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Dear Sir

## Draft Plan and Levy Proposals

### Introduction

Mazars, the leading integrated international accountancy organisation with 12,000 professional staff in 55 countries, is pleased to submit its views on the above consultation.

We are broadly supportive of the proposed major activities and projects for 2010.

### Competition and choice in the audit market

We note the statement in the section on *Identifying and responding to the longer term lessons of the financial crisis* that 'The POB will review progress in implementing the recommendations of the Market Participants Group on concentration on the UK audit market and assess the extent to which further action is required.'

In addition, we welcome the publication of the new Audit Firm Governance Code, which was set up following a recommendation by the Market Participants Group, as we believe this will enhance governance and transparency.

We are, however, very concerned at the lack of substantial progress in promoting competition and choice in the audit market for listed companies since the Market Participants Group published its report in 2007. We believe it to be vitally important that the FRC makes it clear that it regards addressing this issue as one of its main priorities and that it will tackle it with a sense of urgency.

In particular, we consider that analysis, with appropriate follow-up action, is needed of the disclosures made in accordance with the recommendations in *Guidance for Audit Committees*, October 2008 concerning information on tendering frequency, the tenure of the incumbent auditor and any contractual obligations that have acted to restrict the audit committee's choice of external auditor.

Given the varying levels of audit service delivered by different firms, as highlighted in the recent survey of Finance Directors and others in *Accountancy Age*, we believe it to be in listed companies'

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interests and the public interest that the external audit is subject to tender at periodic intervals and that when this happens a range of suitably qualified firms be invited to submit proposals. Unless audits are subject to tender at reasonable intervals, it will not be possible to reduce the current unsatisfactory situation concerning an excessive level of concentration in the listed company audit market.

We also note the comment in the recent publication of the Better Regulation Executive *A Hampton Implementation Review Report* that 'One stakeholder recognised that strategic objectives sometimes took time to be reflected in inspection practice: strategically market entry was being promoted by a suggestion that large companies may benefit from splitting their audit among different audit firms; operationally, a firm had been criticised for doing exactly that.' We trust this matter is being followed up

#### **Mid-cap listed companies- reporting requirements and shareholder engagement**

Mid-cap listed companies can be expected to be a crucial source of employment growth as the economy in the UK comes out of recession and we believe it essential that they be given every opportunity possible to succeed. In this context, we welcome the FRC's proposed work to promote increased relevance of, and to reduce complexity in, corporate reporting. We support initiatives to enhance disclosure of companies' business models as this is very helpful to investors and potential investors seeking to gain an understanding of the likely potential of growing businesses. To be successful, we believe the initiative to reduce complexity in annual reports needs to be tackled at an international level and, in particular, that the support of IASB needs to be secured for it. A specific initiative to look at how the materiality concept is applied in financial reporting is especially needed.

We also believe that the proposed new stewardship code for institutional investors should emphasise the importance of their being available to meet with the boards and senior executives of mid-cap companies in which they have significant shareholdings. This has not always happened in the past due to a lack of resources but is an important element of the stewardship responsibilities of institutional investors- they should avoid focusing to too great an extent on just their largest shareholdings.

#### **Conclusion**

We would be pleased to discuss further the points raised in this comment letter. If you would like to do so, please contact David Herbinet, UK Head of Public Interest Markets on telephone number: 020 7063 4419.

Yours faithfully



Mazars LLP