RECORD OF ROUNDTABLE 9 JANUARY 2020

The Roundtable was held at RSM, 25 Farringdon Street, London, EC4A 4AB

Present:

Dame Teresa Graham

James Barbour - ICAS

Nigel Sleigh-Johnson - ICAEW

David Herbinet - Mazars

Jonathan Ericson - RSM

Kate Reid - RSM

Tom McMorrow - RSM PIC

Roger Alexander - RSM PIC

Ian Byatt - RSM PIC

Points from the conversation:

The recommendations from the 3 reports on audit, Kingman, CMA and Brydon, together with the report of the Select Committee, could involve a revolution in the audit of PIEs/FTSE 350 companies. They would have wider implications by specifying and auditing the social and environmental obligations put upon private sector companies. These recommendations could, in time, be applied more widely leading to an unprecedented increase in the regulation of private companies.

The profession must not leave implementation to government, which is subject to populist pressures and legislative congestion, but build on the UK's lead in audit. It should coordinate a wide-ranging response, specifying the nature of the journey and its time scale. This should look at the issues in the round and not be dominated by the view of the Big 4.

- The **public interest** needs to be tightly specified, and carefully distinguished from private interests, avoiding a blanket cover for whatever ministers might wish to do in order to discharge short term political interests.
- The nature of what might constitute **stakeholder interest** should be pinned down and not left open ended to include the latest lobby interests.
- It is not the function of audit, nor of the public interest, to **prevent the failure** of audited firms. Economic innovation involves a "gale of creative destruction", as new firms, providing new and better products and services emerge and less effective ones fail.

Light-touch regulation is an illusion; **right-touch regulation** involves regulating only when appropriate and then being applied effectively. Right- touch regulation would be proportionate to the context and only needed where market forces are insufficient to deliver social and environmental objectives, such as when there is market dominance (monopoly or oligopoly) or consequences for those not party to market decisions (i.e. externalities, such as the interests of pension funds).

The time scale of response to reform was crucial. Audit involved specialised skills in accountancy and judgement emanating from experience. While interest in audit appears high, capability could not be expanded rapidly. The new generation of auditors appeared more interested in working than money per se.

Regulation should be **enabling, not punitive**. Regulation is only effective when the regulated bodies deliver better services

- carrots could be more effective than sticks; detailed targets allowed too little scope for management.
- good working relations, when both regulator and regulated benefit, is to be preferred to sniping and negative comments, provided that firm action is taken when things go wrong.

Ethics are crucial to good audit. This involves professional standards of honesty and openness as well as avoiding conflicts of interest.

The media was becoming of increasing interest and importance to audit. Effective communication was necessary. This would involve:

- emphasising the importance of **objectivity**, while avoiding technical complications;
- better **explanation** of the reasons behind judgements and the background to their importance;
- developing **key messages** for use in practical situations; and
- sufficient media **training**, especially for senior auditors.

Objectivity was crucial to:

- the allocation of **responsibilities** and the development of **principles**;
- good **specification** of audits and the appointment of auditors;
- recognition by non-executive directors of the importance of **challenge** to good governance; and
- involvement of investors as members of the **audit and risk committees** of audited companies.

Joint audit had its challenges, especially when one auditor was a large and dominant (Big 4) firm, but it had worked well in the right context. It might be useful to separate out subsidiaries and special purpose parts of audited companies for joint auditors in order to make it more effective.

Leaving developments to the formation and development of **ARGA** would be to lose an opportunity for the UK to exploit its comparative advantage in the evolution of audit. It would risk the growth of rules rather than the articulation of principles.

9th January 2020

Ian Byatt