

Attention Sir Christopher Hogg, Chairman
FRC
Aldwych House – 5th Floor
71 – 91 Aldwych
London WC2B 4HN

14 February 2007

Dear Sir,

**British Standards
BS EN ISO 9000:2000 & Others**

It is of concern that as I read various publications issued by the FRC-POB –APB there is no reference to, recognition of, or apparent application of any British or International Standard with regard to quality management systems. I believe the evidence is, as represented by these publications, an FRC policy failure that such standards have no place or benefit to the accounting fraternity or even to be in the public's interest.

The publications that I am referring to, with some examples of 'non compliance' to a British Standard, are:-

1. AIU 2005/6 Audit Quality Inspections Public Report. Appendix B (page 38) Assessing Audit Quality, this statement is in complete contradiction with ISO 19011 Paragraph 6.5.4, which states, " Only information that is verifiable maybe audit evidence". This becomes part of the overall audit findings on which a conclusion is determined to arrive at an audit opinion. The AIU statement is that, "we can form a view as to the adequacy of the evidence... but we are not usually able to confirm the appropriateness of the audit opinion". The AIU is saying that the audit records of the auditors are incomplete. This contravenes the BS EN ISO 19011 Standard.

2. ISQC1 Quality Control for firms that perform audits (etc.). This became effective June 2006 and has the same purpose as BS EN ISO 9000, which is a quality management system standard that has been accepted in 154 countries including the UK and some 761,000 organisations have been certificated through independent audit. ISO 9000 is a family of three standards that are based on sound management principles with a clear vocabulary for communication. ISO 9004 is dedicated to performance improvements and is used for system design and development purposes. ISO 9001 specifies 250 requirements for quality management systems (QMS) and is used for assessment purposes. ISQC1 is based on a prescription of 18 matters that 'should' be established implying it is advisory as compared to the emphatic 'shall' of ISO 9001, a clear quality weakness. By being advisory, correction of non-compliances cannot be mandated.

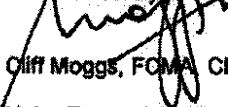
3. FRC Discussion Paper – Promoting Audit Quality. There is no reference to any British Standard as having merit in the pursuit of audit quality – improvement - specifically ISO 9004. In 1987 the USA Congress created the Malcolm Baldrige National Quality Award to recognise US companies that demonstrate outstanding leadership in the pursuit of quality. In 1991, the EFQM Excellence Award was launched in Europe with similar goals. What is of interest is that both awards are given for organizations that demonstrate improvement in quality against defined criteria most of which is embodied within ISO 9004. So in the last 20 years there is evidence of one of the principles of ISO 9000 being seriously pursued, continual improvement. Audit quality exists, it is a reality manifested by its 'service'. We are all desirous of promoting quality improvement, to become more effective, a goal for all organisations.

Professional accountants possess a qualification and with continual training are competent in the production of financial statements in compliance of convention and all regulations. The purpose of accounting processes is to produce correct account records and financial statements. The formal accounting education necessary for qualification does not include knowledge of quality management principles or indeed knowledge of ISO 9000/ ISO 19011/BS 6000-2:2005/BS 25999/ISO 17011 & 17024.

Within the scope of ISO 9000 is the flexibility for its application to any type of organization and derivatives for various sectors have indeed been published thus accommodating sector specific requirements and language. If the FRC have given due consideration to the Standards to which I refer above but chosen not to adopt the requirements or the principles and concepts upon which they are based, as a Chartered Management Accountant of some 40+ yrs standing, I would like to know why this is so.

It is considered that the adoption of ISO 9000 etc by the FRC and accounting bodies and their members is very much in the interest of achieving a 'quality' culture able and willing to participate in the world of the 'quality community'. Will the FRC be the leader or will it remain outside, failing the very public it is charged to protect? I sincerely hope not.

Yours sincerely



Cliff Moggs, FCMA, CMA (USA) retired.

Note: Recognising the seriousness and importance of these comments I have been guided by an expert and well known author on the subject, 'Quality Management Systems', David Hoyle, to whom I am very grateful for his time and patience.

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16 February 2007

Dear Jon,

Organisational Integrity – British Standards
Discussion Paper – Promoting Audit Quality

Having examined the article on promoting audit quality it seems that the primary problem with the current audit process is that by being focused on a 'true and fair view' of a set of accounts the integrity of the organisation generating the financial statements is being overlooked. This is resulting in falling confidence in the quality of auditing. If organization integrity were assessed, it would be possible to predict whether or not accounting standards would be maintained between audits.

A new approach is needed to provide greater confidence in the integrity of the accounts as well as the integrity of those auditing these results.

ISQC1 is weak because it is focused on confirming that the accounts are 'true and fair'. The recent troubles have revealed that it is the integrity of the organisations that failed to ensure a 'true and fair' set of accounts, be it either Arthur Andersen or Enron for example.

A better approach is to view the client organisation as a system of processes that function together to produce the financial statements, an approach advocated by Dr. W. E Deming (US Quality Guru) and many others in the field of management. These processes would be audited to establish that they have been designed and are being effectively managed to produce financial statements of integrity and that the accounts have been generated by these processes and no others. In this context processes include all activities, resources and behaviours that produce the organization's results.

It would be necessary to establish standards against which such audits could be carried out. The existing British Standards, BS EN ISO 9000:2000 a quality management system standard, are specifically designed for assessing the capability of organisations to achieve prescribed goals. Accordingly, the audit firms should be judged to the same standards by independent auditors who are subject to national regulation such as UKAS, the UK Governments preferred accreditation authority.

The benefit of this new approach is that it links results with the enabling mechanisms for both client and auditor organisations. This provides confidence that the results are not only 'true' at the time of the audit but will continue to be true so long as the system remains in place.

By examining a set of accounts and the system that produced them, including the culture, values and behaviours of those managing the business, competent auditors should detect any practices in use that adversely impact system integrity and cast doubt on the accuracy of the financial statements.

By requiring the audit firms to submit to regulation by UKAS, their credibility and competence is assured.

Yours sincerely


Cliff Moggs FCMA, CMA (USA), retired.

Note: I am indebted to David Hoyle, Hon FCQI for his patience, understanding and guidance in this submission.

cc. Paul Boyle & Paul George FRC, Paul Stennent UKAS.