

Dear Susan,

Thank you for sending us each a copy of the FRC's review of the UK's Audit Firm Governance Code. This is the joint response from the three INEs at Grant Thornton, Caroline Goodall, Ed Warner and myself, Richard Eyre. We note that the firm is providing its own response.

We have largely concentrated our responses on the section on INEs, but have a couple of wider observations.

1. On balance we believe that a 'comply or explain' style code should allow reasonable practical latitude to participants. In this context, some paragraphs of the revised code seek to regulate the kinds of behaviours we might expect all firms to pursue in their commercial interests and which therefore do not need reinforcement by the code. For example, paragraph 18 – 'The Code should also promote good quality, soundly managed work outside of statutory regulation. This should be undertaken in such a way as to avoid undermining public confidence in the firm and hence in its audit work.'
2. Non-executive directors in publicly-listed companies are bound to act in the interests of *all* stake-holders, not just owners. The NEDs of PLCs must consider the interests of other stakeholders such as employees, suppliers, customers, the environment and others. So, whilst we understand the different accountability of INEs in a business entity whose owners are also its managers and senior staff, we do not believe that the public interest responsibilities of audit firm INEs are out of the ordinary.
3. As reported in paragraphs 23 and 36, INEs have been situated at different places in the governance superstructure of the firms. Grant Thornton has located its INEs on its Partnership Oversight Board (POB), the body which holds the firm's executive leadership to account. This, together with the firm's inclusive spirit, as advocated in the FRC report, has created a strong system through which INEs can gain access to all relevant information necessary to pursue their roles in the interest of the public and other stakeholders and in the long term interest of the firm itself. We believe it is important that the FRC satisfy itself that the location of INEs in other firms is such that they have sufficient access to leaders of the business and to the management information necessary to provide the independent public interest oversight of the firm intended by the Code.
4. Paragraph 34. We believe this statement of the purpose of INEs is too narrowly drawn. GT INEs have functioned in roles more far-reaching than pure governance,

roles which serve the all six of the specific intended benefits of the code set out in paragraph 9 – in particular:

- Support firms in their objectives of performing high quality audit work that gives confidence to shareholders.
- Benefit capital markets by enhancing choice and helping to reduce the risk of a firm exiting the market.
- Encourage changes in governance which improves the way the firm is run

This is healthy and reflects the fact that good INEs have a breadth of experience that they will be prepared to bring to the benefit of the firm, in exactly the manner of a corporate NED, working as a ‘critical friend’ to the executive management of the company.

Accordingly we do not believe that an INE’s duty of care to the firm is at odds with his or her duty to the public interest, any more than on a corporate board, where this dual responsibility is well understood. It would be normal for INEs to be available for consultation in the event of stakeholder disquiet, but we believe this duty falls short of a formal direct accountability to shareholders (i.e. investors in the firm’s audit clients) or to the FRC. Therefore we agree with your apparent endorsement of the status quo in paragraph 35.

5. Paragraph 37. We agree with the FRC’s highlighting of audit and international activities, though in our experience at Grant Thornton, these are both topics under careful and regular scrutiny by the Partnership Oversight Board.
6. The proposition in paragraph 40 that INEs should be part of the firm’s audit governance is an interesting one. It is possible that firms of different sizes need to seek different solutions to this challenge. At Grant Thornton we recognise that it is not easy for generalist INEs to play an effective role in ensuring audit quality, auditor scepticism or adequate technical competence. Indeed, it is difficult to see how such assurance on these three areas of audit practice can be effectively achieved by an INE without the INE being involved in the day to day detail of the Audit practice, being involved in overseeing the conduct of Audit files by the firm in the manner of a client review partner, which would rather compromise our non-executive status. We believe the current structure at Grant Thornton is appropriate for a firm of GT’s scale. Instead, we have suggested that experience as an auditor (with no history with the firm) and / or as a Finance Director with a plc would be valuable in the future recruitment of at least one replacement for the current roster of INEs. We believe an arrangement like this would address the concerns expressed in Paragraph 64 about

the separation of responsibilities between audit oversight and overall governance of all the firm's activities in the public interest.

7. Paragraph 48 – it is our intention to supply a separate independent report from the INEs to be included in the Grant Thornton Transparency Report.
8. Paragraph 74 – as indicated above, we do not believe that the public interest role of independent non-executives at accountancy firms which carry out audit work is so different from their responsibilities as NEDs to corporate stake-holders. Although we agree that, in the context of the INE role, the public interest lies principally (but not exclusively) in the three key areas outlined in paragraph 38.
9. Paragraph 75 – the role of a non-executive differs by the type of board, the type of organisation and industry sector. However, as stated, we believe the similarities outweigh the differences and no change in nomenclature need be sought.
10. Paragraph 79 – we disagree with the contention that an INE should not be seen as an advocate for the firm. A committed non-executive can be expected to use experience and contacts to help the competitiveness of the firm just as s/he will do in a corporate. This is not at odds with his/her duty to hold executive management to account. A fuller understanding of the moving parts of the business is likely to be learned by a non-executive who understands this dichotomy, and the field of candidates for these roles will be wider, more diverse and more interesting than if the role is configured as an internal governance policeman. Equally, a non-executive who wants the firm to succeed and is prepared to contribute skills to this end wins the confidence of a management team, on which his/her public interest obligations rely. Furthermore, non-executives are unlikely to put their personal reputation on the line by endorsing the firm to their contacts unless they are satisfied that the organisation meets an acceptable standard of good corporate governance and demonstrates appropriate business behaviour and culture.
11. Paragraph 80 – we believe it is inappropriate to require the approval of investors or the FRC to the appointment of an INE by an accountancy firm subject to the code. These firms generally conduct corporate finance business requiring FCA approval of INEs which should suffice as a 'fit and proper' check in the unlikely event that a firm wishes to hire the wrong kind of person. However it makes eminent sense for firms to note their recruitment criteria for INEs in their Transparency reports
12. Paragraph 82 – Many of the clauses here have merit and are mainly part of current practice at Grant Thornton. The exception is an Independent Chairman. The Members' agreement at GT is in the process of being amended to permit the

appointment of a non-executive Chair of the POB, but this is not a step to which the firm has yet committed.

13. Paragraph 83 – as previously stated, we do not see our line of accountability being to the regulator. This would undermine the conditions of trust which non-executives require for the accomplishment of their role. The firm’s membership agreement, in regard to the role of the Partnership Oversight Board, makes specific reference to the firm’s public interest responsibility. So, as a member of the POB an INE has to take account of reasonable public interest concerns. So we do not see our public interest responsibilities as divergent from an accountability to the firm. As stated, corporate NEDs are accountable to shareholders at the same time as having responsibility to other stakeholders at large.
14. Paragraph 84 – As the INEs at Grant Thornton, we understand that we would have a duty to report irresolvable concerns to the FRC or other appropriate agencies.
15. Paragraph 86 – We are cautious about the use of KPIs in transparency reports as a significant audit effort would be required to ensure KPI comparability between firms. We do intend to write an INE report for Grant Thornton’s Transparency Report which will summarise our activities during the year.
16. Paragraph 87 – agreed.
17. Paragraph 88 – INEs cannot reasonably be expected to assume individual personal liability for a firm’s statement of long term liquidity and solvency. INEs may be able to give some limited assurance on the process the firm has used in making its statement, but personal accountability can only remain with partners, whose returns adequately compensate them for assuming such risk.

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