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Oversight Board 190907

Dear Ms. Trickett

Reporting on Audit Quality Monitoring – Implementing A New Approach

BDO Stoy Hayward LLP welcomes the opportunity to comment on the FRC's Consultation Document of June 2007 "Reporting on Audit Quality Monitoring – Implementing A New Approach".

As you are no doubt well aware, BDO Stoy Hayward LLP has been the one firm which, at a very early stage in the AIU Public Reporting process, supported a move towards more transparent reporting on individual firms as an aid to negating misconceptions as to Size-only equating to Quality, an essential part of the process of ensuring better information is provided to the audit marketplace as regards individual firm quality to enhance competition and choice there.

However our promotion of single-firm reporting is also predicated upon there being an understanding of what audit quality means and a need to ensure that there is a shift in the current tendency of the AIU only to 'negatively' report, thereby helping to ensure that the public confidence which the independent review process is intended to underpin is not inadvertently undermined. In that regard, we are encouraged by your statement in Paragraph 1.7. of the paper that you are seeking to achieve "the maximum level of transparency that is consistent with maintaining the effectiveness of the inspection process."

Our responses to your specific questions are as follows:

Question 1

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

While acknowledging your overriding objective stated above, we feel there remains a need to understand in specimen format, the actual detailed reporting you intend; some essentials are:

- The report has to be balanced and not a listing of matters which, in the AIU's view, could be done better. There should also be a summary of the firm's overall attitude and effort towards ensuring the highest quality in its audit work. This will help ensure a reader is given a balanced and contextual view of audit quality within an individual firm.
- Any matters of concern raised by the AIU should also indicate whether this is a one-off matter or is likely to be a systematic one of the firm.

- The report should avoid identifying specific circumstances that are to be the subject of disciplinary investigation. To do otherwise might lead to speculation, and be unfair to the firm or individual subject to the disciplinary investigation.
- As with PCAOB reporting, the individual firm should have the right to have a response letter included within the report. This would further assist in providing balanced reporting.
- Subsequent to the issuing of a report, no further public comment should be made either by the AIU (and any other part of the Financial Reporting Council) or the firm, unless they both agree to issue a joint statement.
- As regards timing, we agree that it would be inappropriate to issue reports one by one. Our preference would be to publish all the reports at once, or if impractical, in blocks of reports such that the AIU would only report twice a year maximum. We suggest that a detailed timetable is developed in consultation with the firms.

Question 2

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

- The key principles we describe above as necessary for fair individual firm reporting also apply to reporting on individual audits.
- We see a conflict in the expressed ‘voluntary’ nature of firms sharing with reviewed clients their detailed reports and the publication of a list of all files reviewed. Furthermore, we believe there is a real danger, particularly where a firm has a limited number of AIU-reviewable clients in one identifiable sector, of the veil of anonymity being easily lifted. Consequently, we do not agree with such publication.
- Where such reports are shared voluntarily with auditees, there needs to be a clear protocol agreed as regards confidentiality. This does not seem to be addressed in the Discussion Paper.

Question 3

Do you have any comments on the Board’s proposal that annual reporting on the AIU’s work should in future be incorporated in the Oversight Board’s annual report to the Secretary of State For Trade and Industry?

- We agree that it is sensible to reduce the extent of an overall annual report, provided that such abbreviated reporting remains balanced, combining a mention of good practices as well as describing areas requiring attention.

Question 4

Do you have any comments on the Board’s provisional regulatory impact assessment?

- The Discussion Paper provides insufficient detail in relation to supporting the figures as regards additional cost, and therefore we cannot comment on this.

- We would point out that while an element of report finalisation is dependent upon the attitude of the firms to their own proposed report, it is also dependent upon the AIU and the quality of its people in being able to deal with the greater transparency they themselves will now face.

Should you wish to discuss any aspect of our above comments further, please do not hesitate to contact Don Hutchison on 020 893 2625.

Yours sincerely

Don Hutchison
Partner
For and on behalf of BDO Stoy Hayward LLP