GPPC

Stakeholder Submission to Brydon Review – July 2019

1. About this submission

There is a broad consensus across the financial ecosystem that audit needs to change to meet the evolving needs of society and business. To help inform the debate around the nature of change, the GPPC[1] convened stakeholders across nine categories[2], and eleven countries[3]. The conversations covered the Brydon review's key objectives, including discussion of the needs of corporate reporting users, the way audit needs to evolve, how the regulatory framework may need to change and the role of other forms of assurance.

This paper synthesises the discussions and views expressed, drawing on reports from 11 individual market-level discussions. All quotations are from those reports, which are appended to this document.

The document is structured as follows:

1. About this submission
2. Perceptions of key elements of audit as it exists today
3. How to provide more nuanced information without blurring the distinction between auditor and management
4. How to balance a system of objective rules with the need for judgement, which is necessarily subjective
5. How to align effort to impact so costs are not needlessly increased
6. Conclusion

The analysis and ideas in this report are not a GPPC point of view or series of recommendations, but a reflection of interesting perspectives from across the corporate governance ecosystem around the world.

2. Perceptions of key elements of audit as it exists today

Discussions across multiple markets made clear that a broad range of stakeholders continue to find value in the current audit report and believe it is fundamental to the financial reporting ecosystem, even as they advocate for change in the future.

In Japan, users of financial information felt that "currently, audits and auditors' reports function as expected, but auditing of accounting estimates has become of more importance given proliferation of items with higher estimation uncertainties in financial figures." In France, audit committee (AC) chairs

[1] The Global Public Policy Committee (GPPC) brings together global leaders across six accountancy networks: BDO, Deloitte, EY, Grant Thornton, KPMG and PwC to joint initiatives on certain important public policy matters of global scope.
[2] Investors, Audit Committee members, Auditors, Regulators, Standard setters, Professional bodies, Preparers, Academics and Lawyers. Not all stakeholder groups were present in every market.
[3] France, Italy, Germany, the Netherlands, USA, Canada, India, Singapore, Japan, Australia and South Africa.

felt "The work of external auditors is of very good quality." In the US, the importance of audit was noted but participants emphasised that it depends on the quality of the underlying financial reporting:

> *Audited historical financial statements are a critical device for investors to decide how to allocate capital and for businesses to engage in capital formation… the value of the audit report is derived from the value of the information being reported – and therefore financial reporting by companies is of paramount importance. The audit report itself adds objectivity, independence, and some level of assurance to companies' financial reporting.*
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> Report of US stakeholder discussions[4]

In short, audit is relied on as part of a wider ecosystem of corporate information, and all participants must play their part.

However, there are significant questions about its scope in the future. The key perceived drivers of change were the increasing impact of technology on reporting and risk, the rising importance of non-GAAP measures, and the expectation gap between what some stakeholders expect audit reports to tell them and what audit is designed to tell them. In every market and every stakeholder group, there was recognition that a range of changes in the external environment was shifting what was expected of companies, and that this also has ramifications for audit.

Across the roundtable discussions it was repeatedly suggested that investors and other key stakeholders often do not have a clear understanding of the role that audit plays in the wider financial ecosystem, and that work therefore needs to be done to raise awareness of the role played by audit. Stakeholders were clear that such awareness-raising activity could help to reduce the expectation gap. In India for example, respondents agreed that "regulators' perception of and expectations from audit are not consistent and keep changing in response to events and circumstances."[5]

There was little support for the current formulation of the **going-concern** judgement. In France, an analyst participant described expressing any doubts regarding going-concern as being akin to "an overdue death announcement."[6] This was echoed by participants in Singapore who said that going-concern judgments are not forward-looking enough and are effectively "a foregone conclusion"[7] by the time they are raised by auditors. At the same time, there was some concern that if questions about going-concern were raised too easily, they could become a self-fulfilling prophecy.

A slightly different perspective was that any 'going-concern' judgement based on retrospective audit is inherently limited, and so the answer lies in companies making disclosures on a more continuous basis, rather than relying on audit at a point in time.

Viability statements were generally felt to have limited use because they lack nuanced information. The problem was the default to boiler plate text. This is discussed further in section 4.1.

[4] GPPC Stakeholder Outreach, US, Page 2
[5] GPPC Stakeholder Outreach, India, Page 3
[6] GPPC Stakeholder Outreach, France, Page 3
[7] GPPC Stakeholder Outreach, Singapore, Page 9

On the other hand, there was significant support for **Key Audit Matters** (KAM) disclosure. An academic participant in Australia said that "sophisticated investors use key audit matters in enhanced audit reports to deepen their understanding of judgmental or non-recurring items within the financial information" and that "where the audit procedure for key audit matters does not include control procedures, some investors may infer that management controls are not strong as they are not being relied on… it's what's not in KAMs that can be interesting."[8]

Across the markets, there was consensus that the more nuanced information contained in KAMs, viability statements and assurance on management reports is crucial. A straight binary judgement does not convey the information the market needs. The debate was around how to provide more nuance without creating unintended consequences. These trade-offs are discussed in the next three sections.

3. How to provide more nuanced information without blurring the distinction between auditor and management

There was consensus across the markets that the scope and purpose of audit should be widened. A key question was how to do that without blurring the line between audit judgement and management judgement. The assumption was that more nuance would often require more judgement, and that this could easily go beyond assurance. It is one thing to assure that a company's stock levels are as claimed, it is another to assure that forecasts are reasonable.

This section focuses on issues around capital maintenance, graduated audit findings and forward-looking information. Section 5 of this document surveys discussions with respect to ESG, cyber and fraud.

While we focus here on specific issues around audit, it is important to bear in mind that participants consistently emphasised that audit is just one part of the ecosystem and that solutions could also be found in strengthening accountability of management and ACs.

3.1 The risks of moving to graduated audit findings

One potential solution is to move away from binary reporting to **graduated audit findings**.[9] Regulators in France suggested that it would be "in the public interest to provide information that the public does not have and which is not communicated elsewhere by the company" and that on this basis "a graduated report would be useful if a right balance could be found between judgments and disclosure of risks."[10]

However, in general, respondents were concerned that a shift to a graduated approach could be problematic – and might even exacerbate some of the public misunderstandings about audit. An

[8] GPPC Stakeholder Outreach, Australia, Page 3
[9] *In discussion, the term 'graduated audit findings' was not specifically defined but related to the idea of replacing the binary pass/fail judgement with a graduated response reflecting different levels of caution or optimism.*
[10] GPPC Stakeholder Outreach, France, Page 3

auditor participant in Japan suggested that a shift to a graduated approach "would be very challenging for auditors", citing risks around inconsistent application and suggesting that such an approach might even "widen the expectation gap."[11] These concerns were echoed by other groups, with some suggestions that effective audit committees would be able to mitigate risks.

In general, participants were more positive about solutions that complemented the binary judgement rather than ones which replaced it.

3.2 Clarity around the role of judgement is particularly important around capital maintenance and dividends

There was a general recognition that decisions on dividends are the purview of management, held to account by the board of directors and shareholders. For example, participants in the Netherlands said that "a proposal regarding dividend must come from management and the supervisory board on the general shareholders meetings, not from the auditor."[12] This position was particularly important to participants with management and board roles, but it was widely endorsed.

In Australia, participants highlighted the importance of the context well beyond audit. Since 2010, companies have only been able to pay dividends where doing so "does not materially prejudice the Company's ability to pay creditors." This test, coupled with different tax treatment of dividends and different shareholder expectations, means that "capital distributions are rare in Australia."[13] The issue around the legitimacy of dividends is addressed not through a modification of the going-concern test, but in another part of the regulatory system.

That said, there were dissenting voices. An AC participant in Singapore suggested that "all stakeholders in the ecosystem [are] responsible for assessing solvency in the context of dividend distribution – management ensures sufficient reserves and cash and auditors [are] required to check."[14]

3.3 For investors, assurance around forward-looking information would be a big step forward

Forward-looking information goes to the heart of what investors care most about. However, it is challenging from an audit perspective as it involves predictions.

In India, where KAMs have been required as a part of extended audit reports since April 1st 2018, a preparer participant suggested that "separate reporting should be introduced on the solvency of the entity" with an investor participant in the same group saying "whilst the auditor may not be in a position to provide assurance on the forecasts or solvency in its entirety… they should be able to provide comments on the assumptions used by management in assessing liquidity positions as well as long-term solvency."[15]

[11] GPPC Stakeholder Outreach, Japan, Page 7
[12] GPPC Stakeholder Outreach, the Netherlands, Page 5
[13] GPPC Stakeholder Outreach, Australia, Page 10
[14] GPPC Stakeholder Outreach, Singapore, Page 13
[15] GPPC Stakeholder Outreach, India, Page 10

A preparer participant in the US suggested that the audit profession "should be more strategic and forward looking."[16] This view was echoed in conversations across a number of other markets. In Germany, it was argued that "prospective information should be an essential part of the statutory audit of the future."[17]

Participants in some other markets, however, were opposed to auditors assuming any responsibility for assurance of forward-looking information. In Singapore, for example, there were "no strong calls from stakeholders to expand audit scope with respect to assurance over forward-looking information."[18]

3.4 Potential solutions

These are all difficult problems to solve, but various participant groups raised a number of potential ways forward. As with all of the ideas in the document, these are options to consider, not recommendations. They did not receive universal approval in the discussions in which they emerged and were not debated in every discussion.

3.4.1 IPO disclosures and forward-looking information

In Australia, participants discussed assurance around IPO disclosures. These contain information that is forward-looking, crucial to judging the potential of a company and is subject to external assurance. Audit standards setters could look at this process for new ways to think about how to provide audit of a more nuanced and investor-centric picture.

In Germany, companies produce a management report which contains a future outlook with information that is subject to audit and reasonable assurance. The German regulator has developed standards which set out management's reporting duties. This is also a model to look at.

3.4.2 Introducing a standardised liquidity test

Another approach that may address expectation gaps around the going-concern test is to introduce a standardised liquidity test. The idea was that this could take account of how sensitive a company is to shifts in liquidity within a 12-month timeline, modelled on the stress tests for banks. If such a test were to be introduced, work would need to be undertaken to ensure that it was able to serve various sectors, markets and company sizes. As auditors in Australia noted, "if cash flow analysis can be done well for impairment testing, it should be able to be done for going-concern testing with the same amount of rigour and framework."[19]

3.4.3 Introducing a long-form report for audit committees

[16] GPPC Stakeholder Outreach, USA, Page 3
[17] GPPC Stakeholder Outreach, Germany, Page 3
[18] GPPC Stakeholder Outreach, Singapore, Page 14
[19] GPPC Stakeholder Outreach, Australia, Page 2

This approach was introduced in France in 2018. Whilst such reports are not perfect and can slip into boilerplate language, there was a recognition that they are "an excellent working tool for the audit committees and a valuable basis for extended exchanges with auditors."[20]

3.4.4 Going-concern assessments as a separate and distinct report

In Singapore, participants suggested that going-concern assessments become a report separate and distinct from audit and viability statements in order to provide stakeholders with timely and useful information.[21]

4. How to balance a system of rules and regulations with the importance of judgement

Rules are vital to guide auditors and ensure consistency. However, there is concern that they can become boxes to tick and limit the ability of audit to provide scrutiny. The alternative is to ask auditors to use their experience and judgement more – but that could come at the cost of predictability and consistency. This section discusses how participants felt that circle could be squared.

4.1 Over-reliance on boilerplate text restricts meaningful information

In Singapore, participants said that investors relied on clean audit reports – but generally without reading them.[22] This sentiment was echoed in other groups, who felt that the current framework relies too heavily on boilerplate text which fails to provide meaningful information about risk to investors and other relevant parties. This may mean that investors do not make as much use of audit reports as they otherwise might.

This view was echoed across several markets. In India, the view was that "retail shareholders find it difficult to read and understand the current audit report, owing to the boilerplate language and technical jargon used."[23]

All in all, this creates a situation in which management assertions and audits can be technically compliant, but without being as useful as they should be. Even fairly recent innovations like the viability statement, introduced in order to get company directors to assess longer-term risks to their business models, can become relatively uninformative documents.

4.2 Adding more rules and regulations may not be the way forward

In France, the work of external auditors was currently deemed to be of good quality. However, concerns were raised by AC participants that "looking ahead, an increase in regulation, inspections and controls, coupled with a rise in uncertainties impacting companies" could lead to a situation in which auditors are "tempted to reduce their liabilities and exposures by restraining the valuable qualitative nuances of their reporting on findings, thus transforming the audit into a pure 'tick the box' clinical approach."[24]

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[20] GPPC Stakeholder Outreach, France, Page 2
[21] GPPC Stakeholder Outreach, Singapore, Page 9
[22] GPPC Stakeholder Outreach, Singapore, Page 2
[23] GPPC Stakeholder Outreach, India, Page 2
[24] GPPC Stakeholder Outreach, France, Page 1

Given the concern about graduated judgements, and the support for more qualitative audit outputs - ranging from KAMs to auditors playing a more active role at AGMS - it may be that the way to address the lack of nuance in a binary judgement is not to replace that judgement, but to be clearer that it is just one part of a rounded audit assessment.

Moreover, as was argued in the response from Singapore, the "strength of internal controls and quality of financial reporting stems from within the company and cannot be derived from an external audit."[25] It is therefore important to think about how to improve the quality of corporate information by thinking about the whole ecosystem, not just audit.

This also needs to be looked at in the context of the global economy. Having different standards and rules in different markets creates inconsistencies and administrative burdens. As CEOs and CFOs in France noted, "EU audit reform has produced a far more complex system with 27 options for 28 countries creating inconsistencies and administrative burdens for large multinational companies."[26]

4.3 Audit reform in the context of the wider ecosystem

Concerns about ever greater specificity around audit did not mean participants felt the status quo should remain. There were vibrant discussions about how to improve assurance around the quality of company information by thinking more holistically.

One topic of importance is the role of the AC. A concern raised in Australia was that interactions with ACs can lack structure and boards may not have the skills to interrogate financial information as effectively as they perhaps should.[27] There was also concern among academics that there is a "trade-off between independence and auditor competence."[28]

A further area of focus was management's responsibility around ensuring robust internal controls. When asked whether there ought to be a more explicit statement from management regarding the effectiveness of internal controls, Dutch respondents coalesced around such an approach.

However, there was a difference of opinion as to whether such a statement should itself be subject to audit. American participants were largely supportive of the provisions in the 2002 US Sarbanes-Oxley Act (SOX), noting that its implementation had delivered a range of benefits including "the shift of focus to internal controls, which allowed the auditor to better understand business operations, and required additional focus from management."[29] There was also an emphasis on the powers of the PCAOB as a strong regulator.

On the other hand, concerns were raised elsewhere that legislators and regulators ought to "beware of making extra laws and regulations in a field where the number of rules and regulations is already very high [and] of choosing form over substance, risking more risk-averting behaviour by both the external auditor and audited entity."[30]

[25] GPPC Stakeholder Outreach, Singapore, Page 2
[26] GPPC Stakeholder Outreach, France, Page 2
[27] GPPC Stakeholder Outreach, Australia, Page 10
[28] GPPC Stakeholder Outreach, Australia, Page 11
[29] GPPC Stakeholder Outreach, USA, Page 3
[30] GPPC Stakeholder Outreach, The Netherlands, Page 3

4.4 Liability

If auditors are asked to have broader opinions, they need to know that expressing them will not create unsustainable liabilities. As noted above in the case of France (4.2), there needs to be an appropriate system of capping liability to ensure audit is a viable business.

4.5 Potential solutions/recommendations

4.5.1 Greater dialogue between auditors and investors

There are several ways in which this dialogue can be facilitated, both pre- and post-audit. A proposal from the Netherlands is for shareholders to meet with auditors while the audit plan is being developed, allowing them to "have a say, discuss the scope and learn more about what the external auditor does."[31] This would have the advantage of reducing the expectation gap, although it would also change the role of the auditor by opening up a direct line of communication beyond the audited entity, and as such should be explored via a pilot scheme.

Likewise, auditors could have more freedom to respond to questions from shareholders at the AGM**,** as already happens in the Netherlands. This idea was strongly supported by Australian retail investors who wanted auditors to appear at AGMs and "better articulate their role."[32]

4.5.2 Implement SOX-type reforms to drive management behavioural change

SOX made it clear that ultimately, management is responsible for accuracy of accounts. This in turn has helped to drive behavioural change inside companies, particularly with respect to internal controls. Adapting principles from SOX in other markets could therefore have a positive impact on behaviour without creating complex new reporting rules.

That said, these principles need to have teeth in the form of appropriate sanctions for non-compliance. This is evidenced by the Japanese experience where requirements were introduced regarding management assessment of Internal Controls over Financial Reporting (ICOFR) and auditors' attestation thereto. However, according to Japanese respondents, "unlike the US, the number of accounting failures has not decreased as expected… it is thought that strengthening the entire ecosystem around financial reporting is essential."[33]

Indeed, the view from US stakeholders is that "SOX was largely successful due to its holistic view of the financial reporting chain, which provided clarity on the roles and responsibilities throughout the chain – including management's ownership of financial reporting, internal controls, and the related certifications. As a result of SOX, there has been a reduction in the number and size of restatements."[34] Japanese stakeholders concluded "ICOFR is effective to prevent employee frauds but is not effective to prevent management frauds. To deter internal control over-rides by the top management… legislation of a severe punishment thereto would be the most effective."[35]

[31] GPPC Stakeholder Outreach, The Netherlands, Page 7
[32] GPPC Stakeholder Outreach, Australia, Page 7
[33] GPPC Stakeholder Outreach, Japan, Page 4
[34] GPPC Stakeholder Outreach, USA, Page 2
[35] GPPC Stakeholder Outreach, Japan, Page 4

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4.5.3 Meaningful commentary
In South Africa, participants suggested an idea that may complement one already suggested in Singapore: the risk of devolving to boilerplate language could be mitigated by requiring "compulsory meaningful commentary on how prior year disclosures were resolved or dealt with."[36]

5. Proportionality of recommendations in terms of costs to business

The changing nature of society and investor expectation means there is more that is of public interest and potentially should fall under the purview of statutory audit. Fraud, ESG and cyber-security are all major areas of discussion.

Recognition of the growing importance of these areas did not translate straightforwardly into increased demand for across-the-board statutory audit around these issues. There were significant concerns around

- potential cost – particularly to smaller businesses and charities
- proportionality – even if the cost is bearable, there were questions about whether it would be proportional to the value created
- standards - whether the universally acknowledged standards exist to act as benchmarks against which audit is possible

5.1 Cyber security: *a growing risk where assurance is increasingly needed*

There is potentially a greater role for audit when it comes to assessing cyber security. Investor participants in Singapore said that auditors needed "to expand competencies related to IT systems and cyber security"[37] whilst there was a consensus amongst participants in the US who identified cyber as an area where "auditors' involvement may be in demand."[38] In Japan, meanwhile, auditor participants said that "there should be robust discussion to evaluate whether these [cyber] services are really expected by market participants."[39]

A key issue was skills. Preparer US participants suggested that "with the current technological and innovative change, the audit firms' [multi-disciplinary model] is very important to the capital markets because the work they do around technology and cyber will allow for a better audit product."[40]

The key question was not whether cyber-risk is increasingly important, but instead whether statutory audit is the right mechanism or if it creates a disproportionate cost.

5.2 Fraud and the risk of widening the expectation gap

[36] GPPC Stakeholder Outreach, South Africa, Page 14
[37] GPPC Stakeholder Outreach, Singapore, Page 7
[38] GPPC Stakeholder Outreach, USA, Page 9
[39] GPPC Stakeholder Outreach, Japan, Page 6
[40] GPPC Stakeholder Outreach, USA, Page 11

The dominant view was that there is a need for greater clarity about the *limit of audit* in respect of fraud, rather than greater investigation of fraud. At the same time auditors expressed an openness to an enhanced role in fraud detection. For example, an auditor participant in Canada suggested that auditors “need guidance in this area… a gap exists between the current standards and the public’s expectations.”[41]

A key concern was that anything short of forensic investigation would be insufficient to detect well hidden fraud. Adding that as a responsibility would be disproportionately burdensome but falling short of that would widen rather than reduce the expectation gap – contrary to expectation, fraud would still exist without being detected by an expanded audit. Instead, participants felt that the key responsibility to prevent fraud lay with the CFO and management, overseen by the board.

Participants in Australia said that when it came to giving auditors more responsibility for fraud detection “there was a lack of support… given the likely costs involved.”[42] This was echoed by participants in Japan who said that “consideration should be given to whether benefits of doing so would outweigh costs.”[43]

Inevitably, some groups were opposed to auditors taking on responsibility for spotting fraud, with CEO/CFO participants in France saying, “auditors do not have the role of police investigators” and that giving them such a role would “alter the mission of auditors and the trust relationship with management and governance.”[44] In South Africa, a corporate governance expert participant was implacably opposed to giving audit responsibility to detect fraud, saying “fraud should never be made the responsibility of the auditor to detect.”[45]

5.3 ESG: *a new frontier, but where standards do not yet exist*

This is increasingly important, but there is a question mark over whether this should fall under audit rather than assurance, especially around the E and S parts of ESG.

With respect to audit, the focus was on the elements of ESG that relate to a business’s viability. In Japan, user participants were clear that ESG could be useful in enabling “users to assess whether a business is sustainable.”[46] In the US, it was argued that “US investors tend to want data that supports a company’s long-term value creation, whereas European investors tend to want ESG data that communicates the company’s values.” In the US, one participant emphasized this point, saying “standards need to be linked to long-term shareholder value if they are required for listed companies and opined on by auditors.”[47] In France, some respondents suggested that “financial and non-financial [information] should be reviewed by auditors with a level of assurance to be determined for the latter.”[48]

[41] GPPC Stakeholder Outreach, Canada, Page 6
[42] GPPC Stakeholder Outreach, Australia, Page 8
[43] GPPC Stakeholder Outreach, Japan, Page 6
[44] GPPC Stakeholder Outreach, France, Page 6
[45] GPPC Stakeholder Outreach, South Africa, Page 22
[46] GPPC Stakeholder Outreach, Japan, Page 9
[47] GPPC Stakeholder Outreach, USA, Page 8
[48] GPPC Stakeholder Outreach, France, Page 7

A second issue is around the availability of suitable auditing standards. As an auditor participant in Japan argued, "it would be very challenging to provide assurance services on information… where a suitable criteria that is commonly understood is not available."[49] This point was echoed by participants in the US, who said that "investors want definitions, and globally accepted standards developed around it, and do not consider much of the currently available information [on ESG] to be reliable."[50]

The question behind all these potential evolutions is the extent to which these should be mandatory aspects of audit. The challenge is that increased audit entails increased cost, and whether the market would be willing to pay for it.

5.4 Potential solutions/recommendations

5.4.1 Modular audits and new frameworks
Audit could be made modular, with freedom for ACs and investors to decide whether they want to add the cyber or ESG modules for example. These modules could then have the same requirements around robustness and disclosure as other elements of statutory audit.

This would depend on the development of appropriate frameworks for audit around these issues.

5.4.2 Framework of standards for internal controls
Internal controls are a crucial part of the governance system. At the moment, management has to vouch for the quality of controls in only some jurisdictions such as India, Italy and the US, and audit offers a direct verdict on the state of internal controls. While markets that included assessment of internal controls were broadly supportive of the value of such measures, there was more scepticism elsewhere.

As discussed in Section 4, there is a case that management should have a SOX-like responsibility for attesting to their reliability and audit should explicitly assess their strength.

5.4.3 Make use of new technological innovations
If audit standards reflected the transparency and certainty that comes through distributed ledger technology, it would allow auditors to spend more time on other issues that require human scrutiny, including evaluation and judgement, with a lower impact on total cost. In the US, preparers noted that with such technology, "companies are starting to create systems that look at information in real-time – and there will be opportunities for assurance work around these new systems."[51]

6. Conclusions

Across the discussions, a range of ideas emerged. All had pros and cons, supporters and dissenters. It is however clear there is support for change that reflects transformations in the practice of business and society's expectations. This paper puts forward a range of potential solutions for wider

[49] GPPC Stakeholder Outreach, Japan, Page 9
[50] GPPC Stakeholder Outreach, USA, Page 8
[51] GPPC Stakeholder Outreach, USA, Page 7

consideration without itself explicitly coming down in favour in any of them, but there are six points that emerged clearly:

1) Stakeholders broadly find value in audit. However, there is demand for change. The world is changing and within this context there is a clear interest in assurance on forward-looking, non-GAAP and non-financial information. Given this, audit needs to, at least, keep pace.

2) Audit is part of the wider financial ecosystem. Concerns around the way companies manage risk can be only partially addressed by reforming the audit report – all market participants will need to contribute.

3) There is demand for more nuanced communication to investors and wider society about the risk profile and prospects of companies. Audit reform is part of the answer to this.

4) There is concern that more regulation and new technical standards will lead to more box-ticking rather than less.

5) Process reforms will be important, determining the way auditors relate to ACs, investors and the wider world.

6) To sustain support from the wider business community, it is important reforms are effective and have cost implications that are proportionate to the benefit they deliver.

We hope these ideas will provide useful stimulus as you think about how to design the right kind of change. We would be happy to arrange face-to-face discussions to elaborate on these ideas or provide further commentary if that would be helpful.