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**The Hundred Group**  
of Finance Directors

Ms Christina Trickett  
Professional Oversight Board of the FRC  
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20 September 2006

Dear Ms Trickett

### **Reporting on Audit Quality Monitoring**

I am writing on behalf of The Hundred Group of Finance Directors to respond to the Board's consultation document with respect to the reporting on audit quality monitoring that was published on 21 June 2006.

The Hundred Group of Finance Directors represents the views of the finance directors of the UK's largest companies drawn largely, but not entirely, from the constituents of the FTSE100 Index. Our members are the finance directors of companies whose market capitalisation collectively represents over 80% of that of companies listed on the London Stock Exchange.

The 100 Group agrees with the Oversight Board's preliminary view that the objective of improving audit quality is best served if audit firms respond positively and quickly to recommendations made in the AIU reports. We further agree that the audit firms should have an opportunity to address concerns in private reports but with the prospect of disclosing publicly the name of the audit firm and the nature of the weaknesses which have been identified where the opportunity for improvement is not taken (option C).

The 100 Group would trust that in the event of any public disclosure made by the Oversight Board, it is measured in its criticism, appropriately communicated and does not report its findings in a way that is detrimental to the markets as a whole. The 100 Group would strongly disagree with any publication of reports on individual audit firms being made either with reference to specific company audits or where the Oversight Board's public criticism could adversely affect the audited companies of that individual audit firm by association.

The role of public monitoring and reporting by the AIU is supported by the 100 Group and the threat of public disclosure of persistent audit failure should be a sufficiently strong deterrent to ensure audit quality is maintained and improved.

Detailed responses to the consultation document's questions are set out in the appendix.

Yours sincerely

  
Philip Broadley

## **Appendix – Responses to the Oversight Board's specific requests**

### **Question 1**

**To which of the arguments set out above do you attach most weight and why? Are there other significant arguments which we have not included?**

#### ***Arguments against public reporting***

The 100 Group believes the most significant argument is the risk that indiscriminate public reporting will affect the commercial position of companies whose auditors have been criticised publicly by casting doubt on the robustness of the audit after the financial statements have been signed. Such a move could potentially penalise investors in companies as well as the auditors and undermine the efficient working of the financial markets.

The other arguments against public reporting regarding the weakening of the essential purpose of the inspection and less timely reporting are fair observations and we note more likely if the Oversight Board takes a more legalistic and/or adversarial approach with the audit firms.

#### ***Arguments for public reporting***

The 100 Group is supportive of greater transparency where this is beneficial to the efficiency of the capital markets; the consultation document has not provided in our view any strong arguments to suggest the current public reporting structure is flawed or that significant information, which would increase the efficiency of the markets or improve audit quality, is being withheld.

Whilst extended public reporting may well help investors to reach a more informed view as to the appropriateness of a non-Big 4 firm acting as auditors, the 100 Group believes the FRC "Audit Choice Project" is already addressing this particular point and does not see public reporting by the AIU as a direct or efficient way in which to increase market choice.

### **Question 2**

**Which of the options at 6.1 above do you favour, and why? In particular, do you consider that the nature of the weakness 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 recommendations made to them by the AIU or has failed to cooperate with the AIU?**

The 100 Group favours option C and concurs with the Oversight Board's preliminary view that the objective of improving audit quality is best served if audit firms respond positively and quickly to recommendations made in the AIU reports.

The 100 Group further agrees that the audit firms should have an opportunity to address concerns in private reports but with the prospect of disclosing publicly the name of the audit firm and the nature of the weaknesses which have been identified where the opportunity for improvement is not taken or where the audit firm fails to cooperate with the AIU (option C). The 100 Group believes the threat of such a measure is important to give the AIU a sufficiently strong backstop sanction to improve audit quality.

The nature of the type of public disclosure has not been specified by the Oversight Board. The 100 Group would support public disclosure where the Oversight Board is measured in its criticism, where it is appropriately communicated and does not report in a way that is detrimental to the markets as a whole.

### **Question 3**

**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?**

The 100 Group supports information being made available to audit committees where it is necessary for the audit committees to perform their duties; no evidence has been offered to suggest that the failure to provide such information in the past has meant that audit committees have not been able to fulfil their duties through other means.

The 100 Group believes the disclosure of non-publicly available information would be difficult to justify to other interested parties. Assuming that legal or other regulations were to allow such disclosure, which is not immediately apparent, audit committee members may be placed in a difficult position where such information is a part of their decision to appoint a different auditor but could not disclose the rationale to shareholders.

The 100 Group believes that disclosure of AIU inspections to only selected users is in practice very difficult and is of little consequence when choosing an audit firm, except in the limiting case where under option C, persistent failures in audit quality would be reported.

### **Question 4**

**How would you quantify the costs and/or benefits of the options set out at 6.1 below, taking into account Annex A?**

The 100 Group is not in a position to comment on the quantitative costs of the various options.