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Dear Chris

FRC consultation: Choice in the UK Audit Market – Progress Report and Further Consultation

KPMG is pleased to briefly respond to the May 2008 consultation paper Choice in the Audit Market – Progress Report and Further Consultation.

On the issue of the effects of changes to audit firm ownership KPMG has consistently welcomed the opening up of this debate at a UK, EU and indeed global level, since in our view this is increasingly not a national issue. However, we do not regard this as a “magic bullet” for increased choice in the market not least because of the significant and sustained investments needed to sustain a high quality global audit practice. Our view remains that limited liability agreements – in the UK – and liability reform more broadly offer greater encouragement in the shorter term to reduce barriers to entry in say the FTSE 100. We have no specific comments on the completeness or accuracy of the analysis.

The consultation document also produces some draft guidance on the use of firms from more than one network. We continue to consider that use of more than one audit firm could have a significant adverse impact on audit quality. We of course recognise that the final decision rests with the audit committee and in this context believe that the rather sceptical positioning of the draft guidance is the right one. With this in mind the consideration of “divide and conquer” in the advice to audit committees could also underline the importance of a clear and robust audit view being critical. In a joint audit there could be a situation where management seeks to “opinion shop” between the firms to support a particular management position and this should be included as a matter for audit committees to consider. Otherwise we consider the guidance is appropriate.

Yours sincerely

Richard Bennison
UK Head of Audit