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Dear Tom,

**FRC Discussion Paper - Promoting Audit Quality**

We are pleased to offer some brief comments in response the FRC Discussion Paper.

First of all, may we say that we strongly support the publication of the Discussion Paper, which provides a useful and timely mechanism for ensuring that issues surrounding audit quality are kept under review, and to enable interested stakeholders to have the opportunity of comment. We believe the Discussion Paper generally draws together the relevant issues surrounding Audit Quality.

It is very important that the regulatory framework in any jurisdiction promotes audit quality. In the UK this is largely by means of companies legislation, codes of corporate governance and professional auditing and ethical standards regulated and overseen by the FRC and its constituent bodies.

Whilst an appropriate regulatory framework underpins the promotion of audit quality, and which we believe exists in the UK, much also depends on the culture in the jurisdiction in question, and the existence and observance of appropriate professional ethics, which we consider operate very well in the UK. There is a high degree of respect for the work, and recognition of the quality of that work, carried out by audit firms in the UK. In the oversight of that work by the FRC, there should be recognition of those aspects of the operation of audit firms which work effectively as well as highlighting areas where the need for improvement is identified.

In the legislative area there have been a number of changes in the Companies Act 2006 affecting audit and audit quality, in particular the statutory recognition that accounts should show a true and fair view. This is important in giving confidence to investors, and underpins the regulatory regime.



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In the area of corporate governance, and the relationship and interaction between companies and their auditors, we also recognise the very important role of the audit committee in being involved and overseeing that relationship, and in monitoring the company's financial reporting and internal control systems and the audit process.

We also support a principles based, and not a rules-based, means of audit regulation, as with accounting standards and corporate governance. There is some evidence that some proposed new ISAs being developed are leaning in the direction of a rules-based approach, rather than principles in a number of areas. As with the many recent reforms affecting companies including the move to IFRS, there is also a danger of regulatory overload on audit firms.

It is very important that such influences do not adversely impact on audit quality and the exercise of judgement, nor undermine the attractiveness of the UK as the place to do business, and the attraction of its financial markets to UK and foreign companies alike. Audit quality underpinned by an effective and proportionate regulatory regime are very important factors in securing the attractiveness of the UK capital markets and to achieve wealth and job creation for the community and the UK economy.

The FRC and its constituent parts, and with a strong stakeholder involvement in its work, is well placed to monitor the regulatory environment, and the quality of financial reporting and audit, and the fundamental importance of sustaining the confidence of investors in the management and stewardship of companies and the reliability of their accounts and the audit report issued by the audit firm.

We therefore strongly support the initiative of the FRC to keep audit quality under review. However there is a need to have a wide debate about the potential regulatory impact of any further proposed changes. We would therefore be pleased to participate in further discussions on particular topics and issues arising, if we can assist.

Yours sincerely

A handwritten signature in black ink that reads "Clive Edrupt". The signature is written in a cursive, slightly slanted style.

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