



INDEPENDENT REVIEW INTO THE QUALITY AND EFFECTIVENESS OF AUDIT

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1 Executive summary

1. Following a series of corporate scandals there has been extensive scrutiny placed on external audit. However, audit does not operate in a vacuum. It is only by giving due consideration to the role and purpose of statutory audit in the context of the broader corporate governance and corporate reporting environment that significant changes can be identified for consideration and, if supported, implemented. There is a need for all stakeholders to play their part to create a more effective business environment and to help restore trust.
2. The core issues that we believe the public and government want to see addressed are, how to improve the quality of audit and, by doing so, help to ensure fewer corporate failures that had not been signalled. Companies fail for many reasons unrelated to audit, often involving one, or a combination, of factors. Whilst the current audit model is not broken, the public perception of audit has changed and the time is ripe for a holistic review of the purpose and role of the audit of public interest entity (PIE) companies, to ensure that this remains fit for purpose. It is important to remember however, that audit is not designed to prevent corporate failures but could flag potential issues at an earlier stage.
3. We question whether there has been a proper articulation of the problem that we are trying to solve. In a capitalist economy as is noted in the consultation paper, not all businesses will be successful, and it is inevitable that some will fail. We would also highlight that it is essential that consideration is given to ensuring that the recommendations from the various audit related reviews are complementary to minimise the risk of unintended consequences.
4. There is an evolving need to consider who are the users of corporate accounts, to ensure that corporate reporting remains relevant and fit for purpose. Whilst there has undoubtedly been an increase in the number of stakeholder groups with an interest in corporate reporting, it begs the question as to which parties, the company and auditor respectively, should owe a duty of care. It may have taken time but section 172 of the Companies Act 2006 is beginning to have an impact on directors' duties. The introduction of the provision in the UK Corporate Governance Code 2018, will further promote what is required of directors in this regard. On balance, at this time, we believe that whilst the auditor needs to have regard to the needs of stakeholders other than shareholders, care needs to be exercised over the possible extension of the auditor's duty of care.
5. Following a corporate scandal, the focus is inevitably on "where were the auditors"? Therefore, what appears to be missing from the current discussions on audit, particularly in statements from politicians and articles in the media, is recognition that the responsibility for running an entity and for preparing its financial statements rests with the directors of that entity, in particular, the executive directors. This illustrates that there is a widespread misunderstanding of the roles of directors and auditors. Therefore, there is a need to better convey to stakeholders these respective responsibilities. The inclusion of a broader responsibilities chart of key players at the front of the annual report, and/or on a company website, may help to address this issue. Users could refer to this to gain an understanding of the respective roles of all of the key players, including an overlay of the roles of the regulator, analysts and fund managers.
6. Directors must be held more accountable for their actions. We welcome the recommendations in the Kingman Review that the new regulator should be tasked with developing proposals for an effective enforcement regime for directors of PIEs. However, we believe that the scope of this regime should cover all directors, and that these reforms should be progressed as soon as possible.
7. Given the importance of internal controls and experience of the US regime, consideration should be given to introducing a proportionate UK version of the Sarbanes Oxley framework. This will help to better promote the responsibilities of directors and auditors. In the US, it has also significantly increased the quality of the internal controls of companies within its scope.
8. Greater transparency over the assurance gained by boards of directors over many different aspects of the business would be a positive step. Indeed, many businesses are now presenting pictorially their business model and how internally they look at their own "assurance" through an assurance map. Consideration could be given by the new regulator in publishing what it sees as the generic accountability and assurance model for corporate UK, then requiring each company to present their own version of this as part of the description of their business model in the annual

report. Details should be provided of key areas where the directors sought assurance and who provided the assurance. Assurance may be sought from a number of different parties, and not necessarily the statutory auditor. On the basis that a “picture tells a thousand words”, presenting clarity on who does what, will go a long way to helping users to understand the respective accountabilities and responsibilities of the various players, thus closing (but likely not eliminating) the “expectations gap”.

9. There is a need for increased transparency and more informative disclosures by the audit committee in its report. Given the level of judgement now to be found in the financial statements, the audit committee should set out the key assumptions and the acceptable range that they considered when assessing key judgements made by management e.g. in the valuation of financial instruments. An understanding of these assessments and key judgements can be fundamental to obtaining an informed understanding of the financial statements. This will help users form their own assessments as to whether a company is being aggressive or conservative in its judgements. Disclosure should also be required from the audit committee where it had to intervene to resolve a dispute between the auditors and management.
10. Whilst extended audit reports have been viewed as useful with the inclusion of key audit findings, more graduated audit reports would further increase their usefulness. Such an approach has already been trialled by one of the large audit firms and has been welcomed by the investment community. Requiring auditors to provide this detail in their audit reports (including what was said in the prior year) would further help inform users on the judgements made by management and where they sit on a range that varies from aggressive to conservative. Such enhanced reports would provide a means for auditors to better illustrate to users the extent of professional scepticism being exercised. The rationale behind the materiality levels used by the auditor also needs to be better explained.
11. Audit committees could enhance their reporting in relation to disclosing what work they did in the year to support the re-election of the auditors i.e. how did they conclude that the auditors performed a quality audit. Another potential enhancement would be to require the auditors to specifically highlight if there is a change in the overall risk profile of the company from one year to the next and to explain the rationale behind this.
12. Audit reports are buried within the annual report. Consideration could be given to having them released to the market as a regulatory disclosure announcement to seek to get these on to investors’ radars, to heighten their visibility and encourage more people to read them. At the moment if there is a gap between the publication of a company’s preliminary accounts and its annual report then, as the auditors’ report is part of the latter it will not generally reach a wide audience.
13. It is incumbent upon shareholders to engage with audit committees of their investee companies. While investors engage on matters relevant to the remuneration committee, there is little or no engagement on the matters addressed by the audit committee which arguably go to the heart of the quality of their investments. Before the shareholders focus on the auditors, they should address their communications through the audit committee. This committee is there to serve them and the members of such a committee are more likely to be able to provide a richness to the discussion that auditors would find hard to do.
14. The primary responsibility for assessing whether an entity is a going concern rests with the directors. Therefore, given the focus placed on this by users, more detailed and considered disclosures should be required from the directors to explain why they believe an entity is a going concern. This should also provide clarity on the period over which this has been assessed. This would then facilitate requiring more from the auditor. Currently the auditors are only required to report on both going concern (and viability) in circumstances where the ISAs require the auditor to report to shareholders whether they have anything material to add or draw attention to. This same reporting requirement also applies to the disclosures made by the directors in respect of an entity’s principal risks and how they have been managed or mitigated. This current ‘all or nothing’ approach is not helpful. The key is to provide greater transparency to avoid “surprise failures” rather than failures.
15. One of the criticisms labelled at the viability statement regime is that corporates have taken too short-term a view in their assessments, with a three-year outlook being prominent. However, this is

a complicated and developing field and, given the increasing level of complexity of business and the speed of change, it might be the natural response that many companies now focus more on this time horizon. Additionally, the UK Corporate Governance Code's reference to "and meet its liabilities as they fall due over the period of their assessment", has arguably led to a prudent approach being adopted by directors. Regardless, the discipline introduced by, and the current disclosures on, viability are important and should remain. However, these disclosures by directors should provide greater transparency and specificity (e.g. quantified sensitivity testing information/minimum cash requirements/liquidity statements etc).

16. Key performance indicators (KPIs) have increasingly become a measure by which corporates communicate their performance. Investors are being exposed to different sources of unaudited information, which they are using to make their investing decisions. They are rightly concerned about the lack of transparency, comparability within industries and consistency in the reporting of these measures. We believe that auditors should be asked to provide assurance over KPIs. This would not be on whether the KPIs are the right ones to assess the performance of an entity but rather, over whether they had been compiled appropriately. We also believe that further consideration should be given to the development of a framework against which such KPIs could be properly assessed. This topic was discussed in 2017 during a joint ICAS /CPA Canada audit symposium. The idea behind such a framework is that it would help the board/audit committee to challenge the relevance of the KPIs being reported and determine whether the level of assurance obtained over each KPI meets their requirements. As such, it would not be a prescriptive tool, but would provide some structure to the KPI reporting process and demonstrate the rigour behind the selection and reporting of those KPIs.
17. There would be benefit in getting directors to explain why they believe the annual report is fair, balanced and understandable (FBU) i.e. not just stating they went through a process but clearly articulating why. The current role of the auditor is to report by exception where they do not believe that to be the case. It is not clear, however, what level of assurance, if any, the auditor is providing over the directors' FBU assertion. Therefore, consideration should be given as to whether the reporting requirements in this regard be enhanced. A direct statement clearly articulating the level of assurance obtained by the auditors would provide increased transparency and clarity over this matter. The same approach could also be applied with regard to other matters where the auditor is required to report by exception.
18. Internal audit plays an increasingly key role in the assurance that the audit committee and indeed the board gain over an entity's operations. The publication of an entity's assurance map would help to highlight the important role played by internal audit in the mitigation of risk. Furthermore, this visibility could be enhanced by requiring the inclusion of a report from internal audit in the annual report. Currently, the audit committee report only touches on some of the key aspects of the work of internal audit. Given the complexity of business, where possible, and subject to any independence constraints, consideration should be given to linking the work of internal audit with that of the external auditors to the best effect.
19. Barriers to change include taking account of:
 - global implications;
 - the assurance framework;
 - auditor skills;
 - auditor liability; and
 - the need for a multi-stakeholder response.

We expand on these barriers to change in Section 9 of this paper.

20. If more is required of auditors without appropriate reform of the auditor liability regime then this could lead to large firms re-evaluating the risks and rewards of being in the UK PIE audit market. It could also serve as a barrier to entry for some of the challenger firms, with or without new additional audit/assurance requirements being introduced. Therefore, the existing auditor liability regime needs to be re-examined to ensure that it remains fit for purpose.
21. Technological advancements are impacting on corporate reporting and on how the audit is performed and this will continue at speed. Such advances will help preparers, internal audit, as well as external audit to perform their functions more efficiently and effectively. However, as well as bringing benefits of both efficiency and effectiveness to those companies and firms that can invest, technology will

also potentially further widen the expectations gap. The use of such techniques may enhance the possibility that the auditor will detect frauds, but it cannot prevent fraud occurring in the first place, and will not guarantee that it will be detected. Additionally, there are also currently challenges to its effective use. These include ensuring the integrity of the data, organising and cleaning the data, as well as concerns over the privacy and security of the data. Over time, these obstacles will likely be removed. As developments continue, the technology within the organisations being audited will also be enhanced. That may eventually lead towards the delivery of real-time assurance. This won't occur in the near future, but it is widely recognised that the rate of technological change in our profession will never be slower.

22. The FRC routinely asks questions of the auditors on key areas of judgement made by a company in its financial statements. However, it does not routinely also ask such questions of the directors who have the responsibility for these judgements. This approach does not help to clarify who is responsible for the content in the financial statements in the eyes of stakeholders. The FRC has started to have greater interaction with corporates and this is an area that needs to evolve under the auspices of the new regulator.
23. When the FRC are planning a review of a company's audit, they should agree the scope with the audit committee and on completion discuss their findings. The former should ensure it is a better focused and planned review, whilst the latter should provide the audit committee with real insight into the detailed workings of the audit which would otherwise not normally be available to them.
24. There is a concern that the FRC's approach on certain inspection visits is leading to auditors ensuring file completion rather than focussing on the key judgements. It is essential that these audit quality reviews focus on the key judgements made by the auditor to avoid a rules-based inspection regime.
25. In order to aide transparency, consideration could be given to mandating searchable online annual reports. A fully electronic model would provide many considerable benefits to users including making it easier to highlight matters such as which parts of the annual report had been subject to assurance and the level thereof. There are of course issues that would need to be addressed but such a move would certainly help to reduce the expectation gap, as information would be available in a more accessible and user-friendly format.
26. The public interest is also served by all professional accountants, including those in business, being required to comply with the ethics code of their respective professional bodies. The International Ethics Standards Board for Accountants (IESBA) is currently working on enhancements to its Code that would require professional accountants in business to adopt an enquiring mind and critically assess information as appropriate. If introduced, such a requirement would further serve the public interest.
27. Consideration of the costs and benefits of any proposed changes to the current audit regime will need to be assessed. These would of course include those of a qualitative nature. Additionally, regardless of what recommendations are made by this review and then subsequently implemented, it is essential for a post-implementation review to be undertaken within 3 to 5 years of the changes taking effect.

2 Introduction

28. ICAS welcomes the opportunity to provide our comments on the 'Independent Review into the Quality and Effectiveness of Audit', Call for Views paper issued in April. ICAS is a professional body for more than 22,000 world class businessmen and women who work in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.
29. While ICAS has many members, who work in both practice and across business and industry sectors, and who will be affected by any change to the accountancy, audit and Public Interest Entity (PIE) regulatory regimes, we work primarily in the public interest. It is this public interest that has driven our proposals. Indeed, most ICAS members work in the areas of industry or commerce and are not members of the auditing profession. We believe it is important to highlight this point at the outset as we do not want this response to be perceived as one which primarily represents the views of the auditing profession. It is essential that the matters under consideration by this review are not merely assessed through the perspective of a single lens, but rather, that the subject matter is appropriately considered from the perspectives of the different stakeholders who have an interest.
30. To ensure that ICAS gave appropriate consideration to the matters under review, we adopted the same approach in this response as we did in our submissions to the recent review undertaken by Sir John Kingman of the Financial Reporting Council and to the Competition and Markets Authority (CMA) on its study into the statutory audit market. This involved establishing a Working Group (WG) comprised of representatives from different stakeholder groups within the ICAS community. The WG comprises representatives from an institutional investor, the Big 4 and challenger audit firms, finance directors from FTSE 100 and FTSE 250 companies, an audit committee chair, a standard setter and a public interest member of ICAS Council. The WG has also sought views from other parties.
31. We would highlight that it is essential that consideration is given to ensuring that the recommendations from the various audit related reviews are complementary to minimise the risk of unintended consequences.
32. We have opted not to respond to each of the questions posed in the consultation paper but rather focus on what we believe are the key matters that need to be addressed.
33. Following the financial crisis in 2008/9 ICAS looked to the role of assurance in the capital markets and published in 2010 "The Future of Assurance".

This work was introduced with the following statement:

"Effective capital markets need trust: trust in the integrity, skill and competence of a company's directors and management and trust in their reporting. The role of assurance is to inspire trust in corporate reporting. But assurance is more than external audit - it is a process which begins with the company itself".

34. ICAS believes that statement was true then and it is equally relevant today. We have therefore structured our response to consider the following:
- Who are the stakeholders and to whom is a duty of care owed?;
 - The respective responsibilities of company directors and auditors and the accountability thereof;
 - Greater accountability of directors, including their responsibility for internal control;
 - How the transparency of reporting could be improved, from the perspective of both the audit committee and the auditor; and
 - Where the scope of mandatory assurance could be broadened.
35. This approach illustrates that external audit does not operate in a vacuum. It forms part of the wider governance framework that oversees larger corporates, i.e. boards of directors, audit committees, investors and regulators. It will only be by giving due consideration to the role and purpose of statutory audit in the context of the broader corporate governance and corporate reporting

environment that significant changes can be identified for consideration and, if supported, implemented.

36. We would highlight that the current focus on audit is not unique to the UK. We have been struck by the global interest in the subject matter under the microscope of this review. In a world where disruptive technologies are changing the way we live and work, where new business models are transforming industries, public trust in business and the audit profession needs to be improved in many jurisdictions.
37. Whilst we do not believe that the current audit model is broken, we do accept that the public perception of audit has changed, and the time is ripe for a holistic review of the purpose and role of the audit of PIE companies to ensure that this remains fit for purpose. Against a background of changing public expectations, there still remains a level of confusion over the current role and purpose of audit, what it does and does not do. Audit can only provide assurance on what is presented in corporate reporting. Whilst a lot of the focus has been placed on the audit profession, there is a need for all stakeholders with an interest to step up to the plate, and not just the audit firms, to create a more effective business environment. This will involve improvements to corporate governance, corporate reporting as well as audit and related assurance. Indeed, we do question whether there has been proper articulation of the problem that we are trying to solve. In a capitalist economy as is noted in the consultation paper, not all businesses will be successful, and it is inevitable that some will fail.

3 Stakeholders

38. The 1975 discussion paper 'The Corporate Reportⁱⁱ' issued by the Accounting Standards Steering Committee, identified the users of corporate reports as:
- the equity investor group;
 - the loan creditor group;
 - the employee group;
 - the analyst adviser group;
 - the business contact group (including customers and suppliers);
 - the government; and
 - the public.
39. Since that time, the growth and influence of Non-Governmental Organisations (NGOs) has been a significant development and such organisations have placed greater focus on corporate sustainability related issues. Therefore, there is an evolving need to consider who are the users of corporate accounts, to ensure that corporate reporting remains relevant and fit for purpose. Whilst there has undoubtedly been an increase in the number of stakeholder groups with an interest in corporate reporting, it begs the question as to which parties, the company and auditor respectively, should owe a duty of care.
40. Section 172 of the Companies Act contains the director's duty to promote the success of the company for the benefit of its members as a whole. However, it also reflects that the directors of a company need to "have regard" to the interests of other stakeholders. Whilst this requirement has gained traction since its introduction, it is not yet apparent what duty, if any, is owed by the directors to parties other than the shareholders. Its heightened importance is evidenced by inclusion of the following content in the UK Corporate Governance Code (July 2018): *"The board should understand the views of the company's other key stakeholders and describe in the annual report how their interests and the matters set out in section 172 of the Companies Act 2006 have been considered in board discussions and decision-making. The board should keep engagement mechanisms under review so that they remain effective."*
41. It may have taken time but section 172 of the Companies Act 2006 is beginning to have an impact on directors' duties. We therefore believe there is merit in further pushing this agenda. The introduction of the provision in UK Corporate Governance Code 2018, will further promote what is required of directors in this regard. Additionally, as interest in matters of an Environmental, Social and Governance (ESG) nature increases, it is likely that there will be further developments in this area.

42. In terms of the duty of care owed by the auditor, as established in *Caparo Industries PLC vs Dickman* [1990] UK HL 2, auditors owe a duty of care to the shareholders as a body. As there are a number of different stakeholders who have an interest in financial statements and indeed the annual report, by implication they also have an interest in the work of the auditors. However, it is arguable under the current legal precedent that many of the stakeholder groups would struggle to satisfy the 'proximity' test. That said, we are aware of the growing number of class actions which are being pursued in other jurisdictions. On balance, at this time, we believe that whilst the auditor needs to have regard to the needs of stakeholders other than shareholders, care needs to be exercised over the possible extension of the auditor's duty of care.
43. Whilst there is a requirement for many companies, including PIEs, to have an annual statutory audit, the terms of the engagement are agreed annually between the auditor and the company. The engagement letter establishes the contractual terms of the agreement between both parties. No other parties would normally be reflected in such letters and therefore, current market practice does not readily establish a basis for extending the duty of care.

4 Clarification and increased transparency over the respective roles of directors and auditors

44. There have been a number of high-profile corporate collapses or near collapses in the UK in recent years. In such circumstances, it has become the norm for the media, politicians and public to immediately ask: "Where were the auditors?". Whilst, there have been recent cases of audit failure, it is not yet clear whether this is true in all of the recent high-profile corporate scandals. Additionally, several recently completed FRC disciplinary cases relate to audits of entities stretching back more than 10 years. Such cases do not reflect the significant changes which have occurred in the UK corporate and audit environment over that time.
45. The core issues that we believe the public and government want to see addressed are, how to improve the quality of audit and by doing so, help to ensure fewer corporate failures that have not been signalled. The public needs to have trust and confidence in the operation of the capital markets and the companies that make up those markets, and less audit failures will undoubtedly help. Whilst the current debate is placing considerable focus on the role of the auditor, the wider holistic governance framework has a greater role to play. Audit forms part of this framework that oversees the governance and reporting of larger corporates. However, it also involves many other participants including directors; audit committees; standard setters (financial reporting, auditing and ethics, including auditor independence); regulators; shareholders; and Government.
46. Audit is not designed to prevent corporate failures. Companies fail for many reasons unrelated to audit, often involving one, or a combination, of the following factors (not exhaustive):
 - Flawed or an unresponsive to change, business model;
 - Fraud;
 - Inadequate, weak, or breakdowns in, internal controls;
 - An inappropriate and over geared capital structure that did not properly account for risks to the business model;
 - Poor corporate governance;
 - Poor ethical culture; and
 - Poor/weak management.
47. Additionally, there is a natural life cycle to a business and companies will fail. The UK economy could not afford to support every company continuing to operate indefinitely, nor indeed, should it. This would not reflect an efficient use of capital.
48. We also need to consider the ever-increasing complexity and speed of change of business, and the related increase in the complexity of corporate reporting, despite best endeavours to make this fair, balanced and understandable.
49. What appears to be missing from the current discussions on audit, particularly in statements from politicians and articles in the media, is recognition that the responsibility for running an entity and for preparing its financial statements rests with the directors of that entity, in particular, the executive directors. The auditor's primary responsibility is to issue an opinion on the truth and fairness of those financial statements. Therefore, when considering any response to corporate failures, there needs to be a holistic approach. This should consider what changes are needed in

the round to the corporate reporting ecosystem and not merely, what more can be required of the auditors. That is not to say that auditors do not have an important role to play, of course they do, but the roles of the other actors also need to be considered, which includes that of the regulator.

50. We therefore believe that one has to start with the premise of whether there is sufficient transparency of directors' responsibilities, i.e. those who are entrusted with running the business and for reporting on its performance and financial position. Whilst the respective responsibilities of both the directors and auditors are reflected in the Companies Act 2006 and applicable case law, it is clear to us that these responsibilities have not been properly communicated. Whilst the auditor's report does contain details of these, it is questionable as to whether this is the most appropriate medium for conveying this message beyond a niche informed audience. Therefore, there is a need to better convey the respective roles of directors and auditors. This in our view lies at the heart of the expectations gap.
51. Whilst technology will enhance and improve the way in which corporates communicate, consideration at this time needs to be given as to how the message of who is responsible for what could be better communicated under the current reporting regime. The inclusion of a broader responsibilities chart of key players at the front of the annual report and/or on a company website may help to address this issue. Users could refer to this to gain an understanding of the respective roles of all of the key players including an overlay of the roles of the regulator, analysts and fund managers. Its visibility would of course be key.

5 Greater accountability of directors

52. Another key step is to make those responsible for running PIEs more accountable for their actions. There is undoubtedly a "directors' expectation gap" in terms of the public's understanding of what directors are responsible for. This needs to be closed, with clarification and greater transparency of directors' fiduciary duties, for the benefit of company stakeholders. Our proposal at paragraph 51 above, would, we believe help to reduce this gap.
53. We welcome the recommendations in the Kingman Review that the new regulator should be tasked with developing proposals for an effective enforcement regime for directors of PIEs. However, we believe that the scope of this regime should cover all directors, and that these reforms should be progressed as soon as possible.

6 Introduction of a proportionate UK version of Sarbanes Oxley requirements on internal controls

54. As we highlight above, consideration needs to be given as to how better to communicate the respective roles and responsibilities of directors and auditors, and to make directors more accountable. Another means by which these could be reinforced would be by introducing a proportionate UK based version of elements of the US Sarbanes-Oxley (SOX) Act of 2002, the key elements of which are sections 302 and 404. This legislation applies to entities which are required to register with the Securities Exchange Commission (SEC), including applicable non-US domiciled companies.
55. The evidence in the US is that this approach has helped to better promote the respective responsibilities of the directors and the auditors. It has also more importantly significantly increased the quality of companies' internal controls.
56. It is acknowledged, that initially many companies took their respective assessments of controls to far too detailed a level. However, over time the approach adopted has evolved and SOX has been seen as a success story. Furthermore, those UK directors and auditors who have been involved with entities which are required to comply with SOX have come to see the benefits of this regime. A strong internal control framework over financial reporting provides a solid foundation which underpins the preparation of the financial statements as well as the information on which management uses for decision making purposes.
57. Therefore, we believe that there would be merit in introducing a UK version of this regime. Proportionality of course would be key.

58. In terms of evidence supporting the benefits of the US approach introduced by Section 404 of the Sarbanes Oxley Act we would highlight the survey undertaken by Protiviti in 2015ⁱⁱⁱ of more than 250 executives. It found that:
- 78% of organisations leverage SOX compliance initiatives to drive continuous improvement around financial reporting;
 - 52% of organisations reported “significant” or “moderate” improvements in internal control over their financial reporting since the implementation of SOX.
59. The above report concluded, *“this is a good indicator that these companies are proceeding on the right path with regard to treating SOX work not as a compliance exercise, but as a long-term process to create greater value in the organisation. This is one of the outcomes the framers of the SOX legislation intended.”*
60. This conclusion is extremely important. The introduction of greater requirements in relation to internal control must be viewed as being part of the long-term process to create value in the organisation, which ultimately benefits longer-term investors in the entity concerned.

7 Increased transparency over corporate reporting, the role of the audit committee and assurance obtained (including audit)

61. Post financial crisis there have generally been considerable improvements in companies’ risk assessment processes and the reporting of risks. Indeed, the quality and usefulness of audit committee reports continues to improve. The introduction of the “fair, balanced and understandable” requirement has also benefitted the quality of annual reports in the UK.
62. Furthermore, there have also been enhancements in the audit itself with the introduction of the extended audit report. The Financial Reporting Council (FRC) led the way in their introduction, when it unilaterally introduced these audit reports in 2013, prior to the international standard being agreed.
63. We believe that the UK has one of the most transparent corporate reporting regimes in the world but we would also highlight the level of complexity that is inherent in modern day financial reporting. Increasingly International Financial Reporting Standards (IFRS) have required fair value accounting to be used for items in the financial statements. This has notably increased the level of complexity and judgement and the application of assumptions, in some cases without verifiable external inputs, both required for measurement and reporting of items in the financial statements. These judgements and assumptions are the responsibility of directors but are subject to audit. In particular, the measurement of the carrying value of goodwill, long term contracts, financial instruments and pensions involves complex accounting processes based on underlying assumptions. Measurement outcomes naturally fall within acceptable but challengeable ranges rather than precise numbers.
64. This increased level of judgement has also naturally led to greater subjectivity in the financial information published as accounts move away from historic cost to measurement bases that incorporate modelled assumptions about future events. So, accounting standard setters have increasingly opted to favour value-based accounting with increased transparency versus the objective but less relevant certainty of historic cost accounting. This obviously makes the auditor’s role much more challenging, due to management’s increased use of modelling in preparing the financial statements (with inputs based on judgement versus observable facts). It is evident that some people do not appreciate the level of judgement to be found in a set of financial statements. For a number of items, there is no one answer but the financial statements require the inclusion of what is a best estimate within a reasonable range. Unfortunately, the public and indeed some quarters of the media appear to believe that there is one “correct” set of financial statements.
65. While in all cases the judgments, models and assumptions remain the responsibility of the company directors (and experienced audit committee members will challenge these bases), considerable time and expert resources are also engaged in the audit of these areas of judgement. They also serve as key items for discussion with audit committees and will receive due attention.

66. Demands for increased transparency and more informative reporting have been made by users such as institutional investors and this is something which we look to address next.

Enhanced Reporting / Expectations Gap

67. We acknowledge that there is a gap in expectations between what investors want from audit versus what they get out of it. Part of that problem could be addressed by increased transparency from corporates, primarily from the audit committee, and also from the auditor in their respective reports.

68. We believe that some of the investors' concerns could be addressed by the following recommendations:

(i) Assurance Map

Many businesses are now presenting pictorially their business model and how internally they look at their own "assurance" through an assurance map. We recommend that consideration be given by the new regulator publishing what it sees as the generic accountability and assurance model for corporate UK, then requiring each company to present their own version of this as part of the description of their business model in the annual report. On the basis that a "picture tells a thousand words" presenting clarity on who does what, will go a long way to helping users to understand the respective accountabilities and responsibilities of the various players, thus closing (but likely not eliminating) the "gap". Details should be provided of key areas where the directors sought assurance and who provided the assurance. Assurance may be sought from a number of different parties, and not necessarily the statutory auditor.

(ii) Further Enhanced Audit Committee Reports

There should be increased transparency and more informative disclosures by the audit committee in its report. Given the level of judgement now to be found in the financial statements we believe that the audit committee should set out the key assumptions and the acceptable range that they considered when assessing key judgements made by management e.g. in the valuation of financial instruments. An understanding of these assessments and key judgements can be fundamental to obtaining an informed understanding of the financial statements. This will help users form their own assessments as to whether a company is being aggressive or conservative in its judgements. In some cases, this type of information is already being provided.

The interaction between the audit committee and the auditor is a key area. We recommend that disclosure be required from the audit committee where it had to intervene to resolve a dispute between the auditors and management.

Additionally, audit committees could enhance their reporting in relation to disclosing what work they did in the year to support the re-election of the auditors i.e. how did they conclude that the auditors performed a quality audit.

(iii) Further Enhanced Audit Reports

Whilst extended audit reports have been viewed as useful with the inclusion of key audit findings, more graduated audit reports would further increase their usefulness. Such an approach has already been trialled by one of the large audit firms and has been welcomed by the investment community. Requiring auditors to provide this detail in their audit reports (including what was said in the prior year) would further help inform users on the judgements made by management and where they sit on a range that varies from aggressive too conservative.

Users and regulators would need to acknowledge that judgement is being exercised by both the board and then by the auditors on such matters. Expecting entities to consistently place their judgements in the middle of an acceptable range would not be a welcome outcome. However, this increased transparency would better highlight where companies were outliers and would highlight trends over time (e.g. was an organisation becoming more or less conservative?). Companies will always be able to explain their rationale for such an approach in the Financial Review or indeed Audit Committee Report. Ultimately, if investors do not agree with the approach being taken by the directors, they can take steps to facilitate change.

Whilst there is general recognition by those closely involved in audit that appropriate and sufficient professional scepticism is being applied by auditors, it is clear that what is not being transmitted to users, in many cases, is the extent to which such scepticism is being applied. Such enhanced reports would provide a means by which the extent to which auditors have exercised professional scepticism could be better conveyed to the end users e.g. highlighting the judgements made by auditors when assessing the judgements of the directors. The rationale behind the materiality levels used by the auditor also needs to be better explained.

Another potential enhancement would be to require the auditors to specifically highlight if there is a change in the overall risk profile of the company from one year to the next and to explain the rationale behind this.

Audit reports are buried within the annual report. Consideration could be given to having them released to the market as a regulatory disclosure announcement to seek to get these on to investors' radars and to heighten their visibility and encourage more people to read them. At the moment if there is a gap between the publication of a company's preliminary accounts and its annual report then, as the auditors' report is part of the latter, it will not generally reach a wide audience.

(iv) Greater Engagement between the Audit Committee and Investors

It is incumbent upon shareholders to engage with audit committees of their investee companies. Many board directors have commented that while investors engage on matters relevant to the remuneration committee, there is little or no engagement on the matters addressed by the audit committee, which arguably go to the heart of the quality of their investments. We have highlighted this point in our response to the Review of the FRC and to the CMA. Likewise, audit committees need to be mindful of their wider role and responsibilities.

From discussions with investors it is clear they would like to communicate more with audit committees but there are barriers in terms of resources to enable them to do this and we have to accept that, with the rise of passive and very short term investors many will not see this as a good use of their time. This leaves audit committees without any feedback as to whether what they are reporting is appropriate and helpful. It is therefore hard for audit committee chairs to know what best practice is. In order to raise the standards across all audit committees, thematic reviews on subjects like assessing audit quality etc would be extremely helpful.

Going Concern/Viability/Principal Risks

69. As highlighted in the consultation paper one of the major expectation gaps relates to the role of the auditor in assessing whether an entity is a going concern and indeed its longer-term viability. There is clear evidence that some stakeholders believe that an auditor is providing a guarantee as to the continued existence of the audited entity which can't be the case. Part of this problem lies in the accounting standards which present a low hurdle for an entity to be classed as a going concern.
70. We would again highlight that the primary responsibility for assessing whether an entity is a going concern is that of the directors. Therefore, given the focus placed on this by users, more detailed and considered disclosures should be required from the directors to explain why they believe an entity is a going concern. This should also provide clarity on the period over which this has been assessed.
71. This would then facilitate requiring more from the auditor. Currently the auditors are only required to report on both going concern (and viability) in circumstances where the ISAs require the auditor to report to shareholders whether they have anything material to add or draw attention to. This same reporting requirement also applies to the disclosures made by the directors in respect of an entity's principal risks and how they have been managed or mitigated. This current 'all or nothing' approach is not helpful. The key is to provide greater transparency to avoid "surprise failures" rather than failures.

72. One of the criticisms labelled at the viability statement regime is that corporates have taken too short-term a view in their assessments, with a three-year outlook being prominent. However, this is a complicated and developing field and, given the increasing level of complexity of business and the speed of change it might be the natural response that many companies now focus more on this time horizon. Additionally, the UK Corporate Governance Code's reference to "and meet its liabilities as they fall due over the period of their assessment" has arguably led to a prudent approach being adopted by directors. Regardless, the discipline introduced by and the current disclosures on viability are important and should remain. However, these should provide greater transparency and specificity (e.g. quantified sensitivity testing information/minimum cash requirements/liquidity statements etc).
73. We note the proposals that have been published by the FRC on enhancements to ISA (UK) 570 but question whether it might have been more prudent to have delayed any such revisions until completion of this review.

Fraud

74. This is another key part of the expectation gap with the public placing greater onus on auditors for the detection of frauds than is the reality. The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. An auditor is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The introduction of greater requirements on internal controls, as discussed at section 4 above may reduce but of course will not eliminate corporate frauds.

AGMs

75. We are not convinced that there would be merit in requiring auditors to speak, or respond to questions from shareholders, at a company's Annual General Meeting (AGM). Such meetings are not well attended, none of the major institutions usually attend and those who do are generally private shareholders or ex-employees. Unless the nature of such meetings was to undergo a drastic reinvention then we would not be supportive of this forum providing a suitable basis for increased interactions between the auditor and shareholders. We also feel that before the shareholders focus on the auditors they should firstly address their communications through the audit committee. This committee is there to serve them and the members of such a committee are more likely to be able to provide a richness to the discussion that auditors would find hard to do.

8 Broadening the scope of audit/assurance

76. The debate on the provision of assurance over information beyond the traditional financial statements (broader assurance) is very pertinent at this moment. There is a need to ensure that audit and assurance is fit for purpose for tomorrow's world. Investors have access to more and more information and continuously use non-GAAP metrics and future-oriented, unaudited information to make decisions. However, the key is not necessarily "more" information but rather investors having access to wider, more relevant and more timely information about a company that informs their investment judgments. Annual reports, including the audited financial statements, are an important but diminishing part of that landscape. This needs to be recognised with an emphasis that investors are looking for "coherence" between information sources to address their understanding and narrative on an investee company.
77. While investors value the audit, studies show they do not all understand the audit. There have been many calls recently for auditors to "do more" and there are ongoing discussions around how the work of auditors should evolve to meet the developing needs of investors and the capital markets.
78. This is an area that ICAS has considered over a number of years. The ICAS 'Future of Assurance'^{iv} visionary paper took the view that the ultimate objective should be for the auditor to provide assurance over the complete annual report. It was appreciated that this would be a journey and that there were a number of challenges that would need to be overcome. The first stage in the UK was for the FRC to introduce the provision in the UK Corporate Governance Code (2012) that the annual report should be fair, balanced and understandable. ICAS also realised that it would not be possible for the auditor to provide reasonable (a high level of) assurance over the complete annual

report. This led to the subsequent publication of the discussion paper ‘Balanced and Reasonable’^v, as an attempt to open up the debate on levels of assurance. Currently, there are only two, “reasonable” and “limited”, in the International Auditing and Assurance Standards Board’s (IAASB) assurance framework. This remains an obstacle.

79. Our discussion below continues the visionary journey started in the Future of Assurance and identifies areas in the front half of the annual report where we believe further assurance could be provided. We would highlight that such assurance need not necessarily be sought from the appointed statutory auditor.
80. One of the biggest expectation gaps is that many users believe the auditor has audited the complete annual report. This is of course not the case. We believe that at this time whilst the auditor should not be asked to provide assurance over the whole of the annual report there would be merit in them or another body providing assurance over some of the content in the front-half. An audit should give assurance on reporting which users find relevant, and those users should include a wide range of stakeholders, including, but not limited to, shareholders. The scope of statutory audit should be defined by the key stakeholders who use the financial statements. We now elaborate on which areas.

Key Performance Indicators (KPIs)

81. In today’s fast-paced, complex and rapidly changing world, companies face increasing pressure to provide a continuous flow of high-quality corporate reporting on a wide spectrum of issues. While, in the past, the only window into the results of a company may have been the audited annual financial statements, now information is available and is being diffused and used in many ways. From KPIs disclosed outside of the financial statements in management commentary (e.g. the Strategic Report etc.) to press releases, capital market days and social media commentary such as tweets about business decisions.
82. Companies are also using a broader range of non-traditional metrics, such as customer base, new customers/subscribers, customer retention rate and ESG measures to explain their performance. This is especially true in emerging industries such as software as a service, fintech and e-commerce. What does this mean for investors? They are increasingly exposed to different sources of unaudited information, which they are using to make their investing decisions, and they are rightly concerned about the lack of transparency, comparability within industries and consistency in the reporting of these measures. Perhaps more importantly, they are not clear on what is assured or even what assurance means or should mean in this new era.
83. The belief by key stakeholders that all information disclosed by entities is equally reliable represents an expectation gap. Two issues exist:
 1. A misconception from users that information outside of the financial statements is subject to some form of assurance.
 2. Even when it is understood what is audited, there is a lack of understanding of what an audit entails.
84. In some other jurisdictions e.g. the US and Canada, the same debate is taking place. Questions are being asked like, should a standard framework be introduced for the reporting of KPIs and should assurance be provided on these. It is not unusual in the same industry for different definitions of KPIs to be used. Given the importance and prominence placed on these KPIs by the market e.g. ‘like for like’ sales in retail and risk weighted assets for banks, it is surprising that no direct assurance is provided over such measures. Whilst people can criticise IFRS, it does at least provide a framework against which subject matter information can be assessed.
85. ICAS published a guidance paper in 2015 aimed at audit committees and boards, on the provision of greater assurance and transparency in KPI reporting. The guidance: ‘Assurance on KPIs – ‘A practical guide for audit committees and boards’^{vi} - includes a series of characteristics and criteria that committees and boards can refer to during the KPI selection process. It also includes an assurance matrix, to enable them to evidence and communicate the extent of challenge and scrutiny over KPIs. We would draw your attention to this publication.

86. We believe that auditors should be asked to provide assurance over KPIs. This would not be on whether the KPIs are the right ones to assess the performance of an entity but rather, over whether they had been compiled appropriately. We also believe that further consideration should be given to the development of a framework against which such KPIs could be properly assessed. This topic was discussed in 2017 during a joint ICAS /CPA Canada Audit Symposium^{vii}. The idea behind such a framework is that it would help the Board/Audit Committee to challenge the relevance of the KPIs being reported and determine whether the level of assurance obtained over each KPI meets their requirements. As such, it would not be a prescriptive tool, but would provide some structure to the KPI reporting process and demonstrate the rigour behind the selection and reporting of those KPIs.

Other Information in the Front-half of the Annual Report

Fair, Balanced and Understandable

87. The annual report is the responsibility of the directors. The UK Corporate Governance Code contains a provision that for all premium listed entities the directors have to prepare an annual report that is fair, balanced and understandable (FBU). We believe that there would be merit in getting directors to explain why they believe the annual report is FBU i.e. not just stating they went through a process but clearly articulating why.
88. The current role of the auditor is to report by exception where they do not believe that to be the case. It is not clear, however, what level of assurance, if any, the auditor is providing over the directors' FBU assertion. It is clear that the view as to what auditors believe is required to satisfy this requirement is not shared by the current FRC. The FRC have expressed the view that auditors in some cases are not doing sufficient and appropriate work to satisfy this requirement.
89. We therefore recommend that consideration be given as to whether the reporting requirements in this regard be enhanced. A direct statement clearly articulating the level of assurance obtained by the auditors would we believe provide increased transparency and clarity over this matter. The same approach could also be applied with regards to other matters where the auditor is required to report by exception e.g. where a company has not maintained adequate accounting records. This latter requirement would of course be supported by the work undertaken in relation to internal control if a similar regime to that of SOX was introduced in the UK.

Strategy

90. We do not believe that currently there would be merit in the auditor being asked to provide assurance over the strategic elements of the annual report (including a company's risk appetite, strategy, business model, risks, qualitative descriptions). Not only would this be extremely difficult to achieve meaningfully, it would also slow down the publication of an entity's annual report which is unlikely to be welcomed by the market.

Increased Clarity over Assurance Obtained by the Directors

91. The Board of directors has to get comfort that it has sufficient comfort over matters that it is reporting to the market. As already happens in many companies the board or the audit committee might choose to introduce different experts to provide assurance (not necessarily as defined in the IAASB assurance framework) on different aspects of the business, some of which are reported externally and some of which currently are only reported internally by the assurance provider. We do believe that as a first step there has to be increased transparency in relation to the matters over which the Board sought assurance, whether internal or external, what type of assurance and from whom such assurance was obtained. It is recognised that such assurance will be provided by a number of different parties and not just the auditors or indeed another accountancy firm.
92. We believe that our recommendation for an assurance map (paragraph 68) would help to provide increased clarity over the assurance obtained by the directors.

Other Corporate Communications

93. Currently the role of the auditor is at best limited in relation to their association with other corporate announcements such as preliminary announcements, quarterly results, analysts' briefings etc when published. These are generally the announcements that have an impact on an entity's share price. Such communications could provide scope for extending the role of the auditor. Therefore, the determination of what assurance, if any, should be provided over such content is one which we will be giving further consideration.
94. We also acknowledge that the scope of any UK version of SOX on internal controls might (depending on what was covered) address any perceived issues in this space.

Role of Internal Audit

95. Internal audit plays an increasingly key role in the assurance that the audit committee and indeed board gain over an entity's operations. The publication of an entity's assurance map as highlighted at paragraph 68 would help to highlight the important role played by internal audit in the mitigation of risk. Furthermore, this visibility could be enhanced by requiring the inclusion of a report from internal audit in the annual report. Currently, the audit committee report only touches on some of the key aspects of the work of internal audit.
96. We believe there would be benefit in consideration being given to the relationship between internal and external audit. International auditing standards do allow for internal auditors to be on the engagement team but the UK version of these excludes this possibility on the grounds of auditor independence. Given the complexity of business, where possible, consideration should be given to linking the work of internal audit with that of the external auditors to the best effect.

9 Barriers to change

97. There are a number of barriers to the changes we have proposed. We believe the most significant of these to be:
- global implications;
 - the assurance framework;
 - auditor skills;
 - auditor liability; and
 - the need for a multi-stakeholder response.

Global Implications

98. Such is the importance of the subject matter under consideration, this review has grabbed the attention of audit firms, professional bodies, standard setters and audit regulators around the globe. Any changes that are made to the UK regime are at some stage likely to be considered for adoption in other jurisdictions or could present unintended consequences for the frameworks already in place in those countries. Furthermore, a considerable percentage of UK PIE activity is undertaken in other jurisdictions. Therefore, any changes that are made to the UK audit regulatory regime will have a direct effect on the audits of group entities. There will also be potential implications for the IAASB as the international auditing standards setter.

The Assurance Framework

99. As noted at paragraph 78, this currently allows for the provision of either reasonable (high level) or limited assurance. ICAS believes that there would be merit in exploring a wider spectrum of assurance as the current framework is too limited. ICAS published ^{viii}proposals on this in our Balanced and Reasonable document in 2013.

Auditor Skills

100. It is questionable as to whether auditors currently have the skills to enable the audit to be more forward looking. It is not yet clear how well the skills required to provide assurance on this type of information are embedded within the education of professional accountants.
101. This was highlighted in the joint ICAS, FRC research project^{ix} that identified three main areas that need to be developed to equip the audit team of the future to undertake an audit that is more holistic and useful for shareholders and society. These were categorised as:
- Advanced business acumen skills;
 - Technology and data interrogation skills; and
 - Soft skills.
102. Additionally, the nature of the audit is likely to change significantly as the use of technology, including artificial intelligence (AI) evolves. In order to adapt, auditors will need to acquire new skills and adopt a mindset that encourages them to:
- Ask the right questions of the right people.
 - Become proficient in the ability to extract, transform and load data.
 - Apply the right techniques in the right situations.
 - Interpret the results and share them in an understandable format with relevant stakeholders.
103. As an educator, ICAS has therefore recently reviewed and revised its curricula to ensure these skills are appropriately captured.
104. The composition of an audit team will also evolve to include more non-audit qualified subject experts with new and different skills. This will help to ensure that the firms will be able to provide assurance on an ever-growing range of subject matters.

Auditor Liability

105. If more is required of auditors without appropriate reform of the auditor liability regime then this could lead to large firms re-evaluating the risks and rewards of being in the UK PIE audit market. It could also serve as a barrier to entry for some of the challenger firms, with or without new additional audit/assurance requirements being introduced.
106. As we have stated in our response to the CMA, the current auditor liability regime concentrates the audit of the most complex PIE companies within a very small group of firms who have the capacity to invest in the training and technology required to manage this risk and who have the diversification and scale to absorb liability for failings. Therefore, we believe that the existing auditor liability regime needs to be re-examined to ensure that it remains fit for purpose.

The Need for a Multi-stakeholder Response

107. There needs to be recognition that no individual stakeholder group, auditors included, can actually affect meaningful change without a collaborative and consistent approach from all stakeholders.

10 Technology

108. Technological advancements are impacting on corporate reporting and on how the audit is performed and this will continue at speed. Such advances will help preparers, internal audit, as well as external audit to perform their functions more efficiently and effectively. The increasing use of learning algorithms and data analytics means that auditors have the capability to analyse entire populations of a company's transactions. Additionally, the use of artificial intelligence will automate time-consuming repetitive or transactional tasks freeing up human workers to take on more judgement oriented, value-adding work.
109. The large audit firms have recognised this and invested significantly in new technology. Furthermore, generic data analysis and AI enabled tools are increasingly being developed by innovative technology companies which will enable them to be available to other firms.

110. However, as well as bringing benefits of both efficiency and effectiveness to those companies and firms that can invest, technology will also potentially further widen the expectations gap. The use of such techniques may enhance the possibility that the auditor will detect frauds, but it cannot prevent fraud occurring in the first place, and will not guarantee that it will be detected. Additionally, there are also currently challenges to its effective use. These include ensuring the integrity of the data, organising and cleaning the data, as well as concerns over the privacy and security of the data. Over time, these obstacles will likely be removed.
111. Furthermore, because auditing standards and the regulatory environment have not yet caught up with the innovation within the audit firms (or the adoption of technology in business sectors), there has perhaps not been as great a shift as one would have envisaged. Auditing standards still require a greater reliance on evidence and documentation to support the work done by the auditor rather than placing reliance on the data and the techniques that are being applied. The evolution of the standards is not within the gift of this review, and the profession will be proactively calling for a future environment where standard setting is capable of keeping abreast with developments in technology.
112. As developments continue, the technology within the organisations being audited will also be enhanced. That may eventually lead towards the delivery of real-time assurance. This won't occur in the near future, but it is widely recognised that the rate of technological change in our profession will never be slower.
113. The theme of technology featured heavily in both of the joint ICAS/CPA Canada audit symposiums held in 2017^x and 2018^{xi}.

11 Role of regulators and standard setters

114. The FRC routinely asks questions of the auditors on key areas of judgement made by a company in its financial statements. However, it does not routinely also ask such questions of the directors who have the responsibility for these judgements. This approach does not help to clarify who is responsible for the content in the financial statements in the eyes of stakeholders. We welcome that the FRC has started to have greater interaction with corporates and this is an area that needs to evolve under the auspices of the new regulator. Therefore, when the FRC are planning a review of a company's audit, they should agree the scope with the audit committee and on completion discuss their findings. The former should ensure it is a better focused and planned review, whilst the latter should provide the audit committee with real insight into the detailed workings of the audit which would otherwise not normally be available to them.
115. We welcome that the FRC is currently undertaking work regarding the culture within the audit firms. This may provide valuable insights to assist audit committees and, indeed, the firms themselves.
116. We welcome that greater focus is now placed by the large firms on the performance of their respective audit partners on their FRC inspection report gradings. Whilst this move is welcomed there is a concern that the FRC's approach on certain inspection visits is leading to auditors ensuring file completion rather than focussing on the key judgements. It is essential that these audit quality reviews focus on the key judgements made by the auditor to avoid a rules-based inspection regime.
117. As highlighted above, there is a need for auditing standard setters to move more quickly to allow audit firms to grasp the opportunities to enhance audit quality provided by new technologies.
118. The Audit and Assurance Lab established by the FRC should provide a means for testing greater innovation in the audit market on a more regular basis.

12 Corporate reporting

Electronic Reporting

119. In order to aide transparency, consideration could be given to mandating searchable online annual reports. In doing this it would:

- provide an easier and more effective means of highlighting/bookmarking/watermarking which parts of the report are assured, and which are not;
 - provide a more intuitive presentation online than if you were to do this in a traditional paper “document”;
 - render accessing the publication quicker and more readily at the right time;
 - enable shareholders, regulators and other commentators to find what section they are looking for more easily; and
 - facilitate more efficient comparison of different companies by shareholders especially if the financial data was “tagged” for such purpose.
120. There are of course issues that would need to be addressed but such a move would certainly help to reduce the expectation gap, as information would be available in a more accessible and user-friendly format.
121. Consideration should be given as to how the front-half of the annual report could be made more concise. For example, its’ focus could be restricted to the key issues/matters and this could be supplemented by subsidiary documents like a Governance Report, a Sustainability Report and a Remuneration Report. Users could then focus on what was of interest to them. This might encourage more users to read the annual report.
122. We welcome that the FRC has a project on the future of corporate reporting and recommend that it should consider our above proposals. We would also draw your attention to the discussion paper^{xii} published by ICAS in 2018 which sets out a proposed new framework for corporate reporting.

13 Professional ethics

123. The public interest is also served by all professional accountants, including those in business, being required to comply with the ethics code of their respective professional bodies. Those in business operate in various roles e.g. chairs, chief executive officers, chief financial officers, audit committee chairs, financial controllers etc. In the UK, such codes are all substantively based on the Code of the International Ethics Standards Board for Accountants (IESBA). Additionally, the auditors also have to comply with the FRC’s Ethical Standard. IESBA is currently working on enhancements to its Code that would require professional accountants in business to adopt an enquiring mind and critically assess information as appropriate. If introduced, such a requirement would further serve the public interest.

14 Cost/benefit analysis

124. Consideration of the costs and benefits of any proposed changes to the current audit regime will need to be assessed. These would of course include those of a qualitative nature. From an investors’ perspective we do not believe that the additional costs (within reason) are a primary determinant of whether or not there should be enhanced audit requirements. They would very much focus on enhanced corporate reporting and increased audit quality as being key. Audit committees whilst having a primary focus on audit quality have to ensure that they utilise their assurance budget to best effect. This will involve seeking assurance from sources other than just the auditors.

15 The need for a post-implementation review

125. Regardless of what recommendations are made by this review and then subsequently implemented, we believe it is essential for a post-implementation review to be undertaken within 3 to 5 years of the changes taking effect.
126. It is commonly stated that despite the current rapid pace of change in business, and indeed in society, that the pace of change will never be as slow as it is today. Therefore, as supporters of an evolutionary approach to any changes in audit, we believe it is essential that we do not wait for a series of major corporate collapses to assess what further changes are required. That is why we believe that such a review as well as ongoing monitoring of business, reporting and audit developments by the new regulatory body, will be essential to try and ensure that we remain ahead of the curve.

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- ⁱ The Future of Assurance, ICAS (2010), <https://www.icas.com/technical-resources/the-future-of-assurance-report>
- ⁱⁱ The Corporate Report, ICAEW Accounting Standards Steering Committee (1975), <https://www.icaew.com/library/subject-gateways/corporate-reporting/the-corporate-report>
- ⁱⁱⁱ SOX Compliance – Changes Abound Amid Drive for Stability and Long-Term Value Protiviti (2015) – Highlights from Protiviti's Sarbanes Oxley Compliance Survey, https://www.protiviti.com/sites/default/files/united_states/insights/2015-sox-compliance-survey-protiviti_2.pdf
- ^{iv} The Future of Assurance, ICAS (2010), <https://www.icas.com/technical-resources/the-future-of-assurance-report>
- ^v Balanced and Reasonable, ICAS (2013), <https://www.icas.com/technical-resources/balanced-and-reasonable-report>
- ^{vi} Towards Transparency, ICAS (2015), <https://www.icas.com/technical-resources/towards-transparency>
- ^{vii} Audit & Assurance in the Future (2018) (ICAS, CPA Canada) <https://www.cpacanada.ca/en/business-and-accounting-resources/audit-and-assurance/standards-other-than-cas/publications/audit-and-assurance-in-the-future>
- ^{viii} Balanced and Reasonable, ICAS (2013), <https://www.icas.com/technical-resources/balanced-and-reasonable-report>
- ^{ix} Auditor Skills in a Changing Business World, ICAS/FRC (2016), <https://www.icas.com/technical-resources/auditor-skills-in-a-changing-business-world-icas-frc-report>
- ^x Audit & Assurance in the Future (2018), ICAS, CPA Canada, <https://www.cpacanada.ca/en/business-and-accounting-resources/audit-and-assurance/standards-other-than-cas/publications/audit-and-assurance-in-the-future>
- ^{xi} Opportunities for the Assurance Profession: Actions Needed to Adopt Technology and Enhance the Value of Audit (2019), ICAS, CPA Canada
- ^{xii} 'Restoring Trust and Relevance for the Future of Corporate Reporting', ICAS (2018) <https://www.icas.com/technical-resources/restoring-trust-and-relevance-for-the-future-of-corporate-reporting>



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