The Brydon Review on audits -

A personal perspective from Ross K Graham, Chairman of Keywords Studios plc

The document entitled "Independent review into the quality and effectiveness of audit" launched on 10th April 2019 is, to my view, excellently laid out and covers the guts of the main issue. Other reviews are taking their course including the Sir John Kingman's review and CMA study, both primarily concerned with the structure of the audit profession, how auditors are appointed etc. I have responded to these studies, see attached letter to Greg Clark, with its own enclosure and to my mind they all miss the point. The idea of setting up yet more and/or different regulatory bodies in the blissful hope that somehow by changing the name and mucking around with the structure of regulation you will suddenly find people with super powers able to review the way things are done and in an instant identify weaknesses and somehow prevent the failings that have become apparent, is frankly pious hope. Indeed one is reminded of the quote by Einstein who said words to the effect that to do the same thing twice and expect a different result is his definition of stupidity.

In my view, indeed as I said in my earlier responses, it is how audits are conducted that needs to be put under the microscope. It is not as though non executive directors acting on plc boards are a group of half-wits, nor, must it be said, is the audit profession staffed by people operating in the Dark Ages, but there can be no doubt that many of the recent causes celebres, whether it be Carillion, Patisserie Valerie, Tesco or whatever, should have been identified by the companies' auditors as being of concern. In my judgement the real problem is that auditors do not give themselves time to really understand what is going on in the business under review and nor, in my experience, do they use advanced computing and analytic techniques that should assist. In the 1960s and early 1970s all companies which were audited were the subject of a systems audit, during which all of the main accounting and internal control systems were flow charted and a careful examination given to assess potential weaknesses in the system of checks and balances. Nothing like that seems to happen today. Likewise the era of statistical sampling was used as a means of obtaining confidence that the number of transactions which were specifically tested could create a confidence level that the whole complied with the sample. Forty years on one sees an audit comprising what is frankly a fairly cursory review of some of the systems and a management letter that does not really touch the surface. All focus on the accounts seems to be to ensure that the final results comply in some way with international accounting standards (themselves a complex mesh of inconsistent principles) and a (mainly) balance sheet focused audit on the top level overview undertaken with too little time at the last minute to make sure that everything "smells right". Within each business there are a number of Key Performance Indicators (KPIs) and Alternative Performance Measures (APMs) that should be a guide to how the vital statistics of a business are trending. These do not seem to be given much attention by the auditors and yet I would posit the view that these are absolutely key to an objective assessment as to what is going on, always assuming that the underlying financial data is itself correct. In fact there is a recent publication called "The Art of Statistics: Learning from Data" by David Spiegelhalter which highlights how statistics properly applied can be used to very good effect. A well known principle "Benford's Law" can be used to assess whether any figures have been tampered with by looking at the mix of the initial digits of all numbers that have been subject to any computation. So far as I know, none of the large audit firms run the accounts (and I include in this management accounts) through a computer to see whether Benford's Law has been complied with.

We are also in an era where computers can beat humans on straightforward games such as Chess and Go; it should not be beyond the wit of man for all management accounts to be put through a series of programmes to make sure that they are consistent amongst themselves, but also to pull out trends or other anomalies that should be the subject of greater investigation.

My hope is that the Brydon Review will highlight whether audits can be improved and as such enhance the reputation of the UK as a premiere place to do business. That is, I believe, in stark contrast to the posturing by governments and the feudal lords of regulation which are likely to damage the UK as a place to do business in a number of ways. Any new regulations will complicate the business and running companies; the regulations and new bodies introduced to oversee them will achieve absolutely nothing and will just add serious cost to the whole compliance process. This would not be a very informed approach.

I have addressed all the questions posited by the independent review document and its "call for views". My observations are attached and in each case I have reproduced the questions and then given my answers to each (sometimes in combination form).

I look forward to the results of the Brydon Review with great interest. If it makes the audits more expensive then, frankly, so be it but in actual fact I do view the take home pay of many of the senior partners in the large firms of accountants with incredulity. That said, I do have one thought that may be worth wider consideration and that is the idea that the test as to whether a firm of accountants has been negligent should be made such that only areas of gross negligence and/or fraudulent behaviour would make a firm liable. By this simple expedient one would or should reduce the PI costs of firms massively, thereby reducing a major area of expense, at the same time firms could then cut out much of the boiler plate which clutters up audit reports and makes them difficult to read. It should also enable firms to be much more ready to comment on forward looking statements in the knowledge that they would not be sued if their views proved to be incorrect. At the same time I would like an independent regulator such as the FRC (which to my mind do a perfectly good job at present) to maintain a register easily accessible on the performance of the audit firms and how well they did in terms of reporting on key aspects of client companies. If this was all available the market would be much more transparent and we, the company directors, could then choose which firm to appoint with greater assurance. This litigation and blame mentality is seriously damaging, in my view, to good practice. It has grown from its birth place in the US and frankly should go back where it started.

My case rests and I wish the Brydon Report team every success in its noble venture.

Ross K Graham
April 2019

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

To all who rely on the Company's stability and financial well-being looking at least 12 months hence.

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

Financial well-being is the natural limitation; the financial statements and strategic report are the basic documents from which confidence is drawn.

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?

Yes - the above principles should be enshrined in law but with a crucial caveat. Litigation against auditors should be limited such that they will be liable only in cases of gross negligence [articulate rationale].

Q4: Do respondents consider there is an expectation gap?

Of course an expectation gap exists. It is most obviously in evidence when a significant fraud comes to light and/or when a company fails having been given a clean bill of health.

1. Tesco, Patisserie Valerie
2. Debenhams, P V again, Corillion, Banking crisis 08/09

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

It arises when commentators say "what on earth were the auditors doing. All the foregoing are prime examples.

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?

In each of the causes celebres mentioned one should ask whether a good audit/auditor would have spotted the latent issue and not given an unqualified audit opinion. This, to my mind, goes to the nub of the issue.

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

Personally I think the audit per se should be limited to financial probity and financial sustainability. If shareholders desire other aspects to be audited/vetted they should ask.

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?

The level of assurance should be a constant regardless of industry or business risks. If those risks mean the auditor cannot "sign off" the accounts, the nature of the qualification should explain why.

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

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

The external auditors should have access to all information and tools that can assist in the forming of the audit opinion. Internal audit is one such set of tools but their influence and effectiveness is for the external auditors to determine.

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?

Independence, perceived and actual, is naturally important. I don't believe this has hampered market innovation or audit quality.

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?

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

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 Judge's pronouncement in the Caparo case provides a good blueprint on what might reasonably be expected from an audit.

The audit standard which flows naturally from the above can only be met if the audit covers the internal systems and controls. In my experience this is an area covered only superficially by the audit of large companies where there is far too little real analytical work done to test the robustness of the financial data produced internally and its reliability to generate valid Accounts.

Part of the problem lies in the complexity (and, in some cases, inconsistency) of International Accountancy Standards. Considerable time and expertise is expended in ensuring Accounts comply with IAS; this comes at the expense of the auditor standing back and considering were, in this pile of manure, is the horse!

Going back in time part of an audit was the flowcharting of all internal systems - that has all gone.

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

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"

Going concern reporting is a chimera. Of course it is implicit in an auditor's signing off the Report & Accounts including, in particular, the Strategic Report.

Personally I do not believe the auditor should have to say anything more than should be included in the Accounts and Strategic Report other than, maybe, to highlight what the Directors are relying on to see the Company through the next 12 months. The Strategic Report is meant to be "fair, balanced and understandable" - if it meets these criteria it should have provided all the information necessary for the Auditor to "pull the plug" by openly challenging Directors' conclusions so long as all the underlying factors are clearly flagged.

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

Q18: Should such a statement be subject to assurance?

Q19: Who might be capable of giving such assurance?

See my answers to 15 and 16. The same considerations apply.

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

Q21: Would audit or assurance over financial and non-financial information outside the annual financial statements (for example KPIs or no -financial metrics, payment practices or half-yearly reports) enhance its reliability and therefore be of benefit to users?

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

The Strategic Report is, in my view, absolutely key to this whole area. It should provide a clear portrayal of the business and financial model (separately for different business areas). From this the Key Performance Indicators (KPIs) used internally and the Alternative Performance Measures (APMs) should be articulated and explained as part of the (audited) Strategic Report. Also, the cash generating (or absorption) characteristics of the business model should have been plainly expressed.

As I have explained earlier, I am no fan of IAS and the rigid application of such rules as opposed to flexible principles. In such a world, relevant KPIs and APMs are crucial to a reader's understanding of the business under review (allied to the principal risks and their mitigating factors).

If the Auditor believes any of the KPIs and APMs are irrelevant or misleading it behoves him to say so.

Q23: Do respondents agree that the value and quality of the audit product should be considered separately from the effectiveness of the audit process?

As value and quality of "the audit product" is not likely to derive from the effectiveness of the audit process, it seems illogical to view them separately. Naturally the former gets the attention but its causation is (most likely to be) the latter.

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?

Evidence of the audit process is naturally important for subsequent review and inspection. I doubt whether in reality completing the audit file actually affects in any way the focus on audit judgements.

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

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

Q27.What would prevent such disclosures becoming boiler plated?

As mentioned earlier, the Auditor should have been satisfied that the Annual Report & Accounts - essentially the Strategic Report, KPIs & APMs and Financial Accounts - taken together provide a satisfactory reflection of the Company's financial position, its business model, principal risks and outlook. All the foregoing should be "fair, balanced and understandable". The Audit report should therefore have scope to highlight salient factors for a proper appreciation of the Report & Accounts while also being considered a "clean Audit report". These highlights could and should be very Company specific.

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

The curiosity, to me, is why auditing has not been more innovative in its use of statistical analysis and technology based tools. Maybe standards setting has played a part, but a number of other factors are also at work.

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?

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?

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

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?

Firstly I should emphasise that I fundamentally disagree with virtually all of the Kingman conclusions and recommendations. Greater regulation in whatever form is not the answer.

The Auditors responsible should be focused on the quality of the Report & Accounts. This perforce must take into consideration the processes by which the data is compiled.

The number of companies that fail because profits have been distributed by way of dividend improperly is very small. "Distributable reserves" is little more than Accountants' jargon: the crucial thing is whether the Company can afford to pay a dividend i.e. has sufficient cash reserves to do so. This should be the focus of debate in this area.

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?

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?

Q35. Should there be enhancements to the extended audit report, such as an obligation to update on key audit matters featured in the previous audit report?

See my answers to questions 25/26/27. An extended Audit Report along the lines I have suggested should suffice.

The Auditor attends a Company's AGM as a matter of course. Maybe an "assurance" section of the AGM could be introduced enabling shareholders to ask pertinent questions of the Auditor. The Directors could then provide their perspective to such questions at the AGM if their views differ from those expressed by the Auditor.

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?

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

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

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

A material fraud should b detected by good audit practices. If not, how can the Auditor have been satisfied on the quality of the Report & Accounts?!

All major frauds are detectable because, normally, cash has gone missing. It is in this area that advanced statistical analytical tools should be capable of being deployed; these would highlight distortions and abnormalities requiring specific additional research.

Minor frauds can easily escape detection so there needs to be a materiality threshold. In all cases the "reasonable person" test is the natural criterion to be applied (anti facto rather than post facto).

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

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

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?

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?

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?

In my world the bar would be raised significantly as to what constitutes suable negligence. So much blather and boilerplate is expended in protecting Auditors against loss. This extends to their being unwilling to opine on any forward looking statement. The PI premiums only add (significantly) to the cost and users of Accounts rarely hear what the Auditor really thinks because of the ever-present threat of litigation.

Removing the exposure to litigation (other than in extreme cases) would make the whole process more open. Innovative practices would evolve and those Audit firms seen to be leading the charge would benefit, others would decline.

Q45. How far is new technology actually   audits today? Does the use of technology enable a higher level of assurance to be given?

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?

This opportunity has been addressed in earlier responses. In my experience Auditors use very little advanced technology - few have even heard of Benford's Law!

The auditing world should be able to put all forms of Accounts through a technology scanner in order to highlight trends and distortions. AI is the next step.

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

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?

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

Q50.How should the cumulative costs of any extension of audit (whether stemming from this Review or other drivers of change) be balanced against the likely benefits to users?

The current audit process does not give value for money because it is neither fish nor fowl. "Fish" would be the expensive route reviewing all internal systems so as to provide a rigorous understanding on what is going on under the bonnet etc. "Fowl" might be a much less expensive, more desktop, analytical review of management accounts and other metrics to alert the Directors and Auditors to areas that looked "fishy"!

As a basic truism greater regulation nearly always costs more to implement than were those it is designed to negate. This is bad for business and bad for the UK as a pre-eminent country for financial services.

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?

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

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?

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

These questions should be answered by investors. However, as a plc Chairman I find it surprisingly difficult to attract the attention of shareholders on any matter other than remuneration!

Some "ethical" shareholders may look at the Report & Accounts to ensure compliance with whatever is mandated (environment, diversity etc), but I see little evidence that the general body of shareholders spends much, if any, time poring over the R&A.

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

Culture is beyond the Auditors' remit.

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

The expanded Audit report would be the window for the Auditor to demonstrate the robustness of the whole review process. This could be expanded upon if the AGM were teo be opened up and contain a section where the Auditor was questioned on specific matters.

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

Auditors' remuneration is time-based. I'm not sure more information would add much.

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

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

As made clear earlier (47/48/49/50) the costs of an audit appear out of kilter with the benefit received. The fees themselves are time-based but that doesn't mean the right level of personnel has been directed to the right issues.

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

Part of the reasons for high audit fees is the very high remuneration allegedly taken by partners of the Big 4. In my view the profitability of the audit function is not an issue; the question is whether sufficient resources are going into technology as opposed to partners' pockets.

Dear Mr Clark

Improving the provision of audit services in the UK - various initiatives Under the Department for Business Energy and Industrial Strategy (BEIS)

As a long standing company director, I am concerned by the numerous initiatives that seem to be flowing from the Government on the above topic such as changes proposed to the FRC, wholesale modifications to the oversight of the large firms of auditors and other matters. To that end, I prepared a paper for Steve Varley, the Senior Partner of E&Y, given that I am a former partner in that organisation (albeit never an audit partner).

My concern is that, although well meaning, the way in which the regulatory requirements are couched is not going to achieve any good whatsoever and produce a sort of regulatory mayhem and disadvantage the UK as being the premier place of business for large international companies.

I enclose a copy of my paper which I hope you will have time to read. I am far from saying that the way in which audits are conducted is up to the mark so I think the working party described as the Brydon Review is definitely worthwhile as much as anything to address the expectation gap between what an audit can and should provide in terms of assurances and what it actually does.

Hopefully once the wretched Brexit caravan has reached its end, you and other Ministers can concentrate on the important things in life - I hope outside the confines of Europe.

Best regards
Ross

Dear Steve

<u>Reforms proposed in respect of FRC and the Audit Market</u>

Recently you sent through a note to the EY Alumni on the above matters outlining the EY view on the proposed changes and seeking any observations from past partners of EY (or in my case AY). As seems normal these days, there is a flurry of activity from various different quarters all dealing with the same thing and in this particular instance there is:

- Kingman Review of the FRC (and the separate letter to Greg Clark)
- The CMA Review into Statutory audit services
- Brydon review into UK audit standards.

Also, I understand, a BEIS Committee is conducting an enquiry known as "the future of audit".

The view of the regulators, who appear to be as unrestrained as ever, is that somehow people can be magically transformed from ordinary people into super heroes merely by re-designating the name and/or function of a regulatory body in the anticipation that they will not only become super regulators, but human beings of a far advanced nature to those of us who serve as directors on company boards. Apart from the implied insult into the intelligence and integrity of many company directors, the whole process seems to be a charade to keep regulators in jobs and to give the impression of activity.

My analysis of the whole situation can be broken down as follows:

1) The problem.

   Of all the on-going reviews and enquiries the one by Brydon seems to be most appropriate, so let's start with that. In essence, he is saying:

   - Too many audits have been shown up as being inadequate with some very public casualties including:

     – Patisserie Valerie
     – Carillion
     – Tesco and
     – all the way back to the aftermath of the banking crisis.

   - In the circumstances it is worth asking a few simple questions:

     – Do auditors not spend enough time on the audit and if so is this as a result of trying to save money by clients?

     – Is the basic approach to audits mistaken so time is being spent on the wrong things? Focus on balance sheets of companies without looking at underlying systems is likely to produce an outcome where only the things which are visible are actually checked, whereas most of the areas of "wrongness" arise from things which are not evident.

– Are some companies, for example banks, just too complex to audit in the traditional way and is there an alternative approach which might be more successful?

– Systems and control weaknesses are almost certainly not being examined sufficiently closely.

– Accounting standards and compliance are so complex it is frankly difficult even for professionals to see precisely what is really going on.

– Some simple techniques even now are not being deployed; as an example I would refer you to Benford's Law of initial digits; how many audit firms are actually running a microscope over the accounts to make sure that this law holds good (if it does not, almost certainly it means there are manual inputs at the end of a process causing a distortion)?

My conclusion, staying on the company side of the fence, is that the audit profession really has only itself to blame because it has failed to meet what I would describe as the reasonable expectations of an auditor. If Brydon provides the necessary shot in the arm that should help considerably and weaken the argument of regulators worldwide to try and impose more onerous regulations on the long-suffering corporate sector.

2) Kingman and the CMA proposals.

In my view none of this will make a jot of difference in practice. I come to this conclusion having asked myself the following questions:

- Why would a new regulator do any better than the FRC?

- Why do all such "proposals for improvement" start off with a presumption that a team of supermen (superior to the previous regulators and obviously far advanced in intellect over the run of the mill NEDs) can come in and at the blink of an eye identify all the ills within a company?!

- Boards of directors themselves are already held to account, so how might any increased regulation make a difference other than to possibly scare good people away from putting their names forward to serve as NEDs?

- Do any of the proposed new corporate reporting proposals add anything other than noise to what is in place already(for example emerging risk is absolutely on the current radar)?

- Can future viability statements realistically be made "substantially more effective"? In my view they are a chimera at best and should frankly be scrapped.

- While strengthening the framework around internal controls and their effectiveness may be desirable, is a Sarbox regime likely to be cost effective (the cost of introducing and implementing this sort of regime will almost certainly cost more than the ills it is trying to redress)?

3) The Kingman side letter to Greg Clark.

Mucking around with the auditor appointment process is, in my view, a complete waste of time and therefore a waste of money. This whole idea is akin to the "taxation without representation" mantra which started the American War of Independence.

Kingman's proposals, and Kingman's effect overall, would, I believe, be the beginning of the end for the "comply or explain" concept. This distinguishes in a constructive way the UK's trust-based approach with the US-style civil code and the approach of Europeans.

4) The CMA Study.

This study and the proposed new regulations fall similarly into the Kingman trap in that:

- The proposal whereby audit committees report directly to the regulator both through the auditor selection process and throughout the audit engagement has a whiff of the Stasi about it. The concept of the regulator being allowed to have an observer at audit committees is, in my view, an outrageous intrusion and thoroughly offensive to the integrity of audit committee members.

- Mandatory joint audits would achieve absolutely nothing and just add to the cost. This seems to be a very French notion and should probably be kicked out for that reason alone!

- Peer review suffers from the same defects. Both this and joint audits will tend to diffuse responsibility to the benefit of no-one.

- A market share cap (on the Big Four firms) is at least relatively easy to implement, but personally I cannot see any real likelihood that it will improve quality.

- Of the measures put forward to support the "challenger firms" the only one that makes any sense is limiting the length of non-compete clauses.

5) Conclusion

The constant juggling with regulatory regimes is a classic case of regulators wanting to impose greater obligations on companies without regard to the basic principle that "the cost and disruption of (new) regulations should never exceed the cost of the failings they are trying to prevent".

By all means fine tune regulations, but this continual pulling out roots of the old arrangements and re-planting new ones is short-sighted - ask any gardener.

A recent behavioural study of Cass Sunstein "Going to extremes" makes the point that whenever like-minded people get in a room together, their initial moderate and balanced views tend to become more and more extreme. This seems to be what has happened inside both the Kingman and CMA working parties; it does not do the UK governance regime any favours.

London and the UK generally must stand for fairness, excellence and integrity but without mind-numbing adherence to unnecessary rules and regulations. The Brydon review (and it will be interesting to see its terms of reference and project plan) goes to the heart of the matter.

The UK's pre-eminence in the field of financial accounting is potentially at stake here. It would be a serious own-goal if pernicious and unduly onerous regulations were put in place that had the result of making the UK a less attractive place in which to do business. If there are serious weaknesses, let's address them, but not by means of mindless initiatives that will do nothing for quality but merely add to the costs overall of doing business.

Ross K Graham
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