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Greenpeace welcomes the opportunity to comment on the consultation document: “Restoring trust in audit and corporate governance: proposals on reforms”. For too long, audits have been plagued by conflicts of interest and poor standards, which lead to lost jobs, wasted taxpayer money, and companies failing to tackle the climate crisis. We welcome Business Secretary Kwasi Kwarteng's decision to prioritise audit reform, and urge him to deliver bold and radical change.

Greenpeace is a movement of people working towards a vision of a greener, healthier and a more peaceful planet, which can sustain life for generations to come. Working across Europe, the Americas, Africa, Asia and the Pacific, we investigate, document and expose the causes of environmental destruction, and we promote solutions, informed by science and research, for a green and peaceful future.

The UK has now set a commitment to achieve net-zero greenhouse gas emissions by 2050 with interim targets that mean businesses must now change their behaviour. Many other countries are following suit. If companies do not change their business models in line with these trends, they will misallocate shareholder capital, make the climate situation worse and/or will not be profitable. As noted by Sarasin & Partners, “*Shareholders and creditors (and indeed staff, suppliers, and the public) need to have visibility of the risks of asset write-downs and rising liabilities*”.¹ As a consequence, we believe climate change is a key factor to be considered in financial statements. However, the overwhelming majority of companies are failing to meaningfully disclose climate-related risks, impacts and financial implications.

¹ <https://sarasinandpartners.com/stewardship-post/public-statement-on-shell-and-bp-votes/>

A Client Earth analysis of companies on the FTSE 250, studied each company's most recent annual report, and developed a quantitative assessment of how company disclosures match up against existing disclosure requirements. It found that more than 90% of financial accounts and associated audit reports make no reference to climate change-related risks and impacts.² This is despite the fact that the International Accounting Standards Board – effectively the global accounting standard setter and regulators such as the UK's Financial Reporting Council (FRC) - are reminding directors and auditors that they must ensure material climate factors are properly reflected in financial statements. Accordingly, there is a need to ensure that mandatory disclosure of this information is now made in audited financial statements.

As a specific example, Royal Dutch Shell has committed to achieving net-zero carbon emissions by 2050 but the company claims that it does not need to include its net-zero targets in its operating plans and pricing assumptions because of uncertainty as to how society will reach net-zero.³ This raises questions over the credibility and feasibility of Shell's net-zero ambitions, and also leaves investors in the dark about the impact of such a transition on the value of the company and its assets.⁴

The Government should create specific duties for companies, and their directors and auditors, to ensure climate risk is reflected in financial statements. This should include a duty on company directors to:

- State in the notes to the financial statements whether and how they have adopted assumptions/estimates in their accounts which are compatible with a corporate strategy aligned with the goal of limiting global temperature increases to 1.5 degrees above pre-industrial levels as set out in the Paris Agreement on Climate Change (the "1.5° Goal").⁵
- If they have not, provide supplementary disclosures in the notes to the financial statements about how the accounts would be impacted if they had used such assumptions/estimates.

Auditors should likewise be required to undertake audits that test accounts against assumptions/estimates aligned with 1.5° Goal and flag to shareholders any concerns about the assumptions and estimates used by the company.

Specific responses

Chapter 1 The Government's approach to reform

1.3 Resetting the scope of regulation

1. Should large private companies be included within the definition of a Public Interest Entity (PIE)? Please give your reasons.
Yes. The examples of BHS and Patisserie Valerie demonstrate the impacts of audit failures at companies not coming within the current definition. It would be beneficial to expand the definition of PIEs to include large private companies, to ensure that they are subject to more stringent requirements and oversight, going forward.

² <https://www.clientearth.org/latest/latest-updates/news/clientearth-reveals-uk-companies-not-adequately-reporting-on-climate-change/>

³ <https://reports.shell.com/annual-report/2020/>

⁴ <https://sarasinandpartners.com/stewardship-post/public-statement-on-shell-and-bp-votes/>

⁵ A corporate strategy aligned with the 1.5 Goal should be aligned with and updated to reflect the best available science on the pace of decarbonisation required and should not rely on the use of Carbon Dioxide Removal technologies and offsetting.

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

We suggest that the UK definition should match that being adopted at EU level for enhanced corporate reporting obligations i.e. the definition of Large Undertaking' as defined by the EU Accounting Directive.

Of the options presented, we would prefer option 2 because we think that any entity with at least 500 employees must be a PIE because of its potential impact on the economy.

However, we do not agree that both turnover and employee conditions need to be met to be a PIE. We think one of these conditions needs to be met: we consider both sufficient in themselves to indicate that an entity is a PIE.

In order to ensure that the intent behind including public interest entities is not undermined by a simple threshold definition (where audit failures at a company falling below that threshold would have significant impact), we support the suggestion that the regulator (ARGA) should have the power to deem any entity a PIE if it thinks it would have macroeconomic consequence in the event of its failure.

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

Yes. Given the high number of AIM companies involved in extractive industries, it would be beneficial to include them in the scope of the PIE definition as well.

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?

No. Once listed on a regulated market investors are exposed to the consequences of failures in accounting and audit. There is not a compelling case to be made that a company seeking to secure capital from the market should be given additional time to meet required standards.

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

Yes, given the role played by Lloyd's Syndicates in insuring fossil fuels and the need for financial statements to integrate climate risk, they should be included in the definition.

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?

No answer given.

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?

No answer given.

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

No answer given.

9. How would an increase in the number of PIEs impact on the number of auditors operating in the PIE audit market?
No answer given.
10. Do you agree that the Government should provide time for companies to prepare for the introduction of a new definition of PIE?
It is unclear what specific period of time the Government proposes to offer but audit reform is long overdue – and, in the context of the integration of climate risk, is increasingly urgent – and we would therefore encourage the Government to not delay the measures unduly especially in the context of large companies.
11. Do you agree that the Government should seek to offer a phased introduction for a new definition of PIE?
Depending on the Government’s definition of a ‘significant lead-time’ an argument could be made for extending the new definition to larger private and AIM listed companies first. However, the Government should be looking to apply the new definition to all PIEs within 2 years.

Chapter 2 Directors’ accountability for internal controls, dividends and capital maintenance

2.1 Stronger internal company controls

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?
To be useful, directors’ confirmation of a review and the adequacy of internal controls and risk management systems must provide genuine insights into the company’s processes and avoid becoming mere boilerplate statements. This is even more the case if the Government does not mandate external assurance of internal controls.

The statement should cover not just internal controls for financial reporting but also risk management procedures including those relating to climate risk.
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 the Government should consider? Should external audit and assurance of the internal controls be mandatory?
We caution against relying on shareholders and audit committees to determine whether external audit and assurance is necessary. There is little evidence to suggest leaving such decisions to these groups will ensure the correct decisions are made. It also ignores the other stakeholders who will suffer the consequences of audit failure. We support mandatory external audit and assurance.
14. If the framework were to be strengthened, which types of company should be within scope of the new requirements?
All PIEs.

2.2 Dividends and capital maintenance

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? Are there other options which should be considered? What should ARGA consider when determining what should be treated as realised profits and losses?
We prefer Option 2: there must be regulation and not guidance on this issue.

We support the idea that the definition of what counts as ‘realisable profits’ and thus what forms the distributable reserves of an entity should be handed to ARGA.

This definition should ensure that climate change is properly considered in the context of the capital maintenance regime. Stakeholders must be able to understand the impact on and resilience of a company’s dividend in the context of a transition to a 1.5 degree economy and the decarbonisation of a company’s operations. Companies must ensure that they maintain sufficient reserves to finance their commitments to such a net-zero pathway.

Distributable reserves should be determined at group level rather than parent company level, to avoid the gaming whereby parents take the dividends on their profitable subsidiaries and avoid impairments on their loss-making subsidiaries, so that the retained earnings of the parent exceed the retained earnings of the group by some measure.

16. Would the proposed new distributable profits 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?
We support the idea that companies should be obliged to report their ‘distributable reserves’ and to account for how they were calculated. This 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?
Directors should have a duty to confirm the legality of the dividends and to confirm that they are compatible with a corporate strategy aligned with the 1.5° Goal.

18. Do you agree that the combination of recently introduced Companies section 172(1) reporting requirements along with encouragement from the investment community and ARGA will be enough to ensure that companies are sufficiently transparent about their distribution and capital allocation policies? Should a new reporting requirement be considered?
We are sceptical of and urge the Government to be cautious in relying on investor ‘encouragement’ as a means of effecting necessary change. With some individual notable exceptions, investors do not adequately use the powers they already have. An assumption that the *sole* answer is to defer to them further is misguided and unsupported by evidence in the form of investor voting records and stewardship activity.

We would also note that in the context of a widely acknowledged failure of regulation resulting in the formation of a new regulator – AGRA – ‘enforcement’ rather than ‘encouragement’ should now be the stated preferred approach.

Accordingly, we support a specific reporting requirement that includes an explicit requirement for companies to explain in detail the resilience of their dividends and their capital allocation policies in light of climate change and the need to develop a strategy that is aligned with achieving the 1.5° Goal.

Chapter 3 New Corporate Reporting

3.1 Resilience Statement

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?

All entities subject to the scope of these proposals should explicitly be required to disclose how and to what extent their strategy and financial accounts are aligned with the 1.5° Goal and, if not, what the implications of doing so would be for the company's financial statements – an essential element of any statement designed to set out “a company's approach to exploring and mitigating risks and uncertainties”.

Climate as it pertains to audited financial statements should not be ‘relegated’ to a vehicle for incorporating TCFD reporting. Climate change – as evidenced by the huge asset write-downs undertaken by companies including BP plc after integrating climate change into its commodity price assumptions⁶ – is directly relevant to the audited accounts and valuations signed off by auditors. In the context of this consultation, climate change should be addressed as it relates directly to the financial statements and not within the wider more narrative reporting framework of the TCFD.

20. Should the Resilience Statement be a vehicle for TCFD reporting in whole or in part. The reporting requirements of the TCFD framework should not be confused or conflated with the need to ensure the integration of climate change into a company's financial statements – where specific financial assumptions underpinning balance sheet valuations should be consistent with a 1.5 degree pathway and if not, the implications of them so being needs to be disclosed by the board and the auditor.
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? As before, there appears no logical justification for providing an exemption for listed companies solely on the basis of the timing of their listing.

More broadly, we believe it would make more sense to apply this requirement consistently to all PIEs from the beginning.

3.2 Audit and Assurance Policy

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? We do not believe this proposal is appropriate. It places control in the hands of company boards with shareholders as the overseeing force. In light of our understanding of both audit failures and of investor voting it is difficult to understand why this approach is considered likely to improve matters. The Government should

⁶ <https://www.bp.com/en/global/corporate/news-and-insights/press-releases/bp-revises-long-term-price-assumptions.html>

take the opportunity offered by this reform process to introduce legal requirements setting out what is required rather than leaving it to companies and their shareholders to decide.

Auditors should be required to provide a comprehensive audit which covers all information in the annual report which is legally required to be disclosed (not just the financial statements) to the standard of 'reasonable assurance'.

Auditors should be explicitly required to undertake Paris-aligned audits that test accounts and key assumptions underpinning the audit against assumptions and estimates that are aligned with a 1.5 degree pathway. They must flag to shareholders any concerns about the compatibility of the company's assumptions and estimates with such a pathway.

Deloitte's recent audit of BP plc included statements on the compatibility of key assumptions with Deloitte's assessment of prices in a '2 degree goal scenario'⁷ whereas EY in its audit of Royal Dutch Shell claimed "[...] *it is neither possible nor appropriate for EY, as Shell's auditor, to attempt to provide in our audit opinion Paris-aligned assumptions that are not in our remit to determine.*"⁸

This difference in approach demonstrates the need for legal requirements on auditors.

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 every three years?

We do not support this measure as noted above. If it is introduced an annual vote should be required.

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

See answer to Question 22.

3.3 Reporting on Payment Practices

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?

No answer given.

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?

No answer given

3.4 Public Interest Statement

⁷ <https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/investors/bp-annual-report-and-form-20f-2020.pdf>

⁸ <https://reports.shell.com/annual-report/2020/consolidated-financial-statements/independent-auditors-report.php>

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?
No answer given

Chapter 4 Supervision of Corporate Reporting

4.4 Influencing the corporate reporting framework

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?
To ensure that corporate information including on climate change is fair, balanced and accurate it is important that the new regulator has stronger powers to supervise and enforce reporting requirements. Accordingly, we broadly welcome the suggested reforms.

The extension of the regulator's powers to the entire annual report is welcome but should be accompanied by a matching obligation on the auditor to provide a comprehensive audit which covers all information in the annual report which is legally required to be disclosed (not just the financial statements) to the standard of 'reasonable assurance'.

We would suggest that regulation should place an obligation on ARGA to undertake reviews of the relevance of all standards (including accounting standards) operative in the UK on a regular basis to make sure that they continue to provide information that meets the needs of all users of financial statements.

Chapter 5 Company Directors

5.1 Enforcement against company directors

29. Are there any other arrangements the Government should consider to ensure that overlapping powers are managed effectively?
No answer given.

30. Are there any additional duties that you think should be in scope of the regulator's enforcement powers?
We think that the statutory duties of directors relating to corporate reporting and company audits should be extended to include duties to confirm if and to what extent accounts are aligned with the 1.5° Goal and, if not, to set out the implications for the financial statement if they were.

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?
Duties to confirm if and to what extent accounts are aligned with the 1.5° Goal and, if not, to set out the implications for the financial statement if they were should be included.

Duties under S. 172 of the Companies Act 2006 should be included.

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?

We would support a requirement of honesty and integrity as suggested.

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

Yes. It is important that AGRA has adequate enforcement powers to ensure better accountability for corporate reporting and accounting particularly in relation to climate change.

5.2 Strengthening clawback and malus provisions in directors' remuneration arrangements

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?

Clawback conditions should include breach of any of the statutory duties of a director with regard to accounting and audit including in relation to climate change as we propose in Question 30.

If any standards such as that of honesty and integrity are introduced as suggested in Question 32, their breach should likewise trigger a clawback.

Chapter 6 Audit purpose and scope

6.1 The purpose of audit

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 Governments' aims to see audit become more trusted, more informative and hence more valuable to the UK?

We would prefer that the Government had taken this opportunity to clarify the purpose of audit and to expand the definition of who the audit is for and its scope rather than rely on a statutory requirement to consider 'wider information' which is arguably a replication of existing audit standards (ISA 315 in particular).

As noted above, auditors should be required to provide a comprehensive audit which covers all information in the annual report which is legally required to be disclosed (not just the financial statements) to the standard of 'reasonable assurance'.

Auditors should also be required to undertake Paris-aligned audits that test accounts and key assumptions underpinning the audit against assumptions and estimates that are aligned with a 1.5° Goal pathway. They must flag to shareholders any concerns about the compatibility of the company's assumptions and estimates with such a pathway.

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?

The purpose of audit must be redefined to give auditors a responsibility to ensure that the needs of all relevant stakeholders are met.

6.2 Scope of audit

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?

We are wary of creating a distinction between 'statutory audit' and 'corporate audit' and believe that it will lead to significant confusion, including in relation to the content and trustworthiness of climate-related information. Companies are legally required to disclose material matters. Categorising items such as 'esg' and 'cyber' as sitting entirely separate from 'financial statements/' 'statutory audit' as the Brydon Review's new model for audit does is a retrograde view that such matters are irrelevant to financial performance and are optional extras. This is not the case for many companies on a range of issues. Such a categorisation also undermines some existing legal requirements, standards and practices which encourage more integrated reporting and auditing.

Auditors should be required to provide a comprehensive audit which covers all information in the annual report which is legally required to be disclosed (not just the financial statements) to the standard of 'reasonable assurance'.

As stated in response to Question 30, we believe climate change is a material financial matter that is directly relevant to assumptions and estimates which underpin the financial statements. This proposal risks continuing to relegating climate change to an 'extra' non-financial matter.

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?

See answer to Question 37. However, if such a measure is to be introduced it is important that wider auditing services are also subject to oversight and supervision.

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

ARGA should ensure that the audit, accounting and consulting firms and/or their representative bodies are not allowed to lead the way in setting the reporting standards and should take an active role in international moves to develop any new standards for audit and corporate reporting.

6.3 Principles of corporate auditing

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 support the principles put forward in the Brydon Review.

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?

We do agree as per answer to Question 40.

6.3 Principles of corporate auditing

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 welcome the proposals.

6.5 Auditor reporting

43. Will the proposed duty to consider wider information be sufficient to encourage more detailed consideration of (i) risks and (ii) director conduct, as set out in the section 172 statement? Please explain your answer.
Further to our response to Question 35, even if a comprehensive audit of the entire annual report is not mandated, auditors should be required to audit and provide an opinion on the section 172 statement. Specific attention should be given to climate change-related factors when doing so.

6.6 True and fair view requirement

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?
We do not agree with this proposal. A more appropriate test is whether departure is required to meet stakeholders' needs and reasonable expectations. This provides an evidence-based standard against which directors' and auditors' decisions can be assessed, rather than leaving departures from the standards entirely at their discretion.

6.7 Audit of Alternative Performance Measures and Key Performance Indicators linked to executive remuneration

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?
As noted above, ideally auditors must be required to provide a comprehensive audit which covers all information in the annual report which is legally required to be disclosed (not just the financial statements) to the standard of 'reasonable assurance'. This should include climate change-related KPIs.

6.8 Auditor liability

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?
No answer given.
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?
No answer given.

6.9 A new professional body for corporate auditors

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.
No answer given.
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?
No answer given.
50. Should corporate auditors be required to be members of, and to obtain qualifications from professional bodies that are focused only on auditing?
No answer given.
51. Do you agree that a new audit professional body should cover all corporate auditors, not just PIE auditors.
No answer given.

7. Audit Committee Oversight and Engagement with Shareholders

7.1 Audit Committees – role and oversight

52. Do you agree that ARGA should be given the power to set additional requirements which will apply in relation to FTSE350 audit committees?
Yes.
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?
The enforcement elements set out in 7.1.18 are vague and risk inadequate sanctions being applied where reliance is placed on shareholders to take action upon notification. The regulator should have explicit powers and indeed enforcement obligations with regard e.g. to the composition of the audit committee in the event of requirements not being met.

7.2 Independent auditor appointment

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)?
No answer given.
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?
No answer given.
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?
No answer given.

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)?
No answer given.

7.3 Shareholder engagement with audit

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?

We agree with the proposals and implementation method for giving shareholders a formal opportunity to engage with risk and audit planning. Consideration should be given as to how the Stewardship Code can be used to encourage shareholders to take up these opportunities and to more actively engage on the topic of audit.

However, consideration should also be given as to how to provide formal opportunities for other stakeholders and users of corporate reporting to also engage with companies on their audit planning.

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?

We support the Brydon review proposal and do not consider attendance by the senior company auditor to be unduly onerous. There should be a standing AGM agenda item for questions to be put to the audit committee chair and the auditor. This would facilitate direct public accountability including in relation to climate change-related matters.

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?

No answer given.

Chapter 8 Competition, choice and resilience in the audit market

8.1 Market opening measures

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?

No answer given.

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?

No answer given.

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?
No answer given.

8.2 Operational separation between audit and non-audit practices

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?
We believe that there should be a total separation between audit firms and those firms offering other services to PIEs.
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 agree with this proposal.
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?
We believe the Government must go further as the current proposals are likely to fall short in practice.
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?
No answer given.

8.3 Resilience of audit firms and the audit market

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?
No answer given.

Chapter 9 Supervision of audit quality

9.1 Approval and registration of statutory auditors of PIEs

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?
We agree with this proposal.

9.2 Monitoring of audit quality

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

Individual audits that do not meet acceptable standards must be identified with sufficient reason being given as to the basis for this conclusion. If this is not done the stakeholders of the PIE will not know that the audit on which they are relying has not met the required standard.

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?

No answer given.

9.3 Regulating component audit work done outside the UK

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

No answer given.

9.4 The application of legal professional privilege in the regulation of statutory audit

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?

No answer given.

Chapter 10 A strengthened regulator

10.1 Establishing the regulator

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

Given that a lack of adequate enforcement has been an unfortunate characteristic of the existing regulatory regime, we believe the general objective should retain language around the regulator's role in ensuring the accountability of company officers and relevant professionals.

Given its recognition of the wider public interest, the regulator should be legally constituted so that the Freedom of Information Act will apply to it (as noted in paragraph 10.2.10 of the consultation document).

In line with the objective's reference to users of corporate reporting and the public interest, the composition of ARGAs should reflect these stakeholder groups including civil society representation.

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

The statutory objective of ARGAs should require it to have regard to the government's commitment to achieve a net-zero economy by 2050 under the Climate Change Act

2008 (Order 2019) when considering how to advance its objectives and discharge its functions.

Chapter 11 Additional changes in the regulators responsibilities

11.1 Supervision: Accountants and their professional bodies

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?
No answer given.
77. What safeguards, if any, might be needed to ensure the power to compel compliance is used appropriately by the regulator?
No answer given.
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)?
No answer given.
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?
No answer given.

11.2 Oversight and regulation of the actuarial profession

80. Is ARGA the most appropriate body to undertake oversight and regulation of the actuarial profession?
No answer given.
81. Should the regime for overseeing and regulating the actuarial profession be placed on a strengthened and statutory basis?
No answer given.
82. Do respondents support the proposed principles for the regulation of the actuarial profession? Respondents are invited to suggest additional principles.
The principles should require ARGA to have regard to the government's commitment to achieve a net-zero economy by 2050 under the Climate Change Act 2008 (Order 2019) when considering how to advance its objectives and discharge its functions, in relation to actuarial oversight and regulation.
83. Are the proposed statutory roles and responsibilities for the regulator appropriate? Are any additional roles or responsibilities appropriate for the regulator?
No answer given.
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?
No answer given.

85. Should the regulator be responsible for monitoring compliance with technical standards? Should it also consider compliance with ethical standards if necessary?
No answer given.
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?
No answer given.
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?
No answer given.
88. Do respondents agree with the proposed scope for independent oversight of the IFoA? In which ways, if any, should the scope be amended?
No answer given.
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?
No answer given.
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?
No answer given.
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?
No answer given.
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?
No answer given.
93. Does the regulator require any further powers in relation to its regulation and oversight of the actuarial profession?
No answer given.

11.4 Powers of the regulator in cases of serious concern

94. Are there other 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?
An additional requirement on auditors to disclose failures in climate change-related governance, risk management and reporting, that could affect company viability could also be considered.
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?
Such statutory protection would appear sensible.

96. How much time should be given to respond to a request for a rapid explanation?
No answer given.

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?
Yes.

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?
No answer given.