

JEB/MB

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Statutory Audit Investigation
Competition Commission
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By email: auditors@cc.gsi.gov.uk

18 March 2013

Dear Sir/Madam

Audit Market Investigation – Notice of Potential Remedies

ICAS (The Institute of Chartered Accountants of Scotland) welcomes the opportunity to comment on the potential remedies identified by the Competition Commission (CC) in respect of the provisional findings of its inquiry into the FTSE 350 audit market. We have submitted a separate submission on the CC's provisional findings report.

ICAS' Charter requires us to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Our members cover the complete spectrum of senior positions in corporate life; from executive directors in listed companies, including Chief Executives and Finance Directors; non-executive directors including Chairmen and Chairs of Audit Committees; to audit, assurance and specialist partners in accountancy firms and senior positions in public bodies, central and local government and including regulators. We also have many members who work in the fund management industry and therefore comprise some of the investors referred to in the CC report. We have a constant dialogue with our members and it is from their views and practical experiences that we draw our response.

General Comments

- ICAS welcomes and acknowledges the depth of work that the CC has undertaken in relation to this inquiry.
- There is a need for the CC to assess the potential impact of the remedies being considered on audit quality. It is not clear that this most important criterion has been given sufficient consideration by the CC in its deliberations. Additionally, we are concerned that the CC's findings drift into areas beyond the supply of statutory audit services to large companies in the UK i.e. in particular they drift into passing somewhat critical comment on both the UK system of corporate governance and on the role of executive management.
- We are not convinced that the CC has properly articulated the connection between the observations, findings and the potential remedies or how the remedies being considered will mitigate the findings.
- The Financial Reporting Council (FRC), has only recently introduced a provision in the UK Corporate Governance Code that FTSE 350 companies should retender their external audit every

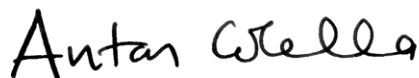
ten years on a 'comply or explain' basis. The anecdotal evidence would suggest that this has led to greater consideration being given by boards of directors of the need to consider putting the audit out to tender. Several high profile changes have already taken place in recent weeks and other major corporates have either publicly announced that they are putting their audit out to tender or are giving serious consideration to doing so. In the light of these developments we do not see the need for the CC to recommend the introduction of more frequent retendering or indeed mandatory rotation of the audit firm at the present time.

- The UK is undoubtedly at the forefront of developments in relation to audit monitoring and public reporting on the performance of large audit firms. We are supporters of greater transparency in relation to the quality of audit and indeed have recommended to the European Commission that there is a need for such an approach to be introduced in all EU member states. That said, we question whether the benefits of expanding the remit of/and or frequency of reporting by the Audit Quality Review team will outweigh the related costs.
- We fully support any initiative that seeks to prohibit so called 'Big-4-only' clauses in loan documentation.
- Whilst we welcome the thrust of what the CC proposes in relation to strengthened accountability of the external auditor to the audit committee we believe that the CC has not fully appreciated the current role that is being played by audit committees. Discussions that we have had with audit committee members has left us in no doubt that they are very much aware of their responsibilities to the shareholders of the company and therefore that the external auditor is already accountable to the audit committee.
- We are very supportive of initiatives that lead to increased shareholder-auditor engagement. However, we are not aware of a strong demand for shareholders to have greater engagement with either the external auditor or indeed the chair of the audit committee. Therefore, although we welcome developments in this space, the practicalities of greater engagement need to be discussed with investors before any such potential remedies are recommended.
- We welcome the CCs' recognition that there is a need for better and enhanced reporting to shareholders. Our preference is that the audit committee should be responsible for providing much of the information that shareholders are seeking but that the auditor also has a role to play by providing more depth in their audit reports as to the main issues which they encountered during the audit. We also believe that there is a need for companies to seek assurance on the front-half of their annual reports (management commentary) and ICAS is currently in the process of finalising a discussion paper to seek to develop thinking in this area.

Our response to the more specific questions on each of the potential remedies identified by the CC can be found overleaf.

We would be happy to meet to discuss our comments if you would consider this to be helpful to you in concluding your inquiry. We have also included a copy of relevant supporting documentation in our response. If you have any matters you would like to discuss further, please contact David Wood, Executive Director, Technical Policy & Services, or James Barbour, Director, Technical Policy, in the first instance.

Yours faithfully



Anton Colella
Chief Executive

Comments on Potential Remedies Identified by the CC

We note below the potential remedies which the Competition Commission believes due consideration should be given to, and comment as follows.

Remedy 1: Mandatory tendering

Views are invited on the specification, effectiveness and proportionality of this remedy and, in particular, on the following:

- (a) What an appropriate time frame for requiring mandatory tendering might be, given the bounds suggested above?
- (b) Whether and for what reason the measure may be subject to 'comply or explain' implementation?
- (c) How a valid 'tender' and its constituents should be defined, including whether and how best to provide access to relevant information on an 'open book' basis?
- (d) What costs and benefits would arise as a result of this remedy?
- (e) What should be the requirements for phasing in this remedy? For example, those companies with the longest period since last tender may be required to tender first within a specified period.
- (f) Whether there are any other relevant considerations to be taken into account in evaluating and implementing this remedy?

As you are aware, the Financial Reporting Council (FRC) recently made a change to the UK Corporate Governance Code which means that FTSE 350 companies should tender their external audit every ten years or explain why they have not done so. We note that the CC is minded that this newly introduced provision may not go far enough and that audits should be tendered even more frequently, citing every 5 or 7 years as its preferred options and that such tendering requirements should be mandatory.

In our view there is already anecdotal evidence that the FRC's approach is leading to increased activity in the market place as evidenced by the recent change of auditors at several companies and it is questionable whether companies should be forced to retender on a more regular basis. It is also questionable whether, as the CC proposes, the need for retendering should have mandatory force. The recent Grant Thornton¹ study in relation to the extent of compliance with the UK Corporate Governance Code highlighted the high level of compliance with the UK Corporate Governance Code (Aggregate compliance with individual Code provisions across all FTSE 350 companies was 97 per cent). We therefore do not see the need for such a measure, if introduced, to be enshrined in legislation. It also might unfortunately be perceived by the EU that the 'comply or explain' approach is viewed as weak by an authoritative UK body and therefore might inadvertently lead to other corporate governance measures being mandated in EU law which would remove the level of flexibility that better allows companies to put in place governance measures which best meet their specific requirements. This would be very unfortunate, given the global success story of the Code following its introduction in 1992 (originally as the Cadbury Code). We therefore believe it is essential to give this new provision the time necessary to see whether it has had the desired effect.

It is imperative that a tendering process is not seen as a cost reduction exercise, as this should not be the main reason for reviewing the audit relationship. It is more about quality, service, and best practice which should add value to the company and shareholders rather than just lowering the cost. Although there should be an element of cost competition, the audit fee agreed should be adequate to perform a quality audit. In our discussions with audit committee members they have been very much in line with this rationale.

We support the viewpoint that tenders should be conducted on an open book basis allowing potential auditors access to relevant information from the company and also the files of the incumbent auditor to better enable the firms to have an accurate understanding of the company's control environment and all significant audit issues. We do however appreciate that certain practical issues would need to be overcome in relation to providing access to the incumbent auditor's working papers.

That said, such an approach should lead to a better and more informative tender process. On the downside, such a process is also very time consuming and we would again reiterate our preference for audits of FTSE 350 companies not to be required to be retendered any more frequently than every ten years and even then on a 'comply or explain' as opposed to a mandatory basis. Companies would of course still be able to retender on a more frequent basis if they felt this to be desirable. At present the APB's Ethical Standards for Auditors already normally require the audit engagement partner to be rotated every five years. Therefore, this approach already provides the benefit of a fresh pair of eyes on the audit engagement on a regular basis.

The decision as to whether to switch auditors can be a very delicate choice between, on the one hand, the potential risk to audit quality from a newcomer auditor and on the other, the potential benefit of a fresh approach and enhanced external perception.

Ultimately, shareholders can vote against the recommendation to retain an auditor if there has been a long period of tenure. Shareholders can also voice their disapproval, if felt necessary, by voting against the audit committee chair, chief financial officer etc at their annual re-elections.

We therefore support sticking with the need for FTSE 350 companies to retender their audit every ten years on a 'comply or explain' basis. We also support amending this provision slightly to the effect that such companies should invite at least one non Big-4 firm to tender for their audit.

Remedy 2: Mandatory Rotation of Audit Firms

Views are invited on the specification, effectiveness and proportionality of this remedy and, in particular, on the following:

- (a) What an appropriate time frame for requiring mandatory rotation might be, given the bounds suggested above and how this might relate to mandatory tendering periods if this were also to be pursued?**
- (b) Should any such measure be subject to a waiver from the regulator (FRC) if a company's choice of auditor was substantially constrained and how would such a waiver operate?**
- (c) How a valid 'tender' and its constituents should be defined as a prelude to rotation, including whether and how best to provide access to relevant information on an 'open book' basis?**
- (d) What costs and benefits would arise as a result of this remedy?**
- (e) What should be the requirements for phasing in this remedy? For example; those companies with the longest period since last rotation may be required to rotate first within a specified period.**
- (f) Whether there are any other relevant considerations to be taken into account in evaluating and implementing this remedy?**

We note that the CC is considering the possibility of requiring the introduction of mandatory rotation of the audit firm and has suggested possible rotation periods of either, 7, 10 or 14 years.

ICAS Research

We refer you to the attached independent literature review research paperⁱⁱ undertaken on behalf of ICAS which examined all of the available research which has been carried out on mandatory audit firm rotation. The aim of the review was to identify, consider and evaluate the existing evidence on mandatory audit firm rotation to inform future policy making, highlight any deficiencies in the existing literature, identify opportunities for further research and make recommendations for policy makers. The review covered research from the major international markets and jurisdictions with experience of mandatory audit firm rotation. Issues considered included the impact, if any, of mandatory audit firm rotation on: audit quality, auditor independence, audit costs and audit market concentration. The study also included a summary of the experiences of countries that have previously adopted a policy of mandatory audit firm rotation. The study found that the existing evidence on the impact that mandatory audit firm rotation has had on audit quality and auditor independence is inconclusive. The review highlights the need for more research looking at the implications of measures designed to improve audit quality and market concentration and a need to consider how audit quality can be measured by means other than the use of existing proxies.

Specifically in relation to the impact of mandatory audit firm rotation on competition, the research found that:

“Not surprisingly audit firm rotation is often discussed with respect to its effects on market competition (European Commission, 2011b). The argument is that mandatory firm rotation might provide smaller audit firms the opportunity to grow (Mamat, 2006). However, it is equally likely that mandatory firm rotation will lead to higher market concentration because large corporations tend to choose one of the Big 4 auditors when switching their audit firm (for example, European Commission, 2011b; DBV, 2010). Conclusively, small audit firms might suffer from mandatory audit firm rotation.

Because of the internationally focused organisational structures of many companies requiring a financial statement audit, there are substantial barriers for smaller audit firms to enter the audit market (for example, Beattie et al., 2003; Véron, 2007). Furthermore, mandatory audit firm switches might be restricted to larger audit firms, since audit committees may perceive that medium-sized audit firms lack the necessary resources and expertise to deal with frequent rotations (for example, IDW, 2012a; Federation of European Accountants, 2011; BDO, 2010, 20; Grant Thornton, 2009; Grant Thornton, 2011; BDO, 2011). This notion is also supported by survey findings from Egypt (Mohamed, 2010), indicating that 83% of listed companies believe that the audit firm should be a Big 4 firm. Empirical observations of mandatory audit firm rotation in South Korea (for example, Kwon et al., 2010) and in Italy (BDO, 2010; Mazars, 2011; Jackson et al., 2008) further support these concerns.

The experiences in Italy highlight that rotation does not increase competition because audit clients often pre-negotiate the rotation of audit firms, although rotation should be random (Anonymous, 2002). Similarly, Bahrain took a position against mandatory audit firm rotation fearing that small markets are distorted by such requirements (Al-Ajmi, 2009). Canada and Spain implemented mandatory audit firm rotation to enhance competition in the audit market, but eventually abolished the regulation due to a mismatch between costs and benefits and because the objective of increased competition had been achieved by means of the rotation exercise (GAO, 2003).”

Later on in the paper the researchers commented as follows:

“Stakeholders’ views on the topic of mandatory audit firm rotation vary widely. First, regulators argue that rotation on a regular basis could release the auditor from independence threats, which supposedly worsen as the length of the auditor-client relationship increases. However, auditors caution about the loss in client-specific expertise, attractiveness of the audit profession and a steep cost increase. While shareholders are generally willing to pay a premium to receive higher quality financial information, they fear that in case of mandatory rotation, an investor would no longer be able to distinguish a voluntary switch from one which is compulsory, and this might increase the cost of information.

This comprehensive research review on the topic suggests that rotation can have both positive and negative consequences, largely depending on the method and proxy for audit quality and/or independence used. For instance, most archival research supports the notion of a loss in client-specific expertise in the early years of engagement. As tenure increases, the auditor gains expertise and audit quality improves. There are only a few archival studies which suggest that excessive tenure would lead to a reduction in audit quality, providing limited evidence that rotation would have overall beneficial effects. However, another perspective is how outsiders (for example, investors and shareholders) perceive (the quality delivered by) the auditor, and research in this area largely supports a positive effect of rotation on ‘independence in appearance’. Finally, while there has been extensive discussion on the impact of rotation on costs and market concentration, empirical evidence in this area is scarce.

Taken as a whole, while most research measuring proxies of ‘independence in fact’ and audit quality suggests no or even negative effects of rotation (due to the reduction in client specific expertise), research on perceptions reveals that rotation can have beneficial effects on the extent to which financial statement users’ view the auditor as more independent. Both perspectives are important.”

The ICAS literature review research paper on this topic, published in December 2012, can be viewed at: <http://icas.org.uk/mafr/>

Level of Choice

We believe that the introduction of mandatory audit firm rotation will not necessarily increase the level of choice of auditors available to companies in the FTSE 350 audit market but rather might result in the work being redistributed amongst the Big Four firms. The introduction of mandatory audit firm rotation also, to a certain extent, removes the responsibility of the audit committee, to appoint their auditor of choice e.g. if they would prefer to continue with the incumbent auditor at the time that they are due to be rotated. As we state above we also support amending the exiting UK Corporate Governance Code provision slightly, to the effect that FTSE 350 companies should invite at least one non Big-4 firm to tender for their audit.

European Developments

Whilst not supportive of mandatory audit firm rotation, we note the draft report of the Legal Affairs Committee of the European Parliament which proposes the introduction of a backstop provision that would require the audit firm to rotate after 25 years. If the CC is minded to introduce a combination of regular retendering and audit firm rotation, we would rather that a similar approach was introduced, with rotation only being required as a backstop following several periods of retendering.

Level of Change in Corporates

We are not convinced that the introduction of mandatory rotation would enhance audit quality. Our premise is very much that shareholders should have the right to appoint the audit firm. There is already considerable change in a short period of time at a corporate entity. On average a Chief Executive and Financial Director of a listed company in the UK change fairly frequently. Against the backdrop of changing executives, and also non-executives, it is not in the interests of shareholders to change auditors too often, as this has the negative result of losing the continuity and corporate memory that comes with staying with the same firm.

Orderly rotation within the team (5 (possibly 7 on occasion) years for key partners provides the best deal for shareholders, given that executive and non-executive directors are rotating faster than that, on average. The FRC's 10-year re-tendering provision creates a strong market presumption, whilst still retaining important flexibility for the company to avoid changing auditors at times of great change internally.

Potential Unintended Consequences

Certain firms build up concentrations of industry expertise in certain markets. All the firms are not equally as strong in all sectors in all markets. Therefore, we call into question the CC's apparent assumption that the FTSE 350 market is homogenous. Mandatory firm rotation is likely to have one of two effects in certain segments of the market: first, highly skilled teams could move between firms as the firms start to try to fill the gaps in their sector expertise. This could have the negative effect of making individuals more aligned with companies and less with the firms. Second, firms are going into audit tenders with teams that do not have the deep sector experience that the incumbent firm has. Therefore, advocates of mandatory audit firm rotation should think carefully about the implications of this on risk and audit quality.

Need for Flexibility

Mandatory rotation may require rotation at a time which is very inconvenient or even dangerous for the company, e.g. in circumstances where there are many other changes taking place in the company and/or its audit committee. That is why we are very much against the introduction of either retendering or rotation on a mandatory basis. The 'comply or explain' regime at least allows companies the flexibility to better cope in such times.

Transition Risks

We would also highlight that when changing auditor there are transition risks which are important as there is a need in any switchover process to minimise the level of disruption to the company and the loss of knowledge and experience held by the auditor. Such risks should not be understated.

Remedy 3: Expanded remit and/or frequency of Audit Quality Review Team reporting
Views are invited on the specification, effectiveness and proportionality of this remedy and, in particular, on the following:

(a) How the AQRT's remit should be designed in terms of enhanced scope and frequency. For example:

- (i) How frequently should FTSE 350 company audits be reviewed (and whether this should differ between FTSE 100 and FTSE 250 companies)?**
- (ii) Should the AQRT be required to publish FTSE 350 results separately from other Public Interest Entity results?**
- (iii) Should the AQRT be required to change the scope of its review and if so, how? For example; should the AQRT be required to revisit key audit judgements based on the information then available?**
- (iv) How could AQRT reporting be expanded to allow better comparison of Big 4 and non-Big-4 firms?**

(b) How should any expanded remit of the AQRT be funded?

(c) What costs and benefits would arise as a result of this remedy?

(d) Whether there are any other relevant considerations to be taken into account in evaluating and implementing this remedy?

We note that this potential increase in monitoring of the audits of FTSE 350 companies is designed to ensure that such companies have more frequent, tailored, comparable, transparent information on the quality of FTSE 350 audits provided by audit firms in order to help facilitate the comparability of companies' existing auditors with other options. There can be little doubt that such transparent public reporting serves as a catalyst to improve audit quality and has done so since its introduction in the UK. If properly implemented and applied, this proposal undoubtedly has potential benefits from a transparency perspective. Indeed, ICAS has recommended to the European Commission that there is a need for such public reporting to be introduced in all EU member states.

However, there are other factors which need to be considered to properly assess the potential costs and benefits of this proposal. These specifically include the additional costs and resource implications that will be faced by both the audit firms and FRC, if more regular reviews are to become the norm. There are already concerns in certain quarters that the monitoring process of PIEs lacks appropriate focus and that the process takes too long. The objective of this process has to be to provide confidence to users of audit services that the audit firm is 'fit for purpose'. Consideration could be given to explaining in greater detail what monitoring work has been undertaken and why they have done it as opposed to expanding the scope and frequency of work undertaken.

Remedy 4: Prohibition of 'Big-4-only' clauses in loan documentation

Views are invited on the specification, effectiveness and proportionality of this remedy and, in particular, on the following:

(a) The range of documents to which this prohibition should be imposed and how the prohibition could be best implemented. For example: are there documents in addition to Loan Management Association lending agreements that this prohibition should cover?

(b) What costs and benefits would arise as a result of this remedy?

(c) Whether there are any other relevant considerations to be taken into account in evaluating and implementing this remedy?

We welcome the Competition Commission's inclination to ban contractual clauses which require that an audit must be undertaken by a Big Four firm. This does at least seek to remove one of the obstacles to allowing other competitors to compete, although we do question how effective such a change would be in practice.

Remedy 5: Strengthened accountability of the External Auditor to the Audit Committee

Views are invited on the specification, effectiveness and proportionality of this remedy and, in particular, on the following:

(a) How this remedy could be practically specified and implemented? For example, what change to ACC availability and remuneration would be necessary for ACCs to take on an enhanced role effectively? How should this measure be specified to avoid circumvention?

(b) Whether this remedy could be implemented as an extension to the current guidance on the role of the AC? How this could be implemented without affecting the current collective legal obligations of the directors of a company?

(c) What costs and benefits would arise as a result of this remedy?

(d) Whether there are any other relevant considerations to be taken into account in evaluating and implementing this remedy?

The CC intends this remedy to reduce the influence of executive management in the relationship with the external auditor by strengthening the accountability of the external auditors to the Audit Committee. Although we do not disagree with the substance of what the CC is proposing, we believe that most audit committees are already very strong in this area and that audit committee chairs are in regular contact with the respective engagement partners of the external auditors. Therefore, at best we would see this as a further spread of existing best practice as opposed to a specific remedy.

We would also highlight that audit committees do push for value for money. Considerable time can be spent on negotiating the fee to be charged by the external auditor. Even more importantly, we are also very much aware that audit committees see audit quality as the prime factor to be borne in mind when deciding what auditor should be appointed.

We are also aware that audit committees take very seriously the year-end review of the external audit process and in particular the performance of the auditor. Those audit committee members that we have spoken to, are of the view that auditors do make valuable recommendations, where appropriate, in relation to improving a company's internal controls etc.

Remedy 6: Enhanced shareholder-auditor engagement

Views are invited on the specification, effectiveness and proportionality of this remedy and, in particular, on the following:

(a) What are considered to be the most effective means of enhancing shareholder engagement on audit and financial reporting issues?

(b) Suggestions as to how such means could be achieved.

(c) What costs and benefits would arise as a result of this remedy?

(d) Whether there are any other relevant considerations to be taken into account in evaluating and implementing this remedy?

As the shareholders are ultimately the beneficiary of the audit we welcome any practical proposals to enhance shareholder-auditor engagement. In this respect it is good to note that the CC intends to liaise closely with the FRC, major FTSE 350 shareholders and shareholder representative groups, in shaping this particular remedy. It is essential that major FTSE 350 shareholders and the shareholder representative groups are on side with what is proposed. Where we have doubts, however, is in relation to the ability of the various shareholder groups to provide the necessary resources that will be required. The audit committee chairs with whom we have consulted do not highlight a large demand from institutional investors for meeting with audit committee chairs or for engaging in detailed discussion re the external audit. Those responsible for making the investment decisions i.e. buy, sell or hold are often only interested in the directors' views as to how the company is performing and its future prospects. The audit, although valued, is very much seen as a given. That said, and despite these undoubted practical challenges, we are largely supportive of these proposals. The whole area of Investor/Auditor interface is hugely understated and should be followed up; it is an area of huge frustration for companies as to how little some of the governance people in the investment community understand about the external audit.

We note that the CC specifically mentions the following options:

(a) Changing shareholder voting requirements to include an option to vote for holding a tender for external audit.

(b) Votes to reappoint the audit firm could require an enhanced level of support (i.e. more than a simple majority) if it was proposed that an auditor should remain in place after a mandatory tender.

(c) Requiring the AEP to present directly to shareholders at AGMs (or other open shareholder forums) on the conduct and outcome of the audit.

(d) Requiring the ACC to have a dedicated Question and Answer agenda item at AGMs (or other open shareholder forums) in which he/she answered questions directly on audit or financial reporting. Our information is that institutional shareholders are already struggling to meet the demands placed on them by the Stewardship Code. So whilst we largely support these potential options we do question how successful they will be in practice. Additionally, whilst we have no objections to proposals (a), (c), or (d), we do question the reasoning as to why a decision to reappoint the incumbent audit firm should be subject to an enhanced level of shareholder support. Account also has to be taken of the mechanisms which already exist for shareholders e.g. they can vote against the re-election of the auditor and they can also normally vote against the re-election of individual directors annually.

Remedy 7: Extended reporting requirements

Views are invited on the specification, effectiveness and proportionality of this remedy and, in particular, on the following:

- (a) How the CC may best support the FRC in establishing enhanced reporting and whether there are other avenues, including direct measures by the CC, that should also be pursued?**
- (b) What should be the scope and form of enhanced reporting proposals? For example:**
 - (i) whether further disclosure should be made via the AC's report or the auditor's report;**
 - (ii) what the content of the additional disclosure should be. For example, should this be some form of commentary as to how the company's interpretation of the accounting standards compares with the norm; or commentary on the main topics of debate between auditor and management; or something else; and**
 - (iii) what guidance as to the form of the disclosure should be required.**
- (c) What costs and benefits would arise as a result of this remedy?**
- (d) Whether there are any other relevant considerations to be taken into account in evaluating and implementing this remedy?**

We welcome that the CC is calling for extended reporting requirements although discussion is required as to the additional subject matter to be disclosed. In December 2010, ICAS published its 'Future of Assurance'ⁱⁱⁱ report. This report recommended that more information should be communicated to stakeholders via the annual corporate report. The preferred mechanism for delivering that information at that time was via the audit committee report to provide a greater understanding of the function of the audit committee and how they had discharged their duties. The Working Group recommended that:

“A more transparent audit committee is achieved through greater disclosure of its activities. An expanded audit committee report is required and should include: A matrix-style report which maps the key risks disclosed by the Board in its report to the assurance processes used to gain assurance over those risks: A substantive discussion of how the audit committee satisfied itself of the appropriateness of management's judgements: Details of the key areas discussed between the audit committee and the auditors, including the main areas of audit challenge.”

We therefore welcomed the recent change to the UK Corporate Governance Code that will require more informative reporting from audit committees.

The Working Group also recommended that additional reporting should be required of the auditor but was very much of the view that in the first instance the catalyst for enhanced reporting should come from the directors of the entity. The document can be downloaded at: <http://icas.org.uk/futureofassurance/>.

Since the publication of the report, ICAS is aware of the general move towards seeking to include more and better information in the auditor's report. ICAS notes and appreciates the work that the International Auditing and Assurance Standards Board and FRC have done in this space in relation to seeking the views of institutional investors and other interested parties. ICAS is supportive of the ultimate aim of enhancing the quality of information that is made available to shareholders and other stakeholders via corporate reports but believes that this aim can only be achieved by better reporting, both by the entity and by the auditor. We do however accept that the auditor has a valuable role to play in this respect.

Other Possible Remedies That The CC Considered But Does Not Intend To Pursue

We also note the following possible remedies that the CC considered but does not intend to pursue. We welcome the provisional decision by the CC not to pursue any of the following as potential remedies:

- (a) constraining non-audit service provision by the auditor;
- (b) joint or major component audit. The ICAS literature review research paper on this topic can be viewed at: <http://icas.org.uk/jointaudit/> ;
- (c) shareholder group responsibility for auditor reappointment;
- (d) FRC responsibility for auditor appointment; and
- (e) independently resourced Risk and Audit Committee.

ⁱ Grant Thornton, (2012), ‘The chemistry of governance – a catalyst for change - FTSE 350 Corporate Governance Review’

http://www.granthornton.co.uk/Global/Publication_pdf/Corporate_Governance_Review_2012.pdf

ⁱⁱ ICAS, (2012), ‘What do we know about mandatory audit firm rotation?’ Researchers: Corinna Ewelt-Knauer; Anna Gold; Christiane Pot, <http://icas.org.uk/mafr/>

ⁱⁱⁱ ICAS, (2010), ‘Future of Assurance, ICAS Working Group, <http://icas.org.uk/futureofassurance/>