

**From:** JIM SHANNON [mailto:jim.shannon1@btopenworld.com]

**Sent:** 11 March 2011 10:29

**To:** 'Paul Moore'; Brian Little; j.grant@frc-apb.org.uk

**Cc:** a.colban@frc-apb.org.uk; s.hogg@frc.org.uk; tyriea@parliament.uk; michael.izza@icaew.com; grahamgmilne001@btinternet.com

**Subject:** RE: RE: Auditor Scepticism : Raising the Bar - Discussion Paper Follow up

Brian

Thankyou for the email below . I have briefly read the APB Feedback Paper last night. Although our email exchanges were with the APB in January 2011, as a result of your ill health, I do think they should be published on the FRC website, as per your email below. I would wish to suggest to Mr Grant the website title link should state Mr Jim Shannon MP with his constituent Mr Brian Little.

Can I also ensure that Mr Grant and the Auditing Practices Board / FRC are also aware that I do not believe my constituent's case to be an isolated example. My parliamentary aide and I have been gathering quite a bit of relevant evidence in the last 4 – 6 months. To assist in underpinning the “not a single case” point can I refer you to a letter to the ICAEW sent by me early this morning ( *already copied to Baroness Hogg and Ms Colban/Mr Walker*) where you can see I also refer to Mr Paul Moore and Mr Graham Milne's website at pages 10 -15. I would be surprised if there are not other legitimate examples known to the ICAEW and the FRC.

Finally two initial observations on the subject of “presumptive doubt”. Firstly, regardless of the conclusions/outcomes of the FRC/APB work for auditors in “normal” audits on Auditor Scepticism I think it should be prescriptive that auditors in the case of senior- level whistleblowers and/or regulatory/internal audit personnel should be afforded the respect of an auditor adopting a “presumptive doubt” mindset in the public interest, as per the ICAEW Code of Ethics, in the audit of those accounting matters and the related management assertions. Unequivocally it should be a “presumptive doubt” mindset in a “independent forensic investigation” by an accounting firm, if such engagements continue to be permitted to be undertaken by the UK accounting profession by the ICAEW and FRC. If the audit firms are not prepared to approach and document the “independent forensic engagement” in that manner then the ICAEW/FRC regulations should not permit the firm to accept the engagement.

Secondly I find it remarkable, as a layperson, that any ICAEW auditor is not required by the POB/APB current processes to have documented in writing in their audit files their partner justification and basis of their audit judgments for significant risk, accounting matters and any whistleblowing claims. That omission doesn't seem to me to be the sign of a professional approach. Whilst I can understand why the audit firms may **inappropriately** say, at para 35, “retaining review notes would increase the audit firm's litigation risk” it is remarkable that the documentation of the key professional audit judgments is even a matter for serious debate within this profession. I doubt if it would be tolerated in others.

In the end what do the regulators/ investors/public believe the auditors are responsible for; if in arriving at a company financial statements “true and fair” view, they can't and don't even document their audit testing, thinking and judgment on key company risks and accounting estimates. Quite extraordinary. How does the publication of that fact earn credibility for the profession with the investors / public, which is at an all time low!! Transparently some of those audit firm inputs to the FRC paper are from the same UK audit firm leaders who signed a “words” pledge, published by the Financial Times at the end of last September “ Financial leaders pledge excellence and integrity”, which would seem, to me, to be “actions” which profoundly undermine the public's perception / reality of those integrity and excellence “words” from the profession.

I consider that both of these matters need to be addressed by the FRC/APB as soon as practically possible with the ICAEW and the audit profession.

In the meantime I must formally record that I am delighted to see that the FRC is continuing to pursue this Audit Scepticism subject matter and the Financial crisis "lessons learnt", with the announcement of the Lord Sharman enquiry. I will endeavour to coordinate a response to the APB Feedback Paper from a number of us.

For completeness, Mr Grant - when is the POB/APB latest input date on this Feedback Paper from us; together with the current expectation of the release of the Final Paper and FRC implementation plan on "Auditor Scepticism"?

Thanks

Jim

*Jim Shannon, MP for Strangford*

*Office - 028 9182 7990 - 34a Frances St, Newtownards, BT23 7DN  
Mob - 07721960285*

--- On **Thu, 10/3/11, Brian Little** <[brian@fortfield.com](mailto:brian@fortfield.com)> wrote:

From: Brian Little <[brian@fortfield.com](mailto:brian@fortfield.com)>

Subject: RE: RE: Auditor Scepticism : Raising the Bar - Discussion Paper Follow up

To: "JIM SHANNON" <[jim.shannon1@btopenworld.com](mailto:jim.shannon1@btopenworld.com)>, "Paul Moore" <[Paul.Moore@moorecarter.co.uk](mailto:Paul.Moore@moorecarter.co.uk)>

Cc: [j.grant@frc-apb.org.uk](mailto:j.grant@frc-apb.org.uk), [a.colban@frc-apb.org.uk](mailto:a.colban@frc-apb.org.uk), [s.hogg@frc.org.uk](mailto:s.hogg@frc.org.uk)

Date: Thursday, 10 March, 2011, 15:13

Naomi/ James - yes have found it at this link. [Auditing Practices Board - Press Notices](#) James / Paul – there is also a FRS press release re FSA and FRC today.

I have been able to print the Auditing Practices Board : Auditor Scepticism : Raising the Bar Feedback Paper. It is the attached 14 page document.

I have read it briefly and observed that at paragraph 19 it refers to "Access was also provided to a website that described one person's experience in

dealing with an audit firm , and a forensic accountant, in the context of whistleblowing” . I expect that must be James and I with the January email exchanges re my website [www.fortfield.com](http://www.fortfield.com) at : [BL Input](mailto:BL Input) :\_with Mr Jon Grant at the APB.

Given that it is mentioned in the report I suppose that we strictly speaking should allow the FRC/APB, if it wishes, to publish the link to my website as part of their public submissions on their website – although of course it was after their Closing Submissions date, due to my ill health. By copy of this email to Mr Grant I provide that approval.

As you have requested I will record some thoughts on the APB Feedback Paper when I have the opportunity to properly reflect on all of it, within the next 7/10 days, for a discussion.

Kind regards

Brian

**From:** JIM SHANNON [<mailto:jim.shannon1@btopenworld.com>]

**Sent:** 10 March 2011 14:07

**To:** Paul Moore; Brian Little

**Cc:** [j.grant@frc-apb.org.uk](mailto:j.grant@frc-apb.org.uk); [a.colban@frc-apb.org.uk](mailto:a.colban@frc-apb.org.uk); [s.hogg@frc.org.uk](mailto:s.hogg@frc.org.uk)

**Subject:** Fw: RE: Auditor Scepticism : Raising the Bar - Discussion Paper Follow up

Brian / Paul

Shortly after Jim sent emails and letters to the ICAEW and FRC early this morning we read an article in the FT which, in addition to the FT comments, refers to a FRC/APB press release <http://www.frc.org.uk/apb/press/apb/press/pub2533.html> and their latest Feedback paper on Auditor Scepticism .

Can you both look at it and provide any comments in the next 7 -10 days .

I have printed a copy for Jim to look at when he returns again to the office later.

Thanks

Naomi

***Naomi Armstrong-Cotter***

*Parliamentary Aide to Jim Shannon, MP for Strangford*

*Office - 028 9182 7990 - 34a Frances St, Newtownards, BT23 7DN*

*Mob - 07792805356*

--- On **Wed, 23/2/11**, **JIM SHANNON** <[jim.shannon1@btopenworld.com](mailto:jim.shannon1@btopenworld.com)> wrote:

From: JIM SHANNON <[jim.shannon1@btopenworld.com](mailto:jim.shannon1@btopenworld.com)>

Subject: Fw: RE: Auditor Scepticism : Raising the Bar - Discussion Paper Follow up

To: [a.colban@frc-apb.org.uk](mailto:a.colban@frc-apb.org.uk)

Cc: [j.grant@frc-apb.org.uk](mailto:j.grant@frc-apb.org.uk), "Brian Little" <[brian@fortfield.com](mailto:brian@fortfield.com)>

Date: Wednesday, 23 February, 2011, 14:03

***Naomi Armstrong-Cotter***

*Parliamentary Aide to Jim Shannon, MP for Strangford*

*Office - 028 9182 7990 - 34a Frances St, Newtownards, BT23 7DN*

*Mob - 07792805356*

Further to our emails on Friday 18th of February 2011 to you, it has reminded us that it would be appropriate that you now please arrange to provide a copy of this email trail below ending at 14th of January 2011, to the chair of the FRC, Baroness Hogg and Mr Walker at the AADB as part of their deliberations. As you can read this

engaged with your Mr Grant at the APB/POB within the FRC.

Regards

Naomi

--- On **Fri, 14/1/11**, **JIM SHANNON** <[jim.shannon1@btopenworld.com](mailto:jim.shannon1@btopenworld.com)> wrote:

From: JIM SHANNON <[jim.shannon1@btopenworld.com](mailto:jim.shannon1@btopenworld.com)>  
Subject: RE: Auditor Scepticism : Raising the Bar - Discussion Paper Follow up  
To: "Jon Grant" <[j.grant@frc-apb.org.uk](mailto:j.grant@frc-apb.org.uk)>, "Brian Little" <[brian@fortfield.com](mailto:brian@fortfield.com)>  
Cc: "Andrew Higson" <[A.W.Higson@lboro.ac.uk](mailto:A.W.Higson@lboro.ac.uk)>, [Chris.yaxley@btinternet.com](mailto:Chris.yaxley@btinternet.com)  
Date: Friday, 14 January, 2011, 14:14

Dear Jon

I have read the email trail below and I would simply like to endorse what my constituent Mr Little has said and hope that this is of some assistance in helping to formulate policy and plans within the FRC.

Mr Little is correct that I am currently in correspondance with Mr Walker of the AADB and this has reminded me that I must follow up another letter sent directly to him last year.

Regards

Jim

*Jim Shannon, MP for Strangford*

*Office - 028 9182 7990 - 34a Frances St, Newtownards, BT23 7DN*

*Mob - 07721960285*

--- On **Fri, 14/1/11**, **Brian Little** <[brian@fortfield.com](mailto:brian@fortfield.com)> wrote:

From: Brian Little <[brian@fortfield.com](mailto:brian@fortfield.com)>

Subject: RE: Auditor Scepticism : Raising the Bar - Discussion Paper Follow up

To: "Jon Grant" <[j.grant@frc-apb.org.uk](mailto:j.grant@frc-apb.org.uk)>

Cc: "JIM SHANNON" <[jim.shannon1@btopenworld.com](mailto:jim.shannon1@btopenworld.com)>, "Andrew Higson" <[A.W.Higson@lboro.ac.uk](mailto:A.W.Higson@lboro.ac.uk)>, [Chris.yaxley@btinternet.com](mailto:Chris.yaxley@btinternet.com)

Date: Friday, 14 January, 2011, 10:53

Jon - yes I fully understand your input below - but of course Ernst & Young were and continue to be involved in the matter as the public auditors of Magellan Aerospace too.

However, my purpose in bringing it to your attention was as an input to your Discussion Paper on auditor scepticism and almost certainly a very good case study can be documented appropriately by the academic community from which the accounting profession could learn.

As regards my specific case and the regulatory aspects **as part of the wider “independent” forensic investigations** in the UK subject my MP, Mr Shannon, is addressing that subject matter with the ICAEW and the Chairman of the AADB – Mr Timothy Walters – a sister body of yours within the FRC. Indeed I have received a copy of a further 12 January 2011 letter to Mr Walters from Mr Shannon MP yesterday and confirmation just now from his parliamentary aide Naomi that this letter was signed for at 13.58 by Hunt at the AADB/FRC yesterday .

I believe I am therefore sufficiently aware of the role and responsibilities of the APB/POB and bring my observations and support of Mssrs Higson’s and Yaxley’s responses to you, together with my own, with the **SOLE** purpose of contributing to and influencing policy and practice in the UK/globally – using my case study and documentation for learning and development purposes if you so wish. Therefore if I can be of any further assistance in this work please feel to contact me at your convenience.

I have copied Dr Higson and Mr Yaxley again for completeness.

Kind regards

Brian

**From:** Jon Grant [<mailto:j.grant@frc-apb.org.uk>]  
**Sent:** 14 January 2011 10:29  
**To:** Brian Little  
**Cc:** 'JIM SHANNON'  
**Subject:** RE: Auditor Scepticism : Raising the Bar - Discussion Paper Follow up

Mr Little, Many thanks for your further e mail. I have read much of the material on your website and it does indeed provide a useful perspective on scepticism – although much of it relates to PwC's work on its forensic investigation rather than the work of the statutory auditors which is the APB's focus.

It might be useful to emphasise at this stage that my consideration of your case does not comprise an investigation in a disciplinary sense. If you were to wish to take disciplinary action in relation to the work of any firm of accountants you will need to make a complaint to that firm's Supervisory Body which, in the case of PwC is likely to be the ICAEW.

Regards Jon Grant

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**From:** Brian Little [<mailto:brian@fortfield.com>]  
**Sent:** 13 January 2011 21:23  
**To:** Jon Grant  
**Cc:** 'JIM SHANNON'  
**Subject:** FW: Auditor Scepticism : Raising the Bar - Discussion Paper Follow up

Jon - I was discussing the email exchange between us ( which I had copied to Mr Shannon MP below) with his parliamentary aide earlier today and your subsequent response. As a result it was suggested that as you are still in the course of discussing the responses internally and are aware my nervous breakdown since last February

2010 and subsequent slow but steady recovery that it ought to be possible for the APB/POB to consider the input from me. In addition to my comments regarding Mr Higson and Mr Yaxley's papers can I also refer you specifically to the subject of "Management Assertions" as per my original email.

In the case which I set out in my website and bearing in mind that both PwC ("independent" forensic accounting investigation) and Ernst & Young (public auditors) are involved in whistleblowing from the third most senior executive in the business I set out at Management Assertions the two primary A340-500/600 management assertions which warranted "auditor scepticism" due consideration – on pricing and quantities in the A340 Estimate to Complete for the Magellan Aerospace Corporation financial statements.

In my original email I referred to the PwC.report.A340.Forensic.deceit and I now recommend that you download the report and consider carefully the paragraphs 9.1 to 9.10. I hope that by providing a practical example of what auditor scepticism should (in part) be about and the requisite education, training in Ethics, audit processes and industry competence/capability required as a result in the accounting profession some valuable lessons can be learned by the APB/POF – indeed the FRC as a whole in compiling their development and regulatory plans. As many other responses have stated Check and Ticklists simply don't do it.

Incidentally my MP is now formally referring the A340 case regarding the MAC represented spares replacement and service life subject matter (800+ units) to support the quantities represented by MAC to PwC and E&Y embodied in the Magellan Aerospace Financial statements to the Regulator – the Civil Aviation Authority next week. As for the Total aircraft built projections provided then (facts/reality) I remain confident that this regulatory review by the CAA will quickly find that this was a ruse to conceal financial irregularities and consistent with Magellan's customer, Aircelle, email stating "hoax"..

If I can provide any further insight or information which would assist in your inputs on Auditor Scepticism – raising the bar - to the relevant Operating Boards you refer to in your email response below over the next few months then please do let me know. I am hopeful that my recovery is within sight in the next 4 – 6 weeks as I complete the Stage 4 health programme.

Kind regards and many thanks

Brian

PS For completeness I will probably have my website guy add this email trail at the front page when we do an update later this month, so that my perspective is readily



available.

**From:** Brian Little [<mailto:brian@fortfield.com>]  
**Sent:** 11 January 2011 12:04  
**To:** 'Jon Grant'  
**Cc:** 'jim.shannon1@btopenworld.com'; 'a.w.higson@lboro.ac.uk'; 'Chris.yaxley@btinternet.com'  
**Subject:** RE: Auditor Scepticism : Raising the Bar - Discussion Paper

Jon - Thanks for that input. Kind regards Brian

**From:** Jon Grant [<mailto:j.grant@frc-apb.org.uk>]  
**Sent:** 11 January 2011 11:57  
**To:** Brian Little  
**Subject:** RE: Auditor Scepticism : Raising the Bar - Discussion Paper

Mr Little, We are still at the stage of discussing the responses internally and with relevant Operating Boards in order to develop a plan. We will (hopefully before the summer) issue a Feedback Paper which provides an overview of the responses and sets out our approach. As you know all the responses are already on the website so the focus in the Feedback Paper will be on the actions that we plan to take. Regards Jon

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**From:** Brian Little [<mailto:brian@fortfield.com>]  
**Sent:** 11 January 2011 11:30  
**To:** Jon Grant  
**Cc:** [jim.shannon1@btopenworld.com](mailto:jim.shannon1@btopenworld.com)  
**Subject:** RE: Auditor Scepticism : Raising the Bar - Discussion Paper

Jon    Thankyou - I am making a steady and safe recovery in what you have obviously read and recognised has been a very difficult 2010 for my family and I.  
I.        2011 promises to be much better

I will also forward you another couple of emails I sent yesterday to two other respondents to your Discussion Paper. These were since my email to you and after I had time to read them last weekend. I also considered the ICAEW paper and thought that their author had clearly missed the major point being made by Professor Vivien Beattie et al to the House of Lords in their quotes at para 14 and 16. I expect you will have had the opportunity to read on the website the ICAEW exchange with my MP's letters - attached for ease of reference - 18 November 2010, 6 December 2010 and 5 January 2011. You will also have noted from my website that I have pointed to your Discussion Paper : Auditor Scepticism : Raising the Bar - in particular paragraphs 17-25 as I consider them specifically relevant and timely. Thank you.

Finally when in 2011 do you anticipate the APB/Performance Oversight Board will publish the outcome of this consultation on your Discussion paper?

How will or does its conclusions integrate with other activities within the Financial Reporting Council (FRC) in 2011?

Kind regards

Brian

**From:** Jon Grant [<mailto:j.grant@frc-apb.org.uk>]

**Sent:** 11 January 2011 10:12

**To:** Brian Little

**Subject:** RE: Auditor Scepticism : Raising the Bar - Discussion Paper

Mr Little, Many thanks for this, I am sorry to read about your difficulties. Regards Jon Grant

---

**From:** Brian Little [<mailto:brian@fortfield.com>]

**Sent:** 06 January 2011 12:25

**To:** Jon Grant

**Subject:** FW: Auditor Scepticism : Raising the Bar - Discussion Paper

Dear Sir

I was recently made aware by a parliamentary aide to my MP that you issued a Discussion Paper on Auditor Scepticism : Raising the Bar with public comments invited by 31 October 2010.

I have now read your Discussion Paper (in particular paragraphs 17 -25) and a number of the responses including those from PwC, E&Y , and the ICAEW. A number of matters struck me in doing so.

My MP, and in his discussion with some Parliamentary colleagues and myself, consider this FRC Discussion Paper both timely and important. You will also know that the House of Commons Select Committee also concluded at para 221 in their 2009 report “... *But the fact that the audit process failed to highlight developing problems in the banking sector does cause us to question exactly how useful audit currently is. We are perturbed that the process results in “Tunnel Vision” , where the Big Picture is lost in a sea of detail and regulatory disclosures.*” Concurrently with your Discussion Paper you will be aware that there has also been both written and oral evidence provided to the House of Lords Economic Affairs Committee relating to some of that same matter. The FRC you will also know provided written evidence.

As a contribution to the practical application of “Auditor Scepticism” and the role of auditors in Management Assertions may a draw your attention to an evolving Case study which you can read at our family website [www.fortfield.com](http://www.fortfield.com). In particular my report PwC.report.A340.forensic deceit should prove of some interest in furthering the international body of evidence available on Auditor Scepticism and financial reporting.

Kind regards

Brian Little

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