



23 March 2011

Our ref: ICAEW Rep 33/11

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Financial Services Authority
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Dear Pat

Code of Practice for the relationship between the external auditor and the supervisor

ICAEW welcomes the opportunity to comment on the consultation guidance *Code of Practice for the relationship between the external auditor and the supervisor* published by the Financial Services Authority in February 2011.

The ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 134,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance with over 775,000 members worldwide.

We welcome the publication of the Code and fully support its intention of improving the quality of discussions between auditors and supervisors. One of the recommendations we made in our 2010 report 'Audit of Banks: Lessons from the Crisis' was for the relationship between auditors and the regulator to be improved. We particularly welcome the fact that the Code encourages the flow of information shared between supervisors and auditors to be two-way.

Publishing the Code, of course, is only the first part of a process. The real test is how the Code operates in practice and this will need both commitment from auditors and supervisors, and behavioural change. It will be important for the FSA and profession to monitor the effectiveness of the code in encouraging behavioural change, including having feedback mechanisms. We appreciated having the opportunity to contribute to the development of the draft Code and believe ICAEW may provide a useful continuing role in assessing the implementation of the guidance and encouraging better quality engagement, working with the FSA and its successor bodies.

We note the reference in Feedback Statement 11/01, jointly issued by the FSA and Financial Reporting Council, to having ongoing meetings with industry bodies in addition to meeting with auditors and audit firms. We believe that, in addition to the informal communication we have with the FSA, there would be merit in more regular formal meetings between ICAEW and the FSA to share intelligence. Meetings could cover both matters relating to our position representing and leading the accountancy profession, and matters relating to our role as a Recognised Supervisory Body for auditors.

We have two substantive comments about the drafting of the code itself. The first is that greater emphasis could be placed upon the respective responsibilities of management and auditors. Boards of directors, through the executive management are primarily responsible for running businesses and their compliance with regulatory requirements.

The second is that the code focuses on high impact firms. It does not make clear the implications for medium and low impact firms. It may be useful to clarify the implications for these firms. We would welcome a proportionate level of discussion with these firms, with some grading of the dialogue, rather than a cut-off between high impact firms and others. A proportionate response might be for larger medium impact firms to have some ongoing dialogue between auditor and supervisor and, for the low impact firms, for there to be an expectation that discussions happened as and when needed when a particular issue has been identified, at the request of either supervisor or auditor.

Please contact me should you wish to discuss any of the points raised in this response.

Yours sincerely

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