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Sir Donald Brydon
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LONG TERM VALUE: A response to the UK Independent Review into the Quality and Effectiveness of Audit

We strongly endorse your stated intent and context for the Review that:

- "the public interest is clear"
- "there is need for a reset", but not a wholesale "discard" of existing audit product
- "**the result must be more useful and forward-looking audit**"
- "the time is right for conclusions and therefore action"

New Thinking:

We seek to make the Review, and its stakeholders, aware of the Institute of Performance Sciences' work in developing and promoting breakthrough new practice for engaging long-term capital with sustained high-performance value-creation… inside companies and across capital markets.

We do not suggest a magic bullet 'fix' for audit. Rather, we identify enhanced approaches to sustained value creation that can be applied systemically to achieve a range of recognised benefits. These include provision of audit / assurance services that meet heightened market and public expectations. We note:

- Audit cannot be 'fixed' in isolation.
- Systemic behaviour change is feasible - where self-interest is broadly served, and the required enhancement *collaboratively* activates and integrates existing efforts.

We have developed preliminary evidence for models linking governance and performance:

- 'Governance of Value Creation' demonstrates material causal links to organisations' sustained value-creation performance, and
- 'Value Creation Maturity Assessment' provides a pathway to a globally scalable, auditable, costing of future-risk, for use by long-term investors and other stakeholders.

This identifies a new approach for assuring "the long-term sustainable success of the company, generating value for shareholders and contributing to wider society"[1] . It operates in a context where "boards are increasingly being called upon to address new or emerging issues including around culture, conduct risk, digital disruption, cyber-security, sustainability and climate change"[2].

Our 'performance sciences' approach develops a "strengthened framework around internal controls" required to enable sustainable '21st Century Decision Making' in this context.

We demonstrate how these controls are assessed as an assurable costing of future-risk.

[1] FRC's UK Corporate Governance Code, 2018
[2] ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, 4th edition

Governance of Value Creation approaches enable an integrated audit to be effectively and pragmatically applied to "look forward as well as backward" whilst addressing many of the other issues raised through this Review.

Some reflection on the application of Governance of Value Creation to the issues raised is expanded in Appendix A of our response. However, we have not made an attempt in this response to outline the full workings, the current knowledge, or the future roadmap of these approaches. We invite the engagement that will be required to facilitate the full understanding required to secure support for further action.

Collaborative Development:

Systemic behaviour change is required. This will only come from broad-based collaborative participation on development of improved practice, as has long been the case for the ongoing development of accounting and audit standards.

We Propose:

We call on The Brydon Review and its broader stakeholder base to participate in convening UK and global collaborations to further develop, mature, test and disseminate the enhanced integrated multi-disciplinary practices identified by our Institute.

Our work provides new perspectives that open up significant new pathways for action.

Appendix B provides our responses to the specific questions posed by your Review.

Please contact us to explore the most appropriate way to work together to develop further understanding and address our common objectives.

Many thanks, yours,

Danny Davis
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APPENDIX A: Governance of Value Creation. An Overview

We would like to bring a research breakthrough and growing collaborative response to your attention. We recommend its potential to provide material contribution to enabling effective future-looking audit.

Our work provides a unique approach for costing of future-risk (financial and non-financial), that complements the many existing global initiatives in measurement, principles, and reporting. It enables systemic inclusion of the broader range of 'next generation' compliance, conformance and alignment issues within assurable practice.

Preliminary research evidence supporting this new approach can only be matured to effective industry practice through collaboratively engaged cross-industry initiatives in the style of FCLT, Embankment Project, IIRC, et al.

Breakthrough practice alone does not produce systemic change. We call on relevant parties to actively participate in a convening an appropriate collective response.

Technical Background

Our academic and commercial research has engaged over 100 of Australia's most senior economic leaders including directors at each of the ASX10 (7 at Chair), and their equivalents within asset owners and fiduciaries, Departments, agencies, regulators and Executive Government – and many of their global counterparts.

Our work identifies a new approach for assuring "the long-term sustainable success of the company, generating value for shareholders and contributing to wider society"[3] in a context where "boards are increasingly being called upon to address new or emerging issues including around culture, conduct risk, digital disruption, cyber-security, sustainability and climate change"[4].

We have developed models and preliminary evidence of a causal link between governance and performance.

Our approaches can be universally applied across companies and investment portfolios as well as government and community service outcomes, enhancing both performance and assurable communication with professional, regulatory and public stakeholders.

'Governance of Value Creation' is an integrated multi-disciplinary model for sustained value-creation in large scale organisations. It has been recognised as the 'how to achieve Integrated Thinking'. And, it has been described as the 21st Century Decision Making alongside IIRC's 21st Century Reporting to address A4S's 21st Century Challenges.

- **For companies**, this enables leaders to address the Future Fiduciary question, how can I ASSURE that we are "optimally invested in our own future?". How do you optimise across IIRC's 6 capitals, UN SDGs, or social outcome measures across multiple timelines - within increasingly complex and uncertain contexts.

  Preliminary research demonstrates a link to sustained out-performance - with the leading practitioner in our research performing 500% ahead of the index over 10 years.

[3] FRC's UK Corporate Governance Code, 2018
[4] ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, edition 4

- **For investors** the related 'Value Creation Maturity Assessment' provides a costing of future-risk that could be expanded to a globally scalable disclosure framework.

  It provides a mechanism of assessing the level of certainty associated with an organisation's future prospects. It is a knowledge economy, intangible value and social outcome equivalent to the JORC/SAMREC/SME codes used to disclose certainty of asset value / future prospects in the global resources sectors.

The structure of our approach includes parallels to the relationship between financial disclosure and audit.

Integration of Non-financial Measures

A company’s value is based on risk and uncertainty mitigated future projections in a context where the past is an increasingly poor indicator of future performance. Financial accounts alone have long been deemed insufficient to assess a company’s value. And, past performance is even less relevant to informing us on the future achievement of non-financial measures.

Point-in-time measures (in a company or across a portfolio) have little public meaning (tonnes of carbon, litres of water, ??? social outcome values, SDG measures, et al). These measures do not yet demonstrate the maturity and specificity of application seen in Financial Governance. And, the internal controls (central to assuring the reliability of Financial reporting) lack standardisation and widespread use for non-financial measures.

Periodic reporting of reliable ‘future-value’ measures enhances internal and external investment decisions, and brings greater relevance to a consumer audience.

Our work demonstrates the link between the existence of a necessary and sufficient set of integrated controls, and multi-outcome performance.

“The Result Must Be More Useful and Forward-Looking Audit”

> *Assurance is commonly defined as “a positive declaration intended to give confidence; a promise”. In the business world the definition is often extended to imply the use of a process that justifies such a declaration. The assurance this Review is concerned with is independent assurance, or lack thereof, concerning the statements made by directors of companies.* Review into Quality and Effectiveness of Audit
>
> *“The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.”* ISA (UK) 200

We observe:

- Audit provides increased stakeholder confidence from an independent assurance that announcements from a company are likely to be free from deliberate or accidental misstatement.
- Audit is achieved through an expert review that the applicable standardised accounting practices and controls have been appropriately applied.
- Standardised accounting practice is not forward-looking or multi-bottom-line. It does not include forward-looking controls. It does not include non-financial controls.
- It is not possible to review the ‘appropriate application of standardised practices and controls’ in a forward-looking manner, because we do not have an integrated forward-looking framework of standardised practices and controls to review against.

- It is not possible to deliver a forward looking audit without a standardised integrated set of forward looking practices and controls.
- The creation of an appropriate set of forward looking practices and controls would enable the delivery of a forward looking audit, enabling independent assurance that forward-looking announcements from a company are likely to be free from deliberate or accidental misstatement. We suggest this would be 'useful'.

In our work, we propose a basis for development of forward-looking practices and controls that would support forward-looking audit.

Preliminary research indicates a causal link between these practices and performance. It indicates and approach that would enable organisations to make periodic, externally assured, future-oriented announcements in accordance with an auditable standard in a manner that does not disclose competitive strategic information, and does not extend director liability beyond assured compliance.

Knowledge to Impact. A Precedent

The Institute's Governance of Value Creation, and the associated Value Creation Maturity Assessment can be seen as a future-oriented analogue to Financial Governance and Audit.

> Simplistically, Financial Governance is made up of standardised components of practice that integrate together to provide insight through a P&L and Balance sheet and a few other instruments. Practices, and hence the reports, are audited against mature standards, providing (an imperfect) level of assurance against directors' Fiduciary Responsibility.
>
> Financial Governance is silent in response to the 'Future Fiduciary' question, "How can I assure that we are optimally invested in our own future?"
>
> On the forward looking side we have a variety of (immaturely) standardised practices that do not integrate and provide no integrated insight.
>
> Our work demonstrates how integration of standardised practice, and forward-looking insight can be achieved, and its impact.

Considering a parallel to Financial Governance can be a little hard to grasp for a 'secular' audience. **A more obvious precedent is demonstrated by the JORC code.**

The JORC code was developed in Australia as a response to the Poseidon nickel boom and resulting stock market crash in the 1960s.

The Australasian Joint Ore Reserves Committee (JORC) developed standardised reporting on the levels of certainty associated with extracting value from Mining and Resource assets. It is an 'accounting for' the extent and results of scientific testing of geophysics and geochemistry that is now enforced by ASIC and the ASX as part of resource sector listing rules. It has been duplicated in similar disclosure regimes in a dozen jurisdictions across the world, and is now subject to global harmonisation efforts.

It has been suggested that the JORC code is in part responsible for the fact that near 50% of the Australian Stock Exchange is now represented by mining and resource sector stocks. JORC made mining investible by costing risk. They are not necessarily all 'good investments', but the prospective investor is able to make a judgement based on assurable consistent information.

The Institute of Performance Sciences promotes a cross-sector, knowledge economy, societal-value, intangible-value-creation equivalent to JORC providing periodic demonstration of the level of certainty associated with an organisation's future prospects. It provides a globally-scalable costing of future-risk suitable for engaging long-term capital with sustained high-performance value-creation - inside companies, across investment portfolios and across capital markets - in a new era of a complex, volatile, global economy.

Our work will contribute to making long-term, environmentally sustainable, stakeholder-engaged business a) visible, and b) investible.

It is a singular capability-lifting market-mechanism that directly answers the written calls from FRC, BlackRock and many others, across many disciplines, for enhanced behaviours.

Systemic behaviour change through collaboration

Preliminary work can only be developed to systemic behaviour change and impact through collaborative cross-industry participation:

- The **Global Institute of Performance Sciences** (www.ipsglobal.online) seeks to engage global investors in collaboration on improved practice (see Letter to Fiduciaries) engaging long-term capital with sustained high-performance value-creation - inside companies, funds and across capital markets.

- The **Australian Institute of Performance Sciences** (www.aips.online) seeks to 'move the needle' on effective long-term value creation performance in the top500 (focus on top50 = 50% of GDP) participants in the Australian economy made up of large corporates, government jurisdictions and large-scale investors. The Australian component serves as a pilot of systemic uptake of enhanced practice in a G20 economy.

The assurable 'accounting for future value' practices we have identified to you in this response address the missing-link between increasingly healthy systemic awareness and stubbornly weak systemic action.

Collaborative development and dissemination of enhanced practice will serve to engage long-term capital with sustained high-performance (financial and non-financial) value-creation - inside companies, funds, across capital markets, and across government and community networks.

And further, it will enable better communication of the value and value creation efforts of companies and public organisations to the general public.

We seek your participation in convening these forums.

APPENDIX B: Responding to Matters Raised in the Review

Please note: Governance of Value Creation approaches provide genuinely new perspectives that open up new pathways for action on known issues. **The responses below seek to provide brief 'outcome based discussion starters'.** We invite the further engagement that will be required to facilitate full understanding of our approach, including what is known today, and the pathways to the collaborative work that remains to be done.

Three areas of identified product deficiency (from launch speech, 10th April):

> First, there is the view that audit should be more forward-looking than it is currently required to be and that the auditor (or someone else offering assurance) should have something to say about the sustainability of the company whose financial statements are being audited, beyond the content of today's going concern statement.

Agreed. *However*, we highlight that part of the problem is that Financial Statements alone are an increasingly poor indicator of the sustainability of the company. This can be evidenced by the diminishing role that financial statements play in company valuation.

Whilst assurance of sustainability (and indeed future profitability) is of value, it will not come from assessments of financial statements alone, nor will it come from isolated inspection of siloed reports, or siloed practice. "*No company has ever operated on a basis that financial capital was in one building, human capital in another, natural capital in yet another… These sources of value creation and relationships have always been integrated.*" Mervyn King, IIRC.

> Then it is argued that the audit should be more active in seeking out fraud or evidence of fraud and be more challenging around aggressive earnings management or, for example, directors' valuation of goodwill or future income streams.

Deliberate fraud is, and will always be a problem. However, we suggest that the continuum of well-meaning optimism to outright delusion is a more material problem.

Enhanced standardisation of the practices of future-value assessment (as proposed by our Institute), and assurance on the appropriate adherence to these practices will greatly reduce this problem. **This is the lived experience of the systemic application of the JORC code.**

And further, whilst it will not eliminate fraud, it will make such action a more deliberate, and thus prosecutable event.

> And third there is the suggestion that audit (or some other form of assurance) should go beyond the financial statements and include some or all of the company's other reporting, including that contained in the front end of the Annual Report, investor presentations or the CSR Report.

As outlined above, and identified in our research, **an integrated assessment is fundamental to any assurance of sustainability**.

Our Institute seeks to collaboratively facilitate the maturing of practice that identifies, and secures broad cross-industry endorsement for the necessary and sufficient components of assurance.

Further, we envisage conducting various avenues of research into this work – including to identify the risk-performance materiality of each discipline as it related to the costing of future-risk. Such evidence will both support auditors, and cost-justify the effort of adherence as an investment in the achievement of performance outcomes.

Greater assurance through broadened scope and purpose of audit (from launch speech, 10th April):

> First, there is the audit requirement to provide an opinion on the company's ability to continue as a going concern. The FRC is currently consulting in this area and is considering greater use of the viability statement. My Review shares this interest and is asking also how greater transparency might be introduced into the going concern assessment.

Our approach to costing of future-risk will determine more than a yes-no going concern answer. Our measures will support communication of a level of certainty associated with 'future-cashflows' for financial and non-financial outcomes over a future timeline.

Assurance using our approach will be able to quantify the extent to which preparation has used standardised methods, and will be able to publish applicable error margins. Methods will be able to be collaboratively improved over time, in response to need and capability.

> Secondly, auditors are currently required to gain some understanding of a company's internal controls to the extent necessary to perform an effective audit. The Review is asking if the auditor's role in relation to internal controls should be extended. In this respect I am mindful of Sir John's Kingman's recommendation that the Government should give serious consideration to a strengthened framework around internal controls in the UK and I am committed to work with the Government in this area as whatever might emerge in respect of directors' responsibilities will clearly have implications for the audit.

Performance Sciences suggests an engineering approach to value forecasting and assurance.

Our work provides a (performance linked) framework for strengthened and standardised internal controls required to ensure sustainable performance. Further work suggests ongoing reliability testing to ensure focus on material controls.

This is not new science. Our preliminary research has been able to rely on existing standards and practices drawn from multiple disciplines to source the necessary controls.

A rigorous, standardised, back-tested framework of strengthened controls (that is comprehensively fit for purpose) reduces discretion within the assurance process. This in turn may enable a reframing of the assurance roles, and therefore the liabilities of both Directors and Auditors.

> Third, there is a question widely asked as to whether audit should give an opinion (or a stronger one) on directors' statement on matters other than financial statements. The auditor is already required to consider other information in the annual report, but only to the extent that it may be materially inconsistent with the financial statements. I am asking whether any of this wider information could and should be subject to audit or some other form of assurance.

Our research indicates that the organisational capacity for maintaining broadly integrated assurance (using integrated internal controls) is a necessity – and that it can, and should be the basis of all communication.

The outcomes that an organisation chooses to sign up to (eg: financial, carbon, community, global health, regional water, etc, etc) are a matter for directors to be explicit about. The definition of the 'value' that they commit their organisation towards will be determined from a reading of stakeholder (including, but certainly not limited to, shareholder stewardship and regulatory requirement) interests.

These explicit value outcomes that an organisation commits to will in turn dictate which of the extended internal controls identified in our Institute's research are material / required.

In this way, auditors can determine that appropriate standards have been appropriately applied, in all communications, where they are material to the operations of the business – in much the same way that is done today in relation to the assessment of Financial Governance and reporting.

Responses to Numbered Questions

Q1: For whose benefit should audit be conducted? How is it of value to users?

Audit is a critical part of assurance of the integrity of an organisation that is of value to the broadest definition of stakeholders. It applies (variously) to all constitution of organisation, not just listed entities.

Q2: Should the audit be designed to enhance the degree of confidence of intended users in the entity or just in the financial statements?

Refer Q1 – enhancing confidence in all users.

Q3: 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?

We do not believe that the solution to the issues outlined can be achieved through legislation.

Q4: Do respondents consider there is an expectation gap?

Yes.

Q7: What should be the role of audit within wider assurance?

As outlined elsewhere in this response, this needs to be reframed within a new approach. Audit should be assuring the appropriate application of the appropriate standardised internal controls relevant to an individual organisation. The framework to enable this is the focus of the collaborative work promoted by our Institute.

Q8: 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?

Yes, with an appropriate framework. See Q7.

Q11. Do current eligibility requirements for external auditors focus too much on independence at the potential expense of market innovation and the quality of the audit product?

Innovation needs to be driven in broad collaboration serving larger market objectives. See Q7. Audit is a function in a broader system that needs to be enhanced. It is not an end in itself.

Q12: 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?

Yes, with an appropriate framework. See Q7.

Q13: Should auditors' responsibilities regarding assessing the effectiveness of an entity's system of internal control be extended or clarified?

Yes, with an appropriate framework. See Q7.

Q14: 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?

Yes, with an appropriate framework. See Q7.

Q15: Is the current regulatory framework relating to going concern fit for purpose (including company law and accounting standards)?

No, an appropriate framework is required. See Q7.

Q16: 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"?

Yes, with an appropriate framework that standardises such disclosures in a meaningful way that enables apples-for-apples comparison. See Q7.

Q17: Should directors make a statement about the sustainability of the entity's business model beyond that already provided in the viability statement?

Yes, with an appropriate framework. See Q7.

Q18: Should such a statement be subject to assurance?

Yes, with an appropriate framework. See Q7.

Q19: Who might be capable of giving such assurance?

Auditors trained with an appropriate framework. See Q7.

Q20. Is there a case for a more forward-looking audit? What would be the main benefits and risks?

Yes, with an appropriate framework. See Q7.

Q21: 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?

JORC provides us an example of an enforceable standard which applies to all communication. Any public release that refers to reserves must be made in accordance with the JORC standard regardless of when that communication is made. Similarly, an appropriate framework, see Q7, will define what standard practices must be followed to make announcements of the certainty of financial or non-financial prospects, or indeed historical results. Standards define the reliability of the information, and therefore the benefit that any announcement may have (or not have) for users.

Q22. If so, what information might usefully be subject to audit or another form of assurance and why?

See Q21.

Q23: Do respondents agree that the value and quality of the audit product should be considered separately from the effectiveness of the audit process?

Yes.

Q24. 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?

The increasing reliance on the exercise of considered judgement in increasingly compromising the entire system – through non-quantitative assessment of risk and value, failing integrity and increasing exposure to liability. We do not suggest that judgement will, or should be, eliminated. We do suggest that the majority of material assessment and assurance should be based on rigorous and quantifiable practice, and that this will require the development of enhance frameworks. See Q7.

Q25. What additional benefit might a switch from a binary audit opinion to a more graduated disclosure of auditor conclusions provide?

Within an appropriate framework, a quantified, assured and audited disclosure of the level of certainty associated with a range of financial and non-financial future-outcomes will materially impact the effective direction of global capital towards sustainable behaviours. See Q7.

Q26. Could further narrative be disclosed alongside the opinion to provide more informative insights?

No, an appropriate framework is required. See Q7.

Q27. What would prevent such disclosures becoming boiler plated?

An appropriate framework, ala JORC, is required. See Q7.

Q29. 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?

A fully integrated approach is required. Auditors should be focused on assuring the appropriate integrated implementation of the appropriate set of standards that is fit-for-purpose to the sustainable operation of a given organisation. See Q7.

Q32. 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 bar for auditors at a high enough level?

No, an appropriate framework is required. See Q7.

Q33. 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?

No, an appropriate framework is required. See Q7.

Q34. 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?

No, an appropriate framework is required. See Q7.

Q35. 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?

No, an appropriate framework is required. See Q7.

Q36. 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?

Our work suggests that the transparency of an appropriate framework will make deliberative fraud more difficult, and reduce its incidence by reducing some of its precursor 'discretionary' behaviours by corporate leaders. See Q7. Fraud will never be completely eliminated.

Q38. Would it be possible to devise a 'reasonable person' test in assessing the auditor's work in relation to fraud detection?

No, an appropriate framework is required. See Q7.

Q39. Should auditors be required to evaluate and report on an audited entity's systems to prevent and detect fraud?

An appropriate framework is required which may include fraud prevention controls. See Q36.

Q40. Is the audit profession's willingness to embrace change constrained by their exposure to litigation?

Yes. But, it is more material that they operate within a broader market and market system that resists change. There is more downside than upside in unilaterally driving change. A broad cross-industry collaboration is required to advance systemic practice. See Q7.

Q41. If there were a quantifiable limit on auditor liability, how might this lead to improvements in audit quality and/or effectiveness?

It is insufficient. See Q40.

Q42. 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?

No, an appropriate framework is required that clarifies the expectation of the audit role. See Q7.

Q43. 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?

Liability is not a single barrier to change. Appropriate systemic change will enable a reframed approach to liability. Broad collaborative action (Q7) where change in Audit practice is delivered in support of broader behavioural change can have material sustainability impact (Q25) . It is not dependent on legislative reform.

Q45. How far is new technology actually used in audits today? Does the use of technology enable a higher level of assurance to be given? AND Q46. In what way does new technology enable assurance to be given on a broader range of issues than is covered by the traditional audit?

- There is huge opportunity to use technology in the provision of enhanced assurance.
- Attempts to use technology in this way in the absence of an appropriate framework for Governance of Value Creation carries significant risk – except in the most narrow of circumstances.
- The use of advanced technology in the absence of fit-for-purpose enhanced governance controls, and explicit definitions of (non-financial) future value may mask and exacerbate existing problems.
- This comment is made in the context of recent dialogue on development of ISO standards for "The Governance Implications of the Organisational Use of AI".

Q48. 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?

Limitation of potential failure, and valuing audit in the context of its current usability is an insufficient approach. It will not justify the broad systemic effort required.

However, seeing audit as a vital component delivering integrity within a larger systemic change with global capital and sustainability outcomes (See Q25) reframes the calculation of audit's value… notwithstanding the impossibility of a zero failure regime. Explicit error margins, rigorous back-testing, and ongoing sensitivity analysis should be able to quantify the systemic value of this new class of information to individual portfolios and across markets.

Q50.How should the cumulative costs of any extension of audit (whether stemming from this Review or other drivers of change) be balanced against the likely benefits to users?

See Q48. Practice improvement is an investment in more effective, more productive, more sustainable outcomes. Investment in audit delivers one vital component in that larger picture.

Q51. 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?

Existing use of Audit is not a good benchmark for what value Audit can deliver. Shareholders are key participants in collaboration on an enhanced framework. Their broader needs (which we simplistically characterise by reference to BlackRock's Chair, Larry Fink's 2019 'Letter to CEOs') can be addressed by an enhanced framework (See our Institute's 'Letter to Fiduciaries').

Enhanced audit is a valuable component of the framework responding to the broader systemic outcomes that investors (and other stakeholders) are looking for.

Q52. Would interaction between shareholders and auditors outside the AGM be practical and/or desirable?

No, an appropriate framework is required. See Q7.

Q53. 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?

An appropriate framework is required (see Q7) that enables directors to explicitly declare the (financial and non-financial) outcomes they are committed to achieve (see our response on page 7) in consideration of investor, regulatory and other stakeholder interest.

The explicit outcomes the organisation has committed to, and the specifics of the business operations determine which internal-control standards are appropriate, and must be audited. Auditors provide assurance of the communications of the organisation, and cannot be asked to form opinion on what the organisation has chosen not to engage or communicate.

It is up to the (fiduciary) directors to determine what they choose to communicate and to run the market risk of failing to adequately respond to the 'anxieties' of the shareholder community. Equally, it is up to investors, as active stewards, to be clear on what they see to be material value. Investors need to utilise certainty of (their explicit understanding of value outcomes) in their investment strategies – assessing companies for their capacity to assure, and create certainty of the future prospects they hold to be of value.

Q55. In what way would it be possible for auditors to report on the culture of the entity whose financial statements are being audited?

At this stage, the available measures of culture are not amongst the characteristics our research has identified as necessary and sufficient for sustained performance. Our research identifies culture as an outcome of governance practices, not a condition precedent.

Q56. How can auditors demonstrate that appropriate scepticism has been exercised in reaching the judgments underlying the audit report?

An appropriate framework is required. See Q7.

Q58. Do respondents view audit costs as generally too high, about right or insufficient?

It is not that cost is too high, but that the value delivered is currently is too low. Increased value from an enhanced 'reset' approach to audit is a possible and required investment.