



**Agenda Item
9B**

The Future of Audit – UK Developments

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Member

IESBA Board Meeting
June 2019
Nashville

The Future of Audit

- Developments in the United Kingdom

- Key reviews
 - Kingman Review of FRC
 - CMA Competition in the audit market
 - BEIS Future of audit
 - Brydon Quality and effectiveness of audit



BEIS Consultation – Kingman Review

- The Kingman review made 83 recommendations including the replacement of FRC by a statutory regulator, ARGA - Audit, Reporting and Governance Authority
- BEIS issued an initial consultation on 11 March 2019 to seek views on the recommendations – response deadline 11 June 2019
- BEIS has accepted the Kingman recommendations and is moving ahead with the reforms proposed, in particular those recommendations which can be implemented by FRC on a voluntary basis ahead of legislation, for example changes to the appointments to FRC Board and leadership of FRC

Competition and Markets Authority (CMA)

- The key issues:

- Selection and oversight of auditors – insufficient focus on quality; companies select their own auditors; role of audit committees;
- Choice - high concentration among four big audit firms; market is not resilient;
- Firms' structures - main business is not in audit; weaker incentives to deliver high quality audits;
- Expectations gap – purpose and scope of audit; and
- Regulation – inadequate regulation of audit.

Competition and Markets Authority (CMA)

- Key recommendations:
 - Operational split;
 - More choice to increase resilience: mandatory joint audit;
 - Regulation of UK companies' audit committees;
 - A 5 year review of progress – review consider: independent appointment for auditors; whether to go beyond the operational split; and how to fine-tune the joint audit remedy to adapt to market developments; and
 - Better regulation of audit – support for Kingman and replacement of FRC.

BEIS Select Committee Report

- Operational split - endorsement of CMA's proposed operational split but asks for the full structural break-up of the 'Big Four' firms into audit and non-audit businesses
- Segmented market cap and piloting of joint audits for the most complex audits
- Increasing the frequency of audit rotations to seven-year non-renewable terms and a cooling off period of three years
- Audit quality and detecting fraud is a "delivery gap"
- A better audit product – graduated findings and assessments on corporate governance
- Better regulation of audit

Brydon review

- The review considers the quality and effectiveness of audit in terms of both the audit process and the audit product in serving the needs of users and the public interest
- The review seeks to address questions about the purpose of audit, its social usefulness and the extent to which it fulfils users' legitimate demands – the 'audit expectations gap'
- The public consultation (call for evidence) - response deadline 7 June; report of findings and recommendations due towards the end of 2019

UK Reviews on Audit

Kingman Review of FRC - Final Report -

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

BEIS Initial Consultation on the Kingman Recommendations –

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/784988/independent-review-financial-reporting-council-initial-consultation-recommendations.pdf

CMA Audit Market Study – Final Report -

https://assets.publishing.service.gov.uk/media/5cb74577e5274a7416b64f01/final_summary_report.pdf

BEIS Parliamentary Committee – Future of Audit Inquiry -

<https://www.parliament.uk/business/committees/committees-a-z/commons-select/business-energy-industrial-strategy/inquiries/parliament-2017/future-of-audit-17-19/publications/>

Brydon Review - <https://www.gov.uk/government/consultations/the-quality-and-effectiveness-of-audit-call-for-views>



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