ACCIF
AUDIT COMMITTEE CHAIRS' INDEPENDENT FORUM

Audit & Reporting Reform Seminar – 31 January 2019

On 31 January the ACCIF hosted a discussion of key issues of relevance to Audit Committee Chairs arising from the CMA review of the statutory audit market, the Kingman review of the FRC and the forthcoming Brydon review of the scope and standards of UK statutory audits.

The issues discussed were:

- The audit expectation gap
- Audit committee accountability
- Joint audit

The discussion was led by a panel of six drawn from various stakeholder groups and 18 audit committee chairs participated. The discussion was wide-ranging and reference should be made to the full note of the meeting (sent with summary), but among the key points arising from the discussion were:

The expectation gap

The issues at the heart of the audit expectation gap relate to viability/going concern reporting and fraud prevention and detection. It was suggested that much greater clarity is required in going concern statements on the assumptions made regarding specific financial and operating risks in assessing whether there is any material uncertainty that might cast doubt on a company's ability to continue as a going concern. The introduction of the longer term viability statement has shifted the focus away from shorter term going concern issues with the result that far less assurance can legitimately be given regarding future viability but it is doubtful whether the inherent uncertainties and assumptions underlying the statement are widely understood by users of accounts.

In relation to both viability/going concern statements and material fraud, the respective responsibilities of directors and auditors need to be reviewed having regard to what is desirable in the public interest and what is practicable in terms of cost-benefit, and the limits or boundaries of such responsibilities need to be firmly established and publicly communicated in a very clear manner. Much of the attention following recent high-profile corporate collapses has focused on auditors whereas it is the board of a company that is first and foremost responsible for a company's performance and viability, and there is a strong case for bringing senior financial management and relevant directors of companies within the remit of the financial reporting regulator. Consideration could be given at the same time to introducing into law more specific requirements for directors with regard to internal controls over financial reporting and the accuracy and reliability of annual report disclosures (i.e directionally similar to the US Sarbanes-Oxley Act requirements).

Audit committee accountability

There was support for the Kingman recommendation that the regulator should have the power to step into the company-auditor relationship in certain, well-defined, circumstances. However, ACCs refuted the CMA's view that audit committees are not in control of audit tenders and their outcome and that audit committee reviews of audit effectiveness are lacking in independence and time commitment, on the basis of which the CMA concluded that audit committees should report to the regulator throughout an audit tender and throughout the annual audit process. ACCs pointed out that it was simply not in their interests to accept poor quality auditing, that in any event the continuous regulatory monitoring proposed by the CMA could not be carried out without severe disruption to current reporting timetables, and that it was very doubtful whether a sufficiently informed regulator could be created that would be capable of monitoring the quality of the audit effectively, or of assessing how effectively such monitoring was being carried out by the audit committee, on a real time basis.

Joint audit

Audit committee chairs were unanimous in their disagreement with the CMA's premise that joint audit (of at least the FTSE 350) "would increase competition without risking audit quality". Since increased competition could only come about by enabling the so-called "challenger firms" to be appointed as joint auditors and those firms have little if any experience of auditing the accounts of large international groups or companies in specialised industries, it was clear that there would be a considerable risk to audit quality for a number of years. The experience of joint audits in France was that when smaller firms were expected to increase the share of the audit work, they proved to be unable to maintain their joint audit appointments. Audit committee chairs with direct experience of joint audits also pointed out that they added complexity, cost and time, while none of them could identify any case of a joint audit that was of a higher quality than a sole audit.

Since the event ACCIF is now focused on how to best influence the changes that are going to arise from this debate.

If you would like to follow-up on any of these matters with ACCIF, please contact Tracy Gordon at trgordon@deloitte.co.uk.

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