

Christina Trickett
Professional Oversight Board of the FRC
5th Floor
Aldwych House
71 - 91 Aldwych
London
WC2B 4HN

20 September 2007

Dear Sirs

Reporting on Audit Quality Monitoring – Implementing a New Approach

Thank you for the opportunity to comment on the above Consultation Document. We have the following comments in relation to the questions posed in the Document.

1. Are the processes we intend to follow before high level reports on individual firms, once published, appropriate?

- 1.1 The process appears to envisage a meeting (one or more) is possible to discuss the draft detailed private report, but that the AIU will only invite written comments (with the implication there will be no meeting) on the draft public report.

In view of the importance of the public report we believe one or possibly more meetings to discuss the draft public report is essential for firms to be able to fully explain their views. We would regard this as a natural part of the due process which would be expected to underpin any document of this importance which will ultimately be in the public domain.

- 1.2 We are concerned that in some, albeit a very few cases, it may be possible from comments in the public report to identify the specific audit client concerned (specific industry point, only one client etc.). This may be a more likely scenario for non Big 4 firms with a smaller client base, but it is also possible in relation to Big 4 firms.

We would like to receive some public commitment that the AIU will not publish a report in such a way that the client could be identified, even on an informed guess.

- 1.3 The process should include a minimum period of advance warning for each firm as to when their public report will be published.

Tel 020 7065 0000 | Fax 020 7065 0650

Email richard.bint@uk.pkf.com | www.pkf.co.uk

PKF (UK) LLP | Farringdon Place | 20 Farringdon Road | London | EC1M 3AP | DX 479 London/Chancery Lane

PKF (UK) LLP is a limited liability partnership registered in England and Wales with registered number OC310487.

A list of members' names is open to inspection at Farringdon Place, 20 Farringdon Road, London EC1M 3AP, the principal place of business and registered office. PKF (UK) LLP is authorised and regulated by the Financial Services Authority for investment business activities. The PKF International Association is an association of legally independent firms.

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

2.1 There may be instances where the firm has had a serious professional disagreement with a client, perhaps leading to a serious audit qualification or to the auditors choosing to resign (or not seek re-appointment) and potentially issued a letter setting out matters the members or creditors should be aware of. Such cases may be rare but we believe the AIU should not make a report on the client in such cases as any criticism of the audit, no matter how minor, is likely to be seized upon by the former client to use against the firm or “rubbish” the audit more generally. This would not, in our view, be consistent with supporting auditors taking difficult decisions in the public interest.

In such circumstances it is also likely the client will be refusing to pay outstanding audit fees and the AIU report may give them something to seize on to “justify” refusal to pay.

The payment issue is not the main point here, it is the need to avoid doing anything to undermine auditors who have made difficult decisions leading to alienation of the relationship with the client.

2.2 As in 1.1 it appears a meeting to discuss the draft client report is not envisaged, merely an invitation to make written comments. Our point is the same as in 1.1.

2.3 We understood from the meeting with the firms in June, that there would be some method to prevent client directors and staff receiving a client report, from discussing it with others, or passing it to others.

The method is not set out in this document. We regard this as a fundamentally important part of the process and would suggest that the relevant detail is sent to firms for re-assurance or comment.

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?

3.1 We believe the current Annual Report has a relatively high profile which we believe is good for reassuring the public about the state of auditing in the UK. Even if it is a public document, as we believe it is, the relevant content will be diluted in the report to the Secretary of State and may not have the same profile.

In the interest of transparency we believe the current overall Annual Report should continue. This also assists firms in understanding overall industry weaknesses and so enables them to address issues before they arise in their own firms.

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

- 4.1 We believe the percentages of time (5% and 15%) likely to be spent by the firms (and the AIU) to be a considerable under estimate.

This is because the estimates focus only on the additional time to produce and agree the new reports.

There will also be considerably more time spent agreeing the private, longer form reports and client issues documents in view of the fact that the public / client reports will be based upon them and the crucial importance of these to firms.

We are unable to estimate what such additional cost will be but it will be considerably more than 5% and 15%.

Thank you once again for the invitation to comment. We confirm we have no objection to this letter going on the public record.

Yours faithfully

Richard S Bint
Head of Professional Services
PKF (UK) LLP