



Brydon – Assess, assure and inform

The Audit Committee Institute
Part of the KPMG Board Leadership Centre



In December, Sir Donald Brydon released [‘Assess, assure and inform: improving audit quality and effectiveness’](#), the long anticipated independent review of the quality and effectiveness of audit. At a time when the expectations placed on both audit, and corporate reporting more generally, are fast evolving, this report is an important milestone in setting out how audit might better meet stakeholder needs both now and in the future.

If implemented in full, the 64 recommendations set out in the report and summarised in this paper, will create a seismic shift in the financial reporting world.

The recommendations are designed, when taken together, to stimulate improved audit quality and effectiveness, with the primary objective being to make audit more informative.

Public Interest Entities (PIEs) were the focus of the review and the recommendations are designed to be applied unilaterally to all PIEs as a minimum.

Recognising that any extension of assurance be proportionate, it is suggested that some recommendations could initially be applied to the FTSE350 (or a subset thereof) with a view to extending the reach over time. Notwithstanding this concession, the recommendations include the establishment of new overarching Principles of Corporate Auditing which should have widespread application.

// Audit is not broken but it has lost its way and all the actors in the audit process bear some measure of responsibility”

Sir Donald Brydon

Audit purpose

Brydon identifies the need for a clear, understood and fully encompassing purpose for audit. Audit exists to give users confidence in companies, and the purpose should reflect this responsibility – as a public interest function verifying so much more than simple compliance with laws and rules.

He proposes: ‘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.’

A new audit profession

Brydon determined that auditing is too important a profession to be left as an extension of ‘accounting’. With ethics and mind-set so fundamental to an effective audit the governing principles, qualifications and standards must be specific.

He proposes a new profession – Corporate auditing – which would encompass all auditors: statutory auditors of financial information as well as those auditing other reporting data such as emissions or cyber security. A discreet profession, based on a core set of principles and separately regulated.

The audit report

Brydon suggests that the term ‘true and fair’ is a significant contributor to the expectation gap – “[given] the use of estimates and judgments ... it is difficult to see how ... modern company accounts are true in accordance with any reasonable person's understanding of the word.”

He proposes to replace the term with ‘present fairly, in all material respects’ which he considers would strengthen the value of the opinion. Alongside this he proposes changes to the audit opinion to make it more ‘informative’ by providing greater transparency over, for example, differing opinions, inconsistencies, year on year findings, etc.

// Lest anyone considers this may weaken the force of the opinion, I consider, to the contrary, that its accuracy will strengthen the value of that opinion”

Sir Donald Brydon

Directors' reporting

In order to further bridge the expectation gap, Brydon proposes a number of new and amended statements to be presented by the Directors.

First is a three year rolling Audit and Assurance Policy which would cover their approach to the appointment of auditors, the scope and materiality of all auditing (including that of the financial statements), the assurance budget and the relationship of any audit to identified risks. Shareholders would be invited to express their views on this policy in an advisory vote.

Publishing the statement of risk and uncertainties sufficiently in advance of the Audit and Assurance policy would, he says, allow the board to seek shareholder and other views on the appropriate emphases.

To improve understanding of the resilience of their company, he suggests a Resilience Statement to replace the Going Concern and Viability Statements. The new statement would address going concern in the short term, resilience in the medium term and risks to resilience in the long term.

Finally, he proposes a Public Interest Statement to allow the Directors to articulate in a holistic way how the company serves the public interest.

All these statements would have a level of assurance associated with them, funded from the assurance budget under the direct control of the audit committee.

Role of shareholders

Recognising that by engaging them in the audit process shareholders will become more aware of audit's scope and value, Brydon proposes the implementation of a formal process allowing shareholders to propose matters to be covered in the audit. Further, he recommends a standing general meeting agenda item 'Questions to the chair of the audit committee and to the auditor'.

Finally he proposes the transformation of the Audit Quality Forum into the Audit Users Review Board which would replace the largely auditor-led group with a variety of users of audit – from audit committee chairs and CFOs to institutional and retail shareholders.

// At a time when information is everywhere and there is no obligation on users of the internet to be truthful, it matters even more that shareholders, and others, can trust what directors are communicating"

Sir Donald Brydon

Other stakeholders

Brydon notes the value of the audit opinion to other stakeholders and makes a series of recommendations to reflect these wider interests, including:

- Corporate auditors to be governed by a principle to act in the interest of users of their report beyond solely the shareholders

- Audit reports to comment on the alignment, or lack thereof, between the Directors' section 172 statement and what they observe in the business
- The implementation of a simple internal process allowing the workforce to raise issues around risk and assurance, and to receive a subsequent response
- The Statutory Auditor be added to the list of 'prescribed persons' allowing for whistleblowing concerns to be raised directly with them
- Disclosures on supplier payment policies and performance to be made in the annual report and subject to a level of assurance as determined by the Audit and Assurance Policy

Fraud

Brydon seeks to raise the prominence and transparency of fraud risk and challenge the perception that auditors have no obligation to detect it.

He recommends directors to report on actions that they have taken to prevent and detect fraud, and for auditors to assure the statement and include a description of the audit procedures carried out over relevant controls.

In order to ensure the highest quality of audit work over fraud he also recommends:

- Fraud and forensic accounting to form part of the required training and continuous learning for corporate auditors
- The creation of an open access case study register allowing auditors to learn real time from frauds identified across the market
- A Fraud Panel to be established with the ability to levy sanctions on auditors where material fraud was not detected

Internal controls

In line with Sir John Kingman's findings, Brydon recommends directors report more meaningfully on internal controls and the role of the auditor in relation to that reporting.

He recommends 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. The Board should then report to shareholders that it has received such an attestation.

Furthermore, companies be required to disclose when any material failure of their internal controls has taken place and 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.

Capital maintenance

There are a number of recommendations designed to ensure the existence of sufficient distributable reserves in the long term, including increased audit procedures.

Auditor transparency

There are a series of recommendations designed to establish confidence in the corporate auditing profession:

- Audit firms to establish a fee setting function, independent from those performing the work
- Audit firms be required to publish the profitability of their work from audit, and also the remuneration of their Senior Statutory Auditors and the attendant performance measures around that remuneration
- Auditors to disclose, within the audit report, the hours spent on each audit by each grade of employee
- Clear reasons be given for any resignation, dismissal or decision not to participate in a retender; auditors and companies should answer relevant questions in a general meeting

Other recommendations

In conjunction with BEIS and ARGAs, data protection polices be developed to allow auditors to use company data to promote better quality audits.

Company law be amended to provide that any use of Liability Limitation Agreements by company boards, proposed in good faith, does not represent a breach of directors' responsibilities.

Any Alternative Performance Measures reported by a company, and any use of KPIs to underpin executive remuneration, should be subject to audit.

A proposal to review and update the definition of a 'High Quality Audit', and produce a guide which is explicit and plain about what the statements in an audit report mean – as well as what they don't mean.

Encouragement to publicise good audits as well as chastising poor audits.

A requirement to develop guidance around the responsibilities of an auditor with respect to accounting records.

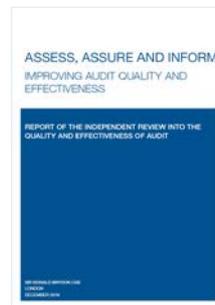
Establishment of a formal mechanism for shareholders and stakeholders to communicate concerns.

Implementation

Finally, Brydon recommends that a follow-up review be conducted in 2025 to consider how his recommendations and those of the CMA and Sir John Kingman have been implemented.

Next steps

The government is currently considering the report and is expected to consult on the proposals during spring 2020. Any proposals taken forward will likely be combined with the conclusions from the ongoing Kingman and CMA consultations, although the precise date of any legislation remains uncertain.



The full report as well as terms of reference and a summary of the recommendations can be found on the [government website](#).

The KPMG Board Leadership Centre

The KPMG Board Leadership Centre offers support and guidance to non-executive directors, whether managing a portfolio non-executive career or embarking on a first appointment. Membership offers you a place within a community of board-level peers with access to topical and relevant seminars, invaluable resources and thought leadership, as well as lively and engaging networking opportunities. We equip you with the tools you need to be highly effective in your role, enabling you to focus on the issues that really matter to you and your business.

Learn more at www.kpmg.com/uk/blc.

Contact us

Timothy Copnell
Board Leadership Centre
T: +44 (0)20 7694 8082
E: tim.copnell@kpmg.co.uk



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2020 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International.