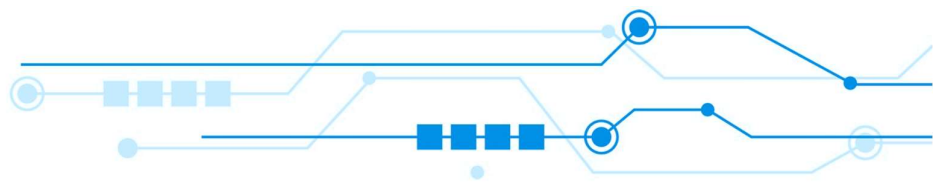


Fireside chat with Sir Donald Brydon
UK Audit reform and the ripple effect
internationally

Summary of discussions | 1 June 2021





Corporate reporting and governance: A sea of change in motion

The recent UK proposals on audit reform, corporate reporting, and governance signal crucial progress in bolstering trusted decision-making in the business accountability ecosystem

Setting the scene

In 2019 the British Government commissioned Sir Donald Brydon to review the quality and effectiveness of audit in the United Kingdom. In December 2019, Sir Donald submitted his Report (“the Brydon Report” or “Report”) on the quality and effectiveness of audit to the UK Secretary of State. In undertaking the review, Sir Donald received 120 submissions (including submissions from various international jurisdictions), totaling 2,500 pages, and held more than 150 meetings with regulators, auditors, investors, companies, and professional services firms. The overwhelming majority of the recommendations of the Brydon Report were included in the UK Government’s consultation document regarding governance, regulatory and audit reform.

This landmark Report highlights the changing public-interest responsibilities of business and recognises that society expects corporate reporting to be broader and more relevant than at present. Auditors are challenged in the Report to produce a more informative

audit report to a broader group of stakeholders.

In recognition of the complexity of the business accountability eco-system, the Brydon Report includes recommendations about the behavior and responsibilities of directors, audit committees, shareholders and regulators and the actions that can be taken to create an improved business accountability environment that is conducive to improved corporate reporting.

Panel of speakers

Lwazi Bam, Chief Executive, Deloitte Africa

Sir Donald Brydon, Author of the Brydon report

Bonga Nyembe, Managing Partner, Deloitte Africa Responsible Business and Public Policy

Supporting materials

Recording of the event (85 mins)



Summary of the Brydon Report





“What we need to do is restore trust in the system as a whole. The auditor is not the only actor. It is a complex ecosystem.”

Sir Donald Brydon

Restoring trust in the capital markets

The Brydon Report was commissioned in the wake of a series of corporate failures in the UK, notably Carillion, which prompted the legitimate question: *where were the auditors?* In undertaking the review of the quality and effectiveness of audit, Sir Donald acknowledged that a broader consideration was needed. Auditors, along with directors, shareholders, and regulators, all have a part to play in ensuring trusted decision-making in the corporate reporting ecosystem.

Although the Brydon Report was written in the context of the UK environment, it has wide applicability as the common principles for audit resonate across the world.

Collective responsibility for trusted decision-making

Sir Donald recommends that “the purpose of an audit is to help establish and maintain **deserved confidence** in a company, in its directors and in the information for which they have responsibility to report, including the financial statements.” In essence, he suggests that an **audit** should strive to provide useful information to users to allow for trusted decision-making, allowing users to answer the following questions:

- is the company being honestly run; and
- does it have a reasonable chance of being around in 5 years?

A consistent criticism raised of audit is the concern that an overt focus on rules and the precise application of standards detract from the purpose. Given the complexity and nuances of the issues encountered in an audit, he advocates for a principles-based approach and for a similar approach applied by regulators in assessing auditors accordingly.

Given the increasingly complexity of non-financial information relevant to corporate reporting, Sir Donald suggests that the typical notion of an auditor needs to be reconsidered. The standard skillset required to audit financial

statements may be inadequate to provide assurance on specialised information such as carbon emissions or cyber security, requiring the composition of the audit profession to extend to specialists accordingly.

The **Audit Committee** has a critical role to play in ensuring trusted decision-making in the ecosystem as they are responsible for the appointment of the auditor and oversee the Audit and Assurance Policy statement (which sets out the scope of the audit). The audit committee should engage shareholders to provide input into the scope of the audit.

Emphasis was placed on the role of **shareholders** – rather than the auditor - to hold directors accountable. The information provided by the auditor should assist shareholders in doing so.

Directors should create an environment conducive to engaging the investor community and other stakeholders.

The responsibility for fraud detection

The primary responsibility for the detection of fraud lies with the directors, who should report on the actions they have taken to fulfil their obligations to prevent and detect material fraud. The obligation of the auditor is firstly to consider and report on the actions taken by directors as well as to report on the auditor’s assessment of the effectiveness of fraud controls, and secondly to endeavor to detect material fraud in all reasonable ways. A key consideration to discharge this obligation is for auditors to have appropriate forensic training and fraud awareness.

Internal controls

Regarding internal controls, the UK Government is currently assessing a variation of the US SOX. Notably, this requires the CEO and CFO to report on the effectiveness of internal controls and financial statements to the Board, and not the shareholders, given the UK unitary Board structure.

Key contacts

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This summary is based on a virtual event with the same title that was hosted by Deloitte Africa on 1st June 2021. Speakers included:

- **Lwazi Bam:** Chief Executive, Deloitte Africa
- **Sir Donald Brydon:** NED and author of the Brydon Report
- **Bonga Nyembe:** Managing Partner, Responsible Business and Public Policy, Deloitte Africa

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