

Written evidence submitted by the Financial Reporting Council (DAR0032)

1. The Financial Reporting Council (FRC) is pleased to have the opportunity to submit evidence to the Select Committee, in support of its inquiry into Delivering Audit Reform. In this submission and in answering your questions, I have set out in some detail how the FRC has responded to the recommendations made in the independent reviews commissioned by the Secretary of State for Business, Energy & Industrial Strategy (BEIS), and those made by your Committee.
2. In a number of areas, where the work is within our control, or where we have existing statutory powers, we have been able to make good progress. The reviews have also enabled us to make progress in advance of legislation in other areas, most notably the operational separation of the audit practice of the largest audit firms.
3. Following the publication of our new Strategy, Plan and budget in 2020, we have begun to build the additional capacity and capability we need to deliver on the important and ambitious mandate for the new regulator that Kingman set out. We now have a new Executive Leadership Team for the organization and added new leaders in key areas, such as audit competition, audit quality reviews and audit firm supervision. We are resourcing to reflect our expanded workload this year and have further expansion plans drawn up for subsequent years. The current lack of a Chair for our Board has, unfortunately, delayed the recruitment of new Board members.
4. However, whilst we consider we are making progress in implementing many recommendations in order to deliver all the recommendations we need legislation. Without legislation, there can be no new regulator, with new powers or obligations to act in the public interest in a timely way, with appropriate levers and transparency to build the deserved confidence of our stakeholders.
5. We continue to work very actively with colleagues from BEIS to support the policy-making necessary to develop legislative proposals. Whilst we are aware of the progress being made, high stakeholder expectations were set through the independent reviews, and continued delay risks that strong stakeholder support for reform. It is important that a way is found to set out a clear roadmap to deliver audit and wider corporate governance reform.

Introduction and Overview

6. We welcome the broad conclusions of the three independent reviews, commissioned by the Secretary of State into audit regulation (Sir John Kingman), the nature and scope of an audit (Sir Donald Brydon) and the audit market (Competition & Markets Authority). We strongly support Kingman's recommendation that the FRC be replaced with a new independent regulator with clear statutory objectives, and powers in law to deliver them. Given there are 155 recommendations for change plus those made by the Select Committee, we support the vast majority, but not every recommendation, particularly as the four reports do not completely agree in all respects.
7. Since the reports were published, the FRC has considered carefully the public policy issues raised. We have worked closely with BEIS in their policy development work, which we anticipate will be brought together into the Government's consultation on audit reform. We have expanded our policy thinking with new leaders and new capacity in audit standards, stewardship, corporate governance and the audit market. We have also consolidated all teams that set standards and Codes under a new Executive Director.
8. This change allowed the FRC to quickly and proactively respond to the challenges posed by the Covid-19 pandemic, working closely with colleagues at the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) to issue a joint package of guidance¹ for companies and their auditors to support the continued provision of high quality information to financial markets.
9. Where recommendations have been made, and where they are not reliant on changes to legislation, we have taken forward work to deliver those. All the recommendations made by Kingman on the internal workings of the FRC have been implemented or are close to completion. We will publicly consult in the Autumn on major changes to our corporate governance which will significantly streamline the governance of the FRC.
10. In order to deliver the 'fit for purpose' regulator which Sir John Kingman envisaged, in late 2019 we established a Transformation Programme. This covers all 155 recommendations which we are taking forward in six integrated workstreams. With BEIS colleagues we created an overall Audit Reform Programme to progress policy development and operational implementation, ensuring that we can implement the Government's proposals when agreed.

FRC – a fit for purpose regulator

11. The Kingman review made recommendations, to create and empower the new Audit, Reporting and Governance Authority (ARGA), and provide it with the powers that the FRC lacks, to be a strong, proactive and fit for purpose regulator. Until ARGA is established, we have taken forward work to review our strategy, culture, structure and people. This is building the capacity and capability that ARGA needs to and until that

¹ <https://www.frc.org.uk/about-the-frc/covid-19/covid19-joint-statement-26th-march-2020>

happens allows the FRC to make progress a more robust and unified regulator with a clear purpose and public interest considerations at the heart of everything we do.

12. At the end of 2019 we reviewed our Strategy and set a new Purpose for the FRC – to serve the public interest by setting high standards of corporate governance, corporate reporting and audit and by holding to account those responsible for delivering them². We have also set new objectives, below, underpinned by Key Performance Indicators (KPIs), to allow us to manage and report on our performance:
 - To set high standards in corporate governance and stewardship, corporate reporting, audit and actuarial work and assess the effectiveness of the application of those standards, enforcing them proportionally where it is in the public interest;
 - To promote improvements and innovation in these areas, exploring good practice with a wide range of stakeholders;
 - To transform the organisation into a fit-for-purpose, independent regulator; and
 - To promote a more resilient audit market. In due course the Government will decide our role in supporting appropriate competition in that market. We have anticipated that we will need to enhance our capacity and capability to respond to this.
13. We have streamlined and reorganised the FRC into four Divisions to provide clarity of responsibility and deliver our Purpose and Objectives.
 - a. The Regulatory Standards Division is responsible for setting public and technical policy and stakeholder engagement. It covers the work of auditors, accountants and actuaries, and our corporate governance and stewardship codes provide a basis for holding directors and investors and asset owners respectively to account.
 - b. Our Supervision Division includes our audit inspection and supervision of the audit firms, reviews of company reporting and oversight of professional bodies. We review the accounts of premium listed companies, to ensure that they comply with their financial reporting and disclosure obligations, requiring corrections to be made where we find problems. We carry out a programme of audit inspections, which assesses the quality of audit work carried out by firms for public interest entities. For the largest audit firms, we issue an annual public report on audit quality, and steps that need to be taken to improve it. We have increased our programme of cross cutting reviews, for example on audit quality indicators, to compare and contrast approaches and share best practice. Supervision also covers our supervision of relevant professional bodies.
 - c. Our Enforcement Division takes action in public interest cases where auditors, accountants or actuaries fall short in performing their roles. Where auditors fail to deliver their work in public interest cases to expected standards, we have statutory powers to investigate and take action to hold them directly to account. For professional accountants and actuaries, the powers we have are only contractual,

² <https://www.frc.org.uk/getattachment/78343045-9726-4d11-bc77-f703d4be5eb1/FRC-Plan-Budget-2020-21-Full-Version-V1-0.pdf>

and require a very high threshold to be met for liability to be established – Kingman recommended that these arrangements should be aligned with those for auditors and we agree. We have invested in expanding our enforcement capacity, set performance targets for our work, and since 2019 have issued an Annual Enforcement Report on our activity to provide our stakeholders with greater transparency.

d. These are all supported by the FRC's Corporate Services.

14. New leadership has been recruited into key areas including two new Executive Directors (Regulatory Standards and Corporate Services), as well as senior roles in Stakeholder Engagement, Audit Market Supervision, Audit Firm Supervision and Audit Inspection, Actuarial Standards, Enforcement and Strategy and Change. The progress we have made in the last year is set out in more detail in our Annual Report³.

15. In the last year we have delivered a number of initiatives that reflect our commitment to serving the public interest, and will contribute towards driving higher quality audit work, and better reporting of corporate governance, using existing powers and regulatory tools. For example:

- we revised the ethical standard for auditors and imposed stronger independence requirements for auditors, including for the auditors of the largest private companies in the UK. More stringent requirements for large private company auditors is a response to the independence failings we identified in our British Home Stores (BHS) enforcement case⁴.
- we revised the requirements for auditing going concern to enhance the focus on risk assessment, provide a stronger framework for challenging management, and greater transparency to report on the work the auditor did.
- we published the revised and enhanced Stewardship Code, which now focuses on outcomes achieved rather than reporting on procedures, and we have commenced and programme of monitoring work to see how companies comply with the revised Corporate Governance Code.
- we have continued to publish our reports on audit quality based on our inspection work⁵, those reports are supplemented by our thematic reviews on the quality of both audit⁶ and corporate reporting⁷, as a way of sharing good practice and driving

³ <https://www.frc.org.uk/getattachment/d3201f4b-2946-4e50-aa27-3a131ae17750/Annual-Report-2019-20.pdf>

⁴ <https://www.frc.org.uk/getattachment/433f3df8-d0ef-456b-8a26-aeb55f65489b/BHS-Particulars-of-Fact-and-Acts-of-Misconduct.pdf>

⁵ <https://www.frc.org.uk/news/july-2020/results-of-frc-audit-inspections>

⁶ <https://www.frc.org.uk/auditors/audit-quality-review/thematic-inspections>

⁷ <https://www.frc.org.uk/accountants/corporate-reporting-review/corporate-reporting-thematic-reviews>

innovation. We have published our second Annual Enforcement Review⁸ which provides greater transparency over our enforcement work, as well as reporting against a series of performance metrics.

- the FRC lab has published a report on climate reporting, which has received very positive feedback from UK and international stakeholders. This will help to improve the quality of reporting in an area of increasing importance to UK investors and other stakeholders. Later this year, we will publish a review of how UK companies are reporting on climate change, drawing together work by our corporate reporting, corporate governance, professional oversight and audit inspection teams.
 - The Lab also issues reports to support businesses reporting during the pandemic, by showing the sort of reporting investors value, and sharing good practice on reporting in times of uncertainty, and on reporting on going concern, risk and viability.
 - The Joint Forum on Actuarial Regulation issues a revised risk perspective setting out threats to the quality of actuarial work – this supports the insurance and pensions sectors.
16. All of this requires us to expand, and our Strategy 2020 and budget sets out our plans to achieve this. We have already begun to recruit additional expertise and capacity to enhance audit inspection and audit firm supervision, speed up enforcement, highlight good practice and set new standards.

Transformation Programme

17. The FRC's combined Transformation Programme comprises six workstreams which are:
- a. Setting up the new regulator
 - b. Audit scope & regulation
 - c. Corporate regulation
 - d. Corporate reporting
 - e. Corporate governance
 - f. Market reform

A schematic of the Transformation Programme is included as **Appendix 1** to this paper.

What has the Transformation Programme achieved so far?

18. At the time of writing this submission to the Committee the FRC had formally implemented 24 of the 84 recommendations of the Kingman Review and had made progress with 30 more, 13 of which cannot be completed without legislation. The remaining 20 cover significant public policy issues, for example whether the UK should adopt a Sarbanes-Oxley like regime which we agree with. We continue to work closely

⁸ <https://www.frc.org.uk/getattachment/d299042a-f14f-40eb-8889-7b44818cf53b/Annual-Enforcement-Review.pdf>

with BEIS colleagues on these public policy issues for Ministers to consider, and for public consultation in due course.

19. Following the Competition and Markets Authority (CMA) Review we have asked the Big 4 audit firms to implement Operational Separation of their audit practice from the rest of the business. We published 22 Principles for Operational Separation on 6 July 2020⁹ and the Big 4 have until 31 October to respond with detailed implementation plans. It is important, however, that the operational separation principles are underpinned by powers for ARGAs set out in legislation. On the remaining CMA recommendations, we have worked closely with BEIS colleagues on the recommendations and other potential market interventions for Ministers to consider. We have developed thinking on mandatory managed shared audits (rather than joint audit, where we have concerns that it will have an adverse impact on audit quality), which will enable 'challenger' firms to participate in the audits of larger companies, leading to them building additional capacity to take on more FTSE 350 audit mandates, as well as setting out proposals for the closer regulatory oversight and scrutiny of audit committees.
20. On the Brydon Review we have worked closely with BEIS officials on the options to implement the recommendations and await Ministerial decisions on progressing those that do not require legislative change. For the more significant public policy issues including the scope and purpose of audit or setting up a new profession of corporate auditors, we have engaged with a wide range of stakeholders on the potential changes recommended and options for their implementation.
21. A table setting out all 155 recommendations to support our analysis is included as Appendix 2 to this submission. Examples of the recommendations already complete, or well advanced, include that we have;
 - adopted The Regulators' Code and Managing Public Money, including new public procurement arrangements
 - adopted a voluntary extension of Freedom of Information against all our activities, not just our partial designation under law
 - enhanced our complaints handling processes
 - enhanced our stakeholder engagement and economics and analytics teams to develop our market intelligence
 - published a new Strategy and updated budget for the 2020 financial year
 - adopted open competition for all senior roles
 - a plan is in place to streamline the governance of the FRC, replacing a three-tiered system with a more normal two-tiered corporate structure. The number of Board members has reduced and will be refreshed during 2020-21. This is subject to a public consultation expected to be launched in September
22. Kingman made key recommendations about the need for greater transparency over our work. Next Summer we intend to publish reports, including gradings, on each of the individual audits that we inspect in 2020/21, alongside our longstanding annual reports on the overall audit quality of the large audit firms. This will make us the most transparent audit regulator in the world. Until it is a requirement in law, this will need to

⁹ <https://www.frc.org.uk/news/july-2020/frc-principles-for-operational-separation-of-a-1>

be with the consent of the audit firm and the audited entity. We are also introducing published summaries of our correspondence with individual companies following our reviews of their corporate reporting. Again, this will require the consent of the company until we obtain legal powers to publish. Increased transparency will benefit investors and should sharpen incentives for companies and their auditors to improve the quality of reporting and audit.

23. The FRC's revised UK Stewardship Code took effect at the start of 2020. It sets significantly higher expectations for how investors manage money on behalf of their clients and beneficiaries and was well received. The Code now focuses on the activities and outcomes of effective stewardship, in response to the Kingman recommendation. The Code now extends to all asset classes and includes environmental and social issues. Public reporting against the Code will begin in 2021 and this year we are engaging with prospective signatories to communicate our expectations.
24. A range of recommendations specific to Enforcement have already been implemented, including greater transparency over our work and our performance in its delivery, through the publication of the FRC's Annual Enforcement Review. We continue to work with BEIS to implement the recommendations for ARGA's new enforcement powers, in particular powers to hold accountants and actuaries to account on a statutory basis and on an equal footing with auditors and powers to hold non-accountant directors to account for their duties in relation to financial reporting.
25. We plan to increase the scope and number of our audit quality and corporate reporting reviews this year. We have established a market monitoring and analysis function, to support increased targeting of our reviews on higher risk companies. We are also recruiting supervisors for the largest audit firms whose role will be to assess and prioritise the steps firms need to take to improve audit quality and hold them to account for delivering those changes. Whereas audit inspections are necessarily backward looking, the supervisors will look forwards and take account of a range of indicators of audit quality. We are progressing plans to take back from the professional bodies decision-making responsibilities for Public Interest Entity (PIE) audit firm and auditor registration. As Kingman recommended, this will give the FRC a range of sanctions, including some that are less severe than the option of deregistration.

Next steps and the Engagement of Stakeholders

26. We have strengthened our stakeholder engagement, and in particular our engagement with major investors, and continue to engage with key stakeholders about their priorities for ARGA. We have invested to expand our stakeholder engagement, by bringing together our communications and investor engagement functions into a new team, under the leadership of a newly appointed Director of Stakeholder Engagement and Corporate Affairs who has significant investor and corporate affairs experience. We have also recruited a Head of Public Affairs to strengthen our engagement with Westminster and Whitehall.
27. The FRC engages with a diverse stakeholder universe – as a regulator, standard setter and enforcement authority. This includes other regulators (both UK and international), the audit firms, investors, asset owners, corporates both listed and unlisted, trade bodies, trade unions, government, public interest bodies and policy thinktanks.

Stakeholder engagement on audit reform and our journey to becoming ARGA has been ongoing and we have received strong engagement and helpful input. This input has been on the basis that our stakeholders expect us to receive the necessary powers to effect reform.

28. From our more extensive engagement it's clear our stakeholders are in favour of a stronger regulator with enhanced powers to bring about effective audit reform and also to continue to deliver on the FRC's other activities such as corporate governance, enhanced corporate reporting standards and the Stewardship Code. Investors have been particularly helpful and vocal in what they see are our priorities in reform. In fact, the willingness of stakeholders to engage both in consultation and more formal groups has been predicated on the expectation of the new legislation being passed to enable the formation of ARGA, an effective regulator with well understood powers and scope.
29. In taking forward the recommendations, we are paying careful consideration to the impact of Covid-19 on companies and the audit market, our stakeholders and the wider economy to ensure that any reforms are delivered in a proportionate way. We expect the impact of the pandemic on all participants in the financial services sector and their stakeholders to be felt for some time to come. Confidence in the integrity and stability of these markets and the business community more broadly will be key to a resilient UK economy.

Legislation Is Needed

30. The FRC agrees that it needs wider powers, redefined to deliver against all three independent reviews. For illustration the following are examples of areas where additional powers are needed.
 - a. The implementation of the EU Audit Regulation and Directive in 2016 provided the FRC with statutory powers in respect of auditors. These provide for the oversight, inspection and enforcement of the audit profession, and allow the FRC to set standards for audit work, and conduct. Those powers also provide for the regulation and oversight of the accountancy professional bodies. However, the same powers do not cover the work of professional accountants or actuaries, where investigation and enforcement work are carried out under voluntary schemes with a very high threshold for action under an agreement with the relevant professional bodies. As Kingman highlighted the FRC has no powers to take action against directors who are not members of an accountancy professional body. This creates an imbalance where the FRC can investigate the auditors when there are failings in a company's reporting but cannot act against the directors who are primarily responsible.
 - b. Although we have statutory powers to be able to inspect the accounts of public companies, these do not follow through to being able to require corrections to misleading information without taking a company to court, if they refuse to act.
 - c. Although our Corporate Governance Code is well-regarded globally, we have no powers to enforce it. The FCA's listing rules require companies to follow the Principles of the Code, but the Provisions operate on a comply or explain basis. In response we have developed a monitoring regime for users of the Code, to assess compliance, but that has no statutory framework.

- d. Increasingly our stakeholders are using annual reports to learn about the prospects of a company, and their focus places increasing importance on environmental, social and governance factors. However, the FRC's powers to set standards for auditors and for accountants using UK Generally Accepted Accounting Practice (GAAP) do not extend to non-financial reporting, which means that we are unable to respond in a way that meets the ambition of many stakeholders for the UK to be a world leader in this area.
- e. Setting technical actuarial standards and overseeing actuaries is a further FRC responsibility, conducted with the consent of the actuarial profession, but not grounded in law. Although we are setting up an enhanced monitoring and oversight approach this is with the agreement of the Institute and Faculty of Actuaries (IFoA).

External environment

- 31. We believe the experience of the pandemic has demonstrated the FRC's ability to work in a new way, listening to the needs of the market, act quickly and work effectively with other regulators. Our Joint Statement with the FCA and PRA brought forward a package of measures to support the provision of high-quality information to financial markets. We provided guidance for auditors, preparers and information to support investors seeking to understand the impact of the significant uncertainty the pandemic caused. We regularly engaged with companies, audit committee chairs, investors and other stakeholder groups to ensure that guidance met the needs and expectations of the market and continue to do so on an ad hoc basis as well as through formal setting such as our Investor Advisory Group, our Stakeholder Advisory Group and the Audit Committee Chair Group to name a few. This more agile way of working is something we will continue.
- 32. We also continue to play a significant part in international standard setting, with representation on the International Auditing and Assurance Standards Board (IAASB), and on a number of the advisory fora to the International Accounting Standards Board (IASB). Recognising that UK audit firms are part of global networks auditing global businesses, and that businesses report using global standards, we work with other audit regulators on areas of common interest, including to share best practice on inspections, investigations and enforcement, through the International Federation of Independent Audit Regulators (IFIAR). We also participate through bilateral and multilateral groups of national standard setters to address the developing needs of users of financial statements, for example in non-financial reporting.

Conclusion

- 33. The FRC supports, and is working to implement, the great majority of the recommendations made in the independent reviews. Working with government, we have integrated those recommendations into a coherent strategy that will raise standards of corporate governance and reporting, improve audit quality and promote a more resilient audit market. All stakeholders need to embrace this change; investors; companies; auditors and the FRC. We cannot deliver all the change recommended without raising standards, being more transparent and driving improvement. We also cannot deliver all the change recommended without changes to legislation and have

worked with BEIS officials and Ministers on the significant public policy issues. We look forward to a public consultation setting out the views of the Government in due course.

34. We would be happy to provide further evidence to the Committee's inquiry on Delivering Audit Reform in due course if that would assist.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Jonathan'.

Sir Jonathan Thompson
Chief Executive Officer

Select Committee questions

Q1: Do the proposals from the three reviews of audit fit together as a coherent package that can deliver meaningful reform?

A1: The reviews are a comprehensive basis for meaningful reform. They need to be integrated into a coherent set of measures to raise standards of corporate governance and reporting, improve the quality and effectiveness of audit and promote audit market resilience. For reform to respond to the needs of investors and other stakeholders, and to be in the public interest it cannot just focus on the preparer of financial statements or the auditor. Directors, preparers and auditors need to use the recommendations to improve the quality of what is being delivered. Greater transparency over the monitoring, inspection and oversight of the corporate governance of companies, the quality of their public reporting and the quality of audit will provide additional information to investors and other stakeholders which can be then used to hold each of those groups to account where performance does not meet the needs of users. Greater focus by companies on internal control, financial management, risk management and financial resilience, coupled with greater transparency for interested parties will significantly assist with raising the quality of financial statements and of the subsequent audit.

For reform to be meaningful, it needs to be underpinned by a regulatory regime that can address the requirements in each part of the market. That regime needs to:

- require companies to provide high-quality reporting, and that process needs to be supported by robust and effective controls. Where failings occur, directors need to be held accountable;
- ensure that audit meets the needs of investors and the wider public interest by holding audit firms and auditors accountable for high quality audit, and ensuring that audit committees choose auditors based on quality rather than price;
- deliver a resilient audit market in which companies have a choice of auditor, with market opening measures to broaden the market share of firms outside the Big 4; and
- be regulated by an effective regulator with clear statutory objectives and the right powers and responsibilities to deliver on those.

However, there are some areas where caution is needed, for example:

- Kingman's proposals to expand the definition of a public interest entity are welcome. However, it brings with it a risk that market concentration increases in those areas of the market if new categories of PIEs are designated. This may advantage larger audit firms over challengers; and
- Kingman strongly endorsed the use of graduated findings, but Sir Donald Brydon believed it to be a matter for the market to respond. Whilst the FRC is in support of graduated findings, the necessary level of innovation may not be forthcoming, without some wider support, as there are implications for auditor liability if graduated reporting, and indeed wider assurance of other information do not have a proper statutory framework.

We have been working carefully with BEIS colleagues to align the requirements in support of the proposed consultation.

Q2: Which reforms can be delivered without legislation and what progress has the FRC made in implementing such reforms ahead of future legislation?

A2: We set out on page 3 of the covering letter in summary form, our assessment of Sir John Kingman's recommendations which we have either addressed and fully implemented, or partly implemented, pending legislation to allow the remaining steps to be addressed. There remains a further tranche of around one quarter of the recommendations where we cannot act ahead of legislation. A complete listing is attached at **Appendix 2**.

We have sought to address one of the CMA's key recommendations about operational separation of the audit practices of the largest audit firms, in advance of legislation. The objectives of operational separation, which is world leading, are to ensure that audit practices are focused above all on delivery of high-quality audits in the public interest, and do not rely on persistent cross subsidy from the rest of the firm. Our desired outcomes include:

- Audit practice governance prioritises audit quality and protects auditors from influences from the rest of the firm that could divert their focus away from audit quality;
- The total amount of profits distributed to the partners in the audit practice does not persistently exceed the contribution to profits of the audit practice;
- The culture of the audit practice prioritises high-quality audit by encouraging ethical behaviour, rigour, openness, teamwork, challenge and professional scepticism/judgement; and
- Auditors act in the public interest and work for the benefit of shareholders of audited entities and wider society.

We have also set out our own proposals for market-opening measures, namely mandatory managed shared audit (with a power to introduce market-share caps in reserve) which should deliver the objective identified by the CMA of improving the capability and capacity of challenger firms so as to improve the resilience of the audit market, while not risking damaging audit quality. However, this will require legislation. In the meantime, we continue to work closely with audit firms on wider market resilience planning, and to determine the powers ARGA will need to deal with a material threat to a major firm operating in the UK audit market.

Additionally, a number of Brydon's recommendations have implications for our regulatory Codes and Standards, and we have already taken forward projects to enhance the obligations on the auditor in respect of going concern and fraud.

In response to Kingman's recommendation for market monitoring, the FRC has commissioned research to develop an appropriate set of indicators and methodology and conduct an initial baseline assessment of competition in the market. However, gathering appropriate information for such monitoring, including full details of audit fees in line with the Committee's recommendation, will require legislation. We will also need legislation to establish a competition objective for ARGA. Nevertheless, the FRC has taken steps to develop its competition policy and resources and is working closely with BEIS on this area to inform the drafting of relevant legislation and secure appropriate powers.

Q3: Will the reforms proposed by the audit industry itself address the failings that were identified by the reviews and the BEIS Committee's Future of Audit Report?

A3: Although the audit industry has proactively made its own recommendations for reforms, to address well publicised audit failings, and engaged with the FRC as we have developed

our own response we are strongly of the view that legislation and regulation is essential to underpin any reform. The incentives of the audit firms are not fully aligned with the public interest in terms of high-quality audit and a more resilient audit market. Audit firms do not have the power to address failings in companies, for example poor quality reporting, inadequate controls over reporting and a lack of accountability of directors where this happens. Determining what falls within the statutory scope of audit in the Companies Act, is a matter for government rather than the audit firms.

Audit firms are, however, responsible for achieving consistently high-quality audit. We continue, through our audit inspection and supervision work, to challenge those firms to set out their plans to deliver this. Reform by the industry alone is unlikely to achieve a resilient, well-functioning market and ARGAs need sufficient powers to implement a full range of measures, in line with the CMA and Kingman proposals.

Q4: When will the Government bring forward its proposals and the necessary legislation where required?

A4: The FRC has worked closely with colleagues at BEIS to provide all necessary input to support policy development, and we have taken forward those recommendations where the FRC is either able to address them through existing powers, or by agreement with the professions we regulate, pending legislation. The exact timing and nature of the Government's response is not a matter for the FRC.

Q5: Will audit reform help track progress made by companies in meeting the UK's Sustainable Development Goal commitments and in particular Net Zero?

A5: The reform agenda could make a significant contribution to the SDGs and Net Zero. Brydon's recommendations on non-financial reporting provide for the potential to introduce statutory backing to minimum standards in areas like climate reporting, carbon emissions, impact on communities and so on. The report also recommends such reporting is audited by specialist assurers, not the financial auditor, to provide transparent, consistent quality information in this area. Such information could be used by any, and all, stakeholders to hold companies to account.

The FRC supports these recommendations. The FRC considers that the TCFD framework, underpinned by the metrics provided by SASB, would be a good interim step in this area, while international or global standards are developed in due course. However, setting up a new international standard setting board requires wide global buy-in, an agreement to fund the board, and developing and delivering a programme of work will be a long-term goal. Our work with investors indicates very strong support for this and our work in the meantime is designed to help companies to improve the quality and transparency of their reporting to better meet the needs and indeed, ambition of our stakeholders. We have seen already that some companies have adopted such reporting as is highlighted in our Lab Report¹⁰.

This year the FRC is carrying out a major review of how companies and auditors assess and report on the impact of climate change. The FRC will review the extent to which UK companies

¹⁰ <https://www.frc.org.uk/getattachment/22ee8a43-e8ca-47be-944b-c394ecb3c5dd/Climate-Change-v9.pdf>

and auditors are responding to the impact of climate change on their business to ensure reporting requirements are being met.

Q6: How will audit reform fit with wider corporate governance reform?

A6: Section 4 of the UK Corporate Governance Code sets principles to drive companies to achieve high quality governance and management of company audit, risk and internal control, with effective accountability and transparency to shareholders. The Code operates on a “Apply and Explain” basis for the Principles and “comply or explain” for the more detailed provisions. The code works in tandem with legislative and regulatory obligations.

The Code also sets out the main roles and responsibilities of the audit committee, which include: monitoring the integrity of the financial statements of the company, and reviewing significant financial reporting judgements contained in them; providing advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the company’s position and performance, business model and strategy; and reviewing the company’s internal financial controls and internal control and risk management systems.

The Code includes specific Provisions about the quality of the annual report and accounts, going concern and viability. These require the directors to explain in the annual report their responsibility for preparing the annual report and accounts, and state that they consider them to be fair, balanced and understandable, and that they provide the information necessary for shareholders to assess the company’s position, performance, business model and strategy. They also require the directors to state in any annual and half-yearly financial statements, whether the board considers it appropriate to adopt the “going concern” basis of accounting, and identify any material uncertainties to the company’s ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

The board should also explain in the annual report how it has assessed the prospects of the company, over what period it has done so and why it considers that period to be appropriate. The board should state whether it has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due, drawing attention to any qualifications or assumptions as necessary. Companies may choose the period over which they look forward, but this is expected to be more than a year and reflect the nature of the business. Directors should explain their reasoning to investors.

The Code’s Principles and Provisions are supported by the FRC’s Audit Committee Guidance and Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Brydon has made recommendations aimed not only at auditors, but at directors, audit committees and shareholders. They include new disclosure requirements, and an increased role for shareholders. Brydon’s recommendations will affect corporate governance and the extent of their success will be determined through not only how they are implemented but also the desire of companies and their shareholders to embrace the proposals and support increased transparency and accountability. Shareholders will need to act on the new information that is provided by the proposals. The key components are set out below.

Resilience Statement

Brydon's proposals for an annual Resilience Statement will explain directors' approach to maintaining or strengthening a company's resilience over different periods; the short (one year), medium (two to five years) and long (over five years) term. It is intended to replace the Going Concern and Viability Statements. We expect that the Resilience Statement will be part of a new section of the Strategic Report, with minimum content requirements set out in legislation. Legal underpinning will be required if it is to have wider application than those companies subject to UK Corporate Governance Code reporting.

If the resilience statement to achieve substantial change in the quality of corporate governance when dealing with risk, both the company and its investors will need to engage in dialogue relating to the company's risks and long-term viability. There will need to be a move from reporting on liquidity to consideration of solvency. Solvency risks are longer term and maybe more qualitative and judgmental, something that many companies have been reluctant to do. The reporting of longer-term resilience will also need to balance the need for transparency with a need to ensure that they companies do not sacrifice competitive advantage.

Audit and Assurance Policy

The proposal for a three-year rolling audit and assurance policy should clarify to shareholders the extent to which information is audited in the annual report. Currently there appears to be an expectation gap both for shareholders and wider stakeholders, and in order to improve corporate governance on audit and assurance it is essential that all parties understand the basis on which information is shared. Brydon recommended that shareholders have the ability to seek additional assurance beyond information that is presented in the audit plan and policy. By sharing and discussing risks alongside the audit and assurance policy shareholders should be better able to assess any additional information that they believe would be helpful to understand the position of the company and its internal controls and policies, which will lead to improved corporate governance. Any additional assurance required would need to be tailored to individual companies.

Public Interest Statement

The Corporate Governance Statement provides a framework for companies to follow to support the delivery of long-term value. An important component of this is the company's impact on its stakeholders; this could be aligned to the proposed Public Interest Statement. This proposal is similar to a number of requirements of the Code where companies are asked to comment on their impact on shareholders and wider stakeholders, including for example social and environmental matters. Those companies which apply the Codes Principles and report effectively on its Provisions, should also be commenting on how they have mitigated any externalities caused. The FRC's new Stewardship Code recognises audit as a crucial area for investor engagement.

Reporting on Internal Controls

Both Kingman and Brydon made recommendations about requiring the directors of a company to report on the effectiveness of internal controls around financial reporting, and there is ongoing debate about whether such reporting should be subject to assurance by an auditor. If Ministers decide that this should be required of certain UK companies, this will have further

implications for corporate governance reform. As part of that process, a regime that better allows directors to be held accountable for failings in the governance of companies, by providing powers to ARGAs will also drive reform. However, as this is currently being considered by Ministers, it would not be appropriate to anticipate their decision, other than to note that both proposals would further strengthen UK corporate governance.

September 2020

Appendix 1

Schematic of the six FRC Transformation Programme workstreams

Setting up the New Regulator	Audit Scope and Regulation	Corporate Regulation	Corporate Reporting	Corporate Governance	Market Reform
<ul style="list-style-type: none">• Collaborating with BEIS to deliver the legislative and operational framework.• Embedding market intelligence and analytics capabilities to improve the anticipation of market needs, transparency and lower the risk of corporate failure.	<ul style="list-style-type: none">• Creating the supervisory environment in which audit quality, transparency, firm governance and oversight of the profession, are expanded and improved.• Enhancing standards and promoting improvement and innovation in audit.	<ul style="list-style-type: none">• Setting the boundaries of the most wide-reaching recommendations from each of the three reviews.• Enhancing ARGA's ability to deliver robust, fair and transparent regulatory outcomes.	<ul style="list-style-type: none">• Promoting proportionate improvement and innovation in the corporate reporting landscape• Driving the best outcomes for all participants	<ul style="list-style-type: none">• Promoting improvement and innovation in corporate governance and stewardship through the effective use of codes and standards.	<ul style="list-style-type: none">• Promoting a more resilient audit market• Defining an appropriate competition duty for ARGAs, to deliver the necessary enhancements in capacity and capability.

Appendix 2

FRC Analysis of review recommendations

Key:

- **Formally closed** – Recommendations for which all acceptance criteria have been met and BEIS has formally documented closure approval (NB: All still technically subject to Ministerial approval and agreed acceptance criteria may deviate from the recommendation as worded.)
- **Implemented** – Recommendations where FRC has completed all aspects of the acceptance criteria for which it is responsible but either a) have remaining actions for BEIS to take and which are outside our direct control or b) have not yet been put forward for formal closure. (NB: Recommendations in this category may still require legislative underpinning in order to take full effect and agreed acceptance criteria may deviate from the recommendation as worded.)
- **In implementation (no legislation)** – Recommendations where FRC has undertaken substantial work towards the acceptance criteria but has not yet completed all actions.
- **In implementation (legislative element)** – Recommendations where FRC has undertaken substantial work towards the acceptance criteria but has not yet completed all actions and there remains a legislative requirement (e.g. new powers for ARGAs, CA 2006 amendments or similar) to achieve formal closure. This category may include some recommendations that are not ultimately taken forward following Ministerial steer and/or consultation.
- **Requires legislation** – Recommendations that can only be implemented if Government supports a legislative approach. Recommendations in this category will have been subject to varying degrees of policy development discussions between FRC and BEIS.
- **Not started (subject to consultation)** – Brydon recommendations which have been subject to varying degrees of policy development discussions between FRC and BEIS but no formal implementation work on the part of FRC, given the need to await a statement from Government and to consult publicly.
- **N/A** – Brydon suggestions, not being treated as formal recommendations.

No.	Full recommendation	Status	Duplicate/ contradicting rec?
Kingman 1	That the FRC should be replaced as soon as possible with a new independent regulator with clear statutory powers and objectives.	In implementation (legislative element)	No
Kingman 2	That the new regulator's statutory powers, purpose and objectives should be complemented – like the FCA's – by a remit letter from the Government at least once during the lifetime of each Parliament setting out those aspects of economic policy that the regulator should have regard to when advancing its objectives and discharging its duties. The regulator should respond publicly to this letter.	Formally closed	No
Kingman 3	That the new regulator should be named the Audit, Reporting and Governance Authority.	In implementation (legislative element)	No
Kingman 4	That the new regulator should have the following strategic objective: "To protect the interests of users of financial information and the wider public interest by setting high standards of statutory audit, corporate reporting and corporate governance, and by holding to account the companies and professional advisers responsible for meeting those standards."	In implementation (legislative element)	No

No.	Full recommendation	Status	Duplicate/ contradicting rec?
Kingman 5	<p>The full set of duties that the Review proposes be placed on the new regulator are below, requiring that it should act in a way which:</p> <ul style="list-style-type: none"> • Is forward-looking, seeking to anticipate and where possible act on emerging corporate governance, reporting or audit risks, both in the short and the longer term; • Promotes competition in the market for statutory audit services; • Advances innovation and quality improvements; • Promotes brevity, comprehensibility and usefulness in corporate reporting; • Is proportionate, having regard to the size and resources of those being regulated and balancing the costs and benefits of regulatory action; • Is collaborative, working closely with other regulators both in the UK and internationally; and • Prioritises regulatory activity on the basis of risk, having regard to the Regulators' Code. 	In implementation (legislative element)	No
Kingman 6	<p>That the new regulator's duties will guide the new regulator in carrying out its core functions on audit and corporate reporting. The Review proposes that its functions should also include:</p> <ul style="list-style-type: none"> • To set and apply high corporate governance, reporting and audit standards; • To regulate and be responsible for the registration of the audit profession; • To maintain and promote the UK Corporate Governance Code and the UK Stewardship Code, reporting annually on compliance with the Codes; • To maintain wide and deep relationships with investors and other users of financial information; • To monitor and report on developments in the audit market, including trends in audit pricing, the extent of any cross-subsidy from non-audit work and the implications for the quality of audit; and • To appoint inspectors to investigate a company's affairs where there are 	In implementation (legislative element)	No

No.	Full recommendation	Status	Duplicate/ contradicting rec?
	public interest concerns about any matter that falls within the Authority's statutory competence.		
Kingman 7	The new regulator will require a new board with significant new powers and responsibilities in a challenging environment. It will need to demonstrate strong leadership to effect the major shift in tone and culture to rebuild the respect of those it regulates and other stakeholders. There should be some, but only limited, continuity from the existing FRC board.	Implemented	No
Kingman 8	The Review recommends that the new regulator's board should be significantly smaller than the current one.	Implemented	No
Kingman 9	The regulator's board should comprise a mix of the skills, experience and knowledge needed to ensure strategic direction and effective, constructive challenge to the executive. It should not seek to be "representative" of stakeholder interests. In line with provisions in the UK Corporate Governance Code, appointments should be diverse, based on merit and objective criteria.	Implemented	No
Kingman 10	The Review recommends that all appointments to the regulator's board, including the CEO, should be public appointments approved by the Secretary of State for Business, Energy and Industrial Strategy.	Formally closed	No
Kingman 11	There should be a consistent approach to the appointments process and all board, committee and senior posts should be openly advertised with head-hunters used.	Implemented	No
Kingman 12	The Review recommends that the posts of chair and CEO should be subject to confirmation hearings with the BEIS Select Committee, if the committee wishes.	Formally closed	No

No.	Full recommendation	Status	Duplicate/ contradicting rec?
Kingman 13	<p>The Review recommends that the Government, working with the chair of the new board, should review the existing FRC committee and panel structure with a view to achieving a significant simplification of the architecture in line with the principles set out in the Review. Thereafter, there should be a rigorous annual evaluation of the performance of the board, its committees, the chair and individual directors.</p>	In implementation (no legislation)	No
Kingman 14	<p>That the board of the new regulator should exercise significantly stronger ownership and oversight of the investigation and enforcement functions. The regulator should ensure that its internal rules and procedures enable the board to:</p> <ul style="list-style-type: none"> • Take decisions itself on whether to launch audit investigations in cases it regards as of particular significance or public interest. The Review does not anticipate the board taking decisions in many such cases, but it should maintain an ability to do so; • Require regular reports from the Conduct Committee and from the director of enforcement on progress being made with investigations and any subsequent enforcement decisions; and • Question the director of enforcement at any point where it considers that a particular decision or investigation is taking too long. 	In implementation (no legislation)	No
Kingman 15	<p>That the approval and registration of audit firms conducting PIE audits should be reclaimed from the RSBs. The Government should work with the regulator to develop and consult on the detail of how this regime should operate.</p>	In implementation (no legislation)	No

No.	Full recommendation	Status	Duplicate/ contradicting rec?
Kingman 16	The new regime for the approval and registration of audit firms conducting PIE audits should incorporate a range of sanctions including some that are less severe than the 'nuclear option' of audit firm deregistration.	In implementation (no legislation)	No – but links to <u>CMA 2b</u>
Kingman 17	The Review strongly welcomes the proposal that a piece of independent work should be done to explore the issues arising from the audit expectation gap, which have not been addressed in this Review. It is essential that this should be driven, and be seen to be driven, by the interests of users of accounts.	Formally closed	No
Kingman 18	The Government should review the UK's definition of a PIE.	Legislation required	No
Kingman 19	That AFMA should not be carried out on a voluntary basis, but instead the regulator should have statutory power to carry out this monitoring work. It is critical that this monitoring work is performed by individuals with the appropriate skills and seniority.	In implementation (legislative element)	No
Kingman 20	That the new regulator should work towards a position where individual audit quality inspection reports, including gradings, are published in full upon completion of AQRs. This will, however, be a major step, requiring a high level of confidence in the AQR process. For the present, as a first and interim step, the Review recommends publication of AQR reports on an anonymised basis (similar to the approach taken in the US and the Netherlands, for example).	In implementation (legislative element)	No
Kingman 21	That the regulator should change its approach to examining the quality of component audit work conducted overseas, on a risk-based basis.	In implementation (legislative element)	No – but linked to <u>Kingman 34</u>
Kingman 22	The regulator should revisit and strengthen AQR resourcing, and should seek to: • Recruit more senior staff (including at partner-equivalent level) who would attend AQR inspection visits, adding weight and commanding more substantial	In implementation (no legislation)	No

No.	Full recommendation	Status	Duplicate/ contradicting rec?
	<p>respect in conversations with firms; able to make a call on complex matters on-site; and bringing to bear a comparative overview of sector-practice;</p> <ul style="list-style-type: none"> • Ensure its approach to staffing addresses the need for its teams to include recent experience of external audit and understanding of current practice, in order to test and scrutinise firms as effectively as possible; and • Widen and appropriately deploy the team's sector expertise, in particular in those most complex and high-risk sectors where public interest and risk of corporate failure is highest. 		
Kingman 23	The regulator should be required to promote brevity and comprehensibility in accounts and annual reports, engage meaningfully with users and asset owners about their information needs, and ensure the proportionality and value of reports. At least once in every Parliament, the FRC should report to BEIS a public assessment of the extent to which the statutory reporting framework is serving the interests of the users of company reports together with any recommendations for how it can be improved.	In implementation (legislative element)	No
Kingman 24	That the regulator should consider expanding the volume of CRR activity on a risk-based basis.	In implementation (no legislation)	No
Kingman 25	That the new regulator should be given a power to direct changes to accounts rather than having to go to court.	Legislation required	No
Kingman 26	That CRR findings are reported publicly by the regulator. The regulator should publish full correspondence following all CRR reviews, and the findings should be published in a set timeframe.	In implementation (legislative element)	No
Kingman 27	That the new regulator's CRR work should be limited to PIEs, except to the extent unavoidable under EU law.	In implementation (no legislation)	No

No.	Full recommendation	Status	Duplicate/ contradicting rec?
Kingman 28	In addition to stronger retrospective monitoring of company reporting, the Review recommends that the new regulator should introduce a pre-clearance procedure in advance of the publication of accounts.	In implementation (legislative element)	No
Kingman 29	That the stronger corporate reporting review process described earlier should be extended to cover the entire annual report, including corporate governance reporting. This should be done on the basis of risk.	In implementation (legislative element)	No
Kingman 30	The Government, working with the FCA and the new regulator, should consider whether there is a case for strengthening qualitative regulation around a wider range of investor information than is covered by the FRC's existing corporate reporting work, to ensure that disciplines to drive up the quality of companies' disclosures in the UK are at least as demanding as best practice internationally. One possibility would be for the new regulator to trial some additional work in this area, on a risk-based and/or sampled pilot basis; if so, this should be done in close collaboration with (or possibly even in support of) the FCA.	In implementation (legislative element)	Yes – <u>Brydon 5.3.12</u>
Kingman 31	That the new regulator should be more sparing and disciplined than the FRC in promulgating guidance and discussion documents. These documents should only be issued if they are genuinely useful, and their utility clearly exceeds the considerable costs they impose through users having to read and check them.	In implementation (no legislation)	No

No.	Full recommendation	Status	Duplicate/ contradicting rec?
Kingman 32	Although the Review is heartened by the FRC's evident recent change in approach, and by the strengthening of the enforcement team's resourcing and new leadership of the enforcement function, the Review recommends that both the board and the Government should continue to monitor enforcement performance closely. The new regulator should report on this in its Annual Report, and the regulator should regularly be held accountable by Parliament through appearances at the BEIS Select Committee.	Implemented	No
Kingman 33	The regulator should revisit its publication policy in relation to concluded cases that result in undertakings.	Formally closed	No
Kingman 34	The international reach of the regulator's statutory audit enforcement action should be extended, on a risk-based basis.	In implementation (no legislation)	No – but linked to <u>Kingman 21</u>
Kingman 35	That enforcement action against accountants in relation to apparent wrongdoing in Public Interest Entities should be undertaken by the regulator on a statutory basis. The current voluntary scheme should be discontinued and replaced with a new statutory regime with tests and powers aligned and similar to those in the AEP. Those in scope would be judged against the requirements that already apply to them (legislative requirements, financial reporting standards and professional ethical standards).	Legislation required	No
Kingman 36	That the Government, working with the new regulator, should task the regulator to develop detailed proposals for an effective enforcement regime in relation to Public Interest Entities that holds relevant directors to account for their duties to prepare and approve true and fair accounts and compliant corporate reports, and to deal openly and honestly with auditors. The Review recommends that this should apply to: a company's CEO, CFO, chair, and audit committee chair.	Legislation required	No

No.	Full recommendation	Status	Duplicate/ contradicting rec?
Kingman 37	That the regime for non-member directors should follow the principles of the Audit Enforcement Procedure, with the same threshold for action to be taken, and a graduated range of sanctions. To achieve this, the regulator should set out relevant requirements or statements of responsibilities in relation to auditing and corporate reporting in order that directors are individually accountable for their roles.	Legislation required	No
Kingman 38	Although the regulator should be able to impose a range of sanctions, the Review recommends that action relating to director disqualification should continue to rest with the Insolvency Service. The Review does, however, recommend that the FRC should have the necessary powers to investigate directors and refer cases to the Insolvency Service, working closely with them to ensure effective action is taken where necessary.	Legislation required	No
Kingman 39	The regulator should continue to operate its oversight role of the accountancy profession, but with a work programme sufficiently wide and expert to identify any emerging concerns of public interest.	In implementation (no legislation)	No
Kingman 40	That the Government should put in place a backstop statutory power, requiring action to be taken by a professional body if there was a need in the public interest. The Review recommends that such a power would be activated only if needed and at the regulator's request.	Legislation required	No
Kingman 41	The regulator should replace exchanges of letters with formal memoranda of understanding with each of the UK's professional accountancy bodies.	In implementation (no legislation)	No
Kingman 42	That a fundamental shift in approach is needed to ensure that the revised Stewardship Code more clearly differentiates excellence in stewardship. It should focus on outcomes and effectiveness, not on policy statements. The	Implemented	No

No.	Full recommendation	Status	Duplicate/ contradicting rec?
	Government should also consider whether any further powers are needed to assess and promote compliance with the Code. If the Code remains simply a driver of boilerplate reporting, serious consideration should be given to its abolition.		
Kingman 43	The FRC needs to engage at more senior level in a much wider and deeper dialogue with UK investors, including both fund managers and representatives of end-investors.	In implementation (no legislation)	No
Kingman 44	That the regulator should develop a robust market intelligence function to identify emerging risks at an early stage, helping to shift its perspective to current and future risks, as well as its existing retrospective focus.	Formally closed	No
Kingman 45	That the Government introduces a duty of alert for auditors to report viability or other serious concerns. The regulator should also take a close interest, and engage with the auditor, in situations where a PIE auditor has parted company with its client outside the normal rotation cycle.	Legislation required	No
Kingman 46	The regulator needs to be able to act quickly where potentially serious problems are indicated. The Review recommends that the regulator should be able to require rapid explanations from companies about reasonable concerns raised by the regulator.	Legislation required	No
Kingman 47	That the new regulator should be able to commission a skilled person review, paid for by the company, in circumstances where there is any significant interest arising from its strategic objective: “To protect the interests of investors and the wider public interest by setting high standards of corporate governance, corporate reporting and statutory audit, and by holding to account the companies and professional advisers responsible for meeting those standards.”	Legislation required	No

No.	Full recommendation	Status	Duplicate/ contradicting rec?
Kingman 48	That the regulator should have the power to publish the skilled person's report if it judges that to be in the public interest. Investors would then be able to reach their own conclusions about the company's conduct and management.	Legislation required	No
Kingman 49	<p>In terms of further action that may flow as a result of an inspection, depending on its findings the Review recommends that the regulator should be given powers to:</p> <ul style="list-style-type: none"> • Require a company to procure additional assurance on the viability statement or any other aspect of company reports and accounts; • Require a company to procure an independent boardroom evaluation focused on particular areas of concern such as a specific examination of the effectiveness of the audit committee; • Notify the company of its view of the risks to financial viability and require a formal response from the board, with a recovery plan if appropriate; or • Order the removal of the auditor or an immediate retendering. 	Legislation required	No
Kingman 50	In the most serious cases, the Review suggests it may be appropriate for the regulator to issue a report to shareholders suggesting that the company's dividend policy should be reviewed, or that they consider the case for a change of CEO, CFO, chair or audit committee chair, or for other strengthening of the board of directors. The Review believes that, where the severity of the facts merit it, the regulator should have the confidence to do this. Decision-making should rest, as now, with boards and shareholders.	Legislation required	No
Kingman 51	BEIS should give serious consideration to the case for a strengthened framework around internal controls in the UK, learning any relevant lessons from operation of the Sarbanes-Oxley regime in the US. The pros and cons of options for change should be analysed and consulted upon, giving special consideration to the importance of proportionality in relation to the size of the company.	Legislation required	Yes – <u>Brydon 13.1.8</u> and <u>Brydon 13.1.8</u>

No.	Full recommendation	Status	Duplicate/ contradicting rec?
Kingman 52	The Review recommends that viability statements should be reviewed and reformed with a view to making them substantially more effective; and if they cannot be made more effective, serious consideration should be given to abolishing them.	Legislation required	Yes – <u>Brydon 18.1.2</u> and <u>Brydon 18.1.5</u>
Kingman 53	That the regulator considers requiring further enhancement to the Independent Auditor’s Report to include “graduated” audit findings.	Not started (awaiting consultation)	Yes – <u>Brydon 17.5.9</u>
Kingman 54	The regulator should submit an Annual Report to Parliament.	Formally closed	No
Kingman 55	In terms of its internal systems and controls, the Review recommends that the new regulator must apply: <ul style="list-style-type: none"> • The provisions of Managing Public Money; • The Regulators’ Code, which sets out a clear principles-based framework for how regulators should engage with those they regulate; and • The Public Contracts Regulations regarding procurement. 	Formally closed	No
Kingman 56	The regulator should actively promote diversity, especially in its work on corporate governance.	Formally closed	No
Kingman 57	The Review recommends that: <ul style="list-style-type: none"> • For the foreseeable future, it would be wise for the regulator not to allow staff, board or committee members ever to work on any regulatory functions relating to a past employer, removing themselves and/or delegating to others as necessary; and • Written declarations for all staff members’ conflicts of interest and financial interests should include proposed mitigations, and record any exercise of management discretion in relation to work undertaken relating to a former employer. 	Implemented	No
Kingman 58	The Review recommends that the regulator should establish a procurement policy that adheres to public contracting regulations, and that follows an open	Implemented	No

No.	Full recommendation	Status	Duplicate/ contradicting rec?
	tendering process. Its policy should be published, along with a summary of those contracts awarded that are above the Public Contracts Regulation threshold.		
Kingman 59	The Review considers the lack of transparency regarding complaints to be unhelpful and recommends that aggregated data on the trend, nature, and outcome of complaints referred to the FRC be published, as well as information on the speed at which they were dealt with.	Formally closed	No
Kingman 60	The Review recommends that the new regulator should more proactively monitor trends in complaints received by, and regarding, professional bodies, since this provides useful intelligence on the way in which professional bodies are operating. The new regulator should be actively interested in the substance of complaint-handling, especially where it is clear that complaints have merit, and not simply be monitoring process-compliance.	Formally closed	No
Kingman 61	Given the complex nature of the issues dealt with by the FRC, the Review recommends that a central team receive, triage, respond, and ensure appropriate action is taken in relation to complaints or complaint-like contact from stakeholders. That team should also develop clear guidance on how complaints will be dealt with, including timelines. Although basic, the review considers these changes necessary to improve the regulator's credibility.	Formally closed	No
Kingman 62	The Review sees no reason why FOI provisions should not apply in full to the regulator's functions and internal running, and recommends that it is designated as a Public Authority for this purpose.	Implemented	No
Kingman 63	That FRC and the new regulator must ensure that their internal procedures and approach to sharing information with external stakeholders, and its procedures to investigate and act on any leaks, are much more robust and effective.	Implemented	No

No.	Full recommendation	Status	Duplicate/ contradicting rec?
Kingman 64	That the regulator should not be funded on a voluntary basis. BEIS should put in place a statutory levy.	Legislation required	No
Kingman 65	That BEIS should agree a new budget, consistent with the Review's recommendations, working with the new regulator and consulting stakeholders.	In implementation (no legislation)	No
Kingman 66	That BEIS should set the regulator's budget each year, and having consulted, determine the proportions of the levy that will apply to different parties.	In implementation (no legislation)	No
Kingman 67	As set out in Chapter 3, the regulator needs to develop new teams, and should look to recruit analysts, investment experts, economists, and those skilled in corporate law.	In implementation (no legislation)	No
Kingman 68	That the new regulator should develop a staffing and resourcing strategy to achieve the vision set out in this Review. That should include a more diverse approach to hiring. The regulator should also build on the experience of the Financial Reporting Review Panel and, like the other financial regulators, develop a pool of former or retired senior executives and experts – so-called 'grey panthers' – to boost its capacity to deploy expertise at short notice.	In implementation (no legislation)	No
Kingman 69	That the control arrangements on pay for the regulator should mirror those of other financial regulators such as the FCA, PRA and Ofcom which are not funded by the taxpayer. This approach should apply immediately. The new regulator's budget should be set by Ministers, as should the CEO's pay, but other pay decisions should be made by the regulator subject, of course, to proper transparency, and within the overall financial budget set by Ministers.	Implemented	No

No.	Full recommendation	Status	Duplicate/ contradicting rec?
Kingman 70	<p>That the new regulator's pay arrangements should be set out in the regulator's legal base, and mirror that of Ofcom. That sets out with clarity that the arrangements for the terms, conditions, and remuneration of staff are a matter of Ofcom's responsibility. The Office of Communications Act 2002 states that: Schedule (7)(1): "The employees of Ofcom who are not executive members shall be appointed to and hold their employments on such terms and conditions, including terms and conditions as to remuneration, as Ofcom may determine."</p> <p>The Review recommends that the same wording be used for the founding legislation for the new regulator.</p>	Legislation required	No
Kingman 71	<p>That the new regulator should be given a competition duty in a stronger form than the "have regard to" formulation recommended by the Competition Commission in 2013 and should follow the model set out in Chapter 6, which is broadly based on the FCA's competition duty.</p>	Legislation required	No
Kingman 72	<p>In addition to a competition duty, the Review also recommends that the regulator should be given a specific statutory function to keep the statutory audit market under review and to report regularly on market and competition developments. This will need to include reporting on trends in audit pricing, the extent of any cross-subsidy from non-audit work and any implications for the quality of audit.</p>	Legislation required	No

No.	Full recommendation	Status	Duplicate/ contradicting rec?
Kingman 73	The Review recommends giving the regulator the powers it needs to support a competition duty and an ongoing market review function. In particular, it will need powers to require firms to provide audit pricing, cross-subsidy and market share data. The position should be reviewed again following completion of the CMA's market study to ensure that the regulator has the powers needed to implement or monitor the CMA's competition remedies and to act on evolving or new competition issues in the future.	Legislation required	No
Kingman 74	The Government, working with the PRA and TPR, should review what powers are required effectively to oversee regulation of the actuarial profession.	Legislation required	No
Kingman 75	That neither the FRC, nor its successor body, is best-placed to be the oversight body. The PRA (which employs around 80 actuaries) is a much larger repository of regulatory actuarial expertise than the FRC and would be best-placed to take on all the actuarial responsibilities currently vested in the FRC.	Legislation required	No
Kingman 76	That the arrangements for local audit need to be fundamentally rethought to ensure that they: <ul style="list-style-type: none"> • Deliver robust assessment and scrutiny of the quality of all local audit work, with individual reports shared with audit committees and published; • Establish a more appropriate threshold for enforcement action; and, • Bring together in one place all the relevant responsibilities, so a single regulatory body can take an overview. 	Formally closed	No

No.	Full recommendation	Status	Duplicate/ contradicting rec?
Kingman 77	Such a role (regarding local audit) could be taken on by the FRC or its successor body, but the Review recommends that it would be much better undertaken by a separate body that has (or could develop) a deeper expertise in the local audit world. That body should have a different and much more focused remit than the former Audit Commission. It should have a clear objective to secure quality, and should set the relevant standards, inspect the quality of relevant audit work and oversee the relevant professional bodies. It should also take on responsibility for appointing auditors for local bodies and agreeing fees.	Legislation required	No
Kingman 78	In the same spirit, the Government should review whether the arrangements now in place for other public sector audits, such as Foundation Trusts, are genuinely robust and effective. It is very unlikely that they are.	Legislation required	No
Kingman 79	Just as the Review recommends public disclosure of AQR findings and gradings in relation to the private sector, the Review recommends that the new regulator's individual AQR reviews in relation to the NAO should be shared with the relevant audit committee and Parliament, and should be published.	Legislation required	No
Kingman 80	That all financial audits in scope of the NAO should be brought within the audit quality monitoring scope of the new regulator, and not only at the discretion of the C&AG.	Legislation required	No
Kingman 81	In light of the Review's recommendations on local audit, and those above, the Review recommends that the Secretary of State for Business, Energy and Industrial Strategy should reassess if the FRC remains the most appropriate body to perform the role of Independent Supervisor of Auditors General in respect of statutory audits.	Legislation required	No
Kingman 82	That responsibility for the local audit "Code of Audit Practice" should be moved to the same body that monitors the quality of local audit work.	Legislation required	No

No.	Full recommendation	Status	Duplicate/ contradicting rec?
Kingman 83	An immediate priority task for the FRC and the Government should be to work together to identify and agree a set of measures that should be implemented in the short term ahead of legislative time being available for primary legislation. This interim implementation plan should be published along with a timetable.	In implementation (no legislation)	No
Kingman 84	Kingman letter to SoS recommending that 1) the regulator has the right to appoint a PIE auditor where a) quality issues have been identified, b) where the company has parted with its auditor outside the normal cycle or c) where there has been a meaningful shareholder vote against an auditor appointment and 2) the regulator has the right to approve PIE audit fees where it sees a case for doing so in the interests of quality.	Legislation required	Yes – <u>Brydon 23.0.12</u>
CMA 1	Robust regulatory oversight of the committees that run the selection process for audited companies, and oversee the audit, to make them more accountable and ensure that they prioritise quality.	In implementation (legislative element)	No
CMA 2	Mandatory joint audit, to increase the capacity of challenger firms, to increase choice in the market and thereby drive up audit quality. There should be initial limited exceptions to the requirement, based on criteria set by the regulator – mainly the largest and most complex companies. Any company choosing a sole challenger auditor should also be exempt. Audits of exempt companies may be subject to rigorous, realtime peer reviews commissioned by and reporting to the regulator.	In implementation (legislative element)	No
CMA 2b	We recommend that the regulator should be given the powers to: <ul style="list-style-type: none"> • obtain the information it needs to monitor the health of audit practices to act as an early warning, including requiring Audit Committees to inform it of upcoming tenders; and • intervene as necessary. 	In implementation (legislative element)	No – but links partially to <u>Kingman 16</u>

No.	Full recommendation	Status	Duplicate/ contradicting rec?
CMA 3	An operational split between the Big Four's audit and non-audit businesses, to ensure maximum focus on audit quality.	In implementation (legislative element)	No – but incorporates <u>Brydon 9.4.14</u> and <u>Brydon</u> <u>25.2.3</u>
CMA 4	A five-year review of progress by the regulator.	Not started (awaiting consultation)	Yes – <u>Brydon 3.20</u>
Brydon 3.3 (suggestion)	<i>It would be helpful if ARGA would play the role of a clearing house to ensure that boards are not over-encumbered with competing corporate governance priorities.</i>	N/A	N/A
Brydon 3.4 (suggestion)	<i>Here also ARGA could play a positive role in facilitating a stronger interaction between academia, the professional bodies, firms, investors , other users and itself.</i>	N/A	N/A
Brydon 3.20	I recommend that there should be an Independent Implementation Review in 2025 to report publicly on the progress made in relation to the recommendations made by each of these three Reviews [Kingman, CMA, Brydon]	Not started (awaiting consultation)	Yes - <u>CMA 4</u>
Brydon 4.7	I recommend that ARGA together with auditors and the Plain English Campaign should produce an appropriately concise guide to audit, explaining clearly what the different elements of an audit report mean as redefined in this Report, and what, just as importantly, they do not mean.	Not started (awaiting consultation)	No
Brydon 5.1.3/ 5.1.4	I recommend that the following statement be endorsed and adopted by ARGA and, insofar as it applies to statutory audit, the Government should consider how it may best be enshrined in the Companies Act (“CA06”): “The purpose of an audit is to help establish and maintain deserved confidence in a company, in its directors and in the information for which they have responsibility to report, including the financial statements.”	Legislation required	No

No.	Full recommendation	Status	Duplicate/ contradicting rec?
Brydon 5.2.6	I recommend that auditing should provide information that is useful to present and potential investors, lenders, creditors and other users in making rational investment, credit and other decisions and assessments about the company.	Not started (awaiting consultation)	No
Brydon 5.2.7 (suggestion)	<i>ARGA should adopt and monitor compliance with this obligation by auditors, and government should consider the extent to which it may be placed on a statutory footing in the Companies Act.</i>	N/A	N/A
Brydon 5.3.2	I recommend that auditors should be free to include original information, materially useful to a wide range of users, in their audit report and at the AGM, & not be confined to commenting on that which has already been stated by directors.	Legislation required	No
Brydon 5.3.9 (suggestion)	<i>ISA (UK) 700 should be amended to require the disclosure of any such information in the audit report.</i>	N/A	N/A
Brydon 5.3.12	I recommend that this obligation should be extended to material outside the Annual Report that is used in investor presentations and RNS announcements.	Legislation required	Yes – <u>Kingman 30</u>
Brydon 5.3.15 (suggestion)	<i>In respect of such companies, the auditor's disclosure should be made to the relevant regulator whose advice should be sought as to wider publication. The regulator should have a presumption in favour of disclosure unless it is clearly not in the public interest to do so.</i>	N/A	N/A
Brydon 5.4.5 (suggestion)	<i>To clarify, I consider the audit process and associated outcomes should be directed to achieve the purpose of audit, and therefore should provide those for whom it is carried out confidence in a company, in its directors and in the information for which they have responsibility to report, including the financial statements.</i>	N/A	N/A
Brydon 5.4.12	I recommend that ARGA determines a framework for all corporate auditing, whether of financial statements or other information.	Not started (awaiting consultation)	No

No.	Full recommendation	Status	Duplicate/ contradicting rec?
Brydon 6.0.11	I recommend that ARGA acts as the midwife to create a new profession of corporate auditing, establishing the necessary professional body, to encompass today's auditors and others with appropriate education and authorisation. ARGA would be the statutory supervisory body for that profession.	Not started (awaiting consultation)	No
Brydon 6.0.16	I recommend that there is one encompassing descriptor with a newly minted definition – "corporate auditor"	Not started (awaiting consultation)	No
Brydon 6.1.2	I recommend that an auditor's authorisation to carry out audits in particular areas of activity should flow from tailored qualifications which they have achieved.	Not started (awaiting consultation)	No
Brydon 6.3.4	I recommend that the Principles of Corporate Auditing should be established to form an overarching framework governing the behaviour of corporate auditors, and standards and rules should sit within this framework.	Not started (awaiting consultation)	No
Brydon 6.3.5(a) (suggestion)	<i>Anyone authorised as an auditor should have a primary duty to behave in a manner that reflects these principles. I would expect that ARGA would then judge the quality of an audit, in part, as the extent to which the auditor's work and subsequent report are consistent with these principles.</i>	N/A	N/A
Brydon 6.3.5(b) (suggestion)	<i>Work conducted by an auditor faithfully adhering to these principles should then be such that a defence against action may become a principles-based defence.</i>	N/A	N/A
Brydon 6.4.5	I recommend that each audit report contains a statement to the effect that in conducting the audit the auditor has acted faithfully in accordance with the Principles of Corporate Auditing.	Not started (awaiting consultation)	No – but falls away if Brydon 6.3.4 is not taken forward
Brydon 6.5.2	<i>All testing of the quality of an audit would start by assessing the extent to which an audit has been conducted in line with these principles.</i>	N/A	N/A

No.	Full recommendation	Status	Duplicate/ contradicting rec?
(suggestion)			
Brydon 6.6.2	I recommend that ARGA ensures that education, training and, if necessary, retraining, should take place consistently across this new profession.	Not started (awaiting consultation)	No
Brydon 6.6.11 (suggestion)	<i>ARGA will need to help develop satisfactory curricula and establish mechanisms for qualification.</i>	N/A	N/A
Brydon 6.6.14	I recommend that the development of a specific auditor qualification, including education and training, should become a high priority for ARGAs over the coming years.	Not started (awaiting consultation)	No
Brydon 6.6.16	I recommend that ARGAs develops an agreed definition of professional judgment which builds on ISA (UK) 200.	Not started (awaiting consultation)	No
Brydon 6.8.5	I recommend that the directors should set out in a Public Interest Statement (as part of the Strategic Report) how they view the company's legal, financial, social and environmental responsibilities to the public interest. This Statement should explain how the company has discharged its self-declared public interest obligations and responsibilities, what actions it has taken to mitigate any externalities it has caused during the period, and how effective these actions have been.	Legislation required	No
Brydon 6.8.7	I recommend that the audit report should state the extent to which the audit has yielded sufficient evidence of consistency between the content of the Public Interest Statement and the Annual Report and Accounts as a whole. The auditor's opinion should state whether, based on the evidence reviewed, the directors' Public Interest Statement is presented fairly in all material respects.	Legislation required	No – but falls away if Brydon 6.8.5 is not taken forward

No.	Full recommendation	Status	Duplicate/ contradicting rec?
Brydon 7.4 (suggestion)	<i>ARGA should endeavour to achieve a unification of definition [of a high-quality audit]</i>	N/A	N/A
Brydon 8.3.5 (suggestion)	<i>I consider that more can be done to ensure that shareholders including asset managers have the opportunity and incentive to engage more meaningfully with individual audits, and with ongoing wider issues of audit quality.</i>	N/A	N/A
Brydon 8.4.3	I recommend that the audit report should include a new section in which the auditor states whether the company's section 172 statement is based on observed reality, on the basis of the auditor's knowledge of the company and its processes.	Not started (awaiting consultation)	No
Brydon 9.1.4	I recommend that the directors' Risk Report should be published prior to the audit committee meeting at which the scope of the next audit is determined and endorsed, leaving sufficient time for shareholders to comment. Alongside, the audit committee should publish a formal invitation to shareholders to express any requests they have regarding the areas of emphasis they wish the auditor to incorporate in the audit plan. The audit committee should state the auditor's proposed materiality levels for the forthcoming audit with this invitation.	Not started (awaiting consultation)	No
Brydon 9.1.6	I recommend that if the auditor considers there are other risks of similar or greater significance to those reported by the directors, based on its knowledge of the company, the auditor should report this fact	Not started (awaiting consultation)	No
Brydon 9.1.9 (suggestion)	<i>"there needs to be more colour provided on the principal risks over and above simply a list of what they are. The focus should be on specific risks that remain after taking account of the controls and mitigations in place, [users] want to understand how those risks have changed from the prior year" (ACCIF)</i>	N/A	N/A
Brydon 9.1.11	I recommend that the audit committee and the auditor be required to publish the reasons why they accepted or rejected any such requests [for items to be included in the audit plan] in their Reports.	Legislation required	No – but falls away if Brydon

No.	Full recommendation	Status	Duplicate/ contradicting rec?
			9.1.4 is not taken forward
Brydon 9.4.5	I recommend a change in the law to require the audit fees to be shown on the face of the profit and loss account as being struck, like the dividend, after the reporting of post-incentive compensation profit	Legislation required	No
Brydon 9.4.9	I recommend that the audit committee chair should be delegated to negotiate the fee for the relevant audit work. The Board, as a whole, should agree a budget for the audit committee - the assurance budget - within which the fees would be included.	In implementation (no legislation)	No
Brydon 9.4.11 (suggestion)	<i>Once the audit committee has agreed the fees, they (and any other expenditure incurred by the audit committee) should be made visible in the accounts and required to be justified in the audit committee report.</i>	N/A	N/A
Brydon 9.4.14	I recommend that, similarly, [to rating agencies] audit firms establish an independent fee-setting function making its decisions separately from those conducting the audit	Not started (awaiting consultation)	No – but dealt with via CMA 3
Brydon 9.5.6	I recommend that a standing item be added to AGM agendas: questions to the chair of the audit committee and to the auditor	Not started (awaiting consultation)	No
Brydon 9.6.3	I recommend that a new body – the Audit Users Review Board (AURB) - be established, comprising solely users of audit reports, be established to review proposals from and give advice to ARGAs as to the evolution of audit.	Not started (awaiting consultation)	No
Brydon 10.0.3	I recommend that the audit committee publish a three-year rolling Audit and Assurance Policy which would be put to an annual advisory vote by shareholders for approval at the Annual General Meeting.	Not started (awaiting consultation)	No

No.	Full recommendation	Status	Duplicate/ contradicting rec?
Brydon 10.0.6 (suggestion)	<i>The Audit and Assurance Policy should encompass assurance beyond that required for the financial statements.</i>	N/A	N/A
Brydon 10.0.7 (suggestion)	<i>The assurance budget should be published, divided by broad categories of expenditure planned for the first year of the rolling three-year period covered.</i>	N/A	N/A
Brydon 10.2.2	I recommend that a simple mechanism to enable the workforce to raise issues around risks and assurance should be developed in each company, so that the designated director (or other mechanism) be the recipient of those inputs. The company should then have an obligation to respond to the workforce as to the way in which it has reacted to their requests.	Not started (awaiting consultation)	No
Brydon 11.9	I recommend that the Companies Act and ISA (UK) 700 be amended to replace “true and fair” with “present fairly, in all material respects”	Legislation required	No
Brydon 11.15	I recommend that auditors judge their opinion on any use or proposed use by directors of the (now) fairly presented override in the context of their obligation to be faithful to the Principles of Corporate Auditing.	Legislation required	No – but falls away if Brydon 6.3.4 and Brydon 11.9 are not taken forward
Brydon 12.4	I recommend that the Government review the Companies Act to see if it could be improved to give more clarity as to what is meant by “adequate accounting records”. Given the complex requirements modern accounting creates, either through law or regulation, there should be an obligation for auditors to assess that the directors have maintained accounting records to a standard beyond the minimum level necessary for an audit to be performed. In doing so, the objective should be a High-Quality Audit as defined in this Report.	Legislation required	No

No.	Full recommendation	Status	Duplicate/ contradicting rec?
Brydon 12.8	I recommend that ARGA promptly develop guidance for the auditors around their responsibilities in relation to accounting records.	Not started (awaiting consultation)	No
Brydon 13.1.8	I recommend that the Government gives serious consideration to mandating a UK Internal Controls Statement consisting of a signed attestation by the CEO and CFO to the Board that an evaluation of the effectiveness of the company's internal controls over financial reporting has been completed and whether or not they were effective, as in SOX 302(c) and (d). This attestation should be received by the Board no later than 28 days before the accounts of the company for the relevant financial period are signed. The Board should then report to shareholders that it has received such an attestation.	Legislation required	Yes – <u>Kingman 51</u>
Brydon 13.1.9 (suggestion)	<i>A failure of relevant controls in the 12 months prior to the attestation or in the 12 months following should result in a requirement for future statements to be audited for a period of three years following the failure. The directors should state if such a failure has occurred.</i>	N/A	N/A
Brydon 13.1.11	I recommend instead that the ACCIF develops principles that should be followed by CEOs and CFOs in making an internal controls effectiveness attestation. Final endorsement of these principles should be made by ARGA	Not started (awaiting consultation)	Yes <u>Kingman 51</u>
Brydon 13.1.12 (suggestion)	<i>Where weaknesses (and/or failures) in controls have been reported it should become an obligation on directors to report on what remedial action has been taken and on its effectiveness. Where the same or any other material weakness persists over two reporting periods, boards should be obliged to have their attestations audited until the controls can be pronounced effective.</i>	N/A	N/A
Brydon 13.1.13 (suggestion)	<i>In reporting on this work boards should make clear what processes have been considered and reasons for their confidence in their effectiveness.</i>	N/A	N/A

No.	Full recommendation	Status	Duplicate/ contradicting rec?
Brydon 13.2.3 (suggestion)	<i>I suggest that the standard [ISA (UK) 610] be reviewed with a view to encouraging greater but still appropriate use of internal audit by the external auditor.</i>	N/A	N/A
Brydon 14.1.5	I recommend that ARGA amends ISA (UK) 240 to make clear that it is the obligation of an auditor to endeavour to detect material fraud in all reasonable ways	In implementation (no legislation)	No
Brydon 14.2.2	I recommend that directors should report on the actions they have taken to fulfil their obligations to prevent and detect material fraud against the background of their fraud risk assessment.	Legislation required	No
Brydon 14.3.3	That training in both forensic accounting and fraud awareness be parts of the formal qualification and continuous learning process to practice as a financial statements auditor. In developing qualifications for auditors of other areas of activity, parallel training should be established.	Not started (awaiting consultation)	No
Brydon 14.3.5	I recommend that the auditor's report state explicitly the work performed to conclude whether the directors' statement regarding the actions they have taken to prevent and detect material fraud is appropriate. Furthermore, the auditors should state what steps they have taken to assess the effectiveness of the relevant controls and to detect such fraud.	Legislation required	No
Brydon 14.4.1 (suggestion)	<i>ARGA [should] stimulate the production of a publication which would set out a British version of the AICPA's fraud certification parameters for different industries.</i>	N/A	N/A
Brydon 14.4.3	I recommend that ARGA maintains an open access case study register detailing frauds that have occurred in order that auditors can learn in real time from these frauds	Not started (awaiting consultation)	No

No.	Full recommendation	Status	Duplicate/ contradicting rec?
Brydon 14.5.4	I recommend that ARGA establish an independent Auditor Fraud Panel to which it would refer the results of any investigations into auditor failure to detect material frauds and that such a Panel should be equipped with the ability to levy sanctions on auditors as appropriate.	Not started (awaiting consultation)	No
Brydon 15.6 (suggestion)	<i>If the auditor, at all times, adheres to the Principles of Corporate Auditing discussed above, in particular those relating to impartiality, independence of judgment and avoiding conflicts, then this alignment of interests need not be problematic.</i>	N/A	N/A
Brydon 16.1 (suggestion)	<i>It should be formally incumbent on the auditors to consider any external factors (as well as internal factors) which might signal the need for related work.</i>	N/A	N/A
Brydon 16.4	I recommend that there should be an obligation on the auditors to report to both the audit committee and the shareholders on the extent to which their work has been influenced and informed (or not) by any external signals which might imply enhanced risk in the company whose financial statements are being audited	Not started (awaiting consultation)	No
Brydon 16.6 (suggestion)	<i>Directors should report on their reaction to those signals and the auditors should refer to the extent to which they have accepted or tested the directors' conclusions.</i>	N/A	N/A
Brydon 16.7	I recommend that ARGA should develop a menu of possible signals [in reference to enhanced risk] and the auditors should report against the relevant parts of that menu.	Not started (awaiting consultation)	No
Brydon 17.0.2 (suggestion)	<i>Whether there has been disagreement with management or the audit committee or not during the course of the audit, auditors should be required to identify the relevant variables to the audit committee and the resolutions made.</i>	N/A	N/A

No.	Full recommendation	Status	Duplicate/ contradicting rec?
Brydon 17.0.4	I recommend that the audit committee should describe the content of the debate [in reference to differences of view] and its outcome, including the justification for the agreed treatment. For example, where the differences of view would have led to material changes in valuation, even when these differences have been resolved, the audit committee should report on the range of the initial views and where in that range the agreed valuation lies.	Not started (awaiting consultation)	No
Brydon 17.1.2	I recommend that the consequences of potential differences in treatment of goodwill and intangibles considered by management and the auditor should also be made transparent.	Not started (awaiting consultation)	No
Brydon 17.2.6	I recommend that ARGA develop a series of examples which would illustrate, non-exclusively, the types of culture that auditors should reference in their report where there is an observed disconnect between the culture of the company claimed by the directors and the behaviour observed by the auditors.	Not started (awaiting consultation)	No
Brydon 17.3.1 (suggestion)	<i>It would be helpful if auditors referred back to the prior year's audit report.</i>	N/A	N/A
Brydon 17.3.3	I recommend that the auditor explain in each of the two succeeding audit reports what procedures have been undertaken and what conclusions reached in relation to those matters [referring to KAMs]; the auditor should also highlight what actions have been taken by the company in response to weaknesses identified in the prior year's audit.	Not started (awaiting consultation)	No
Brydon 17.4.6 (suggestion)	<i>The auditor's report should include some substantive discussion of the key areas of measurement uncertainty and provide information on the ranges and sensitivities associated with the point estimates for those measurements.</i>	N/A	N/A
Brydon 17.5.9	I recommend that the evolution of graduated findings be left to the marketplace for audit services.	Not started (awaiting consultation)	Yes – Kingman 53

No.	Full recommendation	Status	Duplicate/ contradicting rec?
Brydon 17.6.4 (suggestion)	<i>The auditor must be robust before agreeing to management's proposed preliminary results announcement</i>	N/A	N/A
Brydon 18.1.2	I recommend that the board should make a Resilience Statement that incorporates, enhances and builds on the current Going Concern and Viability Statements	Legislation required	Yes – <u>Kingman 52</u> and <u>Brydon 18.1.5</u>
Brydon 18.1.5	I recommend that ARGA requires auditors to report to the Board of Directors if they have encountered any information in the course of their audit which leads to an anxiety about the resilience of the business not reflected in the Resilience Statement. If they consider the Board does not pay sufficient attention to their anxieties, they should have an obligation to report to ARGA, or an alternative regulator depending on the circumstances.	Not started (awaiting consultation)	Yes – <u>Kingman 52</u> and <u>Brydon 18.1.5</u>
Brydon 19.7	<i>At the same time, if companies are not to be subject to an obligation to publish historically determined distributable reserves, I recommend that the directors, in proposing a dividend, would need to make a statement that the payment of this dividend in no way threatens the existence of the company in the ensuing, say, two years in the light of the risk analysis undertaken. The directors should also confirm that this statement is consistent with the Resilience Statement, has been assured in accordance with the Audit and Assurance Policy and that this dividend is within known distributable reserves. [Brydon suggestion]</i>	Legislation required	No
Brydon 19.8	<i>For a company where it is likely that distributable reserves are deemed "similar" in size to a proposed dividend, that dividend can only be recommended by the directors if the level of the distributable reserves is established and payment of that dividend is consistent with obligations of the directors under the Companies Act and consistent with the Resilience Statement. These distributable reserves would be subject to audit. [Brydon suggestion]</i>	Legislation required	No

No.	Full recommendation	Status	Duplicate/ contradicting rec?
Brydon 20.1.5	I recommend that any Alternative Performance Measures should be subject to audit	Legislation required	No
Brydon 20.2.8	I recommend that any Key Performance Indicators used for the purpose of calculating executive remuneration should be subject to audit.	Legislation required	No
Brydon 21.5	I recommend that directors report to shareholders on their company's payment policies and performance and that this be subject to some level of audit, as described in the company's Audit and Assurance Policy.	Legislation required	No
Brydon 22.7	I recommend that the relevant Statutory Auditor for a particular audited PIE be added to the list of Prescribed Persons under the Public Interest Disclosure Act.	Legislation required	No
Brydon 22.9	I recommend that the protections available to employees should be extended to others with a direct economic relationship with the entities being audited. These would encompass shareholders, suppliers, customers and any other creditors. Such individuals should also be afforded protection when whistleblowing to ARGA.	Legislation required	No
Brydon 23.0.12	I recommend that amendments are made to the Companies Act to clarify and strengthen the process by which auditors and companies inform shareholders and other stakeholders of an auditor's resignation, dismissal or decision not to participate in a tender.	Legislation required	Yes – <u>Kingman 84</u>
Brydon 23.1.2	I recommend that on the resignation or dismissal of its auditor the company would be required to hold a General Meeting, within 42 days of receiving the letter of resignation or sending a notice of dismissal, at which the departing auditors would be required to answer questions from shareholders; the Board	Legislation required	No

No.	Full recommendation	Status	Duplicate/ contradicting rec?
	would be required to explain how it proposes to appoint a new auditor and manage the transition, consistent with its Audit and Assurance Policy.		
Brydon 24.1.4 (suggestion)	<i>ARGA may wish to consider stimulating the development of a standard method of data extraction similar to that developed by the US AICPA covering both structured and unstructured data.</i>	N/A	N/A
Brydon 24.1.8	I recommend that BEIS and ARGA work with auditors to create the necessary protections and policies for audit to be able to use data from the companies they audit in order to promote better quality audits.	Not started (awaiting consultation)	No
Brydon 24.1.11	I recommend that, in the audit report, auditors should explain the reasons for the necessity and basis of any sampling techniques used in conducting the audit	Not started (awaiting consultation)	No
Brydon 25.0.4	I recommend that s534 CA06 be explicit that a board that recommends, in good faith, the application of an LLA to its auditor is not in breach of its responsibilities	Legislation required	No
Brydon 25.1.3	I recommend that ARGA facilitates a structured dialogue between investors and auditors to define a liability regime that would cause fewer obstacles to a more informative audit.	Not started (awaiting consultation)	No
Brydon 25.2.3	I recommend that firms conducting statutory audits of Public Interest Entities should publish separated financial information, including profitability, of the audit practice and that such firms should publish a remuneration policy and the annual remuneration of each relevant Senior Statutory Auditor.	Not started (awaiting consultation)	No – but included in proposed solution for CMA 3
Brydon 25.2.5	I recommend that individual statutory audit reports detail the number of hours spent in conducting the audit by grade of auditor.	Not started (awaiting consultation)	No – but dealt with via CMA 3

No.	Full recommendation	Status	Duplicate/ contradicting rec?
Brydon 26.1.3 (suggestion)	<i>I welcome Professor Ramanna's recommendation that regulators should "create a more affirming regulatory environment, one that rewards and not just punishes.</i>	N/A	N/A
Brydon 26.3.2	I recommend that ARGA establish a formal confidential mechanism to interact with shareholders or other stakeholders to respond to concerns regarding particular audits.	Not started (awaiting consultation)	No
Brydon 27.1.7	I recommend that audit committee minutes be published with a time-lag of 12-18 months and with approved redactions.	Not started (awaiting consultation)	No
27.3.2	<i>It would be helpful if ARGA were to make clear that it is not necessary to be (or have been) a qualified accountant in order to deliver this role well. [in reference to the audit committee chair]</i>	N/A	
27.3.3	<i>In developing corporate governance practices, ARGA needs to guard against the balkanisation of the board</i>	N/A	

September 2020