

Restoring trust in audit and corporate governance

A public consultation issued by BEIS

Comments from ACCA to BEIS

8 July 2021

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Further information about ACCA's comments on the matters discussed here can be requested from:

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GENERAL COMMENTS:

ACCA welcomes the consultation on the Government's proposals for restoring trust in audit and corporate governance and its aim to improve the wider financial reporting ecosystem as a whole. It is vital that the UK economy has efficient and effective capital markets and there is confidence and trust in the corporate framework. We welcome any opportunity to be involved in the next steps and remain committed to providing our support as the Government proceeds with the implementation of its proposals.

The proposals put forward in this consultation involve potentially radical changes across a wide range of stakeholders of the financial reporting ecosystem, including audit firms and auditors, companies and directors and the regulator. A successful outcome will necessitate continuous careful analysis of the cost and benefits of implementing these proposals as well as ensuring that the stakeholders affected, including the audit regulator, have the capacity to implement them effectively. ACCA supports a phased implementation approach which retains a focus on improving audit quality.

The ACCA Global Forum for Audit and Assurance has considered the matters raised and their views are represented in our response. We wish to emphasise the importance of global consistency of standards and the need to consider extraterritorial implications that some of the proposals may bring. Our response also reflects the views of our members obtained during the consultation period.¹ The response comprises a number of key points which we consider to be fundamental to achieving the Government's aims of increasing trust in audit and corporate governance. We also include responses to the individual questions posed in the consultation.

Separate audit profession and new professional body

Overall, we are supportive of the Government's approach of defining wider audit and wider auditing services. We agree with the proposed expansion of audit and this is in line with the ACCA's research findings "Closing the expectation gap in audit" which highlights an increased demand for an audit evolution beyond the financial statements audit. This also fits well with broader global developments around non-financial reporting and the associated demand for assurance over such extended external information.

Whilst ACCA and our members believe that recognition of audit as a separate profession could provide an enhanced status to the role and its increasingly diverse nature, we do not consider that the case has been made to separate auditing as a profession from its existing roots in the accountancy profession.

ACCA believes that it is possible to further evolve the audit profession within existing structures. ACCA's qualification and continual professional development model provides audit as a specialist route for ACCA members wishing to hold the Recognised Professional Qualification (UK audit qualification). This model could be evolved to include the wider audit related competences relevant to the wider reporting topics, for instance biodiversity and cyber security. Such an approach will better drive appreciation of the interconnections between the financial and non-financial matters that underpin what it means to be a sustainable organisation for people, planet and profit. Through the education, technical support and professional insights research provided to business professionals, including auditors, the current model better supports the integrated thinking required to be a sustainable organisation. Further, ACCA's global engagements both via our direct activities of policy and education, and

¹ <https://www.accaglobal.com/gb/en/member/discover/events/uk/2021/05/Inside-track-with-Sir-Jon-Thompson.html>

that of our networks ensures consistency of auditor competences globally. This re-emphasises our views regarding the importance of having global consistency of standards.

The current model, which combines accountancy and audit, enables ACCA members to develop the technical expertise and professional skills which are needed to work in a variety of accountancy, audit and finance roles. This model supports the attractiveness of a career in the accountancy profession for new entrants and offers maximum flexibility for career progression. ACCA's recent research into Generation Z and the future of accountancy² in the UK suggests that mobility and flexibility in careers is increasingly important and that accountancy training is seen as an opportunity to develop a broad range of skills.

Creation of a separate and specialised professional body for Corporate Auditors could be perceived as career limiting and requiring a lengthy commitment to a separate specialised profession. A qualification limited to corporate audit may be less attractive to young talent and may also be a barrier to experienced candidates returning to an audit role later in their career. Both outcomes may result in a skills shortage, as those with valuable and relevant skills no longer wish to pursue a career in audit.

Competition and choice

As we noted in our response to the initial consultation from the CMA (2018) there are some examples of shared audits in the FTSE 350 already. However, these do not tend to be publicised widely and so may not be well-known to the general public. Our understanding is that such arrangements can work well, although it can also lead to problems over communication, transparency and quality. Their use is uncommon, so it would be inappropriate to conclude that they can make a consistent improvement in audit quality. And they do not appear to have made any meaningful impact on choice in the audit market.

The FRC has acted decisively in support of audit quality and the public interest by publishing its principles for operational separation of audit practices. ACCA maintains its support for multi-disciplinary firms, drawing also from the findings of its joint research with IFAC and CA ANZ suggesting that multidisciplinary firms³ are better from an audit quality perspective. The big 4 firms have already voluntarily agreed to follow the FRC's principles and have already put forward their plans for operational separation since October 2020. The next step would be to formally follow their plans and separate their audit units from the rest of the business by 2024. We are pleased to see these proposals are part of the Consultation Document and we support the proposal that the regulator should have the necessary power to enforce these changes. However, we do note and support the fact that although the proposals refer to professional firms, the principles for operational separation should only be applicable to the upper end of the market i.e., big 4 firms and, potentially, challenger firms.

Resilience statement

ACCA very much supports the requirement for a resilience statement. In our view investors and other stakeholders reading and relying on the annual report and accounts will be very interested in the management's view on the risks to the business and how their business model and strategy respond to these.

² <https://www.accaglobal.com/gb/en/professional-insights/pro-accountants-the-future/gen-z.html>

³ <https://www.accaglobal.com/gb/en/professional-insights/global-profession/expectation-gap/Audit-quality-in-a-multidisciplinary-firm.html>

Furthermore, we note that the IAASB's Discussion Paper on Fraud and Going Concern (IAASB's DP) also sought to obtain views on whether changes are needed in respect of going concern and other concepts of resilience. Based on our outreach in responding to the IAASB's DP, we received positive feedback for a requirement of a resilience statement. The UK has therefore an opportunity to influence global practice and standards in this space.

Directors' accountability

We welcome the Government's move to consider the entire "ecosystem" of stakeholders involved in ensuring that companies are well-run, and the capital markets function effectively, and hence the proposal to place more explicit duties on directors. Specifically, on internal control, we consider that the public interest is best protected by Option C and therefore if the UK is to embrace this change, then it should fully adopt the approach. We do not consider that the Government's preferred option (option A) would fulfil the desired outcome or sufficiently protect the public interest. The compliant will comply and the non-compliant are likely to only be identified at the point of failure. The expectation gap of users of the accounts is likely to increase (whilst noting the Audit and Assurance Policy will mitigate this for informed readers).

Legislative powers

We welcome the Government's proposals to provide the regulator with the necessary powers to investigate and sanction breaches of corporate reporting and audit-related responsibilities by PIE directors. However, as the Consultation Document highlights, this will add a further complexity to the existing arrangements for the oversight of director conduct, and hence the effectiveness of the collaboration across the various agencies will be pivotal to establishing arrangements that work well in practice. We therefore suggest that a published Memorandum of Understanding between the regulator and the FCA will assist with transparency and hence support stakeholder understanding around respective roles, and planned co-operation when overlaps occur. The Government might also consider placing a duty upon the two regulators to report periodically to Parliament, as part of broader reporting arrangements, on the quality and effectiveness of their joint working.

We also note that each professional accounting organisation based in the UK has well-established monitoring and enforcement arrangements in place to deal with breaches of their Code of Ethics – ACCA's Code of Ethics and Conduct (and those of other chartered bodies) is aligned to the IESBA Code of Ethics. We would suggest that, in considering whether it would be appropriate to introduce behavioural standards for directors of public interest entities, the Government should consider the model adopted both nationally and internationally by the accountancy profession as a potential starting point. As a result, the same behavioural standards will be applicable for directors of PIEs irrespective of whether they are members of professional accounting organisations or not.

Funding of the new regulator

ACCA agrees with the proposal that the new regulator should be funded by a statutory levy and that the cost of its regulatory activities should be met by market participants and other beneficiaries.

We also agree that the funding model for the new regulator needs to be sustainable to enable it to undertake its activities in an effective manner and that the funding model should be fair, transparent and proportionate, adhering to the Managing Public Money principles. It is vitally important that stakeholders have clear insight to make a meaningful assessment as to how the regulator's resources will be applied so that stakeholders are able to understand the rationale for the regulator's activities, which they fund.

Equally, the funding model should adhere to the 'polluter pays' principle. For ACCA, the UK audit practitioner population (approximately 1,600 firms) typically comprises one or two partner firms, which predominantly service small and medium entities (SMEs). Therefore, any future funding model should guard against the burden falling on smaller audit firms and the SMEs (i.e., non-public interest entities) they serve.

We note the absence of any discussion on what happens to fines collected by the regulator through its enforcement activities. We are of the view that fines collected through enforcement activities should be applied to funding of the regulator's future activities and public education on audit activities - this is a settled regulatory principle. This would support the regulator's ongoing sustainability and guard against disproportionate burdens on funders.

SPECIFIC COMMENTS:

1. Should large private companies be included within the definition of a Public Interest Entity (PIE)? Please give your reasons.

Yes. We support the extension of the definition of a Public Interest Entity (PIE) to include larger private companies. Larger private companies contribute significantly to the UK economy. They have multiple stakeholders and the effective corporate reporting, governance arrangement and audit arrangements of such entities should legitimately be considered a matter of public interest. If such entities fail, they can and do have a negative impact on the economy and reputation of the UK globally, nationally, and locally.

The additional requirements that fall on PIEs should increase the investors' and the public's confidence in the independence of the firms and the quality of audit. The size of an entity is a key factor as the impact of failure is more pronounced. However, as noted in our response to question 8, size alone provides a blunt tool which may exclude entities that may be of significant importance.

The proposed extension of the definition of a PIE is consistent with the recently proposed revisions to the definitions of listed entity and PIE proposed by IESBA, which suggested expanding the extant definition of PIE to a list of categories of entities that should be treated as PIEs.

2. What large private companies would you include in the PIE definition: Option 1, Option 2 or another? Please give your reasons.

We would support Option 1 which captures both entities with large numbers of employees and those with significant turnover. It is consistent with the Wates principles, aligning with the existing test used to identify those companies that are required to prepare a corporate governance statement. It is important that as changes are implemented that consideration is given to minimize the complexity of requirements. We would support the proposal in the Consultation Document that suggests that the threshold adopted be applied over a period of time to avoid fluctuations – this should apply to entities being included within the definition and to those which cease to fall within the definition.

As outlined in the Consultation Document, this would bring approximately 1,960 entities with the definition. This is a significant increase and will require significant resources by both companies, audit firms and ARGA.

3. Should AIM companies with market capitalisation exceeding €200m be included in the definition of a PIE? Please give your reasons.

We support a definition of PIE which is consistent in the scoping threshold for all companies. This is transparent and understandable. We therefore do not agree with the additional inclusion of AIM companies above a set market categorization value. Such values will fluctuate and lead to inconsistency and may act as a deterrent to companies seeking to list. Moreover, investors in AIM companies understand the nature of their investment and the risks associated with this.

4. Should Government give newly listed companies a temporary exemption from some of the new reporting and attestation requirements being considered for Public Interest Entities?

Yes. The existing and the proposed additional requirements that will apply to PIEs are demanding and therefore a temporary, but time limited, exemption should be provided to newly listed companies. Adoption as early as possible should, however, be encouraged, and the investor appetite for compliance will be an effective driver for early adoption. It is critical that transparent and clear disclosure of any exemption used must be explicitly disclosed.

5. Should the Government seek to include Lloyd's Syndicates in the definition of a PIE? Please give your reasons.

No. The inclusion of Lloyd's Syndicates in the definition brings greater complexity and draws in entities of very small size. The economic impact of these entities does not warrant the additional level of scrutiny and is disproportionate.

6. Should the Government seek to include large third sector entities as PIEs beyond those that would already be included in the definitions proposed for large companies? If so, what types of third sector entities do you believe should be included and why?

Large third sector entities are already subject to additional oversight and regulation; we consider that the specific nature of such entities means that effective oversight is best provided by the specialist regulator. The proposal that a separate threshold be applied brings in further arbitrary categorizations. If there is a demand for third sector entities to apply the additional requirements, then sectoral regulators are best placed to address this.

7. What threshold for 'incoming resources' would you propose for the definition of 'large' for third sector entities? Is exceeding £100m too high, too low or just right?

We do not support the inclusion of large third sector entities within the definition. However, if it is determined that large third sector entities are to be included, then we would suggest that a comparable threshold as outlined in Option 1 of £200 million would be more appropriate.

8. Should any other types of entity be classed as PIEs? Why should those entities be included?

Size is only one of the determinants of whether an entity attracts significant public interest. We would like to draw the attention of the Government to IESBA's proposed list of factors as per para 400.8 of the IESBA ED-Proposed Revisions to the Definitions of Listed Entity and PIE in the Code⁴ which includes considerations in addition to the size

⁴ <https://www.ethicsboard.org/publications/proposed-revisions-definitions-listed-entity-and-public-interest-entity-code>

of the entity. The factors, as proposed in IESBA's ED have not been finalised and are subject to changes from the consultation process. We believe, nevertheless, that they are appropriate factors the Government should take into account when determining if there are other types of entity in the UK that should also be classed as PIEs.

9. How would an increase in the number of PIEs impact on the number of auditors operating in the PIE audit market?

The consultation document suggests that an additional 90 audit firms would be brought into the scope of PIE requirements under Option 1. However, whilst undoubtedly the PIE audit market would initially expand, anecdotal evidence would suggest that many firms would choose to exit the market to avoid the additional requirements for PIE audits that would be placed on such firms. This is particularly true when they have only a small number of such audits. It is therefore highly likely that the approach will concentrate the audit of PIEs on a smaller number of firms. This unintended consequence would not be desirable. In order to mitigate this risk, we support a phased implementation approach which retains a focus on improving audit quality and does not inadvertently reduce choice in the market.

10. Do you agree that the Government should provide time for companies to prepare for the introduction of a new definition of PIE?

Yes. The existing and additional requirements will place additional burdens on business, auditors and the regulators and therefore notice of the change will be required to support effective implementation. Subject to the unintended consequences outlined in Question 9, the extension of the PIE definition could provide an opportunity to expand the number of firms and auditors operating in the market. Time to prepare will be critical for audit firms who fall into scope and will help to create an environment which supports this ambition. The absence of this could lead to audit firms choosing to exit the market.

11. Do you agree that the Government should seek to offer a phased introduction for a new definition of PIE?

Yes. A phased implementation will support business, auditors and the regulator in preparing for the successful implementation of both the existing and new requirements. This should be considered in conjunction with the notice provided (as outlined in Question 10).

12. Is there a case for strengthening the internal control framework for UK companies? What would you see as the principal benefits and disbenefits of stronger regulation of internal controls?

There is a clear and compelling case for strengthening the internal control framework for UK companies. Stronger regulation of internal controls would result in fewer frauds, better reporting and serve to enhance trust in public interest entities. The importance of internal controls and effective risk management in an organisation is critical to the sustainability of an entity - it is an essential element in the success or failure of organisations.

ACCA has undertaken research considering the linkage between effective risk management and the performance of an organisation⁵. This notes that a Board's objectives can only be achieved when effective internal control and risk management is fully embedded across an organisation.

⁵ <https://www.accaglobal.com/uk/en/professional-insights/risk/risk-and-performance.html>

The only disbenefits arising from this relate to cost and the potential for a short-term skills and capacity gap both within business and audit firms. However, such disbenefits do not outweigh the benefits, and a proportionate approach will serve the public interest and reduce the audit expectation gap that has arisen.

The potential benefit is directly impacted by the approach adopted as outlined in our response to Question 13.

13. If the control framework were to be strengthened, would you support the Government's initial preferred option (Table 2)? Are there other options that you think Government should consider? Should external audit and assurance of the internal controls be mandatory?

The Government's preferred option of requiring a directors' statement about the effectiveness of the internal controls together with disclosure of the benchmark system used and an explanation of how the directors assured themselves, with a decision on the audit of the statement taken by the Board, would provide a greater level of accountability than we have currently.

However, we do not consider that the approach would deliver the desired outcome or fully protect the public interest. The compliant will comply and the non-compliant are likely to only be identified at the point of failure. The expectation gap of users of the accounts is likely to increase (whilst noting the Audit and Assurance Policy will mitigate this for informed readers). We consider that the public interest is best protected by Option C and therefore if the UK is to embrace this change, then it should fully adopt the approach.

In order to protect the UK unitary board concept, the statement should be made on behalf of the whole board.

The adoption of an existing and established framework provides advantages and avoids the risk of companies being required to report against two frameworks.

14. If the framework were to be strengthened, which types of company should be within scope of the new requirements?

All entities within the definition of PIE should be included. The implementation should however be phased, as noted in the consultation, initially to premium listed companies and extended to other PIEs after two years, to allow capability and capacity to grow and to learn lessons from those entities and audit firms most equipped to undertake this at the outset.

15. Should the regulator have stronger responsibilities for defining what should be treated as realised profits and losses for the purposes of section 853 of the Companies Act 2006? Would you support either of the two options identified? Are there other options which should be considered? What should ARGAs consider when determining what should be treated as realised profits and losses?

Our preference is that BEIS should take the opportunity to reconsider the whole question of whether dividends should be linked to realised profits, now that the UK is no longer bound by the EU directives.

It is not clear whether the current approach of limiting dividends to realized profits has been very effective at curbing distributions out of companies that subsequently run into

financial difficulties. There often seems to be the ability to ‘manufacture’ realized profits when needed if the right boxes are ticked and the right legal hoops are gone through. Instead of the realized profit model the UK could now move to a solvency approach with the emphasis on the directors’ prudent assessment of the impact of dividend payments on current and future solvency and viability – as covered by Q17 below.

We note that disclosures of the extent of distributable realized profits may in some cases be difficult and costly to make while not providing great benefit. The current guidance on realized profits is lengthy and complex – ARGAs may find it difficult to be more concise and provide accessible guidance.

If nevertheless the current link between realized profits and distributions were to continue, then we agree that the regulator should have responsibility for defining what should be treated as realized profits and support Option 1. This authoritative guidance should be supported by practical and user-friendly guidance to enhance compliance. ARGAs’ guidance should be mostly principle based and avoid as much as possible getting involved with the application of those principles to multiple different scenarios.

16. Would the proposed new distributable profit reporting requirements provide useful information for investors and other users of accounts? Would the cost of preparing these disclosures be proportionate to the benefits? Should these requirements be limited to listed and AIM companies or extended to all PIEs?

See our response to Q15 where we support a move away from the concept of realized profits, including a lack of evidence that the benefits of such disclosures would exceed the costs.

If nevertheless the proposed distributable profit disclosures are mandated, then these should not be limited to listed companies and AIM companies but should apply to all PIEs.

17. Would an explicit directors’ statement about the legality of dividends and their effect on the future solvency of a company be effective in both ensuring that directors comply with their duties and in building external confidence in compliance with the dividend rules? Should these requirements be limited to listed and AIM companies or extended to all PIEs?

We are supportive of this and the focus on solvency and viability. The responsibility for assessing the levels of distributions rests with the directors of the company and it is critical that this is discharged in a prudent and responsible manner with full consideration of the sustainability and long-term reputation of the organisation.

The scope should not be limited to listed companies as highlighted by recent high-profile cases. We would therefore support extension to all PIEs.

18. Do you agree that the combination of recently introduced Companies Act section 172(1) reporting requirements along with encouragement from the investment community and ARGAs will be enough to ensure that companies are sufficiently transparent about their distribution and capital allocation policies? Should a new reporting requirement be considered?

As outlined in our responses to previous questions, we support the adoption of new reporting requirements in relation to dividends, including those in the resilience

statement, and do not consider that the existing reporting requirements and encouragement from investors and ARGA will be sufficient in isolation.

19. Do you agree that the above matters should be included by all companies in the Resilience Statement? If so, should they be addressed in the short or medium term sections of the Statement, or both? Should any other matters be addressed by all companies in the short and medium term sections of the Resilience Statement?

ACCA very much supports the requirement for a Resilience Statement. In our view, investors and other stakeholders reading and relying on the annual report and accounts will be very interested in the management's view on the risks to the business and how their business model and strategy respond to them.

Furthermore, we note that the IAASB's Discussion Paper on Fraud and Going Concern⁶ (IAASB's DP) also sought to obtain views on whether changes are needed with regard to going concern and other concepts of resilience. Based on our outreach in responding to the IAASB's DP, we received positive feedback for a requirement of a Resilience Statement. The UK has therefore an opportunity to influence global practice in this space.

All the items in paragraph 3.1.13 to be covered by the Resilience Statement are likely to be relevant to most companies as noted. However, they may not be material for all companies within scope and therefore we believe it would be preferable to state them as examples rather than mandate them come what may. In our view, the statement should only include material issues.

We suggest that the requirement to disclose material uncertainties and risks before mitigations needs to be considered further. There may be a useful distinction between mitigations that are already in place to address these risks and uncertainties (where the uncertainty might not then merit disclosure), and those where the mitigations are possible future actions that the business could put in place to prevent the identified and assessed risk from materialising (which should be disclosed). For material uncertainties excluded after significant judgement, we agree that the judgements need to be disclosed. If there have been mitigating actions already taken, then the uncertainties seem no longer relevant to corporate resilience.

Scenario analysis is very helpful in assessing resilience and the legislation or supporting guidance should include the expectation that relevant risks and plausible scenarios should be provided. In our view, a blanket requirement for a minimum of two seems inappropriate and may not produce the most useful reporting.

The medium-term horizon of two to five years may not correspond to the business planning cycle and may vary between businesses in different sectors, but it is in our view a reasonable period for investors and other users to expect management to report against.

We note that the legislation should be consistent in time frames. Dividend policy needs to be considered in the short and medium term under this proposal, but the specific directors' confirmation covers two years (paragraph 2.2.21).

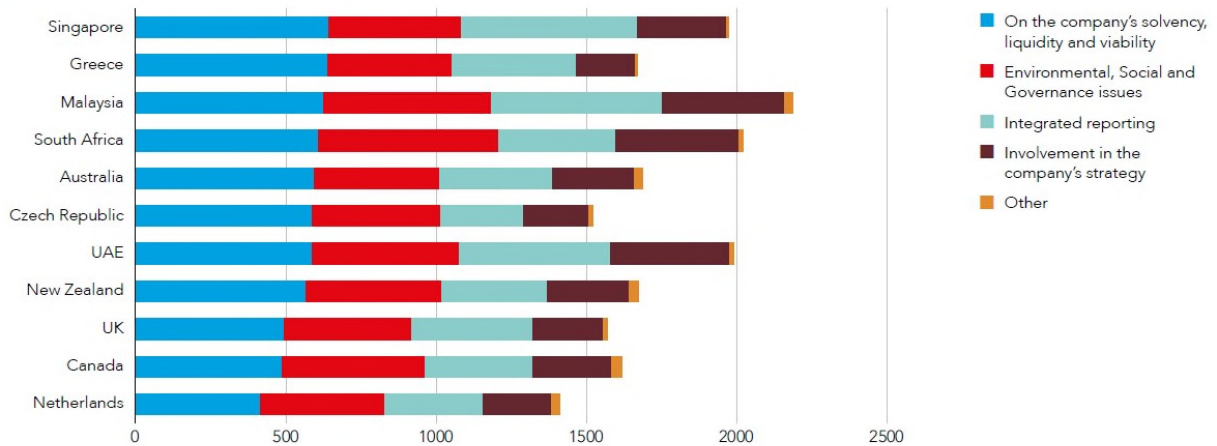
The matters and other issues that the business considers material should be addressed in both the short and medium- term sections.

⁶ <https://www.ifac.org/system/files/publications/files/IAASB-Discussion-Paper-Fraud-Going-Concern.pdf>

The legislation should include reference to opportunities that might arise as well as downside risks.

We also believe that assurance over the Resilience Statement will be responsive to the public’s expectations based on the findings of our research *Closing the expectation gap in audit*⁷, where among the options given, ‘solvency, viability and liquidity’ was the most frequently selected option globally and for all countries in scope of the survey conducted with the exception of the Netherlands.

FIGURE 3.9: In which of the following areas would you like to see auditors do more?



20. Should the Resilience Statement be a vehicle for TCFD reporting in whole or part?

In our view, the resilience statement should be a vehicle for TCFD reporting to the extent that climate change impacts might materially affect the viability of the business over the short, medium or long term. In that case, the Resilience Statement should include the TCFD reporting.

21. Do you agree with the proposed company coverage for the Resilience Statement, and the proposal to delay the introduction of the Statement in respect of non-premium listed PIEs for two years? Should recently-listed companies be out of scope?

We agree with the requirement to start with premium-listed PIEs and for this to be extended after two years to all other PIEs.

We do not support the government's proposal for recently-listed companies to retain the option of voluntary compliance. In our view, recently-listed companies should not be scoped out, as they would be expected to cover the matters in their prospectus as part of their pre-listing work and their continuing obligation would be based on that.

22. Do you agree with the proposed minimum content for the Audit and Assurance Policy? Should any other matters be addressed in the Policy by all companies in scope?

⁷ <https://www.accaglobal.com/in/en/professional-insights/global-profession/expectation-gap.html>

Before sharing our views on this question, we would like to share our views regarding the introduction of an Audit and Assurance Policy. Although this was part of the Brydon's review recommendations; it was not subject to public consultation at the time.

In our view the introduction of an Audit and Assurance Policy has real potential to meet the expectation of users by providing transparency over where assurance is being provided alongside the nature of that assurance. This has the potential to help narrow the expectation gap.

We agree with the minimum content set out in para 3.2.9, which includes disclosure of whether and how shareholder and employee views have been taken into account in developing the policy.

Please also see our response to Question 37.

23. Should the Audit and Assurance Policy be published annually and subject to an annual advisory shareholder vote, or should it be published and voted on at least once every three years?

We agree with the Government's proposal that the Audit and Assurance Policy (AAP) should cover a three-year period and be subject to an advisory shareholder vote, as per para 3.2.12. We support the proposal that this be published and voted upon at least once every three years, rather than annually, for two main reasons. Firstly, this time window might give companies more time to gather views of the shareholders and others of the new policy being published. Secondly, we have concerns about the effectiveness and usefulness of the alternative option, namely the annual advisory shareholder vote to the AAP.

The effectiveness of shareholder votes as a mechanism for corporate accountability will depend on the makeup of the shareholder population and their engagement with the annual general meeting. While we note the interaction with provision 4 of the UK Corporate Governance Code, it will be the case for many PIEs within the scope of this proposal that ownership is concentrated in institutional shareholders. Reaching the 20% threshold for material further action will depend upon engaging those institutional shareholders.

As a consequence, the effectiveness of a shareholder vote in materially improving audit quality may not necessarily align with its impact on the stakeholder perception of fidelity of the audit process. There is a risk that non-institutional shareholders may not have the knowledge to usefully assess whether the AAP is appropriate. At the same time, the risk arises that more sophisticated investors who have concerns about the adequacy of the company's AAP might consider themselves under a primary duty to their own investors/shareholders, ahead of their obligations to fellow investors in the target company, creating a pressure to disinvest rather than waiting until the AGM to signal concerns which might potentially reduce the value of their investment.

While the publication of the policy will be of clear value to all investors, the likely impact on quality (as opposed to perception of quality) remains to be proved. Consideration should be given to alternative mechanisms to hold management accountable for departures from the published policy. For example, in addition to the Government's proposals for the audit committee to consider communicating suggestions from shareholders as part of its role in the proposed AAP (para 7.3.5.), it should have an active role holding management accountable for any departures from the published policy.

24. Do you agree with the proposed scope of coverage and method for implementing the Audit and Assurance Policy?

Subject to the commentary above on the additional value which will be derived from these additional reporting burdens, we agree with the Government proposals as to scope of coverage, timetable for rollout and statutory basis for the obligation. Consistent with our views on other proposals in this consultation, we agree that the AAP would only be required initially for premium listed entities, and that other listed PIEs should have a further two years to prepare and publish their AAP. We also consider that it is appropriate that unlisted PIEs should aspire to the same standards of transparency for the elements of the public representing their non-shareholder stakeholders as listed entities.

25. In order to improve reporting on supplier payments, should larger companies be required to summarise their record on supplier payments over the previous 12 months as part of their annual Strategic Report (applying at a group level in the case of parent companies)? If so, what should the reporting summary include at a minimum? Do you have alternative suggestions on how to improve supplier payments reporting?

We support the proposal to require the annual report of PIEs to include a summary of supplier payment performance in the Strategic Report. We agree with the Government's proposals on the minimum content of the supplier payment summary, as set out in paragraph 3.3.5. Although these proposals are also part of the existing requirements under the Payment Practices Reporting Duty (PPRD) at the subsidiary level, we agree that this additional requirement in the annual reports would increase the transparency over how a company is performing with regard to supplier payments at the group level.

We also suggest including a statement on whether the business is a signatory, or not, to the Prompt Payment Code and we have responded to BEIS's recent consultation on Reform to the Prompt Payment Code⁸.

Finally, depending on the intended use of this report, shareholders might also seek additional assurance on the supplier payment reporting as part of their AAP, rather than it being included within the annual company audit's check as part of the process that the reporting was prepared in accordance with applicable legal requirements. Therefore, we suggest that it should be explicitly clarified that the supplier payment reporting requirement is subject to audit when this is part of the company's AAP.

26. To which companies should improvements in supplier payments reporting apply: companies which are PIEs and already report under the Payment Practices Reporting Duty, or PIEs with more than 500 employees?

Whilst we are in favour of the broadest possible transparency around payment practices, this must be balanced against the ease with which the reforms can be implemented, and the additional complexity introduced by any enhanced requirements. Restricting the obligation to those businesses which already publish non-financial information in their strategic report would best meet the balance of aims in the short term.

27. Do you agree with the Government's proposal not to introduce a new statutory requirement at this time for directors to publish an annual public interest statement?

⁸ <https://www.accaglobal.com/sg/en/technical-activities/technical-resources-search/2020/october/reform-prompt-payment-code.html>

We agree with the proposal. Greater clarity is needed over the possible content of a public interest statement and how that would be integrated with other existing reporting requirements. More generally, we recommend that this and any other additional reporting requirements are aligned to the outcome of the FRC's recent work on the Future of Corporate Reporting.

28. Do you have any comments on the Government's proposals for strengthening the regulator's corporate reporting review function set out in this chapter?

We broadly agree with the proposals to strengthen the corporate reporting review (CRR) function and have a number of detailed comments.

In relation to the power of ARGA to direct changes to company reports, we consider that an appeal process should be included in the legislation rather than rely on judicial review to correct mistakes. It is not clear whether this power to direct changes would only be available when an expert review has recommended them – this should be open to ARGA more generally.

We agree that greater transparency of the findings of corporate reporting reviews would be helpful. A summary of findings would help ensure this and provide useful guidance to other companies as to acceptable reporting practices. We note, and support, the caution in publishing full correspondence. This may be necessary in the most extreme cases but in general would slow down the process of publishing results, and also make companies' engagement with the regulator more circumspect, cautious and less open.

It is important that the whole of the annual report can be considered in the review process.

We are not sure that pre-clearance would be the right course for ARGA to take, so while welcoming the caution expressed note that the powers to do so would nevertheless be provided. The resources required may be significant and the process may undermine the primary responsibility of the directors of the company to present accounts that are true and fair.

We agree with the proposals that the CRR activity should be primarily directed to PIEs while leaving the possibility to look at others, for example in response to significant complaints to safeguard the public interest.

29. Are there any other arrangements the Government should consider to ensure that overlapping powers are managed effectively?

We are supportive of the Government's proposals to provide the regulator with the necessary powers to investigate and sanction breaches of corporate reporting and audit-related responsibilities by PIE directors. As the Consultation Document highlights, this will add a further complexity to the existing arrangements for the oversight of director conduct, and hence the effectiveness of the collaboration across the various agencies will be pivotal to establishing arrangements that work well in practice. A published Memorandum of Understanding between the regulator and the FCA will assist with transparency and hence support stakeholder understanding around respective roles, and planned co-operation when overlaps occur. The Government might also consider placing a duty upon the two regulators to report periodically to Parliament, as part of broader reporting arrangements, on the quality and effectiveness of their joint working.

30. Are there any additional duties that you think should be in scope of the regulator's enforcement powers?

Having noted the intention for the duties to be placed upon Directors to be extended where appropriate to cover new duties proposed elsewhere in the consultation (duties with regard to reporting on the effectiveness of internal controls and risk management being an obvious example), we do not propose any additional duties to be added beyond those already set out within the Consultation Document.

31. Are there any existing or proposed directors' duties relating to corporate reporting and audit that you think should be specifically included or excluded from further elaboration for the purposes of the directors' enforcement regime?

We support the proposal to provide the regulator with the power to develop and publish more detailed requirements where necessary so that those to be held to account for their conduct have a full understanding of the duties that they are required to discharge. This is a fundamental component of effective and fair regulation. It is right to highlight the duty to keep adequate accounting records as an obvious candidate for more detailed requirements. We do not propose the explicit inclusion or exclusion of any of the other duties and consider that the development of such more detailed requirements should be at the discretion of the regulator, having regard to the views of those directors falling under the new enforcement regime.

32. Should directors of public interest entities be required to meet certain behavioural standards when carrying out their statutory duties relating to corporate reporting and audits? Should those standards be set by the regulator? What standards should directors have to meet in this context?

Directors of companies that are also members of professional accounting organisations are already bound to observe the ethical requirements of that body. The International Ethics Standards Board for Accountants (IESBA) sets a global ethics standard for professional accountants which forms the basis for the codes in place at the different professional accounting organisations based in the UK. The International [Code](#) sets out a conceptual framework and fundamental principles of Integrity, Objectivity, Professional Competence and Due Care, Confidentiality and Professional Behaviour that professional accountants must observe. We have also discussed this as part of our response on the proposal to give the regulator the power to set and enforce a code of ethics to apply to members of professional bodies in Question 79 below.

Each professional accounting organisation based in the UK has well-established monitoring and enforcement arrangements in place to deal with breaches of their Code of Ethics – ACCA's Code of Ethics and Conduct (and those of other chartered bodies) is aligned to the IESBA Code of Ethics. We would suggest that, in considering whether it would be appropriate to introduce behavioural standards for directors of public interest entities, the Government should consider the model adopted both nationally and internationally by the accountancy profession as a potential starting point. As a result, the same behavioural standards will be applicable for directors of PIEs irrespective of whether they are members of professional accounting organisations or not.

We note that the Government should also be mindful of the current indemnification insurance notification requirements alongside any additional directors' duty where directors seek indemnification.

33. Should the Government's proposed enforcement powers be made available to the regulator in respect of breaches of directors' duties?

Yes, we agree with the Government's proposal.

34. Are there other conditions that should be considered for the proposed minimum list of malus and clawback conditions? What legal and other considerations need to be taken into account to ensure that these conditions can be enforced in practice?

We believe that the proposed minimum list of malus and clawback conditions set out in the Consultation Document is appropriate. The consultation is right to highlight the risks of either being too narrow or too broad in an approach. The minimum list as per para 5.2.5 appears to strike an appropriate balance. We have no comment on additional legal considerations to be taken into account.

35. Do you agree that a new statutory requirement on auditors to consider wider information, amplified by detailed standards set out and enforced by the regulator, would help deliver the Government's aims to see audit become more trusted, more informative and hence more valuable to the UK?

Based upon the information provided in the consultation, it is unclear how this new statutory requirement will help deliver the Government's aims to see audit become more trusted, more informative, and hence more valuable to the UK. We need more information of what this incremental requirement entails exactly and how that is rooted in learnings from past audit failures. As per para 6.1.10, this new requirement will not require the additional information to be audited, but the auditor would be expected to shape their work on the financial statements according to this broader understanding of the company's position and strategy. We are concerned about how broad this requirement is, as this is likely to lead to confusion as to when compliance is achieved. This could also be challenged by the regulator depending on its own interpretation of the requirement. This is also very likely to lead to inconsistent application across companies.

We suggest that the Government follows closely the development of the IAASB's active projects in place, looking at the areas of going concern and fraud, ensuring it contributes to IAASB's thinking as the board progress with these projects.

36. In addition to any new statutory requirement on auditors to consider wider information, should a new purpose of audit be adopted by the regulator, or otherwise? How would you expect this to work?

We are supportive of a new purpose of audit to be adopted, but we do not support this to be via a binding statement, as this would create another layer of legal implications and possible issues with its interpretation. In line with the Government's suggestion, we do not expect that a new purpose for audit could deliver any change of itself, but we do agree that a non-binding audit purpose statement might clarify responsibilities and influence auditor conduct (para 6.1.15).) We expect that this statement would direct ARGAs when reviewing auditing standards to incorporate that ambition across the relevant parts of its work, consistent with its statutory objectives.

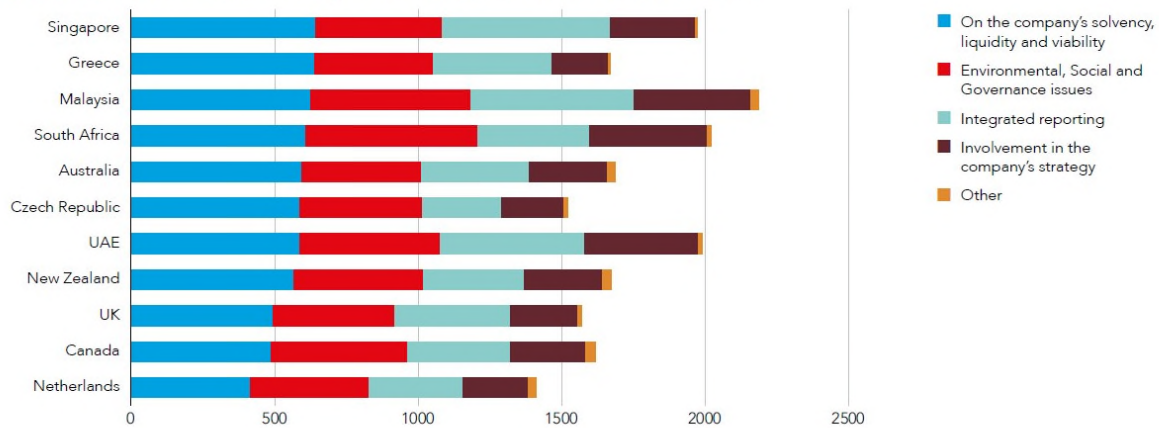
We are also mindful that the usefulness of a statement of a new purpose of audit could follow only after the substantive reforms on the audit profession have been clearly defined and agreed. The statement could help increase clarity, informativeness and narrow any expectation gap that these reforms might create.

37. Do you agree with the Government's approach of defining the wider auditing services which are subject to some oversight by the regulator via the Audit and Assurance Policy?

Overall, we are supportive of the Government’s approach of defining wider audit and wider auditing services. We agree with the proposed expansion of audit, and this is in line with the ACCA’s research findings *Closing the expectation gap in audit*⁹ highlighting an increased demand for an audit evolution beyond the financial statements audit, as expressed by the public. For example, ESG issues are an important area identified both by the public as part of our research findings (figure 3.9 below) and the BEIS new proposed model of audit (Figure 1, p.97). We also agree with the proposal that the company directors, taking into account the key stakeholders views, would decide what other information would be audited, as set out in their published AAP.

Although the Consultation Document explicitly mentions that they do not expect smaller companies to commission a wider audit (para 6.2.7), we note that some smaller companies may choose to provide additional reporting beyond the financial statements for multiple reasons. For example, to attract clientele, talent or gain better access to finance and hence wider audit may also become relevant.

FIGURE 3.9: In which of the following areas would you like to see auditors do more?



38. Should the regulator’s quality inspection regime for PIE audits be extended to corporate auditing? If not, how else should compliance with rules for wider audit services be assessed?

In time, it may be appropriate for the regulator’s quality inspection regime for PIE auditors to be extended to corporate auditing to provide broader assurance over the quality of this work. It will be important, over time, to design a system of regulation and oversight to enforce standards, but this can only be designed and put in place when the standards themselves are established. Establishment of an appropriate reporting framework supported by standards should therefore be the first priority, and progress to this objective is currently being made globally through the proposed creation of the International Sustainability Standards Board Quality inspection of related assurance work is a very long-term prospect. ARGAs would also need to make sure that it possessed the necessary specialist expertise within its staff to carry out this work credibly and effectively.

⁹ <https://www.accaglobal.com/in/en/professional-insights/global-profession/expectation-gap.html>

39. What role should ARGA have in regulating these wider auditing services? Should its role extend beyond setting, supervising and enforcing standards?

Please see our response in Question 38 above.

40. Would establishing new, enforceable principles of corporate auditing help to improve audit quality and achieve the Government's aims for audit? Do you agree that the principles suggested by the Brydon Review would be a good basis for the regulator to start from?

We are supportive of the Government's suggestion to establish overarching requirements on auditors towards a stronger ethos of scepticism, challenge and informativeness. We note Brydon's view that current principles are undermined by the proliferation of underlying rules which in turn 'has blunted scepticism and use of judgement'¹⁰ The principles set out by Brydon can be mapped across to IESBA's fundamental principles of integrity, objective, professional competence and due care, confidentiality, and professional behaviour that all professional accountants, including statutory auditors are currently required to comply with. Elevating the existing ethical compliance requirements with these principles, could guide auditors' behaviour and actions and reiterate the importance of exercising judgement and scepticism. This also provides the UK with an opportunity to lead global policy in this space.

However, we are mindful of the practical implications that the enforcement of these principles will have, if a new legal framework to empower the regulator to set and enforce new principles of corporate auditing applies to both statutory and corporate auditors as noted in para 6.3.5. Binding both statutory and corporate auditors under these principles might create confusion as to how these will work in practice, unless this is very clearly set out.

We are also mindful of the implications that a potential legal enforcement of these principles will have at the international level. The consultation suggests that "those principles would apply to both statutory auditors and those providing wider auditing services". For example, we have concerns about how the compliance with these principles will interact with the revised definition of "engagement team", which now includes component auditors in both ISA 220 (Revised) and ISA (UK) 220 (Revised), particularly in the case of Group Audits with component auditors involved from other jurisdictions. Such principles will not be enforceable outside the UK, and therefore this is likely to cause practical issues.

The second principle suggests that the auditor shall exercise professional judgement and professional scepticism or suspicion throughout their work. We agree with the principle suggesting that the auditor shall exercise professional judgement and professional scepticism. However, we have concerns with the principle suggesting that auditors should exercise suspicion throughout their work. A "suspicious mindset" is a new concept which auditors are not familiar with, and which is not a defined term. The IAASB also sought to obtain views on whether requiring a 'suspicious mindset' would contribute to enhanced fraud identification when planning and performing the audit in its Discussion Paper on Fraud and Going Concern¹¹ (IAASB's DP). Based on the feedback we received

¹⁰

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/852960/brydon-review-final-report.pdf

¹¹ <https://www.ifac.org/system/files/publications/files/IAASB-Discussion-Paper-Fraud-Going-Concern.pdf>

during our outreach in response to the IAASB's DP, we do not support the introduction of a 'suspicious mindset'.

We suggest instead that the focus should be in narrowing any performance gap that exists in exercising professional scepticism rather than introducing new concepts. In addition, we believe that it would be beneficial for audit firms to consider embedding forensic accounting and fraud awareness throughout the training of their audit staff which in turn, will result in having future professionals better equipped to detect and report actual or suspected fraud due to their enhanced set of skills and mind set. Firms should also continue to monitor the performance of their staff regarding professional scepticism and find ways to mitigate any gaps.

41. Do you agree that new principles for all corporate auditors should be set by the regulator and that other applicable standards or requirements should be subject to those principles? What alternatives, mitigations or downsides should the Government consider?

While we agree with the establishment of overarching requirements in the form of principles as noted in our response to Question 40, we have significant concerns about the Government's suggestion to give a form of priority to the proposed legal framework for principles over the existing requirements in terms of enforcement. The consultation explicitly mentions that an auditor who has met the letter of auditing standards but has not done so in a way that is compatible with the principles would be subject to sanction, while the opposite could -exceptionally- be subject to justification.

We do not support this superiority of the principles to the standards.

Negative implications could be further accelerated in the case of group audits as mentioned in Question 40 above. Furthermore, questions about how the regulator could enforce and exercise these powers of compliance to the audit principles outside the UK territories arise.

42. Do you agree with the Government's proposed response to the package of reforms relating to fraud recommended by the Brydon Review? Please explain why.

We agree with the view that fraud and the auditor's responsibilities is the most complex and misunderstood of all topics that the Brydon Review has covered. This is in line with the findings in ACCA's thought leadership report *Closing the expectation gap in audit*¹² which found that fraud is the area with most misaligned views between the general public and the audit profession.

We support the government's proposal to legislate to require the directors of PIEs to report on the steps they have taken to prevent and detect material fraud. We believe such a requirement will help narrow the knowledge gap regarding the responsibilities of directors in preventing and detecting material fraud in the context of a financial statement audit. We also agree with the government that this will reinforce the director's primary responsibility for fraud prevention and detection. It also has the potential to enhance the focus on the risks relating to fraudulent financial reporting.

We also agree with the proposal to legislate to require auditors of PIEs, as part of their statutory audit, to report on the work they performed to conclude whether the proposed directors' statement regarding actions taken to prevent and detect material fraud is factually accurate. However, we suggest that the government is mindful of the risks

¹² <https://www.accaglobal.com/in/en/professional-insights/global-profession/expectation-gap.html>

associated with the additional reporting requirement, avoiding a new expectation gap being introduced. There is a great risk that the perception is that the auditor is providing a conclusion on fraud rather than reporting on the director's statement on fraud.

This also raises questions regarding the auditor's liability and a potential increase in professional indemnity insurance costs. This in its turn could negatively impact the government's attempts to improve competition within the audit profession. Furthermore, we note that whether auditors of PIEs will indeed be able to conclude on whether the director's statement is factually correct at an absolute level, would greatly depend on the details included in any subsequent legal requirement placed on the directors.

43. Will the proposed duty to consider wider information be sufficient to encourage the more detailed consideration of i) risks and ii) director conduct, as set out in the section 172 statement? Please explain your answer.

Please see response to Question 35.

44. Do you agree that auditors' judgements regarding the appropriateness of any departure from the financial reporting framework proposed by the directors should be informed by the proposed Principles of Corporate Auditing? What impact might this have on how both directors and auditors assess whether financial statements give a true and fair view?

The consultation refers to cases where there is a departure from the applicable financial reporting framework (IFRS or UK GAAP) when additional disclosures are required in order to achieve a fair presentation, namely the "true and fair override" (para 6.6.6). We support the Government's proposal for the auditor's judgment to also apply within the context of the proposed new Principles of Corporate Auditing in judging the appropriateness of the use of "true and fair override", whether exercised from the auditor or proposed use by the directors. Nevertheless, we are mindful of the implications of the concerns raised, as explained in question 40 above. The government suggests that currently, the "true and fair override" is invoked only in exceptional circumstances, however, as the enforcement of the proposed Principles would require that the auditor adopts a broader approach when exercising professional judgement in assessing the true and fair view of the FS, this is indeed likely to serve as a safety valve. Subject to addressing the concerns outlined above in question 40, this could reduce the risk of "any systematic issues" (para 6.6.9) arising from the auditor's assessment of whether financial statements give a true and fair view, while being informed by the proposed Principles of Corporate Auditing.

45. Do you agree that the need for specific assurance on APMs or KPIs, beyond the scope of the statutory audit, should be decided by companies and shareholders through the Audit and Assurance Policy process?

We agree and consider that the Audit and Assurance Policy process will most appropriately facilitate any request for assurance of APMs and KPIs beyond the scope of statutory audit. Such an approach will enable a holistic view of audit and assurance across all of the organisation's activities and reporting. It is also important for companies and shareholders to consider the desired level of assurance, whether limited or reasonable during this process. It will also allow ARGAs to monitor how requests for additional assurance are evolving, and therefore mitigate the risk of evolution expectation gaps¹³ arising in the future.

¹³ <https://www.accaglobal.com/in/en/professional-insights/global-profession/expectation-gap.html>

However, we anticipate such requests are likely to be infrequent given the reporting developments. As recognised by the Consultation Document there are already existing reporting requirements i.e., Director's Remuneration Report associated metrics and the possible additional reporting requirements depending on the direction of the IASB's project on Management Performance Measures notes as part of the statutory audit.

We recognise that additional measures may be required to meet the qualitative characteristics of good corporate reporting¹⁴ and to meet the needs of a wider group of stakeholders.

It is right to allow investors to be able to request assurance of APMs and KPIs not covered by the statutory reporting and audit process. We suggest that the frequency of such requests is continuously monitored so that statutory reporting requirements can be amended accordingly and consider whether it would be more appropriate to be covered as part of the statutory audit.

Finally, remuneration is likely to be based on several integrated performance measures that cut across financial and non-financial matters, therefore calling for integrated thinking, reporting and assurance. The most effective approach, including reliable use of specialist expertise, is likely to be best achieved via the auditor drawing on the use of other experts in accordance with ISA 620, using the work of an auditor's expert¹⁵ (Para 6.7.8). Therefore, in most instances we consider the auditor is best placed to carry out this work.

46. Why have companies generally not agreed LLAs with their statutory auditor? Have directors been concerned about being judged to be in breach of their duties by recommending an LLA? Or have other factors been more significant considerations for directors?

We agree with the Brydon review which found that the 'view is that boards feel they would be in breach of their fiduciary duties by recommending to shareholders that they agree to any limitation of liability for the auditor'. We are also in support of the recommendation put forward by Sir Donald Brydon to overcome this, i.e. for s534 CA06 to be explicit that a board that recommends, in good faith, the application of an LLA to its auditors is not in breach of its responsibilities. However, it still seems that there is no clear incentive for shareholders to enter into LLAs even if that is recommended by the directors.

Furthermore, we find that since the terms of LLAs should be determined by courts as fair and reasonable in all circumstances of the case¹⁶ and the fact that the Act does not specify the test to be applied to determine what is fair and reasonable is another factor making LLAs rarely used in practice.

47. Are auditors' concerns about their exposure to litigation likely to constrain audit innovation, such as more informative auditor reporting, the level of competition in the audit market (including new entrants) or auditors' willingness to embrace other proposals discussed in this consultation? If so, in what way and how might such obstacles be overcome?

¹⁴ <https://www.accaglobal.com/gb/en/professional-insights/global-profession/Tenets-of-good-corporate-reporting.html>

¹⁵ <https://www.ifac.org/system/files/downloads/a035-2010-iaasb-handbook-isa-620.pdf>

¹⁶ <https://www.frc.org.uk/getattachment/ec02c8ea-4c14-4349-9333-d655a5dd52f7/FRC-ALLA->

Yes, in our view auditors' concerns about their exposure to litigation is likely to constrain audit innovation. The main obstacle relates to the joint and several liability regime, which is currently applicable in UK. As a result, audit firms have significant exposure to liability creating a need for protection via professional indemnity insurance cover (PII). Larger firms have formed captive insurance companies to be able to cover themselves due to the increase in coverage cost throughout the years and as audit has continuously evolved. Mid-tier firms have a mixture of captive and commercial arrangement in place.

Although the UK has introduced the Limited Liability Agreements (LLA), as noted in Q46, their use is very limited. A proportionate liability regime would be a preferable reform for auditor liability. This is because in a proportionate liability regime the loss from wrongdoing is apportioned amongst all parties i.e., the auditor and the directors in this case, as opposed to recovering the loss only from auditors (who normally have better financial position) in the case of a joint and several liability. This, in its turn, will allow a reduction in professional indemnity insurance coverage and enable auditors to overcome this constraint in audit innovation. We note that Australia (common law country) has already move to a proportionate liability regime since 2004 following some corporate collapses at the time. The UK could consider learning from Australia's experience.¹⁷

48. Do you agree that a new, distinct professional body for corporate auditors would help drive better audit? Please explain the reasons for your view

Whilst ACCA and our members believe that recognition of audit as a separate profession would provide an enhanced status to the role and its increasingly diverse nature, we do not consider that the case has been made to separate auditing as a profession from its existing roots in the accountancy profession. Likewise, therefore, ACCA does not believe that a sufficient case has been made for a new, distinct professional body for corporate auditors. Indeed, the Consultation Document does not provide sufficient information to describe how or where it is envisioned this new professional body might be positioned alongside the existing professional bodies, for example, after admission to membership of an existing professional body, at the point of becoming a Responsible Individual or as a new entrant to the profession. Further clarification of this would be required to undertake a meaningful evaluation of the proposal particularly to ensure that there are no unintended consequences.

Notwithstanding the lack of detail provided, ACCA believes that it is possible to achieve the Government's policy objectives in this area utilising existing structures and would highlight the strength of the ACCA qualification model which ensures that all ACCA members who hold the Recognised Professional Qualification (UK audit qualification) have undertaken a specialised route including specific exam and experience requirements to achieve this. This model could be used to ensure that all "corporate auditors" hold a separate, specialised qualification which encompasses all the education and training elements considered necessary for corporate auditors. Further information on the ACCA model is provided later in this response.

The UK's current regulatory structure is one of the most advanced regulatory structures for audit regulation in the world and there is no evidence to suggest that the role of the Recognised Supervisory Bodies (RSBs) and the Recognised Qualifying Bodies (RQBs) for Statutory Auditors has been at the root of any of the UK audit sector failings. The

¹⁷ <https://www.pwc.com/au/legal/assets/investing-in-infrastructure/iif-42-proportionate-liability-feb16-3.pdf>

proposed new structure for statutory auditors would be similar to the regulatory structures in South Africa and Germany and yet there is no evidence to suggest that this regulatory structure is superior in detecting fraud, as indicated by the corporate and audit failure scandals in both countries.

The Consultation Document explicitly notes that the willingness and ability of the existing professional bodies to support the Government's proposals has not been tested (this is one of the recommendations from the Brydon review that has not previously been consulted upon). ACCA is willing and committed to work to meet the Government's policy objectives and to do so in partnership with other professional bodies where this is the most appropriate approach. We suggest that the "organic development approach" should be explored with the existing professional bodies recognised for audit and the professional bodies whose members would fall within the proposed scope of the new corporate auditing profession. This approach would enable further exploration and understanding of the Government's core proposals.

Our detailed comments are divided into the following three main headings:

- Impact on public interest;
- Strengths of the existing Audit Qualification; and
- Current provision of continuing personal development.

Impact on Public Interest

ACCA does not believe it is in the public interest to fund a change to the current regulatory structure for the training and supervision of statutory auditors by creating a new, distinct professional body for corporate auditors, for a number of reasons.

It is not in the public interest to publicly fund a specialised professional body, either through the UK Government or the new profession, when the demand for corporate auditor services has not been tested. Whilst there is likely to be a wider demand for accountants and auditors in this space, ACCA does not believe that a new, distinct professional body is required to facilitate this.

The recommendations within the consultation propose changes to every element of the regulatory structure and impact all stakeholders.

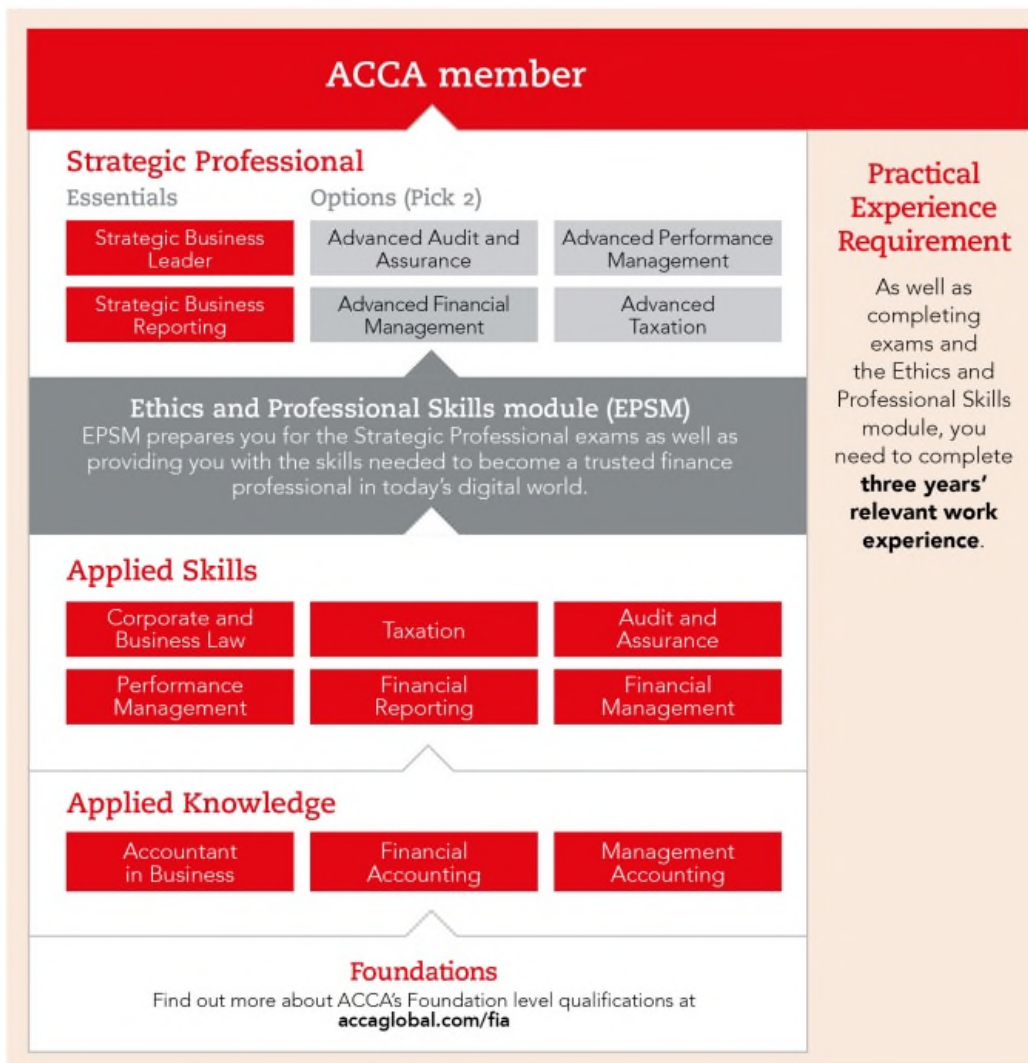
ACCA believes it is not in the public interest to duplicate the existing professional body resources and expertise required to create and deliver learning, assessment, training, supervision and monitoring. ACCA, as an RQB and RSB, invests significant resources to provide a consistent, robust master's level accountancy and audit qualification that ensures opportunity and flexibility for professional accountants when choosing areas to specialise in. ACCA also supports access to the accountancy profession through a range of entry routes, offering foundation-level qualifications for school leavers and recognition of prior learning for relevant degrees. ACCA's staff engagement with global and national accountancy groups and forums, and its Professional Insights department's research, ensure the latest research findings feed into the continual development of its membership qualification and its members' continuing professional development (CPD) products.

ACCA also invests significantly in its oversight and governance, including the Regulatory Board and sub-boards, which support ACCA in discharging its public oversight responsibilities. Further details are provided in our response to question 76. In order to promote public assurance in ACCA's master's level membership qualification and ensure the value of the membership qualification can be realised, ACCA is externally regulated in the education sector through credit rating of the ACCA Qualification on the UK

qualifications framework – the Scottish Credit and Qualifications Framework. These are all significant resources, expertise and activities to consider for duplication in the creation and running of a new specialised professional body.

Strengths of the Existing Audit Qualification

ACCA’s existing qualification structure and options already allow for specialisations. The ACCA Qualification is a membership qualification to become a ‘Chartered Certified Accountant’ and the qualification comprises exams, ethics and practical experience. Within the exams, there are optional exams at the final level to support specialisations. The ACCA qualification structure is set out below and shows the 4 optional Masters Level papers including Advanced Audit & Assurance that form part of the Strategic Professional level alongside the two mandatory exams.



To obtain ACCA’s Recognised Professional Qualification (UK audit qualification), ACCA audit trainees must complete the ACCA Qualification, including completing UK versions of ACCA’s ‘Taxation’ and English ‘Corporate and Business Law’ examinations, and ACCA’s masters level examinations in ‘Strategic Business Reporting (SBR)’ which incorporates UK company law as applied to financial reporting, as well as the optional exam of ‘Advanced Audit and Assurance (AAA)’ based on the UK ISAs, ethical standards

and company law including aspects of insolvency legislation. In addition, ACCA members are required to have completed a minimum of three years of practical training in a public practice with an ACCA Approved Employer – ‘practising certificate development (audit) stream’, achieve the practical experience performance objectives and complete the Practising Certificate (PC) competencies in audit. These audit competencies set a higher bar for ACCA members wishing to gain the audit qualification and the PC.

ACCA strongly believes that audit competencies are a specialisation within the competency framework of accountancy, and it is important to recognise the strength of the existing infrastructure for training accountants and the importance of audit remaining a specialisation in the context of accountancy training. In designing the structure and content of the ACCA Qualification, the regular annual reviews and periodic large-scale reviews ensure that the ACCA Qualification contains the technical knowledge and professional skills to remain relevant to the markets that students/members work in and meet the needs of employers and regulators.

This review is also informed by ACCA’s Professional Insights department and its thought leadership research. For example, some of our recent research activities include:

- Closing the expectation gap in audit¹⁸
- Audit and Technology¹⁹
- Insights into integrated reporting 4.0: The story so far²⁰
- Ethics and trust in a digital age²¹
- Invisible threads: communicating integrated thinking²²
- Professional accountants changing business for the planet²³
- Mainstreaming impact: Scaling a sustainable recovery²⁴
- Climate Change Risk-related disclosures in Extractive Industries²⁵

This approach ensures that the ACCA Qualification incorporates the latest in technical and professional capabilities required by accountants in work and reflects the latest in professional education practice. For instance, the above-mentioned sustainability and integrated reporting research papers raise awareness and provide tools to better employ integrated thinking to identify, manage and report on the interconnections and interdependencies of these matters to business and financial matters. The thought leadership research *Closing the Expectation Gap in audit*, provided us with insights regarding the public’s expectations for the audit profession and areas where evolution should be targeted. Currently we are working on a follow up research report focusing on the audit expectation gap for fraud and going concern, scheduled to be launched later in

¹⁸ <https://www.accaglobal.com/in/en/professional-insights/global-profession/expectation-gap.html>

¹⁹ <https://www.accaglobal.com/uk/en/professional-insights/technology/audit-and-tech.html>

²⁰ <https://www.accaglobal.com/uk/en/professional-insights/global-profession/Integrated-reporting-4.html>

²¹ <https://www.accaglobal.com/gb/en/technical-activities/technical-resources-search/2017/august/ethics-and-trust-in-a-digital-age.html>

²² <https://www.accaglobal.com/gb/en/professional-insights/global-profession/Invisible-threads-communicating-integrated-think.html>

²³ https://www.accaglobal.com/an/en/professional-insights/global-profession/Professional_accountants_changing_business_planet.html

²⁴ https://www.accaglobal.com/gb/en/professional-insights/pro-accountants-the-future/mainstreaming_impact.html

²⁵ <https://www.accaglobal.com/gb/en/professional-insights/global-profession/climate-change-risk-related-disclosure-extractive-industries.html>

2021 bringing insights that further aid the development of the auditor's behaviour and skills to provide audit, assurance and advisory services.

ACCA's external examiner reports back on the standard of the ACCA examinations against the UK qualifications framework levels after each examination session and regularly commends "the use of relevant scenarios, using a range of industry sectors and not-for-profit organisations, focusing on application relevant to different workplaces".

The current model combining accountancy and audit ensures that trainee accountants and auditors develop a strong technical foundation across a wide range of areas including commercial awareness and business strategy as well as financial reporting, tax, financial management and audit. This technical breadth is combined with the development of a range of professional skills and behaviours and ensures that trainee accountants and auditors have a well-rounded understanding of accounting, auditing and business-related issues rather than looking at issues through a single lens. ACCA consider this broad foundation to be an imperative part of an auditor's training as it is only with a solid understanding of business models, control systems and the recording and reporting of financial transactions that an auditor can build the necessary skills to apply professional scepticism and judgement. Further, the accountancy and corporate reporting skills which are acquired during an accountancy qualification are imperative to ensuring the auditor has the right level of understanding of IFRS Standards and UK GAAP with which to effectively audit financial statements. We believe that the separation of audit from the remaining core skills offered by a professional accountancy qualification would make it harder for auditors to acquire the necessary business understanding and corporate reporting knowledge critical to performing their role.

In ACCA's SBR and AAA exams, there is an existing emphasis on audit trainees to remain up-to-date and reflect on the pertinent issues which affect the profession which they are joining, including the impact of market reform.²⁶ We believe that the current approach to the qualification combined with member support drives the integrated thinking that policy makers and the public are demanding to reduce the expectation gap.

Statutory auditors should be given as much training and support as possible to detect fraud. This is a lifelong learning journey. The ACCA Qualification, and in particular the AAA exam, incorporates practical examples of how fraud can occur and focuses on testing candidates' ability to identify indicators of fraud and also their understanding of how an entity's system of internal control and governance structures can contribute to fraud occurring. This is an area where ACCA is committed to ensuring that coverage is fit for purpose to impart the necessary skills in trainee auditors and is an area which can and will be extended to ensure that the coverage and focus can continue to meet the future requirements of the audit profession.

ACCA continually reviews its qualification to remain relevant and meet the needs of the profession and the public. One example of this is through ensuring that the professional skills required of an auditor are fully embedded into the qualification.²⁷ This incorporates

²⁶ Each exam syllabus has a section dedicated to current and emerging issues, such as the use of data analytics, the wider impact of technology, such as accounting for cryptocurrency, as well as critical issues such as sustainability including integrated reporting and the audit of environmental reports. In the AAA syllabus these current and emerging issues are often framed within the context of how they impact audit quality, a key consideration for the profession and any trainee looking to become a leader in the profession going forward.

²⁷ From September 2022, the AAA exam will include specific marks for the demonstration of key professional skills including professional scepticism and judgement and analysis and evaluation. This will allow for further

the professional skills which are already embedded in our Strategic Business Leader case study, extended to deliver an appropriate audit focus. Other aspects of the ACCA Qualification also focus on the professional skills required of an auditor, with a specific section of the compulsory module in Ethics and Professional Skills having an emphasis on scepticism. Professional skills are additionally tested in the exams and experience elements.

Current Provision and Monitoring of Continuing Personal Development (CPD)

It is important for statutory auditors to have access to the same wide range and variety of CPD products that are made available to accountants in order to perform their role effectively. The RSBs have the expertise to extend this range to include CPD products envisaged for corporate auditors.

The Consultation Document suggests (6.9.12) that a potential difficulty in the organic development is that the existing accountancy professional bodies would be required to provide subject matter CPD outside of matters linked to the financial statements. This betrays a lack of knowledge of current CPD offerings, which go far beyond matters directly linked to financial statements. ACCA does not believe that this is a barrier to the organic development approach. The accountancy professional bodies do not mandate that their members complete the CPD activities offered by their body. They do, however, provide access to a range of CPD and require members to complete relevant CPD.

It is important to highlight that ACCA already provides access to a wide range of over 3,000 plus CPD resources across several diverse areas including Audit & Assurance, Corporate Reporting, Tax, Sustainability, Business Management & Transformation, Digital & Technology, Strategy & Innovation, Leadership & Management, and Work & Wellbeing. ACCA CPD resources are developed based on the demand from members, regulatory requirements and professional research activities regarding future trends and developments. ACCA develops CPD resources either solely or in partnership with specialist organisations in other areas to ensure that our members have access to the best available resources to continue to develop and maintain their technical expertise and professional skills. If it is proposed that the new body of corporate auditors would provide CPD related to all the areas covered by the proposed corporate auditors, this would require access to a significant pool of CPD resources and would potentially be a duplication of resources as well as being expensive to create and maintain.

Assuming that the existing RQB/RSB structure is deemed fit for purpose (as demonstrated by FRC inspections), rather than creating a qualifying body, the focus of activity may be better directed to supporting the offering of *additional* CPD in the market to ensure specialist areas are covered such that needs are addressed. Such training may also help those with specialist training in financial statement audit, for example, to transition to other areas of specialism such as valuations, carbon statements and so forth. CPD is a lifelong commitment for all professional accountants and the professional bodies tailor the offerings to support individuals at all stages in their career – both within and outside audit. This is a significant area of investment and activity, and a new professional body would need to invest significantly to mirror current offerings. We would encourage that the focus is on further enhancing the breadth of existing CPD already offered by the RSBs.

emphasis on the need for trainee auditors to challenge information and apply appropriate analysis and evaluation skills to reach a conclusion and to demonstrate that they have considered the validity of information on which they are placing reliance

It is also important to emphasise that the existing professional bodies devote significant resources to monitoring the sufficiency and relevance of the CPD undertaken by their members. If a new professional body were set up for corporate auditors, it would require similar systems, processes, and resources to be available to undertake CPD monitoring activities which would be a significant duplication of the resources and activities of the existing bodies.

49. What would be the best way of establishing a new professional body for corporate auditors that helps deliver the Government’s objectives for audit? What transitional arrangements would be needed for the new professional body to be successful?

Based on the comments raised in ACCA’s answer to Q48, ACCA does not believe that the case has been made to establish a new professional body for Corporate Auditors and we do not believe it is in the public interest to implement this recommendation.

As noted above, ACCA is willing and committed to working with the Government to meet its policy objectives and to do so in partnership with other professional bodies where this is the most appropriate approach. We would welcome discussions that would explore the most appropriate approach to this issue.

The RSBs and RQB’s currently meet one set of standards and are monitored closely against these standards and reported on publicly. In order to meet the training and supervisory needs of the new vision of Corporate Auditors it would be straightforward to update these standards and for the RSBs and RQB’s who wish to be part of this new vision, to submit a plan to demonstrate how they would resource and implement this vision. The programme of regulation to ensure the standards are being met and maintained by the RSBs and RQB’s would add the required layer of monitoring to ensure the robustness of any “Corporate Auditor programme” and the transparency of the model.

50. Should corporate auditors be required to be members of, and to obtain qualifications from, professional bodies that are focused only on auditing?

No, for the reasons set out below.

Breadth of accounting, finance and business skills, and focus on ethics

ACCA believes that the current model combining accountancy and audit ensures that trainee accountants and auditors develop a strong technical foundation across a wide range of areas including commercial awareness and business strategy as well as financial reporting, tax, financial management and audit. This technical breadth is combined with the development of a range of professional skills and behaviours and ensures that trainee accountants and auditors have a well-rounded understanding of accounting, auditing and business-related issues rather than looking at issues through a single lens. ACCA consider this broad foundation to be an imperative part of an auditor’s training as it is only with a solid understanding of business models, control systems and the recording and reporting of financial transactions that an auditor can build the necessary skills to apply professional scepticism and judgement. The existing models also enable the core foundation to be expanded further to incorporate other relevant issues as and when required. We believe that the separation of audit from the remaining core skills offered by a professional accountancy qualification would make it harder for auditors to acquire the necessary business understanding and corporate reporting knowledge critical to performing their role. In addition, the professional accountancy qualification provides a fundamental grounding in the ethical requirements of the finance

professional, which are core to maintaining the trust in audit and corporate governance that sits at the heart of the Government's policy proposals.

Attractiveness of the Accountancy Profession and career mobility

The current model, which combines accountancy and audit, enables ACCA members to develop the technical expertise and professional skills which are needed to work in a variety of accountancy, audit and finance roles. This model supports the attractiveness of a career in the accountancy profession for new entrants and offers maximum flexibility for career progression. ACCA's recent research into Generation Z and the future of accountancy²⁸ in the UK suggests that mobility and flexibility in careers is increasingly important and that accountancy training is seen as an opportunity to develop a broad range of skills.

Creation of a separate and specialised professional body for Corporate Auditors could be perceived as career limiting and requiring a lengthy commitment to a separate specialised profession. A qualification limited to corporate audit may be less attractive to young talent and may also be a barrier to experienced candidates returning to an audit role later in their career. Both outcomes may result in a skills shortage, as those with valuable and relevant skills no longer wish to pursue a career in audit.

51. Do you agree that a new audit professional body should cover all corporate auditors, not just PIE auditors?

Based on the comments raised above, ACCA does not believe that the case has been made to establish a new professional body for Corporate Auditors including for PIE auditors. ACCA is willing and committed to work with the Government in support of its policy objectives with the existing recognised professional bodies.

52. Do you agree that ARGA should be given the power to set additional requirements which will apply in relation to FTSE 350 audit committees?

The audit committee is an important part of effective corporate oversight and audit committees play a vital role in capital markets' investor protection. As noted in the ACCA's responses both to Kingman and to the CMA consultation in 2019²⁹, we believe that the audit committee's role and the accountability mechanisms supporting the effective operation of their functions should be reassessed.

We are pleased to see that the BEIS' proposals are in line with our initial view in the CMA consultation response that this should go beyond the provision of guidance. We therefore support the BEIS recommendations to give ARGA the power to set minimum standards incorporating additional requirements on audit committees in relation to the appointment and oversight of auditors. We are also supportive of the view that any new requirements imposed by ARGA should allow audit committees to exercise discretion and professional judgement and for innovative best practice to develop.

We also agree with the government's proposal to impose a duty on ARGA to monitor compliance with the new audit committee requirements, including a power to require information and/or reports from audit committees, and a power to place an observer on audit committees if necessary. We also agree with the Government's proposal to give ARGA appropriate powers to take action in relation to breaches of the new audit

²⁸ <https://www.accaglobal.com/gb/en/professional-insights/pro-accountants-the-future/gen-z.html>

²⁹ <https://www.accaglobal.com/in/en/member/member/accounting-business/2019/01/practice/audit-market.html>

committee requirements. In summary, we are of the view that these proposed powers for ARGA are sufficient to ensure effective compliance with these requirements.

In addition, as also noted in the ACCA's Kingman response, we suggest that Government considers whether ARGA should take into account what may be learned from other regulators, such as the PRA.

- 53. Would the proposed powers for ARGA go far enough to ensure effective compliance with these requirements? Is there anything further the Government would need to consider in taking forward this proposal?**

Please see our response in Question 52 above.

- 54. Do you agree with Sir John Kingman's proposal to give the regulator the power to appoint auditors in specific, limited circumstances (i.e., when quality issues have been identified around the company's audit; when a company has parted with its auditor outside the normal rotation cycle; and when there has been a meaningful shareholder vote against an auditor appointment)?**

Please see our response in Q57 below

- 55. To work in practice, ARGA's power to appoint an auditor may need to be accompanied by a further power to require an auditor to take on an audit. What do you think the impact of this would be?**

Please see our response in Q57 below.

- 56. What processes should be put in place to ensure that ARGA can continue to undertake its normal regulatory oversight of an audit firm, when ARGA has appointed the auditor?**

Please see our response in Q57 below.

- 57. What other regulatory tools might be useful when a company has failed to find an auditor or in the circumstances described by Sir John Kingman (i.e. when quality issues have been identified around the company's audit; when a company has parted with its auditor outside the normal rotation cycle; and when there has been a meaningful shareholder vote against an auditor appointment)?**

We agree with the Government's conclusion that it is not appropriate to give ARGA independent powers of auditor appointment at this time.

The Consultation Document sets out a number of other potential regulatory actions available to ARGA outside of a power to appoint. We consider that these options should be explored further with relevant stakeholders and agree that at all times ARGA will need to be mindful of managing the risk of conflict with its regulatory oversight of the auditor.

- 58. Do you agree with the proposals and implementation method for giving shareholders a formal opportunity to engage with risk and audit planning? Are there further practical issues connected with the implementation of these proposals which should be considered?**

Please see response to Question 59 below.

- 59. Do you agree with the proposed approach for ensuring greater audit committee chair and auditor participation at the AGM? How could this be improved?**

Yes, we are generally supportive of the Government's proposals and implementation method for giving shareholders a formal opportunity to engage with risk and audit planning, as set out in paragraphs 7.3.4 to 7.3.8.

We are pleased that some of these proposals reflect our respective suggestions to the CMA. They are also in line with the findings of our global research into the impact of including key audit matters in audit reports³⁰. This research identified that, by providing a focus for discussions between the audit committee and the external auditor, key audit matters enhanced the quality of these discussions. Similar benefits could be achieved by increasing the transparency of audit at the planning stage and during the audit.

Based on our outreach in responding to the IAASB's Discussion Paper on Fraud and Going Concern, one of the most popular suggestions we have heard from our stakeholders to narrow the knowledge gap was the need for better and more meaningful communication channels between auditors and shareholders. Some noted that currently shareholders have the opportunity to ask questions at the AGM, however, very rarely actually do so in reality.

We also agree that it should be clear that the shareholder views should be purely advisory in nature to ensure that the auditor retains autonomy for the way the audit is conducted (para 7.3.4.). In terms of the scope of coverage, we agree with the Government's suggestion that these proposals should be applied only to the audit committees of premium listed companies, and we welcome that ARGA would be invited to consult on these stages following the outcome of this consultation response.

We agree that greater audit committee and auditor participation would be needed at the AGM. This is also in line with the views we have heard from our stakeholders as noted above. The government's suggestion to invite the regulator to revise its guidance to audit committees to encourage questions from shareholders about the company audit (para 7.3.10) might, though, lead to another tick-box approach without encouraging substantially greater engagement.

Nevertheless, we are supportive of the Government's approach to invite the regulator to consider the recent revisions of the Stewardship Code to promote greater engagement from investors on matters relating to audit quality, so long as these are formulated through the lens of avoiding another boilerplate statement of compliance.

60. Do you believe that the existing Companies Act provisions covering the departure of an auditor from a PIE ensure adequate information is provided to shareholders about an auditor's departure? If you believe those provisions are inadequate, do you think that the Brydon Review recommendations will address concerns in this area? What else could be done to keep shareholders informed?

We do not believe that the existing Companies Act provisions covering the departure of an auditor from a PIE ensure adequate information is provided to shareholders about an auditor's departure. We agree that the Act is failing to provide meaningful information to shareholders and the regulator as to the reasons for the auditor's departure. However, we also recognise the challenge for evolution in this space given the auditor's liability issues raised by firms.

As noted in the Consultation Document, shareholders already have the power to require the directors to hold a general meeting although this power is rarely, if ever, exercised in

³⁰ https://www.accaglobal.com/content/dam/ACCA_Global/professional-insights/Key-audit-matters/pi-key-audit-matters.pdf

response to an auditor resigning or being dismissed. We therefore suggest that the government focuses on how to communicate that this right should be more frequently exercised, so that shareholders are given the opportunity to understand the reasons for an auditor ceasing to hold office.

61. Should the ‘meaningful proportion’ envisaged to be carried out by a Challenger be based on legal subsidiaries? How should the proportion be measured and what minimum percentage should be chosen under managed shared audit to encourage the most effective participation of Challenger firms and best increase choice?

The Government suggests that the FTSE350 audit market “needs greater choice and resilience in order to deliver the desired improvements in quality” (p.140). Whilst we understand the concern of the Government around competition and choice in the audit market (and, indeed, the long-term resilience of the market), we do not consider that strong evidence is in place to support the proposition that expanded choice within the market will, of itself, bring about an improvement in quality. Should the Government go forward with the proposal for shared audits, it will need to monitor carefully the subsequent impact on audit quality.

The Government does not actually ask in the Consultation Document for views on whether shared audit is the appropriate way forward. As noted in our response to the initial consultation from CMA (2018)³¹ there are some examples of shared audits in the FTSE 350 already. However, these do not tend to be publicised widely and so may not be well-known to the general public. Our understanding is that such arrangements can work well, although they can also lead to problems over communication, transparency and quality. Their use is uncommon, so it would be inappropriate, in our view to conclude at this point that they can make a consistent improvement in audit quality. And they do not appear to have made any meaningful impact on choice in the audit market.

Should the Government opt to implement shared audits, we would be supportive of the proposal that the meaningful proportion to be carried out by a challenger firm be based on legal subsidiaries. We believe that the most effective participation of challenger firms and to support increased choice in audit firm would be best achieved by reference to the total audit fees (in the prior year) when defining a “meaningful proportion”. We agree with the view that the challenger firm’s proportion be no less than 10% of these criteria and preferably closer to 30%, as suggested in the Government’s proposals.

62. How could managed shared audit be designed to incentivise Challenger firms to invest in building their capability and capacity? What, if any, other measures, would be needed?

Please refer to our response in Question 61 above.

63. Do you have comments on the possible introduction in future of a managed market share cap, including on the outlined approach and principles? Are there other mechanisms that you think should be considered for introduction at a future date?

As noted in our response to the CMA³² a market share cap would impact negatively on the responsibilities of the audit committee to manage an audit tendering process.

³¹ https://www.accaglobal.com/content/dam/ACCA_Global/Technical/consultation-responses/ACCA%20CMA%20consultation%20response.pdf

³² <https://www.accaglobal.com/gb/en/technical-activities/technical-resources-search/2018/october/statutory-audit-market-study.html>

Ultimately, to be workable, a cap will need to outline precisely which companies can and cannot appoint or reappoint a Big Four auditor at any point in time. The principles outlined in the Consultation Document (8.1.28) at this stage do not address this. However, we are mindful the Government will undertake further consultation on the detailed design of the market share cap before the measure is introduced.

64. Do you have any further comments on how the operational separation proposals should be designed, codified (in legislation and regulatory rules), and enforced in order to achieve the intended outcome of incentivising higher audit quality?

The FRC has acted decisively in support of audit quality and the public interest by publishing its principles for operational separation of audit practices. ACCA maintains its support for multi-disciplinary firms, which is consistent with this aim. The big 4 firms have already voluntarily agreed to follow the FRC's principles and have already put forward their plans for operational separation since October 2020. The next step would be to formally follow their plans and separate their audit units from the rest of the business by 2024.

We are pleased to see these proposals are part of the Consultation Document and we agree that the regulator should have the necessary power to enforce these new arrangements. However, we do note and support the fact that although the proposal refers to professional firms, the principles for operational separation should only be applicable to the upper end of the market i.e., big 4 firms and, potentially, challenger firms.

65. The Government proposes to require that all audit firms provide annual reports on their partner remuneration to the regulator. This will include pay, split of profits, and which audited entities they worked on. Do you have any comments on this approach?

We support the Government's proposals, and we have no further comments on this approach.

66. In the event that the Government wishes to go further than the existing operational split proposals in future and implement split profit pools in line with the CMA recommendation, do you have any comments on how these can be made to work effectively?

Please see our response in Question 67 below.

67. The Government believes these proposals will meet its objectives. In the event that they prove insufficient to improve audit quality, and full separation of professional services firms is required, do you have any comments on how to make this work most effectively?

We do not support the Government's proposal to proceed with full/structural separation should it be concluded that the current proposals prove insufficient to improve audit quality.

The Consultation Document does not provide additional evidence in support of this proposal. As noted in our previous response to the CMA, moreover, a full structural split could lead to cases of artificial compliance, where firms have separate ownership but continue to work closely together due to historical ties. The CMA considers that the risk of a firm exiting the audit market if faced with a requirement to split and the proposed severe penalties for non-compliance to be low. In practice, we believe it is at least

possible that some firms will do so. Self-evidently, this would not support choice in the audit market.

A full separation of professional services firms also raises questions regarding their resilience. This was also raised by firm representatives during the FRC's scheduled roundtable discussing this proposal. Furthermore, moving to a full structural split will be very challenging in the case of global network firms based on their current operational models.

68. Do you have comments on the proposed measures? Are there any other measures the Government should consider taking forward to address the lack of resilience in the audit market?

Please see our responses to Questions 61, 64 and 67.

69. Do you agree with the Government's approach of allowing the FRC to reclaim the function of determining whether individuals and firms are eligible for appointment as statutory auditors of PIEs?

Yes, we are supportive of the Government's approach. It is critical in implementing this that effective communication flows are in place between the FRC and professional bodies.

70. What types of sensitive information within AQR reports on individual audits should be exempt from disclosure?

We agree that, as indicated in the Consultation Document, commercially sensitive information related to the audited entity or information subject to legal professional privilege should be exempt from disclosure. The focus for the enhanced transparency of the reporting of audit inspection findings should be on the information that investors and other stakeholders are likely to find useful, i.e., key conclusions on the quality of the audit alongside the planned response of the audit firm where shortcomings have been identified. We agree that the regulator should be empowered to publish reports without needing to seek the permission of the audit firm but recommend also that the regulator works with audit firms in designing the proposed report template to ensure that there is due confidence of all parties in the reporting process, and no consequent adverse impact on the willingness of audited entities to co-operate in the audit process.

71. In addition to redacting sensitive information within AQR reports on individual audits, what other safeguards would be required to offer adequate protection to the entity being audited whilst maintaining co-operation with their auditors?

It may be worth considering offering audited entities the opportunity to review and comment upon the to-be-published individual AQR inspection report before publication takes place. However, the potential benefits of such a step, in terms of safeguarding the interests of the audited entity, would need to be measured against the potential delay to publication that could result.

72. Do you agree with the Government's approach to component audit work done outside the UK? How could it be improved?

Yes, we agree with this approach. The regulator should carefully monitor the effectiveness of this expanded scope of inspection once it has been introduced.

73. Do you agree that it is problematic if documents that the auditor reviewed as part of the audit are unavailable to the regulator because of the audited entity's legal

professional privilege? If so, what could be done to solve or mitigate this issue while respecting the overall principle of legal professional privilege?

We agree that any potential limitation on the scope of company or auditor documentation made available to the regulator risks limiting the effectiveness of the inspection or investigation activity. We recognise too the importance of the concept of legal professional privilege. This is a complex issue which does not lend itself to a simple resolution. We agree that measures to address the issue should only be targeted at documents belonging to the audited entity that have already been shared with the auditor.

74. Do you agree with the proposed general objective for ARGA?

Yes, we do agree with the proposed general objective for ARGA.

Whilst Chapter 10 of the consultation document does not ask directly for views on the funding arrangements of the new regulator, to support it in the achievement of the proposed general objective, we would like to put forward our views on the funding proposals as set out in para 10.3 of the consultation document.

ACCA agrees with the proposal that the new regulator should be funded by a statutory levy and that the cost of its regulatory activities should be met by market participants and other beneficiaries.

We also agree that the funding model for the new regulator needs to be sustainable to enable it to undertake its activities in an effective manner and that the funding model should be fair, transparent and proportionate, adhering to the Managing Public Money principles. It is vitally important that stakeholders have clear insight to make a meaningful assessment as to how the regulator's resources will be applied so that stakeholders are able to understand the rationale for the regulator's activities, which they fund.

Equally, the funding model should adhere to the 'polluter pays' principle. For ACCA, the UK its audit practitioner population (approximately 1,600 firms) typically comprises one or two partner firms, which predominantly service small and medium entities (SMEs). Therefore, any future funding model should guard against the burden falling on smaller audit firms and the SMEs (i.e., non-public interest entities) they serve.

We note the absence of any discussion on what happens to fines collected by the regulator through its enforcement activities. We are of the view that fines collected through enforcement activities should be applied to funding of the regulator's future activities and public education on audit activities - this is a settled regulatory principle. This would support the regulator's ongoing sustainability and guard against disproportionate burdens on funders.'

75. Do you agree that ARGA should have regard to these regulatory principles when carrying out its policy-making functions? Are there any other regulatory principles which should be included?

Yes, we agree what ARGA should have regard to the regulatory principles set out within the document and that it does so in a way that adheres to the principles of good regulation. It is important, in our view, that ARGA is able to exercise its judgement in how it delivers and, where appropriate, prioritises the different objectives it seeks to achieve, and has regard to those regulatory principles. It should report on a periodic basis to Parliament, as part of its broader reporting process, on how it has done so, and any critical judgements that it has had to make.

76. Should the scope of the regulator's oversight arrangements be initially confined to the chartered bodies and should they be required to comply with the arrangements?

ACCA does not believe a case has been made which would necessitate enhanced oversight arrangements for ACCA and other bodies currently subject to oversight by FRC, albeit on a voluntary basis. The FRC review focused on the exchange of letters and while ACCA would support a formal Memorandum of Understanding in its place, a de facto, statutory regulation of a partial accountancy sector is not in the public interest.

ACCA's Royal Charter places an obligation on ACCA to act in the public interest. ACCA's purpose - We are a force for public good. We lead the global accountancy profession by creating opportunity - sets out the value we seek to create for society. The idea of opening up the profession, doing things differently and better, and never losing sight of our public interest remit are concepts that lie at the very heart of ACCA's DNA and our history. ACCA's values of integrity, inclusion and innovation reflect the unique reasons why ACCA was created in the first place, and the difference we have brought to the global profession and expresses them in a way that reflects our world today.

ACCA is subject to independent oversight by not only its lead regulators such as FRC and IAASA across all its regulatory (public interest) functions but also through our own public interest oversight arrangements which ensures that these functions operate with impartiality and in the public interest.

While FRC's oversight of ACCA flows primarily through its recognition as an RSB and RQB for audit, it covers all of ACCA's regulatory activities and therefore these are subject to independent oversight. By way of example FRC oversees the development of ACCA qualification and the delivery of ACCA examination as we operate the same process and procedures but with a particular focus on audit to ensure legislative requirements for the award of the UK audit qualification are met. Similarly, this is also the case for FRC's oversight of ACCA's disciplinary arrangements as these apply to all members (and future members). FRC is therefore able to exercise oversight across all of ACCA's regulatory activities.

More generally, FRC exercises oversight over ACCA's by-laws and regulations, i.e., the regulatory framework that applies to members and future members. Changes to ACCA's by-laws require Privy Council approval and FRC acts as advisor to the Privy Council regarding those changes. For regulation changes more generally, ACCA consults and seeks approval of any changes we propose so that FRC is able to consider the appropriateness of the changes and in turn ensure they safeguard the public interest.

ACCA has put in place its own rigorous public interest oversight arrangements. The Regulatory Board was established by ACCA's Council in 2008 to place oversight of ACCA's regulatory and disciplinary arrangements at arm's length from Council and from ACCA's other professional body activities. The Regulatory Board was established with an independent lay chair (i.e., non-accountant) and a majority of independent, lay members overall. Information on the Regulatory Board can be viewed at <https://www.accaglobal.com/gb/en/about-us/regulation/regulatory-board.html>.

The Regulatory Board is responsible for general oversight over ACCA's regulatory arrangements, covering complaints and discipline, education and learning, examinations, licensing, and practice monitoring, and for overseeing performance against Key Performance Indicators. The Regulatory Board is supported in its work by three sub-boards:

- Appointments Board, which is responsible for the appointment (and removal) of individuals who serve on ACCA's regulatory and disciplinary committees and for safeguarding the integrity of ACCA's disciplinary and regulatory process by ensuring there is an appropriate number of experienced panel members available at all times.
- Qualifications Board, which is responsible for general oversight of ACCA's education and learning framework and examination arrangement.
- Standards Board, which provides the detailed scrutiny and due diligence to the proposed changes to ACCA's rules, regulations and the code of ethics and conduct with due regard to the public interest.

The work of the Regulatory Board (and its sub-boards) is directed at strengthening the public interest elements of ACCA's activities, which in turn helps to demonstrate that ACCA's regulatory and disciplinary arrangements are operated with appropriate independence from its other activities.

ACCA believes the current arrangements work well and are proportionate to safeguard the public interest.

The Regulatory Board have submitted a separate response in respect of questions 76-79. Their consideration has informed the broader ACCA response.

77. What safeguards, if any, might be needed to ensure the power to compel compliance is used appropriately by the regulator?

ACCA does not believe that it is necessary for a regulator to have the power to compel ACCA (and the other bodies) to action recommendations made as no cases have been identified which suggests such a power is deemed necessary. As indicated in our response to Question 76, ACCA's is clear on its public interest responsibilities and our public interest oversight arrangements are designed to ensure that recommendations made by a regulator are appropriately addressed.

More generally, any recommendations made should be proportionate to the risks they are trying to mitigate and should, among other things, involve a cost benefit analysis. Minimising risk to the public from ACCA members (and other chartered accountants) not doing the right thing, must be achieved in a way that neither misdirects resources nor creates disproportionate burdens on professionals in relation to the benefits being achieved by the public. Regulation is, ultimately, about managing risk as there is no such thing as a zero-risk environment.

78. Should the regulator's enforcement powers initially be restricted to members of the professional accountancy bodies? Should the Government have the flexibility to extend the scope of these powers to other accountants, if evidence of an enforcement gap emerges in the future? What are your views on the suggested mechanisms for extending the scope of the enforcement powers to other accountants (if it is appropriate at a later stage)?

ACCA does not believe that the regulator's enforcement powers should be restricted to members of the professional accountancy bodies and should apply to all those involved in the financial reporting chain. We do not see why the enforcement powers cannot be extended as part of the package of reforms under consideration as we are not clear why

there is a lower risk where it involves an individual who is not a member of a professional body given the aim of the reforms is to enhance trust.

- 79. Should the regulator be able to set and enforce a code of ethics which will apply to members of the chartered bodies in the course of professional activities? Should the regulator only be able to take action where a breach gives rise to issues affecting the public interest? What sanctions do you think should be available to the regulator?**

ACCA notes that the consultation proposes to give the regulator the power to establish a standardised code based on the IESBA Code with the bodies being able to add additional ethical requirements as appropriate. ACCA's (and the other chartered bodies,) Code of Ethics and Conduct is fully aligned to the IESBA Code of Ethics and ACCA (and other bodies) as a member of IFAC is obliged to adopt the IESBA Code and to ensure the ACCA Code of Ethics and Conduct is at least as stringent as the IESBA Code. Therefore, a standardised code already exists, and we are therefore not clear what value a further code would add. ACCA members and future members are required to comply with the Code of Ethics and Conduct and non-compliance would render such an individual to disciplinary action.

- 80. Is ARGA the most appropriate body to undertake oversight and regulation of the actuarial profession?**

As outlined in our response to the Kingman review, we do not consider that ARGA is the most appropriate bodies to undertake oversight and regulation of the actuarial profession. The core role of ARGA must be focused on its role as competent authority for audit and in particular, the audit of Public Interest Entities.

- 81. Should the regime for overseeing and regulating the actuarial profession be placed on a strengthened and statutory basis?**

Please see response to Question 80

- 82. Do respondents support the proposed principles for the regulation of the actuarial profession? Respondents are invited to suggest additional principles.**

Please see response to Question 80

- 83. Are the proposed statutory roles and responsibilities for the regulator appropriate? Are any additional roles or responsibilities appropriate for the regulator?**

Please see response to Question 80

- 84. Should the regulator continue to be responsible for setting technical standards? Should these standards be legally binding? Should the regulator be responsible for setting technical standards only?**

Please see response to Question 80

- 85. Should the regulator be responsible for monitoring compliance with technical standards? Should it also consider compliance with ethical standards if necessary?**

Please see response to Question 80

86. Should the regulator have the power to request that individuals provide their work in response to a formal request - and to compel them to do so if necessary?

Please see response to Question 80

87. Should the regulator have the power to take appropriate action if work falls below the requirements of the technical standards? What powers should be available to the regulator in these instances?

Please see response to Question 80

88. Do respondents agree with the proposed scope for independent oversight of the IFoA? In which ways, if any, should the scope be amended?

Please see response to Question 80

89. Should the regulator's oversight of the IFoA be placed on a statutory basis? What, if any, powers does the regulator require to effectively fulfil this role?

Please see response to Question 80

90. Does the current investigation and discipline regime remain appropriate? Should it be placed on a statutory basis? What, if any, additional powers does the regulator require to fulfil this role?

Please see response to Question 80

91. Do respondents think that the regulator's remit should be extended to actuarial work undertaken by entities? What would be the appropriate features of such a regime, including the appropriate enforcement powers for the regulator?

Please see response to Question 80

92. Should the regulator's independent investigation and discipline regime for matters that affect the public interest also apply to entities that undertake actuarial work? Should the features of the regime differ for Public Interest Entities?

Please see response to Question 80

93. Does the regulator require any further powers in relation to its regulation and oversight of the actuarial profession?

Please see response to Question 80

94. Are there others matters which PIE auditors should have to report to the regulator? Could this duty otherwise be improved to ensure that viability and other serious concerns are disclosed to the regulator in a timely way?

In addition to the list provided in para 11.4.10 we suggest that information regarding the detection of fraud that involves senior management personnel of a PIE must also be reported to the regulator on a timely manner.

In regard to disclosing serious concerns to the regulator in a timely way, a mechanism should be established that provides the opportunity for effective communication between the auditor and regulator during the audit. In addition to this, the mechanism should also provide the opportunity for the auditor to communicate with the regulator at any other point time that information related to the list provided in para 11.4.10 and the matter noted above.

95. Should auditors receive statutory protection from breach of duty claims in relation to relevant disclosures to the regulator? Would this encourage auditors to report viability and other concerns to the regulator?

As the consultation notes, there is no equivalent statutory protection in place for auditors of public interest entities which are not FCA or PRA authorised firms. For this reason and given that the list of PIEs is likely to be extended by including larger private companies, we believe that this would be a positive step in encouraging auditors to report viability and other concerns to the regulator.

96. How much time should be given to respond to a request for a rapid explanation?

In our view, the time given to respond to a request for a rapid explanation should be based on the individual circumstances of each case, however, certain time limits could be introduced to ensure that in all case the explanation is indeed rapid.

97. Should the regulator be able to publish a summary of the expert reviewer's report where it considers it to be in the public interest?

We support the view that the regulator should be able to publish a summary of the expert's review report and we suggest that such arrangements should mirror those used elsewhere (e.g., the FCA) where the option of publication is open to the regulator where it considers it to be in the public interest.

98. Are there any additional powers that you think the regulator should have available where an expert review identifies significant non-compliance by a company in relation to its corporate reporting and audits?

As we noted in our response to Q28, we believe that proposed powers for the new regulator set out in the proposals of this consultation are sufficient to enable the regulator to take the necessary action when significant non-compliance by a company in relation to its corporate reporting and audits is identified.