ACCIF
AUDIT COMMITTEE CHAIRS' INDEPENDENT FORUM

Brydon Review Secretariat
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By email: brydonreview@beis.gov.uk

Dear Sir or Madam

Independent Review into the quality and effectiveness of audit – Call for views

Introduction

The Board of the Audit Committee Chairs' Independent Forum is pleased to respond to the Brydon Review Call for Views. We are not providing responses to each of the 60 questions in the Call for Views but rather focusing on the aspects in each chapter that are most relevant to our role as audit committee chairs.

Background on the ACCIF

Launched in October 2015, the ACCIF is an independent forum focused on FTSE 350 company audit committees. Its overall objective is to promote good governance by enhancing the leadership by audit committee chairs through the sharing of experiences and the establishment of best practice.

Summary of our response

The Appendix to this letter provides our full views on each of the chapters in the Call for views document. Here we have set out a high level summary of some of the key points we wish to make:

Definitions of audit and its users - any requirements for independent assurance of information outside the financial statements should be set quite separately from the audit of financial statements and not seen as an extension of that audit. Assurance on industry-related benchmarks or performance data, for example like-for-like retail sales, should be supported by a standard reporting framework or criteria to allow consistent measurement or evaluation of the subject matter and to facilitate comparisons between companies.

The 'expectation gap' - the key issue to address is the extent to which it is reasonable to expect auditors to be able to provide greater assurance on matters relating to the future viability of companies and on the prevention and detection of corporate fraud. This cannot be done without first determining exactly what directors should be required to report in relation to these matters, and then to assess the extent to which it is practicable to require auditors to provide assurance regarding the statements made by directors.

Risk and internal controls – we support the introduction of a requirement for directors to report on their assessment of the effectiveness of the entity's system of internal control relevant to risks that may affect financial reporting and for the (external) auditors to attest to and report on the directors' assessment.
In the appendix to this letter, we provide further comment on the considerations which we believe need to be addressed for these proposals to deliver positive impact without unintended consequences.

Going concern - in order to give greater emphasis to the requirements underlying the going concern statement, consideration could be given to requiring the statement to include a specific confirmation by the directors that in their view there are no material uncertainties relating to events or conditions that might cast significant doubt upon the continuing use of the going concern basis of accounting in future periods.

Viability – the focus of the viability statement should be to highlight the potential impact of risk on the sustainability of the business model. It is likely that the most that can realistically be achieved for the viability statement is a statement by the directors of all the key assumptions on which the statement is based. Assurance on the completeness of the stated assumptions might be possible to obtain but nothing more.

Audit quality - the items in financial statements that have the greatest audit risk are usually those that require significant assumptions and judgements to be made in order to measure the items concerned and the quality of challenge and assessment that auditors can apply to such items depends very heavily on how well they understand the business. This is not the current focus of the FRC's audit quality reviews. Looking forward, and with an eye to the likely increasing use of technology, thought should be given to identifying the drivers that underpin the delivery of quality and the market participants' investment in these. The Audit Firm Transparency Reports should provide greater transparency on the profitability of the audit businesses, their investment in quality drivers and their ability to sustain these over time. The independent board members of the audit firms have a key role to play in promoting and ensuring transparency and building public confidence in the auditing profession.

Audit reporting - it has been suggested that where there is significant measurement uncertainty, auditors should also indicate how conservative or aggressive they believe the assumptions and judgements applied by the directors to be. In our opinion, the starting point is for the directors to disclose the sensitivities associated with particular items in the accounts. Where this is done, auditors should then be able to comment in their report on the range of possible outcomes and the directors' rationale for the point in the range they have applied.

Investor (and stakeholder) engagement – much has been done recently to improve and extend reporting by companies on strategy, risk, purpose and so forth. Additionally reporting by audit committees and auditors has increased. Frustratingly, this increased reporting has not been matched by an increase in effective engagement with investors and other interested stakeholders. There are examples of good practice, but these are in the minority. Arguably those investors who have committed the resource to engage and understand have identified the increasing risk and acted accordingly. The short selling of Carillion is testament to this. In considering the package of changes, it is critical that this review considers the effectiveness of engagement and how this can be improved and sustained. Arguably many answers are already in front of us, we just need to see them and use them. If simplification is needed, let's get behind that. The investment management industry have become experts in assessing executive remuneration. Audit and risk are far more critical to the value of the investment, yet the resource committed is minimal by comparison.

We look forward to discussing these views with you in person on 10th July and appreciate the opportunity to do so. In the meantime, please contact me if you have any questions in relation to the comments made in this letter.

Yours sincerely

Jock Lennox

Jock Lennox
On behalf of the ACCIF board

Appendix

Independent Review into the Quality and Efectiveness of Audit – response to Call for Views

1. **Definitions of audit and its users**

1.1 Financial statements continue to be the principal mechanism for portraying the performance and financial position of companies. A key responsibility of audit committees is to monitor the integrity of the company's financial statements and they are greatly assisted in this task by the insights obtained by the auditors in the course of their work. The independent audit of financial statements has a significant deterrent effect on managements who, in the absence of audit, would be tempted to present the performance and financial position of their companies in a more favourable light than is "true and fair". This, however, cannot be demonstrated publicly. As accounting standards have moved increasingly away from historical cost accounting to current or fair value and recognition of unrealised profits, which involve significant judgement, the scope for such manipulation of reported results has increased.

1.2 The audit is essentially a backward-looking exercise. Until around 20 years ago, future developments were considered during the audit only to the extent that they would affect the amounts at which assets and liabilities existing at the balance sheet date will be settled. The only aspect of the audit that is concerned more broadly with the future than how historic assets and liabilities will be settled is the requirement for the auditor to evaluate the entity's assessment of its ability to continue as a going concern for a period of at least 12 months from the date of approval of the financial statements. However, the rationale for this audit requirement is not that the audit is forward-looking as such but that the (historical) financial statements are based on the going concern assumption.

1.3 Any move to change the purpose of audit from an examination of financial statements to an exercise "designed to enhance the degree of confidence of users in the entity" would, on the face of it, require the audit to change from a backward-looking to a forward-looking exercise. This would require an enormous amount of research into the scope of the exercise and the development of an underpinning audit framework and standards. On a more practical level it would be possible to introduce requirements for some form of independent assurance on assertions that are currently made by directors in the 'front half' of annual reports, for example financial and non-financial performance measures, but it is not clear how great and widespread is the demand for such assurance. With regard to financial measures presented in the front half of annual reports, in our experience auditors check these carefully for consistency with information as reported in the financial statements.

1.4 Overall, it has to be recognised that the portrayal of company performance in a fair, balanced and understandable manner is a very complex exercise and requires users to have the ability to understand the financial statements and draw their own conclusions from them about the performance and state of affairs of the entity concerned. Accounting standards are based on the assumption that the objective of financial statements is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity. However, it is also acknowledged in the accounting standards that other parties, such as regulators and members of the public, may find financial statements useful. The principal reason for this distinction is that such "other parties" may have a different perspective from investors, lenders and creditors. For example, regulators may focus more on legal and regulatory compliance, and other groups may focus more on social responsibility issues. Indeed, requirements to report on such matters in company annual reports have greatly increased in recent years.

1.5 Any requirements for independent assurance of information outside the financial statements should be set quite separately from the audit of financial statements and not seen as an extension of that audit. Where assurance is sought on industry-related benchmarks or performance data, for example like-for-like retail sales, it would be appropriate to define a standard reporting framework or criteria to allow consistent measurement or evaluation of the subject matter and to facilitate comparisons between companies.

1.6 Paragraph 18 of the Call for Views (which appears to be the driver for Question 3, whether the law should be amended to provide greater clarity regarding the purpose of an audit and for whom it is conducted) implies that if the statutory objectives of an audit were specifically defined in company law, auditors' responsibilities, the manner in which they are discharged and to whom they owe a duty of care would be made clear and would not need to be determined by the courts. This is a somewhat brave suggestion in the light of the continuing legal debate about the circumstances in which a duty of care arises.

2. The "expectation gap"

2.1 An audit expectation gap has existed for many years. It tends to lie somewhat dormant until a high-profile corporate failure occurs, when the media reaction and now, following the collapse of Carillion, the parliamentary reaction is "where were the auditors?". Politicians now even feel able to talk of an audit "delivery gap" based only on a simplistic view of FRC statistics and without, it seems, any well-founded consideration of the actual scope of an audit or the performance of auditors in significant areas. In our view, to proclaim that there is an audit "delivery gap" is an exaggeration. If there really was a significant delivery gap – which must mean that auditors are expressing inappropriate or unsupported audit opinions on financial statements - the FRC would surely have made far greater use of its Audit Enforcement Procedure than has been the case.

2.2 A more informative definition and explanation of the scope of an audit might help to reduce the expectation gap but only if it was publicly acknowledged to be authoritative, for example by being embodied in law. However, the problem with an expectation gap is usually that the only way of countering it is to analyse and explain why there is a gap, i.e. the respects in which the subject matter concerned falls short of expectations.

2.3 Accordingly, the first task is to be very clear as to what exactly is the audit expectation gap. This must be the touchstone for determining whether and, if so, how the scope of the audit should be changed in a way that goes further to meet the expectations of stakeholders. This is an extremely challenging issue because there are fundamental differences of view among different stakeholder groups, and some of the possible areas that could be subject to independent review and assurance would involve very considerable time and cost. For example, some stakeholders would like to see more focus in annual reports on non-financial performance measures on which some level of independent assurance could be provided, while others might wish for independent assurance on the effectiveness of risk management and internal control systems as a whole or certain aspects of them such as those relating to financial reporting (see 'The scope and purpose of audit' below). If all such possible aspects of corporate reporting were to be addressed, it would be an enormous task to define exactly the scope of the required reporting and to develop frameworks and guidance that would ensure a sufficient consistency of approach to the assurance.

2.4 In our view the key issues currently – prompted by Carillion and Patisserie Valerie in particular - are the extent to which it is reasonable to expect auditors to be able to provide greater assurance on matters relating to the future viability of companies and on the prevention and detection of corporate fraud. These are very complex issues and although it is audit that is under scrutiny, it must be kept in mind that the auditor's role is to report on statements – assertions, representations etc. – that are made by the directors of companies. The first task is therefore to determine exactly what directors should be required to report in relation to these matters, and then to assess the extent to which it is practicable to require auditors to provide assurance regarding the statements made by directors.

3. Audit and wider assurance

3.1 Whilst, as the Call for Views notes, the demands for assurance are growing in response to increased public interest in the behaviour of companies, it is not fruitful to discuss in general terms who might provide such assurance as this is likely to depend entirely on the specific subject matter on which assurance is sought and the nature of that assurance. In this regard it is difficult to identify a criterion for determining which aspects of company activity should be subject to external assurance. In any event it is unlikely that institutional shareholders have sufficient interest in sufficient numbers and would be able to agree among themselves on a particular approach in order to commission assurance.

3.2 One aspect that should be considered is the potential impact on the skillsets of audit firms necessary to provide assurance on wider corporate reporting if the CMA's proposed ring-fencing of audit firms goes ahead – a key attribute of the large multidisciplinary accounting firms is the immediate access their audit practices have to the specialist expertise that could well be required to deliver wider assurance.

3.3 In relation to audits of financial statements, variable levels of assurance would be extremely difficult to define and apply consistently. They would also drive a wedge between companies and their auditors. It is certainly the case that the level of uncertainty inherent in the financial statements of companies varies significantly, based usually on the extent to which assets and liabilities are subject to measurement uncertainty. The appropriate way of reflecting such uncertainty is for directors to explain the sensitivities concerned in the financial statements. These also tend to be the areas of greatest audit risk and are discussed by the auditors in their audit report. Business risk is not of itself a factor that would justify differentials in levels of assurance in relation to financial statements unless a material uncertainty exists that may cast doubt on the company’s ability to continue as a going concern, but that eventuality results in the auditor drawing attention to the material uncertainty in the audit report.

3.4 While internal audit is well placed in many larger companies to provide assurance on, for example, performance measures and business processes and controls, if a requirement for assurance that could be provided by internal audit was introduced, the independence of internal audit would need to be strengthened and enforced by the regulator as is currently the case with financial services.

4. The scope and purpose of audit

Risk and internal controls

4.1 We support the introduction of a requirement for directors to report on their assessment of the effectiveness of the entity’s system of internal control relevant to risks that may affect financial reporting and for the (external) auditors to attest to and report on the directors' assessment. Such a requirement would undoubtedly bring forth guidance for auditors on their attestation.

4.2 We do not think it would be appropriate for auditors to publish any other report relating to the effectiveness of internal controls as the extent to which auditors rely on and therefore test internal controls is a matter of judgement for them and varies from company to company.

4.3 We would not support a requirement for directors or auditors to report on the effectiveness of risk management and internal control systems as a whole since the scope of work that would be involved would be enormous and, unlike a review of controls relevant to financial reporting, there would be difficulty in setting a scope and levels of materiality that could be applied consistently across all business sectors.

Going concern

4.4 In our view the current regulatory framework relating to going concern, as reflected in IAS 1, is fit for purpose but we support the strengthening of the auditing standard on going concern that has been proposed by the FRC: it should only be in unforeseeable and extreme situations that companies which do not disclose any relevant material uncertainties fail within the following 12 months. The going concern statement should continue to focus on the 12 months from the date of signing and the ability of the company to meet its liabilities as they fall due. In order to give greater emphasis to the requirements underlying the going concern statement, consideration could be given to requiring the statement to include a specific confirmation by the directors that in their view there are no material uncertainties relating to events or conditions that might cast significant doubt upon the continuing use of the going concern basis of accounting in future periods. In view of concerns expressed by the BEIS Select Committee, the statement could also confirm that in assessing the ability of the entity to continue in operation as a going concern, the directors had taken account of possible dividends that might be paid or proposed within the next 12 months and any pension deficit funding obligations during that period.

Viability

4.5 The Call for Views asks whether there is a case for a more forward-looking audit, and what would be the main benefits and risks. The first thing to be said in this regard is that an audit tests and reports on assertions by the company's directors. The one specifically forward-looking statement that directors are required to include in the annual report is the viability statement and so the question is effectively whether the viability statement should somehow be brought within the scope of the audit. It is difficult to answer this question without considering whether, and if so what, changes should be made to the viability statement.

4.6 Although we agree with Sir John Kingman that viability statements are not performing an effective role, it is the case that the great majority of listed companies have good grounds for concluding that they will remain viable during the future period they consider for the purpose of the viability statement. Logically, the reason why a company ceases to be viable is that one or more of the principal risks and uncertainties disclosed in the annual report has occurred or, less likely, that a cataclysmic unforeseeable event has occurred. The viability statement should therefore be inextricably linked to the discussion of risks and uncertainties, perhaps with a greater focus than at present on residual risk after the effect of mitigations. However, within the bounds of a brief statement, it is simply not possible to discuss in any detail the possible range of likelihood and impact associated with individual risks or the possible impact of interaction between different risks. Furthermore, the uncertainties involved increase significantly if not exponentially the longer the future period that is considered for the purpose of the statement – something that the FRC appears not to appreciate when it encourages companies to undertake an assessment of a company's prospects and the resilience of the business model over a longer time period.

4.7 The practical challenges of focusing on the sustainability of the company's business model would need to be carefully considered. In this connection the FRC has called on companies to give more detailed disclosure of stress and scenario testing. However, it is likely that the need to contextualise such information in a fair and balanced manner would result in very lengthy viability statements.

4.8 It may be that the most that can realistically be achieved is a viability statement that lists out all the key assumptions on which the statement is based (which in essence will be that none of the principal risks and uncertainties set out in the annual report will eventuate and threaten the company's viability in the relevant time frame). The statement would then conclude by saying that the directors have reasonable grounds for making these assumptions and that if they are borne out by future events and circumstances, the company will continue to be viable. Assurance on the completeness of the stated assumptions might be possible to obtain but nothing more.

Unaudited information
4.9 The Call for Views asks whether audit or assurance over financial and non-financial information outside the annual financial statements would enhance its reliability and therefore be of benefit to users. This is a matter for users.

5. **Audit product and quality**

5.1 It is definitely the case that audit quality reviews conducted by the FRC focus on how well the audit file reflects compliance with auditing standards. As a result, such reviews fail to give proper weight to some attributes that are of critical importance to audit quality, perhaps the most important of which is the depth of knowledge and understanding of the business concerned held by the senior members of the audit team. The items in financial statements that have the greatest audit risk are usually those that require significant assumptions and judgements to be made in order to measure the items concerned and in some cases in order to determine the time at which they should be recognised in the financial statements. The quality of challenge and assessment that auditors can apply to such items depends very heavily on how well they understand the business. However, an FRC audit quality review is likely to be carried out by a reviewer who has only a limited understanding of the business concerned. There have been cases in which the auditor's reports to the audit committee on audit risk areas has reflected deep knowledge of the business and a very well-founded audit approach, but the FRC audit quality review concludes that "limited improvements" are required because certain relatively unimportant procedural matters among the myriad requirements of auditing standards have not been fully complied with. The publication of such ratings by the FRC has given the impression that audit quality as a whole is problematic, which is not the case: as the FRC states in its report Developments in audit 2018, "high quality audit is not being delivered consistently".

5.2 As regards audit reporting, the extended audit report has resulted in auditors providing greater insight into how they have addressed key audit issues and their conclusions on them. It has been suggested that where there is significant measurement uncertainty, auditors should also indicate how conservative or aggressive they believe the assumptions and judgements applied by the directors to be. However, as we have stated above, it is the directors above all who should disclose the sensitivities associated with particular items in the accounts. Where this is done, auditors should be able to comment in their report on the range of possible outcomes and the directors' rationale for the point in the range they have applied.

5.3 With regard to the audit opinion on the financial statements as a whole, we do not believe that it could be sub-divided in terms of reporting on individual items in the financial statements as users would expect to see an overall conclusion and would find it very difficult to arrive at their own overall conclusion based on a series of discrete reports by the auditors on different items.

5.4 The Call for Views asks whether producer-led audit (including standards-setting) has inhibited innovation and development for the benefit of users. At least half of the membership of the auditing standard-setting body in the UK and Ireland are not practising members of the audit profession, representing preparers and users. This should help to promote innovation and developments for the benefit of users. However, in order to be effective, these members must have a reasonable working knowledge of how audits are performed and of the legal and regulatory context in which they are performed. And the practical task of developing detailed guidance on audit and assurance work inevitably falls to the audit practitioners.

6. Legal responsibilities

6.1 We are surprised by the extent of the focus in the Call for Views on matters relating to capital maintenance matters and specifically the issue of illegal dividends as we are not aware that this has been an issue in more than a handful of cases, many of which concerned non-compliance with a statutory formality rather than because the company did not have sufficient distributable profits to pay the dividend.

6.2 It is the responsibility of directors to ensure that the entity complies with all applicable laws and regulations. The auditor's responsibility is to assess whether the financial consequences of any breaches of laws and regulations by the entity are properly reflected in its financial statements. Since shareholders who knowingly receive dividends that are unlawful are required to repay them to the company, and there may be tax consequences for the company, thereby affecting the financial statements, it is appropriate for auditors to satisfy themselves that dividends are paid out of distributable reserves. However, as in other matters relating to audit, the primary responsibility for compliance, in this case with law and regulations, lies with the company's directors. The FRC, in particular through the work of its Financial Reporting Lab, has encouraged companies to disclose more information about dividend resources in their financial statements, with some success (58% of FTSE 100 companies and 30% of FTSE 250 companies discussed their distributable reserves/profits in their 2016 financial statements). However, if it is judged to be necessary, a requirement could be imposed on companies to disclose in their financial statements the amount of the parent company's distributable profits and to confirm that dividends paid and proposed have been/will be paid out of them.

6.3 Whilst the BEIS Select Committee appears to believe that defining and identifying distributable profits is a straightforward matter, if that were the case it would not be necessary for the authoritative guidance on the subject to run to 173 pages. The complexity of the topic has undoubtedly increased as accounting standards have moved more towards measuring items at valuation rather than historic cost, but there are other underlying issues such as the circumstances in which intra-group dividends cannot be treated as distributable profits by the recipient company.

6.4 With regard to auditors discharging their obligations relating to whether the entity has kept adequate accounting records, we believe that the Companies Act obligations on directors and auditors regarding the keeping of adequate accounting records should be superseded by a statutory requirement, as discussed above, for directors to report on their assessment of the effectiveness of the entity's system of internal control relevant to risks that may affect financial reporting and for the (external) auditors to attest to and report on the directors' assessment.

7. The communication of audit findings

7.1 We would support greater dialogue between the auditor and the users of their reports. However, the evidence from ACCIF members is that even with the increased audit and audit committee reporting that there has been in recent years, there has been minimal positive engagement by the investment management industry with audit committees and auditors. The sense is that at each turn there is a request for greater transparency and information but equally the investment management industry needs to invest in sufficient resource so that it can engage with and make effective use of what is produced. The contrast with remuneration reporting, which arguably has less significance in relation to a company's fortunes, is significant.

7.2 The audit committee report in the annual report discusses the work done by the audit committee in monitoring the integrity of the financial statements, including details of how it reviewed and satisfied itself as regards the items in the financial statements that involve the most subjective and complex assumptions and judgements. These items are for the most part also the areas of audit risk that the auditors discuss in the extended audit report and the two reports often overlap to a significant degree in this regard. It might be imagined that these developments would have prompted investors to engage with audit committees and auditors but this has not occurred.

7.3 We do not consider that reporting the details of discussions between the auditor and the audit committee would be helpful. Positions evolve as facts emerge, views change in debate and to make the information meaningful a good deal of contextual information would need to be included. The focus should be on explaining the positions reached and why they are robust rather than the route by which they got there.

7.4 At the same time, we see merit in the auditor explaining in the extended audit report why a “key audit matter” discussed in the previous year’s audit report does not appear in the current year’s report, and in fact this is already being done in many cases.

8. **Fraud**

8.1 In the same way as high profile corporate failures tend to reveal an audit expectation gap, so too do cases of material fraud, and auditing standard setters and the accountancy institutes have periodically considered whether auditors should be required to extend the scope of the audit so as to contribute more to finding fraud. This issue was, for example, at the heart of the Auditing Practices Board’s 1998 consultation paper ‘Fraud and Audit: choices for society‘ and was considered by the Audit Quality Forum in its 2006 paper Audit Purpose. The overwhelming response to the 1998 paper from users, preparers, regulators and auditors was that the APB should not extend the scope of the audit and the Audit Quality Forum was of the view that this remained the broad consensus in 2006.

8.2 Most material fraud involves management, does not involve the outright theft of assets but rather the misstatement of financial information, and involves complex mechanisms and collusion deigned to prevent detection. Although cases of material fraud such as Patisserie Valerie receive much publicity, the incidence of material fraud is low. To increase audit costs for all companies in an attempt to increase the likelihood of deterrence to or detection of a limited number of cases of management fraud has previously been seen as creating an unacceptable regulatory burden and we consider that this remains the case.

8.3 However, audit committee chairs have observed that, undoubtedly prompted by revised auditing standards and encouragement by the FRC, auditors have in recent years focused more specifically on how fraud risks may affect the financial statements and normally discuss with the audit committee the enquiries they have made and the tests they have performed in response to those risks. A requirement for directors to report on their assessment of the effectiveness of the entity’s system of internal control relevant to risks that may affect financial reporting and for the auditors to attest to and report on the directors‘ assessment would further increase that focus.

9. **Auditor liability**

9.1 In connection with auditor liability we would observe that the growth of the major accountancy firms has increased their ability to withstand significant claims against their audit practices, while the replacement of unlimited liability partnerships by limited liability partnerships has helped to reassure partners in the firms that when they go home at night they will still have a home to go to. We are therefore doubtful whether exposure to litigation is a significant constraint on the audit profession’s willingness to embrace change. The focus of the audit regulator on how well the audit file reflects compliance with auditing standards may be a more significant factor in this regard.

10. Other issues

Technology
10.1 Audit committee chairs have observed a significant increase in the use of technology in audit testing, including the testing of large populations of transactions and the development of models for sensitivity testing, although the multiplicity of systems used by many companies, some of which might be expected to be at the forefront of technology, limits the ability of auditors to achieve audit efficiency gains. It may be too early to conclude that auditors are able to use technology to provide insights or assurance that go beyond traditional core audit, and the incremental software development costs involved could besignificant.

Proportionality
10.2 The Call for Views asks whether aspects of current audit procedures are no longer necessary, and mentions that some have questioned whether all notes to the financial statements need to be audited. This rather begs the question of whether such notes to the accounts are necessary at all. It also ignores the fact that many companies rely on their auditors to ensure that the disclosures in their financial statements, particularly in more complex areas, comply with all the requirements of accounting standards.

10.3 The Call for Views also asks how the Review should "calibrate the value of audit in relation to the limitation of potential failure"? Since, as the Call for Views acknowledges, the decisions that lead to corporate failure will be those of the board of directors and the proportion of PIEs that fail is low, it is doubtful whether any such calibration would be reliable. The Call for Views states that "an effective audit may help avert a failure through providing insight that enables shareholders to take remedial action at a sufficiently early stage". However, it is equally possible that the publication of such insight will result in, for example, withdrawal of credit, thereby hastening the failure. The focus should be on the responsibilities of directors to highlight the impact of risks to the business, with the auditor commenting on any related sensitivities disclosed by the directors.

Shareholders
10.4 As discussed above, shareholders make no obvious use of unmodified audit reports. However, it is not correct to attribute this to the pass/fail nature of the audit opinion as the extended audit report introduced in 2013 includes detailed discussion of the audit matters that include the items with the most significant risks of material misstatement and, as noted above, it is surprising that this appears not to have prompted any interaction by investors with auditors.

10.5 Although shareholders make no direct use of audit reports, the key question is what their view of company financial statements and indeed strategic reports would be if the financial statements were unaudited and no independent review were performed of financial information in the strategic report. Would they trust the directors to present financial statements that give a true and fair view, and to present annual reports that are "fair, balanced and understandable"?

Culture
10.6 We do not believe that financial statement auditors would be able to provide any reliable report on the culture of a company. A company's "culture" consists of the underlying beliefs, assumptions, values and ways of interacting of its people. These attributes, which are qualitative and intangible, are never uniform across a large organisation, and there are no established criteria or frameworks that enable culture to be reliably or consistently measured or reported on. Auditors may refer to a company's culture in their discussions with management or the audit committee since it is a key factor in setting the level of control consciousness in the entity, but this is a far cry from reporting formally on culture.

10.7 The auditor's exercise of scepticism is illustrated in the explanations in their audit report of how the scope of their audit responded to the key audit matters. A more detailed analysis of such issues would be highly technical and unlikely to be more helpful in this regard. Healthy scepticism is essential in auditing. However, it needs to be kept in mind that in the vast majority of cases, that scepticism does not result in disagreements between auditors and companies or adjustments to financial statements, because the effect of the auditor's professional scepticism is to discourage managements and directors from making accounting judgements and assumptions that they know the auditor will question.

Cost
10.8 Listed companies are now required to put their audits out to tender. In many cases, the successful tenderer was not the firm that proposed the lowest audit fee. This suggests that companies as a whole do not currently view audit costs as too high. However, there is anecdotal evidence of significant pressure to increase audit pricing, driven by the cost of audit tendering and transition as well as increased regulation. It is also likely that any increase in audit scope as well as the changes proposed by the CMA would increase audit cost further. In particular, a requirement for joint audit would almost certainly result in significant increases in audit costs.