



# Grant Thornton

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Our ref:

Rachel Reeves MP  
Chair of the Business, Energy & Industrial Strategy Committee  
House of Commons  
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Dear Rachel

I wanted to write further to my appearance in front of your Committee last week, as I would like to suggest a conversation with you or your Committee in connection with four matters that arose during the hearing.

The first relates to the FRC's Audit Enforcement Procedures. Whilst these were introduced in 2016, we are only now starting to see how these will be applied by the FRC. We understand fully why audit firms and individual auditors that fall below the required standards should face appropriate sanction. However, based on our understanding of the application of how these procedures will operate through the levying of fines, an unintended consequence may be to further dissuade challenger audit firms from undertaking audit work in the public interest entity market place. Your Committee has now heard of how other approaches to sanctions work in other countries and we consider that alternative approaches to fines could avoid the potential barrier to entry whilst remaining an effective sanction for underperformance.

The second matter relates to an auditor's responsibilities relating to fraud in an audit of financial statements. The primary responsibility for the prevention and detection of fraud rests with both an entity's management and those charged with its governance, i.e. the audit committee. An auditor conducting an audit in accordance with ISAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The ISA clarifies that "reasonable assurance is not an absolute level of assurance" and that, owing to the current limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs. It goes on to confirm that the auditor's opinion is "persuasive rather than conclusive". That is not to diminish the importance of auditors' responsibilities in this area but it does help to explain my comments at your Committee about why the 'expectation gap' in this area needs to be addressed.


This risk is exacerbated when a fraud involves sophisticated and carefully organised schemes designed to conceal it, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor. Such attempts at concealment may be even more difficult to detect when accompanied by collusion.

It is because of these inherent limitations that we fully support the work being performed by Sir Donald Brydon in terms of considering the purpose of audit and addressing the 'expectation gap' I referred to in evidence and that has since been consistently acknowledged in the comments made by other witnesses to your Inquiry

Thirdly, in relation to bank accounts the panel asked, hypothetically, whether we as auditors were confident we get to see all bank accounts in a company's name. Legally, company directors are required to have taken all necessary steps to make themselves aware of any relevant audit information and to ensure that their auditors are made aware of that information. However, if respondents to our audit requests for bank account details do not, for whatever reason, provide the auditor with the details of all of their bank accounts then such accounts could go unaudited.

Finally, it was asked how often we find errors as part of our audit which are subsequently adjusted for. Whilst, we do not track this and hence are unable to provide definitive information, we know from the experience of our auditors that less significant audit amendments are commonplace and that potentially material amendments to the audit are often avoided through the proactive early engagement of the auditor on issues well before the accounts are drafted.

Yours sincerely



David Dunckley  
CEO