

Independent Review into the Quality and Effectiveness of Audit

Advisory Board Meeting, 11 July 2019 - Summary Minutes

Those present:

Sir Donald Brydon
Carole Cran
Alison Hopkinson
Prof. Chris Humphrey
Simon Fraser
Mark Freedman
Emme Kozloff
Natasha Landell-Mills
Julia Wilson

Apologies:

Luke Chappell
Margaret Ewing
Michael McLintock
Sarah Parkes

Secretariat:

Miranda Craig
Robin Mueller
Paul Lee

1.	Introduction – agenda and matters arising
	Sir Donald welcomed those present and noted apologies. Sir Donald summarised the Review team’s stakeholder engagement activities and research work thus far, noting that 115 responses had been received to the Call for Views, amounting to roughly two and a half thousand pages of responses. Roundtables had been held with ICAEW and ICAS members in London, Manchester and Bristol, with asset owners and asset managers, regulators, trade associations and other industry bodies, representatives of retail shareholder and audit committee chairs, among others. The team were now concentrating on analysing all these inputs and assessing the issues and themes arising from them.
2.	Call for Views responses – discussion of selected themes
	Advisory Board members had been provided with a selection of quotes drawn from responses to the Call for Views, with a request that their reaction to and thoughts regarding the quotes be used to frame the meeting discussion. Sir Donald noted written feedback received from Margaret Ewing, who had sent her apologies. In no particular order, attendees discussed the quotes which stood out to them or with which they particularly agreed or disagreed. The following points were discussed and noted:

	• Materiality and the manner in which it is set, including the potential for inconsistent information as to why this has been determined to be the most appropriate measure. An average user of accounts may struggle to contextualise this number against each of the balance sheet items. It was noted that materiality is mentioned over 100 times in auditing standards but with no clear definition; • Timely and informative risk reporting is important from an investor perspective, and a change of approach could position the risk report as a precursor to the audit planning process and present a new investor engagement opportunity; • Many attendees felt that auditor reporting often does a good job of explaining what has been done, and how, but fails to align this information with clear conclusions or more useful qualitative reporting; • The potential for user misconception regarding the extent of work the auditor undertakes on a company's going concern and viability disclosures, in other words a mismatch in expectation as to how much time is spent on the "health" of a business. Not all attendees saw the auditor as a natural choice to test the validity of a business strategy. It was agreed that clear use of language when talking about different sub-groups of users was important, as each group has differing needs and expectations despite the assumption of alignment of interest; • In a closed-loop system, the injection of "oxygen" in the form of external benchmarking was suggested as a way of allowing investors a deeper understanding of where a company sits in relation to its sector peers in terms of risk and long-term resilience, the key point being that investors are not currently able to make a consistent assessment of what has been assured and to what level; • Much of what constitutes market valuation is now intangibles. A clearer representation of how this is broken down would be useful; • Dissatisfaction with some elements of IFRS, although not a topic discussed in the Call for Views, was nonetheless heard from many respondents. The impossibility of accounts being both true and fair in a literal sense was referenced and it was noted that many countries use different wording such "presented fairly in all material respects" or similar; • Input from stakeholder roundtables had surfaced concerns around the consistency of skills and understanding amongst company directors, a point that had also been picked up by Sir John Kingman in his review; • Sampling methodologies were discussed, and the potential for technology to allow 100% sampling in some areas; • The relative benefits and risks of a rules-based versus a principles-based framework, within which there are rules for continuity was discussed. Some attendees questioned whether this could credibly be seen as the auditor's role. Some attendees felt that auditors already displayed this behaviour and would expect issues to be raised first via the audit committee; • The role of internal audit was discussed, and the Institute of Internal Auditors' recent plans to improve standards outside of the financial services industry.
3.	Investor Research
	The Review had commissioned a piece of investor research by Alison Thomas to supplement the Call for Views responses and other engagement activities. The key findings of the research were summarised and discussed. The role of the "agency problem" and increasing disintermediation of control from asset owners were noted.
4.	AOB
	There being no further business, the meeting closed.

