

7 June 2019

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Dear Sir/Madam

Brydon Review: Quality and Effectiveness of Audit - Call for views

We are pleased to provide Crowe's response to the 'Call for views' on the review of the 'Quality and Effectiveness of Audit' that is being chaired by Sir Donald Brydon.

Crowe is one of the top 10 audit firms in the UK by audit fee income with more than 800 people nationally. It is the UK member of Crowe Global, the eighth largest accounting network in the world with revenues of \$4.3 billion and more than 36,000 partners and professionals in 130 countries.

We audit over 50 listed companies, most of whom are listed on the AIM market and we are consistently ranked in the top 10 list of auditors by number of listed company audits in the quarterly Corporate Advisers Rankings Guide.

For 10 successive years Crowe has been the leading auditor of charities, topping the Charity Finance and Charity Financials Audit Survey for 10 successive years. We are also widely-regarded as one of the leading auditors to pension schemes.

We have taken an active role in the recent reviews and consultations around audit that have taken place over the last 18 months and we welcome the Brydon Review and its aims. The current audit model was established many years ago and the time is right to review and question whether the current model is fit for purpose. Audit, however, is only one element of having reliable and robust corporate reporting. Making changes to the audit process, including changes in scope and improving quality further, will not deliver all the changes that may be needed to restore and enhance trust in corporate reporting and the governance of large listed companies.

On the attached annex we include our detailed responses to the questions posed in the 'call for views'. We have noted that the initial focus of the review is on the FTSE 350 audits and have sought to focus most of responses in that area. The reality though is that audit is a central element of corporate reporting for many thousands of other entities throughout the UK, whether they are large private companies, smaller owner-managed businesses or subsidiaries of business incorporated outside of the UK.

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In addition, audit has a very important role for many thousands of non-profit entities including charities and pension schemes. The review will need to make sure the needs of the users of audited accounts of all these types of entities are also considered if the nature of what an audit is and does is to be understood fully.

We trust that you will find our contribution of assistance in the review and we look forward to seeing the results of the review in due course.

Yours faithfully

Crowe U.K. LLP

Crowe U.K. LLP

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ANNEX: Crowe response to questions in the 'Call for views'

Call for views	Comment
<p>1 For whose benefit should audit be conducted? How is it of value to users?</p>	<p>There are a range of individuals or entities that may benefit from an audit, whether that benefit is intentional or otherwise, direct or indirect. An audit, at its heart, is designed to provide confidence in the annual report and financial statements. Anyone who reads the annual report, and who understand the scope of an audit, should be able to read the audit opinion and be able to form their own opinion of whether the annual report is reliable and credible.</p> <p>That is not to say that the audit should be planned and performed having in mind the expectations of all users. Indeed, it is not possible to identify all the possible users of a set of financial statements and, even less to understand what their different expectations might be. Some users may be present at all times (e.g. a shareholder) but others may only be users for a short period of time (e.g. a potential customer or supplier).</p> <p>The current legal position is that the audit is conducted for the shareholders, as a body; a fact auditors try and make clear in their audit reports using what is known as a 'Bannerman paragraph'. If, however, audit is to retain its relevance into the 21st century this narrow position may need to be reassessed and brought into line with current expectations where the audit is seen as being relevant to employees, customers, creditors and society at large. All of these groups can and do benefit from audit but in different ways mainly around assurance over the business continuing as a going concern and, to some extent, over the accuracy of its reporting over social and environmental matters.</p>
<p>2 Should the audit be designed to enhance the degree of confidence of intended users in the entity or just in the financial statements?</p>	<p>On its own, no, but an audit may help that process. If annual reports and accounts are prepared in a fair, balanced and understand way and the accounting applied is 'sound' (and the auditors work can bear that out), then this should help to build confidence in an entity. This is different though to saying that it is the job of an auditor to build confidence. That job must be down to the entity itself through its management and governance.</p>
<p>3 Should UK law be amended to provide greater clarity regarding the purpose of an audit, and for whom it is conducted? If so, in what way?</p>	<p>In our view, the law is clear on this point, but the question may be whether there is a proper understanding of what company law says.</p> <p>Given some of the questions from the BEIS Select Committee in the Future of Audit enquiry, one might conclude that even the MPs who are responsible for making and maintaining legislation are not fully versed in what company</p>

Call for views	Comment
	<p>law says and what duties it places on auditors. The questions put to the audit firms around their responsibilities around distributable reserves illustrates that point very clearly.</p> <p>Updating legislation may be helpful in narrowing the expectation gap. Any update, however, should also be done alongside reviewing the directors' responsibilities in respect of reporting.</p> <p>When thinking wider than company law, the word 'audit' is used in a generic manner which means there is a misunderstanding by the public at large as to what an audit entails.</p> <p>For a statutory audit, audits are conducted under International Standards on Auditing (UK), but many smaller organisations, not necessarily companies, often refer to needing an audit when they mean some form of review or assurance exercise that is not conducted under auditing standards. Even in this 'Call for views', there is reference to whether additional statements should be subject to 'audit', when the reference should be to external assurance.</p>
4	<p>Do respondents consider there is an expectation gap?</p> <p>Yes. It is clear to us from the response to the collapses of Carillion, BHS and Patisserie Valerie that the public at large have a different expectation of what an audit does and what it should detect or prevent, compared to those who are in the profession.</p>
5	<p>If so, how would respondents characterise that gap?</p> <p>Two obvious areas to highlight would be in respect of auditors' responsibilities in respect of going concern and the detection of fraud, but we believe it goes further than that.</p> <p>We also believe there is widespread misunderstanding of what work an auditor undertakes in order to be able to form an audit opinion. All audits have inherent limitations and these are not clearly understood.</p> <p>We question whether there is sufficient understanding of the concept of materiality or how auditors use sampling within an audit. The work that auditors do around an entity's systems and controls is also limited to those systems and controls that are relevant for the audit. What those systems are can be an area of judgement for the auditors so it is no surprise if there is a gap between what auditors do and what users think they do.</p> <p>A further gap can emerge for entities that have a 'front end' of an annual report as well as the financial statements. This will apply to entities in addition to listed companies, such as charities and pension schemes.</p> <p>Where entities produce a fuller annual report, the readers often fail to make a distinction between the financial statements and the 'front end' reports and presume that it is all audited. Although auditors have a responsibility to</p>

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	<p>ensure that 'front end' reports are not inconsistent with the financial statements and do not contain material inaccuracies, that difference in scope is often not well understood.</p>
<p>6</p> <p>Is there also a significant 'delivery' or 'quality' gap between auditors' existing responsibilities in law and auditing standards, and how those responsibilities are currently met?</p>	<p>We don't necessarily believe that to be the case. Too often, however, the lazy assumption made is that a corporate failure means there must have been an audit failure and the reaction of legislators and regulators entrenches this view. Whilst we agree with the statement made in the report that "an effective audit may help avert a failure through providing insight that enables shareholders to take remedial action at a sufficiently early stage", the responsibility for averting failure, must, necessarily, rest with those charged with governance.</p> <p>Where a gap is perhaps developing is between what the regulators believe the auditors should be doing and what is currently being performed. This then gets categorised as a 'quality' gap and yet it is not necessarily clear to us that the regulator's view of what constitutes audit quality is built on the appropriate characteristics.</p> <p>Pressure on quality can also be brought by the actions of those that are subject to audit through their buying process. Entities that put the focus on the cost of an audit in their buying decision will naturally be led to appointing an auditor who provides the lowest quote. If the auditor providing that quote does not have sufficient knowledge or expertise in a relevant sector, then their quote may be cheap because they have not appreciated the level of work that will be involved.</p> <p>We have seen some good behaviours in larger, more sophisticated entities, where the focus in the audit tender has been quality and where the price will be determined after the auditor has been selected. This is a positive development but is one that does not necessarily have much traction in the vast majority of the audit market.</p>
<p>7</p> <p>What should be the role of audit within wider assurance?</p>	<p>The audit of the financial statements should remain at the heart of providing assurance over reported financial performance. There is then an important role in giving wider assurance, for example over longer term viability, integrated reporting or sustainability reporting, however such assurance should be separate to that given over the financial statements.</p> <p>Trying to combine multiple, and often slightly different, opinions in the same report will be confusing for a reader. If such assurance is considered valuable it should be provided in a separate report.</p>

Call for views	Comment
<p>8 Can the level of assurance that an audit provides legitimately vary in different circumstances, for example depending on the business sector in question, and the nature of the entity's business risks?</p>	<p>Whether this is a matter of the <u>level</u> of assurance or the <u>nature</u> of the assurance is open to question.</p> <p>Shareholders in a publicly quoted company are primarily interested in whether their investment continues to have the appropriate value. That value may be in terms of capital value or the sustainability of the dividend yield. Essentially, the audit, which is providing assurance on reported historic performance, helps to provide assurance on the future prospects.</p> <p>An audit of a non-profit entity may serve a very different purpose. The assurance here is that the funds that the entity has have been applied in a manner that is consistent with that organisation's objectives. It still helps to build confidence for the future, but this is that the entity will continue to apply the funds appropriately – it is not about the accumulation of value to the individual user per se.</p> <p>An audit of a pension scheme seems to be a blend of both of the above. Pension schemes will have significant investments in listed companies, so members of pension schemes have huge vested interest in the audit of those entities, but at the same time they want to know that the scheme is being run in such a way that they will have their pensions paid throughout retirement.</p>
<p>9 Are the existing boundaries between internal and external audit clear?</p>	<p>Yes, we believe these are clear.</p>
<p>10 To what extent should external auditors be able to use evidence obtained from work performed by internal auditors in drawing conclusions?</p>	<p>Internal auditors should be assessed in the same way as other experts are assessed and their work should then be capable of being relied on by the external auditors in carrying out their work. With the extension of the 'three lines of defence' model and the multiple assurance sources, external auditors should be able to use evidence obtained from the work performed by internal auditors in order to allow organisations to get the best value from all audit and assurance sources.</p> <p>To preserve the integrity of the audit, however, there is still a need to understand what work the internal auditor has been asked to undertake, who has commissioned the work and whether they are able to work independently and without interference from management.</p>
<p>11 Do current eligibility requirements for external auditors focus too much on independence at the potential</p>	<p>No. Being independent has to be at the heart of audit. Without independence (real and perceived) there is an erosion of trust in the process. That said, the measure of whether an auditor (a firm or an individual) is independent</p>

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expense of market innovation and the quality of the audit product?	<p>has become increasingly rule-based and once one of the 'rules' is breached, then independence is considered to be impaired.</p> <p>The supposition in the question is that the independence requirements are a barrier to innovation and quality but we do not see evidence for this.</p>
12 Should directors make a more explicit statement in respect of risk management and internal controls? If so, should such a statement be subject to audit?	<p>There have arguably been benefits in the US from the introduction of Sarbanes Oxley and this could have benefits in the UK. Any statement should however be separate to the Annual Report so that the boundaries of any report are clear.</p> <p>Already there are requirements to make statements around principle risks and uncertainties and how these are being managed as well as general statements on internal controls. The statements on internal control can be made more fulsome but we are not sure of the impact of this beyond expanding the length of reports. The statements on risks and uncertainties are useful for the users of the financial statements.</p> <p>The use of the word 'audit' in the question is interesting and we refer back to our earlier response (question three) where we highlight its generic use - we respond here assuming its use as a generic expression for external assurance. Whether or not such a statement (on risk management and internal controls) should be subject to external assurance should be something either for the market or legislation to determine. To answer may need another question – what would be the purpose of making this statement subject to external assurance? Is it to further build confidence in the entity and its management? If such a statement was to be the subject of external assurance, then there would be a question of what level of assurance would be desirable? A low level of assurance (perhaps around the factual accuracy of elements of the statement) would differ widely in scope from a reasonable or high level of assurance. The further question is then whether the value from such assurance would exceed the cost of obtaining it.</p>
13 Should auditors' responsibilities regarding assessing the effectiveness of an entity's system of internal control be extended or clarified?	<p>As with the response to question 12, it would be possible to do this within a clearly agreed framework that defines which systems of internal controls and how effectiveness would be defined but this is not without its own 'expectation gap' problems; there are also cost implications. Having said that, with the anticipated advances in technology and its implications for audit, it may be possible to carry out tests on certain system generated control. Given that controls are designed to prevent, detect or monitor failures, any extension should result in enhancements to audit quality.</p>

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	It would also be necessary to ensure such changes in scope could be applied proportionately within auditing standards or legislation such that it is not an over-burdensome requirement for smaller entities or entities who operations are not complex.
14 Auditors are currently required to report to audit committees their views on the effectiveness of relevant internal controls for listed and other relevant entities. Should auditors be required to report publicly these views?	No. The ability for the auditor to have a frank and open exchange of views with management and those charged with governance would be impaired if it were perceived that such views could be made public.
15 Is the current regulatory framework relating to going concern fit for purpose (including company law and accounting standards)?	<p>The fact that the question is being asked would indicate that it is not.</p> <p>There is confusion between going concern and viability which should be clarified. The guidance on going concern is also focussed on the auditors with little available to clarify management's responsibilities in this area. The regulatory framework should be more balanced.</p> <p>In the context of pension scheme audits, there is the danger of taking a sledgehammer to crack a nut, with the potential for a lot of unnecessary work and disclosure. Pension schemes can be in an orderly wind up for many years or they may go into the Pension Protection Fund if the employer suddenly goes bust.</p>
16 Should there be greater transparency regarding identified "events or conditions that may cast significant doubt on the entity's ability to continue as a going concern"?	<p>Yes, the threshold is unclear.</p> <p>There is already the responsibility of the directors to describe the risks facing the business in the strategic report (for all companies except small companies) and this should embrace factors that may impact on the company's ability to continue in business. If the auditors do not believe that those disclosures are adequate, accurate or complete then there is already a mechanism for the auditors to report on that.</p>
17 Should directors make a statement about the sustainability of the entity's	The answer to this should be 'no'. If the answer is 'yes', this may suggest that the requirements and scope of the viability statement should be amended.

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	<p>business model beyond that already provided in the viability statement?</p> <p>There is a danger, however, that extending the requirements of the viability statement will make the statement too general to be of use. The current focus on medium term liquidity and solvency is appropriate. Greater disclosure could be given about the sustainability of the business model but this should be outside the Annual Report which is already too long a document. We suggest consideration is given to requiring Premium List companies to include greater depth of disclosure on the business model on their website and to formally review this on an annual basis. Of course, the vast majority of entities that are subject to audit are not required to prepare a viability statement. We do not advocate, at this point, requiring any extension of the scope of entities required to produce a viability statement.</p>
18	<p>Should such a statement be subject to assurance?</p> <p>There should be no legal requirement for the statement to be subject to assurance but, if investors consider such a statement to be useful, they should have the power to request the company to obtain such assurance. Given the forward-looking nature of such statements, the nature of the required assurance would need to be properly understood and care taken to ensure that such opinions would be meaningful and not just formed with boilerplate text.</p>
19	<p>Who might be capable of giving such assurance?</p> <p>A range of providers could potentially provide this, including the external auditors.</p>
20	<p>Is there a case for a more forward-looking audit? What would be the main benefits and risks?</p> <p>Yes, but as referred to previously, the term 'audit' needs to be used appropriately. An audit is traditionally backward looking; any form of forward looking assurance should be identified and described appropriately to ensure there is a clear distinction about the level of assurance and the inherent limitations. In a world where historical information is plentiful, and companies are able to communicate with their stakeholders in 'real-time', then there is a question of how external assurance can be applied to these communications rather than continuing to provide assurance to 'old news'.</p> <p>Corporate reporting has already been exploring options over this area with the development of the concept of 'integrated reporting', through the International Integrated Reporting Council. As different jurisdictions have begun to embrace integrated report (for example, listed companies in South Africa are required to produce an integrated report), then there is an obvious call for auditors to be able to provide assurance over the whole of the integrated</p>

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	report, including the forward-looking statements. The IAASB is already looking at this area but has not yet issued a standard.
21	<p>Would audit or assurance over financial and non-financial information outside the annual financial statements (for example KPIs or non-financial metrics, payment practices or half-yearly reports) enhance its reliability and therefore be of benefit to users?</p> <p>Potentially yes. If any report has been subject to external assurance, then users should be entitled to place a higher degree of reliability on those statements.</p> <p>An issue with the current framework in the UK is that there is no single framework or set of parameters which govern the production of such information by entities. Dealing with some of these anomalies would also be beneficial.</p>
22	<p>If so, what information might usefully be subject to audit or another form of assurance and why?</p> <p>The items listed in question 21 are a good start and see also our comment about the lack of coherent framework for corporate reporting.</p>
23	<p>Do respondents agree that the value and quality of the audit product should be considered separately from the effectiveness of the audit process?</p> <p>No. This seems to be an artificial split – the value, quality and effectiveness of audit needs to be considered as a whole.</p>
24	<p>Do respondents consider that emphasis placed by auditors on 'completing the audit file' for subsequent FRC inspection can eclipse the desired focus on matters requiring the exercise of considered judgment?</p> <p>Yes. The focus of FRC inspection is increasingly about the adequacy of documentation rather than the appropriateness of the judgements. This narrow definition of quality is, in the long term, detrimental and has given a false impression of audit quality.</p> <p>Documentation is clearly very important but the message from regulators seems to be 'if it isn't written down then you didn't do it' and, perhaps even more critically, 'if you didn't write down what you thought, then you didn't think it'. Auditors spend a very large part of their time in key judgement areas and having discussions with colleagues and other team members, as well as with the entity's management. It is extremely difficult to record all elements of this yet that seems to be the expectation. The focus should be on whether the auditor has arrived at an appropriate and sustainable judgement.</p>

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	<p>It also needs to be recognised that current downward pressures on audit fees have meant auditors are working within very strict time budgets. If the emphasis is on documentation and completing the file for inspection, then this means there is potentially less time spent focusing on the areas that matter most or other areas that warrant some attention.</p>
<p>25</p> <p>What additional benefit might a switch from a binary audit opinion to a more graduated disclosure of auditor conclusions provide?</p>	<p>This is a difficult area and there are arguments for and against.</p> <p>The current 'binary opinion' approach is clear whereas a more graduated conclusion would lose this clarity and may make audit findings less understandable to lay users.</p> <p>Graduated audit findings would, however, allow auditors potentially to bring more depth to their findings and give some insight into the quality of judgements made by management.</p>
<p>26</p> <p>Could further narrative be disclosed alongside the opinion to provide more informative insights?</p>	<p>The extended audit report has been a positive development but the focus should be on the quality and depth of reporting and insight given to those charged with governance and on how they report on their interaction with the auditors. Some of the detail should, however, remain private for legitimate confidentiality reasons.</p> <p>When users of financial statements can come from a wide variety of sources, there is always a danger that the language used in this type of narrative explanation might be impenetrable for some users and fuel the expectation gap by another means.</p>
<p>27</p> <p>What would prevent such disclosures becoming boiler plated?</p>	<p>This would be a key challenge. Although audit committees are there to provide oversight on executive management, they are still directors of the company and need to exercise their duties under s172 of the Companies Act and, ultimately, "promote the success of the company for the benefit of its members as a whole". This could put them in a position where they believe what the auditor is wanting to put in their report would conflict with that requirement.</p>
<p>28</p> <p>To what extent, if any, has producer-led audit (including standards-setting) inhibited innovation and development for the benefit of users?</p>	<p>We do not have any comment on this question.</p>

Call for views	Comment
<p>29 What role should auditors play in determining whether the directors are complying with relevant laws and regulations, including with respect to matters of capital maintenance? Is it appropriate to distinguish between matters which may materially affect the financial statements and other matters?</p>	<p>The auditor's opinion is on the truth and fairness of the financial statements. To that end, the focus of an auditor's work on laws and regulations should be on areas where non-compliance could have a material impact on the financial statements. It would be costly and unwieldy as well as impractical to expect auditors or large or complex multi-national organisations to be required to consider all relevant laws and regulations.</p> <p>In terms of the requirement of company law, there seems to be a misconception on the scope of the auditor's work. The audit opinion covers whether the financial statements have been prepared in accordance with company law. The scope as currently stated does not include reporting on the level of distributable reserves or that any dividends declared are 'legal' and that sufficient distributable reserves exist at the date the dividend is declared.</p> <p>If this is a function that is felt necessary for the auditors to undertake, then company law should be amended accordingly.</p>
<p>30 Does a perceived inconsistency between company law and accounting standards as regards distributable reserves inhibit auditors from meeting public expectations? How might greater clarity be achieved?</p>	<p>We do not believe that this inhibits auditors at all, although we would agree that there is an expectation gap on this point. The issue is not with the audit, the issue is with the required financial reporting and disclosure framework and the definition of distributable profits per company law.</p>
<p>31 Should distributable and non-distributable reserves be required to be disclosed in the audited financial statements?</p>	<p>BEIS has recently consulted on whether UK laws on distributions are appropriate.</p> <p>In our view, the current definitions are overly complex and poorly understood, a clearer legal requirement based on solvency would be more appropriate and would avoid the need for complex and historic calculations on the difference between distributable and non-distributable reserves.</p>
<p>32 How do auditors discharge their obligations relating to whether the entity has kept adequate accounting records? Are the existing statutory requirements effective in setting the</p>	<p>What is clear is that some of the language used in company law is very old and has not kept up with the pace of change. Section 386(2)(b) states that the records must be sufficient to "disclose with reasonable accuracy, at any time, the financial position of the company at that time". For companies that have complex financial instruments or assets that are recorded at any value other than historic cost, then there is an inherent challenge in meeting this requirement.</p>

Call for views	Comment
	<p>bar for auditors at a high enough level?</p> <p>That said, in the event that an auditor concludes that the financial statements are true and fair and have been prepared in accordance with the applicable legislation, then it would be highly unlikely that the auditor would conclude that the company has not kept adequate accounting records. Conversely, whenever there is a qualified opinion, this is one of the elements that an auditor will consider carefully.</p>
<p>33</p> <p>Should there be more open dialogue between the auditor and the users of their reports? For example, might an annual assurance meeting open to all stakeholders prove valuable?</p>	<p>There are a range of views on this.</p> <p>On the face of it, this could provide an opportunity for the auditor to give more detail around how the audit was planned and executed and how the conclusions were reached. Such engagement could be instructive. However, there would be some practical obstacles such as confidentiality and liability concerns. Auditors may feel the need to be cautious on disclosing matters too openly which could mean that the desired openness could be stifled.</p>
<p>34</p> <p>Should more of the communication and resulting judgments that occur between the auditor and the audit committee be made transparent to users of the financial statements?</p>	<p>This is an area that could be explored further. There have clearly been major developments in this area with the introduction of ISA 701 and extended audit reports. There is a challenge, however, as to whether the disclosure of these matters should be in the hands of the auditor or the audit committee.</p>
<p>35</p> <p>Should there be enhancements to the extended audit report, such as an obligation to update on key audit matters featured in the previous audit report?</p>	<p>In many cases this is likely to be the case anyway but it is an interesting suggestion to have a section dealing with this explicitly and it merits further thought.</p>
<p>36</p> <p>Do you believe that users' expectations of auditors' role in fraud detection are consistent with the requirements in UK law and auditing standards? If not, should auditors be given greater responsibility to detect material fraud?</p>	<p>No, we do not believe these are consistent. One of the problems might be the use of the word 'material'. The auditor has to make an assessment of materiality that includes quantitative and as well as qualitative characteristics. What a user of financial statements might regard as material, when it comes to fraud, may be different.</p>

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	We believe the requirements in the auditing standards are sufficiently clear and enhancing requirements should be done with caution, particularly as the additional burden will fall disproportionately on smaller companies. An audit is not a forensic examination and would not be benefited from being turned into one.
37 Do existing auditing standards help to engender an appropriate fraud detection mindset on the part of auditors?	Yes.
38 Would it be possible to devise a 'reasonable person' test in assessing the auditor's work in relation to fraud detection?	No. A "reasonable person" test, by its definition, is not a fixed concept. Furthermore it will evolve over time and in different settings.
39 Should auditors be required to evaluate and report on an audited entity's systems to prevent and detect fraud?	No. There is already a requirement for the auditor to assess whether the entity's internal control environment is capable of preventing or detecting a material fraud. We are concerned that having auditors report on their findings in this area would create a further expectation gap.
40 Is the audit profession's willingness to embrace change constrained by their exposure to litigation?	Yes.
41 If there were a quantifiable limit on auditor liability, how might this lead to improvements in audit quality and/or effectiveness?	Audit is not an exact science; it involves judgement and a judgement, by definition, is an opinion and not a guarantee. To that end, whenever a judgement is exercised, there is always a risk that others might make a different judgement and also that the judgement may not be proved to be appropriate. Having a quantifiable limit on liability would unbound the auditor from the chains that these liabilities bring. It would lead to an audit that is less risk averse and driven to tick boxes to one that is more effective and provides value.

Call for views	Comment
<p>42 Should company law make auditors potentially liable, or otherwise accountable, to all stakeholders who reasonably rely on their audit work and their published auditor's report?</p>	<p>No, this would be a significant extension. It would make auditors extremely risk averse and would be unjustified. In any case, we see this as wholly impractical. How could the auditor expect to identify all stakeholders who might reasonably rely on their work? Who would be the arbiter of whether the reliance was 'reasonable'?</p>
<p>43 How might quality of the audit product be improved if the approach to liability was altered, and what reform might enable the most favourable quality improvements?</p>	<p>Liability reform needs to be looked at in line with the Competition and Markets Authority review and the potential to introduce joint audit. Current unlimited liability does not recognise the responsibility of other parties in terms of the preparation of information and could well deter new entrants from the FTSE 350 audit market.</p> <p>Very few, if any, companies collapse because of auditor negligence. The cause of collapse will, in the most part, be due to failures in management and wider governance. Poorly executed audits may be responsible for poor behaviour not being highlighted at an earlier stage.</p> <p>Liability reforms for limited company audits are well-overdue. There should, at the very least, be a move to proportionate liability. This would require an assessment of what actions (or inactions) of the auditor actually led to the collapse of the company or loss of value to the shareholders.</p>
<p>44 To what extent (if any) are firms unable to obtain the desired level of professional indemnity insurance to minimise the risk of being unable to meet a significant claim relating to their statutory audit work? How significant is this risk for both the largest firms and other firms undertaking audits of Public Interest Entities?</p>	<p>We have no comment to make on this question.</p>
<p>45 How far is new technology actually used in audits today? Does the use of</p>	<p>Technology gets used throughout the audit process now but there are developments which can, potentially, change the type of assurance work that an auditor can carry out. There is, however, a danger of creating a further</p>

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	technology enable a higher level of assurance to be given?	expectation gap. Whilst auditors are now developing tools and techniques that may allow greater analysis of datasets, that does not, in itself, necessarily indicate a greater degree of assurance. There will remain a question of whether the dataset is complete and, questions of whether a data entry is accurate or recorded in the appropriate accounting period, may require audit processes over and above the data analysis.
46	In what way does new technology enable assurance to be given on a broader range of issues than is covered by the traditional audit?	By handling greater amounts of data, this does provide opportunity for auditors to provide feedback on a wider range of matters than may have been possible previously.
47	Are there aspects of current audit procedures or output that are no longer necessary or desirable?	Broadly, we believe the procedures and outputs are necessary; what should be under constant review is the manner in which such procedures can be carried out and whether they have been designed in manner which supports the objective of the audit.
48	Given that a zero failure regime is not attainable (and arguably not desirable) how should the Review calibrate the value of audit in relation to the limitation of potential failure?	The Review should recognise that corporate failure is part of a normally functioning market economy and is not indicative of audit failure. Similarly it should question whether the prevention of corporate failure is the role of the auditor. The primary responsibility for the running of the company should be with the Board, who are also responsible for designing systems of control and reporting that deliver them the information needed to run the business on a timely basis. Audit can act as a validation and control mechanism for the Board and investors more widely but its focus should not be diverted.
49	Does today's audit provide value for money?	Broadly yes and we might contend that in many cases the audit provides a value well in excess of what the entities pay for it. Audit fees in audit have been under pressure for many years because the narrative around audit is that it is a compliance function and therefore the focus for too many entities is driving the cost as low as possible. Cheap is not the same as value for money.
50	How should the cumulative costs of any extension of audit (whether stemming from this Review or other	This is the crux of the issue and will need to be understood by everyone. Anything is possible if properly articulated within an agreed framework, but it will come at a cost. The value of any change or extension of scope must at least match any additional cost to the entity being audited.

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<p>drivers of change) be balanced against the likely benefits to users?</p>	<p>For large, listed companies, audit costs are generally immaterial to the companies concerned. If the proposals deliver enhanced levels of trust in UK businesses that should be seen as a broader good that justifies a small increase in costs. Companies take advantage of limited liability and the consequences of that is that they need to command public trust.</p> <p>There will be concern if changes are applied to the audit market generally as the needs of users and stakeholders may vary widely. In charities, for example, any additional audit costs will be at a cost to the 'beneficiaries of the charity's activities as there will be less to spend on the charities' aims. Charity trustees feel an obligation to keep audit costs down and in a cost cutting environment management put ever increasing pressure on auditors to reduce their fees. The focus should be on understanding the additional benefit or impact that an extension of audit would bring. It is imperative to make sure that any changes to audit scope will bring the appropriate benefit to the entity being audited.</p>
<p>51 What use do shareholders currently make of audit reports? Are they read by shareholders generally? What role does AI play in reading and analysing such reports?</p>	<p>Our perception is that the initial opinion paragraph is key and, notwithstanding the extended audit reports for listed companies, many readers do not get beyond that.</p>
<p>52 Would interaction between shareholders and auditors outside the AGM be practical and/or desirable?</p>	<p>Under company law, the auditor's duty is to the shareholders as a body. Interaction with shareholder factions could imply that auditors were putting the needs of one group of shareholders ahead of others.</p>
<p>53 How could shareholders express to auditors their ex ante anxieties to help shape the audit plan? Should shareholders approve planning matters for each audit, including scope and materiality?</p>	<p>We believe this would be better dealt with by requiring audit committees to have greater engagement with the shareholders rather than the auditors, partly because of the role of the audit committee but also given our concerns mentioned in 52 above.</p>

Call for views		Comment
54	What assurance do shareholders currently obtain other than from audit reports?	We have no comment on this question.
55	In what way would it be possible for auditors to report on the culture of the entity whose financial statements are being audited?	Defining 'culture' in this context would be the first challenge. If it is a case of commenting whether the private actions, communications and other interactions with stakeholders by management are, or appear to be, consistent with publicly made statements of that nature, then that may be something that can be reported on.
56	How can auditors demonstrate that appropriate scepticism has been exercised in reaching the judgments underlying the audit report?	The development of the extended audit report under ISA(UK) 701 can assist with this but we believe it important to understand what it is that is causing users to believe that appropriate scepticism has not been exercised. This may come back to the question of actual and/or perceived independence.
57	Should the basis of individual auditors' remuneration be made available to shareholders?	Disclosure of audit fees is clear at present and we are not convinced further transparency is warranted. Audit firms are required to make disclosure of remuneration policies for audit partners in their Transparency Reports.
58	Do respondents view audit costs as generally too high, about right or insufficient?	If the question is one of the level of audit fees, then in many cases for our client base we see audit fees at a reasonable level although we have noted continued downward pressure which can be prevalent in particular sectors. There are some areas where entities have unrealistic expectations in fee levels and they are too low. From the perspective of the audit firm, the actual cost of carrying out audits have been increasing consistently over a period of time through development of standards and changing expectations, including from regulators.
59	Would users of financial statements wish more detail on the make-up of audit fees?	It would be important to understand what value judgements the users of that information are wishing to make. If this is an issue of quality, then information about how resources are deployed in carrying out the audit may provide some insight.

Call for views		Comment
60	Is the profitability of the audit function sufficient to sustain a high-quality audit industry?	<p>Audit is an increasingly risky profession. If it is unable to sustain an appropriate level of fees and profitability it will become more unattractive as a career choice.</p> <p>There is already pressure on margins as the cost of completing an audit has increased and audit fee levels in many sectors have reduced in real terms. It is also clear that there will need to be further investment in technology and people going forward and, if there is not any upward movement in fees, this will lead to even greater pressure on margins and profitability. Such continued pressure will inevitably be at odds with the need to create an environment which encourages and sustains high quality audits.</p>