

Acknowledgement

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AuditQuality

Contents

Foreword	3
Introduction	5
Executive Summary	7
Identifying the audit partner: the issue	00
Background	00
Existing legislation, auditing standards and regulations	00
Forthcoming legislative changes	00
International experience	00
The recommendations	00
Companies' legislation	00
Auditing standards	00
Auditing regulations	00
Benefits	00
Concerns and issues	00
Next steps	00

Foreword

I am pleased to present the tenth booklet under the Members' Information and Education Series (MIES-10) on the subject of **“Identifying the Audit Partner”**

The booklet is a verbatim reproduction from the above mentioned publication of the *Audit Quality Forum* of the Institute of Chartered Accountants in England and Wales. The booklet contains a debate of the Audit Quality Forum's working group on the question “why the auditor should not sign the audit report by his/her own name instead of his/her firm's name?”

Except few countries, all over the world, the auditor signs the audit report by his/her firm's name instead of own personal name. The reason behind this is that the shareholders appoint a firm as the auditors of a company and not an individual. It is, accordingly, generally considered the best practice to sign the audit report by an auditor in the firm's name. It may, however, be pertinent to recall that the certificate of practice being issued by the Institute is to an individual in his/her personal capacity. Likewise, disciplinary proceedings, if any, are initiated against an individual engagement partner and not against the firm.

In Pakistan, the Companies Ordinance, 1984 (the Ordinance) allows the auditors to act in his/her or the firm name. The Institute, keeping in view the international practice and provisions of the Ordinance issued a directive allowing its members to sign audit opinions in the name of the firm.

It is expected that through this publication, a constructive debate would be initiated which will help the Institute to firm up a recommendation whether necessary amendment needs to be made in the corporate law to mandate the firms to identify the name of the engagement partner in the audit report on the financial statements of their clients.

At the end, I would like to thank Mr. Muhammad Asif Iqbal, Director Professional Standards Compliance & Evaluation for his efforts in compiling the booklet and the editorial team at ICAP for their assistance and support in publishing it.

Nasim Hyder
President

April 5, 2007

Introduction

The International Standards on Auditing (ISAs) define “Auditors” and “Engagement partner” as follows:

“Auditor” – The term “auditor” is used to describe either the engagement partner or the audit firm.

“Engagement partner” – the partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

ISA 220 (paragraph 6) states that *“The engagement partner should take responsibility for the overall quality on each audit engagement to which that partner is assigned”*.

Further, ISQC 1, which is in the process of adoption by the Institute, in its paragraph 42 states that *“The firm should assign responsibility for each engagement to an engagement partner. The firm should establish policies and procedures requiring that:*

- (a) *The identity and role of the engagement partner are communicated to key members of client management and those charged with governance;*
- (b) *The engagement partner has the appropriate capabilities, competence, authority and time to perform the role; and*
- (c) *The responsibilities of the engagement partner are clearly defined and communicated to that partner.”*

Paragraph 51 of ISA 700 (revised) states that *“The auditor’s signature is either in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction. In addition to the auditor’s signature, in certain jurisdictions, the auditor may be required to declare the auditor’s professional accountancy designation or the fact that the auditor or firm as appropriate, has been recognized by the appropriate licensing authority in that jurisdiction.”*

In the light of above requirements of ISAs/ISQC-1, some countries including UK, Germany, India, France and Luxembourg have made it mandatory for the auditors to sign the audit report under his/her own name along with the firm’s name. The PCAOB in USA is having a debate on the question whether the current practice of signing in the name of the firm needs a change.

Pakistan position

According to sub-section (2) of Section 254 of the Companies Ordinance, 1984 (the Companies Ordinance) *“a firm whereof all the partners practicing in Pakistan are Chartered Accountants may be appointed by its firm name as auditors of a company and may act its firm name.”*

Section 257 (1) of the Companies Ordinance further states that *“Only the person appointed as auditor of the company, or where a firm is so appointed only a partner in the firm practicing in Pakistan, shall sign in the auditors’ report or sign or authenticate any other document of the company required by law to be signed or authenticated by the auditor.”*

ATR-1, *Only Members to Sign Audit Documents* states that *“the Council decided that there should be no objection to signing audit documents by an individual member of the Institute in the name of the firm under which he practices”*.

In the light of the above international and local requirements, there is ample provision in the Companies Ordinance enabling the auditor to sign in the individual name alongwith the name of the firm. The Council of the Institute shall, in due course and after adequate debate, issue a Directive requiring individual engagement partner to sign the audit report in his / her name alongwith the name of the firm. If such a Directive is issued, the existing ATR-1 and ATR-9 issued by the Institute would be withdrawn.

On behalf of the Institute, I would like to express my sincere thanks to the *Audit Quality Forum* of the Institute of Chartered Accountants in England and Wales for granting permission for reprinting this publication.

It is expected that you will find the subject matter constructive and informative.

Muhammad Asif Iqbal, ACA
Director
Professional Standards Compliance & Evaluation

April 5, 2007

Executive Summary

This policy proposal considers the issues surrounding the proposition that audit reports should be signed by responsible individuals¹ on behalf of their firm. It develops proposals to be taken forward, with stakeholders.

The proposition has been put forward predominantly because of the concerns that currently the individual responsible for signing the audit report is not identified and therefore does not evidence his/her personal responsibility or accountability for his/her judgements.

The working party was split in its views on this debate. Some believed that if an individual signs in his/her own name, on behalf of the firm, then he/she is likely to carry out the audit more diligently, acknowledge more responsibility and accountability for the audit opinion and will take more care about the judgements, given their name will be disclosed. There was also a view that by naming an audit engagement partner, shareholders might have more access to question the auditor. Given that the audit is carried out in the name of the firm, it was felt that naming the audit engagement partner will provide more transparency around the arrangements within the firm.

Others in the working party believed that identifying an audit engagement partner on an audit report could potentially mislead about the degree of responsibility that an individual has on a public interest entity audit. A key point that was noted during the discussions was that there may well be a misunderstanding about the way in which audit judgements are formed by firms. The engagement partner has significant responsibilities both under auditing and ethical standards in relation to the quality of the audit. However, the audit opinion on each audit engagement is the collective responsibility of the firm that is appointed as the auditor and the opinion is in practice, the result of consultation with a range of partners rather than the sole judgement of one partner alone. Signing the name of the firm provides just as much motivation to a partner to get the opinion right as he/she is signing as an individual on behalf of the other partners within the firm.

A major factor that influenced the debate is the forthcoming European legislation that will mandate that the signing partner should sign in his/her own name. The DTI expects to adopt this requirement in the UK, in the form that the audit engagement partner would sign in his/her own name, on behalf of the firm, and therefore the working party's proposals are made in the light of these forthcoming changes to companies' legislation. Additional recommendations are made to help enhance the understanding of the quality processes within the firms and will seek to help clarify the way in which audit judgements are formed in relation to more complex audit issues.

A final issue that was raised was that there could be exceptional circumstances such as the audit of entities that are subject to campaigns of violence, in which it would be inappropriate to name the signing partner, and a mechanism for exemption would be appropriate. This might be along similar lines to the current arrangements in place whereby directors request an exemption from Companies House from having to disclose their personal details when the accounts are filed.

¹ Audit regulations issued by the ICAEW state that only responsible individuals working for a firm of registered auditors are entitled to sign off audit reports. In practice firms appoint responsible individuals to audit engagements. These could be partners, (and in certain circumstances) directors or senior managers. Responsible individuals all have the same responsibilities and in practice will follow the standards, regulations and guidance that are set out for audit engagement partners. Therefore, the references in this paper to audit engagement partner also include others who are designated as responsible individuals.

The following recommendations are made:

- the change in practice to the signature on audit reports is implemented with the forthcoming review of companies legislation;
- the wording in the current legislation needs to be clarified, to reflect the need for the key/lead audit engagement partner to sign in his/her own name on behalf of the firm;
- current auditing standards should be amended to clarify that the audit report should be signed in the personal name of the audit engagement partner, on behalf of the firm;
- there should be brief clarifying language contained within the engagement letter to explain the consultation processes that firms have in place including the internal consultation that firms may undertake in arriving at their audit judgement. The engagement letter should also clarify that claims can only be brought against the firm, as the designated registered auditor by whom the report is made, rather than the audit engagement partner;
- audit regulations and guidance should be amended in line with legislation and standards; and
- either in the companies' annual report or as part of a separate statement, the audit committee chair should highlight that the audit committee has formed a view on the firm's quality processes, procedures on consultation and decision-making prior to commencing or continuing the engagement.

Identifying the Audit Partner: The Issue

One perceived concern discussed by the *Audit Quality Forum* is that the name of the audit partner within a firm, who is responsible for signing the audit report, is not transparent. Investors note that directors sign the financial statements, on behalf of the board, whereas audit reports are invariably signed only in the name of the audit firm. Some investors would like to know the name of the partner who takes responsibility for signing the audit opinion on behalf of the firm. Although these concerns are expressed in relation to audits of listed companies, the issue is equally applicable to all audits.

A working party was therefore set up to consider this matter, with the following objectives:

- to consider alternative proposals to provide transparency for shareholders in relation to the name of the partner signing the audit report and to make a recommendation on this matter;
- to consider the issues that might arise from such a policy proposal and how such issues might be dealt with; and
- to consider the technical and practical issues that arise as a result of implementation of this proposal.

Much of the focus of the working party has been to consider the advantages and disadvantages of the audit engagement partner signing in his/her own name on behalf of his/her firm and the related impact on improving transparency and enhancing audit quality. Whilst the working party was considering a single issue, it is not a simple issue, and different members of the working party had differing views about the balance between advantages and disadvantages. Put simply, the financial statement users on the working party believe that the advantages in terms of transparency outweigh the disadvantages, whereas the preparers and auditors on the working party believe otherwise.

However a major factor influencing the debate was the European dimension and in particular the proposals in Article 28 of the draft Directive on statutory audit of annual accounts and consolidated accounts (the draft Directive) which would mandate that the signing partner should sign in his/her own name on behalf of the firm. The DTI view is that the possibility of altering this Article before finalisation of the draft Directive is remote, and on this basis the DTI expects to adopt this requirement in the form that the audit engagement partner would sign in his/her own name on behalf of his/her firm. To this extent much of the debate of the working party could be characterised in terms of when and how changes should be made to address the issues raised by investors, and what specific measures need to be put into place to mitigate the concerns raised by the preparers and auditors, where practicable.

The working party also believes there may well be misunderstandings about the way in which audit judgments are formed within the major firms and in relation to more complex audit issues. The responsibility for the audit engagement rests with the registered auditor who, in most cases, is the audit firm. The firm assigns each audit engagement to an individual within the firm who will ultimately be identified as the responsible individual on the audit. The responsible individual is usually a partner, but in certain circumstances, it may be a director or senior manager. This is appropriate as long as that individual has been appointed as a 'responsible individual' by the firm and is registered as such under audit regulations.

Whilst the audit engagement partner who is responsible for signing the financial statements can be identified, it would be wrong to assert that he/she is responsible for all audit judgements that are made. In addition to the direct audit team itself – which may include many partners – listed audits must also have

the involvement of an independent partner (APB Ethical Standard (ES)1, *Integrity, objectivity and independence*), generally an experienced senior partner within the firm who will be involved in all significant audit judgements. In addition most firms dealing with listed audits will have internal consultation requirements which, *inter alia*, will involve the need for consultation with a panel of experienced senior audit and/or technical or risk management partners in pre-defined circumstances. These circumstances would include difficult audit judgements and complex or new accounting policy issues.

When considering the issues and reaching a consensus on its recommendation, the working party has been mindful of the need to consider the impact of any proposals on all the stakeholder parties and to ensure a fair balance for those concerned. It has therefore also given some consideration as to how investors and others might be better advised of audit firm decision making processes.

Background

Existing legislation, auditing standards and regulations

In the UK, there is a legal requirement, through companies' legislation, for the auditor to sign in the name of the firm if that firm is a legal entity or partnership.

Extract from Companies Act 1985

236.—(1) *The auditors' report shall state the names of the auditors and be signed by them...*

(5) References in this section to signature by the auditors are, where the office of auditor is held by a body corporate or partnership, to signature in the name of the body corporate or partnership by a person authorized to sign on its behalf.

Further requirements exist in auditing standards issued by the Auditing Practices Board (APB) and audit regulations and guidance issued by the ICAEW². There are two auditing standards that are relevant: ISA 700 and ISA (UK and Ireland) 700 both entitled, *Auditor's report on the financial statements*. The UK standard has been developed by the APB using the international standard in arriving at its requirements. These specify that the audit report can be signed either in the name of the firm or the personal name of the auditor or both.

Extracts from Auditing Standards

IAASB's auditing standard ISA 700 *Auditor's report on financial statements*

Auditor's Signature

50. *The auditor's report should be signed.*

51 *The auditor's signature is either in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction. In addition to the auditor's signature, in certain jurisdictions, the auditor may be required to declare the auditor's professional accountancy designation or the fact that the auditor or firm, as appropriate, has been recognized by the appropriate licensing authority in that jurisdiction.*

Auditing Practices Board's auditing standard ISA (UK and Ireland) 700

Auditor's report on financial statements

Auditor's Signature

26. *The report should be signed in the name of the audit firm, the personal name of the auditor, or both, as appropriate. The auditor's report is ordinarily signed in the name of the firm because the firm assumes responsibility for the audit.*

2 The *Audit Regulations and Guidance* are developed jointly by the Institute of Chartered Accountants in England & Wales, the Institute of Chartered Accountants in Scotland and the Institute of Chartered Accountants in Ireland. They are issued by each individual body in their capacity as Recognized Supervisory Bodies, to their members.

ISA (UK and Ireland) 220 *Quality control for audits of historical financial information* establishes a number of requirements which place specific responsibilities on audit engagement partners for the overall quality of the audit engagement.

Extract from ISA (UK and Ireland) 220 *Quality control for audits of historical financial Information*

6. *The engagement partner should take responsibility for the overall quality on each audit engagement to which that partner is assigned.*
7. *The engagement partner sets an example regarding audit quality to the other members of the engagement team through all stages of the audit engagement. Ordinarily this example is provided through the actions of the engagement partner and through appropriate messages to the engagement team. Such actions and messages emphasize:*
 - a) *The importance of:*
 - (i) *performing work that complies with professional standards and regulatory and legal requirements;*
 - (ii) *complying with the firm's quality control policies and procedures as applicable; and*
 - (iii) *issuing auditor's reports that are appropriate in the circumstances; and*
 - b) *The fact that quality is essential in performing audit engagements.*

In addition, ISA (UK and Ireland) 220 covers a range of other aspects of quality control, e.g. requirements on consultation and the engagement quality control review equivalent to the UK independent review partner role outlined in the APB's ES1 *Integrity, objectivity and independence* which states that the firm's policies and procedures should, in the case of listed companies, require a review by an independent partner.

Extract from the APB's Ethical Standard 1 *Integrity, objectivity and independence*

Review by an Independent Partner

41. *In the case of listed companies the independent partner should:*
 - (a) *consider the audit firm's compliance with APB Ethical Standards in relation to the audit engagement;*
 - (b) *form an independent opinion as to the appropriateness and adequacy of the safeguards applied; and*
 - (c) *consider the adequacy of the document of the audit engagement partner's consideration of the auditor's objectivity and independence...*

The audit engagement partner also has specific responsibility in relation to the audit. If he/she remains unable to conclude that any threat to objectivity and independence has been properly addressed or if there is a disagreement with the independent partner, then the ethics partner needs to be consulted.

Extracts from the APB's Ethical Standard 1 *Integrity, objectivity and independence*

in relation to the engagement partner.

32. *The audit firm should establish policies and procedures to require the audit engagement partner to identify and assess the significance of threats to the auditors' objectivity, including any perceived loss of independence:*
- (a) *when considering whether to accept or retain an audit engagement;*
 - (b) *when planning the audit;*
 - (c) *when forming an opinion on the financial statements;*
 - (d) *when considering whether to accept or retain an engagement to provide non-audit services to an audit client; and*
 - (e) *when potential threats are reported to him or her.*
36. *If the audit engagement partner identifies threats to the auditors' objectivity, including any perceived loss of independence, he or she should identify and assess the effectiveness of the available safeguards and apply such safeguards as are sufficient to eliminate the threats or reduce them to an acceptable level.*
39. *The audit engagement partner should not accept or should not continue an audit engagement if he or she concludes that any threats to the auditors' objectivity and independence cannot be reduced to an acceptable level.*
43. *At the end of the audit process, when forming an opinion but before issuing the report on the financial statements, the audit engagement partner should reach an overall conclusion that any threats to objectivity and independence have been properly addressed in accordance with APB Ethical Standards. If the audit engagement partner cannot make such a conclusion, he or she should not report and the audit firm should resign as auditors.*
44. *...if the audit engagement partner remains unable to conclude that any threat to objectivity and independence has been properly addressed in accordance with APB Ethical Standards, or if there is a disagreement between the audit engagement partner and the independent partner, he or she consults the ethics partner.*

Audit regulations and guidance specify that the audit report must be signed in the name of the firm. They also state that only *responsible individuals* working for a *firm of registered auditors* are entitled to sign off audit reports. In practice, firms, especially those that carry out audits of smaller entities, could appoint directors or senior managers (instead of partners) as *responsible individuals*. Responsible individuals are required to follow the same standards, regulations and guidance as audit engagement partners. Guidance provided in relation to the regulations suggest that there is no need for firms that are registered auditors to add phrases such as 'for and on behalf of' to the signature.

Extract from Audit Regulations and Guidance

- 3.10** *Any audit report must give the name of the firm and be signed in the firm's name as it appears in the Register.*

Forthcoming Legislative Changes

There is a further European dimension in the proposals which take the form of Article 28 in the draft Directive on statutory audit of annual accounts and consolidated accounts (the draft Directive).

Extract from the draft Directive

Article 28: Audit reporting

- (1) *Where an audit firm carries out the statutory audit, the audit report shall be signed at least by the statutory auditor(s) carrying out the statutory audit on behalf of the audit firm. In exceptional circumstances Member States may provide that this signature does not need to be disclosed to the public if such disclosure could lead to an imminent, significant threat to the personal security of any person. In any case the name(s) of the person(s) involved shall be known to the relevant competent authorities.*

In this context “statutory auditor” means a natural person who is approved in accordance with the provisions of the directive by the competent authorities of a member state to carry out statutory audits.

The requirements as set out in the draft Directive will need to be adopted and published in the UK two years after they come into force in Europe. Most countries in Europe already have this requirement. It is not clear yet how these requirements will be introduced into UK law.

The working party discussed the draft Article 28 and the explanatory definitions and considered some concerns around the clarity as to what is required. The DTI clarified that the intent of the Article is that the personal name of the auditor on behalf of the firm be provided. It was understood that given the timing it was considered that there is little likelihood of proposing revisions to the wording of the Article. There will need to be clarity in the drafting of UK legislation, standards and guidance that will arise in supporting the implementation of the draft Directive in the UK.

International experience

Current practice in the United States is that audit reports are signed in the name of the firm and not the individual who is signing the report. The Public Company Accounting Oversight Board (PCAOB) is having a similar debate to the UK in considering whether the current practice needs to be changed. Part of this debate includes consideration of whether providing individual signatures might be inconsistent with the spirit of the Sarbanes-Oxley Act of 2002 and new standards, which strengthen firm-based quality control over individual audits. Those opposing any change also highlighted that section 302 reaffirmed management’s responsibility under US securities laws and believed the proposals for naming the audit partner might dilute this clarity of responsibility for the financial statements.

In Continental Europe, practice varies depending on the country. Some countries require individuals to sign their own names on behalf of their firms e.g. Germany (although, in practice more than one partner may sign). Some countries require a joint audit and the appointed auditor from each firm of auditors to sign their own names on behalf of their firm e.g. France. In some countries, the individual signs in their own name e.g. Luxembourg.

The Recommendations

Having considered the current requirements relating to the signing of the audit report, the potential legal and practical issues and the need for greater transparency raised by investors, the recommendations of the working party have been centred around the need to ensure that:

- current legislation, standards and regulations clarify that the signature of the audit engagement partner should be in his/her own name, on behalf of the firm, who is the registered auditor; and
- specific measures are taken to enhance the users' understanding about the consultation processes within firms, including the decision-making processes that are followed in arriving at the firm's audit opinion.

The specific measures that are required for the change to take effect are outlined below.

Companies' legislation

It will be necessary to amend UK legislation to reflect the final requirements of the draft Directive over the next couple of years. However, it is considered that this change in practice to the signature on audit reports should be implemented with the forthcoming review of companies' legislation.

Existing companies legislation currently states *'References in this section to signature by the auditors are, where the office of auditor is held by a body corporate or partnership, to signature in the name of the body corporate or partnership by a person authorised to sign on its behalf'*. On a strict interpretation, it could be argued that this means signing, for example, 'the firm's name', not the individual's name. Therefore, the interpretation of the wording of the legislation in the Companies Act needs to be clarified to reflect the need for the key/lead audit engagement partner to sign the audit report (using his/her own name) on behalf of the firm who is the registered auditor.

The legislation will need to allow for appropriate exemptions in exceptional cases where disclosure of the identity of the responsible individual may lead to an imminent, significant threat to his/her personal security. These could follow the arrangements that currently exist for directors under similar circumstances, whereby they request an exemption from Companies House from having to disclose their personal details when the accounts are filed.

Auditing standards

If we look to existing guidance to assist in interpreting the legislation, the current guidance ISA (UK and Ireland 700) points to signature in the name of the firm. The APB will therefore need to make amendments to clarify that the audit report should be signed in the personal name of the auditor on behalf of the firm.

There will be a need for additional clarifying language within the engagement letter to explain the internal consultation processes that firms have in place including the internal consultation that firms undertake in arriving at their collective judgement. The engagement letter should also clarify that claims can only be brought against the firm who is the registered auditor rather than the identified audit engagement partner.

Audit Regulations

Audit regulations are prepared collectively between the ICAEW, ICAS and ICAI. These will need to be amended to reflect the changes to UK legislation and standards.

The benefits of these recommendations are set out below.

Benefits

The inclusion of the signature of the audit engagement partner in his/her own name will provide evidence that he/she has personal responsibility and is accountable to the shareholders for the audit opinion on the audit engagement. This will also address the investors' concern that an individual partner's judgement on an audit may be overridden by a corporate panel within the firm and the individual may currently sign an opinion that he/she is not comfortable with, but would not do so in his/her personal name.

This change in current practice will mean that audit engagement partners will now have the same visibility as directors who currently sign the annual accounts and other documents in their own name on behalf of the board.

Another key benefit is that identifying the audit engagement partner will demonstrate that the audit is a 'human process' more than a checklist approach. It is true that there are both internal and external standards and consultation processes, but at the end of these and supported by them, it is an individual who takes responsibility for committing the firm. The audit process relies heavily on the strength of the audit engagement partner as he/she is the one who normally faces the client when critical issues have to be addressed and therefore the personal integrity of that individual is fundamental to the quality of the audit opinion.

It was therefore considered that identifying the audit engagement partner would enable users to:

- put a name to the auditor which would aid transparency and help to strengthen, in investors' views, independence and objectivity;
- feel closer to the individual partner signing; and
- confirm that the partner was not 'hiding behind' the name of the firm.

Other arguments put forward in favour of this change in practice were that:

- individual partners may take even more care about what they are signing as there is more motivation to do so if their name is visible and their personal reputation is at stake;
- it will demonstrate that rotation of the audit engagement partner is taking place every few years;
- it will provide more transparency that the audit has been carried out for and on behalf of the firm; and
- it will highlight the specific responsibilities that the audit engagement partner has for the quality of the audit.

Concerns and Issues

During the discussions the working party identified a number of concerns with the policy proposal.

In 1996, the APB carried out a survey of the UK profession and users of audit reports to explore the key technical and practical issues associated with auditors signing in their own names. There was a mixed response, and many of the issues raised in this paper were also highlighted in the responses to the APB survey. The APB concluded that there was insufficient support for the proposal that auditors should sign in their own name to justify a change in requirements but did conclude that there was a need to revise SAS240 *Quality control for audit work*. A new standard was issued in September 2000 which, *inter alia*, emphasised the importance of consultation within audit firms on contentious matters. This was then used as a model by the International Auditing and Assurance Standards Board in revising ISA200 and the International Standard for Quality Control 1 (ICQ1) which were both issued in 2004. The UK has adopted these standards as part of the issuance of ISA (UK and Ireland) in December 2004.

A major concern that was highlighted in the 1996 APB survey and which has been reiterated during the working party discussions is that identifying the audit engagement partner as a signatory could potentially have a misleading effect by suggesting that only the named individual has full responsibility for the engagement. The individual partner will in most cases be the lead partner responsible for the client, but there is a collective responsibility that is held by the firm as a whole. Some consider that an adverse effect of having a named individual is that the individual may decide not to consult widely enough and gain the views of others within the firm and therefore there is a potential that the quality in the audit process is reduced. Limiting the signature to the names of the individual partners could also be misconstrued as a limitation of the firm's responsibility.

Currently, when individual partners sign in the name of the firm, they sign for the other partners that make up the entity that exists as the firm. This responsibility in itself means that they are likely to take more care in the judgements they make and the conclusions that they come to. In the 1996 survey by the APB, one view expressed was that companies appointed an audit firm based on the quality of the collective audit personnel not the judgement of one individual partner. It was felt that collective responsibility is a far more supportive model for audit quality than individual responsibility.

It was considered that a change will have no impact on the nature of access that shareholders have to the auditor i.e. if they wish to obtain information they will still need to approach the auditor via the client. Auditors usually attend the AGMs and are therefore available for shareholders to ask questions, although, currently, the ability to question the auditor directly is at the discretion of the Chair. There is a call to change this practice and this is currently the subject of separate working party debate on AGMs.

The working party considered that there may be a further risk that identification of the audit engagement partner could serve to reduce the number of firms that are available for audits that are considered to be high risk. Firms that audit many public entities have shown their willingness to resign from certain high-risk organisations. Where they do carry out such audits, they make their judgements and opinions only after considerable consultation with other partners within the firms. If an individual partner is named on the audit report, then this could lead to even more reluctance by the firms to take on high-risk audits, because *individuals within those firms* will be inhibited from taking on such audits (they will feel more personally exposed) – which could be detrimental to the public interest. Equally, there could be unjustified risk to their personal reputation if, for example, an audited company fails, even if the report has been qualified – this could again be a factor inhibiting partners and firms from taking on or continuing to be associated with high risk work.

Identifying the partner could have other adverse effects:

- where auditors carry out controversial audits (e.g. where the entity is subject to campaigns of violence), there is a risk to their personal safety if their names are identified; and
- the number of professional accountants willing to enter the audit field is already decreasing. With the increase in exposure potentially leading to more claims against individual partners and as the risks and liabilities of audit partners increase, this could result in there being fewer partners willing to carry out audits.

Next Steps

The working party recommends that the DTI take forward proposals to require the audit engagement partner to sign his/her personal name, on behalf of the audit firm who is the registered auditor.