



The Consultative Committee of Accountancy Bodies

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The Institute of Chartered Accountants in Ireland
The Association of Chartered Certified Accountants
The Chartered Institute of Management Accountants
The Chartered Institute of Public Finance and Accountancy

By E-mail: j.grant@frc-apb.org.uk

Dear Mr Grant,

Promoting Audit Quality – Discussion Paper

I am responding, on behalf of CCAB, to the above discussion paper issued by the Financial Reporting Council in November 2006. We are concerned, as you will see from the comments below and the submissions of the CCAB bodies, about the volume of consultations and initiatives emanating from the FRC. We consider that this is currently placing an unnecessary burden on the UK profession at a time when previous initiatives should be allowed to bed in and their impact assessed.

Several of the CCAB bodies have, or will be, submitting detailed responses. The individual bodies may place different emphases on certain areas in their responses and may also raise additional matters. This response represents the agreed views of the six UK and RoI professional chartered accountancy bodies on matters of principle. CCAB is an umbrella organisation whereby the UK and RoI independent chartered accountancy bodies meet and act collectively on behalf of the accountancy profession in the UK. CCAB promotes the public interest and provides a unified voice on behalf of its members on matters of common interest. As such, CCAB represents the interests of approximately 270,000 qualified accountants in the UK and RoI.

CCAB welcomes the publication of the paper. It recognises that the FRC has a significant role in promoting audit quality, for example in being proactive on the international stage in pressing for measured regulation and in emphasising the critical importance of audit judgement and principles-based standards. We consider that any review of the financial reporting and auditing regime should await the 'bedding in' of the major changes to the general requirements on companies that have occurred of late. We also believe that there should be an assessment of these changes before further changes are proposed (see below).

CCAB generally supports the initiative but would comment as follows:

Scope/size

The paper focuses on the audits of listed companies and other public interest entities. We consider that care should be taken, as many of the issues addressed in the paper potentially affect all audits, including public sector and smaller entity audits. While we recognise that smaller entity audits are the subject of a separate consultation being carried out by the APB, it would be helpful if the current paper could recognise more explicitly the position of smaller entity audits and also public sector entities. If proposals are forthcoming following on from this *Promoting Audit Quality* paper, we would ideally want to see a ‘bottom-up’ approach introduced or, at the very least, recognition that the implications for the small and medium enterprise sector will be addressed in the future.

Regulatory Impact

As recognised in paragraph 1.10 of the paper, there has been a substantial amount of regulatory change in recent times and we concur with the FRC’s view that these changes need to be ‘assimilated by the preparers of financial statements, investors and audit firms’. We would suggest that a comprehensive regulatory impact assessment of these changes is undertaken, with a particular focus on smaller entities.

Principles v Rules and Professional Judgement

We consider ‘professional judgement’ to be fundamental element of high quality audit work. This distinguishes the principles based from the rules based approach which may be finding favour in some jurisdictions outside of the UK. Auditing standards need to be flexible to meet the size and needs of different companies and should therefore be based on principles rather than rules. Prescriptive standards might be regarded as a significant threat to audit quality. The FRC has an important role to play on the international stage in defending, or indeed promoting, principles based standards and the use of professional judgement in the light of the adoption of international standards in Europe, particularly as professional judgement appears to be an alien concept to some non UK regulators.

Drivers of Audit Quality

The individual CCAB bodies will comment in detail on the main drivers of audit quality. However, it is worth noting that the role of the audit committee is considered key in monitoring audit quality. CCAB would welcome further consideration of the role and responsibilities of the audit committee.

I hope that you find these comments useful. We look forward to the results of your consultation with interest.

Yours sincerely,



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