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Dear Sir

FRC Draft Plan & Budget 2008/9

We welcome the opportunity to continue to comment on your draft plan and budget for 2008/9. From our perspective the FRC continues to perform a vital role, and a clear robust plan is of great importance to the capital markets and profession.

Overall approach and assessment of priority areas

We noted that the plan took longer to review given its presentation in two separate documents. Whilst the detail is helpful and provides transparency over your plans, you may wish to consider this point.

Sections 3 (risks) and 4 (proposed activities) may be better presented together as they are closely related. We have grouped our responses to each outcome together in this way.

The three categories used to assess each scenario appear somewhat simplistic and insufficiently defined given the complexity of the areas to which they relate. The categories for "significant concern" and "serious shortcomings" are used repeatedly and you may wish to consider whether the language used in the document is suitably balanced. It is important that the FRC does not unnecessarily portray a negative picture when it is not warranted. The majority of the document seems to state that there are no major issues arising from FRC's risk assessment. However, the terms "significant concern" and "serious shortcomings" are key themes in the executive summary.

Identification of risks and proposed activities

Outcome One – Corporate Governance

Achieving high standards of performance from Boards – outcome 1 (b)

We concur with your comment in the Executive Summary that Audit Committees have a critical role to play in achieving your overall goal of confidence in corporate reporting and governance. We agree that keeping the Combined Code under constant review provides a good base from which to achieve this.

We agree with your identified risk regarding the adequacy of governance disclosures. Audit Committees should be encouraged to better disclose how they have discharged their duties (Combined Code C.3.3) – rather than simply summarise their terms of reference.

In an increasingly complex business environment, we recommend that the FRC should do more to encourage the professional development of audit committee members, including refreshing their skills where appropriate. This would address the risk that the Audit Committee members do not keep their skills and experience up to date.

Should there be a heading for (a) under this outcome on page 12?

Outcome Two – Corporate Reporting

Complexity of information in accounts – outcome 2 (a)

We strongly concur with your assessment of the risk that information in accounts is overly complex and is in danger of being increasingly of less relevance to users. We have witnessed ever expanding annual reports, with additional disclosures/complexity potentially obscuring important messages and driving the increased use of non-GAAP information as discussed below. The challenge is in determining whether this stems from the complexity of the underlying transactions, from the reporting and regulatory requirements or the ever increasing thirst of analysts for more information.

As a result of the above we wholly agree with a review focused on simplification. Often disclosures take up a disproportionate amount of space in annual reports compared to the relative significance of the item being disclosed. On the IFRS front, this may be attributable to pressure from capital markets analysts and to the lack of a Framework or principles by which the need for disclosure is assessed. We suggest that your document should outline the project's scope, timescale and team composition. The output from this review should aim, inter alia, to provide evidence to assist the FRC in influencing the IASB in reducing out of date or non value-adding disclosures based on a clear framework dealing with disclosure.

Relevance and meaning of accounts – outcome 2 (a)

In published accounts we have observed a gradual divergence between the “front end” narrative reports and the “back end” statements/notes. Non-GAAP measures are being increasingly used to make the underlying results understandable - almost to the point where it raises the question whether anyone cares about the financial statements in the ‘back end’. We have much sympathy with preparers in trying to explain the results of their business activities in a clear and understandable manner but question why this has to be so divorced from the information included in the audited financial statements themselves. We welcome the FRC’s plan to maintain guidance on narrative reporting, and it is helpful that the FRRP’s scope now includes Directors’ reports which will facilitate monitoring of compliance with such guidance, particularly in relation to non-GAAP measures. Where the back end of accounts is not easily reconciled to the front end narratives, financial information can become less well understood and hence less relevant for readers. In that context we welcome the IASB’s intention to continue with its project on management commentary as well as its further work on financial statement presentation. In our view the FRC has an important role to play in influencing these projects to achieve a result which both preparers and investors believe improves communication between them.

Development and adoption of IFRS – outcome 2 (a)

The process by which the EU adopts IFRS is becoming increasingly complex and confusing. We have a concern that it does not enhance the reputation of financial reporting and that there is a serious risk that future non-endorsement of an IFRS will cause further damage. Another example of risk emerging from Europe is the inappropriate use of the phrase ‘true and fair’ to describe interim reports. We think that the EU should be a focus of the FRC’s increased participation in influencing international developments.

We are aware of and support the proposals that public sector bodies in the UK will move towards the use of IFRS from 2009/10. We would recommend that the FRC works closely with public sector regulators such as the FRAB to ensure consistent application of IFRS, particularly given the inadequate public sector content within these standards. Given the importance and size of the public sector, we foresee an important role for the FRC in helping to achieve the potential benefits of increased comparability and stewardship.

Convergence of UK standards with IFRS - outcome 2 (a)

We note that you intend to update your strategy for IFRS convergence for UK GAAP. We agree the need to consider the detail of this, to achieve sufficient consultation and a sufficiently long lead-time for implementation. In setting target dates for convergence we recommend that the ASB avoids creating unnecessary pressure on all concerned thereby making it more difficult for the transition to be achieved smoothly. The impact of this change, with the resultant need for training and education, will be very significant particularly for smaller firms.

Outcome Three – Auditing

Contribute to the IAASBs work to improve ISAs – outcome 3 (a)

We strongly agree that the FRC should monitor and contribute to the IAASB's ongoing project to improve and clarify ISAs. We agree that an important goal for the FRC will be to ensure a suitable balance between a prescriptive and principles based approach. We would also encourage the FRC to work with the EU so that the revised ISAs can be adopted by the EU as soon as possible. It is important that a date for adoption is set early so that there is sufficient time for the firms to amend their processes and train their staff. If it is envisaged that the EU is unlikely to adopt the revised ISAs for December 2010 year ends then we would encourage the APB to adopt them from this date.

Efficient market for audit services / concentration of audit market – outcome 3 (b)

We disagree with your statement that there is “a high level of concentration in the audit market” and feel that this is given too much prominence in the Executive Summary. Our view is that there is adequate choice and competition in the UK audit market, and overall the market is efficient. Seven audit firms have over 100 listed audit clients, with a further 14 firms auditing more than 10 listed clients. Audit committees are faced with real choice and tender processes are regular, extensive and thorough.

Also in relation to the above point, you refer on page 13 to “developments in the market for audit services in the UK which could further reduce its efficiency”. We are unsure what developments are being referred to here and it would be helpful if you could elaborate on this point.

Monitoring the implementation of the MPGs recommendations – outcome 3 (b)

Following the reporting of the MPG, we expect the market to drive through the implementation of its findings. Whilst the enactment of the recommendations should be monitored, this process should not draw significantly on the FRC's limited resources. We assume that the progress resulting from the MPG reduces the FRC's perceived risk of insufficient choice in the audit market place.

Experience of audit teams and effective firm wide environments – outcome 3 (b)

We were surprised to see a section on implementation, including the risk of not having experienced, motivated, sceptical audit teams and an effective firm-wide environment in audit firms. From our perspective this is an area of huge focus and controls are already in place.

Outcome Four – Actuarial Practice

Finalisation of adequate framework – outcome 4 (a)

The FRC has in our view been slow to make progress with actuarial matters, and we share your *significant concerns*. The Board for Actuarial Standards (BAS) was established in April 2006 following publication of the Morris Report in March 2005. The time being taken for the BAS to develop an appropriate conceptual framework to guide their setting of actuarial standards is a concern, both because it still seems to be a long way from completion and because there appears to have been almost no work on the maintenance of the adopted actuarial standards during this period. We recommend that the assessment of responses to the recent consultation is fast tracked to allow early finalisation of the framework. The BAS cannot proceed with important subsequent objectives whilst the framework is still in development – an early version should be completed, recognising that this may well need to be reviewed over time, as experience with it develops.

Outcome Five – Professionalism of accountants and actuaries

Recruitment and retention of quality staff – outcome 5 (b)

You refer on page 15 to a potential failure to recruit and retain sufficient numbers of high quality individuals to the accountancy profession. We are aware that increasing auditing standards and regulation are making the profession less attractive, requiring us all to commit more time and resource to recruit and retain the best staff. The FRC's overall goals should include balancing the need for regulation alongside the need to make the career path attractive and something for people to aspire to. For example, regulatory reviews should give equal prominence to good examples of best practice as well as improvement areas.

Monitoring compliance with professional standards – outcome 5 (c)

You note on page 15 that the FRC is keen for the proposed changes to the disciplinary scheme to be implemented. We are keen to reserve judgement until the AADB's consultation is completed in April, as other solutions may arise which prove more effective in helping the FRC achieve its goals.

Other comments

Page 20 of the supplement (supporting outcome three c) ii)) states that 'the increased transparency of AIU reporting might reduce the effectiveness of monitoring.' We are curious to understand what significant downside might be caused by this increased transparency and it would be helpful to elaborate on this. We support increased transparency over the AIU's findings and believe it will help ensure adequate and informed choice between audit firms.

Comments on proposed budget

We have concerns over the anticipated 12% increase in the budgeted expenditure, compared to 2007/8 forecast. Whilst our industry must maintain effective regulation, our audit practice is experiencing very little price inflation as a result of strong competition and market conditions. Accordingly we would expect a more commercial, lower budgeted increase, and an increased focus on gaining efficiencies.

We note the Government's announcement that the FRC's remit should from 2009/10 be funded largely by market participants. We were disappointed by this proposal and plan to respond on this at a later date.

Overall, we hope that our comments are helpful in finalising your budget and strategy for the coming year. We are always keen to work closely with the FRC on ensuring the best possible direction and focus in the future. Due to the high number of ongoing consultations, you may wish to consider publishing a summary of these, including an estimated timetable for future consultations and the expected dates for the finalisation of papers currently out for consultation.

Yours faithfully



Richard Bennison
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