

# Independent Review into the Quality and Effectiveness of Audit

## Auditors' Advisory Group Meeting, 16 May 2019 - Summary Minutes

### Those present:

Sir Donald Brydon  
Hywel Ball  
Annie Graham  
Gilly Lord  
Mark Rhys  
Michael Izza  
Phil Smart  
Scott Knight

### Apologies:

Maggie McGhee, Steve Gale

### Secretariat:

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

<b>1. Introduction – agenda and matters arising</b>	<p>Sir Donald welcomed those present and noted apologies. Introductions were made for the benefit of those not present at the March meeting.</p> <p>Attendees were reminded of the competition law protocol in the event that any would consider themselves as competitors during any of the discussions.</p> <p>Sir Donald summarised the planned agenda and questions he intended to ask those present on the topics of audit fees, sustainable business models and capital maintenance.</p>
<b>2. Call for views – comments</b>	<p>Sir Donald commented on the broadly positive media and public response to the Call for Views, published on 10 April. He noted that he had committed to meeting each of the Big 4 firms and would attend as many stakeholder roundtables as possible, including institutional and retail investors, asset owners, audit committee members and the auditing profession. Attendees confirmed that their respective firms were engaged in producing a response and that the questions had stimulated discussion and challenge across all the topics covered in the Call for Views.</p> <p>Sir Donald commented that he had spent time reading a number of annual reports and audit reports and was considering how best to engage with audit committee members further down the PIE market. A handful of responses had been received, each raising different perspectives on the questions posed. Some called for an increased regulatory response similar to the skilled persons reviews used by the FCA and PRA under section 166 of the Financial Services and</p>

	<p>Markets Act 2000. The group discussed current market practice in this area, how differing levels of assurance might be applied to aspects of audit in the future and whether this would be likely to have any effect on the 'expectation' gap. Sir Donald was keen to understand what outreach activities the profession currently engages in to address the gap and Michael Izza undertook to provide the Review team with more information in that respect [MI]</p>
<b>3.</b>	<b>General discussion</b>
	<p>Sir Donald initiated a discussion centred on the topics of audit fees, sustainable business models and the capital maintenance regime, to which all attendees submitted their thoughts and opinions. The following points in particular were covered:</p> <ul style="list-style-type: none"> <li>• The immateriality of the audit fee and the use of initial tender fees as a baseline for future fees;</li> <li>• The downwards pressure and perceived 'hardening' on fees often experienced by auditors during fee negotiations;</li> <li>• The elements feeding into the fee from the auditor's perspective which correlated most strongly with the likely quality of the output, being initial risk assessment work, scoping the audit plan, mapping against the identified risks plus any additional requests from the audit committee;</li> <li>• Many attendees noted that they were not always invited to experience discussions involving key business risk (e.g. the credit committee in a financial institution) as a matter of course;</li> <li>• The perception that regulated sectors such as water or financial services have more mature risk management and resilience planning and why this may not yet have manifested in other industries;</li> <li>• The extent to which auditors might consider providing more colour around risk assessment as part of a wider scope of audit or assurance, for example which scenarios had been included in stress-testing, or benchmarking a stress-test methodology against peers;</li> <li>• A brief discussion on firms' approach to other market risk indicators such as z scores or shorting of stock, noting the Kingman Review recommendations regarding a market intelligence function for the FRC/ARGA and the potential for auditors to make disclosures on these indicators;</li> <li>• The potential for a whistleblowing mechanism and how/when it could be appropriate for an employee or other stakeholder to go direct to an auditor with a concern;</li> <li>• Capital maintenance and investor appetite for auditors to opine on the sustainability of a dividend policy, which may require a solvency test;</li> <li>• The extended audit report was discussed, and attendees expressed their views as to why so few companies had chosen to adopt graduated audit opinions and why some auditor reports were considered to be more informative than others (often reflective of the individual approach of the audit partner, inconsistent even within firms);</li> <li>• The practical challenges associated with detecting fraud and how to better meet user needs was discussed. Attendees agreed that time spent assessing fraud risk up front was well spent.</li> </ul>
<b>4.</b>	<b>AOB</b>
	<p>It was agreed that forward meeting dates to the end of the calendar year would be set as soon as possible.</p> <p>There being no further business, the meeting closed.</p>