the auditor's role and how this is communicated to users in a clear and concise way.

38. Would it be possible to devise a 'reasonable person' test in assessing the auditor's work in relation to fraud detection?

Building a 'reasonable person' test will be difficult to do given the sheer scale of impacts that a fraud could have on a company. A fraud may not be material from the perspective of the financial statement audit however its repercussions could be significant. Any test applied will always have the benefit of hindsight, and we question the value that such a test brings after an event has occurred.

39. Should auditors be required to evaluate and report on an audited entity's systems to prevent and detect fraud?

Companies are already required to report their risk processes in their ARA and auditors must review this information to make sure it is in line with their business understanding. Auditors should already be considering the controls companies have implemented to prevent or detect fraud. If this is not the case, we would support auditors evaluating such controls. This is another area where the review seeks to address users' needs by mandating changes to audit requirements, as noted elsewhere in our response, enhanced disclosure should be driven by changes to corporate reporting requirements not by changes to audit requirements.

<u>Chapter 10 – Other issues</u>

45. How far is new technology actually used in audits today? Does the use of technology enable a higher level of assurance to be given?

Across our members audit technology is used to differing degrees. Technology undoubtedly allows greater insight into transactional flows as it allows reporting on whether individual transactions are recorded correctly. Leveraging this can provide a more efficient audit and the opportunity to report by exception, rather than adopt a sampling method. However it should not be used without the overlay of analysis by someone with business acumen and knowledge of the company being audited, that greater assurance can be achieved via the use of technology.

Many of our members consider audit tendering to have had a significant impact in driving the development of technology in audit and anticipate it to increase further over time.

46. In what way does new technology enable assurance to be given on a broader range of issues than is covered by the traditional audit?

As noted above, technology can provide management and the auditors with greater business insight, however, to be valuable the results need to be interpreted and overlaid with real world business knowledge. Audit technology would not broaden the audit scope but should allow for an increased level of testing. Other technological tools, such as sentiment analysis, may be beneficial to the auditors in providing wider context but would not broaden the range of issues covered by an audit.

48. Given that a zero failure regime is not attainable (and arguably not desirable) how should the Review calibrate the value of audit in relation to the limitation of potential failure?

We agree that a zero failure regime is not attainable and corporate failures are a sign of a functioning market. Audit is one of many mechanisms to protect investors and needs to be considered alongside other forms of assurance when forming a view about a company. Audit is point-in-time, backward-looking assurance and is one of many forms of assurance users use alongside their own independent research and other third party data. It is therefore one element of a multifaceted assurance model which needs to be taken as a whole when considering limitations of potential failure.

An audit regime that flags early warnings is beneficial but unless this is a continuous process there will always be a cut-off point, after which other forms of assurance may be more relevant and therefore take precedence. Consideration should be given to how any mechanisms implemented with a view to limiting future potential failures, interact with UK company law as a distressed company moves towards insolvency, particularly in regard to preferential creditors.

51. What use do shareholders currently make of audit reports? Are they read by shareholders generally? What role does AI play in reading and analysing such reports?

In our experience, our members do not get questions from investors, or any other user group, on their audit reports.

52. Would interaction between shareholders and auditors outside the AGM be practical and/or desirable?

As noted in our response to question 33, we would be supportive of there being tripartite interaction between shareholders, the ACC and auditors.

53. How could shareholders express to auditors their ex ante anxieties to help shape the audit plan? Should shareholders approve planning matters for each audit, including scope and materiality?

Shareholders currently have the opportunity to speak to management and the ACC to raise any concerns they may have relating to the audit approach. In our experience, this has not been taken up. If they were to raise a concern on the audit plan this would be fed back to the audit team.

Whilst shareholders are not required to approve scope and materiality, they now have visibility of it and can raise concerns if they have any, but in our experience this is extremely rare.

54. What assurance do shareholders currently obtain other than from audit reports?

Shareholders obtain assurance via many forms, of which audit is one. Others as noted elsewhere in our response must be taken together for investors to gain comfort around the business as a whole.

55. In what way would it be possible for auditors to report on the culture of the entity whose financial statements are being audited?

We are fully supportive of extending management commentary on company culture however we question whether the annual report is the right place for this to be done. Many of our members include significant disclosure on company culture, values and business conduct in other areas, for example on corporate websites.

Companies already report on their culture in the ARA and as auditors are required to comment on whether the “other information” in the ARA is in line with their understanding. In theory, Auditors could comment on whether the culture they see and observe, during their relatively limited time with the business, is congruent to the culture as stated by the company. In practice, providing an opinion on culture is inherently judgemental and hard to do. The best companies perform vast amount of analysis and employee outreach throughout the year to ensure their culture is embedded across the business. We would question the cost v benefit of a culture audit given the practical limitations of ensuring culture is engrained at all levels of an organisation whilst also performing the financial statement audit.

Questions not answered:

6. Is there also a significant ‘delivery’ or ‘quality’ gap between auditors’ existing responsibilities in law and auditing standards, and how those responsibilities are currently met?

27. What would prevent such disclosures becoming boiler plated?

28. To what extent, if any, has producer-led audit (including standards-setting) inhibited innovation and development for the benefit of users?

32. How do auditors discharge their obligations relating to whether the entity has kept adequate accounting records? Are the existing statutory requirements effective in setting the bar for auditors at a high enough level?

37. Do existing auditing standards help to engender an appropriate fraud detection mindset on the part of auditors?

40. Is the audit profession’s willingness to embrace change constrained by their exposure to litigation?

41. If there were a quantifiable limit on auditor liability, how might this lead to improvements in audit quality and/or effectiveness?

42. Should company law make auditors potentially liable, or otherwise accountable, to all stakeholders who reasonably rely on their audit work and their published auditor’s report?

43. How might quality of the audit product be improved if the approach to liability was altered, and what reform might enable the most favourable quality improvements?

44. To what extent (if any) are firms unable to obtain the desired level of professional indemnity insurance to minimise the risk of being unable to meet a significant claim relating to their statutory audit work? How significant is this risk for both the largest firms and other firms undertaking audits of Public Interest Entities?

47. Are there aspects of current audit procedures or output that are no longer necessary or desirable?

49. Does today’s audit provide value for money?

50. How should the cumulative costs of any extension of audit (whether stemming from this Review or other drivers of change) be balanced against the likely benefits to users?

56. How can auditors demonstrate that appropriate scepticism has been exercised in reaching the judgments underlying the audit report?

57. Should the basis of individual auditors’ remuneration be made available to shareholders?

58. Do respondents view audit costs as generally too high, about right or insufficient?

59. Would users of financial statements wish more detail on the make-up of audit fees?

60. Is the profitability of the audit function sufficient to sustain a high-quality audit industry?