



Christina Trickett
Professional Oversight Board of the FRC
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22 September 2006

Dear Ms Trickett

Response to the consultation document *Reporting on Audit Quality Monitoring*

ACCA welcomes the opportunity to comment on POB's future policy with regard to form and content of public reporting by the Audit Inspection Unit (AIU), in respect of its monitoring of the quality of audit work at the major UK audit firms.

ACCA's comments and responses to the specific questions posed in the consultation document are set out below.

Arguments for and against extending public reporting of AIU findings

In general, ACCA believes that public and institutional investor confidence in audit regulation is most likely to be achieved in circumstances where there is awareness of the processes at work and this inevitably points to the need for high levels of transparency.

In respect of the inspection work of the AIU, we believe that it is necessary to reflect on POB's/AIU's objectives in order to determine whether greater transparency will enhance or hinder its work. If the primary objective is to bolster public confidence in the audit profession and in the audit as an effective check on the activities of directors of public companies, will naming firms whose procedures have been found to be weak enhance or damage public confidence?

If, however, there is also an objective to assure the public and investors that the system of inspection is robust and demanding, then there is much to be said for demonstrating this transparently rather than simply asking that it be taken as read.

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Reports published by the AIU have included details of the processes followed by the AIU inspectors and the names of firms subject to the process. While this demonstrates a robust inspection and accountability regime, ACCA believes greater transparency would enhance the reporting process and strengthen public confidence in the overall quality assurance regime.

ACCA accepts that Part 5 of the consultation document lists many valid arguments against further publication. Among these, we believe the greatest risk is that the process would become both more legalistic and more compliance-focused, with the attendant danger that reports would concentrate only on few headline themes and would, because of the risk of protracted negotiation over the content of reports, exclude detailed observations which could assist firms to improve the quality of their audit work. These risks need be carefully weighed up when considering any extension of publication; a balance needs to be struck between providing greater transparency and avoiding a legalistic quagmire.

Options for change

Institutional investors and the wider financial community will be familiar with the reporting policy of the US PCAOB and this has, to some extent, set a benchmark against which other audit regulators may be judged. This is not to say that it automatically follows that POB/AIU should follow the same approach as PCAOB but it does mean that POB should stand ready to explain in detail why a different approach may be more suited to UK market conditions.

While the PCAOB approach appears to have improved confidence in audit regulation and in the US market overall, it would not necessarily have an identical impact in the UK. One potential difference is that, with the smaller number UK listed entities, it might prove easier to identify individual companies from PCAOB-style reports on UK audit firms, especially in respect of reports on non-Big Four firms. Any undermining of confidence in the rigor of individual audits would prove damaging to the UK market overall and must be avoided.

ACCA agrees that publishing information about individual firms inspected could help audit committees make decisions. We also believe it could help non-Big Four firms demonstrate that they are capable of undertaking large listed company audits, if such reports show they have sufficiently robust quality assurance systems in place. However, we reiterate that information should be published in such a way that individual audited companies cannot be identified.



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Of the options for reporting set out at paragraph 6.1 of the consultation document **ACCA believes Option F - a summary of each report on individual audit firms - could, in the right circumstances, be most appropriate way forward.** We believe this provides a balance between greater transparency of the review process, while still allowing for a full range of detailed issues to be raised privately with firms. Summary reports are less likely to be challenged by legal processes and, if they were all published annually at the same time, would permit audit committees and others to make more informed comparisons between firms (inclusive of Big Four and non-Big Four firms).

ACCA does not share POB's view that the nature of weaknesses at a named firm should be disclosed only after the firm has failed to respond positively and promptly to recommendations made to them by the AIU. The profession needs to recognise that public expectations as to reliability of listed company audits are, understandably, exceptionally high and that, at this level, there is unlikely to be public acceptance that major firms should be given time to put right what should have been right in the first place. Such weaknesses are, therefore, a matter of public interest.

How promptly firms deal with weaknesses is also of interest but this should not, in itself, determine whether or not a report should be published. It would be best to avoid situations where firms are able either to deal with matters in such a way as to avoid publication or to challenge matters legally so preventing publication while the issues in contention are resolved. Automatic publication in line with Option F should avoid these situations.

In respect of ACCA's own experiences of the regulation of smaller firms of auditors, we have always taken the view that deficiencies should be dealt with appropriately at the point they are detected and in this respect we do not follow the practice of other bodies of grading visit outcomes as satisfactory simply because firms have plans in place to address deficiencies.

ACCA does not support the idea of the AIU making further information from its inspections on individual audit firms or their audits of individual companies privately available to audit committees. We believe that there should be a single form of publication available to the public, which we believe should provide sufficient information for the needs of audit committees.

Providing certain information to audit committees on a confidential basis will not aid the objective of transparency and has the potential to damage confidence in both firms of auditors and the companies they audit. For example, in circumstances where a company moved to change auditors unexpectedly this could lead to speculation that such a decision had arisen directly from the content of a report made to its audit committee by the AIU.



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Conclusion

In conclusion, ACCA recommends that the AIU should extend its reporting to publish a summary of each private report on an individual audit firm which sets out the main themes of the firm-wide review (Option F). This should extend to individual audit engagement reviews provided that this can be done in such a way that individual companies cannot not be identified.

ACCA trusts POB will find these comments useful. We should be happy to expand upon our views if required.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter Large', is written over a horizontal line.

Peter Large
Executive Director - Professional Standards