



LONDON SOCIETY
OF CHARTERED
ACCOUNTANTS

14 March 2008

Regulation and Ethics Review Panel

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Dear Sir,

FRC Draft Plan & Budget 2008/09

I am writing as Chairman of the Regulation and Ethics Review Panel (RERP) of the London Society of Chartered Accountants (LSCA). The LSCA is by far the largest of the 22 district societies affiliated to the Institute of Chartered Accountants in England and Wales (ICAEW). It has a membership of 30,000, representing nearly one quarter of all ICAEW members, and also provides services for other ICAEW members who live or work in London. London members, like those of the Institute as a whole, comprise a mixture of those working in all sizes of practice and those working in businesses, both large and small, or otherwise not in practice. They also include many of the ablest and most senior Chartered Accountants, together with a wide range of specialists.

RERP welcomes the opportunity to comment briefly on the FRC's draft plan and budget for 2008/09 and the supplementary information paper. However, we have concentrated on those aspects that we find of particular relevance or concern, rather than attempting to comment in detail on the full paper or answer all the specific consultation questions. We have also seen the response being submitted by The Consultative Committee of Accountancy Bodies and would like to endorse this in full.

GENERAL COMMENTS

We welcome the FRC's stated aim of adopting a risk-based, carefully targeted and proportionate approach. However, we regret that we find parts of the paper somewhat confusing, and feel that the format of the Plan and Budget, split as it is into two documents, is unhelpful and cumbersome, especially as these contain a fair amount of duplicated information. Some of the terminology used, such as 'significant concerns' and 'serious shortcomings', is also confusing, as is the idea of an upside and downside with no clear indication as to which is most likely.

We are disappointed by the lack of clear targets, assessable as to their achievement at the end of the year, and of actual key performance indicators.

We believe that there is a correct reference to the risks arising from the credit market conditions, but that this was dealt with far better in the FRC's "Highlights of the challenges of corporate reporting and governance" in the FRC PN 204 dated 17 December 2007, including key

questions for audit committees. We feel that this latter document deserves a mention or a cross reference in the current publication.

There are various minor points, such as on page thirty of the plan and budget, where we wonder who is reviewing the audit committees. When referring to monitoring, should it also refer to the POB/AIU's involvement?

We query what power the FRC has over audit committees in that their work and processes are mentioned quite a few times, and also what research supports the FRC's assumptions on these committees.

If achievement of the various outcomes is meant to be based on risk assessment, we are not convinced what the major risks are, nor how they have been measured and reduced in order to arrive at the significant remaining risks, which will need careful monitoring during the year and their likelihood and impact assessed. Does the FRC have a risk register or its equivalent, or does it just indicate what the downside would be and what the upside could be?

CONSULTATION QUESTIONS

1 *Will the approach we have developed provide a clearer view of the judgements we have made and be helpful in obtaining better feedback on our assessments?*

As set out in our general comments above, we find the approach adopted confusing in parts and feel that it is often not clear how risks have been assessed or conclusions reached. The use of two documents makes it difficult to identify the factors that have led to the identification of the need for major activities and projects. We would also like to see a distinction between those activities which could be called 'normal business' and those 'special' activities which are necessitated by reaction to various events. We would also wish to see priorities highlighted in some way.

2 *Will the publication of our assessments be helpful in highlighting the priority areas for action to contribute to the achievement of the outcomes defined in the Strategic Framework?*

As stated above, it would be useful to have clear targets and key performance indicators linked to the Strategic Framework outcomes. However, the publication of assessments, together with the FRC's bases for making these, is helpful, but the amount of repetition in the two documents lessens the value of these.

3 *Do you agree that our assessment of the achievement of the outcomes in our Strategic Framework, in the downside scenario, properly reflects the plausible risks?*

We broadly agree with this and have no particular comments to make.

4 *Do you have any comments on the detailed assessments of the risks to the achievement of the outcomes in our Strategic Framework included in our document Draft Plan 2008/09: Supplementary Information published on our website? Is there additional evidence which should be considered in relation to these assessments?*

We broadly agree with the analysis of risks and have no particular comments to make.

5 *Are there any other outcomes in our Strategic Framework where you believe there are significant concerns or serious shortcomings in the downside scenario which we have not identified? Please explain the risks which have led you to believe this.*

We are concerned about the possible inefficient use of resources both within accountancy firms and the AIU regarding the publication of the outcomes from monitoring visits. In support of this concern, we would refer the FRC to the position in the USA and the delays regarding the PCAOB reports on the firms and the firms' replies, responses and disagreements with the findings.

6 *Do you have any comments on the scope and relevance of the proposed major activities and projects included in the draft Plan for 2008/09?*

We have no comments on this.

7 *Do you have any comments on the more detailed list of activities and projects set out in the document Draft Plan 2008/09: Supplementary Information which we have published on our website?*

We find it hard to follow the two documents, since the major activities and projects listed in Section 4 of the Draft Plan are not clearly linked to the risks set out in Section 3, and some things identified in the Supplementary Information appear to be omitted from Section 4.

We are concerned about the Draft Detailed Work Programme relating to auditing, and, in particular, Strategic Outcome Three: Auditing and the reference to the APB's publication "Promoting Audit Quality" and Supporting Outcome Three (a): *The legislative and regulatory framework provides clarity on the role and purpose of audit and the standards which auditors should meet*. In Component iv: *There is guidance on the key drivers of audit quality*, the downside is identified as auditors and audit committees not sufficiently embedding the guidance into their practices. The activities and projects suggested are a review of how the framework has been embedded and "...the audit quality framework is embedded in the AIU's system for reviewing and reporting on audit quality."

Our objection to this is that "Promoting Audit Quality" was a discussion paper and the follow-up, published in October 2007, was the FRC's response to the responses to the paper. However, this activity and project is in effect promoting the FRC's responses to the level of auditing standards or audit regulations. However, there are no regulatory or other requirements for firms or audit committees to adopt these drivers, even though they may have been identified as drivers of audit quality. We believe that to use the results of a discussion paper as benchmarks for judging firms is not acceptable. The standards in the area are ISA 220 and ISQC 1, not the APB's discussion paper, and we do not feel that the AIU should embed the drivers into its monitoring approach. Mandatory requirements should emerge through due process.

The same points arise in Supporting Outcome Three (c), *Auditing requirements are appropriately monitored and enforced*. In Component i) *Audit committees know what the main drivers of audit quality are, etc.*, the downside is stated as that audit committees may fail to embed the quality framework in their review of audit effectiveness. This again is promoting the paper beyond its stated purpose. In Component ii) *Audit monitoring focuses on the drivers of audit quality and the professional, etc.*, once again, the AIU is to embed the drivers into its monitoring approach.

Questions 8 – 11: we have no comments on these questions.

12 Do you have any comments in relation to our draft Budget proposals for 2008/09?

The staff costs shown appear very high and warrant additional comment, such as perhaps the fact that they include pension costs and that there are few secretarial or administrative staff, if this is indeed the situation.

There should also be some indication of the expected income from the inspection work undertaken on a contractual basis, and information about whom the contracts are with.

Like the CCAB, we are not convinced from the information available that the Draft Plan & Budget is providing value for money or exercising sufficient control over future costs or extra resources.

If you would like to discuss any of our comments in further detail, or wish additional clarification of our views, please do not hesitate to contact me.

Yours faithfully,

Bruce Picking
Chairman, Regulation and Ethics Review Panel