



Restoring Trust in Audit and Corporate Governance – Some Expert Views

The following is a record of some of the comments made during a discussion at a recent IoD event about the government's [white paper on audit and corporate governance](#):

The FRC's Transformation into the Audit, Reporting, and Governance Authority

- 'There should be concern about the ability of the FRC/ARGA to attract enough people with the experience necessary to take on its proposed new functions e.g. oversight of the effectiveness of audit committees.'
- 'ARGA and its proposed powers will impose significant costs on the corporate sector. The solution to solving the problems in the audit market therefore seems mainly to be about increasing customer costs.'
- 'The success of ARGA will be determined by how it addresses three key areas: Fraud, resilience, and internal controls.'
- 'ARGA's new powers are to be welcomed and they should be implemented.'
- 'ARGA's regulatory approach should not be wholly driven by process, but rather it should apply discretion and flexibility where appropriate, with decision-makers empowered to act swiftly.'

Investors and their Stewardship Responsibilities

- 'Investors are generally less engaged with audit than many would wish, and they are not the right people to hold audit committees accountable. It is unclear whether they have the collective skills to do so.'
- 'The weakest link in the chain of corporate governance is currently between investors and auditors.'
- 'The role of auditors is to report to shareholders as the ultimate beneficiaries.'
- 'Better training should be given to investors so they will have a higher level of confidence and ability to better engage on audit.'
- 'There is a question of investor bandwidth around audit. If you overwhelm investors with too much information and/or responsibility, their responses could become formulaic or they could outsource them to a third party.'

New Attestation Requirements

- 'The proposed reforms are not a UK version of the Sarbanes-Oxley Act.'
- 'The White Paper does not extend directors' legal duties, but the new statement requirements will certainly concentrate minds and focus efforts, which is positive.'
- 'The new requirements introduced by the white paper won't make it less attractive to be a director because there is a certain prestige held by company directors.'

- 'These requirements are not going to prevent company failures, but they will improve the ability to foresee business troubles and preventing unexpected business failures.'
- 'It was a mistake that the public interest statement recommendation by the Brydon Review has not been accepted. It could have been a good way for companies to think more broadly about their impact and their role in society, and to articulate that to investors, particularly given the privileges that limited liability grants both companies and investors.'

New Standalone Audit Profession

- 'These reforms are aimed at improving the quality of audit assurance, so creating a standalone audit profession is a helpful step forward.'
- 'There will now be a better understanding of what assurance is being provided, with greater associated information, alongside an understanding of the quality of the assurance.'
- 'Companies need to bring audit and assurance into their investor outreach approach. A potential audit advisory vote would be an opportunity for companies to play an active role in engaging investors in the audit process.'

Audit Quality

- 'The key benchmark that the White Paper should be judged on is whether it improves resilience.'
- 'These reforms are designed to improve audit quality. Auditors must feel a greater obligation to flag obvious problems – but often they fail to do so.'
- 'It is an open question as to whether shared or joint audits will improve audit quality. We simply don't know.'
- 'There is not enough confidence in the level of challenge offered by audit firms at the moment.'
- 'When the CMA looked at audit market competition over the past decade, they focused on trying to improve competition between the existing players in the market. But they completely neglected to look at how to introduce new entrants into the audit market.'
- 'Many audit firms have already put in place new governance structures or processes for operational separation.'

Please note that the above discussion was held under the Chatham House Rule, and none of the above comments should be interpreted as representing the views of the IoD.