Brydon Review - Please find attached some comments on the call for views.

At the outset it is important not lose sight of the fact that thousands of audits are conducted each year and they bring highly useful assurance to the shareholders and others

There are very many honourable, that is the word I would use, business people and businesses. Striving to make profits and grow, making things and providing services. They are not out to be unfair to or hoodwink customers, suppliers or tax authorities. They aim to be going concerns, they wish to be viable, they wish their businesses to be sustainable. They look for reliable figures to confirm their progress, they appreciate an audit can support this.

To use currently popular words I wondered if a “root cause analysis” of the alleged poor status of auditing today could be found.

Here are just some of the changes that have affected audits since the birth of the profession:

- The audit report has evolved and lengthened, but the core words still remain the same.
- Today’s audits can be highly complex - it would be far clearer in the 19th century to identify what had to be done to report on historic figures.
- Financial reporting was unsophisticated by today’s standards.
- Ethical behaviour was a given, though no doubt there was some unethical behavior. There was no need for the IESBA - International Code of Ethics for Professional Accountants Standard which runs to 200 pages.
- There were not the funds of money looking for a high return, not in new infrastructure but gaming what exists.

Do any of these developments give rise to the cause of the criticism of auditing today?

There are questions to be asked:

- Are not problematic audits linked to unsound business models?
- Are not problematic audits linked to selfish cultures and thus ethics?

Thus are auditors to be judges of ethics, morality culture etc? Question 55 touches on this. I do believe an audit culture is not the same as general business culture.
I do consider auditors have to be aloof.

Yours sincerely

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

The concept of assuring good Stewardship, that a shareholder's investment is in good hands, remains relevant. However, if you consider the wider question of materiality as discussed in

Making Materiality Judgements – IFRS Practice Statement 2 (September 2017)

"When making materiality judgements, an entity needs to consider the impact information could reasonably be expected to have on the primary users of its financial statements

Primary users are existing and potential investors, lenders and other creditors - users who cannot require entities to provide information directly to them
Other parties, such as the entity's management, regulators and members of the public, may be interested in financial information - however, the financial statements are not primarily directed at these other parties
Because primary users include potential investors, lenders and other creditors, it would be inappropriate for an entity to narrow the information provided in its financial statements by focusing only on the information needs of existing investors, lenders and other creditors"

- - then the notion of considering materiality judgements indicates that auditor have to be aware of intending users. I appreciate this is guidance and not UK law but it does set out IASB thinking.

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

Surely reliable figures are the bases for interpretation on performance and viability.

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?

Maybe company law needs to spell out what an audit means. We live in a more sophisticated world.

Q4 Do respondents consider there is an expectation gap?

The general public seem disappointed in auditors when material frauds occur or companies suddenly fail.

Q5 If so, how would respondents characterize that gap?

From the public perception it is why auditors do not detect more frauds and challenge executives motives – and this leads to the introductory comments on ethics and culture (and Q 55)

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?

The accounting profession’s governing bodies have highlighted the need for skepticism for some time now. But what are we to be skeptical about? Undoubtedly a contributory factor for some companies that have failed is that they have flawed business models and culture which is not challenged, but are auditors to judge these? Current examples that the press has comments on are public service utilities, some private equity deals, and care homes.

Should auditors express opinions, or comment in any way? This may not be helpful or in support of the shareholders but would be with respect to the companies, their viability and for the public good.

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

No comment

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?

Surely if audit planning detects a highly risky business (for whatever reason) then more work should be done or issuing a report declined. This raises the question as to how far auditors should go in commenting on businesses models and viability.

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

To auditors I would have thought yes – to the wider public maybe no.

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

Maybe ISA (UK) 610 (Revised June 2013) - Using the Work of Internal Auditors requires reviewing?

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?

Surely auditor independence and professionalism are paramount.

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?

Yes and yes

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

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?
Would a significantly flawed internal control system not lead to a qualified report?

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

It ought to be - it has been revised and updated so many times.

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"?

Standards and guidance on going concern have been strengthened and revised over the last few years. Is it just that today's culture – belief in 'spin' and the use of hollow words not to blame?

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

To many users of accounts sustainability has two distinct meanings. Financial and environmental.

eg Directors should be honest about the long term viability – an over geared coal burning entity is likely to be risky on both counts.

Q18 Should such a statement be subject to assurance?

Yes but what does an auditor do if being cognizant of the public interest he declines to comment

Q19 Who might be capable of giving such assurance?

An auditor with the support of experts – this is a valid argument for large multidisciplinary firms.

Q20. Is there a case for a more forward-looking audit?
It could be argued that IFRS accounting attempts to be too forward looking. Can

anyone forecast the future?

What would be the main benefits and risks?
The benefits would be that we'd all be winners

Q21: Would audit or assurance over financial and non-financial information outside the annual financial statements (for example KPIs or non-financial metrics, payment practices or half-yearly reports) enhance its reliability and therefore be of benefit to users?

No doubt yes – but would this not simply be a competent analysts report

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

No comment

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

Absolutely

Q24. Do respondents consider that emphasis placed by auditors on 'completing the audit file' for subsequent FRC inspection can eclipse the desired focus on matters requiring the exercise of considered judgment?

Yes

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

Lawyers might have more work!

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

Again a difficult and maybe dangerous path

Q27 What would prevent such disclosures becoming boiler plated?

Very little – we would be spouting hollow words
And being very cagey in what is said.

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

Maybe the auditing standards are too demanding in some areas.

29 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?

Auditors are required to determine compliance ISA 250.

Is it appropriate to distinguish between matters which may materially affect the financial statements and other matters?

This returns to the fundamental question, is today's audit an opinion on financial statements:

- the figures and related notes,
- on a much wider range of data,
- or also a report on compliance with every detailed piece of legislation.

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?

This seems to arise from the sophistication of today's accounting standards. Explain to users the basis of items in the OCI and other statements

Q31Should distributable and non-distributable reserves be required to be disclosed in the audited financial statements?

Definitely

Q32 How do auditors discharge their obligations relating to whether the entity has kept adequate accounting records? Are the existing statutory requirements effective in setting the bar for auditors at a high enough level?

The Companies Act, HMRC requirements etc seem to make matters clear.

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?

Yes

Q34 Should more of the communication and resulting judgments that occur between *the auditor and the audit committee be made transparent to users of the financial statements?*

Yes

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

Yes

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?

Is not too much being expected of what an audit can achieve?

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

If you take the ISA guidelines as the "law " then yes.

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

Surely materiality affects what might be detected.

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

Is this not done – for possibly material weaknesses in controls?

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

It may well be

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

I believe outsiders would think it led to poorer audits

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?

The introductory example of

Making Materiality Judgements – IFRS Practice Statement 2 (September 2017)

"When making materiality judgements, an entity needs to consider the impact information could reasonably be expected to have on the primary users of its financial statements"

To me suggests that some think so.

Q43 How might quality of the audit product be improved if the approach to liability was altered, and what reform might enable the most favorable quality improvements?

No comment

Q44 To what extent (if any) are firms unable to obtain the desired level of professional indemnity insurance to minimise the risk of being unable to meet a significant claim relating to their statutory audit work? How significant is this risk for both the largest firms and other firms undertaking audits of Public Interest Entities?

No comment

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?

It should help

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?

Endless – IF we are to give a wider opinion.

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

No comments

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?

No comment

Q49Does today's audit provide value for money?

Apparently not according to many smaller entity owners. BUT they do appreciate the external review

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?

I do not think that the audit opinion should be widened too far – eg giving opinions on the future.

Q51 What use do shareholders currently make of audit reports?
Not a lot until there is a problem

Are they read by shareholders generally?
I doubt it

What role does AI play in reading and analysing such reports?
More all the time – even for smaller entities.

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

It would be desirable – even to communicate two ways that there are no issues

Q53 How could shareholders express to auditors their ex ante anxieties to help shape the audit plan?
No comment

Should shareholders approve planning matters for each audit, including scope and materiality?
No

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

For smaller, private companies, directors and owners - knowledge of the business
For larger companies analyst reports etc

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

This would be very difficult – not to offend – the truth can hurt!

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

No comment

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

Yes

Qs 58-60

No comments