



Accountants &
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Ms Anna Colban
Secretary to the AADB
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And by email to: a.colban@frc.org.uk

Our ref: RSB/ldm

10 July 2012

Dear Ms Colban

AADB – Sanctions Guidance to Tribunals

Thank you for your invitation to comment on the Consultation Paper.

We generally agree with the thrust of the Paper and therefore have limited comments. Consequently we are only responding to three of the consultation questions:

Do you agree that the sanctions imposed by AADB Tribunals should act as a credible deterrent and be proportionate to the seriousness of the misconduct and to all of the circumstances of the case, including the financial resources of members and the size and financial resources of member firms?

We accept that fines should be proportionate to the resources of member firms (see below). However, we believe fines on members should be according to a set tariff. The tariff should not be set at a level to cause serious financial damage to the member. If it is open ended as to a proportion of the member's personal financial resources we believe that will send a negative message to people about becoming an auditor or an audit partner, and to smaller firms taking on public company audit clients.

In any event in practical terms it would drive personal financial planning whereby members who were audit partners held assets in spouses' names (where applicable).

**What is your view of the alternative mechanisms proposed for calculating fines?
What level of turnover/income do you consider would be appropriate in respect of each mechanism?**

We agree fines for member firms should be proportionate to financial resources.

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However, the purpose of a fine is to cause some financial hurt to the firm (and therefore ultimately its partners). Financial hurt is dependent on impact on profit not turnover and the largest firms may have much higher profits per partner than smaller firms.

Therefore we believe the fine should be based on the profit of the firm available for distribution to partners, not on turnover. The profit should be the (UK) group profit.

Do you agree that Tribunals should not take account of the costs that it is considering awarding against a member or member firm when determining the appropriate level for a fine?

If we are correct in our analysis that the purpose of a fine is to cause some degree of financial hurt, then logically the total hurt is unrecoverable costs plus the fine. Unrecoverable costs are those which are not reimbursed by insurance. On this basis logically the unrecoverable costs would be taken into account.

Please let us know if you wish us to comment further on any of the points made above.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'R. Bint', with a stylized flourish at the end.

Richard Bint
Senior Partner
PKF (UK) LLP