

## **Hermes Investment Management and Hermes EOS - Response to the Independent Review into the Quality and Effectiveness of Audit**

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### **About Hermes Investment Management**

Hermes Investment Management is an asset manager with a difference. Our purpose is helping beneficiaries retire better by providing world class active investment management and stewardship services. With £34.1 billion<sup>1</sup> in assets under management, we focus on holistic returns – outcomes for our clients that go far beyond the financial – and consider the impact our decisions have on society, the environment and the wider world. Our stewardship team, Hermes EOS, is one of the world's leading engagement resources, advising on £450.5 billion<sup>2</sup> on behalf of over 40 international institutional investors. The views expressed in this communication are those of Hermes EOS and do not necessarily represent the views of all clients.

### **Definitions of audit and its users**

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

We believe that the **purpose** of Audit is to provide **assurance** that the Annual Report & Accounts **prepared** by management has been presented on a **prudent** basis and provides a **true and fair** view of the company's **performance, circumstances** and **outlook**.

The primary beneficiaries are investors, lenders and creditors, as identified by IFRS. They benefit from the skilled and independent scrutiny and challenge that should be provided by the auditor. High quality audits and high-quality Annual Reports benefit these stakeholders by providing insight into the company and reducing risk.

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<sup>1</sup> Source: Hermes as at 31 March 2019. Please note the total AUM figure includes £6.5bn of assets managed or under an advisory agreement by Hermes GPE LLP ("HGPE"), a joint venture between Hermes Fund Managers Limited ("HFM") and GPE Partner Limited. HGPE is an independent entity and not part of the Hermes group. £23.4m of total group AUM figure represents HFM mandates under advice.

<sup>2</sup> Source: Hermes as at 31 March 2019

The insights provided into a company's performance also help investors, potential investors, lenders and creditors determine what they would consider a fair price for shares or rate and terms on which to lend to the company.

However, audit also has a wider public purpose. Whilst company law does not explicitly define the purpose of audit, the mandatory performance and public reporting of an audit is an indicator of its importance for employees, pensioners, customers, suppliers and the wider public who may be negatively affected by the risks carried by the company. These parties do not have access to the detailed accounts of a company, and so are reliant on auditors to attest to their accuracy based on their skills, knowledge, experience and their access to more detailed information.

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

We believe that the first and most important step is to close the delivery gap, so that audits meet existing standards and improve in quality. Audit should enhance the confidence of intended users that the Annual Report provides a true and fair view and that it has been prepared with prudence. However, we would also be in favour of audit being designed to enhance the degree of confidence in the entity. According to ISA UK 570, auditors are already required to 'read and consider' the directors' explanation in the viability statement and consider whether they have anything material to add based on the evidence they have gathered in their audit of the financial statements.

Increased transparency regarding the auditor's opinion, how they challenged management and their interactions with the Audit Committee would also provide insight into the entity itself. As users of the accounts, investors need to know where the company actually stands, going beyond a backwards-looking view or formulaic auditor statement. We would welcome an audit that takes the information available today and considers the implications this may have for the company in the future. This has implications for audit and accounting standards. The application of accounting treatments such as goodwill, unrealised profits and mark to market may not always give a true and fair view of the state of the entity.

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 would be supportive of clarification either through a change in company law or more simply guidance from the regulator that audits are conducted for the benefits of investors, lenders, creditors and the wider public. Whilst there is already guidance from the IFRS that the audit should be conducted for the benefit of investors, in our experience the views of companies can take precedence in an audit because they are paying the audit fee.

In particular, we would strongly recommend any guidance issued reinforces the obligation of audits to provide assurance that company accounts have been prepared with prudence and that they represent a true and fair view, going beyond technical compliance with accounting standards.

We would recommend that the UK interpretation of IFRS standards be gold-plated, in line with the principles of a true and fair view and prudence found in UK company law. Whilst we understand that this is not the purview of the Brydon Review, any actions taken as a result of the review will be most effective as part of a broader joined-up framework of measures.

## **The 'expectation gap'**

### Q4. Do respondents consider there is an expectation gap?

See answer to Q6.

### Q5. If so, how would respondents characterise that gap?

See answer to Q6.

### Q6. Is there also a significant 'delivery' or 'quality' gap between auditors' existing responsibilities in law and auditing standards, and how these responsibilities are currently met?

We believe that a significant part of what has been classed as an 'expectation gap' is actually a delivery gap. As evidenced by the CMA's market study findings, there is currently insufficient challenge of management by auditors. In our experience, auditors can be ill equipped to deal with investor concerns, such as when questions are raised about information in the public domain that does not seem to have been factored into audits. The FRC's 2018 Development in Audit report found that only 73% of FTSE 350 audits met audit quality standards, down from 81% the previous year. In addition, IFIAR's Survey of Inspection Findings 2018 found that 37% of the listed public interest entity (PIE) audits and 43% of systemically-important financial institutions (SIFIs) had at least one finding in relation to an audit firm's execution of auditing standards on a selected audit. As expected, the areas with the greatest number of findings were accounting estimates (including fair value measurement) and internal control testing.

We also have concerns around monitoring of compliance with other regulation, in particular the capital maintenance regime. This is partly due to the precedence that is usually given to IFRS over UK company law, meaning that company law requirements are not always met. This includes the use of fair value accounting treatments that meet IFRS standards but not the principles of UK company law. Such treatments often rely on judgement, and therefore a lack of scepticism amongst auditors can have significant implications for the quality of an audit. It is important that such issues with audit quality are tackled as a priority; widening the scope of audit will not necessarily increase its quality.

However, there is also an expectation gap, in that as users of accounts we would like to see an audit with more detail on the auditor's opinions, any assumptions that have been used and the nature of any sensitivity testing. Currently there is little difference between the audit reports of companies in strong and weak financial positions. In particular, we would like to see auditors taking the information available to them today and considering the implications it may have for the company in the future. Delivering this objective may require auditors to develop additional skill sets. We very much welcomed the graduated audit findings that KPMG included in its audit reports, as its provided insight into the auditor's judgements at the more granular level of identified risks rather than at the overall financial statement level.

## **Audit and wider assurance**

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

Auditors are well placed to provide additional assurance to the shareholders of a company and other interested parties, especially in areas such as controls assurance. The completion of such services by the external audit is more efficient and less costly for the company, and for shareholders. Audit should also play an important role should its remit be widened to provide assurance on the wider corporate reporting framework. There may be some areas in which assurance might be delegated to specialists, for example in relation to cyber risk.

### 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?

No audit can possibly provide a cast-iron 100% guarantee. We would like to see auditors spelling out the primary risks that could undermine their assurance role. This may well vary from business to business and with complexity of a company's underlying business model.

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

Auditors should be able to use evidence from internal audit as one tool to help inform their choice of focus areas, but they should not be able to rely on that evidence alone to draw conclusions.

### 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?

No. Independence is a prerequisite for high quality audits. Independent auditors are perfectly able to compete in the market for the skills that allow them to innovate and improve quality.

## **The scope and purpose of audit**

### Q12. Should directors make a more explicit statement in respect of risk management and internal controls? If so, should such a statement of be subject to audit?

Under current UK Corporate Governance Code requirements, directors are required to monitor risk management and internal control systems, and report on an annual review of such systems. However, such statements are often boiler plated. Standards seem to have improved in the US after the introduction of the Sarbanes-Oxley Act with restatements of financial statements in at the lowest level since 2006, and improvements in audit quality. A requirement to sign a statement relating to risk management and internal controls keeps such issues fresh in the minds of directors. We would therefore be supportive a requirement that directors report explicitly on how effectively the company's internal controls over financial reporting have operated during the previous year.

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

We would advise that consideration is given to making testing the operating effectiveness of relevant controls a mandatory requirement of all audits, in addition to substantive procedures. Shareholders and other interested parties could otherwise remain unaware of a poor control environment if the auditors are able to sign off on the financial statements by other means, such as relying on substantive measures.

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. Given that we believe audit should be conducted for the benefit of investors and the wider public, we would be supportive of such views being reported publicly. The auditor should understand the business inside out, and accordingly be able to provide scrutiny of the internal controls.

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

See answer to Q16.

Q.16 Should there be greater transparency regarding identified 'events or conditions that may cause significant doubt in the entity's ability to continue as a going concern'?

We are supportive of increasing the requirements of auditors regarding going concern, as per the FRC's proposed revision of ISA (UK) 570 relating to going concern. As per the revised ISA, the auditor should seek evidence on any material uncertainties relating to going concern and perform procedures to identify inconsistencies between the going concern assessment and other areas of the financial statements, in particular the viability statement. As part of this, the auditor should seek both corroborative and contradictory evidence in relation to management's assessment. This would be of increased value to users of accounts, particularly with increased disclosure of an auditor's views on the quality of profits underlying the entity's status as a going concern. As we have already outlined, we believe that accounting treatments should be more prudent and that auditors should take the information they hold about the company's current status and consider its implications for the future, which may impact on a company's status as a going concern in future years. Auditors may also become aware of imprudent behaviour that, whilst compliant with technical accounting standards, could in future have an impact on an entity's status as going concern. Such information should be disclosed in an auditor's report, which could be done through graduated findings. Specific changes to company law and accounting standards required may become more apparent after the completion of the FRC's revision of the going concern ISA (UK).

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

Yes, this could be valuable to users of accounts as viability statements do not currently provide significant insight and are often boilerplate statements. We agree that requiring the

directors to make a statement about the sustainability of the business model could provide more useful and distinctive insights.

If such statements are to be made, they should disclose the assumptions and sensitivities used and the risks considered.

Q18. Should such a statement be subject to assurance?

In the same way that auditors are required to consider the directors' explanation in the viability statement and whether they have anything material to add based on the evidence they have gathered, we would advise statements on the sustainability of the entity's business model to be subject to a similar level of assurance. This would be supported by assurance over currently unaudited information, as discussed in our answer to Q22 below.

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

We believe that an audit which considers the potential implications that information gathered in the audit process may have on the future of the company would be useful for users of accounts. We see improvements of audit quality and consistency in meeting existing standards as the priority. However, as outlined above, we would also be in favour of the scope of audit being expanded beyond this to provide a clearer view of the entity itself, not just its financial statements.

Such an audit may help to identify material issues at an earlier stage and give users of accounts insight into the sustainability of the business going forward. We would expect such an assessment to take a more prudent approach and would suggest this review considers introducing a sensitivity analysis that tests the impact on assessments such as the going concern assessment when more prudent figures are used, given the flexibility allowed in determining what is 'reasonable' under IFRS. For example, oil companies may use an aggressive estimation of future oil price in their accounts, whereas a more prudent estimation may provide a different outlook. Such figures are not helpful, as they give an overly optimistic view of the entity's future. An audit that considers more closely the implications a more prudent view could have for the company's future would be more commercially useful than the current audit product.

A key risk, whether perceived or actual, would be the extent to which the auditor was held liable if their endorsement of a forward-looking assessment proved to be inappropriate, and the implications this could have for the industry. There would also be a challenge in appropriate resourcing of such an audit.

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?

See answer to Q22.

Q.22 If so, what information might usefully be subject to audit or another form of assurance and why?

This should be kept under review; as new measures and standards become established, an appropriate form of assurance should be introduced. There is a lot of currently unaudited information over which investors would welcome some or greater assurance: non-GAAP measures and KPIs, preliminary announcements and ESG/sustainability information. Indicators such as carbon emissions and employee turnover, whilst not strictly 'financial', have financial implications<sup>3</sup>. For example, auditors currently ensure that remuneration reports are complete, that is that they include the necessary figures. The figures themselves and the metrics that determine the levels of remuneration are not audited. It would be useful to audit the achievement of such KPIs.

**Audit product and quality**

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 judgement?

Yes. We understand that more professional scepticism and challenge of management is needed by auditors, so that auditors use their professional judgement and do not take a tick-box approach. It seems that auditors can be inclined to easily take management's view on areas where there is more flexibility on accounting treatments. Yet as there is a significant degree of judgement required in preparing financial statements due to fair value accounting, this lack of challenge can be problematic. Shareholders often approach financial statements with a pinch of salt, which is suggestive of a lack of confidence in audit quality. In our experience, auditors can be ill equipped to deal with investor concerns when questions are raised about information in the public domain that does not seem to have been factored into audits. Auditors should get to know a business inside out in order to ensure that the financial statements provide a true and fair view of the entity, as required by UK company law. They should access a variety of sources of information to do so. The extensive Know Your Customer (KYC) process may provide a useful parallel.

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

We agree with the benefits outlined and would support their introduction. Graduated findings would offer more nuanced insights and allow auditors to express additional information without issuing a modified opinion. Graduated findings would provide more insight into the auditor's judgements at a more granular level of identified risks, for example how cautious or optimistic estimates were. In particular, they would offer insight on the quality of profits, which would provide a welcome complement to the use of fair value accounting under IFRS.

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<sup>3</sup> While certain risks or outputs cannot be precisely measured in pounds and pence, this does not mean they should be classed as 'non-financial'. These items and risks may, over the long-term, have profound financial consequences. We believe that the language around such issues should be changed so that they are no longer described as 'non-financial', as this can imply they are of second order importance.

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

In addition to the introduction of graduated findings, we would recommend that increased disclosure of insights shared with the Audit Committee is introduced, along with narrative on how the auditor has challenged management and the outcome of any such discussions. We would also welcome a narrative on the quality of profits, to complement graduated findings.

Q27. What would prevent such disclosures becoming boiler plated?

This will depend on the requirements introduced and how auditors implement them. We do not see this as a significant risk, as the disclosures should be focused on matters specific to each audit. A qualitative review of such disclosures in the regulator's audit quality review could encourage auditors to avoid boiler plating.

**Legal responsibilities**

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?

Auditors should play a significant role in determining if directors are complying with relevant laws and regulations, including company law requirements. Financial statements should comply with company law, and arguably any failure to comply with regulation could be regarded as material. Adherence to the capital maintenance regime has implications for the viability of a company, and so is of particular importance.

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?

Inconsistencies between company law and accounting standards regarding distributable reserves inhibit auditors from meeting both public and investor expectations. We recommend that the regulator issues guidance on how to ensure that company law requirements are met in accounting practices, in the absence of changes to IFRS. The primacy of law should be upheld, as this information is important for shareholders and other stakeholders in determining whether dividends have been paid out of distributable reserves.

As outlined above, we recommend that law or regulation should make it clear that the requirements for prudence and a true and fair view should underpin all audit work. Where adherence to these obligations would lead to a technical breach of an accounting standard, we would advise that such principles should take precedence over IFRS, or at least provide a complementary perspective alongside IFRS-compliant disclosures.

This is important because there have been instances in recent years of companies failing to comply with the capital maintenance regime; for example, there were indications that goodwill may have been significantly overstated in the cases of Carillion and Interserve, and yet they continued to pay dividends. In the longer term, we would favour a gold-plated UK interpretation of IFRS, with IFRS augmented by the UK regulator with additional requirements to ensure compliance with company law and to give a more prudent view on an entity and its financial statements.



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

Yes. IASB recently clarified that IFRS accounts are not intended to provide a basis for complying with local capital maintenance regimes or distinguishing between distributable and non-distributable reserves. ICAEW/ICAS guidance intended to bridge the gap between IFRS and UK company law does not require disclosure of realised and unrealised profits. As outlined above, the distinction between distributable and non-distributable reserves is key to upholding the capital maintenance regime, and disclosure of such figures would enable users of accounts to determine compliance with such regulation. This could follow a similar approach to the use of Available Distributable Items (ADI) in the banking sector. Under the Capital Requirements Regulation, AT1 instruments must contain a reference to ADI. This is a publicly disclosed specified amount of money out of which the bank can make additional distributions such as bonuses and dividends in accordance with the relevant regulations.

**The communication of audit findings**

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?

Yes. When there are material issues to discuss that may impact the audit, it would be useful for shareholders, the audit chair and auditors to meet before the audit to discuss concerns and how they might be reflected in the audit process. Most shareholders will not be willing and/or able to engage with the audits of all of their holdings. However, many will be able to focus on material issues when required for an individual audit. This would allow shareholders to engage where they had particular concerns or interests.

For example, the Companies Act does prescribe prudence, but it also refers to IFRS which takes a neutral approach, allowing accounting treatments that are reasonable rather than prudent. We imagine that this could put auditors in a difficult position when they feel that an accounting treatment has been used that stretches the boundaries of 'reasonable', and that support from shareholders in advance to challenge management would be helpful. Another option would be for the auditor to publish their audit plan in advance before finalising it and agreeing the audit fee, and to invite comments from investors.

Q34. Should more of the communication and resulting judgements that occur between the auditor and the audit committee be made transparent to users of the financial statements?

Shareholders want to see the engagement of the Audit Committee and the auditor's willingness to challenge management. More transparency around the communication and resulting judgements between auditor and Audit Committee would therefore be useful for users of accounts. We imagine that it would also be useful for the auditor if there was an expectation that discussion and debate leading up to more controversial judgements in relation to the audit were reported in the audit document, as making such discussions public would increase scrutiny on companies who then chose to end an audit contract early.

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?

Greater continuity between reports would be useful, particularly in relation to any controversial discussions between the auditor and the Audit Committee that had been disclosed in the previous year.

## **Fraud**

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?

We believe that responsibility to detect material fraud already exists as per ISA (UK) 240 and the FRC Statement of the auditor's responsibilities. Auditors should start with the assumption that revenue may be materially misstated due to fraud and to perform appropriate audit procedures in response to this and other identified fraud risks. Under auditing standards, auditors are responsible for providing reasonable assurance that the financial statements are free from material misstatement, whether due to fraud or error. Our understanding of the challenge is that detection of material fraud is often not seen as an integral part of the audit.

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

We would advise that additional guidance from the FRC reinforcing the requirements under existing auditing standards would be useful in engendering an appropriate fraud detection mindset.

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

We do not believe there is a need for greater auditor responsibilities in the area of fraud detection. Rather, as above, we would advise issuing additional guidance to remind auditors that they should be on the lookout for material fraud. This will require auditors with sufficient experience to identify potential instances of fraud in the financial statements.

## **Auditor liability**

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?

Auditors should have liability for losses caused to shareholders who have voted for their appointment. This would be a significant driver for auditors to focus on prudence, which would be a desirable outcome.

However, their exposure should not effectively become a joint-and-several liability if the company has collapsed. Their liability should be restricted to an assessment of their share of the blame given any failures in what they should reasonably have been expected to do.

## Other issues

### Proportionality

#### Q49. Does today's audit provide value for money?

If 27% of FTSE 350 audits reviewed by the FRC are below standard then too many do not, irrespective of cost. Although cost is an issue, quality is much more important at the moment. If reforms over the next few years succeed in improving quality but drive up costs, that will be a price well worth paying.

### Shareholders

#### 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?

This will vary to some extent depending on the market shareholders are investing in. In the UK, most shareholders do not routinely use audit reports in making investment decisions. Audit reports are currently binary and often follow standardised templates and so are not seen as adding significant commercial value. However, such interested parties in public markets do not have access to the detailed accounts of a company, and so are implicitly reliant on auditors to attest to their accuracy based on their access to more detailed information. Our fund managers and stewardship team may look at the audit reports if they are meeting with the Audit Committee Chair. We do not use AI in reading or analysing audit reports.

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

Currently most interactions are as a result of a crisis such as fraud, or when the Audit Committee Chair is rotating. Shareholders should meet the Audit Committee Chair more frequently than they currently do to discuss the accounting treatments used and the auditor appointment. As discussed above in Q33, when there are material issues to discuss it would be useful for shareholders, the Audit Committee Chair and auditors to meet before the audit. Not all shareholders will be willing and able to engage with the audits of all of their holdings but focusing on material issues for that particular audit would allow interested shareholders to engage where they held a view or concerns. This could be an industry-led solution to addressing any conflicts between IFRS and Companies Act requirements prior to the audit.

#### 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?

As above, it would be useful for shareholders, Audit Committee Chairs and auditors to meet before the audit where there are material issues to discuss. This is particularly important for areas where the investors feel that the treatments used are 'reasonable' but not 'prudent' and may help lessen some of the tensions between the Companies Act and IFRS accounting treatments. For example, if an oil company has used an optimistic oil price in preparing accounts, this may raise concerns amongst shareholders that a prudent approach has not been taken. For this to work, shareholders as stewards need to ensure they understand the issues involved in an audit so that they are able to engage more effectively.

Using current structures, it would not be practical for shareholders to approve planning matters for each audit, such as scope and materiality. If shareholder committees were introduced, this may then be feasible.

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

Shareholders do not formally receive assurance other than from audit reports. However, insight can be gained on a case by case basis through engagement. Such institutional solutions can be an effective *ex ante* approach to dealing with issues arising.

Culture

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

We do not see the role of audit as reporting on the culture of an entity. This would be covered to some extent by increased transparency on interactions with management and the Audit committee. However, we would largely expect to gain such insights through directly engaging with the company ourselves.

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

The use of graduated findings and increased narrative disclosures on interactions with management and the Audit Committee discussed earlier would be an opportunity for auditors to show how they had challenged management and how this was reflected in their report. It may also provide protection to auditors as making any disagreements public would increase scrutiny on companies who then chose to end an audit contract early.

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

We do not believe that this would add value.

Cost

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

Our understanding is that currently audit firms are profitable and have attractive levels of compensation for audit partners. If the recommendations of the CMA are enacted and there is an operational split of the Big Four audit and consultancy firms, this is likely to force these firms to access expertise at market rates instead of in-house and drive up audit prices. Likewise, if the scope of audit is expanded, this would require additional expertise which would also increase prices. We believe that such a price increase would be acceptable if audit quality and usefulness were increased.