

Restoring trust in audit and corporate governance

Consultation on the government's proposals

Response from the Chartered Institute of Public Finance and
Accountancy

July 2021

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at www.cipfa.org

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Executive Summary

CIPFA is pleased to respond to this consultation which sets a package of measures aimed at improving the UK's audit, corporate reporting and corporate governance systems.

CIPFA welcomes measures to improve governance and accountability. Corporate failures, such as the collapse of Carillion, can, and do, negatively affect public service delivery. CIPFA therefore supports the government in its objective of improving oversight and restoring trust in UK business. Improvements to corporate governance, enhancements to corporate responsibility and an increased focus on the resilience of business are welcome measures to guard against unanticipated corporate failure.

CIPFA notes that following the government's decision to establish a standalone local audit unit within the Audit, Reporting and Governance Authority (ARGA), there is currently uncertainty and a lack of clarity about future arrangements for audit and oversight in the public sector. CIPFA has therefore taken the opportunity offered by this consultation to identify specific matters where clarity of the government's intentions for arrangements in the public sector would be appreciated.

Before responding to individual questions, CIPFA highlights three key areas of interest from the consultation to help frame its responses to individual questions.

Public Interest Entity (PIE) definition and regulation

CIPFA notes that some of the proposals in the consultation are more directed at the private sector. This is understandable, given the focus of the consultation. However, CIPFA acknowledges the scale and complexity of the proposals and is keen to avoid regulations and requirements intended for the private sector that inadvertently and/or inappropriately extend to the public and third sectors. For that reason, CIPFA proposes that rather than including the public and third sectors within the definition of PIE, sector-specific arrangements are the mechanism used, with PIE arrangements only extending to for-profit companies. Public and third sector entities would then benefit from audit, reporting and governance requirements designed to support their unique circumstances.

The public sector already benefits from enhanced levels of scrutiny when compared to the private sector, while the transparency agenda allows for high levels of accountability in the public sector. CIPFA notes that several proposals in the consultation mirror practices that already exist in the public sector. A wider scope of audit taking into account matters such as value for money and internal controls already exists in the public sector. Local Authorities, for example are required to publish an Annual Governance Statement, covering all aspects of risk and internal control, alongside the financial statements. Auditors then have a role in providing assurance on governance arrangements. For example, in England, the NAO's Code of Audit Practice requires that auditors should "undertake sufficient work to be able to satisfy themselves as to whether, in the auditor's view, the audited body has put arrangements in place that support the achievement of value for money" (paragraph 3.6¹). Additional requirements being proposed for PIEs risk creating duplication for some public sector entities. CIPFA therefore recommends scoping the public sector out of the PIE definition to avoid unnecessary duplication. CIPFA believes that it would be more appropriate for separate regulation as required.

CIPFA's view on the inclusion of large third sector entities in the definition of PIE is detailed in our response to Question 6 below.

¹ https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf

Separate audit profession

CIPFA strongly disagrees with the proposal to create a separate audit profession and believes that the proposals are founded on misunderstandings about current training arrangements for auditors. CIPFA is supportive of developing public finance professionals with the skills to look beyond the financial statements. It is for this reason that the taught syllabus for CIPFA's own professional qualification covers not just financial reporting, but audit and assurance, financial management, strategy and policy development, corporate governance, law and tax. Further, CIPFA's programme for continuing professional development includes training on sustainability, climate change, the future of social care, anti-corruption, fraud investigations, governance and accountability, and public sector resilience. CIPFA is confident that its professional development programme is well-equipped to train professionals to provide assurance on a range of relevant matters, both financial and non-financial. Accounting professionals are already leading the way on a range of corporate reporting developments including better management commentary and sustainability reporting. CIPFA therefore disagrees with the view expressed in the consultation that the accounting profession will not organically develop in a way that supports the government's vision for corporate reporting. CIPFA supports breadth in training arrangements, which enhances career mobility for talented individuals and supports the attractiveness of a career in audit.

There is a risk of losing important links between accounting and audit if auditors and accountants have different professional bodies. Statutory auditors will still need in-depth knowledge of financial reporting; a separate audit profession is likely to create duplication and unnecessary cost given that most auditors are also likely to need to train as accountants. Further, CIPFA notes that audit firms do not solely employ accountants. Audit firms bring together a range of professionals with a range of specialisms to contribute to areas of the audit beyond the skillset of auditors with accounting qualifications. These specialists have transferrable skills, such as IT, legal or valuation skills, that can be used either within the audit profession or elsewhere. CIPFA is concerned that the creation of an audit profession with its own qualifications will reduce the attractiveness of the audit profession to the broad range of specialists that firms currently rely on and who are able to establish careers outside audit. It is not clear how a single audit profession will be in a better position to bring together teams of people with the broad range of skills necessary to conduct audit and assurance engagements. If the intention is for firms to continue to use the services of skilled specialists to supplement auditors' own skills, it is not clear how a separate audit profession will represent an improvement on audit firms' existing arrangements.

It is CIPFA's view that the profession already has the knowledge and infrastructure in place to deliver on broader corporate reporting, and that the establishment of a new profession would be an unwelcome distraction that risks stalling and diluting ongoing progress.

Regulation of auditors and accountants

CIPFA recognises that transparency and accountability are important in maintaining the public's trust in the work of auditors and accountants. CIPFA strongly supports the case to formalise in law the current voluntary arrangements with the FRC in order to continue to ensure the highest of professional standards and the public's trust in regulatory oversight of auditors and accountants more widely. However, it is difficult to express detailed views on the future role of the regulator in the absence of detail about specific regulatory arrangements.

CIPFA notes that throughout the consultation, additional regulatory roles for ARGAs are suggested. CIPFA welcomes regulation in the public interest. However, CIPFA is concerned that ARGAs may lack the capacity and resources to deliver on its additional responsibilities following this consultation. CIPFA highlights the need for government support in this respect. Further, CIPFA is mindful that careful consideration should be given to ensuring the expected benefits from any additional regulation outweigh the costs of compliance for accountants themselves, their professional bodies and the wider economy engaging accountants and auditors. Safeguards must be established to ensure that through its governance and engagement, ARGAs achieve value for money.

Detailed consultation response

CIPFA is supportive of the government's aim to enhance trust in UK corporate reporting. CIPFA has kept in mind the principal objectives of enhancing quality and trustworthiness throughout our response. Please see below for CIPFA's responses to individual questions from the consultation.

Question	Response
Chapter 1 The Government's Approach to Reform	
1–5	Questions 1–5 focus on private sector entities. CIPFA therefore does not offer a response to these questions.
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?	<p>CIPFA is dedicated to sound public financial management. We consistently champion accountability and transparency in the public and third sectors. CIPFA's range of qualifications, publications and codes seek to drive improvements in areas such as public financial management, counter fraud and governance. CIPFA therefore agrees that large third sector entities, including charities, housing associations and universities, should be subject to oversight commensurate with the important role they play in society.</p> <p>However, CIPFA does not believe the best way to oversee the third sector is through regulation for PIEs more suited to the private sector. Various chapters and questions in the consultation suggest changes to PIE requirements that would not be suitable for third sector entities. For example, questions in Chapter 2 about distributable profit reporting requirements and legality of dividends (Q16 and Q17) would not be relevant to many entities in the third sector.</p> <p>CIPFA therefore recommends that third sector entities are excluded from the definition of PIE. CIPFA recommends that a parallel, sector-specific set of regulations are introduced for the third sector to allow for oversight and accountability without drawing the third sector into potentially unsuitable requirements.</p> <p>CIPFA notes that where third sector entities meet the PIE criteria at a smaller size than is required for companies, there is a risk that some PIE regulations that are suitable for company PIEs become unaffordable for some third sector PIEs. For example, paragraph 11.4.13 highlights the FRC's recommendation that the regulator be given powers to commission an expert review at the PIE company's expense when it has serious concerns about a PIE. CIPFA believes this recommendation will, if enacted, support the government's objective of restoring trust in audit and governance of UK companies. However, CIPFA is concerned that if third sector PIEs are in scope of such a regulatory power, the cost of an expert review would be proportionately higher for third sector PIEs given they may become PIE at a smaller size. While CIPFA hopes that third sector PIEs would never give rise to such concern, CIPFA would not be supportive of a system that gives rise to disproportionate costs for the third sector.</p>

Question	Response
	<p>Rather than following a “one size fit all” approach to PIEs, which would lead to a need for scoping third sector entities out of unsuitable requirements, CIPFA believes it will be preferable for a parallel, sector-specific set of requirements to be established for the third sector. In addition, CIPFA recommends that public sector entities follow public sector specific guidance and should be scoped out of the requirements for companies. Sector-specific requirements, led through respective regulators, would avoid the introduction of requirements that duplicate existing practice, or that are only relevant to for-profit companies. Separate-but-comparable systems for the public sector and third sector entities can also enable the objectives of the government on restoring trust to be achieved; a gap in scrutiny or oversight would be avoided while at the same time avoiding the creation of unsuitable regulation.</p>
<p>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?</p>	<p>As outlined in our response to Question 6, CIPFA believes that a separate system of regulation would be preferable for third sector entities. CIPFA does not express a view on what an appropriate threshold for ‘large’ would be at this stage.</p>
<p>8. Should any other types of entity be classed as PIEs? Why should those entities be included?</p>	<p>CIPFA refers back to its earlier comments that public sector entities should be scoped out of the PIE definition, in light of their own unique circumstances and existing regulatory requirements.</p> <p>As noted in our response to Question 6, similar to the third sector, CIPFA is of the view that public sector organisations should be specifically excluded from the proposals in this consultation document. This is because public sector organisations are subject to existing regulatory requirements that are consistent with the proposals in this document. Regulators should apply any consequential enhancements through existing channels.</p>
<p>9. How would an increase in the number of PIEs impact on the number of auditors operating in the PIE audit market?</p>	<p>CIPFA is concerned that the proposals taken as a whole (i.e. considering the additional regulations proposed for PIEs and PIE auditors at the same time as considering the increased number of PIEs) may lead to additional risk for PIE auditors. This may in turn increase the cost of auditing or make the market less attractive to PIE auditors, causing it to contract. There is a risk that, taken together, the proposals in the whitepaper may make the non-PIE market more attractive than the PIE market to auditors.</p>
<p>10. Do you agree that the government should provide time for companies to prepare for the introduction of a new definition of PIE?</p>	<p>CIPFA is of the view that change should be made on a timely basis and that unnecessary delay should be avoided in order to ensure that governance structures engender trust in UK business. However, the scale of reform is such that preparation time is required, particularly to allow ARGAs to be established in advance of other regulations becoming effective.</p> <p>CIPFA would agree that companies, as well as public and third sector entities, will benefit from a significant lead-time (paragraph 1.3.37) to prepare for the introduction of a new</p>

Question	Response
	definition of PIE. It will take time for entities to understand the new requirements of PIEs currently being consulted on.
11. Do you agree that the government should seek to offer a phased introduction for a new definition of PIE?	<p>CIPFA acknowledges the concern that a phased introduction would lead to some public interest entities temporarily remaining outside the PIE regulatory regime. However, CIPFA agrees with the government that phasing in the new PIE definition would be a more practical approach than adopting the new PIE definition on a 'big bang' basis.</p> <p>As indicated in our response to Question 6 above, CIPFA would welcome clarity on the approach the government intends to take to public and third sector entities before the new definition of PIE is introduced.</p>
Chapter 2 Directors' accountability for internal controls, dividends and capital maintenance	
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?	<p>CIPFA considers that it is desirable for strengthened responsibility and accountability of board members for the effectiveness of internal control and risk management. Board members are responsible for establishing effective control, risk and assurance arrangements and should be able to provide public assurance that these arrangements are fit for purpose. Where significant issues are identified then a commitment to addressing them should be made to stakeholders.</p> <p>CIPFA notes that public sector bodies already benefit from regulation and scrutiny to support strong systems of internal control. For example, the existing requirements of local government bodies in the UK stipulate the publication of an annual governance statement (AGS) alongside the financial statements. These requirements are mandated by regulations as set by the national governments of the UK. CIPFA provides the guidance to local government bodies on the completion of the AGS.</p> <p>The scope of the AGS covers all aspects of internal control and risk management, it is not restricted to controls over financial reporting. It includes an opinion on the level of assurance that can be provided and whether the arrangements are fit for purpose. The statement must be signed by the chief executive and the leading elected member of the body. The AGS is reviewed by the auditors for consistency with their knowledge and understanding of the body. It is also reviewed to support the auditor's work on value for money or use of resources, part of the wider audit scope applicable to public sector audit.</p> <p>As noted in our response to Questions 6 and 9, whilst CIPFA supports stronger regulation of internal controls, CIPFA is of the view that separate sector specific</p>

Question	Response
	arrangements through existing regulators would be appropriate, to avoid duplication and ensure sector appropriate requirements.
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?	<p>From a public interest and public financial management perspective, CIPFA believes there is merit in the government's preferred option.</p> <p>As noted in our response to Question 12, some public sector bodies in the UK already publish an annual governance statement covering a broad scope of internal control and risk. CIPFA would therefore be keen to ensure that any additional requirements make use of existing reporting mechanisms to avoid duplication.</p>
14. If the framework were to be strengthened, which types of company should be within scope of the new requirements?	<p>The response should be proportionate and focus firstly on the largest PIEs.</p> <p>As set out in our response to Question 13, public sector entities already face additional reporting requirements with respect to governance. The government should therefore consider if further regulation is necessary for public sector bodies, as CIPFA would be keen to avoid duplication.</p>
15–18	<p>The public and third sectors rely on services provided by for-profit entities and there is therefore a public interest perspective in ensuring the transparency over distributions and the operating capability of entities. The collapse of entities such as Carillion demonstrate this interdependency.</p> <p>As noted in our response to Questions 6 and 9 CIPFA is of the view that the public sector and third sector should be excluded from the proposals with appropriate requirements managed through the regulators of those sectors, as aspects of the proposals either duplicate existing requirements or are not appropriate. CIPFA would therefore prefer a parallel, sector-specific regulatory framework for public and third sector PIEs to avoid an unsuitable regulatory environment being created.</p> <p>CIPFA's view is informed by the fact that some public sector entities already meet the PIE definition. For example, Aberdeen City Council is a PIE by virtue of having issued bonds on the London Stock Exchange. Requirements around calculating distributable profits and legality of dividends are not relevant in a public sector context. Further, should the government decide to include third sector entities in the definition of PIE, distributable profits and dividends would again be irrelevant in context.</p> <p>There is therefore a risk of creating an unsuitable regulatory framework for the public and third sectors; the government should be mindful of this when (a) deciding whether to</p>

Question	Response
	include public and third sector entities in the definition of PIE; and (b) deciding whether to extend regulations to all PIEs.
Chapter 3 New corporate reporting	
<p>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?</p>	<p>CIPFA agrees that a resilience statement is likely to provide useful information for investors in private sector companies. The matters suggested for inclusion in a resilience statement in paragraph 3.1.13 seem reasonable and relevant for such companies.</p> <p>CIPFA notes that public sector entities are not likely to deal with major disruptive events independently. For example, central government actions in response to major challenges such as the Covid-19 pandemic will affect local authorities and NHS bodies. The public sector's reporting framework is distinct from the private sector's due to such differences. Further, the ability of public sector bodies to plan for the medium and long term is related to certainty around funding from central government. Taking local government bodies as an example, as the 2021-22 settlement was a single year settlement, the ability to plan for the long term is hampered.</p> <p>Should the government decide that resilience statements are required for public sector PIEs, CIPFA believes guidance will be required on how a resilience statement should be prepared in the public sector.</p> <p>CIPFA would welcome clarity on whether the government anticipates requiring public and third sector PIEs to produce a resilience statement and, if so, what the government anticipates the required content would be for public and third sector PIEs. While some of the factors outlined in paragraph 3.1.13 will also be relevant to public and third sector entities, some would not, for example the sustainability of the company's dividend and wider distribution policy.</p>
<p>20. Should the resilience statement be a vehicle for TCFD reporting in whole or part?</p>	<p>CIPFA agrees that regulation to require disclosure on an entity's impact on climate change is useful. CIPFA does not anticipate that a voluntary regime would drive effective action on climate change; therefore CIPFA supports a requirement to include climate-related disclosure in an annual report. CIPFA does not express a preference on choice of framework for such reporting (i.e. on whether TCFD or an alternative approach would be most suitable). CIPFA would stress that disclosure requirements in the public sector need to be appropriate to the public sector. Further, consideration should be given to the assurance requirements for climate-related disclosure.</p>

Question	Response
<p>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?</p>	<p>Per our response to Question 19 and noting that some public sector entities are already PIEs, CIPFA recommends that the government gives consideration to the appropriateness of the resilience statement in the context of public and third sector entities. CIPFA anticipates that different requirements will be necessary to ensure that requirements are suitable for the public and third sectors.</p>
<p>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?</p>	<p>CIPFA agrees with the proposed minimum content for the audit and assurance policy.</p> <p>CIPFA agrees that organisations should have robust audit and assurance arrangements that extend beyond the audit of the financial statements. Bringing together all audit and assurance arrangements into a coherent policy statement would help directors, audit committees and stakeholders to understand the full extent of these arrangements.</p> <p>Public sector entities already have well-developed frameworks in this respect. In local government bodies in the UK, for example, it is already mandatory to have an effective internal audit and the Public Sector Internal Audit Standards include additional accountability statements as regards internal control arrangements. Each year the head of internal audit must deliver an annual internal audit opinion that concludes on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. This opinion will normally be available to the public through the transparency requirements on local government bodies. The annual opinion informs the organisation’s annual governance statement.</p> <p>CIPFA would support the development of robust internal audit arrangements in other sectors.</p>
<p>23–27</p>	<p>As noted in our responses to questions 6 and 9, CIPFA is of the view that public sector and third sector should have separate arrangements. If there is an intention to extend the requirement to produce an audit and assurance policy to the public sector, CIPFA would recommend that care is taken not to create duplication with existing requirements in the public sector (as referred to in our responses to Questions 12 and 22)</p> <p>CIPFA supports improvements to supplier reporting that is proportionate and supports the needs of stakeholders. Companies that are PIEs have an important role to play through timely payments to smaller entities in supporting local economies.</p>
<p>Chapter 4 Supervision of corporate reporting</p>	

Question	Response
<p>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?</p>	<p>CIPFA would welcome clarity on whether the proposals included in Chapter 4 would apply to company PIEs only. Specifically, CIPFA would welcome clarity on how these proposals would apply to public and third sector PIEs should the definition of PIEs include large third sector entities, and noting that some public sector entities are already PIEs.</p> <p>CIPFA is broadly supportive of a strengthening of the regulator's powers to allow the regulator to scrutinise the entire annual report and accounts. As indicated in our responses to Questions 6, 12 and 13, it is already common for public and third sector entities to benefit from enhanced scrutiny, and therefore assurance, of corporate reporting. However, there is a need for proportionality in regulation to ensure the benefits of any additional regulation outweigh the costs. If the government's intention is for public and third sector PIEs to be covered by the recommendations referred to in Chapter 4, CIPFA recommends that the FRC/ARGA identifies the scope of existing scrutiny in the public and third sectors to avoid any unnecessary duplication.</p> <p>Paragraph 4.2.1 notes that "the Government will replace the regulator's current power to seek a court order [to order amendments to financial statements] with a power to direct changes to reports and accounts". CIPFA would agree with respondents referred to in the introduction to Section 4.2 that an appeal or reconsideration procedure should be introduced alongside ARGAs stronger power, by way of a balance to ARGAs stronger power.</p> <p>CIPFA notes in paragraph 4.2.2 that ARGAs will have the power to direct changes to reports and accounts where an expert review has indicated that the report or accounts need to be amended. CIPFA would welcome clarity on how this power might be operationalised. Expert reviews are likely to be commissioned for matters involving subjectivity and judgement. CIPFA therefore anticipates grey areas, for example, where an expert reviewer recommends an amendment to a figure but offers a range of values that may be appropriate rather than recommending the single value that should be recorded. CIPFA would recommend that in such situations, ARGAs and the audited entity would be required to engage in a discussion to finalise the necessary amendment.</p> <p>CIPFA notes in paragraph 4.2.4 that the regulator will have powers allowing it to publish correspondence entered into during the course of a CRR review, as well as summary findings. If the government's intention is to extend this power to public and third sector PIEs, CIPFA would recommend consideration be given to existing freedom of information requirements. Duplication of powers already held by the Information Commissioner's Office should be avoided as this may create confusion. Also, CIPFA would caution</p>

Question	Response
	<p>against regulation that unintentionally removes confidentiality safeguards built into freedom of information regulations.</p> <p>Paragraphs 4.2.8 – 4.2.10 discuss the government’s proposals to ensure that ARGA has the necessary powers to provide a preclearance service. CIPFA believes a preclearance service will be beneficial, but acknowledges that this will be dependent on a pilot study to assess demand. CIPFA would appreciate clarity on the role that ARGA intends to play with public sector and third sector entities.</p> <p>CIPFA notes paragraph 4.4.1 in which the government outlines its plans to give ARGA a “regulatory principle” relating to promoting brevity, comprehensibility and usefulness in corporate reporting. CIPFA acknowledges this proposal is likely to relate to private sector corporate reporting. CIPFA notes that, following the Redmond Review, work is already ongoing in the public sector with respect to brevity and understandability in the annual report.</p>
<p>Chapter 5 Company Directors</p>	
<p>Chapter 5 of the consultation largely addresses issues specific to the private sector. CIPFA would note that, should public and third sector entities remain within the scope of the PIE definition following this consultation process, care will need to be taken to ensure that the proposals in this chapter are appropriately translated to remain suitable when applied in a public or third sector context.</p> <p>CIPFA supports, in principle, proportionate proposals designed to ensure directors can be held responsible if they do not meet their statutory responsibilities. As per our responses to questions 6 and 9 CIPFA is of the view that these proposals don’t apply to public sector or third sector entities. However, if the government’s intention is to include such entities CIPFA stresses that care will need to be taken when establishing which employees and/or elected officials should be covered by the requirements. For example, it is unclear which officers in a local authority would be the equivalent of the directors covered by the measures proposed in Chapter 5. The presence of elected members adds further complexity. The relationship between elected members and officers is likely to create grey areas should non-compliance be identified. Such detail would need to be worked through before any requirements could be extended to the public and third sectors.</p>	
29	CIPFA does not offer a view on this question.
30. Are there any additional duties that you think should be in scope of the regulator’s enforcement powers?	CIPFA notes that the government stresses the need for proportionality in sanctions. CIPFA would agree both with the idea of proportionality, and with the additional duties that will be in scope as suggested in paragraph 5.1.21.
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?	CIPFA believes that the statutory duties outlined in paragraph 5.1.21 would seem sensible duties to elaborate on. CIPFA would be keen for such elaboration to be in terms of principles, rather than a tick-box list of rules.

Question	Response
<p>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?</p>	<p>CIPFA would be supportive of this proposal, and notes that such requirements already exist in the public sector. CIPFA highlights the Nolan Principles as a potential starting point. However, CIPFA would note that regulators may find it difficult to identify and take action against breaches of behavioural standards in practice, and would recommend thought being given to how breaches of behavioural standards may be successfully challenged.</p> <p>CIPFA notes that the Committee on Standards in Public Life is still awaiting a response from the government on its review into local government ethical standards and would welcome a response to this review as a first step in introducing sanctions for ethical breaches from elected representatives, both in local government and beyond.</p>
<p>33. Should the government's proposed enforcement powers be made available to the regulator in respect of breaches of directors' duties?</p>	<p>CIPFA believes that the government's proposed enforcement powers should be made available to the regulator, noting that the regime would provide a graduated range of civil sanctions and that the regulator would be required to apply sanctions in a proportionate manner.</p>
<p>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?</p>	<p>CIPFA would welcome clarity on whether the government intends to extend malus and clawback conditions to the public and third sectors. If so, CIPFA recommends that when determining the size of potential penalties, consideration be given to differences in pay and bonuses between the public and private sector, in particular at executive level.</p>
<p>Chapter 6 Audit Purpose and Scope</p>	
<p>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?</p>	<p>CIPFA agrees that an effective audit requires auditors to access a range of information to inform their judgement. ISA 315 <i>Identifying and Assessing the Risks of Material Misstatement</i> requires that auditors obtain an understanding of the audited entity and the environment in which it operates. IAS 315 [19] indicates that auditors should develop an understanding of a range of information, including industry, regulatory and other external factors, and the measures used, internally and externally, to assess the entity's financial performance. Further, ISA 315 requires auditors to understand the business risks faced by the audited entity, with paragraph A64 indicating that this understanding can be developed by consideration of industry developments, regulatory requirements and business strategy. ISA 315 [A68] indicates that an understanding of industry factors requires consideration of the market, competition, seasonal activity, product technology, and energy supply and cost. Auditors are then required to use their knowledge of the entity and the environment in which it operates to inform audit procedures. For example, ISA 540 <i>Auditing Accounting Estimates and Related Disclosures</i> requires auditors to use</p>

Question	Response
	<p>their knowledge of the entity when auditing accounting estimates, while assessment of the entity's operating environment is fundamental to the audit of going concern under ISA 570.</p> <p>ISAs therefore already require auditors to access a wide range of information, both financial and non-financial and both internal and external to the audited entity. Further, CIPFA notes that public sector auditors must already access a range of wider/non-financial information to provide assurance on governance and value for money arrangements. Public sector auditors may also have existing obligations to work with external stakeholders. For example, local authority auditors are required to deal with electors' enquiries and objections, and in some circumstances issue public interest reports.</p> <p>CIPFA would therefore welcome clarity from the government on:</p> <ul style="list-style-type: none"> • where the government believes auditors are not currently fulfilling the requirements to access wider information; and • the type of wider information the government believes auditors should access in order to reach more informed judgements, being mindful of the need to avoid the costs of the audit outweighing the benefits. <p>CIPFA anticipates that, due to ISA requirements, auditors are already likely to be meeting the government's objective with respect to accessing a range of non-financial information. CIPFA would therefore question the need for a statutory requirement.</p> <p>CIPFA notes paragraph 6.1.10 of the whitepaper indicates the government is minded to give auditors a specific responsibility to consider relevant director conduct. As with requirements to assess wider information, CIPFA notes that ISA requirements already ask auditors to assess management behaviour. For example, ISA 240 <i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i> requires auditors to consider the honesty and integrity of management when assessing fraud risk. CIPFA would therefore welcome clarity on how the government intends to change the auditor's role in this respect.</p> <p>It is unclear what the government intends auditors will assess in terms of director conduct. CIPFA would caution against extending the auditor's role too far in this respect. The role of the auditor is not to express a view on how well or otherwise the directors of an entity discharge their responsibilities. This is a value judgement which, as indicated in</p>

Question	Response
	<p>our response to Question 36, CIPFA believes could compromise auditor independence. CIPFA believes the stakeholders for whom the directors work (shareholders in the case of a company) are better placed to come to a judgement on whether directors are running the entity appropriately. CIPFA therefore believes the government should look to institutional investors, rather than auditors, to assess director conduct.</p> <p>While CIPFA notes Brydon's view in paragraph 6.1.3 that focus on the expectations gap is a distraction, CIPFA does not believe that legislation on its own will bring about trust in audit or in UK business. The public need to understand processes in order to trust them, which requires better communication. This necessitates consideration of the expectations gap and how best to close it. Responsibility for closing the expectations gap cannot rest solely with auditors, for whom the main method of communicating with the public is through the audit report which it is unlikely will be widely read. Responsibility for better communication of the role of the auditor needs to be shared. The government, businesses themselves and other interested parties such as business journalists all need to help accurately communicate the role of audit and why the public can trust the work of auditors.</p>
<p>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?</p>	<p>CIPFA understands the importance of high-quality audit and assurance services for a well-functioning economy, and advocates for transparency and accountability. CIPFA therefore agrees with the overall aim that audit should help establish and maintain confidence in published information.</p> <p>Whether this should lead to the adoption of the suggested new purpose of audit by the regulator is less clear. CIPFA supports the idea that audit reporting should be useful and informative. However, in terms of "deserved confidence" in a company/entity, CIPFA anticipates that there will be situations beyond the control of the auditor that could prevent the auditor from meeting a goal to establish and maintain deserved confidence. For example, if the directors of an entity are not meeting their responsibilities, the concept of "deserved confidence" would not apply. However, this would be a matter for stakeholders (shareholders, trustees or elected members) working in conjunction with the directors to make improvements. While auditors can take actions such as engaging with audit committees, or highlighting any non-compliance or any matters in the entity's reporting that do not faithfully represent what they purport to represent, auditors would not be able to establish and maintain deserved confidence in this situation. It would therefore be inappropriate for a regulated goal that requires auditors to help establish deserved confidence. It is up to the entity itself to deserve confidence; the auditor cannot create confidence on the entity's behalf.</p>

Question	Response
	<p>In making judgements on what ‘good’ and ‘bad’ management look like, the auditor risks affecting decision-making within the entity. Such a step could threaten auditor independence with unintentional moves into the decision-making work of management. CIPFA is therefore concerned about steps that require auditors to make value judgements about the operation of an entity.</p> <p>CIPFA believes that confidence in UK business and governance will come from a well-functioning three-way relationship between directors, stakeholders (shareholders, elected members or trustees as relevant to the type of entity) and auditors. CIPFA is of the view that other proposals contained in the whitepaper, for example proposals aimed at building a stronger relationship between stakeholders and the audit committee, will better achieve the aim of establishing confidence since these proposals better speak to the various different parties that have a role to play.</p>
<p>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?</p>	<p>CIPFA agrees 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.</p> <p>However, CIPFA does have concerns of some use of terminology, specifically use of “audit” to describe assurance work outside the statutory audit of the financial statements. CIPFA believes changing the definition of audit in this way is likely to lead to confusion. For example, if an assurance engagement conducted due to its inclusion in the audit and assurance policy has a negatively worded opinion and provides limited assurance, users of the report might incorrectly assume that the work provides comparable assurance to that obtained in a statutory audit if both are called “audit”.</p>
<p>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?</p>	<p>High-quality reporting underpinned by an effective inspection regime is in the public interest and is likely to engender trust in corporate reporting in the UK. CIPFA therefore supports the extension of the regulator’s inspection regime to cover wider corporate auditing (per the definition applied in the consultation document and noting our concerns about redefining audit as outlined in our response to Question 37). However, CIPFA cautions that the inspection regime should be proportionate to avoid the costs of the regime outweighing its benefits.</p>
<p>39. What role should ARGAs [Audit, Reporting and Governance Authority] have in regulating these wider auditing services? Should its role extend beyond setting, supervising and enforcing standards?</p>	<p>CIPFA is supportive of a proportionate supervisory and enforcement role for ARGAs. CIPFA would appreciate further clarity on the perceived role for ARGAs in setting standards for wider auditing/assurance services in order to identify any potential duplication with, or contradiction of, international or sector-specific assurance standards.</p>
<p>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</p>	<p>CIPFA is broadly supportive of the auditing principles, noting that the principles suggested are largely similar to existing principles that are already being followed.</p>

Question	Response
<p>principles suggested by the Brydon Review would be a good basis for the regulator to start from?</p>	<p>With respect to the third principle outlined in section 6.3 (“Auditors act in the public interest and have regard to the interests of the users of their report beyond solely those of shareholders”) CIPFA has concerns about an auditor’s liability. While agreeing in principle that auditors perform an important role in the public interest, CIPFA would appreciate clarity on how the government anticipates this particular principle might be interpreted.</p> <p>With respect to the seventh principle outlined in section 6.3 (“Auditors ask the directors to report any material information that may legitimately be disclosed to assist the understanding of users of an audit report, and, if necessary, disclose it themselves”), CIPFA is concerned about the possible ramifications for legitimate confidentiality.</p>
<p>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?</p>	<p>CIPFA agrees that auditors should demonstrate ethical behaviour throughout their work. However, while auditors apply International Auditing Standards to their work, CIPFA is mindful that any audit principles set by a UK-based regulator would need to be linked to ISAs on an ongoing basis. CIPFA therefore questions the need for a UK-specific set of principles for auditors given the existence of internationally accepted ethical principles that auditors already adhere to.</p>
<p>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.</p>	<p>CIPFA believes it will enhance the understanding of users of the audit report if auditors provide more information about their approach to fraud, therefore CIPFA agrees with the government’s proposals as set out in paragraphs 6.4.5 and 6.4.6.</p> <p>CIPFA notes that the Brydon review recommended that fraud awareness and forensic accounting training form part of the qualification and continuous learning process for financial statement auditors (paragraph 6.4.7). CIPFA supports this recommendation, and notes that training is already available in this respect. CIPFA students learn about the auditor’s general responsibility to maintain professional scepticism and the auditor’s specific responsibilities around assessing fraud risk per ISA 240 as part of their studies. Additionally, CIPFA offers bespoke training in counter fraud skills which could form an invaluable part of CPD for auditors.</p> <p>CIPFA agrees with the government that the existing audit enforcement procedure already provides for an independent and impartial decision-making tribunal with respect to determining sanctions relating to fraud detection.</p>
<p>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.</p>	<p>CIPFA refers back to our response to Question 35, in which we identify the need for clarity over the additional information that auditors should consider that they do not currently consider when conducting the audit. Further, CIPFA refers back to our response</p>

Question	Response
	to Question 36 in which we highlight the need for more emphasis to be placed on other parties such as institutional investors in the evaluation of director conduct.
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?	<p>As acknowledged by the government in paragraph 6.6.7, the true and fair override is only used rarely. CIPFA has not seen evidence to suggest that there are currently any issues with respect to the use of the true and fair override.</p> <p>As noted in our response to Question 40, auditors already work within ethical principles. CIPFA therefore agrees that auditors' judgements regarding truth and fairness should be informed by ethical principles (either the proposed principles of corporate auditing or existing, internationally accepted frameworks depending on the outcome of this consultation). CIPFA expects this is likely to already be the case.</p>
45–46	Questions 45 and 46 relate specifically to companies, therefore CIPFA does not express a view.
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?	The public sector audit market is very different to the audit market for private sector companies. Issues in the public sector audit market are currently being worked on outside this consultation. In particular, the Redmond Review into audit of local government bodies has identified a range of issues affecting the supply of public sector auditors. These include issues such as sufficiency of fees. Greater innovation is unlikely in public sector audit unless an appropriate fee structure is developed.
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.	<p>CIPFA is of the view that auditors benefit from holding broad skill sets and believes that auditors can, and do, develop these broad skill sets within the accounting profession. The whitepaper gives the impression that it is assumed auditors focus only on financial reporting from their existing accounting qualifications. This is not the case. Accounting qualifications support the rounded development of members, including auditors. For example, the CIPFA qualification includes taught/examined audit and assurance training as part of a rounded curriculum that also contains training in financial reporting, financial management, strategy and policy development, corporate governance, law and tax. CIPFA notes the government's suggestion in paragraph 6.9.10 ("The qualifications and continuous learning framework for members of the new profession will also need to ensure that all auditors have a core set of audit-specific skills and experience.") and would highlight that accounting qualifications and CPD programmes offered by professional bodies including CIPFA already provide such training.</p> <p>We would highlight that accounting qualifications are not just about the taught syllabus and exams. Accounting qualifications also include requirements for supported on-the-job training in which professionals, including auditors, learn the entity- and role-specific aspects of their work. CIPFA requires that its trainees undertake 400 days of on-the-job</p>

Question	Response
	<p>training before they are eligible for membership. In addition to passing exams and completing on-the-job training, trainees must also provide evidence of key skills and behaviours before they successfully qualify. CIPFA would caution against a belief that qualifications are only earned in the classroom; trainee auditors must complete a substantial amount of audit work, supported by their employer, before they can qualify. Existing qualifications already provide for this.</p> <p>CIPFA notes the government’s concern that a broader corporate audit market has not developed organically. CIPFA would like to understand more about the basis of this concern. Public sector auditors, for example, are already required to complete a range of work beyond the audit of the financial statements, including offering an opinion on value for money and governance arrangements. For this reason, CIPFA would disagree that because auditors follow an accounting qualification that they are therefore predisposed to focus on finance. CIPFA would further disagree with the idea that auditors are not innovative, or supportive of the value of audit of wider information. Rather, CIPFA believes that the audit and assurance market has developed in a way that reflects the demands of audited bodies, which in itself reflects the regulatory environment. That is, if there is no regulation demanding an audit of, for example, ESG information, there will be limited demand for auditors to provide such a service. It does not follow from here that, because of their membership of the accounting profession, auditors are reluctant to innovate, or work beyond the scope of the financial statements. On the contrary, the accounting profession is leading the way on corporate reporting developments outside the financial statements. For example, developments in integrated reporting, sustainability reporting, usefulness of narrative information, management commentary, and monetising the impact of climate change in order to drive action on climate change are all coming from the accounting profession. CIPFA’s own free webinar series has, in the past twelve months, covered matters including safeguarding, sustainability, climate change and the future of social care. Such a programme aligns closely with the “other” information that the government proposes will be subject to wider corporate auditing. CIPFA believes that the accounting profession is already leading on quality corporate information beyond the scope of financial reporting; establishing a new audit profession separate from the accounting profession risks taking a backward step on this work.</p> <p>CIPFA notes that in its firm specific reports on the quality of audit in 2020², the FRC highlighted good use of specialists as a hallmark of a good quality audit, particularly</p>

² BDO: <https://www.frc.org.uk/getattachment/e750b048-37a5-4e6b-8e4f-c6cd60f1360f/BDO-Audit-Quality-Inspection-Jul-2020.pdf>

Question	Response
	<p>praising firms where specialists had been used effectively. CIPFA believes these findings are relevant in a discussion of setting up a separate audit profession as they highlight the fact that auditors can, and do, access specialists with a range of different skills if the auditor's own skills do not extend to a particular area. Given the range of different skills that will be required to audit the broader corporate information suggested by the whitepaper, CIPFA does not believe that a new single audit qualification will replace the need to use specialists. As "use of specialists" is already an area of the audit for which auditors gain praise, CIPFA does not believe that a change to the fundamental structure of the profession is required to allow professionals to deliver broader corporate auditing.</p> <p>Further, CIPFA is wary of creating a situation in which specialists might be required to hold audit qualifications in order to contribute to the delivery of an audit. Where a specialist has skills in, for example, cyber security, valuation or environmental science, these specialists are unlikely to think of themselves specifically as an auditor even when working for an audit firm. By creating a barrier to their work, such as a requirement to hold audit qualifications, there is a risk to the attractiveness to non-financial specialists of working in audit. This would reduce, rather than increase, firms' abilities to undertake broader corporate audit.</p> <p>CIPFA notes paragraph 6.9.10, which confirms that there is an ongoing need for statutory auditors to be trained in financial reporting in order for auditors to undertake the audit of the financial statements. There is a risk of losing important links between accounting and audit if auditors and accountants have different professional bodies. Additionally, it would seem inefficient and likely to create duplication and unnecessary cost to create an additional professional body for auditors, most of whom are likely to also need to train as accountants.</p> <p>CIPFA questions the government's belief that "A dedicated professional body, or bodies, for auditors ... should assist with the recruitment and retention of high calibre individuals looking to build a career in audit" (6.9.9). One key benefit of auditors obtaining accounting qualifications is the transferability of the qualification; this transferability attracts the highest calibre candidates onto training contracts and allows practitioners to move into careers in audit later in their career if they wish to do so. CIPFA believes these benefits</p>

Deloitte: <https://www.frc.org.uk/getattachment/2d161734-b4e1-46ab-9d77-f4901fcc3f34/Deloitte-Audit-Quality-Inspection-Jul-2020.pdf>

EY: <https://www.frc.org.uk/getattachment/023a929f-83b3-4136-963d-a3c97a6b616f/EY-Audit-Quality-Inspection-Jul-2020.pdf>

KPMG: https://www.frc.org.uk/getattachment/92f70791-bf5d-465a-8b6d-d9978fcf3a5a/KPMG_-Audit-Quality-Inspection-Jul-2020.pdf

PwC: <https://www.frc.org.uk/getattachment/b32e0c6e-7246-4a93-b3d6-343916b42592/PwC-Audit-Quality-Inspection-Jul-2020.pdf>

Question	Response
	<p>will be lost if a separate auditing qualification is created, with the result that the auditing profession loses, rather than attracts, high calibre candidates.</p> <p>CIPFA suggests that post-qualification CPD courses chosen to suit the individual auditor's needs would continue to enhance and support those carrying out audit activities. CIPFA's own range of CPD includes matters such as anti-corruption, fraud investigations, governance and accountability, risk management and assurance, resilience and sustainability, all of which would help practitioners develop the skills necessary for the delivery of broader corporate auditing.</p> <p>Further, CIPFA is currently developing an audit qualification that could allow auditors to develop knowledge of a broader range of assurance engagements, such as performance audit. Alternatively, other providers, such as surveyors, IT specialists or law firms, will be able to offer CPD courses in other fields. This solution will allow auditors to tailor their training to their own career and client needs based on the auditing work they undertake. Additionally, this solution offers flexibility in that all auditors will start with the same core knowledge-base, allowing them to change roles part-way through their career, thus retaining the attractiveness of a career in audit.</p> <p>For these reasons CIPFA is of the view that there is not a need for a separate audit profession and indeed it could adversely impact the attractiveness of audit related roles.</p>
<p>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?</p>	<p>Per our response to Question 48, CIPFA does not support the introduction of a new professional body for corporate auditors, therefore CIPFA does not make any recommendations on how the body should be established or how transition could be managed.</p> <p>CIPFA reiterates that existing training offered by professional accounting bodies together with the use of specialist resources already delivers much of what the government appears to want from a professional auditing body. CIPFA therefore does not agree there is a need for a new body.</p>
<p>50. Should corporate auditors be required to be members of, and to obtain qualifications from, professional bodies that are focused only on auditing?</p>	<p>No, CIPFA does not believe that corporate auditors should be required to be members of, and to obtain qualifications from, professional bodies that are only focused on auditing. Please see our response to Question 48 for a full discussion of our reasoning.</p>
<p>51. Do you agree that a new audit professional body should cover all corporate auditors, not just PIE auditors?</p>	<p>CIPFA disagrees with the idea of a new audit professional body, and believes that, however designed, a separate audit professional body would be disadvantageous. CIPFA is concerned that fragmenting audit between PIEs and non-PIEs would be</p>

Question	Response
	impractical for firms managing audits, where from a local public audit perspective there are already issues about the attractiveness of this work.
Chapter 7 Audit Committee Oversight and Engagement with Shareholders	
52–53	Questions 52 – 53 are relevant to FTSE 350 companies. CIPFA is not offering a view on these questions.
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)?	CIPFA understands the principle behind this question. CIPFA notes there is no auditor of last resort in the UK, therefore understands the case for ARGA to have the power to appoint an auditor. CIPFA anticipates that such a power would be used rarely, and regards this power as equivalent to powers in the legal profession that allow for the appointment of counsel by the court to act as a legal representative. It is important that the circumstances are limited to not create perverse behaviours. While CIPFA accepts that a conflict of interests could be created if ARGA were to appoint an auditor, CIPFA believes this is outweighed by the public interest need to ensure an audit is completed.
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?	<p>From a practical point of view, CIPFA is conscious that this power may need to be applied sensitively and pragmatically. For example, CIPFA recalls the issues faced by Huntingdon Life Sciences in securing an auditor in 2003. Audit firms were dissuaded from accepting Huntingdon Life Sciences as a client as a result of legitimate concern for the safety of individual auditors following a period of intense activity by animal rights groups. These issues were resolved when the government allowed anonymity for the auditor³. While CIPFA anticipates that situations of this nature will be rare, CIPFA would caution that each situation in which an entity cannot secure an auditor may require its own tailored solution.</p> <p>CIPFA notes the suggestion in 7.2.6 (“Equally, where a company struggles to find an auditor, the regulator may benefit from having a power to require an auditor to explain in a private report why it has chosen not to compete for a tender. This information could then be used by the regulator to help audit committees find an auditor in a subsequent tendering process.”). Such a report is likely to be helpful to the regulator in making arrangements for a mandated auditor appointment.</p>
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?	CIPFA would expect to see segregation of duties, such that the responsibility for appointing an auditor is fulfilled by a team not involved in the oversight of the audit firm.

³ <https://www.accountancyage.com/2005/11/17/huntingdon-audit-saga-ends-in-secrecy/>

Question	Response
<p>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)?</p>	<p>CIPFA notes in paragraph 7.2.6 that the FRC currently has the powers to apply to the court to remove an auditor from office where there are proper grounds for doing so and the government will consider how these powers should be transferred to ARGA. As this represents the transfer of an existing power to ARGA, rather than creation of a new power, CIPFA believes this would be an appropriate mechanism through which to address quality concerns should they arise.</p>
<p>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?</p>	<p>CIPFA acknowledges that the purpose of audit is to report to stakeholders (shareholders in the case of a company), therefore in principle more open communication with shareholders could be helpful. However, care needs to be taken to ensure auditors can still plan and carry out their work independently. Audit planning should not be too reactive to shareholder requests as this may lead to a lack of emphasis on other risk areas.</p> <p>CIPFA notes that public sector auditors may already work within requirements to engage with external stakeholders. For example, local authority auditors are required to deal with electors' enquiries and objections, and have the ability to issue public interest reports in certain circumstances. Therefore, should the government be considering implementing proposals relating to stakeholder consultation involving public and third sector entities, CIPFA would highlight the need for requirements to complement, rather than duplicate, existing practice.</p> <p>Public sector experience of working on electors' enquiries and objections is that vexatious complaints may occur. CIPFA would note the need for clear policies and guidelines if steps are taken to engage with a wider number of stakeholders. Clear guidance for shareholders (in particular, for individuals rather than institutional shareholders) on the role of audit and how shareholders can meaningfully engage with the audit planning process would be beneficial. This would reduce the risk of time needing to be spent on responding to requests for work that might be outside the scope of an audit (e.g. related to business strategy, or individual members of staff within the audited entity), or that might focus on trivial rather than material matters. Auditor responses to shareholder/stakeholder suggestions will take time, and therefore increase the cost of the audit. If these proposals are progressed, it is recommended that they are introduced on a trial basis to ensure the benefits will outweigh the costs.</p> <p>CIPFA notes the emphasis of this proposal on shareholder engagement with external auditors. CIPFA notes that some matters of interest to stakeholders may be more closely aligned with the work of internal auditors. The role of internal audit should be considered.</p>

Question	Response
59–60	Question 59 refers to conduct of a company AGM. Question 60 refers to information provided to shareholders in the event of an auditor resignation. As these questions predominantly relate to matters in private sector companies, CIPFA has not responded.
Chapter 8 Competition, choice and resilience in the audit market	
<p>The audit market is very different in the public sector than in the private sector. For example, the National Audit Office conducts audits of central government departments, therefore discussions of competition and choice would be irrelevant. As a second example, Public Sector Audit Appointments Ltd (PSAA) acts as ‘appointing person’, operating a scheme through which auditors are appointed for the local government bodies who have joined the scheme. However, as set out in the Redmond Review there are significant issues in local audit about the attractiveness of the market.</p> <p>CIPFA therefore understands and recognises some of the issues identified in this chapter with respect to high levels of concentration in, and barriers to entry to, the audit market for large companies. CIPFA can see the benefit of greater choice of supplier in the audit market, although we believe that detailed comments on the operational aspects of this are best left to the audit firms and audited bodies themselves. However, CIPFA would comment that the public and third sectors will continue to require high quality audits and that any developments in corporate auditing should not be to the detriment of public and third sector audit. CIPFA is hopeful that, in serving as the systems co-ordinator for local authority audit as well as the regulator for corporate audit, ARGA will be mindful of consequences to the public and third sectors as a result of developments in corporate auditing.</p>	
61–62, 64	Questions 61–62 and Question 64 are about the audit market for FTSE 350 groups. CIPFA has therefore not responded.
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?	CIPFA would emphasise that in considering how the audit market for large company audit markets could be opened up, the audit market for public and third sector entities should not be forgotten. As identified in the Redmond Review, there are supply-side issues in local authority audit. CIPFA would want to note that these issues should not be forgotten, and should be balanced with the need to increase competition in the audit market for large company audits. There is a finite supply of chartered accountants and auditors in the UK; care needs to be taken to ensure that public sector issues are not crowded out.
65–68	CIPFA believes audit firms are better placed to respond to Question 65–68, therefore has not responded to these questions.
Chapter 9 Supervision of audit quality	
69	Question 69 relates to the arrangements for RSBs, therefore CIPFA has not responded.
70. What types of sensitive information within AQR reports on individual audits should be exempt from disclosure?	Paragraph 9.2.8 outlines government proposals to allow publication of AQR reports without the need for consent from the audit firm or the audited entity. While CIPFA supports transparency and accountability, CIPFA is wary of publishing information about

Question	Response
<p>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?</p>	<p>an audit without the permission of the audited entity. CIPFA emphasises that the AQR inspection is of the quality of the audit, not the audited entity.</p> <p>CIPFA would advise against creating a rules-based system for establishing the types of sensitive information that should be exempt from disclosure. If the government or ARGA attempts to write a list of “sensitive information”, it is likely the list will be incomplete, or will fail to cover all eventualities. This will leave audited entities exposed to the publication of sensitive information.</p> <p>CIPFA would prefer that the system/template developed by the FRC for publishing summary results of AQRs with the consent of auditors and audited bodies (as outlined in paragraph 9.2.6) is trialled and evaluated before more extensive measures are introduced. This would allow ARGA to establish if their work is constrained by the need to seek consent from auditors and the audited entity before removing confidentiality from audited entities.</p>
<p>72</p>	<p>Question 72 relates to the review of component audit work completed outside the UK. As CIPFA is not directly involved in this work it has not responded.</p>
<p>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?</p>	<p>CIPFA supports transparency and quality in financial reporting and acknowledges the issue referred to in Question 73. However, without evidence on the extent to which the FRC’s work is being hampered by legal professional privilege, CIPFA would be wary of legislation that potentially weakens legal professional privilege for the reasons noted in paragraph 9.4.5. As noted in our response to Questions 70 and 71, an AQR is a review of the audit work, not of the audited body. CIPFA would therefore be wary of weakening legal professional privilege for the audited body in the absence of sufficient evidence of the need for this step, particularly in light of paragraphs 4.28–4.30 and Recommendation 63 of the Kingman Review.</p>
<p>Chapter 10 A strengthened regulator</p>	
<p>74. Do you agree with the proposed general objective for ARGA?</p>	<p>CIPFA notes that the proposed general objective for ARGA references the interests of investors, therefore acknowledging ARGA’s role in the corporate world. Following the government’s decision in May 2021 that ARGA will contain a standalone unit to coordinate audit in local government, ARGA will have responsibility to stakeholders in the public sector as well as the private sector.</p>

Question	Response
	CIPFA believes the general objective for ARGAs should be updated to acknowledge responsibility to public stakeholders as well as private investors, therefore avoiding public stakeholders being considered “other”.
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?	<p>CIPFA broadly agrees with the proposed regulatory principles. CIPFA would note the need to interpret the principles in context. For example, promoting understandability and cutting clutter in an annual report is generally beneficial. However, corporate reporting still needs to be meaningful, which will require use of subject-specific terminology and full disclosure. With respect to the final proposed principle, “working closely with other regulators from the UK and internationally”, CIPFA stresses that it is important that ARGAs retain their independence throughout. This would include in ARGAs’ working relationships with the UK government.</p> <p>CIPFA notes paragraph 10.1.13 in which it is stated that the regulator will be required to advance either or both of its quality objective and competition objective when it is carrying out its policy-making functions. Further, CIPFA notes paragraph 10.1.18 – “the regulator may also need to promote effective competition where the importance of doing so may outweigh the need to promote quality.” CIPFA is concerned that ARGAs’ quality objective could be secondary. Promotion of competition should not happen without due consideration being paid to quality. The quality objective and the competition objective should not be mutually exclusive at an operational level. CIPFA would stress the need for ARGAs to be mindful of quality throughout their work.</p>
Chapter 11 Additional changes in the regulator’s responsibilities	
In addition to responding to the individual comments in this chapter, CIPFA notes section 11.6 on independent supervision of the Auditors General. CIPFA notes the FRC’s concern that it is not appropriate for the Comptroller and Auditor General (C&AG) to continue to be supervised by a body appointed by a minister (paragraph 11.6.3). CIPFA notes that the appropriateness of oversight arrangements is a common concern for supreme audit institutions. The UK would not be an outlier if the C&AG were to be supervised by ARGAs. Critical consideration needs to be given to whether the Public Accounts Commission has the technical accounting and auditing knowledge required to effectively monitor the C&AG. Oversight being conducted by a body with the requisite technical knowledge would be beneficial to the effective functioning of the C&AG. Given valid concerns about independence issues, if ARGAs continue to provide oversight of the C&AG, appropriate safeguards should be put in place.	
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?	CIPFA understands the government’s proposal for more independent regulation of the profession if it creates more public confidence in its work. CIPFA acknowledges that, while the FRC Review found no evidence of substantial failure of the current model (paragraph 11.1.9), more formalised independent oversight including a memorandum of understanding rather than the current exchange of letters is likely to engender more trust in the accounting profession from the public.

Question	Response
	<p>However, it is difficult to offer further comment on the scope of the regulator’s oversight arrangements without detail on how oversight will be arranged.</p>
<p>77. What safeguards, if any, might be needed to ensure the power to compel compliance is used appropriately by the regulator?</p>	<p>CIPFA agrees with the comments in paragraph 11.1.29 that ARGA’s power to direct the professional accountancy bodies to take action should only be used rarely, and in situations where a professional body had failed to take action to address the regulator’s concerns within a reasonable time period.</p> <p>CIPFA anticipates that through its governance and engagement, ARGA will be expected to demonstrate it is providing value for money and that this should be used as a safeguard. This should go some way to ensuring ARGA uses its power to compel compliance appropriately.</p> <p>It is difficult to recommend appropriate safeguards without knowing the specifics of the regulatory arrangements themselves. Clarity is needed on ARGA’s inspection regime. CIPFA recommends that safeguards are developed to ensure ARGA’s power to compel compliance is used appropriately once the proposals are clear. Proposals should include:</p> <ul style="list-style-type: none"> • a clear, written process that outlines actions ARGA will take before it directs a professional body to take action; • clear guidance on the timescales ARGA would consider “reasonable” for responses to be received from accounting bodies; • an appeals or arbitration process whereby accounting bodies can challenge ARGA’s decisions. Appeals should be heard before the accounting bodies are compelled to follow ARGA’s direction.
<p>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)?</p>	<p>CIPFA accepts paragraph 11.1.17, in which the government sets out its intention to restrict oversight by ARGA to the chartered professional bodies. As set out in paragraph 11.1.41, there is insufficient evidence to support extending the regulator’s power to cover people outside the chartered professional accountancy bodies. CIPFA agrees that at least at this point it would be disproportionate, and would give rise to unnecessary expense, if the regulator’s powers are extended beyond the chartered professional bodies. Additionally, it is uncertain who would meet this additional expense.</p> <p>If evidence of an enforcement gap emerges, CIPFA would support steps being taken to allow an extension of the regulator’s powers. However, this should only be after consideration of the evidence and a period of consultation.</p>

Question	Response
	<p>CIPFA notes that the government has not proposed to take action on individuals who provide accounting or tax services, and call themselves an accountant or a tax adviser, without holding any accounting or tax qualifications. These individuals are not regulated by either ARGAs or a membership organisation. Nor are they obliged to follow codes of professional ethics. Such individuals are therefore less likely to adhere to professional standards than members of professional bodies (chartered or otherwise) are. CIPFA would welcome steps being taken to reduce the risk to small business owners and members of the public in this respect. For example, the government could consider requiring people who refer to themselves as an accountant or a tax adviser to be members of a professional body. Alternatively, the titles of Accountant and Auditor could be offered legal protection to prevent unqualified practitioners holding themselves out as accountants.</p>
<p>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?</p>	<p>CIPFA questions the necessity of the regulator establishing a code of ethics. Each chartered body has a code of ethics grounded in the International Code of Ethics for Professional Accountants. It is unclear what will be gained from this proposal.</p> <p>For the purposes of enforcing ethical codes, there may be greater value in ARGAs having a role in enforcing breaches of the fundamental ethical principles of Integrity, Objectivity, Professional Competence and Due Care, Confidentiality and Professional Behaviour, as each of the chartered bodies' codes are grounded in these principles.</p> <p>CIPFA would agree with the FRC Review that any new enforcement powers be restricted to accountants providing services to public interest entities. CIPFA understands why the government would suggest enforcement powers in the case of all issues affecting the public interest. However, CIPFA believes that there will be substantial practical difficulties in establishing a workable definition of the offences that would be considered "public interest". Further, CIPFA acknowledges the resources available for investigations will be finite, therefore believes the resources should be focused on the highest-level breaches of ethical practice.</p> <p>CIPFA agrees with paragraph 11.1.54 that sanctions should be applied in a proportionate manner according to the seriousness of the breach. CIPFA believes the proposed sanctions, if applied proportionately, are reasonable.</p>
<p>80–93</p>	<p>Questions 80–93 seek views on arrangements for the actuarial profession. CIPFA is not responding to these questions.</p>
<p>94. Are there other matters which PIE auditors should have to report to the regulator? Could this duty otherwise be improved</p>	<p>CIPFA is broadly in agreement with the list of matters that PIE auditors should report to the regulator as outlined in paragraph 11.4.10. However, CIPFA agrees with respondents</p>

Question	Response
to ensure that viability and other serious concerns are disclosed to the regulator in a timely way?	to earlier consultations that the timing and confidentiality of disclosure of such matters is considered carefully to avoid concerns about an entity becoming self-fulfilling prophecies.
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?	CIPFA is cautiously supportive of this proposal. CIPFA acknowledges the need for prompt disclosure of serious breaches or doubt about the ongoing viability of an entity. However, as noted in our response to Question 94 and with particular regard to viability concerns, CIPFA notes the need for great care to avoid auditor concerns becoming a self-fulfilling prophecy.
96. How much time should be given to respond to a request for a rapid explanation?	Public sector entities comply with a 48-hour response time for matters such as freedom of information requests and Ofsted inspections. A 48-hour response period could be suitable as it is in line with other rapid response regulations.
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?	<p>CIPFA is broadly supportive of measures that support transparency in the public interest. However, before reaching this stage:</p> <ul style="list-style-type: none"> • the entity first should have declined to take the opportunity to respond to the regulator's concerns; and • anything commercially sensitive should be redacted. <p>CIPFA would support the government's view that publication of a summary of an expert reviewer's report should be exceptional (per paragraph 11.4.34).</p> <p>To comment further CIPFA would appreciate further detail on some of the arrangements proposed in this section of the consultation:</p> <ul style="list-style-type: none"> • CIPFA anticipates practical difficulty in establishing whether or not the publication of a summary report would be in the public interest, therefore CIPFA would welcome detail on how "public interest" is defined. • With respect to expert reviews for public and third sector entities, CIPFA would appreciate clarity over when an expert review may be deemed necessary. Depending on the outcome of this consultation, public and third sector entities could become a PIE when they are much smaller than a company, therefore the expense of the expert review (which the government acknowledges may be "significant" [11.4.27]) may be disproportionate. • If the expert reviewer agrees with the entity rather than the regulator, CIPFA would welcome clarity on whether the regulator, rather than the entity, would have to pay for the expert review.
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?	CIPFA notes the wide-ranging proposals to extend the power of the regulator as contained in this consultation. CIPFA does not have any suggestions for further powers that would be required. These proposals, if agreed, will afford the regulator significant powers.