

We welcome the opportunity to take part in this important consultation. We note the FRC findings in June 2018 that showed a six percentage point fall in audits requiring no more than limited improvements, but we believe that the outcome of the FRC's investigation into the audit of Carillion need to be understood prior to concluding that changes to the statutory audit market would achieve more robust audits.

Having reflected on the points set out in the "invitation to comment" document, we believe that there should be two principal objectives to this exercise:

- 1) To increase audit quality; and in doing so
- 2) To increase stakeholder trust and confidence in the Annual Report & Accounts

We have set out below three key themes in relation to this consultation.

Accountability

In relation to the annual report and accounts, we recognise that management and the Board are responsible for ensuring that the annual report and accounts are fair, balanced and understandable. We take this responsibility very seriously and work hard to ensure our processes and systems of internal control are conducive to a robust annual report and accounts in which stakeholders can have trust and confidence.

In addition to this, we recognise the important role that our auditors play in providing independent scrutiny and challenge. In order to maintain this independence, we have a suite of robust processes and policies relating (but not limited) to selection and tenure of auditors; membership of our Audit Committee; and our auditors providing non-audit services. The quality of auditors, particularly the audit partner, team and resources is key in that selection process, more so than the firm they represent.

We understand that, as a responsible business, we are accountable to a broad range of stakeholders. As such, it is important for us to engage with these stakeholders as appropriate in the course of day-to-day activities. In doing this, we believe this is ultimately of benefit to our shareholders.

Audit approach

Changes in accounting standards over recent years have contributed, in our view, to an erosion of principle based auditing (e.g. grounded in accounting concepts of matching and prudence) to a more rules and compliance based approach. As such, we have seen subtle changes in audit approach which, we believe, has had a detrimental effect on the objectives above. A principle based approach required a strong element of judgement which ensured that auditors interacted significantly with their clients, at every level, to understand the business and associated risks.

The reduction in valuable face-to-face time between an audit firm and their client has been further exacerbated through digital transformation, with audit firms performing more and more work remotely (including off-shore) and, due to the competitive audit market maintaining fee pressure, auditors spending significantly more of their time working with technology, rather than in person with clients.

Audit quality

We believe there are opportunities to increase transparency of the audit firm's quality review processes which would help increase stakeholder trust and confidence in the annual report and accounts.

Visibility of an audit firm's (of any tier) quality review processes could include the overall firm's approach to risk and quality (including but not limited to Partner training, rotation policies, firm methodology); the format, approach, and specific content of Lead Partner reviews with the audit team and; discussions or issues arising from the audit firm's independent Partner review, and how these issues were resolved.

There is debate to be had on whether these (and other appropriate elements) are, at the lesser extent, shared with the Audit Committee as part of their review and sign-off process, or at a greater extent, documented in the annual report and accounts itself for wider stakeholder consideration.

We believe that to increase audit quality (and in doing so increase stakeholder trust and confidence in the Annual Report & Accounts) the debate needs to be centred on the effect of changes to accounting standards; the resultant changes in the audit approach; and ways of increasing transparency in audit firms' quality review processes. It is our view that these issues have a greater impact on audit quality than the composition of the audit market.

Andrew

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