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Dear Sir/Madam

INDEPENDENT REVIEW INTO THE QUALITY AND EFFECTIVENESS OF AUDIT: CALL FOR VIEWS

Tesco welcomes the opportunity to participate in the Call for Views on the purpose of audit, its social usefulness and the extent to which it fulfils users' legitimate demands. Tesco is one of the world's leading retailers. Whilst our headquarters is in the UK, we have over 6,700 stores across the UK, Ireland, Central Europe and Asia and serve around 80 million customers every week. We also provide banking and insurance services through Tesco Bank, which is regulated by the FCA and PRA. Our response is written through this lens.

We have been active contributors to a number of industry responses to the consultation, notably through the GC100 and 100 Group. Tesco's individual response is intended to complement these industry submissions, providing the perspective of a company that operates across a number of countries and is subject to a number of regulatory regimes.

We believe the purpose of the audit should be clarified but is for the benefit of the shareholders. Consideration should be given to an expanded audit report as we believe this will help users of the accounts. Changes to how the going concern concept is applied combined with the removal of the viability statement is recommended. We strongly believe that the AGM is the appropriate forum for shareholders to interact with the auditors and the audit committee. We have also provided answers to the specific questions raised in the Call for Views in an Appendix to this letter.

Yours faithfully

Alan Stewart
Chief Financial Officer

Chapter	Question	Tesco Response
Definitions of Audit and its Users	Q1: For whose benefit should audit be conducted? How is it of value to users?	<p>The key stakeholders in the business including; Shareholders, Lenders, Employees and Regulators.</p> <p>An audit should increase the level of trust and confidence the stakeholders are able to have in the financial statements and the entity.</p>
	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 entity.
	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?	<p>Yes on both purpose and for whom. A more up to date and clearer definition will help all interested parties.</p> <p>Capital markets and business have developed significantly since 1947, relying on a 1947 definition and guidance regarding audit is no longer appropriate.</p>
The 'Expectation Gap'	Q4: Do respondents consider there is an expectation gap?	Yes
	Q5: If so, how would respondents characterise that gap?	<p>A lack of clarity on the purpose and beneficiaries of an audit as discussed above. Specific areas that would benefit from clarification include expectations around:</p> <p>Fraud, Going Concern and Materiality.</p>

	<p>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?</p>	<p>Although we note there are recent examples where material frauds and material going concern issues do not appear to have been effectively identified, however this is with benefit of hindsight.</p> <p>We do not consider capital maintenance to be a significant area of concern in this regard.</p>
<p>Audit and Wider Assurance</p>	<p>Q7: What should be the role of audit within wider assurance?</p>	<p>It should be central to wider assurance as it helps underpin trust in business and capital markets. It should be noted that wider assurance for stakeholders does not have to come solely from auditors and the three lines of defence should be actively considered.</p>
	<p>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?</p>	<p>Yes it can as there will, in certain industries, be significantly higher degrees of judgement.</p>
	<p>Q9. Are the existing boundaries between internal and external audit clear?</p>	<p>The boundaries are not always clear to external stakeholders and there could be greater clarity of how external and internal audit might interact.</p> <p>Significant investment is made in IA functions and the opportunity to leverage that assurance either with external auditors or directly with stakeholders is not being maximised.</p> <p>Given regulatory and stakeholder appetite for Assurance this opportunity should be explored as it will not increase cost/workloads.</p>

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	Q10. To what extent should external auditors be able to use evidence obtained from work performed by internal auditors in drawing conclusions?	Fully. If greater use is made of the evidence there is scope to improve efficiency.
	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?	No answer submitted
The Scope and Purpose of Audit	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?	No
	Q13: Should auditors' responsibilities regarding assessing the effectiveness of an entity's system of internal control be extended or clarified?	There is scope to improve clarification. Perhaps more explicit disclosure in the audit report where controls have or have not been relied upon and why.
	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?	There are elements of reporting in Audit Reports and there is scope to consider broadening this and introducing consistency across reports.
	Q15: Is the current regulatory framework relating to going concern fit for purpose (including company law and accounting standards)?	Yes We recommend removing the viability statement and rolling it into a revised and expanded going concern statement.
	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"?	Yes – consistent with Q15.

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	Q17: Should directors make a statement about the sustainability of the entity's business model beyond that already provided in the viability statement?	As per Q15
	Q18: Should such a statement be subject to assurance?	No
	Q19: Who might be capable of giving such assurance?	NA
	Q20. Is there a case for a more forward-looking audit? What would be the main benefits and risks?	No, the case is there for better articulation and communication of the current work done on going concern.
	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?	No
	Q22. If so, what information might usefully be subject to audit or another form of assurance and why?	NA
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?	Yes
	Q24. Do respondents consider that emphasis placed by auditors on 'completing the audit file' for subsequent FRC inspection can eclipse the desired focus on matters requiring the exercise of considered judgment?	No answer submitted

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	Q25. What additional benefit might a switch from a binary audit opinion to a more graduated disclosure of auditor conclusions provide?	It is more reflective of the real world, there are points on a spectrum of judgements that management can take and finding a way to integrate this level assessment of judgements and risk into the audit opinion will enhance the impact and effectiveness of the audit for stakeholders.
	Q26. Could further narrative be disclosed alongside the opinion to provide more informative insights?	Yes
	Q27. What would prevent such disclosures becoming boiler plated?	Requiring sufficient context and detail to not undermine commercial sensitivity but to place the disclosure on a spectrum.
	Q28: To what extent, if any, has producer-led audit (including standards-setting) inhibited innovation and development for the benefit of users?	Not in our view.
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?	Not the auditors role
	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?	We don't believe this is relevant to most companies, however it would be useful to remove any discrepancy.
	Q31. Should distributable and non-distributable reserves be required to be disclosed in the audited financial statements?	See Above

	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?	No answer submitted
The Communication of Audit Findings	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?	We believe the AGM provides an opportunity to address this.
	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 – perhaps through an expanded audit report.
	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?	Yes
Fraud	Q36. Do you believe that users' expectations of auditors' role in fraud detection are consistent with the requirements in UK law and auditing standards? If not, should auditors be given greater responsibility to detect material fraud?	No they are not consistent. There is a responsibility at present to detect material errors. There is a need to enhance the communication around fraud and the precise obligations of the auditors.
	Q37. Do existing auditing standards help to engender an appropriate fraud detection mind-set on the part of auditors?	No answer submitted.
	Q38. Would it be possible to devise a 'reasonable person' test in assessing the auditor's work in relation to fraud detection?	No answer submitted.
	Q39. Should auditors be required to evaluate and report on an audited entity's systems to prevent and detect fraud?	No. Consideration should be given to enhanced disclosure in this area around the current risk and control disclosures.

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Auditor Liability	Q40. Is the audit profession's willingness to embrace change constrained by their exposure to litigation?	No answer submitted
	Q41. If there were a quantifiable limit on auditor liability, how might this lead to improvements in audit quality and/or effectiveness?	No answer submitted
	Q42. Should company law make auditors potentially liable, or otherwise accountable, to all stakeholders who reasonably rely on their audit work and their published auditor's report?	No answer submitted
	Q43. How quality of the audit product might be improved if the approach to liability was altered, and what reform might enable the most favourable quality improvements?	No answer submitted
	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?	No answer submitted
Other Issues	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?	No answer submitted
	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?	No answer submitted
	Q47. Are there aspects of current audit procedures or output that are no longer necessary or desirable?	No answer submitted
	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?	By considering how the various matters and themes being considered will increase trust and transparency.

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	Q49. Does today's audit provide value for money?	Yes
	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?	Both cost and increased complexity should be considered and balanced.
	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?	Limited use is made by shareholders today given the scarcity of modified or qualified opinions.
	Q52. Would interaction between shareholders and auditors outside the AGM be practical and/or desirable?	No as the AGM provides this opportunity if used effectively.
	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?	The AGM allows an effective two-way dialogue. Shareholders should not approve planning matters.
	Q54. What assurance do shareholders currently obtain other than from audit reports?	Regulatory oversight, statements made by the Board
	Q55. In what way would it be possible for auditors to report on the culture of the entity whose financial statements are being audited?	This may be challenging in practice, the Auditors form a view in this area around the risk and control environment. This could be referred to in the expanded Audit Report.
	Q56. How can auditors demonstrate that appropriate scepticism has been exercised in reaching the judgments underlying the audit report?	No answer submitted.
	Q57. Should the basis of individual auditors' remuneration be made available to shareholders?	No.
	Q58. Do respondents view audit costs as generally too high, about right or insufficient?	About right

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	Q59. Would users of financial statements wish more detail on the make-up of audit fees?	No
	Q60. Is the profitability of the audit function sufficient to sustain a high-quality audit industry?	No answer submitted.