



THE ASSOCIATION
OF INTERNATIONAL
ACCOUNTANTS

CREATING WORLD CLASS
ACCOUNTANTS

ASSOCIATION OF INTERNATIONAL ACCOUNTANTS REPORTING ON AUDIT QUALITY MONITORING

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Association of International Accountants

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Company number 00264086. The AIA is a Recognised Qualifying Body for company auditors in the UK.

Introduction

These comments are submitted by the Association of International Accountants, with input from a technical committee and members of the Association.

About AIA

AIA is one of six statutorily Recognised Qualifying Bodies (RQBs) in the United Kingdom for company auditors under the Companies Act 1989. The AIA professional qualification is recognised throughout the European Union and in other major financial centres around the world.

The Association promotes and supports the advancement of the accountancy profession both in the UK and internationally. Whilst supporting international accounting and auditing standards the AIA seeks to ensure that its examinations and membership requirements support the development of the accountancy profession in the countries in which it examines.

The AIA's examinations for membership have been held half-yearly on a world wide basis for over 75 years. They may be orientated to national needs by the inclusion of alternative papers on local company law and taxation. There are optional papers available based on International Accounting Standards and also in Islamic Accounting. As an RQB under the UK Companies Act 1989 the AIA offers to students who take its examinations commencing in or after June 1991 and go on as members to complete special audit-based practical training under the AIA, an accountancy qualification which is recognised by the UK Government under that Act as a recognised professional qualification for company auditors in the UK.

AIA members are fully professionally qualified to undertake accountancy employment in the public and private sectors.

Opening Comments

The AIA recognises that the application of effective monitoring processes are fundamental to maintaining the credibility of the audit process and acknowledges the importance of demonstrating transparency in order to sustain public confidence. It therefore supports the development of the Board's initiatives designed to improve and enhance the effectiveness and transparency of its reporting on audit quality and monitoring and welcomes the broader perspective offered by the proposed introduction of AIU high level reports.

The AIA is pleased to submit the following responses to the specific questions posted for consultation:

Response To Questions

Q1. Are the processes we intend to follow before high level reports on individual firms are published appropriate?

Section 2.4

The AIA would like to qualify its support of the introduction of high level reports by suggesting further clarification and assurance is needed regarding the importance of ensuring any facts and findings included in the high level reports are presented in context. Failure to do so could potentially create a false impression of high quality in the absence of negative findings, or of systematic audit failure if isolated negative findings are reported from the review of individual audits. The AIA also requests further reassurance that the amount of information contained in each report will be carefully assessed and that references to minor or isolated shortcomings be excluded and any additional information about more serious matters included.

Section 2.5

The AIA proposes that in preference to publishing reports in two or three publication dates per year, it would be fairer to publish reports simultaneously on an annual basis. Some of the AIU's past findings appear to relate to unsatisfactory practices that are widespread across several firms; therefore the AIA considers that the publication of reports in batches could leave firms at the start of the reporting cycle open to criticism, and even liable for replacement for doing something that will subsequently be revealed as common practice.

The AIA welcomes the assurance that the high level report will not be published prior to the relevant audit committees consideration of the detailed private report and that the processes currently in place for the production of reports will remain unchanged.

The AIA also supports the AIU's provision for firms to provide written comments on a draft of their high level report before it is published. The AIA believes this will be beneficial in maintaining the current constructive dialogue that exists between the Board and the firms subject to inspection.

Summary

The AIA supports the proposals outlined in Section 2 with the following stipulations; first, that the context in which the information is presented in the high level reports needs careful consideration and second, that the proposed publication dates require further consideration in order to avoid subjecting firms to unnecessary criticism.

Q2. Are the processes we intend to follow before new-style reports on individual audits are finalised appropriate?

Section 3.4

The AIA welcomes the increased transparency that lifting restrictions preventing firms from discussing reports with their clients would bring about.

However, the AIA is concerned that this change also has the potential to compromise the credibility of the process by inhibiting clear and candid reporting on the competence and integrity of the client's boards and senior management. The AIA believes this could prove embarrassing if the AIU takes issue with any decisions relating to the global audit risk.

The AIA considers the proposed format of the new-style report and the implementation of relevant quality control procedures to be satisfactory.

Section 3.5

The AIA recognises that allowing clients to be informed that their audit has been reviewed and by firms sharing AIU reports with their clients, will enhance transparency within the monitoring process.

However, the AIA is concerned that these changes will also allow situations to develop in which the

auditor may find it difficult to restrict any discussions with management to the high level reports. Furthermore, if the client's audit committee is aware that their company's files have been reviewed they may exert pressure on the auditor to see the detailed private report and, if it hints at any problems or matters that require action, then the client may have a stronger case for requesting a copy from the AIU under the Freedom of Information Act.

The AIA therefore requests that the proposed publication by the Board of an annual list of the audits reviewed by the AIU be subject to further consideration.

Summary

The AIA welcomes the move toward increasing transparency within the audit monitoring and reporting process. However, the AIA believes that issues pertaining to the auditor client relationship and the potential use of the additional information made available by the proposed changes need to be addressed.

Q3. Do you have any comments on the Board's proposals that annual reporting on the AIU's work should in future be incorporated in the Oversight Board's annual report to the Secretary for Trade and Industry?

The AIA believes that if high level reports on individual firms are published it would be valuable to include a detailed report consisting of an overview of the findings for the year and indicating developments, improvements and concerns in the Oversight's Board's annual report to the Secretary of State for Trade and Industry. The AIA believes this will enable the seriousness of any findings against individual firms to be established.

Q4. Do you have any comments on the Board's provisional regulatory impact assessment?

The AIA considers the financial costs associated with these proposals are not significant given the overall costs associated with the audit of companies that fall within the AIU remit.

Additional comments

The AIA recommends that to avoid undermining or impairing the effectiveness of the AIU any proposed changes be implemented only if an overall improvement can be clearly identified. To assist in this assessment process the AIA would like to present the following additional comments for consideration.

The AIA is concerned that firms may respond to the threat of publication of alleged shortcomings by conducting and recording audit work in a manner that facilitates a positive AIU review without necessarily improving the actual quality of their work. This could increase the cost of audits and might have adverse implications for audit quality.

The AIA believes that publishing alleged shortcomings of named firms will inevitably affect the dynamic of the AIU's relationship with the subjects of its investigations. This could lead to firms taking an entrenched position in response to suggestions for improvement.

The AIA believes that the AIU's present system of reporting an aggregated set of findings on the Big 4 and other firms of interest does not suggest that there are widespread shortcomings that need to be aired in the public interest. The 2006/07 Audit Quality Inspections Public Report suggests that the AIU's review has led to a variety of improvements on important, but not fundamental, matters of audit quality. There is nothing in that report to indicate that any of the firms investigated should be brought to the public's attention as being incompetent or unprofessional in their approach to audit.