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Response to the Independent Review into the Quality and Effectiveness of Audit - Brydon Review – Call for Views

Background

The Local Authority Pension Fund Forum was set up in 1991 and is a voluntary association of 80 local authority pension funds and six LGPS pools, based in the UK with combined assets of approximately £230 billion. It exists to promote the investment interests of the funds, and to maximise their influence as shareholders to promote high standards of corporate governance and corporate responsibility amongst the companies in which they invest. Issues on accounting and audit have been a concern since the banking crisis.

Response

LAPFF is pleased to comment and notes that the Call for Views is well researched and asks pertinent questions, correctly citing from the statute and case law. LAPFF concluded some time ago that what could be regarded as a crisis of audit quality hasn't just happened to be a result of going through a bad patch, but that the model the profession was pursuing was poor and defensive by design. It's as if auditors have been holding out on the basis of appearing to do audits, on the back of the statutory monopoly, when they don't actually wish to do audits as the statute defines. This is demonstrating classic oligopolistic rent extraction behavior, short measures.

According to the FRC, some 27% of audits are below standard. Rachel Reeves MP, Chair of the BEIS Select Committee pointed out. "What other industry would survive with this level of quality? A school would be put into special measures straight away; a supermarket would see customers flocking somewhere else immediately".

We are pleased to see that the questions posed by the Review include the issue of 'producer led standards'. We also note a tendency of lobbying by auditors to offer 'more' to an audit when the substance of what they propose to offer should be covered anyway by the statutory audit, e.g. in respect of fraud and 'internal control'. Another problem is auditors claiming to have a passive/subservient role compared to the directors of a company. However, this practice is shown to be incorrect by s92, s837 and s498 CA 2006 which all give specific duties to auditors on matters that directors do not actually have reporting responsibility for.

Detailed response

Purpose of audit

As this Call for Views demonstrates - the purpose of the audit is clearly set out within case law and statute if parties bother to look. In particular s837 CA 2006 contains a definition of materiality that is perfectly sufficient to direct the audit approach to unequivocal outcomes. It states:-

"The accounts must have been properly prepared in accordance with this Act, or have been so prepared subject only to matters that are not material for determining (by reference to the items mentioned in section 836(1)) whether the distribution would contravene this Part."

"by reference to the following items as stated in the relevant accounts (a) profits, losses, assets and liabilities; (b) provisions of the following kinds…… (c) share capital and reserves (including undistributable reserves)."

'This Part' includes the profits test of s830 and the net assets test of s831 applicable to public companies. Section 845 then deals with development costs, which are treated as realised losses unless there is a statement to the contrary.

That clear objective drives a) the accounting method, prudence and accruals on a going concern basis, and b) the going concern assumption which then changes the accounting method if going concern is not appropriate, and c) fraud and financial control, i.e. it drives quantitative and qualitative aspects of accounting and auditing.

Case law, as set out in the Call for Views, establishes two central features of the audit process protecting the company itself from wrongdoing (such as **capital maintenance** as set out above), and the body of members being able to 'reward' or 'remove' directors, i.e. 'accountability'. It is clear that the accounting profession doesn't relish the first feature on the basis of their liability for being negligent if getting that wrong, and on the second feature, **accountability** is a problem for auditors having adopted management-serving business models.

Expectations gap and false assertions

We note that in defending poor quality audits by the profession and its mouthpieces, certain false constructs achieve a status as if they were fact, 'Audit is backward looking' is one such example. However, prudence is in fact forward looking, expected losses and likely liabilities are future events, as is booking any debt obligations. A going concern assessment is also forward looking.

Such incorrect assertions are essentially a corollary of the 'expectation gap' but it is clear from the conclusions of the recent BEIS Select Committee that there is not an 'expectation gap', but a 'delivery gap'.

It is also necessary to debunk the myth that audits would be more useful if auditors said more. The fact is that the law requires an audit opinion to demonstrate that the required standard has been reached. Given that, an auditor saying more may well be obfuscating.

Responsibilities

These can be clouded by the accounting profession but Company Law is explicit and clear.

True and fair view accounts are a duty of **the directors** under company law and auditors report on compliance with company law, including that requirement.

Proper accounting records is an obligation on **the company** – auditors report on compliance with that to directors and publicly by exception (s498). Auditors also report if the numbers in the accounts are not the same as the numbers in the records ('two sets of books'). The company not keeping adequate accounting records is a strict liability offence by directors **subject to defences**. Clearly if the auditors – who have proximity to the records – do not tell the directors that the records are not adequate then that fact may be a defence available to directors.

Answers to questions

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

LAPFF agrees with the statutory basis of audit as at present: for the benefit of the company, and public interest. This is on the basis that the shareholder interest - as the residual interest after all other claims on a company - is the collateral for creditors. The s516 statement for example, on resignation by an auditor, reflects that the interest is creditors as well as shareholders. Then with that properly done the information should be of use to users.

'Users' (as if it were a class itself) is not appropriate for setting objectives for auditing or accounting, as it is not describing a class and confuses who the crucial stakeholders are. Needs and incentives may be different from those of the long-only shareholder, creditor and public interest, short sellers for example are 'users' of accounts.

We also note that in the RBS prospectus litigation case[1] that the Judge was dismissive of analysts determining standards for reporting, firstly as the tests are legal, secondly as analysts will have incentives and interests that may not coincide with those that actually hold the financial interest, the '**protected party**'.

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

This is a very good question. The law pertains to protecting the company as an entity, in that the financial statements reflect the true position of it, so that it can conduct its affairs, including distributions, lawfully. International Financial Reporting Standards (IFRS) in particular are dealing with something abstract, i.e. 'users'.

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?

LAPFF believes that the law is sufficiently clear, the problem has been a system of regulation and regulators not using it properly, and in specific cases mis-citing the legislation, and avoiding case law. The concept of the '**protected party**' as used in prospectus law, may benefit from extension into company law.

Q4: Do respondents consider there is an expectation gap?

LAPFF concurs with the BEIS Select Committee that there is a delivery gap, the expectation gap is essentially a 'pre-packed' excuse for failed audits.

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

The gap is synthetic. The fact that the AssetCo case was decided in the middle of the BEIS Committee enquiry undermined the evidence of members of the Big 4 firms and Grant Thornton to that enquiry who were playing to the 'expectation gap'. Also of relevance is that the rigour of company law based auditing expectations (as opposed to the SEC's requirements) creates a gap between the UK and the US.

[1] Lord Justice Hildyard - [2015] EWHC 3433 (Ch)

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?

There are inherent anomalies. For example IS 250 'Consideration of law and regulations in an audit of financial statements', requires an auditor to consider law and regulation in doing the audit in addition to the standards. That seems to contribute to a disconnect, by failing to reflect that the whole purpose of doing the audit flows from law itself.

In Republic of Bolivia Exploration Syndicate [1914] 1 Ch. 139, the first duty of an auditor is to know their duty, and that includes any reference to the articles of the company itself, as well as company law.

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

The concept of 'wider assurance' seems to indicate mission creep by auditing firms away from the statutory audit, whilst still seeking the benefit of the statutory monopoly that goes with it. In particular something broader than statutory audit has developed called 'financial reporting' which is ill-defined and in places competing with the very basis of the statutory accounts and statutory audit. International Accounting Standards are a part of that problem.

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?

Some sectors are inherently more risky than others. Proper audit planning should be able to manage the varying risks. The Big 4 firms even use risk in marketing themselves; PwC describe themselves as providing 'Risk Assurance', KPMG 'Risk Consulting', EY 'Risk our latest thinking' and Deloitte use 'Risk Advisory'.

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

We don't consider that this question is relevant to a focus on statutory audits applicable to all companies. There is a tendency for auditors to try to eclipse their duties by bringing in other parties, internal audit, and audit committees for example.

As one of the laudable purposes of this review is to ‘reset’ the audit product, bringing in extra factors tends to shift away from that focus.

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

See Q9, and also there used to be a hierarchy of reliability in relation to auditing, in ascending ranking of reliability:-.

- Client evidence and assertions,
- Third party evidence
- Auditor generated evidence

The position of internal audit isn’t necessarily reliable enough to be evidence, hence the need for external audit.

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?

Part of the current problem with audit quality is that auditors have done precisely that: ‘innovated’ away from the statutory basis of audits.

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?

The area of ‘internal controls’ has been confusing what is already required. The s386 requirements of ‘adequate accounting records’ is already very robust and carries criminal penalties. In line with that, see Q13 below, auditors have a very strong weapon in discharging any aspect of their work in the form of s501 CA 2006 which makes it a criminal offence for any person to mislead an auditor, which includes withholding information.

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

See Q12 above. The auditor duty under s498 is very clear, the auditor is required to perform an investigation as to whether the company has kept adequate records at all times. Implicitly that is also a capital maintenance issue, as the matter of accounting for distributable profits is perpetually relevant, as dividends may be paid at any time.

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?

In principle auditors should report on anything of substance that they report to audit committees. The question is whether they are reporting anything of substance in that they do not appear to be discharging their s498 duties to investigate whether adequate accounting records were kept.

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

Again, the law is clear. The problem is IFRS - which masks things that are relevant to not being a going concern – and isn't grounded in a capital maintenance model of going concern. Not being a going concern changes the accounting basis and hence may lower the amount of capital and reserves.

Given that the going concern condition is dependent on sources of funding, which is dependent on the return for the risk, then defective accounts are themselves a going concern issue, as evidenced by the banking crisis.

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"?

Things need to be taken back to basics to get the accounting right. Fraud for example may create circumstances that are a going concern matter as well as a capital maintenance issue.

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

This is an interesting issue worth exploring outside of this review. Some business models may in fact be ‘bets’ on single products, which can lead to unsustainable business models seeking investment capital on a false basis.

Q18: Should such a statement be subject to assurance?

No. This is a business judgment that should be inherent in the going concern assessment.

Q19: Who might be capable of giving such assurance?

N/A

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

The case is that the statutory audit requires forward looking factors: prudence is forward looking as is going concern (see introductory comments).

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?

Regulators must be wary of giving more work to auditors on the back of the statutory monopoly.

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

See Q21 above.

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. There appears to be a poor understanding of the statutory product which is then resulting in flawed process.

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?

Yes. We note that the FRC passed the audits of Co-op Bank, Carillion and Patisserie Holdings, all being companies which subsequently failed afterwards.

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

This is a potentially harmful proposition. The accounts either give a true and fair view of the assets, liabilities, financial position and profit or loss or they don't. Similarly whether adequate accounting records were kept is binary.

There is a statutory definition of materiality in s837 which sets the scope for auditors qualifying their reports, see introductory comments.

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

This risks being emphasis of matter or qualification by the back door. We note that the Center for Audit Quality (an arm of the US accounting profession) refers to audit being a shared enterprise between boards, audit committee and investors, with the clear inference that investors should be somehow 'mucking in' to assist the audit. That is not appropriate. This would reinforce the conflicts of interest within the audit process.

Q27. What would prevent such disclosures becoming boiler plated?

Some things have certification plates on for a reason. They are not there to give information, they are there as a sign that what has needed to be done has been done.

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

It is correct to identify producer led standard setting as a problem. However, the construct of 'users' is part of the problem. The issue remains that of the delivery of audits to protect the ‘protected parties’. We commend the academic paper ‘Making up Users’ from Joni Young of the University of New Mexico which postulates that the concept of ‘users’ has been producer led by standard setters. We set out in an Appendix some key differences between the model that the large accounting firms have constructed via standards, and the model set out by statute. One feature is the use of jargon to create subtle elisions from the more basic, grounded and understandable words, such as ‘accounts’ and ‘capital’.

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?

There are two specific areas which are the responsibility of auditors. Firstly, the accounts must be audited to the standard required by s837 CA 2006, which is essentially a test of the distribution capacity, as shown by the accounts, i.e. the test sets an upper limit on what can potentially be distributed. On matters of materiality, s837 CA 2006 defines materiality for that purpose. Indeed if the accounts are qualified the auditors have an obligation under s837(4) which is not shared with the directors, which is to state the impact of that qualification on the ability to make a distribution.

Secondly, there is then the matter of the lawfulness of distributions made during a year when the auditor signs the accounts for the end of that year, i.e. the question of whether distributions were lawful when made by reference to the previous set of relevant accounts. If distributions already made are unlawful then accounts showing those distributions will themselves be defective, as the law is clear that unlawful distributions are deemed to remain the property of the company.

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 clearly must. S831 has to be executed by the net asset test, using the balance sheet numbers. If every item in the balance sheet isn’t accounted for in a way relevant to that objective then the test will fail. IFRS is not an appropriate accounting framework for at least company only accounts.

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

What is not distributable is required to be disclosed by s831, as s831 defines what cannot be distributed, including stating that unrealised profits are an undistributable. What is distributable is actually the product of two formulae, the profits test and the assets test. There is a deduction s843 for development costs. There are also deductions for any capacity taken up by financial assistance (Part 16 CA 2006). So the concept of 'disclosure' can be somewhat of a red herring.

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?

The statute is clear and succinct. There is also firm ICAEW guidance (TECH 01/11) on what the obligation on the company is. However, there is no FRC guidance on auditing it and it appears that it is not being done (see response to Q39).

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?

See introduction, auditors saying more carries the risk of obfuscation.

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?

Yes. In the Kelly Report into the collapse of Co-op Bank, the review team obtained a copy of what the auditors had presented to the audit committee of Co-op Bank, including the outcome of the FRC review that had passed the audit despite the auditors only auditing what was presented as the 'bad book' rather than determine what the extent of the bad book needed to be.

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?

See response to Q33. There is little evidence that extended audit reports have improved quality given the problems in auditing in the period that they have existed.

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?

The AssetCo case indicates to LAPFF that the legal expectation is in fact higher than public expectation. In that case the auditor was accountable not only for unlawful dividends, but also for the misinvestment of capital due to the numbers presenting false profitability.

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

No. Subject to comments on the Barings case, the issue would seem to require cultural change in the firms as well as any improvement in standards.

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

This would seem to be the approach of the Courts already.

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

This should already be covered by the auditor duty to give an opinion on the accounts that is sufficient to base distributions on, as well as the auditor obligation under s498 CA 2006 for the investigation on the s386 CA 2006 accounting records requirements. ICAEW TECH 01/11 covers this including the subject of ***'disclosing the financial position at any time at that time'*** (*a*s opposed to at any time but e.g. six months late).

It would appear from the experience of those companies which fail with clear financial control problems, that the duty is not being fulfilled. It emerged in the banking crisis that it took the Financial Conduct Authority (FCA) months to establish the financial position of Royal Bank of Scotland. That is indicative of a breach of s386 CA 2006.

Also of relevance is that the subject of accounting records was raised at the inaugural ICAEW 'Audit Quality Forum' in 2005[2]. One FRC staff member believed that the requirement only applied to records to produce the year accounts. So did some audit firms. Shortly later, a former KPMG partner in the House of Lords tried to table an amendment for the ICAEW to take this provision out of the 2006 Companies Act when it was in bill stage[3]. In that process another peer claimed it was potential onerous like 'Sarbanes Oxley', even though it had been in the Companies Act since 1929.

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

Given the liability of auditors given by courts in both the Barings case and the AssetCo case, the question is why auditors are not discharging their actual duty properly, see response to Q41 below.

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

Given the already poor quality audits exhibited with no cap on liability, it's difficult to see how lowering the liability would improve quality. A major part of the quality problem seems to be a near collective denial of the responsibility that auditors currently have. In evidence to Parliament earlier this year, only Jac Berry, a female partner and Head of Quality and Risk of the audit firm Mazars demonstrated accuracy and candour on the issues. The inference was therefore drawn that only Mazars actually know what they are looking for!

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?

There may well be a case for this under separate study and consultation.

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[2] AQF, "Audit Purpose" ICAEW July 2006.

[3] Hansard, 7th March 2006, GC319

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?

See response to Q41.

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?

There is very little evidence on this very important area due to a lack of transparency. There should be transparency on what captive insurance and reinsurance arrangements are for all firms auditing Public Interest Entities. It should form part of the basis for audit registration on a ‘fit and proper’ basis.

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?

The issue of technology appears less relevant than the issue of auditors grasping the conceptual basis for the statutory audit properly, a ‘garbage in, garbage out’ problem.

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?

It is not possible for us to comment. The matter is one for the accounting firms to demonstrate.

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

It would appear that unnecessary complexity from the accounting standards regime, e.g. accounting for intangibles may create unnecessary as well as misdirected work.

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's difficult to see why this is something for the Review. Courts decide whether failure is negligence or not.

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

Given recent scandals, and the fact that the FRC's own inspections demonstrate a high level of unacceptable audits, then no it does not provide value for money.

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?

N/A, on the basis that extension of audit is not the issue here, but rather delivering the requirements as already exist.

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?

The audit report is there as a statement of fact to note if the auditor 1) has or has not not given a qualified opinion, 2) has or has not stated that adequate records were not kept, or (3) stated whether or not there were two sets of books. The report shouldn't need to be 'analysed' as if it contains some deeper or hidden meaning

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

The audit product is a public interest product. There is a significant risk if shareholders direct the process, as shareholders in certain circumstances may be a problem. Shareholders of a bank for example provide only a minority of the funding of the balance sheet.

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?

See response to Q52.

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

The audit report is there as a statement of fact that the auditor 1) has not given a qualified opinion, 2) has not stated the adequate records were not kept, 3) or that there is not two sets of books.

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

It's difficult to envisage how this can be done and is again another potential example of mission creep. It's also questionable whether auditors have the skills or right cultures themselves to be able to do this. For example, on 8 May 2019 the Financial Times reported a view that the Big 4 audit firms were 'male, pale and stale'.

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

The fact that a company doesn't then fail or have an accounting scandal is the best indicator of quality, but that may take time

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

LAPFF holds no view either way.

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

LAPFF members concluded that higher audit fees would be acceptable if quality was improved, on the basis of the cost and wider fallout from scandals such as occurred with Carillion plc.

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

There may be a case that part of the liability risk needs to be dealt with as part of the fee transparently. The scale of risk can't necessarily be charged on an 'hour of personnel' basis as it relates to the size of the balance sheet.

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

Audit partners' profit shares do not suggest that the industry is not profitable.

APPENDIX A

Accounts and bookkeeping	**'Financial Reporting'**
Purpose: public protection and shareholder information	Purpose: 'useful to users'
Key plank: Capital Maintenance	Absent
Key plank: Financial control	Absent
Parent company accounts – relevant to capital maintenance?	Not required in USA.
Stakeholders: shareholders, creditors and the public. The audited accounts serve a purpose whether people use the accounts or not.	Stakeholders as 'users' which is meaningless
The statutory audit and the monopoly that the chartered bodies' members have are associated **with this objective**.	IFRS and ISA were designed for this model. And Sarb-Ox 'internal control over Financial Reporting' NOT over financial control. This is **not the model** that chartered bodies members derive their statutory monopoly from.
Courts take a statute and precedent based approach. The opinion is the opinion and the duty of care is implicit	This model from IFAC regards the above as 'reasonable assurance engagement' and hives off control audits (if done) as 'limited assurance'.

Other elisions

Statutory model	**‘Financial Reporting’**
Balance sheet	‘Statement of financial position’
Profit and loss account (i.e. can be regarded as distribution related)	‘Income statement’
Parent company accounts.	Not required in USA the SEC only mandates group accounts.
Stakeholders: shareholders, creditors and the public	Stakeholders: ‘users’. Meaningless. Short sellers? Sell-side analysts.
The statutory audit and the monopoly that the chartered bodies’ members have are associated with this objective.	This model relies on concept of ‘internal control’ – two sets of books. IFRS and ISA were designed for this model. And Sarb-Ox ‘internal control over Financial Reporting’ NOT financial control. This is not the model that chartered bodies’ members derive their statutory monopoly from.