

Brydon Review Secretariat
Orchard 1
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London
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7 June 2019

Email: brydonreview@beis.gov.uk

Dear Sir Donald,

Independent review into the quality and effectiveness of audit - Call for Views

About National Grid

National Grid is a regulated utility with businesses in both the UK and the US with principal operations in electricity and gas transmission and distribution. National Grid plc is listed on the London Stock Exchange and has American Depositary Receipts ("ADRs") in issue and is accordingly subject to SEC and PCAOB external reporting regulations and regulatory oversight as a Foreign Private Issuer ("FPI") in the USA as well as UK requirements.

Call for Views response

We have considered the questions raised in the Call for Views and thank you for the opportunity to respond. Given the importance of this review into audit, a service which is critical not just for the comfort of business and shareholders but to the wider UK economy, National Grid would like to confirm our broad support for the response submitted by the 100 Group, a copy of which is appended.

We also include our confirmation on each question submitted. Other than in respect of the two matters noted below, our views are consistent with those set out in the 100 Group response.

- a. **Introductory comments/Integrated reporting:** Whilst we are supportive of revisiting and re-evaluating the corporate reporting requirements and the work of the International Integrated Reporting Council's, we believe further work is required before proposing adoption of the IIRC's guidelines in respect of the requirements for Annual Reports.
- b. **Chapter 7/Communication of audit findings and meetings with Audit Committee Chairs:** We are supportive of shareholders being able to raise matters of substance for discussion with the Audit Committee Chair. If shareholders prefer to meet with the Company and its auditors at the same time, this may be more productive. We would question the merit of the Audit Committee Chair being the default attendee on behalf of the Company.

We welcome the opportunity to discuss the views expressed in the 100 Group response and above with the Brydon Review team if deemed helpful.

Yours sincerely,



Mark Williamson
Chair of the Audit Committee

Appendix 1: Consultation Questions

1. **For whose benefit should audit be conducted? How is it of value to users?**
We support the 100 Group response.
2. **Should the audit be designed to enhance the degree of confidence of intended users in the entity or just in the financial statements?**
We support the 100 Group response.
3. **Should UK law be amended to provide greater clarity regarding the purpose of an audit, and for whom it is conducted? If so, in what way?**
We support the 100 Group response.
4. **Do respondents consider there is an expectation gap?**
We support the 100 Group response.
5. **If so, how would respondents characterise that gap?**
We support the 100 Group response.
6. **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?**
We do not propose to respond to this question.
7. **What should be the role of audit within wider assurance?**
We support the 100 Group response.
8. **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?**
We support the 100 Group response.
9. **Are the existing boundaries between internal and external audit clear?**
We support the 100 Group response.
10. **To what extent should external auditors be able to use evidence obtained from work performed by internal auditors in drawing conclusions?**
We support the 100 Group response.
11. **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?**
We support the 100 Group response.
12. **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?**
We support the 100 Group response.
13. **Should auditors' responsibilities regarding assessing the effectiveness of an entity's system of internal control be extended or clarified?**
We support the 100 Group response.
14. **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 support the 100 Group response.
15. **Is the current regulatory framework relating to going concern fit for purpose (including company law and accounting standards)?**
We support the 100 Group response.

- 16. Should there be greater transparency regarding identified “events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern”?**
We support the 100 Group response.
- 17. Should directors make a statement about the sustainability of the entity’s business model beyond that already provided in the viability statement?**
We support the 100 Group response.
- 18. Should such a statement be subject to assurance?**
We support the 100 Group response.
- 19. Who might be capable of giving such assurance?**
We support the 100 Group response.
- 20. Is there a case for a more forward-looking audit? What would be the main benefits and risks?**
We support the 100 Group response.
- 21. 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 support the 100 Group response.
- 22. If so, what information might usefully be subject to audit or another form of assurance and why?**
We support the 100 Group response.
- 23. Do respondents agree that the value and quality of the audit product should be considered separately from the effectiveness of the audit process?**
We support the 100 Group response.
- 24. 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?**
We support the 100 Group response.
- 25. What additional benefit might a switch from a binary audit opinion to a more graduated disclosure of auditor conclusions provide?**
We support the 100 Group response.
- 26. Could further narrative be disclosed alongside the opinion to provide more informative insights?**
We support the 100 Group response.
- 27. What would prevent such disclosures becoming boiler plated?**
We do not propose to respond to this question.
- 28. To what extent, if any, has producer-led audit (including standards-setting) inhibited innovation and development for the benefit of users?**
We do not propose to respond to this question.
- 29. 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 support the 100 Group response.

- 30. 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?**
We support the 100 Group response.
- 31. Should distributable and non-distributable reserves be required to be disclosed in the audited financial statements?**
We support the 100 Group response.
- 32. 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?**
We do not propose to respond to this question
- 33. Should there be more open dialogue between the auditor and the users of their reports? For example, might an annual assurance meeting open to all stakeholders prove valuable?**
We support the 100 Group response.
- 34. 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 support the 100 Group response.
- 35. Should there be enhancements to the extended audit report, such as an obligation to update on key audit matters featured in the previous audit report?**
We support the 100 Group response.
- 36. Do you believe that users' expectations of auditors' role in fraud detection are consistent with the requirements in UK law and auditing standards? If not, should auditors be given greater responsibility to detect material fraud?**
We support the 100 Group response.
- 37. Do existing auditing standards help to engender an appropriate fraud detection mindset on the part of auditors?**
We do not propose to respond to this question.
- 38. Would it be possible to devise a 'reasonable person' test in assessing the auditor's work in relation to fraud detection?**
We support the 100 Group response.
- 39. Should auditors be required to evaluate and report on an audited entity's systems to prevent and detect fraud?**
We support the 100 Group response.
- 40. Is the audit profession's willingness to embrace change constrained by their exposure to litigation?**
We do not propose to respond to this question.
- 41. If there were a quantifiable limit on auditor liability, how might this lead to improvements in audit quality and/or effectiveness?**
We do not propose to respond to this question.
- 42. 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?**
We do not propose to respond to this question.

43. 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?
We do not propose to respond to this question.

44. To what extent (if any) are firms unable to obtain the desired level of professional indemnity insurance to minimise the risk of being unable to meet a significant claim relating to their statutory audit work? How significant is this risk for both the largest firms and other firms undertaking audits of Public Interest Entities?
We do not propose to respond to this question.

45. How far is new technology actually used in audits today? Does the use of technology enable a higher level of assurance to be given?
We support the 100 Group response.

46. In what way does new technology enable assurance to be given on a broader range of issues than is covered by the traditional audit?
We support the 100 Group response.

47. Are there aspects of current audit procedures or output that are no longer necessary or desirable?
We do not propose to respond to this question.

48. 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?
We support the 100 Group response.

49. Does today's audit provide value for money?
We do not propose to respond to this question.

50. 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 do not propose to respond to this question.

51. What use do shareholders currently make of audit reports? Are they read by shareholders generally? What role does AI play in reading and analysing such reports?
We support the 100 Group response.

52. Would interaction between shareholders and auditors outside the AGM be practical and/or desirable?
We support the 100 Group response, subject to the matters outlined in on page 1.

53. 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?
We support the 100 Group response, subject to the matters outlined in on page 1.

54. What assurance do shareholders currently obtain other than from audit reports?
We support the 100 Group response.

55. In what way would it be possible for auditors to report on the culture of the entity whose financial statements are being audited?
We support the 100 Group response.

56. How can auditors demonstrate that appropriate scepticism has been exercised in reaching the judgments underlying the audit report?
We do not propose to respond to this question.

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

We do not propose to respond to this question.

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

We do not propose to respond to this question.

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

We do not propose to respond to this question.

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

We do not propose to respond to this question.

Appendix 2: 100 Group response