

# Independent Review into the Quality and Effectiveness of Audit

## List of recommendations

For ease of reference, below is a table of Sir Donald Brydon's recommendations to Government, listed by their corresponding paragraph number in the Report.

(The Report contains a number of other proposals and suggestions that are highlighted in bold italics within the Report; these are not listed below).

| Paragraph no.   | Recommendation   |
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| 3.20            | That there should be an Independent Implementation Review in 2025 to report publicly on the progress made in relation to the recommendations made by each of these three Reviews [Review of the Financial Reporting Council, Review of the Statutory Audit Market, Review of the Quality and Effectiveness of Audit]   |
| 4.7             | That the Audit, Reporting and Governance Authority (ARGA) together with auditors and the Plain English Campaign produce an appropriately concise guide to audit, explaining clearly what the different elements of an audit report mean as redefined in this Report, and what, just as importantly, they do not mean.  |
| 5.1.3-<br>5.1.4 | That the following statement be endorsed and adopted by ARGA and, insofar as it applies to statutory audit, the Government should consider how it may best be enshrined in the Companies Act ("CA06"):<br><br><i>"The purpose of an audit is to help establish and maintain deserved confidence in a company, in its directors and in the information for which they have responsibility to report, including the financial statements."</i> |
| 5.2.6           | That auditing should provide information that is useful to present and potential investors, lenders, creditors and other users in making rational investment, credit and other decisions and assessments about the company.  |
| 5.3.2           | That auditors should be free to include original information, materially useful to a wide range of users, in their audit report and at the AGM, and not be confined to commenting on that which has already been stated by directors.  |
| 5.3.12          | That the [existing auditor] obligation [to read and consider other information in the Annual Report and to report if they consider it to be materially misstated] should be extended to material outside the   |

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|               | Annual Report that is used in investor presentations and RNS announcements.   |
| 5.4.12        | That ARGA determines a framework for all corporate auditing, whether of financial statements or of other information.   |
| 6.0.11        | That ARGA acts as the midwife to create a new profession of corporate auditing, establishing the necessary professional body, to encompass today's auditors and others with appropriate education and authorisation. ARGA would be the statutory supervisory body for that profession.  |
| 6.0.16        | That there is one encompassing descriptor with a newly minted definition - "corporate auditor".   |
| 6.1.2         | That an auditor's authorisation to carry out audits in particular areas of activity should flow from tailored qualifications which they have achieved.  |
| 6.3.4         | That the Principles of Corporate Auditing should be established to form an overarching framework governing the behaviour of corporate auditors, and that standards and rules should sit within this framework.  |
| 6.4.5         | That each audit report contains a statement to the effect that in conducting the audit the auditor has acted faithfully in accordance with the Principles of Corporate Auditing.  |
| 6.6.2         | That ARGA ensures that education, training and, if necessary, retraining, should take place consistently across this new profession.  |
| 6.6.14        | That the development of a specific auditor qualification, including education and training, should become a high priority for ARGA over the coming years.   |
| 6.6.16        | That ARGA develops an agreed definition of professional judgment which builds on ISA (UK) 200.  |
| 6.8.5         | That the directors should set out in a Public Interest Statement (as part of the Strategic Report) how they view the company's legal, financial, social and environmental responsibilities to the public interest. This Statement should explain how the company has discharged its self-declared public interest obligations and responsibilities, what actions it has taken to mitigate any externalities it has caused during the period, and how effective these actions have been. |
| 6.8.7         | That the audit report should state the extent to which the audit has yielded sufficient evidence of consistency between the content of the  |

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|               | Public Interest Statement and the Annual Report and Accounts as a whole. The auditor's opinion should state whether, based on the evidence reviewed, the directors' Public Interest Statement is presented fairly in all material respects.   |
| 8.4.3         | That the audit report should include a new section in which the auditor states whether the company's section 172 statement is based on observed reality, on the basis of the auditor's knowledge of the company and its processes.  |
| 9.1.4         | <p>That the directors' Risk Report should be published prior to the audit committee meeting at which the scope of the next audit is determined and endorsed, leaving sufficient time for shareholders to comment.</p> <p>Alongside, the audit committee should publish a formal invitation to shareholders to express any requests they have regarding the areas of emphasis they wish the auditor to incorporate in the audit plan. The audit committee should state the auditor's proposed materiality levels for the forthcoming audit with this invitation.</p> |
| 9.1.6         | That if the auditor considers there are other risks of similar or greater significance to those reported by the directors, based on its knowledge of the company, the auditor should report this fact.  |
| 9.1.11        | That the audit committee and the auditor be required to publish the reasons why they accepted or rejected any such requests [for items to be included in the audit plan] in their Reports.  |
| 9.4.5         | A change in the law to require the audit fees to be shown on the face of the profit and loss account as being struck, like the dividend, after the reporting of post-incentive compensation profit.   |
| 9.4.9         | That the audit committee chair should be delegated to negotiate the fees for the relevant audit work. The Board, as a whole, should agree a budget for the audit committee - the assurance budget - within which the fees would be included.  |
| 9.4.14        | That, similarly [to ratings agencies], audit firms establish an independent fee-setting function making its decisions separately from those conducting the audit.   |
| 9.5.6         | That a standing item be added to AGM agendas: questions to the chair of the audit committee and to the auditor.   |
| 9.6.3         | That a new body - the Audit Users Review Board - be established, comprising solely users of audit reports, to review proposals from and give advice to ARGAs as to the evolution of audit.  |

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| 10.0.3        | That the audit committee publish a three-year rolling Audit and Assurance Policy which would be put to an annual advisory vote by shareholders for approval at the Annual General Meeting.   |
| 10.2.2        | That a simple mechanism to enable the workforce to raise issues around risks and assurance should be developed in each company, so that the designated director (or other mechanism) be the recipient of those inputs. The company should then have an obligation to respond to the workforce as to the way in which it has reacted to their requests.   |
| 11.9          | That the Companies Act and ISA (UK) 700 be amended to replace “true and fair” with “present fairly, in all material respects”.   |
| 11.15         | That auditors judge their opinion on any use or proposed use by directors of the (now) fairly presented override in the context of their obligation to be faithful to the Principles of Corporate Auditing.  |
| 12.4          | That the Government review the Companies Act to see if it could be improved to give more clarity as to what is meant by “adequate accounting records”. Given the complex requirements modern accounting creates, either through law or regulation, there should be an obligation for auditors to assess that the directors have maintained accounting records to a standard beyond the minimum level necessary for an audit to be performed. In doing so, the objective should be a High-Quality Audit as defined in this Report.  |
| 12.8          | That ARGA promptly develop guidance for auditors around their responsibilities in relation to accounting records.  |
| 13.1.8        | That the Government gives serious consideration to mandating a UK Internal Controls Statement consisting of a signed attestation by the CEO and CFO to the Board that an evaluation of the effectiveness of the company’s internal controls over financial reporting has been completed and whether or not they were effective, as in SOX 302(c) and (d). This attestation should be received by the Board no later than 28 days before the accounts of the company for the relevant financial period are signed. The Board should then report to shareholders that it has received such an attestation. |
| 13.1.11       | That the Audit Committee Chairs Independent Forum (ACCIF) develops principles that should be followed by CEOs and CFOs in making an internal controls effectiveness attestation. Final endorsement of these principles should be made by ARGA.   |
| 14.1.5        | That ARGA amends ISA (UK) 240 to make clear that it is the obligation of an auditor to endeavour to detect material fraud in all reasonable ways.  |

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| 14.2.2        | That directors should report on the actions they have taken to fulfil their obligations to prevent and detect material fraud against the background of their fraud risk assessment.  |
| 14.3.3        | That training in both forensic accounting and fraud awareness be part of the formal qualification and continuous learning process to practise as a financial statements auditor. In developing qualifications for auditors of other areas of activity, parallel training should be established.  |
| 14.3.5        | That the auditor's report state explicitly the work performed to conclude whether the directors' statement regarding the actions they have taken to prevent and detect material fraud is appropriate. Furthermore, the auditors should state what steps they have taken to assess the effectiveness of the relevant controls and to detect any such fraud.   |
| 14.4.3        | That ARGA maintains an open access case study register detailing corporate frauds that have occurred in order that auditors can learn in real time from these frauds.  |
| 14.5.4        | That ARGA establish an independent Auditor Fraud Panel to which it would refer the results of any investigations into auditor failure to detect material frauds and that such a Panel should be equipped with the ability to levy sanctions on auditors as appropriate.  |
| 16.4          | That there should be an obligation on the auditors to report to both the audit committee and the shareholders on the extent to which their work has been influenced and informed (or not) by any external signals which might imply enhanced risk in the company whose financial statements are being audited.   |
| 16.7          | That ARGA should develop a menu of possible signals [regarding enhanced risk] and the auditors should report against the relevant parts of that menu.  |
| 17.0.4        | That the audit committee should describe the content of the debate [regarding differences of view between management and auditors] and its outcome, including the justification for the agreed treatment. For example, where the differences of view would have led to material changes in valuation, even when these differences have been resolved, the audit committee should report on the range of the initial views and where in that range the agreed valuation lies. |
| 17.1.2        | That the consequences of potential differences in treatment of goodwill and intangibles considered by management and the auditor should also be made transparent.  |
| 17.2.6        | That ARGA develop a series of examples which would illustrate, non-exclusively, the types of culture that auditors should reference  |

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|               | in their report where there is an observed disconnect between the culture of the company claimed by the directors and the behaviour observed by the auditors.  |
| 17.3.3        | That the auditor explain in each of the two succeeding audit reports what procedures have been undertaken and what conclusions reached in relation to those matters [KAMs or identified deficiencies]; the auditor should also highlight what actions have been taken by the company in response to deficiencies identified in the prior year's audit.   |
| 17.5.9        | That the evolution of graduated findings be left to the marketplace for audit services.  |
| 18.1.2        | That the board should make a Resilience Statement that incorporates, enhances and builds on the [current] Going Concern and Viability Statements.  |
| 18.1.5        | That ARGA requires auditors to report to the Board of Directors if they have encountered any information in the course of their audit which leads to an anxiety about the resilience of the business not reflected in the Resilience Statement. If they consider the Board does not pay sufficient attention to their anxieties, they should have an obligation to report to ARGA, or an alternative regulator depending on the circumstances. |
| 20.1.5        | That Alternative Performance Measures should be subject to audit.  |
| 20.2.8        | That any Key Performance Indicators used for the purpose of calculating executive remuneration should be subject to audit.   |
| 21.5          | That directors report to shareholders on their company's payment policies and performance and that this be subject to some level of audit, as described in the company's Audit and Assurance Policy.   |
| 22.7          | That the relevant Statutory Auditor for a particular audited PIE be added to the list of Prescribed Persons under the Public Interest Disclosure Act.  |
| 22.9          | That the protections available to employees should be extended to others with a direct economic relationship with the entities being audited. These would encompass shareholders, suppliers, customers and any other creditors. Such individuals should also be afforded protection when whistleblowing to ARGA.   |
| 23.0.12       | That amendments are made to the Companies Act to clarify and strengthen the process by which auditors and companies inform shareholders and other stakeholders of an auditor's resignation, dismissal or decision not to participate in a retender.  |

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| 23.1.2        | That on the resignation or dismissal of its auditor the company would be required to hold a General Meeting, within 42 days of receiving the letter of resignation or sending a notice of dismissal, at which the departing auditor would be required to answer questions from shareholders; the Board would be required to explain how it proposes to appoint a new auditor and manage the transition, consistent with its Audit and Assurance Policy. |
| 24.1.8        | That BEIS and ARGA work with auditors to create the necessary protections and policies for audit to be able to use data from the companies they audit in order to promote better quality audits.  |
| 24.1.11       | That, in the audit report, auditors should explain the reasons for the necessity and basis of any sampling techniques used in conducting the audit.   |
| 25.0.4        | That s534 CA06 be explicit that a board that recommends, in good faith, the application of an LLA to its auditor is not in breach of its responsibilities.  |
| 25.1.3        | That ARGA facilitates a structured dialogue between investors and auditors to define a liability regime that would cause fewer obstacles to a more informative audit.   |
| 25.2.3        | That firms conducting statutory audits of Public Interest Entities should publish separated financial information, including profitability, of the audit practice and that such firms should publish a remuneration policy and the annual remuneration of each relevant Senior Statutory Auditor.   |
| 25.2.5        | That individual statutory audit reports detail the number of hours spent in conducting the audit by grade of auditor.   |
| 26.3.2        | That ARGA establish a formal confidential mechanism to interact with shareholders or other stakeholders to respond to concerns regarding particular audits.   |
| 27.1.7        | That audit committee minutes be published with a time-lag of 12-18 months and with approved redactions.   |