

FRC DISCUSSION PAPER: PROMOTING AUDIT QUALITY

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Intro Page 6

I am disappointed that in the second last para the FRC restricts its focus to UK listed companies: has it not maintained for many years that “an audit is an audit”? I have never found this statement to be credible, but in this document the FRC could surely have considered the wider perspective.

Intro and elsewhere

The document seems uncertain as to the nature of “users and other stakeholders” (last para p5), “all stakeholders” (line 1 p6), “stakeholders and other parties interested in the audit process” (para 3 and box p6), “stakeholders” (para 1.4) and “users (the shareholders of the company)” (para 2.2). It then refers to the “public interest nature of an audit” in para 3.1 without any definition of this term. I would venture to suggest that a broad definition of stakeholders is appropriate, i.e. not limited to shareholders or even lenders.

Questions 1-3

No comment

Questions 4-6

Yes to each.

Para 5.18

My experience with Clarkson Gordon in Toronto thirty-five years ago was identical to that in the third point, i.e. no supervision by managers at the client. This contrasted very noticeably with my subsequent experience with AYMM in Edinburgh during 1974, when managers and sometimes partners came out to the clients’ offices.

Question 7

Should it not read “the” audit process?

Question 8

Consider problems over movement of senior audit staff to clients.

Question 9

Consider - again - rotation of firms (despite its unpopularity in the profession).

Para 6.1 and 6.2

Which “users”? “Main users...the shareholders”? See my first and second points above.

Para 6.7 and later

It seems to assume that there are no problems with the operation of audit committees (see Appx 1, 10.13). Is this valid?

Question 10

Is the reputation of the firm and/or profession not relevant?

Question 11

Perhaps the jargon in the report is partly to blame for its non-understandability (if that is a real word...).

Question 12

For many years I have suggested that the audit report should *immediately precede* the F/S in all cases. I have also suggested that in the (rare) case of a qualified report, the relevant F/S should have the word "Qualified" stamped over it in a conspicuous place. Neither of these suggestions has ever found favour with those in authority....

Para 7.7

It is fine to suggest that "the shareholders respond in a considered and constructive way", but much evidence suggests that the influential shareholders (i.e. the institutions) just sell and walk away from any problem, leaving the impotent private shareholders (and other interested stakeholders) in the lurch.

Question 14

See paras 10-13 in Appx 1.

Questions 15 and 16

Yes.

Appx 3 para 16

The potential conflict with non-audit services has been recognized in the USA, but only reluctantly even been considered in the UK.