Brydon Review Secretariat
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Email: brydonreview@beis.gov.uk 7 June 2019

Dear Sir Donald Brydon

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

We are very supportive of the objectives of the Brydon Review. We recognise the importance of an audit and the need to periodically assess whether the nature of an audit is fit for purpose. As a global business, audit quality standards and the scope of an audit have far reaching consequences.

The focus of the Review is on the purpose, scope and quality of an audit, however these are inextricably intertwined with corporate reporting requirements and thus it is critical that these areas are jointly considered when thinking about changes to ensure that we have a governance structure that helps drive a better business environment.

We have considered all the questions raised in the Call for Views and thank you for the opportunity to respond. Our response is attached in Appendix A.

In addition we would like to confirm our support for the responses submitted by the 100 Group. At an individual question level we have occasionally approached the question from a different angle but we are supportive of the views expressed within that response,

We welcome the opportunity to discuss the views expressed with the Brydon Review team if deemed helpful.

Yours sincerely

Graeme Pitkethly
CFO
Unilever

INDEPENDENT REVIEW INTO THE QUALITY AND EFFECTIVENESS OF AUDIT

Q1:	For whose benefit should audit be conducted? How is it of value to users?
	In order to answer the question "for whose benefit should an audit be conducted " we also need to consider " for whose benefit are externally published accounts prepared". The audience for annual reports and accounts has changed over the years and with the drive for integrated reporting it has got wider and wider. Whilst there are many different stakeholders who are interested in the activities of a business as it impacts them and thus are users of the published accounts, the greatest level of interest is going to be by those who have provided capital/debt and thus it is appropriate that they receive a higher level of assurance than other users, and hence we believe it is appropriate for an audit to be focussed on only the financial statements of the business in which they are heavily invested. The current construct of an entities annual report and accounts is already quite unwieldy - there are lots of mandatory disclosures which are not based on materiality to a business – thus it is becoming difficult to discern for a reader what is important. It would be impossible to produce a comprehensive document which would provide the appropriate degree of information for all users of the entity and also impossible to audit such a document. Thus it is probably time to really rethink what should be included in a companies annual report and accounts rather than try to be the one source of all information for any user.
Q2:	**Should the audit be designed to enhance the degree of confidence of intended users in the entity or just in the financial statements?**
	See response to Q1
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?**
	We do not believe this is critical to drive any changes that are required
Q4:	**Do respondents consider there is an expectation gap?**
	We do not believe that there is an expectation gap as to what an audit is with respect to investors and other professional users of the financial statements. It is easy when the going gets tough and people are looking for either who to blame or what is the root cause, to make comments which give the perception of an expectation gap where in reality there is not one. In terms of general public then yes we do think there is an expectation gap but this exists in many aspects of life and we are not sure that this is an urgent matter to be addressed
Q5:	**If so, how would respondents characterise that gap?**
	See response to Q4

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?**
	We believe this is best answered by the audit firms.
Q7:	**What should be the role of audit within wider assurance?**
	The issues which have given rise to all these reviews of the audit profession and the related regulators is that there is a view that too many public companies are unexpectedly finding themselves in a precarious financial position. We think it would be helpful to actually do a study to assess the quantum of such failures and the root causes as this should help inform what measures need to be taken and perhaps where wider assurance is required. The benefit of creating a system which actually ensured that there were no corporate failures would undoubtedly be outweighed by the associated costs - so no net benefit. However do we have the right balance now, is definitely worthy of investigation. Most of the work in an audit is about verifying recent historical data vs assurances over the future albeit some of it relies on making judgements about the future eg recoverability of debts. The other key area where the auditor is involved in reviewing the future is wrt to a review of a company's Going Concern and Viability statements and perhaps a greater level of disclosure by companies and audit work should be performed in this space. The level of information provided by businesses in annual report and accounts is much greater nowadays and assurance could be sought on all this additional data - however it would seem appropriate to focus on that additional data which is more relevant to the immediate existence of the business and this should be covered by data which is used to support going concern or viability statements eg whilst the long term health of a business maybe significantly impacted by a high turnover of staff year on year and thus assuring the accuracy of this kpi could be seen to be beneficial, however in the short term this is unlikely to have a significant impact but assuring the level of outstanding orders for goods is likely to be more relevant to the short term health of the business. Care needs to be taken as what is important will vary from business to business - hence linking it to the factors important for a businesses going concern/viability would be a good way of extending assurance
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?**
	As long as the " type" of audit ie the level of assurance is clearly articulated and then used consistently across businesses then we believe the level of assurance could vary. However given the expectation gaps that many currently believe exist - then this could lead to confusion or it could be considered to be an excellent trigger for resetting expectations and ensuring there is clarity in the market.
Q9:	**Are the existing boundaries between internal and external audit clear?**
	We believe the existing boundaries between internal and external audit are clear.

Q10:	**To what extent should external auditors be able to use evidence obtained from work performed by internal auditors in drawing conclusions?**
	It could be helpful to do an analysis to understand the level of reliance by the external auditors on work performed by internal auditors outside the UK where such an approach is not prohibited to understand the benefits. We think it would be appropriate for external audit to rely on the work of internal audit and management as long as they have verified that the work has been done by qualified individuals in an appropriate manner.
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?**
	We believe that it is appropriate that the auditors are truly independent of the business they are auditing but believe that it is critical that the audit firm performs non audit work for other businesses so the firm has the appropriate knowledge and experience to perform high quality audits. On this basis we do not believe the current independence requirements harm innovation or the quality of the 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?**
	We believe creating a meaningful statement on this could be quite difficult. Whilst we understand that having a good control environment is important and that directors should be responsible for this, we are not convinced that introducing a US SOX framework with respect to financial controls is the most appropriate way forward.
Q13:	**Should auditors' responsibilities regarding assessing the effectiveness of an entity's system of internal control be extended or clarified?**
	If a meaningful statement and an appropriate framework/measurement system could be created then we would support the external auditors responsibilities being extended to review such a statement. See response to Q14.
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?**
	Auditors responsibilities wrt assessing the effectiveness of internal controls, such as exist today are limited to those internal controls linked to financial reporting which represent a relatively small proportion of all the internal controls that operate within a business. Unlike accounting standards there are no rules as to what controls a business should have - and these will rightly vary from business to business depending on the nature of the business and the business models in operation. Thus it is much harder to report on the effectiveness of internal controls consistently and comparatively across businesses. Hence much work would need to be done to establish the ground rules to enable meaningful assessments of company's systems of internal controls over financial reporting before being able to externally communicate them.

Q15:	**Is the current regulatory framework relating to going concern fit for purpose (including company law and accounting standards)?**
	We do not believe we are best placed to respond to this question
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"?**
	See response under Q19
Q17:	**Should directors make a statement about the sustainability of the entity's business model beyond that already provided in the viability statement?**
	See response under Q19
Q18:	**Should such a statement be subject to assurance?**
	See response under Q19
Q19:	**Who might be capable of giving such assurance?**
	We do not believe that the Directors would be able to make a statement about the sustainability of an entities business model beyond that already provided in the viability statement. We are operating in a very dynamic environment and the pace of change is such that the viability of a particular business model cannot be assured. We believe there is confusion over the difference between going concern and viability statements and that it would probably be better for everyone to combine the two and effectively focus on for example a 2 year going concern statement which makes clear the assumptions which are being used and the auditors could then provide a level of assurance over the reasonableness of such a statement and ensure the appropriate disclosures.
Q20:	**Is there a case for a more forward-looking audit? What would be the main benefits and risks?**
	We believe that it is very difficult for anyone to provide the same assurance for forecast statements as for historical statements – as the former is much more judgemental and variable. There could be a case for auditors performing more "working capital" statement type procedures on going concern/viability statements
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?**
	Yes audit/assurance over information outside the financial statements would enhance its reliability. However we are not sure that the cost benefit relationship of performing such assurance would be positive.

Q22:	**If so, what information might usefully be subject to audit or another form of assurance and why?**
	At present there is no clear definition of what a key non financial metric is and for most businesses there is a plethora of non financial metrics which are important to manage the business- so if we were to extend assurance work to cover these then there would need to be a clearer definition about what we really want businesses to include in these metrics. In thinking about assuring individual metrics we again need to remember there will be no standard or rule book for these metrics as opposed to the financial metrics which are governed by accounting standards so any assurance is much more difficult and much more judgemental and maybe this is an area where it is a different level of assurance that is provided by the auditors.
Q23:	**Do respondents agree that the value and quality of the audit product should be considered separately from the effectiveness of the audit process?**
	We believe these are intrinsically linked.
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?**
	We believe that some of the regulatory reviews of audit files appear to be driving the auditors to focus on immaterial matters for the sake of completeness and that this may mean less focus on matters requiring judgement. Audit reports are now difficult to read and understand and we know that this could be interpreted as a lack of quality in the underlying work but also give rise to a feeling of a lack of transparency and hence fuel an expectation gap. The auditors need to give themselves more freedom/ flexibility to craft their reports to really contain matters that they think are relevant.
Q25:	**What additional benefit might a switch from a binary audit opinion to a more graduated disclosure of auditor conclusions provide?**
	See response in Q27
Q26:	**Could further narrative be disclosed alongside the opinion to provide more informative insights?**
	See response in Q27
Q27:	**What would prevent such disclosures becoming boiler plated?**
	We believe in binary audit opinions. We want most financial statements that are produced to be a true and fair view - that means they are comparable. If it becomes more common to have modified opinions then you will get different grades of financial statements - which will reduce comparability and lead to confusion. We do however recognise that in determining any judgemental number there is a range and

	whilst the number in the financial statements may be the most likely (and hence true and fair overall) that the ranges could vary quite substantially. So sharing some of those ranges could help augment the true and fair view.
Q28:	**To what extent, if any, has producer-led audit (including standards-setting) inhibited innovation and development for the benefit of users?**
	We do not really understand what is meant by a producer led audit. The content of the financial statements are certainly not driven by the preparers of the accounts. If you mean that the nature and scope of an audit and how it is performed has been created by the accounting profession - then we would agree. However it has been more a result of a lack of engagement by other parties than them not being invited to participate and we agree this could have inhibited innovation and user requirements.
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?**
	We do not believe that the auditors should play a role in determining compliance with all relevant laws and regulations. Where there are matters which may materially affect the financial statements eg tax regulations then we believe this is already part of the auditors work.
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 understand that there are concerns but do not believe it is a significant issue.
Q31:	**Should distributable and non-distributable reserves be required to be disclosed in the audited financial statements?**
	We are supportive of disclosing the split for parent companies
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?**
	We believe this is best answered by the audit firms.
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 response to Q35

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?**
	See response to Q35
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?**
	There is an opportunity at the AGMs for shareholders to ask questions of the auditors and it would be more efficient to work out ways to make sure this forum is used for that. It could be useful for each of the audit firms to have 6 monthly teach ins on how audits are performed or evolving hot topics for interested stakeholders so we can proactively educate stakeholders and get their feedback and hopefully deal with the expectation gap. I think this would be more efficient and more beneficial than having separate company sessions. If there is a material accounting judgement in the accounts then it is appropriate to disclose the pro's and con's of treatment vs other options if material. This normally requires disclosure already. If there is a clean audit opinion then it means both parties have agreed to all material accounting treatments - so there aren't two positions to present - there may have been two different positions initially but normally because someone has a piece of information that the other party doesn't have – then when they both have the same information they become aligned. I am not sure it is worth telling the whole story. So you are then left with immaterial differences of opinion - and as they are immaterial doesn't seem sensible to disclose. There should definitely be continuity between one year's audit report and the next.
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?**
	As stated previously we don't believe there is an expectation gap wrt to professional users of accounts – but this is definitely an area where there is a general public expectation gap.
Q37:	**Do existing auditing standards help to engender an appropriate fraud detection mindset on the part of auditors?**
	We believe the auditors are best placed to respond to this question.
Q38:	**Would it be possible to devise a 'reasonable person' test in assessing the auditor's work in relation to fraud detection?**
	We don't believe it would be.
Q39:	**Should auditors be required to evaluate and report on an audited entity's systems to prevent and detect fraud?**

	We do not believe auditors need to be given greater responsibility with respect to fraud. As the auditors objectives are to obtain reasonable assurance that the financial statements are free from material misstatement, (and the FRC clarified whether caused by fraud or error) it seems very clear that their work should be designed to detect material fraud but not designed to detect immaterial fraud. We have seen no evidence that would suggest that there is a need to improve the auditors fraud detection mindset. We do not believe it is necessary to have a separate report on an entity's systems to prevent and detect fraud (presumably material fraud) as that would be covered in any report on an entities control environment if that was deemed appropriate
Q40:	**Is the audit profession's willingness to embrace change constrained by their exposure to litigation?**
	We believe this is best answered by the audit firms.
Q41:	**If there were a quantifiable limit on auditor liability, how might this lead to improvements in audit quality and/or effectiveness?**
	We believe this is best answered by the audit firms.
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?**
	We believe this is best answered by the audit firms
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?**
	We believe this is best answered by the audit firms
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?**
	We believe this is best answered by the audit firms.
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?**
	See response to Q46
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 level of technology being used in an audit is very dependent on the systems being used by a business. It appears to be most useful on audits of entities which are heavy users of technology but not necessarily at the cutting edge - thus data can be

	extracted and then the auditors technological tools can be used to analyse. For those with very sophisticated technology then the businesses own technology itself can do the analysis that the auditors technology can do - so not necessary to reperform and for those without much then very difficult to use audit technology. As these tools can manipulate ever increasing amounts of data then sampling transactions is becoming redundant albeit sampling exceptions from the complete data set is more relevant and the overall level of assurance is increasing - but there is still a way to go. The understanding of technology is however fundamental for all audit teams. Such technology can also provide data on whether businesses processes/controls are being followed. We do not believe that the use of technology actually provides the ability to broaden the range of issues covered
Q47:	**Are there aspects of current audit procedures or output that are no longer necessary or desirable?**
	We are unable to comment on whether there are any aspects of current audit procedures which are no longer necessary as that is not particularly visible from our perspective. We can however comment on whether there is output that is no longer necessary or desirable. We believe that the requirements of recent accounting standards together with their interpretation of what is material by both auditors but also by the listing regulators has driven a significant increase in the disclosure of relatively insignificant items and that this has led to the auditors investing significant time in auditing that the items disclosed are correct. We think that if there can be a recalibration of what is really important to be disclosed by all relevant parties then this could release audit time to focus on other areas which may require more auditing.
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?**
	We agree that a zero failure regime is not desirable as this would require the level of audit work to be extended to such an extent that the cost of an audit could not be considered to provide value for money- ie the additional cost would exceed the loss of monies saved from the identification of a handful of companies that are in financial difficulty and do not realise it.
Q49:	**Does today's audit provide value for money?**
	From our perspective on average the current UK audits provide the appropriate value for their cost . However the US audit approach is now teetering on the edge of becoming a very procedural and time consuming tick box exercise and we have a concern that having the right documentation is being valued more than having a very thoughtful and tailored audit approach.
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?**

	See response to question 7. More analysis on financial impact on corporate failures needs to be performed to determine this.
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?**
	From our experience we do not get questions from shareholders on the audit report. AI is increasingly being used to extract data from annual reports and accounts and complete analysts and others comparative tables however this runs the risk of narrative explanations being lost.
Q52:	**Would interaction between shareholders and auditors outside the AGM be practical and/or desirable?**
	See response to Q33
Q53:	**How could shareholders express to auditors their ex ante anxieties to help share the audit plan? Should shareholders approve planning matters for each audit, including scope and materiality?**
	See response to Q33
Q54:	**What assurance do shareholders currently obtain other than from audit reports?**
	Shareholders will receive assurance from many other sources. However within the annual accounts the only other formal "assurance" is contained the various directors statements.
Q55:	**In what way would it be possible for auditors to report on the culture of the entity whose financial statements are being audited?**
	Following on from the new corporate governance regulations applicable from 1st Jan 2019 which requires boards to assess and monitor culture it will become easier for third parties to review the work of the board in this area. In terms of any auditor assurance - it would have to be of a very different nature compared with the assurance over the financial statements as again there are no standards or rules to measure or assess against.
Q56:	**How can auditors demonstrate that appropriate scepticism has been exercised in reaching the judgments underlying the audit report?**
	We believe this is best answered by the audit firms.
Q57:	**Should the basis of individual auditors' remuneration be made available to shareholders?**
	Since individual auditors' work for a number of different clients, it is not clear what value there would be to the stakeholders of a particular entity.
Q58:	**Do respondents view audit costs as generally too high, about right or insufficient?**

	See response to Q49
Q59:	**Would users of financial statements wish more details on the make-up of audit fees?**
	We believe that the audit fee disclosure is currently sufficiently granular
Q60:	**Is the profitability of the audit function sufficient to sustain a high-quality audit industry?**
	We do not have the data to provide an opinion.