



LONDON SOCIETY  
OF CHARTERED  
ACCOUNTANTS

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## Regulation and Ethics Review Panel

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Dear Christina,

### Reporting on Audit Quality Monitoring – Implementing a New Approach

I am writing as Chairman of the Regulation and Ethics Review Panel (RERP) of the London Society of Chartered Accountants (LSCA). The LSCA is by far the largest of the 22 district societies affiliated to the Institute of Chartered Accountants in England and Wales (ICAEW). It has a membership of 30,000, representing nearly one quarter of all ICAEW members, and also provides services for other ICAEW members who live or work in London. London members, like those of the Institute as a whole, comprise a mixture of those working in all sizes of practice and those working in businesses, both large and small, or otherwise not in practice. They also include many of the ablest and most senior Chartered Accountants, together with a wide range of specialists.

RERP welcomes the opportunity to comment briefly on this consultation paper. We have seen the response being submitted by The Institute of Chartered Accountants in England & Wales and would like to endorse this in full. However, we also have some particular concerns, which we highlight below.

**Q.1 Are the processes we intend to follow before high-level reports on individual firms are published appropriate?**

**Q.2 Are the processes we intend to follow before new-style reports on individual audits are finalised appropriate?**

Q.1: We note that it is intended that the new arrangements will apply to audit inspections commencing on or after 1 April 2007, which seems very quick considering that the final proposals will not be agreed until later this year. This means that results of inspections will be published regarding firms that did not know at the time of the inspection that the results would be made public. This does not seem fair. Firms should have the opportunity to handle their inspections knowing what will happen to the results. The start date should therefore be delayed to cover only those inspections commencing after the date that these proposals are finalised.

Qs. 1 and 2: There is little in the consultation to help understand exactly what will go into the published reports, other than to say that the "main findings" will be included. It is important for any reader to obtain a balanced, fair and comparable picture of audit quality. This ought to mean that both positives and negatives are included, and not just adverse findings. It will also be important that "main" findings are determined in a way that makes comparisons between firms and between audits possible in a way that is fair. For instance, what will be the main findings if a firm/audit inspection results in 10 insignificant adverse findings, and how would this compare to another firm/audit where there were 3 serious findings plus 7 insignificant findings on the same topics? If the 3 main findings from each are included, this would present an unbalanced comparison.

The reports should include comments from the firm. This will be particularly important where there is any disagreement between the AIU and the firm. If the ARCs are to be consulted, it also seems appropriate to include their comments, for example, what their intended actions are.

**Q.4: Do you have any comments on the Board's provisional regulatory impact assessment?**

We wonder whether more research is needed into what the impact would be of making these reports publicly available – i.e. how the stock markets would react, the investor community, competitors, clients, etc. – in order to gain a better understanding of what is likely to happen. We are not sure that sufficient thought has been given to this in the Regulatory Impact Assessment, in particular the additional legal and other costs likely to be incurred by firms and the AIU in challenging and debating the content and presentation of the reports.

We also remain concerned, as we set out in our response to the previous consultation paper on this topic, that, knowing that the criticism will be published, audit firms will argue the point and resist, rather than accepting the criticism and taking steps to improve their procedures. The AIU may also be inhibited from making any criticism unless they feel that they have a watertight case. The net result may well be prolonged expensive legalistic disagreements, rather than incremental improvements in the standards of auditing.

If you would like to discuss any of our comments in further detail, or wish additional clarification of our views, please do not hesitate to contact me.

Yours sincerely,

**Bruce Picking, MSc, FCA**  
Chairman, Regulation and Ethics Review Panel