

# Advanced Auditing - Week 5

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1. Some of the criticisms of the FRC included 'timidity, a lack of pace and excessive closeness to those it regulates.'. This puts it as an ineffective regulator who were not best able to enforce standards and had a deficient relationship with those it enforced upon. They did not have enough funding and they were low on resources. This is something that was deemed inappropriate and that was proposed be changed to follow other regulators. This would bring them in line with other regulators, who they were failing to interact with appropriately. It was also found that they did not start out as a regulator and had no 'meaningful statutory base'. This highlights the FRC's inherent inability in it's position to carry out the work as a regulator it had now become expected to do. This criticism seems to point at the FRC as as weak board with ineffective relationships. These criticisms do not look to be very heavy, but are important. Sir Kingman's recommendations align very closely with the mentioned two bodies criticisms of the FRC.

2. Three independent reviews were done and in light of them the government responded with a white paper proposing to establish a new regulator ARGA in 2021. It received 600 responses which were positive and they have decided to go ahead with reshaping the FRC, under the BEIS. The FRC responded with Restoring Trust in Audit and Corporate Governance in July 2022 where they say they will support the governments reforms. The political pressure may often be crazy or stupid, and this is not ideal in helping audit regulation and only serves to promote trials. Crazy/stupid actions pervade academia, business and politics and are to be put aside as best as possible when conducting any serious matters. They do not help to shape business's but only add to internal chaos that is not appropriate at the given level. It is not stupid to point this out as it is an important defect in business reality.

3. The reform seeks to build a regulator that engages with the audit community and impacts financial reporting positively. The new proposals seem to go straight against the criticisms of the FRC as lacking in relationships. The problem of a weak base is also solved by ARGA being built as a regulator. Sir Kingsman has managed to build a proposal that covers the previous worries about the FRC. With this in place and the probable move forward as indicated in the King's speech there will be a new Audit regulatory body in the U.K. This is to keep the U.K a respected leader in Governance, where their work has been copied all over the world. It is hoped that there can be cut-down's on massive corporate failure, due to a risk-focused regulator being able to use intelligence more effectively to catch failures before they happen. This preventative strategy is one that may cause there to be much written in terms of audit risk assessment guidance and possibly a tightening of internal controls with respect to fraud. This means they may write some standards amending the current fraud risk position. Overall this slant of audit risk assessment makes the new body seem a very harsh governing body who will look to be reflected inside business and inside the audits that are conducted for them.

4. A higher risk responsiveness may lead to their being a stifling of the business and its opportunities to act. The engagement from the new regulator may serve as a double edged sword in that the risk based actions may harm the business's ability to move freely. The heavier focus on audit risk assessments means there may be more policies that business's must adhere to and they may cause there to be an overcrowding of information and less possible time to be spent factoring in more ore important ideas. Employees and their contributions lose time where there is excessive policies that are burdening management and guiding the work place. This is where there may be some stifling and misalignment in employee relations, as people more suited to fitting the policies are put ahead of genuine contributions in the workplace. This leads to dissatisfaction, pulling down the ethos. The audit risk assessment should be fair, balanced and light, in order for the most effective work to be done, without unduly putting people out at work.

5. ARGA will bring a focus in on audit risk and possibly audit risk assessment most likely, if they are aiming to prevent corporate failures. They are looking to be more engaged with audit and promote competition that is hidden by the Big 4. This gives an idea for how they might act. Risk prevention and equanimity seem to correspond to a broadening of reach of the Audit capacity and a delineated service which may be capable of turning the current regulators impact of being far away into that of an overseer, who guides Audit behaviour and equability.

6. Myth making is used in creating audit regulations in many ways within this Canadian case study. This is not a good narrative to have the audit regulators placed under and leaves some reason to doubt the proposals that are being put forward that are meant to advance the Audit profession. In the Canadian case study there is a moving of individual independence to institutional independence in order to promote governance solutions. Partial consideration of policy alternatives and a lessening the audit committee problem have also contributed to there being myth making or fallaciousness present in the Canadian case study. This may make Audit seem in a stronger position than it is, and its problems more likely to be solved. It also can undermine Auditing by implying that there needs to be a re shift in focus and the issues and previous academic work done is not highlighting the correct area. All of this is to the detriment of Audit, though it does raise the question of is there more to be done in the given direction.

7. Balance can be gained in the Audit regulation by homing in on previously addressed issues and effectively solving them. The issues that have been presented are a fundamental lack of resources and expertise, and evident independence concerns. These issues must be addressed with a reallocation of resources to be used in Audit regulation and a continuing push for the resources to be used well.

8. Institutional independence is different from individual independence in that it is 'within the realm of the audit firm-client relationship and institutional arrangements.'. this means that partner actions are focused upon along with the contracts they sign. This is including the work they do, but it also is to do with the audit-client relationship. This may include meetings/gifts and other professional behaviours. It is also contributed to by each team member and the total body of work the audit team does. The revision will cause a new focus to be used in auditing solutions that will help deal with any problems that are left. This problem statement directs the solutions that can be proposed and therefore may restrict further action that may be taken. It may be thought of as a restriction as it may not be in a helpful direction, this is as opposed to a specification.

9. The periodic comprehensive review brings an additional layer of responsibilities to the audit committees. Audit committees already struggle to fulfil their existing roles therefore the plan might not be good enough. Other respondents (IFAC) also pointed to the lack of relevant expertise within audit committees, thus questioning their ability to effectively perform a periodic comprehensive review. Besides this, it might be noted that Audit committees can be thought capable here, and though the proposal may not be suitable, as noted by other bodies and the paper, there can still be more added. The Canadian's proposal is viable work as it is adding to the discussion and will fuel further regulatory change. It may also explain why the Canadian committee continued to promote the plans in light of the given criticism.

10. The tendering and audit rotation alternatives that are presented are 'downplayed' by the Canadian Accountants in order to promote the heightened effectiveness that would be had when looking into institutional familiarity. This means that by redefining the problem as an institutional one the accountants are taking the other solutions as being distractions. This is obviously problematic in that the solutions presented would not be best ignored in order to look at another version of a solution. These are both important topics and deference on one of them is the obvious use of bias or lack of perspective to promote a viewpoint. This is a problem in academia and as it has been shown in regulatory proposals. It would be best said as ignoring a chapter from a textbook on solutions because the other chapter has better solutions. This is closed thinking.

11. It is noted that the work of the Canadian Accountants and other regulators who create poor work can become reference documents that continue persuasive efforts. This can lead to a nightmare scenario where further work is being done upon these fallacious arguments and there becomes a long-chain of deflected work happening. This is something that only serves to distract from the best efforts of the Accountants and is to be pointed out where it can be. Efforts on this part can really help stop this from happening.