

Sir Donald

A short note to say thank you for making time to see me last week. I reflected a lot on the question we left hanging in the air “what would you do if you were me”, some brief reflections below that I hope may be helpful.

1. Partner behaviour. This is something I heard a lot about whilst in the Big 4, it was monitored tightly at year end moderation when it came to distributing profit. The question was in truth around behaviour toward our people and our clients and on balancing the scorecard by contributing to the firm beyond revenues. I do wonder what degree of consistency there is in looking at this across the Big 4. Whilst the Institute will no doubt impose checks and balances, is there consistency and real rigour in the way those broader behaviours are monitored across the firms, especially when it comes to the treatment of a partner that is short on a quality measure. I don't know the answer to this, but thought I'd air the issue as I felt it really mattered in my firm and did impact profit share.
2. Proportionality. I sense the focus of the review will be more around publicly owned larger businesses, there is of course the possibility that any sanctions will be read across by the Institute and professional bodies to all sizes of practices, so I guess my watchword here would be, proportionality of sanctions.
3. Price, I have no doubt all 4 big firms will lobby on this point, but it is absolutely clear to me that the pressure in the market on price is downwards. Outside of the largest corporates I sense the audit is seen as a commodity, a necessity but no more. It is clear to me that in my role as a CFO, if you squeeze price too hard, the first area to suffer will be quality. The market will always find it's own level, but my sense is not to force this issue too hard! It is a very clear case of – be careful what you wish for.
4. Fraud. We have seen recent examples of very senior partners suffering a speedy end to their career where there is a question around quality. This is a complex issue, I'm not close to the facts on that specific case but where it is clear there is deception or sophisticated fraud, my mind tells me that we are back to point 1 above, partner behaviour. Did that partner apply real rigour, is that documented, did they take all reasonable steps. If so then we return to proportionality and if not, then I suspect the full weight of any sanctions should apply.

You may recall my point in the room was around public perception, it is certainly something I seen tightly managed. If there is an answer to ensuring quality is at the heart of the audit, then I suspect the calling out very publicly of bad behaviour and failure on quality grounds is far reaching. These are complex arguments and I may not have offered any specific answers above, I thought I'd simply let you see my reflections as I travelled north and had time to think about our discussion.

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