



## APPENDIX

### **Summary of key points made in responses to the FRRP's consultation paper**

In June 2007 the FRRP published a consultation paper asking for views on its proposal that auditors be asked to voluntarily report to the Panel when they qualify a set of accounts. A total of 15 responses were received, nine from registered firms of auditors, five from professional bodies and one from a commercial organisation. Respondents welcomed the opportunity to comment on the Panel's proposal.

Respondents were supportive of the role that the FRRP plays in improving the quality of financial reporting in the UK and the consensual basis on which it works with companies. Some acknowledged that the timely identification of qualified audit reports by the FRRP would enable corrective action to be taken more promptly, if appropriate, thereby improving further the quality of financial information published by UK companies.

However, a number of concerns were expressed which are summarised as follows.

#### **Confidentiality**

Due to contractual confidentiality, auditors would be unable to disclose to the FRRP when they issue a qualified audit report without prior consent from their clients, or until such time as the companies accounts were publicly available or filed with Companies House. Companies may withhold their consent. As private companies have ten months in which to file their accounts, it was also questioned whether voluntary disclosure by auditors would be the most timely method of bringing qualified accounts to the Panel's attention.

#### **Directors responsible for accounts**

To avoid breaching client confidentiality, and to encourage more timely notification to the FRRP, it was suggested that the directors of the company should disclose when their accounts are qualified by their auditor. This approach was considered by several to be more consistent with the current working practices of the Panel which engages with companies, rather than their auditors. It was also considered more appropriate given that responsibility for preparing accounts that show a true and fair view remains with the company's directors.

## **Voluntary disclosure**

As disclosure would be on a voluntary basis, some auditors might oblige the FRRP's request while others would not. The FRRP would therefore not receive notification of all companies receiving qualified audit reports. This could be perceived as unfair, particularly by those companies audited by firms who might adopt a policy of making voluntary disclosure, as they would be more likely to be selected for review by the FRRP.

## **Scope of disclosure**

Many respondents expressed concern over the number of qualified audit reports falling within the scope of the proposal. Respondents anticipated that this would place an administrative burden on both audit firms and the FRRP. A full assessment of the cost implications of the proposal compared to the benefits was requested. It was also suggested that any voluntary disclosure, should be limited to those qualifications of public interest. In particular, it was recommended that the FRRP should:

- exclude from the scope of voluntary disclosure the smaller of the large private companies and subsidiaries of large groups;
- exclude from the scope of the proposal qualifications arising from a limitation on scope of the auditors work, or disclaimer of opinion, which do not necessarily suggest the financial statements are incorrect; and
- prioritise its investigations with a focus on entities with securities traded on a regulated market and those quoted on AIM.

## **Change in FRRP approach**

Some respondents believed that the proposal could indicate a shift in the FRRP's current approach to its review of company accounts.

The FRRP has always sought to work with companies on a consensual basis. However, it appeared that where a company with a qualified audit report was identified, this would automatically trigger an investigation leading to a restatement of those or future accounts. It was suggested that the FRRP make clear how the proposal fitted with its overall approach to examining accounts and to confirm that it was not a first step towards developing a system of pre-clearance.

Where there is genuine disagreement between the auditors and directors on a complex accounting issue, it was suggested that it was not the FRRP's role to act as adjudicator or to interpret the meaning of accounting standards.

## **Practical alternatives**

A number of alternative suggestions as to how the FRRP could be notified of qualified audit reports were offered by respondents. The FRRP has now entered into a contractual arrangement with an independent data provider and receives notification of qualified accounts filed at each quarter, filtered by company size and nature of the qualification.