

June 3, 2019

Sir Donald Brydon  
Brydon Review  
Orchard 1, 1<sup>st</sup> Floor  
Department for Business, Energy & Industrial Strategy  
1 Victoria St  
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UNITED KINGDOM

Via email: [brydonreview@beis.gov.uk](mailto:brydonreview@beis.gov.uk)

**Re: Independent Review into the Quality and Effectiveness of Audit**

Dear Sir Donald,

As the Chairs of the international standard-setting boards for audit, assurance and related services, and ethics for professional accountants, we are taking a keen interest in your review and in the conclusions you will arrive at in due course.

Your review is important not only to the UK but also globally as the issues you are considering are indicative of broader challenges regarding perceptions about the continued value and relevance of the audit. These issues go to the heart of public confidence in the audit product. This letter highlights how the [IAASB](#) and [IESBA](#) take action in the public interest to support public confidence in audits of financial statements and other assurance engagements more broadly, as well as reinforce the important ethical responsibilities of professional accountants in business (PAIBs) in the external reporting ecosystem.

**Developing Global Standards in the Public Interest**

As global standard-setters, we respond to the needs of a wide range of stakeholders around the world. We adhere to a rigorous due process in developing our standards, which requires us to consult extensively with stakeholders, and our deliberations are open and transparent. We draw our memberships from a wide range of jurisdictions and professional backgrounds, with a strict balance between practitioners and non-practitioners (including public members) to ensure that appropriate expertise and independent, diverse perspectives are brought to bear in our deliberations. We are overseen by the [Public Interest Oversight Board](#), which helps ensure that the standards we set are fully responsive to the public interest.

We strongly believe that setting standards at the international level is the most effective way to respond to the relentless globalization of business and to avoid the economic costs and regulatory arbitrage that come with fragmentation in rules. We take a keen interest in national developments and trends of international relevance as we resolutely work to enhance audit quality and auditor independence across all jurisdictions. Facilitating the adoption of international standards is in the public interest and, therefore, an integral part of our two Boards' objectives.

## Recent Standards and Initiatives

In February 2009, the IAASB finalized its [Clarity project](#), which resulted in clearer articulation of auditors' obligations when performing an audit of financial statements as well as delivering substantive improvements to the auditing and quality control standards. In the 10 years since, the IAASB has actively examined key aspects of the audit and assurance process for opportunities to further strengthen the standards.

In particular, since 2009, the IAASB has issued nineteen new or revised auditing and assurance standards covering a wide range of topics, including auditor reporting, accounting estimates, disclosures, working with internal auditors and dealing with annual reports, as well as addressing other forms of assurance beyond audits of financial statements. In addition, the IAASB issued a Practice Note that provides guidance on auditing complex financial instruments, as well as various discussion or consultation papers, and support materials covering topics such as technology and data analytics, extended external reporting (EER) assurance and professional skepticism.

Over the same period, the IESBA has issued a revised and restructured [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#). This includes strengthened provisions addressing auditor independence and ethics, including long association of personnel with an audit client, non-assurance services provided to an audited entity, safeguards against threats to compliance with the fundamental ethical principles and independence requirements, responding to non-compliance with laws or regulations, inducements, conflicts of interest, and breaches of the Code.

Both Boards continue to actively pursue projects and initiatives in response to global stakeholder input. Key current [projects](#) for the IAASB include:

- Revisions of our standards on identifying and assessing the risks of material misstatement
- Enhancing quality management at both firm and engagement levels
- Strengthening and clarifying requirements when performing group audits
- Challenging the continuing robustness of our audit evidence standard

For the IESBA, key current [projects](#) include:

- Enhancing the independence provisions concerning the level of audit fees and fee dependency on an audited entity
- Strengthening the independence provisions dealing with the permissibility of non-assurance services (NAS) to audited entities
- Promoting the role and mindset expected of professional accountants (including auditors)
- Addressing the pervasive ethical implications of developments in technology

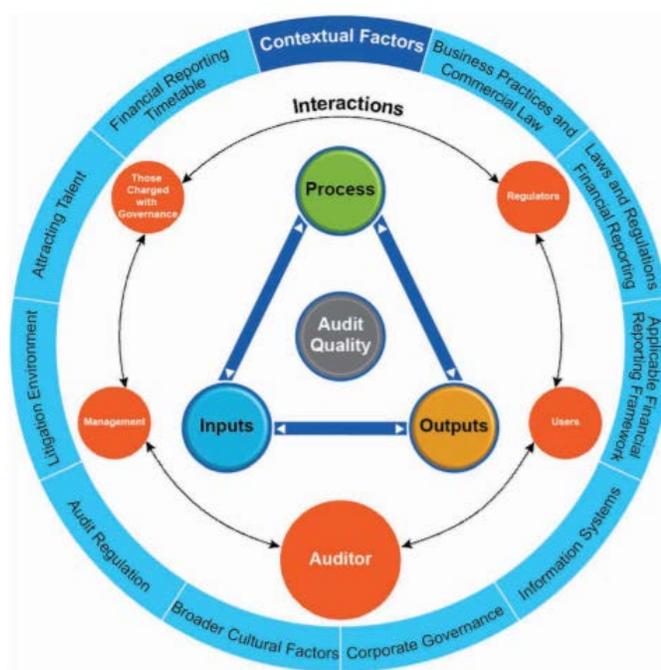
Our two Boards are pursuing close coordination on multiple work streams as a strategic imperative given the complementarity of auditing and ethical standards and our shared objective of mutually compatible standards. Such coordination is especially critical on our concurrent initiatives regarding professional skepticism and technology, as these issues are central to audit quality and the environment in which auditors and other practitioners operate.

## Narrowing the Expectation Gap

Chapter 2 of the Call for Views addresses the important issue of the expectation gap. Standards serve an important role to articulate what auditors are expected to do in delivering a service that is defined in scope by, on the one hand, what the market demands, and on the other, what is practically deliverable. We recognize that the business and reporting environment as well as service capabilities can and will evolve. Our strategic focus, therefore, is on the responsiveness of our standards so that they can continue to undergird audit quality and auditor independence.

With this principle in mind, in 2015 the IAASB completed a comprehensive project addressing how auditors can better communicate about their work, including through key audit matters, with the issuance of the new and revised Auditor Reporting Standards. Increasing the communicative value of the auditor's report is critical to the perceived value of the financial statement audit. The new and revised standards have created more transparency around the audit process and, importantly, about those matters that the auditor viewed as most significant and how they were addressed in the audit.

The IAASB also released the [Framework for Audit Quality](#), which describes the input, process and output factors that contribute to audit quality at the engagement, audit firm and national levels (see illustration). The Framework emphasizes that standards alone are not sufficient to ultimately achieve audit quality but that improving audit quality requires interaction between, and action by, all stakeholders in the financial reporting supply chain. An illustration of this can be found in the enhancements to auditor reporting where the objective of better communication and improved transparency about key audit matters requires responses and feedback from users of financial statements, as well as other stakeholders such as management, those charged with governance and regulators. We therefore strongly encourage consideration of the Framework as part of determining a holistic solution to the identified issues.



By the same token, the IESBA has continued to reinforce through enhancements to the Code the “first line of defense” role that PAIBs such as CFOs and audit committee members play in guarding against fraud and other corporate malfeasance. These enhancements include strengthened provisions in the Code addressing the responsibilities of PAIBs when preparing or presenting information, when dealing with situations involving pressure to breach the fundamental ethical principles, and when responding to non-compliance with laws and regulations. At the same time, the IESBA is committed to addressing as a matter of strategic priority stakeholder concerns about auditors’ perceived lack of independence, including through the Fees and NAS projects noted above.

Strengthening the ethical responsibilities of both professional accountants in public practice (including auditors) and PAIBs, and addressing the growing need for public awareness about the centrality of ethics to their roles, contribute to narrowing the expectation gap. Equally, increasing awareness of the ethical responsibilities of other corporate professions, and establishing ethical standards for them as robust as those for the global accountancy profession, can meaningfully help to narrow the expectation gap.

By promulgating their standards and issuing other publications, the IAASB and IESBA have taken concrete action within their remits in helping to address the expectation gap. Other stakeholders must play their roles in helping to further narrow the gap.

### **Conclusion**

The IAASB and the IESBA will continue to actively challenge the fundamentals of an audit and other assurance engagements, underpinned by robust ethics and quality management. We recognize that our standards must evolve to remain relevant and fit for purpose. For this reason, we will closely follow the process and conclusion of your review as it will be a valuable input to our continuing work to set high-quality auditing, assurance and ethical standards in the public interest.

If you have any questions, please feel free to contact us at [arnoldschilder@iaasb.org](mailto:arnoldschilder@iaasb.org) and [stavrosthomadakis@ethicsboard.org](mailto:stavrosthomadakis@ethicsboard.org) or James Gunn, Managing Director, Professional Standards at [JamesGunn@ProfStds.org](mailto:JamesGunn@ProfStds.org).

Yours truly,



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