

# Independent Review into the Quality and Effectiveness of Audit

## Auditors' Advisory Group Meeting, 11 July 2019 - Summary Minutes

### Those present:

Sir Donald Brydon

Hywel Ball

Steve Gale

Annie Graham

Scott Knight

Gilly Lord

Maggie McGhee

Mark Rhys

Phil Smart

### Apologies:

Michael Izza

### Secretariat:

Miranda Craig

Robin Mueller

Tom Barrett

Paul Lee

<b>1. Introduction – agenda and matters arising</b>	<p>Sir Donald welcomed those present and noted apologies.</p> <p>Sir Donald summarised the Review team’s stakeholder engagement activities and research work thus far, noting that 115 responses had been received to the Call for Views, amounting to roughly two and a half thousand pages of responses. Roundtables had been held with ICAEW and ICAS members in London, Manchester and Bristol, with asset owners and asset managers, regulators, trade associations and other industry bodies, representatives of retail shareholder and audit committee chairs, among others. The team were now concentrating on analysing all these inputs and assessing the issues and themes arising from them.</p>
<b>2. Investor Research</b>	<p>The Review had commissioned a piece of investor research by Alison Thomas to supplement the Call for Views responses and other engagement activities. The key findings of the research were summarised and discussed. The role of the “agency problem” and increasing disintermediation of control from asset owners were noted.</p>
<b>3. Call for Views responses – discussion of selected themes</b>	<p>Auditor Advisory Group members had been provided with a selection of quotes drawn from responses to the Call for Views, with a request that their reaction to and thoughts regarding the quotes be used to frame the meeting discussion. In addition, the meeting discussed two specific topics. Firstly, the development of the profession’s debate on the “true and fair” concept within the current legal and regulatory framework and the use by auditors of the true and fair over-ride and secondly, the recently published FRC Audit Quality Review report. Attendees offered their</p>

	<p>thoughts on the root causes of poor AQR scores. Other inspection regimes were also discussed. The profession's changing approach to client risk and the possibility that some entities might be left without a willing auditor was referenced. It was noted that to date the only such example was that of Huntingdon Life Sciences c.2003. which involved a very specific set of factors not relevant to the current issue.</p> <p>The following points were discussed and attendees' views noted:</p> <ul style="list-style-type: none"> <li>• The varying manifestations of materiality and the interplay between standards and practice;</li> <li>• Auditors' approach to their obligations to determine whether a company has maintained adequate accounting records and compliance with laws and regulations;</li> <li>• Alternative Performance Measures (APMs) and the difference between auditing or assuring the process used to determine the APM versus opining on the use of the APM itself, including potential ways in which nuances in assurance types could be communicated more effectively;</li> <li>• Audit committee reporting and perceived barriers to greater public transparency;</li> <li>• Categorising fraud risk into culturally driven such as management coercion, behavioural issues etc. and controls-based such as opportunistic personal gain or collusion;</li> <li>• The extent to which the existing "read requirement" is strong enough to draw out auditor reports of inconsistencies between management commentary and the auditor's own observations;</li> <li>• The drivers of audit complexity and how these are priced in;</li> <li>• Articulating risk in ways that favour comparability and provide insight for users;</li> <li>• The role of more mature stress-testing techniques to facilitate company reporting on longer-term resilience as an alternative to the current going concern/viability statement combination and therefore allowing the auditor to consider the quality and consistency of that reporting in more detail.</li> </ul>
<b>4.</b>	<b>AOB</b>
	There being no further business, the meeting closed.