



**HW Fisher
& Company**

**CHARTERED
ACCOUNTANTS**

7 June 2019

By E-mail to:

brydonreview@beis.gov.uk

For the attention of the Brydon Review Secretariat

Our Ref: GS/HLJ/MPC/DN

Dear Sirs

INDEPENDENT REVIEW INTO THE QUALITY AND EFFECTIVENESS OF AUDIT

We write to offer our comments in response to the call for views in relation to the independent review into the quality and effectiveness of audit.

We acknowledge that there is widespread concern about the quality of audit, but we are not convinced that the remedies put forward in the CMA market study, Sir John Kingman's review and the BEIS Committee report "The future of audit", have identified the real issues. We therefore welcome the "back to basics approach combined with an imaginative forward look" promised in the current review.

Those previous reviews have put a good deal of faith in the application of competition between audit firms to resolve these issues. At the most basic level, in practice, competition is likely to put further pressure on audit fees and hence audit quality. The suggestion is that instead competition can be based on audit quality, but it is hard to see how a market-based system that makes a realistic assessment of quality could be established. In any case the previous reviews made little attempt to show how this might be achieved.

Another theme of those reviews is that the regulation and monitoring of audit should be "tougher". While both should be tough, they must be well directed to the right outcomes. Just making the system tougher without improving its focus will not result in an improvement in audit quality.

The independence of auditors is critical and must be maintained, but we believe that the previous reviews' perception that there is a widespread problem over independence is misplaced. Audit quality depends both on the auditor's independence from the audited entity but also on the auditor's knowledge and understanding of the entity. While independence must both be present and be seen to be present, some of the remedies proposed are so determined to eliminate the possibility of any threat to independence that they risk disrupting the auditor's ability to establish sufficient knowledge and understanding to complete the audit work effectively.

We note that this review is primarily seeking views on the statutory audit of public interest entities ("PIEs"), while being mindful of the impact of its recommendations on smaller and non-listed entities. We believe that the previous focus on PIEs, in the earlier reviews but also in standard-setting for some time has contributed to the problems identified. As well as putting increased pressure on the cost of audit for smaller entities, we believe that this has also had a detrimental effect on the audit of PIEs.

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Fundamentally audit is about the exercise of judgement. The information on which audit judgements must be made will always be limited and these judgements will always be difficult to make. The real issue with audit is that the complexity and rigidity of the current auditing standards have the result that audit is seen as a process rather than a means to reach these judgements. The temptation is to think that so long as the process has been followed this will be enough for the judgements made to be supported, but often this can result in judgements being made from too narrow a perspective.

In the context of smaller audits the emphasis on process is particularly problematic as the auditing standards have often been drafted from the perspective of larger audits and assume a level of organisation and record-keeping that is not present or necessary in a small entity, so that the requirements can be more difficult, and proportionately costly, to apply. This challenges the economics of the audit of smaller entities and has led to pressure for increasing audit exemptions. Properly defined, audit should be beneficial for entities of all sizes and the pressure for ever-increasing audit exemptions is regrettable.

In the context of the larger firms the danger of seeing audit as a process is that audit judgements may be made without taking a sufficiently wide view of the available evidence. That said, audit judgements will often be difficult to make and a judgement that was reasonable at the time will sometimes turn out to have been wrong. There is no system of audit regulation that can prevent some judgements turning out to have been incorrect and this needs to be more widely accepted. Much of the current public discourse suggests that in such circumstances the auditors will always have been at fault. This view is unrealistic and should be challenged. We would not seek to make it easier for audit firms, but rather that they be judged on the actual outcomes of their work.

This is also an issue for regulators. Regulation is substantially seen as an exercise to establish whether the audit process has been followed. Regulators shy away from making their own judgements, as these are difficult to make, but effective Audit Regulation must be based on an assessment of whether specific audit judgements were reasonable at the time they were made. It would be reasonable to criticise a firm for not having obtained sufficient reliable evidence on which to place a particular judgement. But for a regulator to conclude that an audit firm has breached the rules, but then to say that there is no suggestion that the judgements made were incorrect, will not contribute to an improvement in the effectiveness of audits.

Our detailed responses to the questions on which specific comment is requested are set out in an Appendix to this letter.

Yours faithfully



Michael Comeau
Technical Principal

RESPONSES TO SPECIFIC QUESTIONS RAISED

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

Audit should be for the benefit of a wide range of stakeholders. The primary focus on investors and the decisions that they make in that capacity (particularly concerning valuation) has been a problem in recent standard-setting and has been one factor in the overemphasis on the audit process for entities which have external investors at the expense of the interests of stakeholders in other entities. Trading partners, current and potential employees, tax authorities, grantmakers and donors to charities, and others, have an interest in the financial position of the entity that they are dealing with. All benefit from the availability of audited financial statements. We believe that the continued expansion of audit exemption is not generally to be welcomed.

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

There may be a case for widening the scope of audit to cover issues outside of the financial statements, but any such proposals would need to establish:

- a) that the additional costs of audit would not be prohibitive; and
- b) that the skills needed to make the additional assessments required are reasonably believed to be possessed by the same individuals as carry out financial statement audit (it may also be that auditors could employ more experts or that separate expert reports could be considered, but the system should not become too complex);

Either way, ensuring that the audit of the financial statements is robust should be the priority.

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?

UK law is already reasonably clear. More detail on the primary users of audit could damage the generality of the current requirements and routinely exclude the needs of some stakeholders.

Q4: Do respondents consider there is an expectation gap?

Yes, there is an expectation gap.

Q5: If so, how would respondents characterise that gap?

Auditing is primarily a matter of making judgements. The difficulties of making these judgements include:

- a) that many such judgements will involve an assessment of the likelihood of future events;
- b) limitation on the evidence available in relation to assessing market-based measurements, such as fair value or rate of return; and
- c) that the evidence available on which such judgements must be based will always be limited.

There will normally be issues over the proportion of transactions and balances which an auditor can examine if the audit is to be completed at a reasonable cost. Data analytic techniques may help with this issue but cannot completely eliminate it. For audit to be economically feasible auditors will at some level need to make a judgement about whether the evidence they have obtained is a sufficient basis on which to form an opinion.

Audits are often perceived as having gone wrong with the benefit of hindsight. The factors above will mean that in some cases the judgements made will eventually turn out to have been incorrect, but the expectation is that auditors will be able to prevent this situation from ever occurring. This expectation is not realistic. It will be reasonable to criticise auditors for making the wrong judgements based on the information available at the time, or for failing to ensure

that there is adequate disclosure of any specific uncertainties, but no system could guarantee that all judgements will turn out with hindsight to have been correct.

Q6: 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?

Although we do not agree with the view expressed in the BEIS Committee report that there is no expectation gap, but only a delivery gap, some audits will fail and it may be that there is a more general delivery gap based on the assumption that following the process contained in the auditing standards is a substitute for making audit judgements from the widest possible evidence base.

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

As suggested in the response to question 2 above, some areas on which wider assurance may be sought will not be within the skill set of the financial statement auditors. However, any such assurance is likely to be relevant to the auditor’s own opinion. Auditors should have regard to any such assurance reports as have already been given and should liaise with the relevant experts (on any completed and ongoing reports) to obtain an understanding of the findings (or expected findings) as part of the audit work. Insofar as this is not already required by ISA (UK) 250 Section A: “Consideration of Laws and Regulations”, auditing standards should make this a specific requirement in the context of any new assurance reports which are established.

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?

The level of assurance will clearly vary in such circumstances. However it is not clear that it would be possible to objectively score such levels of assurance. The existing use of an emphasis of matter paragraph to highlight particular uncertainties will be the most informative approach. See further answer to question 25 below.

Q9: Are the existing boundaries between internal and external audit clear?

Yes, as far as we are aware.

Q10: To what extent should external auditors be able to use evidence obtained from work performed by internal auditors in drawing conclusions?

We have no particular comments to make in this area, except that external auditors should be able to take account of work performed by internal auditors in their own work, but should not be able to place reliance on it without their own investigation.

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?

Yes, as suggested in our covering letter. The main issue is in relation to the extent to which all but the largest audited entities will have in-house expertise. Internal safeguards would need to be in place to maintain the firm’s independence, but many entities would prefer to be able to rely on their auditors to provide expertise in some areas which may be seen as prohibited non-audit services. It is not clear that the current rules maintain a proper balance, any conclusion which leads an entity to have to employ two separate firms in order to maintain independence is at least problematic.

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?

Although all businesses must have some level of risk management and internal control to operate, such systems are often very informal and nebulous. While the largest companies may have formalised systems on which a report can be made, this will simply not be possible for most audited entities. There may be scope for implementing this suggestion as an additional requirement for PIEs but a wider application would either result in disclosures which are not meaningful or could potentially disenfranchise some entities from the ability to have an audit.

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

No, for the reasons set out above.

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?

We have no particular comment to make on this issue.

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

The current requirements are fit for purpose, but there needs to be a greater emphasis on taking into account the widest range of factors in making a judgement on going concern. The danger with the FRC's current proposals is that they will introduce further process into the auditor's approach which will apply whether or not a going concern issue arises and which:

- a) will place additional requirements on directors which they are unlikely to find beneficial where there is no particular issue;
- b) will add further cost to audit; and
- c) by encouraging a greater emphasis on process, may distract from the need to make appropriate judgements.

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"?

We do not think that there is a lack of clarity in this area, although additional guidance might be useful.

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

Except as noted in the next point, these requirements should not extend beyond those entities which comply with the UK Corporate Governance Code, and any requirements on auditors in this regard should be seen as additional requirements which only apply to such entities. The more general requirements applying to auditors in this area should not be written in the context of the requirements of the Code.

An argument might be made for applying these more general requirements more widely, but the benefits of doing so will be less, and the cost more, for most non-code entities. The danger is that the viability statement, or any wider statement on sustainability, will consist of boilerplate statements which provide little meaningful insight (as noted in the Kingman review). If these requirements are to be extended at any level it would have to be on the basis of a credible argument that such requirements would be effective and that their cost would be justified by their benefit.

Q18: Should such a statement be subject to assurance?

Where such statements are required, it would make sense for some level of assurance to be given.

Q19: Who might be capable of giving such assurance?

While it is possible to envisage a separate type of expert with particular skills in providing assurance on such statements, a more practical approach would be for the auditors to make a reasonable conclusion on the statements made, with the expectation that their judgement may with hindsight turn out to have been incorrect in some cases. (This would also apply at some level to any expert report.)

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

There may be a case for extending the scope of audit to be more forward-looking, but proposals in this area would have to be based on an analysis of cost and benefit. We would not expect that any additional requirements that might be proposed in this area would produce sufficient benefits to justify the costs involved, but we are open-minded on this point.

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?

As question 20 above.

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

As question 20 above.

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. The value and quality of the audit product, which we have characterised as “the quality of the judgements made” is the key issue. The effectiveness of the audit process is only relevant to the extent that it contributes to that wider aim. We strongly agree with the suggestion in the call for views that regulators and inspectors place too much emphasis on process at the expense of the quality of the judgements made. For regulators and inspectors to focus on the quality of the judgements made (expecting that judgements will not always turn out to have been correct) would be more time-consuming and costly for regulators, and would require them to make greater use of their own judgement, but would be a better focus for their activities.

The audit process embedded within auditing standards should guide auditors to the judgements that they need to make, but following the process should not be seen as an end in itself and should never be seen as a substitute for making these judgements.

One specific issue is that auditing standards as currently written are over prescriptive and rely on assumptions about the level of organisation and of the information prepared by the audited entity, which are not always satisfied. We would favour the development of more principle-based auditing standards which set out the objectives which must be met (where applicable) in all audits but set much of the current process embedded in those standards as an approach that may be followed in some circumstances but which in other circumstances may be replaced by a more appropriate approach which would meet the principles in a different way.

In the UK our auditing standards are adapted from the international standards on auditing. While we have opposed the introduction of much more rigid processes in the UK, such as those currently proposed for the audit of going concern proposed by the FRC in their March 2019

Exposure Draft, we would not favour the FRC (or ARGA) setting standards which were less demanding than the international standards.

While we would argue that the principles based standards that we are supporting would ensure auditing to a higher level than is produced by the current standards, there would be difficulties in establishing that standards producing in this way would in all regards ensure the compliance with the existing international standards, and this could create problems in international audits. What is required is for the change to be made at an international level. There is some hope that this could be achieved in response to the IAASB discussion paper “Audits of less complex entities: Exploring possible options to address the challenges in applying the ISAs” which puts forward a number of options. One of the options includes a wholesale revision of international standards. Page 15 of that discussion paper considers a number of options which are broadly in line with our proposal.

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?

Yes. This point is emphasised in our covering letter and in a number of our more specific answers.

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

We do not see any merit in this proposal. We do not think that there is any way to arrive at a system of making graduated forms of opinion that would be objective. Introducing highly subjective judgements into the report would not generally be beneficial.

As set out above, the audit opinion must be based on judgements on a variety of matters, which will not generally be based on complete information and will always have some risk of turning out not to have been correct. The advantage of the binary report in its current form is that it encourages the auditors to get to a position where they are satisfied that, for any of these judgements which may have material effect on the view given by the financial statements, there is disclosure:

- a) in the financial statements of critical accounting estimates and judgements;
- b) in the audit report as an emphasis of matter;
- c) as the subject of a specific qualification (whether due to disagreements or limitation of scope);

and that all other judgements can reasonably be made with a low possibility of error.

Where the auditor cannot reach that conclusion an adverse or disclaimer of opinion would be given.

We believe that the current approach requires the disclosure of specific issues of concern and that this is far preferable to any kind of rating system for opinions.

One aspect of the current reporting regime that could usefully be amended would be to make better use of the concept of reporting by exception. Company law is clear that these matters need only be reported where an issue arises. The current format of the audit report lists all such matters on which such reporting could be required and then concludes the auditor has nothing to report in this regard. This means that audit reports are cluttered with a lot of boilerplate text that makes the actual opinion harder to find. It would be better if all of the reporting by exception items could be incorporated only by reference to the FRC statement on audit, with the result that, for entities not subject to the requirement for extended audit reports (and we see

no reason to extend these requirements to a wider group of entities) the audit report would be simpler and more comprehensible.

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

The existing system encourages the disclosure of relevant issues. We do not think that (outside of the requirements for extended audit reports) further narrative would be useful.

Q27: What would prevent such disclosures becoming boiler plated?

The concept of reporting by exception will act against boilerplate reporting. Any more general requirement is likely to lead only to increased boilerplate.

Q28: To what extent, if any, has producer-led audit (including standards-setting) inhibited innovation and development for the benefit of users?

We do not see this as an issue. We have some doubts over how useful the extended report really is given the limits on the amount that can be said in what will always remain a relatively small space, but observe that comments from the investment community appear to suggest that they do find this kind of reporting useful. For entities outside these requirements we believe that the return to a brief report suggested above would result in a much more useful audit product.

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?

Our experience and understanding is that the auditors' duties in this regard do not extend beyond the effect that any such matters may have on the financial statements. It would be open to legislators to impose new requirements in this area, although we do not currently see a need for this.

Q30: 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?

It is perfectly reasonable that the legal definition of distributable reserves differs from that of the reserves shown in published financial statements if the former reflects a more prudent view on what can be distributed while the latter is a view on what constitutes the entity's financial position. Accounting standards do not purport to measure distributable reserves.

There is an issue over the inclusion of fair value measures within financial statements. Accounting standards do allow that in some cases values may not be obtainable, and that in such cases a historic cost less impairment approach should be adopted. However, the view of the FRC and of the Big Four has generally been that it will be unusual not to be able to make some assessment of fair value using valuation models. There should be scope for further restrictions on the use of fair value in cases of uncertainty. So long as the position is disclosed, a set of financial statements that presents some assets on a cost less impairment basis, with an indication that the underlying value could be higher, would be more informative than one that includes a speculative value. This approach might reduce the difference between the accumulated results shown in the financial statements and the distributable reserves, but is unlikely to eliminate it.

Disclosure of distributable and non-distributable reserves would achieve greater clarity but there are problems with this as outlined in the next answer.

Q31: Should distributable and non-distributable reserves be required to be disclosed in the audited financial statements?

Such disclosures would bring greater clarity, but, as noted on page 86 of the “Call for views”, the determination of distributable profits is a difficult area and audit firms will be wary of forming an opinion on the level of distributable reserves if there is no particular benefit in doing so. There would be no purpose for this disclosure if no distributions are made and there may be cases where, although there are some areas of uncertainty over the precise level of distributable profits, the area of doubt is well within a reasonable margin such that there is no question over the legality of distributions which are actually being made. If the auditor’s involvement in the determination of distributable reserves is thought desirable it would be better to introduce an additional requirement to report by exception over whether dividends actually made in a period are legal. (Companies Act 2006 section 837 (4), which applies in circumstances where an audit report is qualified, has some similarities to this proposal but would be given at a different point in the process.) It would be better to avoid a requirement to disclose a figure whose derivation would be problematic if this were possible.

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?

The requirement to keep adequate accounting records is normally seen in the context of the ability to prepare financial statements which give a true and fair view. Accounting records are kept in a variety of forms and so long as they give sufficient information for the preparation of financial statements there is no need to insist on then being prepared in a specific format. We would normally only report on accounting records where there was a problem over the view given by the financial statements.

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?

We recognise that the focus of the call for evidence is the audit of PIEs, but we believe that audit requirements should be determined through reference to the needs of audits for entities of all sizes and types. It will be reasonable to add requirements to apply only to particular classes of audit, but not to set the requirements with reference only to a particular kind of entity and then come back to a consideration of how to apply these requirements more widely. This tendency has been one factor in the increasing difficulty in completing audits for smaller entities, which in turn has led to the ever widening audit exemption regime. We believe that entities of all sizes will benefit from audit (if properly defined). While the audit of smaller entities may be voluntary, such entities should not be precluded from having an audit because the requirements applying to audits make the process unaffordable.

In the context of the audit of owner managed business there would not normally be an audit committee and the audit would be discussed with the owner managers. This would be sufficient communication of the audit findings. We have argued that audit benefits a wider group of stakeholders. Giving such wider stakeholders some level of access to the auditors may have some benefits, but the costs of providing such access could become prohibitive.

For larger entities (that is those that follow the Corporate Governance Code) the idea of an annual assurance meeting, open to shareholders and to a wider group of stakeholders might be further investigated to see whether such stakeholders would find such meetings useful. Here the cost benefit equation would be different to the case for smaller entities and this idea could usefully be trialled. However, it may be that the take-up for such communications may be small in practice.

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?

This would only apply to the relatively few entities that have audit committees. For such entities the idea of greater transparency could be further explored, but it should not be assumed that this would be a relatively cost free exercise whereby materials already available would simply be released. In the context of a confidential communication with the audit committee:

- a) The auditor may reasonably assume a level of knowledge within the audit committee that would not be held by wider group of shareholders. To prepare the information for a wider audience it would therefore be necessary to add considerably to the explanatory material. In addition to that there would quite often be confidentiality issues which could cause considerable difficulties.
- b) The auditor may also raise questions for the audit committee to answer. If such material were to be given a wider audience all matters would have to have been fully agreed (at least to the extent that the reporting of differing views was accepted by all parties).

The benefits of making this information more widely available would need to be clearly established before the costs of providing it could be justified.

As set out in answer to question 25 above we believe that the current form of reporting by exception of key matters that may affect the view given by the financial statements is a usefully succinct method of communicating relevant matters.

Aside from these proposals, there should be consideration of other ways to make audit committees more accountable to the shareholders so that the audit committee can be used as a platform for shareholders to express their concerns.

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?

We support the idea that where an extended audit report is given, an update on matters raised in the previous year would be useful so long as it was open to the auditor to state why only limited detail is required.

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?

User's expectations of the auditors' role in fraud detection exceed the requirements of law and auditing standards and this is part of the expectation gap. We agree that there is a debate to be had over the extent to which auditors might be given additional duties in this regard, but the cost of implementing any such proposals would need to be justified by the perceived benefits. It may be that additional requirements in this area may be justified, but a more likely outcome is that it will be concluded that the level of assurance on fraud currently given is sufficient given the cost constraints.

Q37: Do existing auditing standards help to engender an appropriate fraud detection mindset on the part of auditors?

This ties in with the previous question. We do not see a major lack in auditing standards in this area.

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

As above. Such a test could be devised if this was thought to be desirable.

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

Entities will have very different systems in this regard. A one size fits all requirement would create significant difficulties for the audits of smaller entities, while having few real benefits. We believe that such an approach is best avoided.

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

Of course the audit profession will be concerned about liability issues. Proposed changes should be drafted so that the requirements on auditors are reasonably within their power. This will include an acceptance that auditors will not be able to guarantee that all judgements that they make will turn out to be correct when the benefit of hindsight is applied. To establish liability it should be necessary to show that the auditors' judgements were not reasonable in the circumstances in which they were made.

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

A quantifiable limit on auditor liability would be useful, but we do not generally support the proposals to significantly widen the scope of audit.

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?

The benefits, if any, of making this change are likely to be outweighed by the additional costs. We do not think that there would be significant benefits from this approach. A professional opinion should not be seen as any form of insurance policy against the judgement turning out, with hindsight, to have been incorrect. The prime responsibility for the financial statements must remain with the directors.

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?

As question 41 above.

Q44: 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?

We have no particular comment to make on this issue.

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?

In our experience the use of technology, although increasing, is comparatively limited at present.

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?

Although the new technology does hold the promise of a more effective audits, its effectiveness is not yet fully proven.

Q47: Are there aspects of current audit procedures or output that are no longer necessary or desirable?

There are a number of areas where existing auditing standards present rigid requirements which have been drafted on the assumption that all audited entities will have a similar level of control procedures. These requirements are often difficult to apply in the audit of more straightforward entities. More principles-based standards would alleviate these problems.

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?

Audit failure should be assessed with reference to whether the audit judgements made were reasonable given the information available at the time that they were made. This will include the auditors' assessment of whether sufficient information was available to enable a robust judgement to be made.

Q49: Does today's audit provide value for money?

Yes, but the complexity of the accounting and auditing standards, combined with the requirements of regulators has rendered audit uneconomic for some smaller entities. One effect of some of the proposals being considered in this review would be to further increase the cost of audit.

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?

A realistic estimate of the costs of any extension in the scope of audit should be weighed against the anticipated benefits of the change. The anticipated benefits would need to be widely agreed amongst all affected parties.

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?

We have no particular comment to make on this issue.

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

We have no particular comment to make on this issue.

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?

This might be beneficial if it can be made to work, but the general evidence suggests that it will be hard to involve shareholders in such processes.

Q54: What assurance do shareholders currently obtain other than from audit reports?

We have no particular comment to make, beyond the points already made above.

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

It would be difficult for auditors to make a meaningful and objective comment on culture. Before such a requirement was introduced a trial of how this would work in practice should be undertaken.

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

The best way to demonstrate scepticism is simply from having made the right judgements, although the audit file should record the more detailed points raised during the audit work.

Q57: Should the basis of individual auditors' remuneration be made available to shareholders?

We have no particular comment to make on this issue.

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

The level of the detailed requirements for audit means that if anything audit fees have been kept artificially low. In order to justify the required increase in audit fees the benefits of a better quality audit would need to be observable by the audited entity.

Q59: Would users of financial statements wish more detail on the make-up of audit fees?

We have no particular comment to make on this issue

Q60: Is the profitability of the audit function sufficient to sustain a high-quality audit industry?

Currently audit is not profitable. The imposition of additional audit requirements will only be feasible if fees grow proportionally. For this to work audited entities at all levels will need to see tangible benefits from the new requirements.