Brydon Review
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14 June 2019

Dear Sir / Madam,

GC100 response to the call for views on the Independent Review into the Quality and Effectiveness of Audit (the "Review")

GC100 is the association for the general counsel and company secretaries of companies in the UK FTSE 100. Membership includes general counsel and company secretaries from over 80 companies listed on the FTSE 100.

GC100 welcomes this opportunity to respond to the call for views. Please note that, as a matter of formality, the views expressed in this response do not necessarily reflect those of each and every individual member of GC100 or their employing companies.

Overview

We support the purpose of this Review, as well as the reviews of the regulation of audit (Kingman) and the delivery mechanism for an effective audit market (the CMA's proposed changes), namely to modernise the UK corporate landscape.

We share the desire to maintain and bolster the UK's strong reputation on matters of corporate law and governance. We believe that this reputation is of significant value for the UK's ability to continue to attract and retain capital and high-quality board and executive talent into the UK. We also support the Government's efforts to create a business environment where regulators are fit for the future and wider stakeholders are taken into consideration.

As such, we welcome the opportunity to explore measures that demonstrably improve audit quality and effectiveness and we agree that this Review presents a valuable opportunity to explore positive and practical improvements to address any clear and specific gaps that are identified.

However, while we share the Government's commitment to a strong governance reputation for the UK, we believe that to international investors and businesses the UK has maintained its reputation as a strong and predictable governance and corporate jurisdiction, and that has not been lost by recent insolvencies or other issues attracting public focus. It is important the UK remains a strong and attractive jurisdiction for governance both for public market investors and for corporates and

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the management teams who also choose where to invest and where to incorporate or headquarter their businesses. That requires consideration of improvement, but also consideration of proportionality of proposals to the need for improvement.

We urge the Review to be mindful of the view expressed in the call for views that not everything is broken and that it is appropriate to look at the issues that were at the core of recent corporate failures. The UK has led the world in the development of audit and wider corporate governance and it is important "not to discard what is good in the search for what is better".

There is also a need for any proposed new measures to be thought through carefully in the context of the existing body of UK law and regulation and any other pending regulatory and legislative developments. The objective should be to have a simple and consistent set of rules that does not duplicate or confuse.

We would also recommend that BEIS approach these concurrent reviews (and associated recommendations and reforms) in a co-ordinated way. We believe it is important before pressing ahead with reforms in one area, to have sight of the full suite of proposed recommendations and reforms so that a coherent and proportionate framework can be established. For example, we believe that there is tension with the recommendations from the CMA regarding joint audits and the separation of audit and non-audit businesses: these recommendations may carry unintended consequences, potentially reducing audit quality as well as audit market independence and resilience.

This response provides our high-level views on certain recommendations, which we understand will be subject to further consultation. The significant points that we would like to highlight are:

- The role of the auditor must be clear and understandable to all users of a company's annual report.

- The respective responsibilities of the board and auditor need to be clearly defined and de-lineated, and their interaction well understood. Changes to the role of the auditor must not undermine or seek to replace the ultimate responsibility of the board to manage the company and its risks, and report to shareholders.

- Audit is primarily conducted for the benefit of the shareholders as a whole. We believe that this should remain the case.

- We agree that there is an expectation gap. The role of the auditor is not sufficiently understood by users of the annual report and we agree it would be helpful to provide greater clarity regarding the purpose of an audit, to whom the audit report is addressed and for whose benefit it is conducted. In our view, viability statements have contributed to the expectation gap.

- These gaps should be addressed by explicitly clarifying what is inside or outside the scope of the audit report. It is important that users understand what the role of the auditor is and what it is not.

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- Care should be taken not to overstate what an audit can achieve. Auditors cannot guarantee the future success and viability of a company.

- Any expansion in the scope of assurance will necessarily increase cost and expertise required from the firms providing assurance, as well as adding pressure on the reporting timetable.

The Appendix to this response details our further comments on some of these points and other specific recommendations.

We would be happy to facilitate continuing discussions between BEIS and our members, if helpful, to share their experiences and views of these recommendations.

Yours faithfully,

Mary Mullally
Secretary, GC100

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APPENDIX

We provide our comments on some of the specific questions below:

1. Definitions of audit and its users: Q1-3

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

GC100 recognises that audit is of value to a range of different stakeholders including shareholders, potential investors, creditors, employees, the government and the public at large. However, audit is conducted for the benefit of the shareholders as a whole[1]. We believe that going forward this should remain the case.

It is also important not to conflate the purpose of audit, and to whom an auditor owes liability. The requirement for audit reports to be published (and therefore effectively available to the world at large), which means that they may serve a wider public interest and/or be of benefit to other stakeholders, does not mean that auditors should incur liability towards such wider group of stakeholders.

This view is consistent with the leading case law on the duty of care in this area: Caparo v. Dickman. In that case the House of Lords confirmed that the auditor did not have an automatic duty of care to everybody who has a right to be given the audited accounts and, therefore, not to the world at large. As was stated in that case, to hold an auditor to be under a duty of care in respect of the accuracy of the statement to everybody "*for any purpose for which they may choose to rely on it*" would not only subject the auditor to potentially "*liability in an indeterminate amount for an indeterminate time to an indeterminate class*", but also "*confer on the world at large a quite unwarranted entitlement to appropriate for their own purposes the benefit of the expert knowledge or professional expertise attributed to the maker of the statemen*t". It should also be noted that extending auditor liability beyond this long-established position would lead to an increase in audit costs for companies to compensate auditors for the increased risk (and insurance premiums) incurred.

We are therefore of the view that auditors' duties should remain as being to existing shareholders as a whole and their liability accordingly be to these persons.

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

In our view the core and primary purpose of an audit should continue to be to allow an auditor to express a view on whether the annual accounts give a true and fair view of the financial position of a company, the directors' report is consistent with the accounts and, for listed companies, that the auditable part of the DRR has been properly prepared in accordance with the CA 06.

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[1] This can be seen in the way that typically auditors are appointed by shareholders by ordinary resolution (Sections 485(4) and 489(4) of the Companies Act 2006 ("CA 06")) to provide an independent report to shareholders (Section 495 of the CA 06) and to report by exception to shareholders where they have certain concerns (Section 498 of the CA 06).

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In doing this, audit can enhance the confidence of users in the entity as well as the financial statements but that is a consequence of the audit not its primary purpose.

Care should be taken not to overstate what an audit can achieve by changing the scope of an audit in such a way that suggests it will act as a guarantee of the future success and viability of a company, or, put in another way, a guarantee that poor business models or management teams will always be identified. Such a change will likely only expand the audit expectations gap.

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?

No. Please see our answers to Questions 1 and 2 for our views on this area. Importantly, it is case law that sets out for whom an audit is conducted, and for which the position seems clear. Nevertheless, this may not be clear to the users of such accounts. To this extent we think, yes, clarity would be helpful: however, this should not require changing the law and could instead be codified by the regulator.

2. Expectation gap: Q4-6

Q4: Do respondents consider there is an expectation gap?

Yes. We agree that there is an expectation gap. The role of the auditor is not sufficiently clearly understood by the wider audience of the ARA, recognising there are multiple stakeholders.

It will never be possible to prevent companies with audited accounts from becoming insolvent, and if such a company does become insolvent, it does not inevitably indicate a failure by the directors and/or its auditors to meet their respective obligations: this point must be made clearer to the public either by the regulator or in the accounts.

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

The scope of an audit – what it does, what it can do and what it is not meant to do – seems misunderstood by the general public. Key areas of confusion include, for example, the role of auditors in relation to the detection of fraud and the "going concern" concept (especially when companies collapse a relatively short amount of time after a clean audit statement is given). There is also confusion as to what benefits an effective audit can bring. The Review suggests that it would allow shareholders to take remedial action to avert failure. This seems misconceived since it is instead the directors who are best placed to take any such remedial action. Please also see our response to Question 17 in relation to viability statements.

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?

GC100 offers no comment on this.

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3. Audit and wider assurance: Q7-11

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

GC100 offers no comment on this other than to say that auditors do not seem best placed to provide wider assurance (i.e., on aspects not already covered by the audit). Rather, such assurance more appropriately falls within the non-audit / consultancy practices of audit firms, but careful consideration in this regard would also need to be given to the ongoing reviews (e.g., the CMA review) as well as recommendations on restrictions for non-audit services to audit clients.

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?

GC100 offers no comment on this other than to say that it seems unclear (i) how this would work from a practical perspective, and (ii) the ramifications this would cause should an auditor decide they want to offer a lower level of assurance.

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

GC100 offers no comment on this.

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

GC100 offers no comment on this.

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?

Given the current constraints on auditor choice, we do not believe that it would be appropriate to be too prescriptive in eligibility requirements for external auditors.

4. Scope and purpose of audit: Q12-22

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?

This suggestion appears to stem from the SOX model implemented in the US which requires the CEO and CFO to annually assess and report on the effectiveness of its internal control and risk management, and (so long as the company meets certain thresholds) that the auditors provide a report on the effectiveness of the company's internal control over financial reporting.

The suggestion seems duplicative. By way of illustration, the 2018 UK Corporate Governance Code (the "**Code**"), the Disclosure and Transparency Rules (the "**DTRs**") and the CA 06, in combination already set out a number of requirements for directors in the UK as regards risk management and

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internal controls. These include:

- Under provisions 28 and 29 of the Code: (i) annual reports must contain a description of the main features of the company's internal control and risk management systems in relation to financial reporting; and (ii) the board should (a) monitor the company's risk management and internal control systems; (b) at least annually, carry out a review of their effectiveness and report on that in the annual report; and (c) carry out a robust assessment of the company's emerging and principal risks. If a company is not compliant, the annual report must explain why.

- Under provision 25 of the Code and DTR 7.1.3, applicable companies' audit committees must review, and monitor the effectiveness, respectively, of the companies' internal control and risk management systems.

- Under DTR 7.2.5 listed companies must prepare a separate corporate governance statement (summarising internal control and risk management systems in relation to the financial reporting process), and under s.497A CA 06 the auditors must then state whether the information in that statement is consistent with the accounts, prepared in accordance with applicable legal requirements, and whether they have identified any material misstatements. Given that auditors therefore review internal controls anyway, it would appear to make sense to have auditor input on this.

Given the above, we encourage the Review to carefully consider whether additional statements would actually improve the quality of a company's corporate governance (beyond introducing disproportionate administrative and financial burdens). We note that, following implementation of the SOX regime in the US, due to the cost of this additional burden, the JOBs Act was subsequently implemented to, in part, reduce the number of companies required to provide an auditor report on the effectiveness of their internal controls.

We believe it is unclear whether this suggestion would apply to some or all directors. Applying this to some directors, mirroring the SOX regime, would undermine collective responsibility which is a central tenet to UK company law, and likely result in differential treatment and standards. In that circumstance, non-certifying directors may not regard themselves as equally responsible for accounts, leading to division, confusion and less engagement from them. It is important to remember that the SOX regime focuses on management because the CEO and CFO in the US are seldom on the board, whilst in the UK the CEO and CFO will nearly always be board members. In addition, the SOX regime was introduced when the governance framework in the US was much less developed than in the UK.

Finally, we would also highlight that it is unclear whether this proposal is to apply to all companies required to prepare accounts, or only a selected category of companies, and if so, what the parameters for that category would be.

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

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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 think that it would be wrong to require auditors to publicly report these views. Listed companies are already required to carry out an annual review of their risk management and internal control systems and report on that in the annual report. Further, we also think that it is important that auditors are able to maintain, without reservation, a comprehensive dialogue with audit committees, which realistically requires being able to convey their findings, concerns or thoughts (whether fully substantiated or not) in confidence. We therefore do not think that an additional reporting requirement is necessary. Please see our response to Question 12 for more details.

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

We would echo the concerns that we raised above, namely that there is a general misunderstanding from the users of accounts and the public more generally that accounts prepared on the basis of going concern accounting means that the company will not become insolvent before the next accounting cycle.

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"?

Transparency is to be welcomed, but we would highlight that there is already an extensive body of well-established insolvency law and a number of other legal and regulatory mechanisms which are designed to deal with this situation including:

- An established regime for the announcement of inside information which is designed to ensure that the market is informed of relevant information at the appropriate time.
- Listing Rule 9.8.6(3) requires directors of listed companies to provide a statement in their financial statements on the appropriateness of adopting a going concern basis of accounting.
- Provision 30 of the Code requires the board to state whether (i) it considers it appropriate to adopt the going concern basis of accounting and any material uncertainties to the company's ability to continue to do so over at least the next year, and (ii) it has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due, identifying any qualification and assumptions as applicable.
- FRS 102 also stipulates that when management is aware of material uncertainties on the company's ability to continue as a going concern, these should be disclosed.

The FRC's proposals set out in its March 2019 consultation paper on changes to ISA (UK) 570 will also provide more reassurance in this regard. In particular, GC100 welcomes the suggestions for the auditor to more robustly challenge management's assessment of going concern and to report on whether that assessment is appropriate.

We do however think that it would be prudent for the auditor explicitly to be required to consider

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any relevant stock market data, as well as to seek feedback from brokers or the company's investor relations department. This would help indicate whether the market also agreed with this assessment regarding going concern.

Other than the recommendations set out above, and given the requirements already in place, it is unclear whether anything additional is required or indeed if it would result in any higher standards of disclosure. We also emphasise the point made below in relation to Question 17, that the viability statement should be abolished since it only brings opacity in this area.

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

No. In our view viability statements have played their own role in the "audit expectation gap" and a requirement to provide this type of statement would only perpetuate the existing problem. Any extension of the existing requirement will likely result in, necessarily, defensive reporting, notwithstanding the fact that the term "sustainability" used in this suggestion is particularly vague and could be left open to a wide degree of interpretation.

We would support a review of viability statements to consider statements that might work better in this regard noting that no director is truly qualified, nor able, to give assurances to the future in a way that the public would like. If, however, an effective formulation is not identified, we would agree with the view in the Kingman report that viability statements should be dispensed with.

Q18: Should such a statement be subject to assurance?

Whilst at first this may seem like a sensible proposition, in our view this would only give false comfort that individuals are qualified, or able, to give assurance to the future and create confusion over what guarantees to the future can be given.

Q19: Who might be capable of giving such assurance?

Please see our answers to Questions 17 and 18.

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

It seems unclear how this would work in practice, or indeed what forward looking statements would be subject to audit. We would note here that profit forecasts are subject to a separate regime.

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?

We do not believe that there is an issue with the reliability of this data and so consider such a requirement to be unnecessary and duplicative.

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There is an extensive liability regime for this type of information and companies cannot therefore publish information without regard to its truth or its reliability. We believe that the current regime is sufficient to control the reliability of this type of information. By way of example:

- The FCA monitors investor communications on a risk-of-harm basis. Under LR 1.3.3R a company must take reasonable care to ensure that information notified to an RIS or made available through the FCA is not misleading, false or deceptive and does not omit anything likely to affect the import of the information.

- Under section 90A FSMA, a company is liable to compensate a third party who has suffered loss in connection with their securities holding as a result of an untrue or misleading statement in, or the omission or delay in publication of, information published by means of an RIS. The directors may be liable to the company for such loss. Section 90 FSMA sets out similar liabilities for statements in listing particulars and prospectuses.

- Depending on the nature of the information released, there is also potential criminal liability for the company and/or its directors under: (i) sections 89 and 90 of the Financial Services Act 2012, for making false or misleading statements; (ii) sections 2 or 3 of the Fraud Act 2006 for dishonestly making a false representation or failing to disclose information which it is under a legal duty to disclose (or, for the directors, if they consent or connive in a dishonest failure by the company to disclose information which it is under a legal duty to disclose); and (iii) section 19 of the Theft Act 1968 (discussed below).

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

See response to Question 21.

5. Audit product and quality: 23 - 28

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?

GC100 offers no comment on this.

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

The binary nature of audit, rather than resulting in a lack of robustness, in fact ensures that the

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auditor forcefully challenges the company. If the auditor could more easily give a lesser degree of comfort, an auditor might readily do so where there is a disagreement between the company and its auditor.

Moreover, we do not consider this would bring additional benefit. If the company's auditor could provide a graduated range of auditor conclusions, we would suggest that the audit expectation gap is only likely to widen. It would seem likely that this would only bring greater confusion: would the public understand precisely what degree of comfort is conferred by the various different auditor conclusions? We would suggest that this would only lead to uncertainty about what the financial statements do or do not say about the company.

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

GC100 offers no comment on this.

Q27. What would prevent such disclosures becoming boiler plated?

GC100 offers no comment on this.

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

GC100 offers no comment on this.

6. Legal Responsibilities: 29 – 31

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?

We have significant concerns with the idea of auditors playing the role of adjudicator in this context. Whilst the obligation to prepare accounts is subject to both company law and accounting standards, matters pertaining to distributable reserves and capital maintenance are purely a matter of law. It is our view that auditors are not best placed to determine matters of law; therefore, whether the directors are complying with relevant laws and regulations should remain a decision for the courts not the auditors.

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 unclear to GC100 what this "perceived inconsistency" is. Under the CA 06, dividends can only be paid out of distributable profits (accumulated, realised profits, less its accumulated, realised losses, so far as not previously utilised or written off, respectively) and the assessment of whether a company can pay a dividend must be by reference to its individual (rather than consolidated) accounts drawn up in accordance with applicable UK law and accounting standards (i.e., as to whether the profits/losses are "realised"). Therefore profits in the relevant accounts are merely the starting point for determining available realised profits. Accordingly, it does not seem to us that there is an inconsistency: it might be that there are differences of opinion on the normative question as to whether certain profits should in fact be deemed as realised or not, but that should not be used to argue that there are inconsistencies in the present regime.

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

Whilst for some stakeholders there may be a benefit in requiring companies to disclose their distributable profits in their audited accounts, it is important that the Review recognises that this would only be a snapshot of the state of affairs at a specific moment and not a solution to the problem. For example, companies can and do legitimately create distributable profits by upstreaming cash immediately before they authorise a dividend. We would assume that if a rule requiring companies to disclose their distributable profits was introduced companies could still do this.

We would question though whether this would lead to an expectation that any dividend will be in an amount equal or similar to the stated distributable reserves. Directors have a number of inter-connecting duties in this regard and do not merely rely on the distributable reserves as at the last accounts date.

We would however bring the review's attention to the Investment Association's report published in May 2019 on dividend distributions by UK listed companies. The Investment Association recommends that listed companies should articulate a distribution policy that sets out their approach to making decisions on the amount, structure and timing of distributions to shareholders within the context of any financial or legal constraints. Subject to the detail of these proposals (to be issued this autumn) not requiring companies to provide too restrictive a policy, this should be a helpful way for a company to provide shareholders with a better, more holistic, understanding of the company's approach to distributions; more so than a snapshot of the reserves could give.

7. Communication of audit findings: Q32-35

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?

GC100 offers no comment on this.

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?

Provision 5 of the Code states that the board should understand the views of the company's other key stakeholders, and that the board should keep engagement mechanisms under review so that they remain effective. We would suggest that should users have an issue with the audit process, such persons should raise these concerns with the directors directly.

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?

We do not think that this would always be helpful and believe that a significant but unintended consequence of it would likely be less open and frank discussions between auditors and companies.

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?

GC100 offers no comment on this.

8. Fraud: Q36-39

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?

No, we think that users' expectations are not consistent with the present requirements. Notwithstanding that the comments made by David Dunckley to the BEIS committee have been widely rejected by auditors in the UK market (see for instance the FRC's ISA rules pursuant to which auditors must pick up material misstatements due to fraud), we would suggest that auditors could be charged with doing more, subject to an assessment of what would be reasonable and proportionate, in this regard.

Q37. Do existing auditing standards help to engender an appropriate fraud detection mind set on the part of auditors?

GC100 offers no comment on this.

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

GC100 offers no comment on this.

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

GC100 offers no comment on this. However, if auditors are required to do this we think it is important to make it clear that given the nature of fraud it is not possible for a company or an auditor to guarantee that fraud will not happen.

Auditor Liability: Q40-45

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

GC100 offers no comment on this.

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

GC100 offers no comment on this.

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. We believe that existing case law deals with this area already and that company law should not change on this point. As stated in our answer to Question 1 this would potentially make them liable to "*an indeterminate amount for an indeterminate time to an indeterminate class*" and also "*confer on the world at large a quite unwarranted entitlement to appropriate for their own purposes the benefit of the expert knowledge or professional expertise attributed to the maker of the statement*".

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?

GC100 offers no comment on this.

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?

GC100 offers no comment on this.

9. Other issues: 45-60

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?

GC100 offers no comment on this.

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?

GC100 offers no comment on this.

Q47. Are there aspects of current audit procedures or output that are no longer necessary or

desirable?

GC100 offers no comment on this.

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?

It is important that the Review does not overstate what audit can achieve in relation to the limitation of potential failures (or otherwise it will only widen the audit expectation gap). As discussed in our response to Question 2, the Review needs to make it clear that whilst audit is valuable it does not act as a guarantee of the future success and viability of a company, or as a guarantee that poor business models or management teams will always be identified. What audit does do is provide a useful check and balance for companies and their shareholders as to the accuracy of their financial statements.

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

GC100 offers no comment on this.

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?

We think that it is important to realise that not all companies are able to absorb the increased costs that will inevitably flow from the extension of audit and that regard should be had to the need to maintain the perception of the UK as an attractive and cost-effective place to do business. We firmly believe that any proposed changes should therefore be subject to a costs-benefit analysis with changes which introduce additional costs for companies only being introduced where there is sufficient benefit coming from such changes.

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?

In our view this depends on individual shareholder: some will make extensive use of audit reports others will not. We expect that AI will play an increasingly greater role in reading and analysing such reports.

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

We would suggest that this proposal will only drive a wedge between the directors and their members, undermining the dialogue between the two. It would also seem open to a small group of shareholders to use such meetings to demand work of a particular interest to them, rather than the collective interests of all members. It is important to remember that directors' duties include the duty to act in the best interests of the members as a whole: it is therefore best left to the directors to assess whether the costs of any proposals made by such shareholders are proportionate and for the benefit of the shareholders as a whole. It is also important to realise that the auditors will not – and will not be able to – say anything over and above what is in their audit report. There should be no misconception that having the auditors present to the AGM will give those shareholders more

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colour on the accounts.

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?

For similar reasons to those stated in our comment above, we think that shareholders should express their concerns to the board/audit committee. We certainly do not think that it would be sensible for shareholders to approve planning matters since: (i) directors have potential liability for the preparation of accounts, not shareholders; (ii) listed companies announce the dates on which they will announce financial information in advance, delays to which could cause issues for the company; and (iii) the directors' role is to manage the company and report to shareholders – involving shareholders at a granular level will detract from this and their respective duties and responsibilities.

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

GC100 offers no comment on this.

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 believe that this is appropriate or necessary and think that the company, not the auditor, is best placed to do this. We note that the 2018 Corporate Governance Code includes a new provision which requires boards to assess and monitor culture and to explain the board's activities in this area and any actions taken. We would caution against the introduction of additional requirements in this area until the impact of the new provision in the Code has been assessed.

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

GC100 offers no comment on this.

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

No.

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

GC100 offers no comment on this.

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

GC100 offers no comment on this.

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

GC100 offers no comment on this other than to note that we have significant concerns about the impact of certain of the reforms in this area on the ability of auditors to operate at the desired standard.

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