

We use cookies to give you the best online experience.
 cookies in accordance with our [privacy policy](https://www.accountancyage.com/privacy-policy/) (<https://www.accountancyage.com/privacy-policy/>)
[\(https://www.accountancyage.com/\)](https://www.accountancyage.com/) [Continue](#)

Jewers, 2019

Get Notifications

Brydon review calls for 'urgent reform'

Brydon review calls for 'urgent reform'

The long wait for the Brydon report is over, and in it Sir Donald Brydon makes a series of recommendations including the break-up of the auditing industry, saying auditing should be a profession in its own right.

Author

Chris Jewers

(<https://www.accountancyage.com/author/chrisjewers/>)

Date published

December 18, 2019

Categories

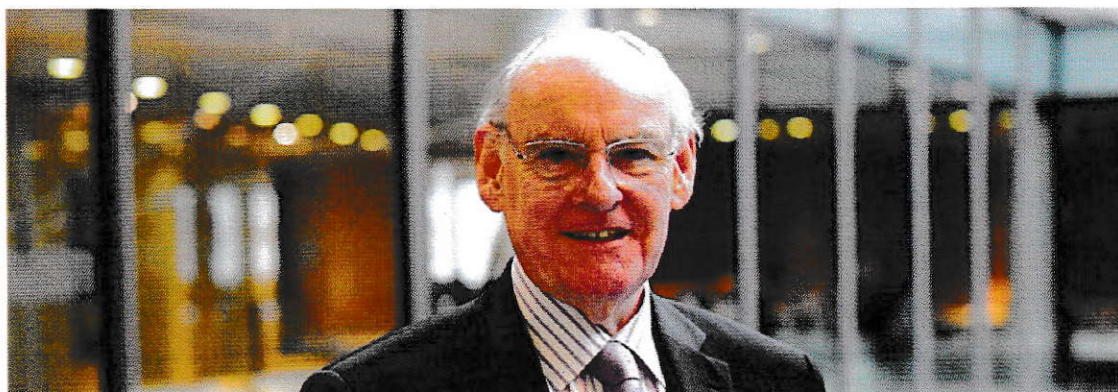
Accounting Standards

(<https://www.accountancyage.com/category/regulation/accounting-standards/>)

Audit (<https://www.accountancyage.com/category/practice/audit/>)

Practice (<https://www.accountancyage.com/category/practice/>)

Regulation (<https://www.accountancyage.com/category/regulation/>)



The year-long review into the British audit industry, undertaken by Sir Donald Brydon, recommends a breakaway from the accounting profession and the formation of a separate industry with its own governing principles.

Sign up to our Newsletter ()

We use cookies to give you the best online experience. By using our website you agree to our use of cookies in accordance with our [privacy policy \(https://www.accountancyage.com/cookie-policy\)](https://www.accountancyage.com/cookie-policy).
 The 138-page report, authored by the former London Stock Exchange
 (https://www.accountancyage.com) recommendations on how to increase confidence in the
 audit sector and prevent unnecessary corporate collapses.

It comes following other reviews into the industry – Sir John Kingman's Independent Review of the Financial Reporting Council and Competition and Market Authority's study of the statutory audit market – and a series of high-profile audit failures, including Carillion, BHS and Thomas Cook.

Brydon said in a statement: "Audit is in need of urgent reform if we are to increase confidence in business and increase the chances of preventing unnecessary corporate failures."

Key recommendations:

- A redefinition of audit and its purpose, providing greater clarity about who audit is for and reinforcing its role as a public interest function
- The creation of a stand-alone and transparent audit profession, rather than as an adjunct to the accounting profession, to be governed by overarching principles
- An obligation on auditors to inform and the need to be suspicious as well as sceptical
- The opportunity to extend auditing beyond just examining financial statements, to reflect the wider interests of everyone who depends on the company's ongoing viability
- Clarification that auditors should endeavour to find corporate fraud and a requirement that they undertake education in forensic accounting and fraud detection
- A step up in auditor transparency, with new requirements to publish their profitability from audit work and the remuneration of statutory auditors
- A clarification of the opinion given by auditors and greater granularity of information about estimates
- Mechanisms to encourage greater interaction for shareholders with the audit process, including the ability to pose questions to auditors at the AGM
- New reporting requirements for directors about resilience, public interest and audit policy
- A responsibility for directors to explain the actions they have taken to prevent material fraud and to report on internal controls

Sign up to our Newsletter

We use cookies to give you the best online experience. By using our website you agree to our use of cookies in accordance with our [privacy policy \(https://www.accountancyage.com/cookie-policy\)](https://www.accountancyage.com/cookie-policy).

The review was put together using 120 submissions and a number of face-to-face stakeholder meetings held by Brydon. He also had the benefit of an advisory board made up of investors, companies and other professionals and an Auditor's Advisory Group – both of which were constituted to "provide advice and challenge emerging findings and recommendations".

Among the **report's key recommendations**

(<https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review#history>), Brydon reiterates key roles for accountants when undertaking audits, saying they have an "obligation to be suspicious as well as sceptical" and that it should fall within an auditor's remit to find corporate fraud.

Therefore, Brydon recommends that "Auditors be required to undergo initial and ongoing periodic training in forensic accounting and fraud awareness."

This echoes what the head of the Financial Reporting Council (FRC), Stephen Hadrill, **said in February** (<https://www.ft.com/content/43ab3668-2959-11e9-88a4-c32129756dd8>): "There are a number of things that are customary practice within the profession. The auditor is clearly responsible for pursuing fraud in the company. But there is this sort of mythology that has [sprung up], that is – 'well we are not going to find it'."

An independent profession in its own right

Brydon also used the report to call on ARGA, the audit governing body that will replace the FRC, the UK's current independent regulator of auditors and accountants, to set new qualifications for the sector.

He wrote: "Auditing is too important to be left to an adjunct of another profession: it should be an independent profession in its own right, with its own governing principles, qualifications and standards. At present it is an extension of the accounting profession, whose ethics and (arguably) mindset it largely adopts."

"I recommend that ARGA should facilitate the establishment of a corporate auditing profession based on a core set of principles. ARGA should be the statutory regulator of that profession. In doing so, I recommend that ARGA develops a coherent framework for corporate audit that includes but is not limited to the statutory audit of financial statements."

Sign up to our Newsletter ()

We use cookies to give you the best online experience. By using our website you agree to our use of cookies in accordance with our [privacy policy \(https://www.accountancyage.com/cookie-policy\)](https://www.accountancyage.com/cookie-policy).

Resources & Whitepapers

How to optimise your compliance lifecycle

(<https://www.accountancyage.com/resources/how-to-optimise-your-compliance-lifecycle/>)

The new rules of accounting

(<https://www.accountancyage.com/resources/the-new-rules-of-accounting/>)

5 ways internal productivity can boost your profitability

(<https://www.accountancyage.com/resources/5-ways-internal-productivity-can-boost-your-profitability/>)

Crushing the Four Barriers to Growth

(<https://www.accountancyage.com/resources/crushing-the-four-barriers-to-growth/>)

Get Notifications

A spokesman for the FRC said: "The FRC will study Sir Donald Brydon's report with interest. Many of his recommendations, if accepted by the government, will have significant implications for the FRC in respect of our activities and resource requirements.

"We have already implemented a number of the recommendations of the independent review of the FRC and anticipate being involved in delivering the broader reforms to the UK audit market that the government has initiated."

On 17 December, the **FRC announced**

(<https://www.accountancyage.com/2019/12/17/frc-revises-standards-in-bid-to-strengthen-audit-confidence/>) that it would be introducing a ban on audit firms from providing non-audit services to their clients to avoid any conflict on interests.

Speaking on the report and the work undertaken by Brydon, Business Secretary Andrea Leadsom confirmed that the government would be working to reform audit early next year.

She said: "The quality and reliability of audit has come under the spotlight on too many occasions, and it's essential that we rebuild trust and confidence in this vital business oversight. Sir Donald's review, as well as work carried out by Sir John Kingman and the CMA, will help inform our reform of audit early next year. I thank them for their work."

Sign up to our Newsletter ()