

# Independent Review into the Quality and Effectiveness of Audit

## Auditors' Advisory Group Meeting, 16 September 2019

### Summary Minutes

#### Those present:

Sir Donald Brydon  
Hywel Ball  
Steve Gale  
Michael Izza  
Scott Knight  
Gilly Lord  
Maggie McGhee  
Mark Rhys  
Phil Smart

#### Apologies:

Annie Graham

#### Secretariat:

Miranda Craig  
Robin Mueller  
Tom Barrett  
Paul Lee  
Mark Holmes (observer)

<b>1.</b>	<b>Introduction – agenda and general update</b>
	<p>Sir Donald welcomed those present and noted apologies. Annie Graham had provided her comments on the meeting papers as she was unable to attend in person.</p> <p>Sir Donald report that he would be using his upcoming speech at the ICAEW Audit &amp; Assurance Conference on 4 October to provide some information about the responses to the Review. Following that speech, he would be winding down engagement activities to focus on preparing the final report.</p>
<b>2.</b>	<b>Summary of responses to the Call for Views</b>
	<p>Meeting attendees had been provided with a summary of responses and breakdown of views expressed by respondents by chapter heading. The wide variety of views contained within the responses was noted. The following points were discussed:</p> <ul style="list-style-type: none"><li>• there were many references to over a dozen different types of 'gap', alongside the expectations gap;</li><li>• many respondents cited issues with IFRS as contributing to the perception that audit is broken;</li><li>• a theme of mindset change – less about standards and more about a holistic approach to both corporate reporting and the audit process, was identified. The current form of audit reporting is not addressing public concerns adequately;</li><li>• calls for wider, yet consistent, assurance were noted;</li></ul>

	<ul style="list-style-type: none"> <li>• the relationship between external and internal audit;</li> <li>• developments in graduated findings;</li> <li>• the visibility (or lack of) many parts of the audit process;</li> <li>• Auditor interaction with shareholders at the AGM and elsewhere;</li> <li>• Examples of good practice in other European jurisdictions such as Germany;</li> <li>• Fraud, and the role of whistleblowing in uncovering fraud;</li> <li>• Liability, the pricing of risk and insurance coverage for auditors, including the use of Limitation of Liability Agreements.</li> </ul>
<b>3.</b>	<b>Whistleblowing/Duty of alert</b>
	<p>Sir Donald noted that in the course of his work on the Review he had found the provisions and protections for whistleblowing employees to auditors, and auditors to regulator, unclear. It was also noted that issues around whistleblowing had been raised by the BEIS Select Committee.</p> <p>Some attendees had personal experience of having alerted a regulator but could also point to high-profile examples of where that had not occurred and perhaps should have done. It was noted that this was an area in which there were examples of good practice in public sector audit and that clear lines of communication between auditor and regulator, without creating a burdensome process, would be welcome.</p>
<b>4.</b>	<b>Capital maintenance</b>
	<p>One issue which Sir Donald had committed to considering during his Review was that of capital maintenance. He noted that there was a small group of investors with very firmly held views on the causes and solutions relating to enforcing the UK's capital maintenance regime.</p> <p>Attendees were generally cautious about the role of the auditor in determining the legality or otherwise of a dividend but agreed that dividend decisions by directors should be made in the context of business model sustainability.</p>
<b>5.</b>	<b>AOB</b>
	<p><u>US Business Roundtable statement</u></p> <p>This statement, published recently, had been included in the meeting papers to frame a discussion around the argument (presented in the paper) that shareholder primacy is an outdated concept and was briefly discussed.</p> <p>There being no further business, the meeting closed.</p>