

Ms C Trickett
Professional Oversight Board of the FRC
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Dear Ms Trickett

REPORTING ON AUDIT QUALITY MONITORING

I am writing with BT Group's views on the Professional Oversight Board's consultation paper "Reporting on Audit Quality Monitoring". Set out below are our comments on the questions raised in the consultation paper.

Q1 – To which of the arguments set out in Part 5, for and against extending public reporting of AIU inspection findings, do you attach most weight and why? Are there other important arguments which we have not captured?

Of the arguments set out for extending public reporting, greater transparency is an important factor which we believe would help improve public and investor perception and confidence in the audit profession.

Of the arguments set out against extending public reporting the risk of adversely impacting the commercial position of companies whose auditors have been adversely criticised is an important factor. This could also result in companies being publicly pressurised to change their auditors which in turn could result in undue pressure on the business of the particular audit firm that has been publicly criticised. This might well be despite the audit firm having already taken appropriate action to address the particular issue. This, in turn, may well lead to a further reduction in the choice of audit firms in the market.

Q2 – Which of the options at 6.1 do you favour, and why? In particular, do you consider that the nature of weaknesses at a named firm should be disclosed only after the firm, in the opinion of the Oversight Board, has failed to respond positively and promptly to the recommendations made to them by the AIU or has failed to cooperate with the AIU?

We agree with the Oversight Board's preliminary view that option C provides the most appropriate means of reporting on the generic themes and issues identified by the AIU with the advantage that the threat of public reporting of named audit firms should encourage audit firms to respond positively to recommendations made by the AIU. We believe that this provides a suitable level of transparency to the general public and investors and should encourage the right response from the audit firms.

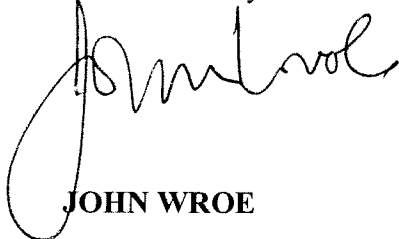
It would however also be useful if there was a private summary report issued to the company with the findings of the AIU following a review of that company's individual audit file. This would help audit committees assess the effectiveness of their external auditors.

Q3 – Do you think that information from AIU inspections on individual audit firms and/or their audits of individual companies should be made available to audit committees? If so, what do you think is the most appropriate way of achieving this?

As noted above we do believe that it would be useful for audit committees to receive a private summary report from the AIU setting out the findings and the audit firm response on completion of a review of the audit files associated with an individual company. This would help audit committees in assessing the effectiveness of the auditors and would improve the transparency in this area. It would also help audit committees to encourage audit firms to address the particular issues raised in a timely and effective manner. Such a report should be a private report to avoid the risk of commercial damage to the individual company and audit firm.

We would be pleased to discuss our views with you if that would be helpful in addressing the practical issues associated with extending public reporting.

Yours sincerely



JOHN WROE