

I suppose typically of any Government sponsored organisation it is difficult to find how to comment on your Audit Market paper, so here are my comments.

The “separation” of audit from other activities in the Big 4, and, if they are going to compete in the market as joint auditors, the “second tier” firms who are envisaged to play that role looks attractive, but:

- As you admit this can only be a UK action, as this is never going to be enforceable across other jurisdictions, and best of luck with even trying. So for a UK based multi national the “separated” UK auditor will be relying on opinions from overseas affiliate firms carrying on combined audit and consultancy practices, which you appear to regard as tainted.
- An audit involves a number of specialisms, for example tax and pensions, which require specific expertise to review. People specialising in such areas are not going to be attracted to a career in auditing and even if they are their practical knowledge is going to get out of date very rapidly if they are not engaged in practicing their area of expertise.
- Joint audits have the danger of creating gaps in audit coverage, which the unscrupulous will exploit.
- Frankly I do not see how your proposed separation of audit and consultancy practices work. How are firm wide liabilities be covered, for example, lease and pension obligations?

Yes of course there should be a ban on a statutory auditor carrying on any consulting work for the audit client, but ironically this does cut down auditor choice as it may be difficult for the client to cut itself off from consultancy relationships and often these can be based on personal business relationships, rather than firm to firm ones, which may make them even more difficult to terminate and of course as we stand makes them potentially much more dangerous from an independence standpoint.

No, to my mind you have got it all wrong by concentrating on the historic audit product and trying to get something to fit around it. What is needed is a revision to the concept of the statutory audit making it more of a “high level” product that does not require the vast army of staffing that the current statutory audit does. Perhaps this is something the Brydon Review will cover, but it seems to me there is a need for a step change in Audit:

- There is a vast expectation gap, where it appears that the “market” expects the statutory auditor to be responsible for finding fraud and misstatement.
- Perhaps the law should be changed to make it clear that fraud and misstatement are the responsibility of the Directors.
- The statutory audit should accept the numbers as produced to trial balance stage, their responsibility being:
  - The verify the balance sheet assets and liabilities
  - Ensure that the statutory financial statements are produced in accord with appropriate accounting standards, local law, and regulations
- This leaves the Directors to decide how they get comfortable with their obligations with as I see it a choice between appointing another firm to conduct a proper internal or systems audit (if any accounting firm feels able to write what amounts to an insurance policy for the directors) and considerably strengthening the internal audit function so that it actually does some auditing rather than “fire fighting” (you could say the equivalent to the substantial compliance functions that financial service firms have had to invest in post the 2008 crash).
- Statutory auditors should be appointed (chosen) by the audit committee of Public Interest Entities and report to that committee.

This is not well thought out, but I am not a deep thinker or an academic, but it is an important issue, which as an investor I feel does need addressing.