



Department for
Business, Energy
& Industrial Strategy

Restoring trust in audit and corporate governance

Supplementary Publication on Review
Recommendations

Introduction to Supplementary Publication on Review Recommendations

The three Independent Reviews on audit that the Government commissioned (the FRC Review, CMA study and Brydon Review) have published a combined total of over 150 recommendations. This document signposts readers to the relevant part of the Government's consultation document, and/or provides further information on how each recommendation is being addressed, as appropriate.

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Part 1: Recommendations made in the Independent Review of the Financial Reporting Council

Recommendation	Comments
<p>1. A new regulator: The Review recommends that the FRC should be replaced as soon as possible with a new independent regulator with clear statutory powers and objectives</p>	<p>The Government announced its intentions in March 2019 to create a new independent regulator with clear statutory powers and objectives. This recommendation is addressed at chapter 10.</p>
<p>2. A remit letter: The Review recommends that the new regulator’s statutory powers, purpose and objectives should be complemented – like the FCA’s – by a remit letter from the Government at least once during the lifetime of each Parliament setting out those aspects of economic policy that the regulator should have regard to when advancing its objectives and discharging its duties. The regulator should respond publicly to this letter.</p>	<p>A remit letter was issued by BEIS to FRC on 11 March 2019 and the FRC sent a response on 27 March 2019. Proposals to put this process onto a statutory footing are set out in Chapter 10.</p>
<p>3. Regulator’s name: The Review recommends that the new regulator should be named the Audit, Reporting and Governance Authority.</p>	<p>This name of the new regulator is set out at chapter 10.</p>
<p>4. Strategic objective: The Review recommends that the new regulator should have the following strategic objective: “To protect the interests of users of financial information and the wider public interest by setting high standards of statutory audit, corporate reporting and corporate governance, and by holding to account the companies and professional advisers responsible for meeting those standards.”</p>	<p>Proposals on the general objective of the new regulator are set out at chapter 10.</p>

Recommendation	Comments
<p>5. Statutory duties: The full set of duties that the Review proposes be placed on the new regulator are below, requiring that it should act in a way which:</p> <ul style="list-style-type: none"> • Is forward-looking, seeking to anticipate and where possible act on emerging corporate governance, reporting or audit risks, both in the short and the longer term • Promotes competition in the market for statutory audit services • Advances innovation and quality improvements • Promotes brevity, comprehensibility and usefulness in corporate reporting • Is proportionate, having regard to the size and resources of those being regulated and balancing the costs and benefits of regulatory action • Is collaborative, working closely with other regulators both in the UK and internationally; and • Prioritises regulatory activity on the basis of risk, having regard to the Regulators' Code. 	<p>The regulator's proposed statutory duties are set out at chapter 10.</p>
<p>6. That the new regulator's duties will guide the new regulator in carrying out its core functions on audit and corporate reporting. The Review proposes that its functions should also include:</p> <ul style="list-style-type: none"> • To set and apply high corporate governance, reporting and audit standards • To regulate and be responsible for the registration of the audit profession • To maintain and promote the UK Corporate Governance Code and the UK Stewardship Code, reporting annually on compliance with the Codes • To maintain wide and deep relationships with investors and other users of financial information • To monitor and report on developments in the audit market, including trends in audit pricing, the extent of any cross-subsidy from non-audit work and the implications for the quality of audit; and • To appoint inspectors to investigate a company's affairs where there are public interest concerns about any matter that falls within the Authority's statutory competence." 	<p>The regulator's proposed functions are set out at Chapter 10.</p>
<p>7. New board and continuity: The Review recommends that the new regulator will require a new board with significant new powers and responsibilities in a challenging environment. It will need to demonstrate strong leadership to effect the major shift in tone and culture to rebuild the respect of those it regulates and other stakeholders. There should be some, but only limited, continuity from the existing FRC board.</p>	<p>The FRC has focused on succession of non-executive members. New board appointments are in the process of being made. Further information is provided in FRC's Annual Report for year ending 31 March 2020.</p>
<p>8. A smaller board: The Review recommends that the new regulator's board should be significantly smaller than the current one.</p>	<p>The FRC has undertaken a review of governance; and regularly reviews the size, structure and composition of the FRC's governance structure. Further information is provided in the FRC's Annual Report for year ending 31 March 2020.</p>

Recommendation	Comments
<p>9. Board appointments, diversity and skill mix: The Review recommends that the regulator’s board should comprise a mix of the skills, experience and knowledge needed to ensure strategic direction and effective, constructive challenge to the executive. It should not seek to be “representative” of stakeholder interests. In line with provisions in the UK Corporate Governance Code, appointments should be diverse, based on merit and objective criteria. The regulator’s board should comprise a mix of the skills, experience and knowledge needed to ensure strategic direction and effective, constructive challenge to the executive. It should not seek to be “representative” of stakeholder interests. In line with provisions in the UK Corporate Governance Code, appointments should be diverse, based on merit and objective criteria.</p>	<p>The FRC has completed a Governance Review. Further information is provided in the FRC’s Annual Report for year ending 31 March 2020.</p>
<p>10. Public appointment process for board: The Review recommends that all appointments to the regulator’s board, including the CEO, should be public appointments approved by the Secretary of State for Business, Energy and Industrial Strategy.</p>	<p>The FRC’s Articles of Association have been amended to reflect that all Board appointments are made by the Secretary of State for Business, Energy and Industrial Strategy. The Government intends to legislate to make provision for the governance of the regulator as set out at chapter 10.</p>
<p>11. Consistent, open, appointment process for board, committee and senior posts: The Review recommends there should be a consistent approach to the appointments process and all board, committee and senior posts should be openly advertised with headhunters used.</p>	<p>The Government intends to legislate to make provision for the governance of the regulator as set out at chapter 10.</p>
<p>12. “Confirmation” hearings at BEISCOM: The Review recommends that the posts of chair and CEO should be subject to confirmation hearings with the BEIS Select Committee, if the committee wishes.</p>	<p>This recommendation is addressed at Chapter 10.</p>
<p>13. Review sub-board structure: The Review recommends that the Government, working with the chair of the new board, should review the existing FRC committee and panel structure with a view to achieving a significant simplification of the architecture in line with the principles set out in the Review. Thereafter, there should be a rigorous annual evaluation of the performance of the board, its committees, the chair and individual directors.</p>	<p>The FRC is leading on this recommendation. The FRC has completed a Governance Review which has been considered by its Board. Further information is provided in the FRC’s Annual Report for year ending 31 March 2020. The Government intends to legislate to make provision for the governance of the regulator as set out at chapter 10.</p>

Recommendation	Comments
<p>14. Board role on enforcement: The Review recommends that the board of the new regulator should exercise significantly stronger ownership and oversight of the investigation and enforcement functions. The regulator should ensure that its internal rules and procedures enable the board to:</p> <ul style="list-style-type: none"> • Take decisions itself on whether to launch audit investigations in cases it regards as of particular significance or public interest. The Review does not anticipate the board taking decisions in many such cases, but it should maintain an ability to do so. • Require regular reports from the Conduct Committee and from the director of enforcement on progress being made with investigations and any subsequent enforcement decisions; and • Question the director of enforcement at any point where it considers that a particular decision or investigation is taking too long. 	<p>The FRC has completed a Governance Review which has been considered by its Board. In October 2020, the FRC launched a consultation on governance changes to enforcement and operating procedures. Further information is set out at Chapter 10.</p>
<p>15. Reclaim PIE audit approval & registration: The Review recommends that the approval and registration of audit firms conducting PIE audits should be reclaimed from the RSBs. The Government should work with the regulator to develop and consult on the detail of how this regime should operate.</p>	<p>This recommendation is addressed at chapter 9.</p>
<p>16. PIE audit firm registration regime to include range of sanctions: The Review recommends the new regime for the approval and registration of audit firms conducting PIE audits should incorporate a range of sanctions including some that are less severe than the ‘nuclear option’ of audit firm deregistration.</p>	<p>This recommendation is addressed at chapter 9.</p>
<p>17. Audit expectation gap: The Review strongly welcomes the proposal that a piece of independent work should be done to explore the issues arising from the audit expectation gap, which have not been addressed in this Review. It is essential that this should be driven, and be seen to be driven, by the interests of users of accounts.</p>	<p>The Government commissioned Sir Donald Brydon to conduct an independent review into the quality and effectiveness of audit. The review was published in December 2019 and addresses the issues relating to the audit expectation gap.</p>
<p>18. Review PIE definition: The Review recommends that the Government should review the UK’s definition of a PIE. The Government should review the UK’s definition of a PIE.</p>	<p>This recommendation is addressed at Chapter 1.</p>
<p>19. AFMA to have a statutory base: The Review recommends that AFMA should not be carried out on a voluntary basis, but instead the regulator should have statutory power to carry out this monitoring work. It is critical that this monitoring work is performed by individuals with the appropriate skills and seniority.</p>	<p>This recommendation is addressed at Chapter 8.</p>

Recommendation	Comments
<p>20. Publication of AQR reports a) Publication of anonymous reports b) Publication of full reports The Review recommends that the new regulator should work towards a position where individual audit quality inspection reports, including gradings, are published in full upon completion of AQRs. This will, however, be a major step, requiring a high level of confidence in the AQR process. For the present, as a first and interim step, the Review recommends publication of AQR reports on an anonymised basis (similar to the approach taken in the US and the Netherlands, for example).</p>	<p>This recommendation is addressed at Chapter 9.</p>
<p>21. Examine overseas component audit work: The Review recommends that the regulator should change its approach to examining the quality of component audit work conducted overseas, on a risk-based basis.</p>	<p>This recommendation is addressed at Chapter 9.</p>
<p>22. Strengthen AQR resourcing: The Review recommends that the regulator should revisit and strengthen AQR resourcing, and should seek to:</p> <ul style="list-style-type: none"> • Recruit more senior staff (including at partner-equivalent level) who would attend AQR inspection visits, adding weight and commanding more substantial respect in conversations with firms; able to make a call on complex matters on-site; and bringing to bear a comparative overview of sector-practice • Ensure its approach to staffing addresses the need for its teams to include recent experience of external audit and understanding of current practice, in order to test and scrutinise firms as effectively as possible; and • Widen and appropriately deploy the team’s sector expertise, in particular in those most complex and high-risk sectors where public interest and risk of corporate failure is highest. 	<p>The FRC is leading on this recommendation. The FRC has increased headcount to support a risk-based increase in scope and number of AQR reviews, as published in FRC's 2020/21 Strategy. Work is continuing on longer-term staffing strategy including sector expertise.</p>

Recommendation	Comments
<p>23. a) Promote brevity in accounts and annual reports b) Report once each Parliament The Review recommends that the regulator should be required to promote brevity and comprehensibility in accounts and annual reports, engage meaningfully with users and asset owners about their information needs, and ensure the proportionality and value of reports. At least once in every Parliament, the FRC should report to BEIS a public assessment of the extent to which the statutory reporting framework is serving the interests of the users of company reports together with any recommendations for how it can be improved.</p>	<p>The FRC is leading on this recommendation. This recommendation is addressed at chapter 4 and at chapter 10.</p>
<p>24. Expand Volume of CRR undertaken: The Review recommends that the regulator should consider expanding the volume of CRR activity on a risk-based basis.</p>	<p>The FRC is leading on this recommendation. As mentioned in its 2020 Annual Report, the FRC is expanding the volume of its CRR work.</p>
<p>25. Power to direct changes to accounts: The Review recommends that the new regulator should be given a power to direct changes to accounts rather than having to go to court.</p>	<p>This recommendation is addressed at chapter 4.</p>
<p>26. Publish CRR correspondence: The Review recommends that CRR findings are reported publicly by the regulator. The regulator should publish full correspondence following all CRR reviews, and the findings should be published in a set timeframe.</p>	<p>This recommendation is addressed at chapter 4.</p>
<p>27. Limit CRR to PIEs to the extent possible: The Review recommends that the new regulator's CRR work should be limited to PIEs, except to the extent unavoidable under EU law.</p>	<p>The FRC is leading on this recommendation. This recommendation is addressed at chapter 4.</p>
<p>28. Pre-clearance of accounts: The Review recommends that in addition to stronger retrospective monitoring of company reporting, the Review recommends that the new regulator should introduce a pre-clearance procedure in advance of the publication of accounts.</p>	<p>This recommendation is addressed at chapter 4.</p>
<p>29. CRR work to cover whole annual report: The Review recommends that the stronger corporate reporting review process described earlier should be extended to cover the entire annual report, including corporate governance reporting. This should be done on the basis of risk.</p>	<p>This recommendation is addressed at chapter 4.</p>

Recommendation	Comments
<p>30. Consider need for qualitative regulation of “investor information”: The Review recommends that the Government, working with the FCA and the new regulator, should consider whether there is a case for strengthening qualitative regulation around a wider range of investor information than is covered by the FRC’s existing corporate reporting work, to ensure that disciplines to drive up the quality of companies’ disclosures in the UK are at least as demanding as best practice internationally. One possibility would be for the new regulator to trial some additional work in this area, on a risk-based and/or sampled pilot basis; if so, this should be done in close collaboration with (or possibly even in support of) the FCA.</p>	<p>The FRC is leading on this recommendation. This recommendation is addressed at chapter 4.</p>
<p>31. Regulator to be sparing and disciplined in the issuing of guidance: The Review recommends that the new regulator should be more sparing and disciplined than the FRC in promulgating guidance and discussion documents. These documents should only be issued if they are genuinely useful, and their utility clearly exceeds the considerable costs they impose through users having to read and check them.</p>	<p>The FRC is leading on this recommendation. This recommendation is addressed at chapter 4.</p>
<p>32. Monitoring AEP performance: Although the Review is heartened by the FRC’s evident recent change in approach, and by the strengthening of the enforcement team’s resourcing and new leadership of the enforcement function, the Review recommends that both the board and the Government should continue to monitor enforcement performance closely. The new regulator should report on this in its Annual Report, and the regulator should regularly be held accountable by Parliament through appearances at the BEIS Select Committee.</p>	<p>Procedures for enforcement performance monitoring by the FRC Board have been established. Enforcement Performance is reported on in the regulator’s annual report. This recommendation is also addressed by proposals for a statutory duty to produce an annual report, set out at chapter 10.</p>
<p>33. Revisit publication policy in relation to undertakings: The Review recommends that the regulator should revisit its publication policy in relation to concluded cases that result in undertakings.</p>	<p>The FRC is leading on this recommendation. The FRC has revisited its publication policy and will commence publication of anonymised trends and outcomes in the Annual Enforcement Review.</p>

Recommendation	Comments
<p>34. International reach of enforcement action: The international reach of the regulator’s statutory audit enforcement action should be extended, on a risk-based basis.</p>	<p>This recommendation is addressed at chapter 9.</p>
<p>35. Statutory base for enforcement action against accountants: The Review recommends that enforcement action against accountants in relation to apparent wrongdoing in Public Interest Entities should be undertaken by the regulator on a statutory basis. The current voluntary scheme should be discontinued and replaced with a new statutory regime with tests and powers aligned and similar to those in the AEP. Those in scope would be judged against the requirements that already apply to them (legislative requirements, financial reporting standards and professional ethical standards).</p>	<p>This recommendation is addressed at chapter 11.</p>
<p>36. Enforcement regime for non-member directors: The Review recommends that the Government, working with the new regulator, should task the regulator to develop detailed proposals for an effective enforcement regime in relation to Public Interest Entities that holds relevant directors to account for their duties to prepare and approve true and fair accounts and compliant corporate reports, and to deal openly and honestly with auditors. The Review recommends that this should apply to: a company’s CEO, CFO, chair, and audit committee chair.</p>	<p>This recommendation is addressed at chapter 5.</p>
<p>37. a) Should follow AEP model, b) Range of sanctions, c) Set out relevant requirements The Review recommends that the regime for non-member directors should follow the principles of the Audit Enforcement Procedure, with the same threshold for action to be taken, and a graduated range of sanctions. To achieve this, the regulator should set out relevant requirements or statements of responsibilities in relation to auditing and corporate reporting in order that directors are individually accountable for their roles.</p>	<p>This recommendation is addressed at chapter 5.</p>

Recommendation	Comments
<p>38. Regulator should have power to investigate directors and refer cases to Insolvency Service: Although the regulator should be able to impose a range of sanctions, the Review recommends that action relating to director disqualification should continue to rest with the Insolvency Service. The Review does, however, recommend that the FRC should have the necessary powers to investigate directors and refer cases to the Insolvency Service, working closely with them to ensure effective action is taken where necessary.</p>	<p>This recommendation is addressed at chapter 5.</p>
<p>39. Oversight role of accountancy profession, with wider work programme: The Review recommends that the regulator should continue to operate its oversight role of the accountancy profession, but with a work programme sufficiently wide and expert to identify any emerging concerns of public interest.</p>	<p>The FRC is leading on this recommendation. This recommendation is addressed at chapter 11.</p>
<p>40. Backstop statutory power in public interest: The Review recommends that the Government should put in place a backstop statutory power, requiring action to be taken by a professional body if there was a need in the public interest. The Review recommends that such a power would be activated only if needed and at the regulator's request.</p>	<p>This recommendation is addressed at chapter 11.</p>
<p>41. MoU with accountancy bodies: The Review recommends that the regulator should replace exchanges of letters with formal memoranda of understanding with each of the UK's professional accountancy bodies.</p>	<p>The FRC is leading on this recommendation. This recommendation is addressed at chapter 11.</p>
<p>42. a) Review and revise the Stewardship Code, b) Ensure necessary powers: The Review recommends that a fundamental shift in approach is needed to ensure that the revised Stewardship Code more clearly differentiates excellence in stewardship. It should focus on outcomes and effectiveness, not on policy statements. The Government should also consider whether any further powers are needed to assess and promote compliance with the Code. If the Code remains simply a driver of boilerplate reporting, serious consideration should be given to its abolition.</p>	<p>The FRC published a revised UK Stewardship Code which took effect in January 2020. Consideration of whether the regulator needs further powers to monitor compliance with the Code is set out in chapter 11.</p>
<p>43. Engagement with investors: The Review recommends that the FRC needs to engage at more senior level in a much wider and deeper dialogue with UK investors, including both fund managers and representatives of end investors.</p>	<p>The FRC is leading on this recommendation. The FRC has created and staffed a new Stakeholder Engagement and Corporate Affairs function to help facilitate wider dialogue with investors. Further information on stakeholder engagement is provided in the FRC's Annual Report for year ending 31 March 2020.</p>

Recommendation	Comments
<p>44. Market intelligence function: The Review recommends that the regulator should develop a robust market intelligence function to identify emerging risks at an early stage, helping to shift its perspective to current and future risks, as well as its existing retrospective focus.</p>	<p>The FRC is leading on this recommendation. This recommendation is addressed at chapter 11.</p>
<p>45. a) Duty of alert for auditors b) Take close interest & engage with auditor where parted company outside usual cycle: The Review recommends that the Government introduces a duty of alert for auditors to report viability or other serious concerns. The regulator should also take a close interest, and engage with the auditor, in situations where a PIE auditor has parted company with its client outside the normal rotation cycle.</p>	<p>This recommendation is addressed at chapter 11.</p>
<p>46. Require rapid explanations about reasonable concerns: The Review recommends that the regulator needs to be able to act quickly where potentially serious problems are indicated. The Review recommends that the regulator should be able to require rapid explanations from companies about reasonable concerns raised by the regulator.</p>	<p>This recommendation is addressed at chapter 11.</p>
<p>47. Power to commission a skilled person review: The Review recommends that the new regulator should be able to commission a skilled person review, paid for by the company, in circumstances where there is any significant interest arising from its strategic objective: “To protect the interests of investors and the wider public interest by setting high standards of corporate governance, corporate reporting and statutory audit, and by holding to account the companies and professional advisers responsible for meeting those standards.”</p>	<p>This recommendation is addressed at chapter 11.</p>
<p>48. Power to publish skilled person report: The Review recommends that the regulator should have the power to publish the skilled person’s report if it judges that to be in the public interest. Investors would then be able to reach their own conclusions about the company’s conduct and management.</p>	<p>This recommendation is addressed at chapter 11.</p>

Recommendation	Comments
<p>49. Action to flow from skilled person report: In terms of further action that may flow as a result of an inspection, depending on its findings the Review recommends that the regulator should be given powers to:</p> <ul style="list-style-type: none"> • Require a company to procure additional assurance on the viability statement or any other aspect of company reports and accounts; • Require a company to procure an independent boardroom evaluation focused on particular areas of concern such as a specific examination of the effectiveness of the audit committee; • Notify the company of its view of the risks to financial viability and require a formal response from the board, with a recovery plan if appropriate; or • Order the removal of the auditor or an immediate retendering. 	This recommendation is addressed at chapter 11.
<p>50. Action to flow from skilled person report in most serious cases: In the most serious cases, the Review suggests it may be appropriate for the regulator to issue a report to shareholders suggesting that the company's dividend policy should be reviewed, or that they consider the case for a change of CEO, CFO, chair or audit committee chair, or for other strengthening of the board of directors. The Review believes that, where the severity of the facts merit it, the regulator should have the confidence to do this. Decision-making should rest, as now, with boards and shareholders.</p>	This recommendation is addressed at chapter 11.
<p>51. Strengthened framework of internal control: The Review recommends that BEIS should give serious consideration to the case for a strengthened framework around internal controls in the UK, learning any relevant lessons from operation of the Sarbanes-Oxley regime in the US. The pros and cons of options for change should be analysed and consulted upon, giving special consideration to the importance of proportionality in relation to the size of the company</p>	This recommendation is addressed at chapter 2.
<p>52. Review and reform viability statements: The Review recommends that viability statements should be reviewed and reformed with a view to making them substantially more effective; and if they cannot be made more effective, serious consideration should be given to abolishing them.</p>	This recommendation is addressed at chapter 3.
<p>53. Auditor report to include 'graduated' findings: The Review recommends that the regulator considers requiring further enhancement to the Independent Auditor's Report to include "graduated" audit findings</p>	This recommendation is addressed at chapter 6.
<p>54. Annual report issued to Parliament: The Review recommends that the regulator should submit an Annual Report to Parliament</p>	This recommendation is addressed at chapter 10.

Recommendation	Comments
<p>55. Regulator to apply MPM; Regulators’ Code; Public Contracts Regulations: In terms of its internal systems and controls, the Review recommends that the new regulator must apply:</p> <ul style="list-style-type: none"> • The provisions of Managing Public Money; • The Regulators’ Code which sets out a clear principles-based framework for how regulators should engage with those they regulate; and • The Public Contracts Regulations regarding procurement. 	<p>The FRC applies Managing Public Money and confirms this to be the case in its Annual Report for year ending 31 March 2020. The FRC complies with the Regulator’s Code and has published a webpage which summaries the ways in which FRC meets its provisions; as set out at Chapter 10, the Government intends to take forward secondary legislation to create a statutory duty to comply. The FRC complies with public sector rules as stipulated in the Public Contract Regulations 2015 and has published a webpage detailing its procurement approach.</p>
<p>56. Actively promote diversity, especially in work on corporate governance: The Review recommends that the regulator should actively promote diversity, especially in its work on corporate governance.</p>	<p>Externally, the FRC promotes diversity in the updated UK Corporate Governance Code, through research on compliance and best practice, and via Key Facts & Trends data. Internally, the FRC promotes diversity through its D&I Committee and Staff Networks. As set out at Chapter 10, the Government intends to take forward secondary legislation which will subject the FRC to the Public Sector Equality Duty.</p>
<p>57. Conflicts of interest approach: The Review recommends that:</p> <ul style="list-style-type: none"> • For the foreseeable future, it would be wise for the regulator not to allow staff, board or committee members ever to work on any regulatory functions relating to a past employer, removing themselves and/or delegating to others as necessary; and • Written declarations for all staff members’ conflicts of interest and financial interests should include proposed mitigations, and record any exercise of management discretion in relation to work undertaken relating to a former employer. 	<p>The FRC has revised its conflicts of interest policy. It was approved by the FRC’s Executive Committee in December 2019 for application to staff, and by the FRC Board in January 2020 for application to non-executive appointees; and became operational from 1 April 2020.</p>
<p>58. Procurement approach: The Review recommends that the regulator should establish a procurement policy that adheres to public contracting regulations, and that follows an open tendering process. Its policy should be published, along with a summary of those contracts awarded that are above the Public Contracts Regulation threshold.</p>	<p>The FRC complies with public sector rules as stipulated in the Public Contract Regulations 2015 and has published a webpage detailing its procurement approach. Further detail set out in chapter 10.</p>

Recommendation	Comments
<p>59. Publish information on complaints: The Review considers the lack of transparency regarding complaints to be unhelpful and recommends that aggregated data on the trend, nature, and outcome of complaints referred to the FRC be published, as well as information on the speed at which they were dealt with.</p>	<p>The FRC has conducted a detailed review of its handling of complaints. New processes have been implemented and published on the FRC website. Full details including an analysis of complaints received during 2019/20 are published in the FRC Annual Report for year ending 31 March 2020.</p>
<p>60. Monitor trends on complaints: The Review recommends that the new regulator should more proactively monitor trends in complaints received by, and regarding, professional bodies, since this provides useful intelligence on the way in which professional bodies are operating. The new regulator should be actively interested in the substance of complaint-handling, especially where it is clear that complaints have merit, and not simply be monitoring process-compliance.</p>	<p>The FRC's Annual Report for year ending 31 March 2020 includes information on current trends in complaints received by and regarding professional bodies.</p>
<p>61. Central complaints team: Given the complex nature of the issues dealt with by the FRC, the Review recommends that a central team receive, triage, respond, and ensure appropriate action is taken in relation to complaints or complaint-like contact from stakeholders. That team should also develop clear guidance on how complaints will be dealt with, including timelines.</p>	<p>The FRC has created a new central function for the handling of complaints. The FRC's Annual Report for year ending 31 March 2020 provides further information.</p>
<p>62. Apply FOI in full: The Review sees no reason why FOI provisions should not apply in full to the regulator's functions and internal running and recommends that it is designated as a Public Authority for this purpose.</p>	<p>The FRC voluntarily adopted the Freedom of Information Act in December 2019 and has published a webpage providing further information. The Government intends to take forward secondary legislation to create a statutory duty to comply, as set out in Chapter 10.</p>
<p>63. Internal procedures on leaks: The Review recommends that FRC and the new regulator must ensure that their internal procedures and approach to sharing information with external stakeholders, and its procedures to investigate and act on any leaks, are much more robust and effective.</p>	<p>An external review of procedures was commissioned by the FRC in 2019 and recommendations implemented accordingly.</p>
<p>64. Statutory Levy: The Review recommends that the regulator should not be funded on a voluntary basis. BEIS should put in place a statutory levy.</p>	<p>This recommendation is addressed at chapter 10.</p>

Recommendation	Comments
<p>65. BEIS to agree new budget: The Review recommends that BEIS should agree a new budget, consistent with the Review’s recommendations, working with the new regulator and consulting stakeholders.</p>	<p>This recommendation is addressed at chapter 10.</p>
<p>66. Budget to set new budget: The Review recommends that BEIS should set the regulator’s budget each year, and having consulted, determine the proportions of the levy that will apply to different parties.</p>	<p>This recommendation is addressed at chapter 10.</p>
<p>67. Recruit new expertise: As set out in Chapter 3, the Review recommends that the regulator needs to develop new teams, and should look to recruit analysts, investment experts, economists, and those skilled in corporate law.</p>	<p>The FRC is leading on this recommendation. The FRC’s Annual Report for year ending 31 March 2020 provides further information on its approach to recruitment, including its focus on bringing in people with the relevant technical skills, practical experience and authority.</p>
<p>68. Staffing & resourcing strategy, inc grey panthers: The Review recommends that the new regulator should develop a staffing and resourcing strategy to achieve the vision set out in this Review. That should include a more diverse approach to hiring. The regulator should also build on the experience of the Financial Reporting Review Panel and, like the other financial regulators, develop a pool of former or retired senior executives and experts – so-called ‘grey panthers’ – to boost its capacity to deploy expertise at short notice.</p>	<p>The FRC is leading on this recommendation A Staffing and resourcing strategy has been developed and agreed in FRC.</p>
<p>69. Pay arrangements, applying immediately: The Review recommends that the control arrangements on pay for the regulator should mirror those of other financial regulators such as the FCA, PRA and Ofcom which are not funded by the taxpayer. This approach should apply immediately. The new regulator’s budget should be set by Ministers, as should the CEO’s pay, but other pay decisions should be made by the regulator subject, of course, to proper transparency, and within the overall financial budget set by Ministers.</p>	<p>The Government will put in place arrangements that provide appropriate pay freedoms for the new regulator. The new regulator’s budget will be reviewed and agreed by BEIS each year.</p>
<p>70. Pay arrangements, legal base: The Review recommends that the new regulator’s pay arrangements should be set out in the regulator’s legal base, and mirror that of Ofcom. That sets out with clarity that the arrangements for the terms, conditions, and remuneration of staff are a matter of Ofcom’s responsibility. The Office of Communications Act 2002 states that: Schedule (7)(1): “The employees of Ofcom who are not executive members shall be appointed to and hold their employments on such terms and conditions, including terms and conditions as to remuneration, as Ofcom may determine.” The Review recommends that the same wording be used for the founding legislation for the new regulator.</p>	<p>The Government will put in place arrangements that provide appropriate pay freedoms for the new regulator.</p>

Recommendation	Comments
<p>71. Competition Duty: The Review recommends that the new regulator should be given a competition duty in a stronger form than the “have regard to” formulation recommended by the Competition Commission in 2013 and should follow the model set out in Chapter 6, which is broadly based on the FCA’s competition duty.</p>	<p>This recommendation is addressed at chapter 10.</p>
<p>72. Market monitoring: In addition to a competition duty, the Review also recommends that the regulator should be given a specific statutory function to keep the statutory audit market under review and to report regularly on market and competition developments. This will need to include reporting on trends in audit pricing, the extent of any cross-subsidy from non-audit work and any implications for the quality of audit.</p>	<p>This recommendation is addressed at chapter 8.</p>
<p>73. Competition powers: The Review recommends giving the regulator the powers it needs to support a competition duty and an ongoing market review function. In particular, it will need powers to require firms to provide audit pricing, cross-subsidy and market share data. The position should be reviewed again following completion of the CMA’s market study to ensure that the regulator has the powers needed to implement or monitor the CMA’s competition remedies and to act on evolving or new competition issues in the future. These include addressing anti-competitive practices and an abuse of dominant position within the statutory audit market.</p>	<p>This recommendation is addressed at chapter 8.</p>
<p>74. Oversight of the actuarial profession: The Review recommends that the Government, working with the PRA and TPR, should review what powers are required effectively to oversee regulation of the actuarial profession.</p>	<p>This recommendation is addressed at chapter 11.</p>
<p>75. PRA to be oversight body: The Review recommends that neither the FRC, nor its successor body, is best placed to be the oversight body. The PRA (which employs around 80 actuaries) is a much larger repository of regulatory actuarial expertise than the FRC and would be best placed to take on all the actuarial responsibilities currently vested in the FRC.</p>	<p>This recommendation is addressed at chapter 11.</p>

Recommendation	Comments
<p>76. Review local audit arrangements: The Review recommends that the arrangements for local audit need to be fundamentally rethought to ensure that they:</p> <ul style="list-style-type: none"> • Deliver robust assessment and scrutiny of the quality of all local audit work, with individual reports shared with audit committees and published; • Establish a more appropriate threshold for enforcement action; and, • Bring together in one place all the relevant responsibilities, so a single regulatory body can take an overview. 	<p>The Government commissioned Sir Tony Redmond's review of local authority financial reporting and external audit commissioned as set out at chapter 11.</p>
<p>77. New body for local audit: Such a role (regarding local audit) could be taken on by the FRC or its successor body, but the Review recommends that it would be much better undertaken by a separate body that has (or could develop) a deeper expertise in the local audit world. That body should have a different and much more focused remit than the former Audit Commission. It should have a clear objective to secure quality, and should set the relevant standards, inspect the quality of relevant audit work and oversee the relevant professional bodies. It should also take on responsibility for appointing auditors for local bodies and agreeing fees.</p>	<p>This recommendation is addressed at chapter 11.</p>
<p>78. Audits of Foundation Trusts: The Review recommends that, in the same spirit, the Government should review whether the arrangements now in place for other public sector audits, such as Foundation Trusts, are genuinely robust and effective. It is very unlikely that they are.</p>	<p>This recommendation is addressed at chapter 11.</p>
<p>79. Publication of AQR gradings: Just as the Review recommends public disclosure of AQR findings and gradings in relation to the private sector, the Review recommends that the new regulator's individual AQR reviews in relation to the NAO should be shared with the relevant audit committee and Parliament, and should be published.</p>	<p>This recommendation is addressed at chapter 11.</p>
<p>80. All NAO audits to be in scope of AQR: The Review recommends that all financial audits in scope of the NAO should be brought within the audit quality monitoring scope of the new regulator, and not only at the discretion of the C&AG.</p>	<p>This recommendation is addressed at chapter 11.</p>
<p>81. BEIS to determine best body to act as Independent Supervisor: In light of the Review's recommendations on local audit, and those above, the Review recommends that the Secretary of State for Business, Energy and Industrial Strategy should reassess if the FRC remains the most appropriate body to perform the role of Independent Supervisor of Auditors General in respect of statutory audits.</p>	<p>This recommendation is addressed at chapter 11.</p>

Recommendation	Comments
<p>82. Ownership of the local audit code of audit practice: The Review also recommends that responsibility for the local audit “Code of Audit Practice” should be moved to the same body that monitors the quality of local audit work.</p>	<p>This recommendation is addressed at chapter 11.</p>
<p>83. Implementation schedule: The Review recommends that an immediate priority task for the FRC and the Government should be to work together to identify and agree a set of measures that should be implemented in the short term ahead of legislative time being available for primary legislation. This interim implementation plan should be published along with a timetable.</p>	<p>The Government set out measures that would be implemented ahead of legislation in its response to the Review, published in March 2019. It distinguished recommendations where FRC and BEIS would implement as soon as possible; those which can be implemented once considered, in advance of legislation; and those requiring primary legislation. This table provides a further update on implementation.</p>
<p>Auditor Appointment: Sir John Kingman made additional recommendations in his letter to Secretary of State of December 2018, that 1) the regulator has the right to appoint a PIE auditor where a) quality issues have been identified, b) where the company has parted with its auditor outside the normal cycle or c) where there has been a meaningful shareholder vote against an auditor appointment and 2) the regulator has the right to approve PIE audit fees where it sees a case for doing so in the interests of quality.</p>	<p>These recommendations are addressed at chapter 7.</p>

Part 2: Recommendations of the Report of the Independent Review into the quality and effectiveness of audit

Recommendation	Comments
<p>3.20 Implementation Review: 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]</p>	<p>This recommendation is addressed at chapter 1.</p>
<p>4.7 Concise guide to audit: 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.</p>	<p>This recommendation will be addressed by the FRC, as explained at chapter 6.</p>
<p>5.1.34. Purpose of audit: 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”):“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.”</p>	<p>This recommendation is addressed at chapter 6.</p>
<p>5.2.6. Provide useful information for users: 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.</p>	<p>This recommendation is addressed at chapter 6.</p>
<p>5.3.12. Considering other information: 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 Annual Report that is used in investor presentations and RNS announcements.</p>	<p>This recommendation is addressed at chapter 6.</p>
<p>5.3.2. Auditors providing original information: 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.</p>	<p>This recommendation will be considered by the FRC, as explained in chapter 6.</p>
<p>5.4.12. Framework for all corporate auditing: That ARGA determines a framework for all corporate auditing, whether of financial statements or of other information.</p>	<p>This recommendation is addressed at chapter 6.</p>

Recommendation	Comments
<p>6.0.11 New profession of corporate auditing: 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. ARGAs would be the statutory supervisory body for that profession.</p>	<p>This recommendation is addressed at chapter 6.</p>
<p>6.0.16 Corporate auditor descriptor: That there is one encompassing descriptor with a newly minted definition - "corporate auditor".</p>	<p>This recommendation is addressed at chapter 6.</p>
<p>6.1.2: Auditor's authorisation: That an auditor's authorisation to carry out audits in particular areas of activity should flow from tailored qualifications which they have achieved.</p>	<p>This recommendation is addressed at chapter 6.</p>
<p>6.3.4 Principles of corporate auditing: 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.</p>	<p>This recommendation is addressed at chapter 6.</p>
<p>6.4.5. Auditor statement: 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.</p>	<p>This recommendation is addressed at chapter 6.</p>
<p>6.6.14. Qualification: That the development of a specific auditor qualification, including education and training, should become a high priority for ARGAs over the coming years.</p>	<p>This recommendation is addressed at chapter 6.</p>
<p>6.6.16. Professional judgement definition: That ARGAs develop an agreed definition of professional judgment which builds on ISA (UK) 200.</p>	<p>The FRC will consider whether the application material to its International Standard on Auditing (UK) 200 regarding professional judgment can be built upon to establish an expanded and agreed definition.</p>
<p>6.6.2. Education and training: That ARGAs ensure that education, training and, if necessary, retraining, should take place consistently across this new profession.</p>	<p>This recommendation is addressed at chapter 6.</p>

Recommendation	Comments
<p>6.8.5. Public Interest Statement: 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.</p>	<p>This recommendation is addressed at chapter 3.</p>
<p>6.8.7. Auditor to report on Public Interest Statement: That the audit report should state the extent to which the audit has yielded sufficient evidence of consistency between the content of the 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.</p>	<p>This recommendation is addressed at chapter 3.</p>
<p>8.4.3. Auditor to report on Section 172 statement: 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.</p>	<p>This recommendation is addressed at chapter 3 (Audit and Assurance Policy) and chapter 6 (proposed new duty on auditors to consider wider information).</p>
<p>9.1.11. Requests to Audit committee: 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.</p>	<p>This recommendation is addressed at chapter 7.</p>
<p>9.1.4. Director's Risk Report/ engagement with the audit plan: 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. 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>	<p>This recommendation is addressed at chapter 7.</p>
<p>9.1.6. Reporting other risks: 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.</p>	<p>The FRC will consider the recommendations relating to auditor reporting holistically, as explained at Chapter 6.</p>
<p>9.4.14. Independent fee setting function: That, similarly [to ratings agencies], audit firms establish an independent fee-setting function making its decisions separately from those conducting the audit.</p>	<p>This recommendation is addressed at chapter 8.</p>

Recommendation	Comments
9.4.5. Audit fees: 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.	This recommendation will be considered by the FRC, as explained at chapter 7.
9.4.9. Audit Committee fees and budget: 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.	The FRC plans to review its Guidance on Audit Committees and will consider any changes in light of the responses to the consultation.
9.5.6. Questions to the chair and auditor: That a standing item be added to AGM agendas: questions to the chair of the audit committee and to the auditor.	This recommendation is addressed at chapter 7.
9.6.3. Audit Users Review Board: 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.	This recommendation is addressed at chapter 7.
10.0.3. Audit and Assurance Policy: 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.	This recommendation is addressed at chapter 3.
10.2.2. Risk and assurance: 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.	The FRC will consider this recommendation when it next consults on changes to the UK Corporate Governance Code.
11.15. True and fair override: 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.	This recommendation is addressed at chapter 6.
11.9 True and fair: That the Companies Act and ISA (UK) 700 be amended to replace “true and fair” with “present fairly, in all material respects”.	This recommendation is addressed at chapter 6.

Recommendation	Comments
<p>12.4. Adequate accounting records: 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.</p>	<p>This recommendation is addressed at chapters 2 and 5.</p>
<p>12.8. Guidance on responsibilities regarding accounting records: That ARGA promptly develop guidance for auditors around their responsibilities in relation to accounting records.</p>	<p>This recommendation is addressed at chapter 2.</p>
<p>13.1.8. Internal Controls Statement: 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.</p>	<p>This recommendation is addressed at chapter 2.</p>
<p>13.1.11. ACCIF Principles: 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.</p>	<p>This recommendation is addressed at chapter 2.</p>
<p>14.1.5. Detecting material fraud: 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.</p>	<p>This recommendation is being addressed by FRC, as explained at chapter 6.</p>
<p>14.2.2. Director obligations on fraud prevention: 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.</p>	<p>This recommendation is addressed at chapter 6.</p>
<p>14.3.3. Forensic accounting and fraud awareness training: 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.</p>	<p>This recommendation is addressed at chapter 6.</p>

Recommendation	Comments
14.3.5. Auditor reporting on fraud: 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.	This recommendation is addressed at chapter 6.
14.4.3. Open access register: 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.	This recommendation is addressed at chapter 6.
14.5.4. Independent Auditor Fraud Panel: 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.	This recommendation is addressed at chapter 6.
16.4. Influence of external signals: 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.	This recommendation will be considered by the FRC, as explained in chapter 6.
16.7. Menu of signals: That ARGA should develop a menu of possible signals [regarding enhanced risk] and the auditors should report against the relevant parts of that menu.	The FRC will consider this recommendation in the Financial Year 2021/22 in the context of ongoing consultations.
17.0.4. Differences of view: 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.	The FRC will review its guidance relating to reporting by audit committees in light of the responses to the consultation
17.1.2. Treatment of goodwill: That the consequences of potential differences in treatment of goodwill and intangibles considered by management and the auditor should also be made transparent.	The FRC will consider this recommendation in the Financial Year 2021/22 in the context of ongoing consultations, noting that it applies beyond audit
17.2.6. Company culture and behaviour: That ARGA develop a series of examples which would illustrate, non-exclusively, the types of culture that auditors should reference 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.	The FRC will consider this recommendation in the Financial Year 2021/22 in the context of ongoing consultations

Recommendation	Comments
<p>17.3.3. Continuity of audit reports: 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.</p>	<p>This recommendation will be considered by the FRC, as explained in chapter 6.</p>
<p>17.5.9 Graduated findings: That the evolution of graduated findings be left to the marketplace for audit services.</p>	<p>This recommendation will be considered by the FRC, as explained in chapter 6.</p>
<p>18.1.2. Resilience Statement: That the board should make a Resilience Statement that incorporates, enhances and builds on the [current] Going Concern and Viability Statements.</p>	<p>This recommendation is addressed at chapter 3.</p>
<p>18.1.5 Reporting anxiety on resilience: 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 ARGAs, or an alternative regulator depending on the circumstances.</p>	<p>This recommendation is addressed at chapter 11.</p>
<p>20.1.5. Alternative performance measures: That Alternative Performance Measures should be subject to audit.</p>	<p>This recommendation is addressed at chapter 6.</p>
<p>20.2.8. KPIs: That any Key Performance Indicators used for the purpose of calculating executive remuneration should be subject to audit.</p>	<p>This recommendation is addressed at chapter 6.</p>
<p>21.5. Payment policies and performance: 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.</p>	<p>This recommendation is addressed at chapter 3.</p>
<p>22.7. Public Interest Disclosure Act. That the relevant Statutory Auditor for a particular audited PIE be added to the list of Prescribed Persons under the Public Interest Disclosure Act.</p>	<p>This recommendation is addressed at chapter 11.</p>
<p>22.9. Extending protections: 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 ARGAs.</p>	<p>This recommendation is addressed at chapter 11.</p>

Recommendation	Comments
<p>23.0.12. Informing shareholders and stakeholders on auditor resignations. 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.</p>	<p>This recommendation is addressed at chapter 7.</p>
<p>23.1.2. General Meeting on auditor resignations or dismissals: 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.</p>	<p>This recommendation is addressed at chapter 7.</p>
<p>24.1.11. Sampling techniques: That, in the audit report, auditors should explain the reasons for the necessity and basis of any sampling techniques used in conducting the audit.</p>	<p>This recommendation will be considered by the FRC, as explained in chapter 6.</p>
<p>24.1.8. Better use of data: That BEIS and ARGAs 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.</p>	<p>The FRC will consider next steps for this recommendation in light of the responses to the consultation.</p>
<p>25.0.4. Liability limitation agreements: 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.</p>	<p>This recommendation is addressed at chapter 6.</p>
<p>25.1.3. Structured dialogue: That ARGAs facilitate a structured dialogue between investors and auditors to define a liability regime that would cause fewer obstacles to a more informative audit.</p>	<p>This recommendation is addressed at chapter 6.</p>
<p>25.2.3. Separated financial information: 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.</p>	<p>This recommendation is addressed at chapter 6.</p>
<p>25.2.5. Number of hours spent on audit: That individual statutory audit reports detail the number of hours spent in conducting the audit by grade of auditor.</p>	<p>This recommendation will be considered by the FRC, as explained in chapter 6.</p>

Recommendation	Comments
<p>26.3.2 Confidential mechanism for concerns: That ARGA establish a formal confidential mechanism to interact with shareholders or other stakeholders to respond to concerns regarding particular audits.</p>	<p>This recommendation is addressed at chapter 9.</p>
<p>27.1.7 Audit committee minutes: That audit committee minutes be published with a time-lag of 12-18 months and with approved redactions.</p>	<p>The Government believes focusing on the quality of reporting on audit committees' work in annual reports is a better way to achieve appropriate transparency.</p>
<p>Suggestion 19.7 Capital Maintenance: At the same time, if companies are not to be subject to an obligation to publish historically determined distributable reserves, I recommend that the directors, in proposing a dividend, would need to make a statement that the payment of this dividend in no way threatens the existence of the company in the ensuing, say, two years in the light of the risk analysis undertaken. The directors should also confirm that this statement is consistent with the Resilience Statement, has been assured in accordance with the Audit and Assurance Policy and that this dividend is within known distributable reserves. This known amount may not be the complete amount.</p>	<p>This recommendation is addressed at chapter 2.</p>
<p>Suggestion 19.8 Capital Maintenance cont.: By contrast, for a company where it is likely that distributable reserves are deemed "similar" in size to a proposed dividend, that dividend can only be recommended by the directors if the level of the distributable reserves is established and payment of that dividend is consistent with obligations of the directors under the Companies Act and consistent with the Resilience Statement. These distributable reserves would be subject to audit. "Similar" would need to be unambiguously defined across all companies following an appropriate consultation by ARGAs.</p>	<p>This recommendation is addressed at chapter 2.</p>

Part 3: Recommendations of the CMA Audit Market Study

Recommendation	Comments
<p>1. Audit committee scrutiny: Robust regulatory oversight of the committees that run the selection process for audited companies, and oversee the audit, to make them more accountable and ensure they prioritise quality.</p>	<p>This recommendation is addressed at chapter 7.</p>
<p>2a. Market opening measures: Mandatory joint audit, to increase the capacity of challenger firms, to increase choice in the market and thereby drive up audit quality. There should be initial limited exceptions to the requirement, based on criteria set by the regulator – mainly the largest and most complex companies. Any company choosing a sole challenger auditor should also be exempt. Audits of exempt companies may be subject to rigorous, real-time peer reviews commissioned by and reporting to the regulator.</p>	<p>This recommendation is addressed at chapter 8.</p>
<p>2b. Resilience of audit market and audit firms: The regulator will obtain the information it needs to monitor the health of audit practices, including requiring Audit Committees to inform it of upcoming tenders; and work closely with audit firms to develop preventative measures which reduce the risk of firm failures.</p>	<p>This recommendation is addressed at chapter 8.</p>
<p>3.Operational Split: an operational split between the audit and non-audit practices of the biggest firms.</p>	<p>This recommendation is addressed at chapter 8.</p>
<p>4. Five-year review: a five-year review of progress by the new regulator.</p>	<p>This recommendation is addressed at chapter 1.</p>