

30th March 2007



Financial Reporting Council
5th Floor Aldwych House
71 – 91 Aldwych
London WC2B 4HN

Attention: JEC Grant

Dear Sirs,

Discussion Paper – Promoting Audit Quality

Coal Pension Trustees Services Limited (CPT) is a company that provides services to four pension schemes:

The Closed Pension Schemes formerly operated by British Coal

The British Coal Staff Superannuation Scheme
The Mineworkers' Pension Scheme

The Industry Wide successors to those Schemes

The Industry Wide Coal Staff Superannuation Scheme
The Industry Wide Mineworkers' Pension Scheme

The two closed schemes have combined assets of some £26 billion and the two industry wide schemes, combined assets of some £450 million, over 70% of which are invested in public and private equities in the UK and globally. CPT provides policy, secretarial, implementation, accounting, audit and investment monitoring services to the four boards of trustees.

As one of the UK's largest institutional investors we welcome the debate on the quality of audits and the recognition of the importance of audits to investors and the operation of securities markets.

It is always unfortunate when a discussion starts with the contention that everything is satisfactory, as does section 1 of the paper. A failure to recognise that one of the top five auditing practices has imploded in recent years and that periodically auditors are fined or censored for poor practice rather diminishes the authority of the findings. Saying that in our experience the standard of auditing and of auditors is high.

However, there are issues that require consideration that touch on the real or perceived quality of audits, most of which are mentioned in the report.

The biggest issue is transparency. A dialogue between the auditor and the audit committee is not really transparency. Both prefer secrecy. Auditors need to explain themselves to a wider audience and should not hide behind auditing standards when it comes to explaining themselves. Is it possible to have full confidence in a process that is hidden? If we can have open government, why not open auditing? Public

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scrutiny is the best force towards maintaining high standards. Auditors should be prepared to discuss the work they have undertaken, the findings and the basis of their conclusions. It is agreed that similar openness by audit committees would be helpful.

The discussion paper identifies increasing complexity as an issue for auditors, referring to the structure and operation of businesses. One could also link this to financial reports and accounting standards. The value of the audit opinion is strongly linked to the usefulness of the accounts and as fewer readers of accounts understand accounting standards and therefore the financial reports, the audit itself may be tarnished. The danger that only insiders understand financial reports should be a concern.

It is encouraging for the introduction section to identify that opinions on (1) true and fair, and (2) properly prepared in accordance with applicable accounting framework are separate items. The drafting of audit reports as “true and fair view, in accordance with UK GAAP” does not create confidence in the audit. It certainly appears to be a limitation. If directors are expected to give an opinion that the accounts are true and fair (full stop) then so can auditors.

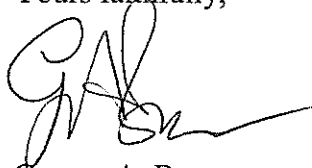
The accounting profession should ask themselves whether there are an excessive number of entities monitoring audit quality. This was summed up by the comment in section 2.1 “audit quality is a concept that falls squarely within the remit of the FRC, including the POB (including the AIU) and the APB”. That’s without mentioning the AIDB and the individual chartered institutes. Is that overkill? Do those outside of the individuals working for these bodies understand the role of each of these entities and how they interrelate? The changes to the regulation of audits discussed in section 1.9 are virtually unknown to those not in the accounting profession, and probably many inside.

The report recognises the need for auditors to maintain a healthy scepticism and the dangers presented by auditors providing non audit services. The range of services offered by auditors continues to grow and does need monitoring. While partner / manager rotation helps, is it really enough or should auditors / audit partners be prevented from being involved in providing other services to audit clients?

Finally, concerns expressed in section 5.4 on possible weaknesses in the knowledge of particular clients and industries by audit teams is worthy of examination. Knowing your client does not appear to form part of professional training and often gets limited time in the preparation for an audit. Senior audit staff must ensure that the audit team has sufficient background information that they can spot potential issues.

These comments are not intended to give the impression of a crisis in the auditing profession, rather that auditors have to move with the times and recognise the changing environment in which they operate.

Yours faithfully,



George A. Bruce
Finance Director