In response to the discussion raised in the Brydon Review I address only one point, a point which stands behind many of the matters raised in the Review: that is, how to ensure that financial statements are in line with the accounting framework.

I refer especially to the paragraph below about the necessity of a robust governance structure. Since such a structure cannot in practice be guaranteed (it will always be lacking in, say, a significant minority of cases), an independent Audit Committee emerges as the only way of ensuring through a robust structure that the accounting framework is implemented.

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The Audit

The job of the auditor is to confirm that the financial statements are perfectly in accordance with the accounting framework. This framework is composed not only of accounting standards but also - and just as importantly - any additional rules imposed by regulators, and Company Law.

Nothing else is remotely as important as this requirement. The proposals under discussion in the UK raise possibilities, such as the restructuring of the audit market, which are valuable for other reasons. They do not however propose a tight solution to the central problem - how to avoid a failure to follow the accounting framework.

It is not the job of the auditor to go beyond this requirement . Assessing the risks run by companies in possible future circumstances is, contrary to the view of the House of Lords and others, the job of the regulator (and investors) and not the auditor, whose standards and training are not relevant to that task. And if the accounting framework were precisely followed most of the problems under discussion would vanish.

Most directors are married to their companies, and care deeply and commendably about them, and about the financial results. It is only human that they wish to control the figures. But there are the wider considerations of the public interest to take into account.

What is needed is a mechanism that will, relentlessly and ruthlessly, ensure that the accounting framework is perfectly implemented. This can only be a matter for the audit committee. The suggestion that a regulator should be involved in ensuring proper work by the audit committee may in itself have disadvantages, such as adding a bureaucratic overlay, but more fundamentally we should drill down to address the efficiency of the audit committee.

This points to an audit committee with a structure which will enable it to act independently of the company's management. To achieve this it should be mainly composed of members explicitly responsible for the financial statements alone. Such a committee would have direct and continuous access to all financial information in whatever detail they require, quite separately from the board (which would also have access to what was found). The only aim would be to ensure that the financial statements are in line with the accounting framework.

There would almost certainly be high quality people willing to take on the responsibilities of serving on this kind of auditing committee, since there would be no responsibility for the company's actions overall, an onerous task in modern conditions. Also, committee members would as a result of this limited responsibility have more time to address auditing questions. The membership should be wider than those trained as accountants and include those with backgrounds as investors and other users of accounts.

The chairman plus one other member of the audit committee would be members of the company board. They would be the interface - an intense job but focused on the crux of the problems which arise, including those highlighted by recent scandals. All the relevant aspects would be discussed between members of the two responsible parties - the board and the independent audit committee. If their conclusions differ, they are the people to resolve matters, or to publish the alternatives, if that should be appropriate. In this way any management proposals could be independently and authoritatively challenged.

The responsibility for the financial statements would remain as it should be, with the board. But the independent audit committee would report independently to shareholders. This would meet the requirement set out in the Competition and Markets Authority in its latest study of the audit market " .....to ensure that the Audit Committees remain fully accountable first and foremost to shareholders". This requirement is structurally and logically impossible with the present status of the audit committee as a committee of the company board.

Also, as the CMA study points out, " ....auditors cannot deliver a quality audit without a robust governance structure being in place at the company ". In reality, this robustness cannot always be seen, and no device will correct this failing in human nature. But in the case of the financial statements an independent structure for the audit committee can be robust in itself, ensuring a quality audit.

This in-built independence would make the audit committee more effective in carrying out its duties of appointing and monitoring the external auditors and in its relationship with the company's internal audit team.
None of the other solutions on offer fully addresses the matters of public concern about audit quality and the relationship between company and auditor. And in a fundamental sense these solutions will not in themselves reliably produce better accounts for use by investors and others. These other proposals rest only on the ***hope*** that those concerned in the present or proposed governance structures will ensure that the accounting framework is relentlessly followed.

I heard that the former chief executive of RBS said to his audit committee that they could have the figures for the financial statements when he was ready to provide them. I propose a mechanism which circumnavigates such a possibility A truly independent audit committee would provide a direct solution to the problems causing public concern and which threaten the efficient allocation of the nation's savings.