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Brydon Review Secretariat
Orchard 1, 1st floor
Department for Business, Energy & Industrial Strategy
1 Victoria Street
London
SW1H 0ET

Via Email: brydonreview@beis.gov.uk

Dear Sir Brydon

Submission on Independent Review into the Quality and Effectiveness of Audit

CPA Australia represents the diverse interests of more than 164,000 members working in 150 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest. As a professional accounting body, we have a close interest in the audit product in that our members are represented in all parts of the corporate reporting supply chain, including as auditors, preparers and users of financial reports as well as corporate reports more broadly.

CPA Australia welcomes the Brydon Review as we consider that the objective of seeking a more useful and forward-looking audit, with the focus on what product would be of value, is critical in providing a future for audit by meeting user needs. We consider that a reimagination of the audit is necessary to provide a product which directly addresses users' needs and can be measured against the outcomes sought by those users. If the scope and nature of the audit product is clear and matched to users' expectations and the quality delivered is appropriate, audit will be valued and an expectation gap should not arise.

Our response to the consultation document focuses primarily on determining the needs and expectations of users and need for improvement and evolution of the audit process and product, and to a limited extent on the need for other forms of business assurance. We do not comment on the statutory or regulatory frameworks for audit in the UK. As such we have addressed selected questions in this "call for views" in the attachment to this letter.

Overall, we suggest that it would be beneficial to reconsider the appropriate subject matter and nature of the audit so that it can directly address users' needs. Understanding those user needs can be elusive, however we suggest focussing on outcomes which are in the public interest, such as minimisation of corporate failures or its impact, prevention or early detection of fraud and investment in businesses which have a viable future. For audit to be of value we suggest it needs to address these or other outcomes which are of greatest importance to the identified users.

We agree that the audit expectation gap needs to be addressed, but the starting point must be clear identification of users to whom companies have a responsibility to provide corporate information. Then clarifying and agreeing reasonable expectations for information which will underpin those users' confidence in the entity and designing the product which can meet those needs.

Following some simple principals when designing and providing audit products may assist in stakeholders understanding what audit is providing, such as:

- Clearly identifying the intended users within the corporate report and/or auditor's report, so it is clear whose needs are being met.

- Determining the information of greatest value to those users, such as future viability of the business or vulnerabilities to fraud risks, even if that has not been traditionally the mandate of auditors, then focussing the audit on those information needs and developing the necessary capabilities.
- Identifying the audited information by presenting it completely separately from unaudited information, which would necessitate either increasing the scope of the audit to encompass the entire annual report, or other corporate reports, or excluding information which is not audited from that report.

The complexity of the financial reporting framework, which does not typically reflect the underlying value of the entity, and the range of voluntary corporate reporting, mean that the value of audit is entwined with the value of corporate reporting. Consequently, reforms in audit may be dependent on reforms to financial reporting or governance and so any reforms will need to be pursued in tandem.

If you require further information on our views expressed in this submission, please contact Claire Grayston, Policy Adviser – Audit & Assurance, on +61 3 9606 5183 or at claire.grayston@cpaaustralia.com.au.

Yours sincerely

Dr Gary Pflugrath
Head of Policy and Advocacy

APPENDIX 1

Our responses to the consultation questions are set out below.

Questions

1. Definitions of Audit and Its Users

Q1: For whose benefit should audit be conducted? How is it of value to users?

Currently the audit is conducted for the benefit of "intended users", although, as the paper explains this could be interpreted as shareholders or current investors, or extended to potential investors, lenders, other creditors and more broadly the public interest. Who intended users are is left largely for the auditor to determine under the international standards on auditing issued by the International Auditing and Assurance Standards Board (IAASB). It is critical that users of the auditor's report are better defined, so that the auditor can understand whose information needs they are satisfying. Reliable corporate reporting is important to a wider group than just current and future investors; including the board of directors, lenders, suppliers, other creditors, customers, grant providers, employees and regulators. Although further analysis of user needs is recommended, including review of existing studies and academic literature, we suggest the audit should be providing confidence in the information reported by the company. However, for that information to be of relevance and value to users, it needs to provide a basis for the assessment of the future viability of the company, including the sustainability of the business model and how key risks are being mitigated. The backward-looking nature of audited financial information and the fact that audits currently do not directly address the issues of greatest concern to users, inhibits the value perceived by users and the general public. Whilst broadening the scope of the audit would create challenges for auditors and require new skill sets, it is essential that the audit product is designed around what is needed by the market and is not constrained by what is currently provided,

Q2: Should the audit be designed to enhance the degree of confidence of intended users in the entity or just in the financial statements?

Whilst the statutory audit is intended to provide confidence in the financial statements only, it is typically taken to provide confidence in the broader corporate reporting, including the management commentary, and thereby in the entity itself. This broader reliance which users actually place on the audited entity is demonstrated by the reaction in the media or by the general public to corporate failures or uncovering of fraud. Following such events, attention often turns to the auditor to seek an explanation as to why the failure was not foreseen or the fraud uncovered sooner. We consider that the audit must be focussed on enhancing the confidence in the entity, that is providing a realistic assessment of the entity's value and future viability. Whilst audit of the financial statements, prepared on a going concern basis, goes some way towards providing that assessment, we suggest that it does not go far enough. Whilst recent research findings[1] found that financial statements are still useful for equity investors in Australia, research in the USA found that the value of financial reporting is diminishing.

Corporate reporting has been evolving with new frameworks becoming more commonly used, such as Sustainability Reporting under the Global Reporting Initiative or Integrated Reporting, as well as increased reporting of "non-GAAP" measures, which do not comply with the accounting standards, as well as more timely information sharing through the website and social media platforms. Much of this information is not audited or assured so should give users less confidence as a source of truth, but if it is useful to users it is nevertheless still relied upon. The delineation of audited and non-audited information is not always well understood by users. We

[1] Decision-usefulness of Financial Reports CPA Australia funded Australian study:

- Research report no.1: Are financial reports still useful to investors? (PDF)
  Research report no.2: Relevance of alternative performance measures and non-financial information for investor decision making in Australia (PDF)
- Research report no.3: The effect of industry on the relevance of financial reports for investor decision making (PDF)
- Research report no.4: The effect of company size, profitability and the introduction of IFRS on the relevance of financial reports for investor decision making (PDF)
- Research report no.5: The decision-usefulness of financial reports and the future of (financial) reporting (PDF)

suggest that the audit needs to be redesigned to embrace these user needs rather than persisting with the provision of the current service.

2. The 'Expectation Gap'

Q3: Should UK law be amended to provide greater clarity regarding the purpose of an audit, and for whom it is conducted? If so, in what way?

We do not wish to comment on UK law.

Q4: Do respondents consider there is an expectation gap?

Yes

Q5: If so, how would respondents characterise that gap?

The consultation paper accurately describes the expectation gap.

The gap could be characterised, with respect to audit of financial statements, as:

- Subject matter: The gap between the audited information (financial statements primarily representing historical information) and the information on which users intend to rely (broader corporate information which may be forward projecting, such as the whole annual report including management commentary, non-GAAP measures or an integrated report)
- Product: The difference between the nature of the engagement provided (audit – focussed on detecting material misstatements in the financial statements based on a risk-based sample) and the product required (for example: assessment of the reasonableness of underlying assumptions for future-oriented information and the risks identified which impact future viability of the business).
- Reporting: The difference between when and how users want to receive information (for example: on a more frequent or continuous basis, electronically) and the timing and manner of communication in the auditor's report (binary or graduated conclusions, standardised wording or discussion, such as contained in key audit matters).

In order to reduce or eliminate the expectation gap the intended users need to be identified; their information needs must be understood; and information provided must meet those needs in a meaningful way.

The gap may also be a result of a failing of the financial reporting framework or the nature of the auditor's report. Both the financial statements and the auditor's report require a definitive outcome, either an exact number or conclusion. In fact, the nature of estimates and audit evidence suggests that a range of outcomes may be more appropriate with a level of confidence depending on the risks impacting that outcome.

An analysis of users of corporate reporting and their information needs should drive the way in which the expectation gap can be addressed, which may include:

1. Reporting the information audited or assured separately from other information. For example, include in the annual report only audited information, or information based on audited assumptions.
2. Identify the outcomes which are of greatest concern to users, such as crystallisation of business risks, corporate collapse or perpetration of fraud. Focus audits directly on detecting the drivers and indicators of these outcomes, so that audits address the outcomes which really matter to users.

Q6. Is there also a significant 'delivery' or 'quality' gap between auditors' existing responsibilities in law and auditing standards, and how those responsibilities are currently met?

We cannot comment on UK law, however we note regulators' inspection findings globally indicate a need for an improvement in audit quality. These findings indicate there is a delivery or quality gap between the requirements for the audit and implementation of the audit in practice. We do not have a clear picture of the extent to which these shortcomings in implementation of audits can be generalised across all audits of public interest entities or indeed audits of all entities. This is because regulators do not use statistical samples, nor samples which are comparable between inspection periods, as different industries or risks may be targeted in each period, which limits the efficacy of the findings. To address this issue in Australia, the Australian Securities and Investment Commission (ASIC) has been tasked by the Parliamentary Joint Committee on Corporations and Financial Services report on the oversight of ASIC, the Takeovers Panel and the Corporations Legislation with devising and conducting "*alongside or within its current Audit Inspection Program, a study which generates results which are comparable over time to reflect changes in audit quality*".

3. Audit and Wider Assurance

Q7: What should be the role of audit within wider assurance?

We support the need for assurance over corporate reporting beyond financial reporting to provide confidence in that information and to protect users. We suggest that the important role of audit and assurance in these emerging areas of corporate reporting needs to be confirmed and communicated so that users understand the value of audit and assurance. For example, legislation in Australia requires registered greenhouse and energy auditors to comply with ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (which conforms to ISAE 3000) for audits of emissions and energy required under the National Greenhouse and Energy Reporting Scheme regulated by the Clean Energy Regulator (CER). The CER rely on the auditors to provide them with confidence in reporting under the schemes it regulates and the CER report that the audit underpins a robust reporting regime.

We acknowledge that the skills required to provide an audit over extended external reporting are very broad and necessitate a multi-disciplinary team. Not all auditors or assurance practitioners in these engagements need to be professional accountants, however, the engagement leaders will require audit and assurance skills in addition to their other professional expertise. Likewise, professional accountants with audit and assurance expertise can also acquire specialist skills. For example, registered greenhouse and energy auditors derive from various disciplines, in addition to accounting, such as engineering or environmental science.

Q8: Can the level of assurance that an audit provides legitimately vary in different circumstances, for example depending on the business sector in question, and the nature of the entity's business risks?

Regarding different levels of assurance, whilst reviews are not discussed in the consultation, they do provide a lower level of assurance (limited assurance) than audits (reasonable assurance) and we do consider they may be appropriate for smaller entities or specific types of information, such as forward-looking information. For example, reviews may be conducted in Australia for medium sized companies limited by guarantee, incorporated associations and charities. One impediment to the use of reviews is the lack of guidance regarding what is sufficient appropriate evidence for a review and also the lack of understanding by users of what a review provides in comparison to an audit. Users have at times been reported as misunderstanding reviews as providing more assurance than an audit as additional information is provided in the report regarding procedures conducted.

Q9. Are the existing boundaries between internal and external audit clear?

The use of internal audit to provide direct assistance to the external auditor is also prohibited in Australia, however the auditor can place reliance on the internal audit function as an internal control if it is operating effectively. We consider that these boundaries are clear, however if direct assistance were permitted the boundaries may become less clear.

Q10. To what extent should external auditors be able to use evidence obtained from work performed by internal auditors in drawing conclusions?

We are supportive of the reliance on the internal audit function currently articulated in ISA 610 *Using the Work of Internal Audit* with the exception of direct assistance. As direct assistance is not conducted in Australia we cannot assess the impact of using evidence derived from a source which is not independent of the entity.

Q11. Do current eligibility requirements for external auditors focus too much on independence at the potential expense of market innovation and the quality of the audit product?

Audit quality can be compromised in order to meet the independence requirements, as those requirements become more onerous, meeting independence takes priority over allocating the engagement partner with the most suitable skills. This can occur in smaller or more remote locations with the longer cooling-off periods now required by the IESBA Code of Ethics, requiring auditors to rotate off even though there may be limitations on availability of auditors with the appropriate industry knowledge Changes to independence requirements should be made based on evidence of their positive impact on audit quality firstly not just on perceptions of independence. However, the impact of changes to independence requirements cannot be evaluated if they are made too frequently or concurrently as the impact of each change becomes difficult to isolate. We are not aware of examples of independence inhibiting market innovation

4. The scope and purpose of audit

Q12: Should directors make a more explicit statement in respect of risk management and internal controls? If so, should such a statement be subject to audit?

We suggest that a directors' statement regarding risk management and internal controls may be beneficial in meeting user needs, once those needs are clarified. As suggested in our response to Q.2, audit of the entire annual report, including any directors' statements, would provide users with clarity about the information audited and confidence in that information. Information which cannot be audited could be excluded from the report.

Q13: Should auditors' responsibilities regarding assessing the effectiveness of an entity's system of internal control be extended or clarified?

Internal controls play a critical role in preventing and detecting errors and fraud, which may not be detected by the external audit due to the limitations of an audit. We would see value in exploring the extension of the auditor responsibilities for assessing the system of internal control, more broadly than controls on which they plan to rely for the purposes of the financial statement audit. However, increasing the scope of the audit will have costs implications for companies and so the benefits will need to be clearly established.

Q14: Auditors are currently required to report to audit committees their views on the effectiveness of relevant internal controls for listed and other relevant entities. Should auditors be required to report publicly these views?

Reporting publicly by auditors on the system of internal control for relevant entities may assist in meeting user needs and reduce the expectation gap discussed earlier. The experience in the USA in this regard would inform a cost/benefit analysis of extending auditors' reporting.

Q15: Is the current regulatory framework relating to going concern fit for purpose (including company law and accounting standards)?

We do not wish to comment on UK regulatory framework.

Q16: Should there be greater transparency regarding identified "events or conditions that may cast significant doubt on the entity's ability to continue as a going concern"?

Greater transparency may be helpful, but this will only assist users in understanding the risks the company faces if there is a material uncertainly. In addition, we note that whether or not the auditor issues a "material uncertainty related to going concern" paragraph in their report has been found in research in Australia to have no correlation to subsequent company failure, measured by subsequent delisting. This suggests that the disclosure of a material uncertainty relating to going concern does not precipitate the entity's failure. However, it also indicates that this statement or the omission of such as statement may have limited information value for users. Therefore, reporting on the assessment of the company's prospects in the directors' viability statement and the auditor's response may be a more transparent avenue to inform users of the risks faced by the entity and how they are being addressed.

Q17: Should directors make a statement about the sustainability of the entity's business model beyond that already provided in the viability statement?

Consideration of whether the viability statement provides sufficient information regarding the risks which impact the entity's business model and how those risks are mitigated could be usefully explored.

Q18: Should such a statement be subject to assurance?

We suggest assurance on the viability statement would be beneficial, although we acknowledge that forward looking information itself cannot be assured, instead the underlying assumptions can be assured.

Q19: Who might be capable of giving such assurance?

Auditors are accustomed to using multi-disciplinary teams, drawing on expertise within their firms or engaging external experts to ensure the audit team possesses the necessary competencies to conduct the engagement. Therefore, any change in scope of the audit can be addressed by engaging suitable expertise. Indeed, the IESBA Code of Ethics requires a member in public practice to provide only those services that the member is competent to perform. A self-interest threat to the fundamental principle of professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies necessary to properly carry out the engagement.

Q20. Is there a case for a more forward-looking audit? What would be the main benefits and risks?

In order to address user's needs, we consider that addressing forward-looking information in the audit is an inevitable evolution, and probably essential for the audit to remain relevant and valued. There are obvious benefits in the auditor bringing the rigor of an audit to challenging the assumptions underlying any forward-looking information and the risks to the entity's business model identified. However, there are also risks in users' misunderstanding the limitations on the assurance which can be provided around events which have not yet occurred as well as liability risks for the auditor.

Q21: Would audit or assurance over financial and non-financial information outside the annual financial statements (for example KPIs or non-financial metrics, payment practices or half-yearly reports) enhance its reliability and therefore be of benefit to users?

We strongly support audit or assurance over all of the information reported with audited financial statements. If all of the information in the annual report is audited or assured then users can be confident in the report, with no misunderstanding about what information has been subject to independent assurance. We agree with the observation that the requirement to read the "other information" has variable interpretations and so may be misleading to users.

In addition, consideration of the information which is relied on by users and requiring assurance on the most critical pieces of information would be worthwhile. Clearly there needs to be a cost/benefit analysis about what will be assured and whether there are suitable criteria for assessing that information. However, the purpose of assurance is to provide confidence for users in the information reported and so will be of value wherever information is important to users' decisions.

Q22. If so, what information might usefully be subject to audit or another form of assurance and why?

We suggest further analysis of user needs and prioritizing the information of most value and focusing assurance effort on that information and as previously suggested presenting that separately from information which is not assured.

5. Audit Product and Quality

Q23: Do respondents agree that the value and quality of the audit product should be considered separately from the effectiveness of the audit process?

We are not clear of the meaning of the terms used in this question. Yes we agree, if this means that the scope, subject matter and nature (including timing and form of reporting) of audit, which we believe feeds into the value of audit, is separately considered from the quality of the audits conducted in practice.

Q24. Do respondents consider that emphasis placed by auditors on 'completing the audit file' for subsequent FRC inspection can eclipse the desired focus on matters requiring the exercise of considered judgment?

Yes, inspections can drive a compliance-based approach taking attention away from the use of professional judgement.

Q25. What additional benefit might a switch from a binary audit opinion to a more graduated disclosure of auditor conclusions provide?

Whilst, the binary auditor's report is a limitation on the value of audit, it is also a clear statement to users whether or not reliance can be placed on the financial statements or other reports. The IAASB certainly tried to provide a form of graduated reporting by introducing key audit matters, which was welcomed initially, although a post-implementation review has not yet been conducted by the IAASB to assess whether it met its objective. It may actually be the place of the financial or extended reporting frameworks to address the need for graduated reporting. For example, the entity could report asset values, future-oriented information or the potential impact of risks by providing a range of potential outcomes or values, even with a confidence rating. This may not impact the auditor's report as audit of this type of information could still be presented in a binary report.

Q26. Could further narrative be disclosed alongside the opinion to provide more informative insights?

Further narrative in the auditor's report may be helpful but impractical, as it may further confuse users and create new expectation gaps. Therefore, inclusion of such narrative should be approached with caution and thoroughly road tested before implementation.

Q27. What would prevent such disclosures becoming boiler plated?

As with key audit matters (KAM), the disclosures would need to be specific to the entity and address the risks faced as well as the entity's assessment of those risks. It is always a risk that the explanations in the auditors' report become boiler-plate, particularly as the auditor's report currently is not meant to present new information which is not reflected in the financial report.

Q28: To what extent, if any, has producer-led audit (including standards-setting) inhibited innovation and development for the benefit of users?

We don't necessarily see that "producer-led" audit is inhibiting innovation. Innovation may be inhibited by the constraints of national legislation and regulation which provide the requirements for reporting and related audit or assurance. In addition, entities' willingness to extend the scope of the audit beyond that mandated also inhibits innovation. The standards, and the regulators' inspections against those standards, can also inhibit innovation by not allowing for technological innovations in the audit which may result in audit evidence being in a different form to that envisaged by the standards. This could be overcome by policy-makers engaging with users and considering their needs to adjust the reporting and audit requirements.

6 – Legal Responsibilities

Q29. What role should auditors play in determining whether the directors are complying with relevant laws and regulations, including with respect to matters of capital maintenance? Is it appropriate to distinguish between matters which may materially affect the financial statements and other matters?

No comment.

Q30. Does a perceived inconsistency between company law and accounting standards as regards distributable reserves inhibit auditors from meeting public expectations? How might greater clarity be achieved?

No comment.

Q31. Should distributable and non-distributable reserves be required to be disclosed in the audited financial statements?

No comment.

Q32. How do auditors discharge their obligations relating to whether the entity has kept adequate accounting records? Are the existing statutory requirements effective in setting the bar for auditors at a high enough level?

No comment.

7 – The Communication of Audit Findings

Q33. Should there be more open dialogue between the auditor and the users of their reports? For example, might an annual assurance meeting open to all stakeholders prove valuable?

Innovations in bringing auditors and users together would be welcome, however there is the opportunity for that engagement currently at each company's AGM, so creating a new meeting may just create further administrative burden.

Q34. Should more of the communication and resulting judgments that occur between the auditor and the audit committee be made transparent to users of the financial statements?

It may undermine the openness of the auditor's communication with the audit committee and result in a more guarded relationship rather than improving audit quality or communication with users.

Q35. Should there be enhancements to the extended audit report, such as an obligation to update on key audit matters featured in the previous audit report?

This innovation to reconcile the matters raised in the previous year's KAMs with the current year's KAMs and identifying the changes in matters would be sensible. The shortcoming of this approach is that users should not expect the KAM to be the same year on year.

8 – Fraud

Q36. Do you believe that users' expectations of auditors' role in fraud detection are consistent with the requirements in UK law and auditing standards? If not, should auditors be given greater responsibility to detect material fraud?

No comment on the UK law.

We consider that to meet the needs of users, the requirements or expectations regarding the auditor's approach and responsibilities for detecting fraud could be reconsidered. Whether detection of fraud could be enhanced through addressing more targeted risk assessment and responses could be explored. This analysis would be part of addressing the expectation gap discussed in Q.5. One difficulty with meeting expectations for fraud detection, is that users are more sensitive to fraud than error, so the materiality for the financial statement audit may not reflect materiality relevant specifically to fraud.

Q37. Do existing auditing standards help to engender an appropriate fraud detection mindset on the part of auditors?

No, we consider the standards could be enhanced to engender a fraud detection mindset.

Q38. Would it be possible to devise a 'reasonable person' test in assessing the auditor's work in relation to fraud detection?

No comment.

Q39. Should auditors be required to evaluate and report on an audited entity's systems to prevent and detect fraud?

It would be helpful to users for auditors to specifically report on systems to prevent and detect fraud. We note that this would necessitate increased audit fees.

9 – Auditor Liability

Q40. Is the audit profession's willingness to embrace change constrained by their exposure to litigation?

Yes, exposure to increased liability or litigation risk may potentially impact auditors' willingness to embrace change, particularly if they consider those changes may create unreasonable or disproportionate responsibilities. Other participants in the financial reporting supply chain, such as directors, also need to share the responsibility for financial statements, internal controls, fraud prevention or detection.

Q41. If there were a quantifiable limit on auditor liability, how might this lead to improvements in audit quality and/or effectiveness?

No comment.

Q42. Should company law make auditors potentially liable, or otherwise accountable, to all stakeholders who reasonably rely on their audit work and their published auditor's report?

No comment.

Q43. How might quality of the audit product be improved if the approach to liability was altered, and what reform might enable the most favourable quality improvements?

No comment.

Q44. To what extent (if any) are firms unable to obtain the desired level of professional indemnity insurance to minimise the risk of being unable to meet a significant claim relating to their statutory audit work? How significant is this risk for both the largest firms and other firms undertaking audits of Public Interest Entities?

No comment.

10- Other Issues

Q45. How far is new technology actually used in audits today? Does the use of technology enable a higher level of assurance to be given?

Whilst technology is used to some extent in the audit and has been for many years, from what we can ascertain new technologies which truly integrate technology into the audit procedures, such as data analytics, audit automation and artificial intelligence, are still limited in practice in external audit. Uptake is also very variable between firms and so it is premature to design requirements on the basis that firms will have access to these new technologies.

Whilst technology may enable 100% testing of transactions or balances, the result can be significant numbers of outliers. How these outliers are then tested will determine whether a higher level of assurance is obtained. Some techniques, such as Blockchain technology, may provide assurance over the whole population but possibly not on all assertions. This may not translate to higher assurance for the overall engagement, just segments of the engagement. However, it may enable more meaningful testing of certain fraud prevention controls which could facilitate the extension of the engagement scope and/or reduce the level of materiality.

Q46. In what way does new technology enable assurance to be given on a broader range of issues than is covered by the traditional audit?

Not that we are aware of, however it does enable the use of new data sources such as big data which may provide useful evidence in the future.

Q47. Are there aspects of current audit procedures or output that are no longer necessary or desirable?

None noted, however the implications of new technologies need to be analysed in order to understand the nature of the evidence which it can provide and how audit procedures need to be adapted to encompass these techniques.

Q48. Given that a zero failure regime is not attainable (and arguably not desirable) how should the Review calibrate the value of audit in relation to the limitation of potential failure?

We cannot answer how audits can be assessed against corporate failures, however, as corporate failure is a concern to users, we do recommend a closer nexus between the audit effort and addressing the risks which may lead to corporate failure.

Q49. Does today's audit provide value for money?

Yes, we consider that broadly audit does provide value for money and is critically important to the reliability of financial reporting, but it is not always properly understood by users or the general public. The following recent surveys of audit committees and investors, whilst not directly addressing value for money, found confidence in audit quality:

- Audit Quality in Australia: The Perspectives of Professional Investors, April 2019, issued by the Australian Financial Reporting Council and Auditing and Assurance Standards Board.
- Audit Quality in Australia: The Perspective of Audit Committee Chairs, October 2018, issued by the Australian Financial Reporting Council and Auditing and Assurance Standards Board.
- Audit Quality Perceptions Research, May 2019, issued by the NZ Financial Markets Authority.

Q50.How should the cumulative costs of any extension of audit (whether stemming from this Review or other drivers of change) be balanced against the likely benefits to users?

The aim should be to identify alternative rather than necessarily additional services which are more effective in meeting user needs. However, as many of the suggestions discussed envisage a wider audit scope the cost of audit may increase from implementation of some of the suggestions. This should only be done as a result of identified user needs which justifies such a cost increase. Ideally the audit could be redesigned to address user needs more effectively as explained in the answer to Q.5.

Q51. What use do shareholders currently make of audit reports? Are they read by shareholders generally? What role does AI play in reading and analysing such reports?

We do not have data on this point.

Q52. Would interaction between shareholders and auditors outside the AGM be practical and/or desirable?

We suggest that shareholders desire for increased interaction with auditors should be demonstrated by the active participation and questions at the AGM in the first instance, before new interactions are pursued.

Q53. How could shareholders express to auditors their ex ante anxieties to help shape the audit plan? Should shareholders approve planning matters for each audit, including scope and materiality?

No comment.

Q54. What assurance do shareholders currently obtain other than from audit reports?

No comment.

Q55. In what way would it be possible for auditors to report on the culture of the entity whose financial statements are being audited?

It may be possible for auditors to audit indicators of culture reported by the entity as a means of reporting on culture. Those indicators would need to be consistently measurable.

Q56. How can auditors demonstrate that appropriate scepticism has been exercised in reaching the judgments underlying the audit report?

Scepticism is difficult to document and demonstrate, however, the IAASB is incorporating requirements to address scepticism as standards are revised. The changes to the financial statements which are made during the audit can be seen to reflect scepticism exercised. We caution against creating documentation requirements which are too onerous to capture the scepticism exercised.

Q57. Should the basis of individual auditors' remuneration be made available to shareholders?

No comment.

Q58. Do respondents view audit costs as generally too high, about right or insufficient?

No comment.

Q59. Would users of financial statements wish more detail on the make-up of audit fees?

No comment.

Q60. Is the profitability of the audit function sufficient to sustain a high-quality audit industry?

No comment.