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Dear Sir Donald

The Sage Group plc Response to the Call for Views from the Independent Review into the Quality and Effectiveness of Audit

We are writing on behalf of the Board of Directors of the Sage Group plc (**Sage**) in response to the call for views from the Independent Review into the Quality and Effectiveness of Audit (**the Review**). We have chosen to respond specifically to those questions which are relevant to Sage, and so have not addressed the questions that are more appropriately answered by auditors, shareholders or other interested parties.

Sage is publicly committed to doing business the right way, as evidenced by our five Sage values; Customers first, Velocity, Innovate, Do the right thing, and Make a difference. We support your examination of the existing purpose, scope and quality of statutory audit in the UK. The independent audit of our financial statements is a significant part of our overall governance framework and we are pleased to provide information where we can to help underpin the work of the Review.

With regard to the specific questions raised in your call for views, please find Sage's response in the attached appendix.

Yours sincerely

Jonathan Howell
CFO, The Sage Group plc.

Vicki Bradin
Company Secretary, The Sage Group plc.

Appendix
The Sage Group plc
Response to the Call for Views from the Independent Review into the Quality and Effectiveness of Audit

Chapter, section	**Q#**	**Question**	**Response**
Chapter 1 Definitions of audit and its users	Q1	For whose benefit should audit be conducted? How is it of value to users?	*For whose benefit should audit be conducted?* The current audit report on a company's financial statements is addressed to the company's members. However, audit should be conducted for the benefit of a wider group comprising current and future shareholders, lenders, pension trustees, other creditors and customers of the company. These groups have the most significant stake in a company and therefore the greatest reason to refer to and rely on the company's audited information. Whilst there are other users of audited information who might benefit to some degree, such as regulators, academics, journalists, peer companies, the general public and even employees of the company itself, we consider that they are secondary users. *How is it of value to users?* An audit validates the financial information that has been presented and gives the users confidence that it is materially complete and accurate and provides a true and fair view of the company's financial position and performance. The audit can add value and insight for the benefit of management through additional observations, but this is not and should not be the primary purpose.
	Q2	Should the audit be designed to enhance the degree of confidence of intended users in the entity or just in the financial statements?	The current audit regime restricts the audit to the content of the financial statements. This has the advantage of defining for the most part what information is audited and what is not, and the standards and requirements against which it is audited. An audit of financial statements is largely an assessment of historical facts and judgements, and an auditor's responsibility and the extent of his or her work can be determined in that context. However, focus on the financial statements limits the usefulness of the audit particularly for those users with more forward forward-looking interests in the company. In practice this includes the primary users of a company's information such as its investors, lenders, other creditors and customers who are almost always more interested in the future of the company than its past. Designing the audit so that it enhances the degree of confidence of intended users in the entity would be beneficial, in principle, but would require a suitable new framework to support it. In particular, it would require wider consideration of forward-looking financial and non-financial information, making its conclusions inherently more judgemental than the current audit opinion and potentially requiring additional skill-sets of those tasked with carrying out the audit. Responsibility for the entity overall rests with the Board of Directors. While a wider-scope audit could enhance confidence in the entity it should not reduce, either in reality or appearance, the Directors' stewardship responsibility in any way.

Chapter, section	Q#	Question	Response
	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?	Greater clarity in law around the purpose of an audit and for whom it is conducted would be helpful. At present the UK Companies Act 2006 defines the duties of the auditor and requirements of the audit but is not explicit as to its purpose and does not look beyond a company's members as beneficiaries. The addition of an enhanced set of definitions and explanations that could be reproduced in an annual report may help manage expectations about the remit of the audit and help to clarify the responsibility and accountability of the auditors. These statements could, for example, identify the primary intended users of an audit opinion, similar to the primary users of financial statements under IFRS (current and potential investors, lenders and other creditors). The scope of the audit could also be made clear, to explain what is subject to audit and what is not. Explanations could also clarify that responsibility for the content and accuracy of a company's reports rests with the Board of Directors. The current audit regime restricts the audit to reviewing the content of the financial statements. The Companies Act could be amended to codify requirements on auditors to consider a wider range of non-financial risk indicators (such as whistleblower reports or analyst reports) and explain how these have informed the audit plan and their audit opinion. Currently the auditors' conclusion is expressed as an opinion rather than a statement of fact. Realistically that is unlikely to change, given that an audit or any type of assurance requires a degree of judgement particularly where forward-looking information is concerned. However, if auditors were required to clarify the extent to which judgement has been applied this in turn may give shareholders more context and ability to challenge.
Chapter 3 Audit and wider assurance	Q7	What should be the role of audit within wider assurance?	In the context of an entity's overall assurance framework, External Audit sits outside the three lines of defence model but should still play a role in the governance and control structure. External Audit should work with Internal Audit (the third line) to understand the broader "risk universe" in which an organisation operates and ensure appropriate coverage of those risks by all three lines of defence as well as External Audit as part of an integrated assurance model. External and Internal Audit should take account of each other's activities, perspectives and areas of expertise and other lines of defence activity, whilst maintaining their independence and objectivity.
	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?	Offering different levels of assurance depending on circumstances could increase complexity, cause confusion and widen the significant expectation gap that exists today. An audit opinion needs to be meaningful and imply a certain level of robust assurance. However, some companies operate in inherently more volatile environments than others and as such the level of assurance obtained by the auditors, in order to conclude, may vary. It would therefore be more meaningful to stakeholders if the audit report provided greater clarity on areas of material uncertainty. It is unusual to see emphasis of matter paragraphs in audit reports in the UK, however in other countries this is more typical. If additional clarity over areas of material uncertainty were provided on a regular basis, it would be easier for stakeholders to view and assess such uncertainties in the context of comparable companies.

Chapter, section	Q#	Question	Response
	Q9	Are the existing boundaries between internal and external audit clear?	Whilst both Internal and External Audit take account of each other's activities, their respective boundaries are clear and should be maintained. Internal and External Audit are distinct functions. They report separately and each undertake their own audit plans, though they might cover the same risks or different aspects of the same risks. Internal Audit has a wider brief and its activities extend beyond financial reporting. Management understands their different roles and approaches and the advantages that each brings.
	Q10	To what extent should external auditors be able to use evidence obtained from work performed by internal auditors in drawing conclusions?	External Audit should use the work of Internal Audit and their risk assessment to inform and challenge their own planning and risk assessment. External Audit should perform their required testing and draw conclusions independently. The extent to which Internal and External Audit overlap is discussed with the Audit Committee and management in determining the Internal Audit plan for the year. This is monitored by the Audit Committee on an ongoing basis Overlap may occur where an area is so inherently high risk that additional assurance beyond that required by a statutory audit is sought. In addition, there may be areas of the accounts for which management is aware the External Auditor takes a substantive audit approach and therefore requires additional assurance over the control environment.
Chapter 4 The scope and purpose of audit: Risk and internal controls	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?	Directors are required to report on: • Principal risks and uncertainties (Companies Act) • The review of the risk management and internal control system (UK Corporate Governance Code) • The main features of the risk management and internal control system in relation to the financial reporting process (Disclosure and Transparency Rules) Any changes to the nature or scope of the statements directors are required to make on risk management and internal control systems would need careful consideration. There is no appropriate framework currently in existence in the UK on which such a statement could be based, or against which External Audit could perform its audit work. Without this, the level of judgement required would in all likelihood further increase the expectation gap.
	Q13	Should auditors' responsibilities regarding assessing the effectiveness of an entity's system of internal control be extended or clarified?	There would be a benefit from an extension of the auditor's responsibility to cover specific minimum requirements in relation to financial reporting controls. However, how this is achieved would require careful consideration. Any opinion on the design and efficacy of financial controls would have to be in the context of a well-defined regulatory framework akin to other jurisdictions such as the COSO Internal Control Integrated Framework in the US. The resulting assurance would almost certainly constitute negative assurance, i.e. that no significant weaknesses had been identified, rather than positive assurance that internal controls were fit for purpose.

Chapter, section	Q#	Question	Response
	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?	The current reporting on internal controls to audit committees encourages an open exchange of views which might be lost if public reporting was required. In the absence of a formal framework, public reporting could result in boilerplate comments providing little insight and might lessen the value of information provided to the audit committee. As discussed above, any public opinion on the design and efficacy of financial controls would have to be in the context of a well-defined regulatory framework.
Chapter 4 The scope and purpose of audit: Going concern	Q15	Is the current regulatory framework relating to going concern fit for purpose (including company law and accounting standards)?	The hurdle for applying the going concern basis of accounting is low as it is applied unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. The period covered by the going concern assessment is usually relatively short given the requirement for it to be at least twelve months from the date the accounts are signed. These restrictions limit the usefulness of the going concern statement although, where material uncertainties exist, the requirement to explain them is likely to make the disclosure more informative. The regulatory framework for going concern would benefit from greater clarity and prescription. Going concern under the current regulatory framework relates specifically to the basis of accounting under which the financial statements are prepared. However, in common usage going concern is likely to be interpreted as a much more general assessment of the sustainability of an entity. This means that there is a significant expectation gap between what most stakeholders understand by going concern and what it means in the context of financial reporting and audit. In addition, more could be done to support the going concern statement such as a requirement for a separate working capital statement, similar to the type of statement made by the Directors in a prospectus or set of listing particulars (ie the Directors believe the Company has sufficient working capital for the foreseeable future (taken to be the next 12 months)). The auditor could confirm that the statement has been made after due and careful enquiry, and that the statement is supported by sufficient evidence. This would focus on the core forward looking elements of the going concern statement that impact a company's ability to continue to operate.
	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"?	The UK Corporate Governance Code is consistent with IFRS (IAS 1) and UK GAAP in requiring disclosure of material uncertainties about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (Code 2016 provision C.1.3 and Code 2018 provision 30). Existing requirements should provide adequate transparency, but material uncertainties are not always appropriately disclosed. As with all disclosures, the degree of transparency depends on the quality of the explanations provided. In reality, considerably more risk and judgement is required in accounting in some industries compared to others and yet it is unusual to see reference made to this or material uncertainty in an audit report. If there were a requirement for auditors to provide more enhanced disclosure in the audit report including industry specific risks and specific representations obtained from management, such disclosures would be more accepted as the norm and provide greater clarity to stakeholders.

Chapter, section	Q#	Question	Response
			However, where no material uncertainties are identified by the directors, the concept of material uncertainties may not necessarily be clearly explained for users of the financial statements. It is helpful for a user to understand that no material uncertainties were identified. Some companies choose to make such a statement, but the directors' disclosure is not required to state this. An explicit statement by the directors that no material uncertainties were identified, and an equivalent statement by the auditor that it agrees with the directors' conclusion would improve transparency.
Chapter 4 The scope and purpose of audit: Viability	Q17	Should directors make a statement about the sustainability of the entity's business model beyond that already provided in the viability statement?	Adding a requirement to refer to sustainability beyond the period covered by the viability statement would risk adding a further layer of complexity to the existing going concern and viability disclosures. However, if there were enhanced disclosure around going concern and working capital as described above, there could be an argument to reduce the level of disclosure required in the viability statement, in particular where its current requirements encourage the inclusion of scenarios that are hypothetical and of limited value to stakeholders. A statement on going concern and working capital that was subject to audit opinion would be cleaner and simpler to understand for users than requiring a further statement on longer term viability and be a more valuable use of auditor time.
	Q18	Should such a statement be subject to assurance?	Any assurance provided on such a statement would be somewhat judgemental as forward-looking information is inherently difficult to audit. However, providing a level of challenge and scrutiny to management assumptions to ensure that the inputs are reliable would be a benefit to users.
	Q19	Who might be capable of giving such assurance?	Business strategy experts or external risk assurance consultants might be able to comment on the longer term sustainability of the business model. This would be highly specialist and outside the realms of regular financial reporting. If a sustainability assessment is restricted to the enhancement of the current viability statement model, auditors should be capable of providing assurance. If a working capital statement were included as described above, the auditor should be able to give adequate assurance.
Chapter 4 The scope and purpose of audit: Unaudited information	Q20	Is there a case for a more forward-looking audit? What would be the main benefits and risks?	The extent to which the audit is currently forward looking is restricted largely to its limited consideration of the going concern and viability statements, although some aspects of accounting, particularly impairment of goodwill, are also forward looking in nature. However, the current audit opinion relates specifically to the historical information in the financial statements. Existing and potential shareholders and creditors will be more interested in the future of the company rather its past, but this is a very high risk area as any statement about future expectations could heavily influence investors and any prediction of future earnings is inherently uncertain. Risks include:

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			• over-reliance by users on the forward looking statements by the directors and auditors, which will inherently include a degree of uncertainty no matter how much audit work has been performed; • an expectation that a favourable audit outcome indicates that a company will continue in business for a future period, which can never be guaranteed; • an increased risk for the auditor from having to conclude on the company's future performance might discourage firms from providing audit services, and so further increase the dominance of the Big-Four firms that are better able to mitigate potential risks; • Volatility of share price reflecting speculative future performance of a company based on potential rather than actual earnings / losses. Benefits include: • the ability of users to place greater confidence in a company's conclusions on going concern and viability; • the ability of users to make more informed decisions based on the future expectations of the company. Overall, stewardship responsibility for the company and its future performance rests with the Board of Directors. The auditors cannot be relied upon to confirm a company's future performance.
	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?	Audit or assurance over financial information outside the annual financial statements would be of clear benefit for users. Clarification that financial information outside the annual financial statements has been subject to audit or assurance should enhance its reliability as it will confirm that the information has been subject to further scrutiny. Non-statutory measures may not have a defined framework against which to audit, but this should not mean that auditors cannot form a conclusion on the accuracy and reliability of this information. Alternative Performance Measures (APM) are defined by the entity itself with no GAAP basis, but for a many large listed businesses these are often important financial measures used by management, investors and analysts to report on and assess a company's performance. While such APMs would be difficult to compare across different companies, these can still be easily understood by investors in the context of the business in question. It would be crucial if auditors were to opine on such measures externally, that these were well defined in the accompanying information. In many cases APMs are already subject to scrutiny by auditors and discussed with the Audit Committee, but it would add additional comfort to investors if a level of formal assurance were given externally. Non-financial metrics will not currently be subject to assurance unless a company chooses to arrange external assurance or uses an external party to obtain the information (e.g. CO_2e (carbon dioxide equivalent), CO_2). However, it is unlikely non-financial measures will be as valuable to the primary users of the financial statements as the alternative financial measures.

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	Q22	If so, what information might usefully be subject to audit or another form of assurance and why?	Currently audit is restricted to the financial statements. Existing legislation and regulations reflect this and provide a suitable framework. Auditing standards provide instruction and guidance on what is expected from the audit process and accounting standards set out the requirements that apply to the financial statements. Possible areas to which audit could be extended include: • The Corporate Governance Code • Executive pay, pay gaps and pay ratios • Environmental sustainability • Payment practices (treatment of suppliers and late payment terms) • For banks, risk-weighted assets • Alternative Performance Measures However, extending audit to such other areas could have practical difficulties without an equivalent framework in place. Any information that is quantifiable and measurable might usefully be subject to audit or assurance to enhance its reliability, but this is not necessarily adding additional value to the primary users of the accounts.
Chapter 5 Audit product and quality	Q23	Do respondents agree that the value and quality of the audit product should be considered separately from the effectiveness of the audit process?	This response is based on the following: • "Audit process" relates to the quality of the auditor's performance against agreed standards or principles; • "Audit product" relates to the quality of the audit output in meeting the legitimate demands of those for whom the auditor's report is intended. The audit product and the audit process are difficult to consider separately. However, output is to a great extent determined by the process. A well designed audit process contributes considerably to the value and quality of the audit products. There is of course an important element of judgement which contributes beyond this.
	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, there is a risk of audit work being designed to make sure the requirements of the regulator are met. This could result in the testing performed on a specific issue not reflecting the best way to address that issue in the particular context of the audited entity and its operations.
Chapter 5 Audit product and quality: Binary nature of audit	Q25	What additional benefit might a switch from a binary audit opinion to a more graduated	While a more graduated disclosure can provide more information to users, it would also be less clear as to the auditor's conclusion and its implications.

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		disclosure of auditor conclusions provide?	In principle, pass/fail provides a clear conclusion on whether the financial statements have met the required standards and is easy to understand. As previously discussed if it were more typical in practice for the auditors to call out material uncertainties and weaknesses in control then this would be of benefit to users. In practice companies are likely to do all they can to make sure financial statements address any points that would lead to an emphasis of matter or modified opinion because this is highly unusual. In many cases these could involve relatively minor changes to ensure adequate disclosures are made. The information received by audit committees is more graduated than the binary audit opinion, such as a commentary on the degree of caution or optimism reflected in management's judgements, and this could be reproduced in the audit report. However, there is a risk that this would add further complexity and nuance rather than making the audit report useful.
	Q26	Could further narrative be disclosed alongside the opinion to provide more informative insights?	Including further narrative in the audit report could provide more informative insights. As discussed for question 16, more detail on specific representations required by management and material uncertainties both external and internal, would add greater clarity on the judgemental aspects of the financial statements.
	Q27	What would prevent such disclosures becoming boiler plated?	In order to help prevent boiler plate disclosures, a clear framework would be required to ensure that items reported would not be perceived as having adverse consequences. This would require clear guidance on what should be reported on, and the report could explain clearly why each point has been reported and what its implications are. The report should also explain the audit committee's response including any proposed mitigating actions.
Chapter 6 Legal responsibilities	Q29	What role should auditors play in determining whether the directors are complying with relevant laws and regulations, including with respect to matters of capital maintenance? Is it appropriate to distinguish between matters which may materially affect the financial statements and other matters?	Under ISA (UK) 250, auditors' duties in this area are currently limited to the extent to which directors' legal compliance affects the financial statements. With respect to matters of capital maintenance, the auditor's role could be enhanced by requiring them to report on the legality of distributions that have been paid during the year and whether the current financial statements would support the payment of a dividend. Any assessment of directors' legal compliance more generally would require further work and would arguably need a new framework so as to avoid auditors' opinions becoming a substitute for Directors' own responsibilities as well as those of shareholders who should arguably take greater oversight and stewardship in this space. Were auditors to assume a greater role in this regard, it would seem appropriate to distinguish between matters that materially impact the financial statements and those that do not.
	Q30	Does a perceived inconsistency between company law and accounting standards as regards distributable reserves inhibit auditors from meeting public	This is a technical legal matter that has been the subject of several legal opinions and remains unresolved. However, revising the definition of realised profits to make it less complex and aligned more closely with the requirements of accounting standards would appear to be a way to achieve greater clarity.

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		expectations? How might greater clarity be achieved?	Inconsistency between company law and IFRS (based on comments in BEIS Future of Audit report, April 2019) • The Companies Act states that “realised profits” and “realised losses” are such profits or losses “to be treated as realised in accordance with principles generally accepted with respect to the determination for accounting purposes of realised profits or losses”. • However, the concept of realisation does not inform the recognition of profits in IFRS and this leads to the perceived inconsistency. • The ICAEW guidance on realised profits (due to its length) contributes to the problem and should be simplified. Nevertheless, even without clarification, auditor responsibility could be extended to include an assessment of what constitutes distributable reserves. At the moment the auditors provide an audit opinion on whether the financial statements are free from material misstatements without any guidance on distributable reserves. How might greater clarity be achieved? • Revised clear, simple and prudent definition of realised profits, as recommended by BEIS. BEIS supports “defining realised profits as realised in cash or near cash”. • Alternatively, replace the capital maintenance regime with the payment of dividends based on a solvency declaration by the directors (recommended in ICAEW paper 2005). • The Directors Report could include a statement to confirm the distributable reserves and the auditors could be asked to form an opinion on the disclosure. This could also encourage enhanced shared responsibility between the directors and auditors.
	Q31	Should distributable and non-distributable reserves be required to be disclosed in the audited financial statements?	Yes, distributable and non-distributable reserves should be disclosed and audited. In principle a specific requirement to disclose distributable and non-distributable reserves in the audited financial statements would be beneficial. However, as noted in our response to Q30, any audit conclusion on the analysis might have to refer specifically to existing guidance and interpretation given the inherent complexities and uncertainties in this area. As such an opinion on distributable reserves separate from that on the financial statements overall may be required, pending any simplification of the definition of distributable profits. Alternatively, the audit opinion could explicitly exclude the analysis of distributable and non-distributable reserves, though that would have the potential to mislead users unless the disclosure itself included a statement that it had not been audited. BEIS Future of Audit report (April 2019) says that every witness that was asked agreed that companies should be required to disclose the balance of distributable reserves in the annual accounts, and break down profits between realised and unrealised. There are two good reasons to require disclosure. First, reporting on the application of capital maintenance rules makes it more likely that they will be complied with in the first place and, if necessary, enforced. Second, the information will be very useful to investors, who “need to understand better what the quality of profits are”.

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	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 auditors explain in their engagement letter that they report by exception if, in their opinion, • adequate accounting records have not been kept; and • the financial statements and the audited part of the remuneration report are not in agreement with the accounting records. No specific explanation is given of how the auditors discharge their obligations in this area. In practice, identifying reportable exceptions would be a by-product of the auditors' work where it is based on a review of the underlying accounting records and how they are presented in the financial statements. The existing statutory requirements are sufficient to allow auditors to meet their obligations under the existing audit framework that focuses on the financial statements.
Chapter 10 Other issues: Technology	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?	Use is made of data analytics where the underlying data is of sufficient quality to be suitable for interrogation. In particular data analytics can allow the testing of an entire data set, which provides a higher level of assurance than conclusions based on only a sample of data. For certain tests this could mean that the auditor is more able to detect small discrepancies that may not otherwise be identified. However, its use is still at a relatively early stage of development and the data available at a lot of companies, especially where many processes are manual, is not of sufficient quality to produce meaningful results. As well as enhancing the level of assurance provided, findings from data analytics can help to identify operational issues that the audited company is unable to detect because it does not have suitable system tools of its own. Such findings would provide benefits to the management by identifying where process efficiencies could be made.
	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?	The use of technology can provide assurance over operational issues such as wastage and controls over exceptions as noted above. As auditors develop their experience in his area, findings can be compared against wider trends found in similar companies or across an industry allowing benchmarking of results. Identifying data anomalies can help to detect system-based fraud.
Chapter 10 Other issues: Culture	Q55	In what way would it be possible for auditors to report on the culture of the entity whose financial statements are being audited?	A company's culture should be of considerable interest to investors and other parties, particularly in relation to ethics, corporate and social responsibility and diversity, and companies should be required to comment on it in their annual report and accounts. However, requiring the auditors to comment on culture based on their experience during the audit process would be incredibly difficult and a potential conflict of interest. It would be possible for the auditors to perform some procedures in the assessment including reference to whistleblowing line data, tone at the top, interviews with operating management, however any view on culture is inherently judgemental.
	Q56	How can auditors demonstrate that appropriate scepticism has been exercised in reaching the	The exercise of appropriate scepticism could be demonstrated by the auditor:

Chapter, section	Q#	Question	Response
		judgments underlying the audit report?	• Explaining the structure of the audit team, the process of performing and reviewing audit work and the level at which each key audit matter was reviewed. • For each key audit matter, stating specifically which management assumptions were challenged, what alternative assumptions management had considered, whether the auditors believed that management could reasonably have considered different assumptions and why management's assumptions were considered to be appropriate. This could be included in the audit report, or reported separately to shareholders at the AGM or other assurance meeting. Some of this information might already be included in a firm's annual transparency report, or covered by the findings of an audit quality review. However, there would be benefit in explaining how firm-wide standards and practices have been applied in the context of each specific audit.
	Q57	Should the basis of individual auditors' remuneration be made available to shareholders?	We have treated this question as referring to the basis of remuneration for individual members of an audit team, rather than to the basis on which the fee paid for the audit is determined. Disclosure of the make-up of the audit fee is addressed separately in question 59, to which we have not responded. The culture of an audit firm including its remuneration structures is likely to influence the behaviour of individual auditors. Disclosure of information that allows users to judge whether these contribute to behaviour that supports audit quality may be helpful. Information on the basis for partner remuneration is published by firms that audit public interest entities (PIEs) in their annual transparency reports. Auditor culture and remuneration is influenced by the operational structure of the audit firm and the extent to which the firm engages in non-audit as well as audit services. The CMA in its statutory audit services market study has recommended that there should be an operational split between audit and non-audit services. That subject is not within this Review's terms of reference, but an understanding of the structure of an audit firm together with its partner remuneration policy will provide much of the information necessary to allow users to assess how they might contribute to audit quality. Information on the basis of individual auditors' remuneration is unlikely to be significantly different from the policy statements already published by major firms. Instead of requiring further disclosure by auditors, ensuring that shareholders and other users are directed to this information, via either the annual report or information provided to the AGM or other assurance meeting, should be sufficient.
Chapter 10 Other issues: Cost	Q58	Do respondents view audit costs as generally too high, about right or insufficient?	Audit costs, while a significant component of overall governance costs, are generally about right taking account of the current scope of audit and the nature of the audit services that entails. The level of fees paid to auditors must be sufficient to allow them to deliver a quality product. Today the independence rules are so prohibitive that auditors provide virtually no non-audit services to their audit clients and therefore do not have the opportunity to sell additional higher margin services which may have encouraged the negotiation of lower fees in the past. The increased cost of improving

Chapter, section	Q#	Question	Response
			quality and meeting the expectations of the regulator is significantly driving up costs for the auditor and audit fees have not increased at the same level. That is not to say that audit costs may not be a significant expense for a smaller company and together with other governance costs could be a barrier to it's becoming or remaining a listed company. Any requirements for wider assurance would inevitably incur further costs as additional work and expertise would be involved. In addition, operational separation, would increase costs for auditors and those costs would be passed onto clients. Further development of audit, assurance and the overall governance regime will require consideration of the balance between cost and benefits.