

KPMG

KPMG welcomes the opportunity to comment on the FRC draft plan, budget and levy proposals for 2011-12.

We support the focus of the work for the FRC and Operating Bodies in the coming period - stronger and better-informed engagement between institutional investors and company boards; corporate reporting and auditing that deliver greater value to investors and better serve the public interest; a strong UK voice in the EU and international debate on future regulation of corporate governance, reporting and auditing and a more effective UK regulatory framework that adds value for investors and other stakeholders at low incremental cost. In our view this will help build on a number of notable successes for the FRC in the last year to which we particularly note the Stewardship Code, the revised basis for and greater transparency of non-audit services; as well as the current consultation on Effective Company Stewardship. We also welcome the evidence in this consultation of the closer workings between the FRC and the Business Department, which is critical for the development of the UK profession, not least as one of the sectors highlighted as a growth sector by the Coalition Government. Last year we argued that the FRC needed to underscore that it was a body independent of the profession and worked more closely with the key Government Departments and we have seen progress on this in the last year.

Whilst we recognise the range of priorities of the FRC and Operating Bodies and support them we urge that the FRC - and in particular the senior leadership - put the highest priority into influencing the outcome of debates in Europe, particularly the EU Green Paper on Auditing. It is very important that the market-led position of the FRC is heard, along with the UK Government and other stakeholders and in this context we welcomed the participation of Stephen Haddrill in the Commission Conference in Brussels in February. However, given the importance of the UK profession to the UK economy, to UK business and to future UK growth this needs to be a sustained effort of engagement with Commission officials, MEPs, regulators and Member States. Given how the European process works there is a real opportunity to put forward a very positive position, much of which is in the Effective Company Stewardship paper and elsewhere, whilst also being vigilant against regulatory interventions which would raise cost to business and diminish audit quality. In this many of the ideas that emerged from the Market Participants Group are relevant and carried wide stakeholder support and we suggest that the FRC re-examines UK progress across the recommendations that were made, not only on market-based solutions to promote the choice agenda but also on liability reform. KPMG is very much committed to working with the FRC and others, not least the UK Government, to achieve an outcome which improves confidence in corporate reporting and auditing across the EU.

We very much welcome the intervention of the FRC-FSA in considering the role of the auditor in the aftermath of the financial crisis and the related issue

of professional scepticism. Whilst we may have different perspectives on some aspects of this debate, we very much welcome the debate. In this post-crisis context we are enthusiastic about the narrative reporting debate, especially as it relates to the key risks which the company faces.

The FRC and the Operating Bodies have a major role in promoting confidence in high quality reporting and auditing in the public interest and currently have international recognition for the contributions they make. KPMG therefore would welcome the opportunity to have an open dialogue about any additional powers and responsibilities or other reforms that the FRC has in mind, which are suggested but not clarified in section 2 of this consultation. Any changes need to carry the confidence of all the stakeholders, be subject to a clear cost benefit analysis allied to the key priorities, be within existing budgets and not distract from the key issues of 2011-12 especially the EU Green Paper process. In this context we believe that informal discussion of the issues before finalising any proposals would facilitate stakeholder acceptance.

The commentary on the budget and the levy are clear and understood. This is a time of real pressure on business and fiscal consolidation by the Government so we merely note - as we did last year - that the FRC will need to demonstrate continuing value for money to all stakeholders and funders with expenditure on the key priorities of the FRC. The reduction in core operating costs is a powerful sign that this is well understood by the FRC.