



4 December 2007

Mr Richard Fleck  
Financial Reporting Council  
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London WC2B 4HN

Dear Richard

### THE FRC'S PROPOSED AUDIT QUALITY FRAMEWORK

Many thanks for hosting the very helpful meeting held at Herbert Smith on 12 November and for providing us with the opportunity to comment on the FRC's proposed audit quality framework.

The Audit and Assurance Faculty Committee did discuss the issues at its most recent meeting. We welcome the FRC's work on audit quality and commitment to no additional regulation but our main concern is the risk that the proposed audit quality framework might be used in an unintended and inappropriate way. We are also concerned that when publishing the framework, the FRC should avoid any implication that there is a systemic problem with audit performance in the UK.

We note the possible use of the framework by firms preparing the annual transparency reports that will be required in accordance with Article 40 of the Statutory Audit Directive and in considering their internal procedures, and also by audit committees reviewing audit effectiveness and evaluating audit proposals.

In terms of transparency reports, we agree with the comments made at the 12 November meeting that, apart from the disclosures required by Article 40, firms should concentrate on the 'big picture' issues such as the firm's approach to recruiting and retaining quality staff. It will be important to avoid lengthy boilerplate transparency reports. As we stated in our response to the POB's consultation on transparency reports, we do see a leading role for the ICAEW and other professional bodies in providing guidance to member firms regarding these reports.

With respect to the possible use of the framework by audit committees, I think that any suggested use would only make sense within the bigger picture of guidance that is being considered for audit committees regarding their role. To be used by audit committees in isolation from the whole mass of material that would place it in context, could be inappropriate.

You also stated that the framework might be used by regulators developing standards and in carrying out audit inspection visits. In our view this is where the FRC does need to be extremely cautious as it might be wrongly taken as an additional regulatory 'standard' for regulators to take into account. We consider that the framework should not be used as a tool to judge against on inspection visits. We already have ISQC 1 (which has been adopted in the UK) and it is not clear how this framework will sit with ISQC 1. In our view the performance of firms should just be measured against audit regulations and the adopted standard, i.e. ISQC 1.

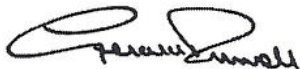
Despite this view that the FRC should proceed with considerable caution, we do of course welcome the FRC's role in promoting sound audit principles and appropriate regulation, for the reasons set out in our formal response to your consultation (letter of 30 March). This necessarily has an international aspect which can be positive in our view, for example in explaining the detrimental impact of overly lengthy standards and over-regulation on audit quality, but our concern is that there could be other regulators in Europe or elsewhere that try to use the published framework in a way which is not your intention. For example, they might believe that it can be used in a simplistic way by audit inspection teams to measure the performance of audit firms. At the very least, I would suggest that very clear "health warnings" are included with any issue of the framework.

As explained in the letter of 30 March, the Institute has been very involved in these issues for some considerable time and we believe that there could still be merit in continuing with the work we have already done reviewing our 2002 *Audit Quality* publication. For example, we still consider that there is a strong argument in favour of a broad view of what is meant by audit quality, rather than just focusing on 'market quality' (see the comments in our 30 March letter on this). The intention would be for anything further we publish to sit alongside the material issued by the FRC. You may recall that you said previously that it would be appropriate to acknowledge the ICAEW work in this area in your publication.

Whilst not issued for comment, I note that a considerable number of specific points on the elements and indicators in your proposed framework were raised at the 12 November meeting, which you agreed to consider. We would be pleased to discuss any changes with you with the aim of making the framework as workable as possible. As you know, a particular concern of mine is that the framework should not allow any inference to be drawn that partners are currently not devoting sufficient time to fulfil their audit responsibilities. Indeed great care is needed to avoid inadvertently giving any wrong messages that any aspect of audit quality is a significant problem, when there is not the evidence to support this.

As ever I would be very happy to discuss matters further with you.

Yours sincerely

A handwritten signature in black ink, appearing to read "Gerald Russell". The signature is fluid and cursive, with a large initial 'G' and 'R'.

Gerald Russell  
ICAEW Audit and Assurance Faculty Chairman