

Written evidence submitted by Dr Yasmine Chahed, Professor Christopher Humphrey, Professor Brendan O'Dwyer, Professor Paolo Quattrone, Dr Javed Siddiqui, Professor Stuart Turley, Alliance Manchester Business School (DAR0024)

We are senior academics at Alliance Manchester Business School, the UK's largest campus-based business school. We have studied auditing expectations, the role of auditing in processes of corporate accountability and control, the regulation of the accounting profession and the market for auditing services for many decades. We are fully aware of the historical trajectory of past attempts at reform and highly experienced in providing informed advice and insight to facilitate and advance public debate, policymaking, and practice.

We welcome this opportunity to submit evidence on the various audit reviews and how they can fit together to deliver the serious reform necessary to ensure confidence in business in a post-Covid19 world. Society needs assurance that the companies it depends on for jobs, investment returns, and tax revenues are being run responsibly. As Britain builds back from the pandemic, delivering the most appropriate audit reform has never been more important.

Underpinning our submission are three core standpoints.

First, fundamental audit reform must start with the concept of audit, not the market for audit services, nor its regulation. In this regard, we stress the importance of the Government enshrining in company law Sir Donald Brydon's definition of audit:

"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."

Secondly, we emphasise the importance of recognising the transformative nature of this audit definition and its potential to deliver meaningful audit reform. In the process, we illustrate how the delivery of other critical recommendations in the Brydon report builds directly from this recognition. For example, we demonstrate how Brydon's definition encourages task diversity and how this justifies the establishment of a new auditing profession. We also explain analytically how the Brydon report connects closely with BEIS' desire for a more socially purposeful form of audit, and with the government's duty to frame audit reform in terms of the type of society in which we wish to live.

Thirdly, we argue that now is the time for a major shift in the approach to, and responsibilities for, audit reform – from one premised on issuing 'calls for views' to one centred on 'reviews of actioned ideas'. In our view, BEIS has spent enough time now on seeking views and has recommendations of suitable conceptual strength to implement. Accordingly, we encourage BEIS to shift its role to one of creating a space for innovation and to facilitating a 'market for actioned-ideas' in which competition is focused on delivering a new audit future.

Under the current and increasingly standardised approach to reform, government departments and regulatory bodies seek to establish consensus over what reforms to pursue and implement. Such an approach to reform is problematic because it puts bodies like BEIS under pressure to identify the 'ideal' reform. At the same time, it allows those with material (financial) interests the freedom to criticise and eliminate radical reform components. This can lead to reforms of the lowest common denominator or to ones that build up a consensus of support through their persistent advocacy (but are instead premised on guesswork and lack compelling conceptual justification and supporting empirical evidence).

Collectively, we think these three core standpoints align well and can firmly assist with implementing the positive vision set out in BEIS Committee's 'Future of Audit inquiry, which asserted that:

"The industry itself should grasp this opportunity to broaden and strengthen its product, under the guidance of the Brydon review, to make it more forward-looking and comprehensive and to rebuild trust that has been shaken badly. This will provide a more useful offering for investors and the public alike.... It will also make a career in audit more varied, rewarding and ultimately more meaningful in its service to the public interest"¹.

Our response, detailed below, addresses your specified questions, while at the same time framing our responses around our core standpoints and offering a diagrammatic representation as to how the proposals from the three reviews of audit can be fitted together as a coherent package that can deliver and maintain a socially significant audit function.

We would be delighted to discuss any of the issues raised in this submission with you.

Yours sincerely

Dr Yasmine Chahed

Professor Christopher Humphrey

Professor Brendan O'Dwyer

Professor Paolo Quattrone

Dr Javed Siddiqui

Professor Stuart Turley

¹ Business, Energy and Industrial Strategy Committee, *The Future of Audit*, 26th March 2019, HC 1718, 2017-19

Do the proposals from the three reviews of audit fit together as a coherent package that can deliver meaningful reform?

Before considering how the three reviews of audit fit together, it is crucial to accept that they were conducted in the wrong order (a point made by Professor Chris Humphrey when he gave evidence to your previous Audit Inquiry²). The correct order should have been to work from concept (Brydon) to market (CMA)³ to regulation (Kingman)⁴.

Despite the fact that the FRC has already started to implement changes⁵, we believe that the approach taken by the Brydon report (the last review to take place) has to drive connectivity across the CMA and Kingman reviews. We also believe that the recommendations of the Brydon report will prove complementary to, and reinforce, ideas and developments being advocated through the FRC's major project on the Future of Corporate Reporting.

One of the most fundamental problems in pursuing audit reform is that participants' understandings are heavily shaped by existing company legislation and international auditing standards. This limits the reforming intent from the outset by creating innate presumptions of audit as an established concept – typified by the phrase 'an audit is an audit' that has long underpinned professional standardisation processes⁶. As a consequence, discussions on the future of audit and assessments of audit reform have often been dominated or hindered by claims that what is being proposed as a reform is, conceptually, 'not audit'. Accordingly, 'audit' reform tends to favour the introduction of new ways of regulating or controlling the same, static, 'audit' function. Audit as a concept does not change. This view is very evident from academic research studying the history of audit reform⁷.

To deliver meaningful reform requires a willingness to learn from the past and a commitment to pursue a dynamic repair⁸ of the audit proposition. If this doesn't happen then it is likely we will find ourselves in the midst of yet another audit inquiry sometime in the near future⁹ – a point emphasised in the Brydon report when noting the failure to take up various recommendations of continuing contemporary relevance in the 1992 McFarlane Report.

It is in this regard that the vividly developed conception of audit in the Brydon report is so refreshing.¹⁰ However, we are concerned to find that most discussions of the Brydon report do not embrace its expanded purpose of audit but continue to view audit and deliberate the report's recommendations in very traditional terms. Further, while people point to the

² Business, Energy and Industrial Strategy Committee Future of Audit evidence session, 15th January 2019.

³ CMA, Statutory audit services market study, Final Report, 18th April 2019.

⁴ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/767387/frc-independent-review-final-report.pdf.

⁵ Financial Reporting Council, FRC principles for operational separation of audit practices, 6th July 2020.

⁶ See Humphrey, C., Curtis, E., Sonnerfeldt, A, and Komori, N. (2020) "The case for Dynamic Repair of Audit", Working paper, University of Manchester, England.

⁷ Curtis, E, Humphrey, C & Turley, S 2016, 'Standards of Innovation in Auditing', Auditing. <https://doi.org/10.2308/ajpt-51462>.

⁸ <https://www.accountancyage.com/2020/03/10/humphrey-audit-needs-a-dynamic-repair/>.

⁹ A point made by Professor Chris Humphrey to Sir Donald Brydon during the Brydon review, Report of the Independent Review into the Quality and Effectiveness of Audit, December 2019, para. 5.1.1.

¹⁰ Professor Chris Humphrey, Reading the Brydon Report, Audit Futures, <https://auditfutures.net/articles/reading-the-brydon-report>.

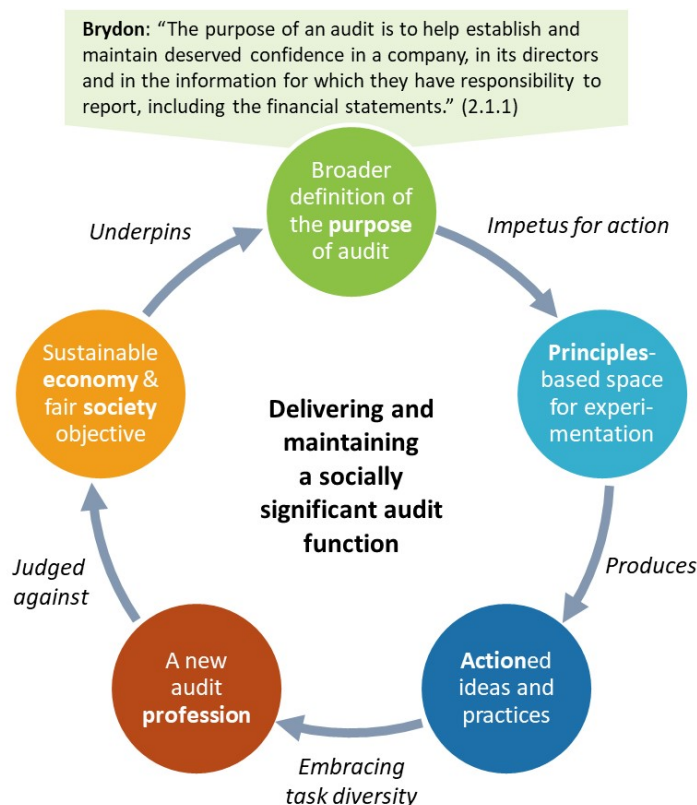
significant number of reform proposals in the Brydon report, they fail to appreciate how they connect directly to the report's foundational core, which is its reframed purpose of audit:

"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."

We fully endorse this definition of audit and encourage its adoption, including its incorporation in UK company law. We believe that following the reform path laid out by Brydon can produce the radical change needed to deliver your vision for audit.

In light of the tendency to root discussions of audit reform with traditional, static representations of the purpose of audit, we strongly believe that any serious assessment of the coherence of the proposed package of reforms can only be undertaken if there is suitable appreciation of the Brydon report's reframing of the purpose of auditing. This primary concern with the conceptual development / and advancement of auditing connects directly with BEIS' ambitions to enhance the social functioning and value of audit (as shown in its various reports, including the future of audit and the earlier report on Carillion).¹¹

To demonstrate the linkages between Brydon's definition and meaningful audit reform, we have constructed the following diagrammatic representation of the desired pursuit of a more socially significant audit function. The text that follows explains its core elements.



¹¹ Business, Energy and Industrial Strategy Committee, *The Future of Audit*, 26th March 2019, HC 1718, 2017-19

Purpose: The legal endorsement of Brydon's broader definition of the purpose of audit¹² provides an impetus for action. It opens up an on-going experimental space for development of both auditing principles and practices. This can deliver an audit that better serves the interests of all stakeholders and society, and plays a significant role in sustaining and enhancing British business, which is currently facing severe challenges.

Principles: Brydon's definition critically links the purpose of audit to the building and maintenance of 'deserved confidence' in the company, its directors and the information it makes public. At a stroke, this the pursuit of broader principles frees audit from the monotony of claims that 'an audit is an audit' and 'expectation gap' discussions dominated by talk of what 'is not audit' and an outdated narrow sole focus on financial information for investors.

Action: Brydon's definition offers a myriad of possibilities for audit, in differing forms, whether financial, social, environmental etc., to build and secure faith in the operational functioning and governance of corporations. It also opens up possibilities to enact Kingman's vision of an "improvement regulator" that is "very concerned with the effective diffusion of innovation and best practice, particularly in relation to audit quality"¹³. However, for such experimentation to gain traction, notions of audit, audit quality, corporate responsibility and governance have to move beyond their traditional framings and parameters. And this is where an action imperative is so vital. For example, rather than dictating what is a resilient company or what a company needs to do to serve the public interest, the Brydon report requires companies to tell us what they are doing to be deserving of such attributions. It is then for corporate stakeholders, aided by informed audit reports, to judge the appropriateness of such claims.

Profession: In turn, this task diversity bolsters the case for a new, vibrant audit profession; one that connects, integrates, and drives innovation in and across different forms of audit. The fundamental justification for such professional development derives from the core notion of 'deserved confidence' in Brydon's definition. Intellectually, it has long been argued that the auditor is a form of moral arbiter in business. Brydon's definition has put such thinking central to the formal stated purpose of audit, because the notion of 'deserved' confidence is very much a moral rather than a purely probabilistic or statistical concept. To "help establish and maintain deserved confidence" demands some delineation by the audit professional of the way the corporation functions and what it has achieved. As such, the benchmark against which confidence can be judged to be 'deserved' is fundamentally dependent on the societal expectations held of those corporations to which society has granted a licence to operate.

Economy and society: The ultimate test or assessment of audit quality is the quality of our corporations and the quality of the society in which we live. We cannot view one in isolation of the other – whether it be the corporation, the audit or the society. If as a society we expect that we deserve more from corporations, we inherently will demand and expect more from audit. If audit can pinpoint ways for companies to behave and function better, to provide better working conditions, to produce better products, this is, conceptually, as legitimate a societal role for audit as is the traditional verification of the truth and fairness of the company's financial statements.

¹² Report of the Independent Review into the Quality and Effectiveness of Audit, December 2019, para. 5.1.3.

¹³ Sir John Kingman's *Independent Review of the Financial Reporting Council* (2018), p. 22.

It is this fundamental sense of dynamism in the social purposefulness of audit that should consign static representations of audit to the conceptual dustbin. What is 'deserving' of our confidence is not fixed but contextually, socially and culturally dependent, meaning that audit, by definition, cannot be treated and viewed in fixed terms. Further, in giving more consideration to the transformative possibilities of different forms of audit, we must contemplate not only audit's responsiveness to societal demands but also the capacity for audit, through its investigations, analysis and reporting, to promote a sustainable economy and fair society.

Which reforms can be delivered without legislation and what progress has the FRC made in implementing such reforms ahead of future legislation?

We appreciate that following the publication of the Kingman, CMA and Brydon reports, the Financial Reporting Council (FRC) has been working closely with BEIS to bring "proposals and recommendations together into a unified transformation programme"¹⁴ and that some of the announcements have been delayed due to COVID19. We also note that, on 6th July 2020, the FRC announced their plans for operational separation of the audit practices of the Big Four firms and expects their implementation plans by 23 October 2020. In announcing the proposals Sir Jon Thompson stated that the "FRC remains fully committed to the broad suite of reform measures on corporate reporting and audit reform and will introduce further aspects of the reform package over time"¹⁵.

While we welcome the FRC's commitment to action, we remain concerned that the FRC's formal proposals, to date, have provided no indication that they have embraced Brydon's more expansive definition of audit. That is, we are concerned that pockets of activity lack direction to deliver meaningful reform. For example, in launching its operational separation proposals, the FRC did make reference to the notion of 'deserved confidence' but only in relation to the level of confidence in audit itself rather than the confidence that audit helps to create and maintain in audited companies. If society lacks confidence in a function that is supposed to be helping to build deserved confidence in companies, their directors and the information they publish, this is a problem that demands more than just adjusting the mode of organisation for that function.

To have a strong degree of coherence, a reform package has to build from core conceptual foundations. We would strongly question the logic of pursuing regulatory and/or market reform without giving explicit recognition to Brydon's reframed purpose of audit, not least because the organizational identity and structures of an audit firm best placed to deliver on Brydon's recommendations could be very different from what we currently have and/or what is proposed by the FRC.

Brydon visibly called for the prospective ARGAs to endorse and adopt his definition of audit and for the Government to consider how best to enshrine this purpose in the Companies Act (para. 5.1.3). We would see such an enshrinement as the essential first step for a coherent and socially purposeful audit reform package.

¹⁴ Financial Reporting Council Annual Report and Financial Statements 2019/20.

¹⁵ Financial Reporting Council press release "FRC principles for operational separation of audit practices" 6th July 2020.

Will the reforms proposed by the audit industry itself address the failings that were identified by the reviews and the BEIS Committee's Future of Audit Report?

The BEIS Committee report "The Future of Audit" (published in March 2019) concluded:

"Radical change is needed. It will also be resisted, by the Big Four and others who fare well out of the current system. They must not be allowed to delay or block necessary change."¹⁶

We would support such statements of intent but it is also important to recognise that such resistance is a systemic problem rather than a one-off. The institutional consequences of most audit reform initiatives, if not the institutional imperatives, very often are a retention of the status quo, coupled with an overriding sense of resistance to change. As noted in the paper on Standards of Innovation in Auditing, there can be clear incentives for taking such a stance:

"For an industry that has lived so long with the concept of an audit expectations gap and the relative invisibility of good quality audit work, but also benefited significantly from a statutorily defined audit function, there are arguably very sound economic reasons for sticking with the status quo"¹⁷.

It is also important not to underestimate the strength of such forces. As Rachel Reeves observed when presenting the BEIS report "The Future of Audit" at a presentation at the ICAEW on 2nd April 2019: "I think one of things that has been noticeable by all 11 members of the committee is the amount of lobbying that we have received during the course of this inquiry and I think that is higher than we have had during other inquiries."¹⁸

We would add that calls for views become incredibly political exercises with respondents seeking to second-guess how much change BEIS wants and what they can support or reject and not look self-serving. So, audit firms end up supporting operational separation of audit or bans on auditor's providing non-audit services even though they have for many years argue (and still believe) that such changes are not likely to lead to better auditing. Similarly, an under-pressure FRC recommends operational separation while continuing to work with the existing, traditional (and restrictive) delineation of the role of audit. Ironically, such proposals could serve to cast further questioning light over the vibrancy of the audit market and deter new entrants, especially if they deem Brydon's broader purpose of audit to necessitate more flexible organizational structures. It is not difficult to imagine that an 'audit-only' firm under Brydon's representation of audit could be a very different entity to an operationally separate audit firm tasked with providing the present statutory financial audit.

Amidst all of this, however, it is also possible to find voices across the accounting profession stressing the importance of embracing change. In his public speeches, Sir Donald Brydon,

¹⁶ Business, Energy and Industrial Strategy Committee, *The Future of Audit*, 26th March 2019, HC 1718, 2017-19.

¹⁷ See Curtis, E, Humphrey, C & Turley, S 2016, "Standards of innovation in auditing", *Auditing: A Journal of Practice and Theory*, accessible at <https://doi.org/10.2308/ajpt-51462>.

¹⁸ On 2nd April 2019 Rachel Reeves spoke about BEIS' inquiry into the future of audit and took part in a question and answer session chaired by Michael Izza, ICAEW's Chief Executive. This quote about lobbying is at minute 41:58 in the panel discussion video <https://www.icaew.com/about-icaew/regulation-and-the-public-interest/policy/rachel-reeves-speaks-at-icaew-april-2019>).

has encouraged such sentiments by calling for Spartacus¹⁹ like figures in the profession to seize the initiative and pursue the very evident possibilities of the present.

With the results and recommendations of three major reviews in its inbox, BEIS clearly has a major opportunity to set out a dynamic agenda for change and, as outlined above, this can be best be pursued by positioning the reform agenda centrally within the conceptual reframing of audit provided by the Brydon report. However, we would also advise BEIS that now is an opportune time to reframe its own responsibilities and functioning in terms of the pursuit of, and implementation of, audit reform.

In essence, the question of responsibility for reform comes down to two core elements or dimensions. One is setting the broad, conceptual parameters or spirit of reform. The other is facilitating or securing the delivery of the most socially compelling reform possible within such parameters. Typically, the problems with past audit reform initiatives are that the contemplation of reform is a more prominent and persistent feature of the audit arena than its realisation²⁰, and that the reform approach by the audit industry itself has been structured in ways in which seldom seek to shift the core essence of audit beyond its traditional framing or setting.

The Brydon report has given BEIS the opportunity to break such a chain through its broadening of the purpose of audit and its support for the establishment of a new auditing profession, but, to capitalise fully on this opportunity, BEIS has to shift its audit reforming responsibilities.

The fundamental flaw in the current approach is that BEIS invites pressure on itself and makes it the fulcrum point for action by leaving service providers and recipients waiting for someone else (e.g., BEIS or the FRC/ARGA) to specify the reforms to be implemented. Instead of setting itself up to be judged on its reforming competencies by those it is seeking to change, BEIS has to shift towards facilitating an informed 'market for actioned-ideas delivering a new audit future'. This is not a demand for a less active BEIS but for BEIS to act or intervene in a different fashion, in which:

- (1) BEIS promotes core principles and encourages experimentation and competition within those parameters. It is not difficult to imagine, for example, that an 'audit-only' firm under Brydon's representation of audit could be a very different entity to an operationally separate audit firm tasked with providing the present statutory financial audit.
- (2) BEIS reviews actioned ideas and practice advancement - and, where necessary, demands answers of key stakeholders as to why certain change has not happened and the critical factors that have prevented such change. In this regard, we would

¹⁹ See Sir Donald Brydon, ICAEW Audit and Assurance Faculty Speech, 14th February 2020, <https://www.icaew.com/-/media/corporate/files/technical/audit-and-assurance/the-future-of-audit/sir-donald-brydon-speech-at-the-icaew-14-february-2020.ashx>.

²⁰ As has already been pointed out to BEIS, students now produce dissertations on the history of 'future of the audit studies' (Business, Energy and Industrial Strategy Committee Future of Audit evidence session, 15th January 2019), with critiques of the lack of impact of audit reform initiatives going back many years' (see Humphrey, C., Turley, S. and Moizer, P., "The audit expectations gap - plus ca change, plus c'est la meme chose", *Critical Perspectives on Accounting*, 1992, [https://doi.org/10.1016/1045-2354\(92\)90008-F](https://doi.org/10.1016/1045-2354(92)90008-F); Humphrey, C., Turley, S. and Moizer, P., "Protecting against Detection: The Case of Auditors and Fraud?", *Accounting, Auditing & Accountability Journal*, 1993, <https://doi.org/10.1108/09513579310027512>.

also see real scope for BEIS to establish an independent public policy audit 'think tank', to promote conceptual development in audit and to keep under review the establishment and development of a new audit profession. While the Brydon report has spoken of a newly established ARGA serving a midwifery role in relation to the new profession, we would see such a body as needing to be institutionally independent of the profession and its regulators. It should have as its central core the pursuit of socially purposeful auditing and a related willingness to embrace, debate and advance alternative conceptualisations of audit.

This 'purpose first' approach with an emphasis on 'actioned ideas' is very consistent with the opportunities for dynamic development in audit and audit professionalism provided by the Brydon report but it is also clearly capable of being applied to the CMA and Kingman reviews.²¹

When will the Government bring forward its proposals and the necessary legislation where required?

BEIS has told the Financial Times on 2 July that they "will set out our proposals in due course".²² However, there have been suggestions that the challenges that the UK economy now faces in light of Covid-19 are such as to place audit reform, inevitably, on the back-burner. Such suggestions should be firmly rejected.

Pre-Covid 19, there were already detailed conceptual critiques of the overall, functional competence of audit to deliver economic and social benefits²³. Now, at a time when the sustainability of many companies is under serious threat, the need and scope for a broader based audit function are self-evident. An auditing profession that is only able to certify the deteriorating financial numbers of a business is itself fundamentally unsustainable.

A socially purposeful audit function must do more and operate in ways that help to ensure that British businesses are deserving of our confidence, survive such a crisis and go on to prosper. This is in the public interest and it is the duty of government to play its part in articulating this public interest.

In this regard, the conceptual reframing of audit in the Brydon report could not be more timely and, as noted above, should be enshrined in law without haste.

²¹ See Professor Chris Humphrey, "Thinking differently is 'audit'", Audit Futures, accessible at <https://auditfutures.net/blogs/thinking-differently-is-audit>.

²² <https://www.ft.com/content/fbac6589-a96c-43b4-be26-778f1dafa997>

²³ See Professor Stuart Turley et al, *Skills, Competencies and the Sustainability of Modern Audit*, ICAS/FRC, 31st March 2016, accessible at <https://www.icas.com/thought-leadership/research/skills,-competencies-and-the-sustainability-of-the-modern-audit>.

Will audit reform help track progress made by companies in meeting the UK's Sustainable Development Goal commitments and in particular Net Zero?

Yes, in three ways:

- (1) The Brydon report recommended that a **Resilience Statement** replace the existing Going Concern and Viability Statements and a key benefit of the long term component would be providing an "opportunity for directors to set out how they are positioning the business strategically to address the risks of, for example, climate change and other potential existential threats".
- (2) It also advocated the **development of discretionary audit reporting**: "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. Auditors have a unique advantage in having the right to see everything that goes on in a company and to assess whether that trust is deserved" (preface 1.2).
- (3) The Brydon report recommended that Directors should set out in an independently audited **Public Interest Statement** how they view the company's legal, financial, social and environmental responsibilities to the public interest. This Statement should explain how the company has discharged its self-declared public interest obligations and responsibilities, what actions it has taken to mitigate any externalities it has caused during the period, and how effective these actions have been.

From all three recommendations, especially when accompanying and deriving directly from Brydon's repurposed audit function, that audit reform will help to assist not just in the tracking of progress in meeting the UK's Sustainable Development Goal commitments but also have a key role to play in ensuring such commitments are met.

As Professor Chris Humphrey and Dr. Carien van Mourik laid out in Appendix 7 of the Brydon report²⁴:

"Many companies now subscribe to the UN Sustainable Development Goals (UN SDGs) and report on their KPIs in their Sustainability Reports. Companies who have committed to the UN SDGs should describe this commitment and the progress in respect of their KPIs in their Public Interest Statement. Unfortunately, many companies use their Sustainability Reports and refer to the UN SDGs to engage in impression management. The transparency and independent audit of the Public Interest Statement and the supporting explanation of the benefits and, particularly, the costs caused to third parties should make directors of PIEs accountable for, and mindful about, the truth, fairness, completeness and substance of their public interest claims".

²⁴ Dr. Carien van Mourik and Prof. Chris Humphrey, "Public Interest Entities (PIEs) director and statutory auditor public interest statements – a note for The Brydon Review, Report of the Independent Review into the Quality and Effectiveness of Audit, December 2019, Appendix 7.

How will audit reform fit with wider corporate governance reform?

It can be argued that the existing UK model of corporate governance constrains the contribution of audit to society in two ways. First, the principle that it is for company directors to disclose information on which auditors may then give an opinion has meant auditing has been seen as only a second order function rather than a primary source of information. Second, the fact that directors' primary responsibility for information disclosure is framed entirely with reference to shareholders interests' limits the view of auditors' responsibilities and consequently their role in supporting warranted societal confidence in business.

By setting Brydon's reframed purpose of audit and the development of a new auditing profession within a social analytical framework (see p. 4 above), we have emphasised in this submission that audit reform should not be regarded as distinct from 'wider' corporate governance reform (or corporate reporting reform). Indeed, it is clearly possible to argue that audit reform is a central element of corporate governance reform and that classifying 'corporate governance' as 'wider' or even 'distinct' from 'audit reform, is to provide an unduly narrow representation of audit and its functional capabilities.

When the purpose of audit is specified as helping to 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, it is clear that the audit function goes beyond just the audit of a set of financial statements. It is a definition that assigns much more primacy to audit as a function – with the value of audit not just deriving from the usefulness of financial statements but from what the auditor contributes in terms of helping to establish and maintain deserved confidence in the company.

It is also a vivid reminder that corporate governance itself is not something to be treated as an 'add-on' to day-to-day operational responsibilities. Better run companies are going to be more deserving of our confidence and more capable of maintaining such confidence. In this respect, we could well view audit reform as a driver not just of 'wider' corporate governance reforms or better governed companies - but of better companies and, through them, the prospects of a better society.

August 2020