



22 September, 2006

Christina Trickett
Professional Oversight Board of the FRC
5th Floor
Aldwych House
71-79 Aldwych
London WC2B 4HN

Dear Ms. Trickett

Re: Comment on consultation document re Reporting on Audit Quality Monitoring

Please find below our comments on the consultation document. In the main, these comments are limited to the advantages and disadvantages listed in sections 5.2 and 5.3 of the document.

Perceived advantages of extended public reporting

In overall terms, we did not find the arguments listed in favour of extended reporting particularly compelling. We certainly did not feel convinced upon reading them that such an extension would result in clear and significant benefits. Indeed, the initial assertion that an extension of public reporting would provide "greater transparency" is made as if this would automatically be of benefit, whereas this is by no means always the case.

Moving on to point two, we also have severe doubts as to whether extended public reporting would provide decision useful information to audit committees. Audit committees should be more than capable of evaluating the quality of an audit and the suitability of the auditors. They will gain little or no benefit from a report on an audit firm that is either too general or refers to circumstances that may not even be relevant.

Point three, which deals with the question of whether it is appropriate to use one of the Big 4 audit firms or a non Big 4 firm, seems to us to have little or nothing to do with the purpose of the AIU. It therefore seems irrelevant to the matters under consideration here.

In response to item four, we would point out that audit firms already have plenty of incentive to improve their work, regardless of whether or not reports on their performance are published. Auditors do not want regular criticism from the AIU and, in their own interests, will work hard to rectify shortcomings.

With regard to your final point, reference is made to the "practical difficulties" of the present form of reporting. These "practical difficulties" are not specifically identified, but we cannot believe that they are sufficient cause to justify extended public reporting with all its disadvantages.

Disadvantages of extended public reporting

The disadvantages set out in section 5.3 are all points well made. Undoubtedly, the process would become more legalistic, with the AIU's decisions to publish information on a particular firm being subject to legal challenge. Delays in reporting would not be helpful, since the relevance of reports issued long after the work to which they relate would be questionable, particularly where the issues raised have subsequently been addressed and corrected.

Extended public reporting would compromise the commercial position of firms and of their clients, in the latter case possibly regardless of whether a particular client had actually been involved in a specific case. Publication which included identification of particular clients and comments on particular audits would certainly be most damaging to the client concerned and to its share price. Each such company would have to be given the opportunity to review and address issues raised by the AIU, which would further delay publication and might also give rise to additional legal challenge. It is also relevant that, under the existing procedures, the AIU has the option of reporting issues to the FRC which, in turn, can take them up with the Company concerned.

Conclusion

In light of the above, we feel strongly that public reporting should not be extended and that the still recent implementation of the AIU's operations should be given more time to be seen to be effective. We do not believe that the threat of naming a firm and disclosure of its weaknesses will add in any meaningful way to the already strong incentive, not to mention the legal obligations, of the firms to properly address issues raised by the AIU.

Audit Committees are already capable of judging the suitability and effectiveness of auditors. It would be quite wrong to publish information from AIU inspections to audit committees "in confidence". Given the large number of audit committee members, and the even larger number of directors to whom they report, such publication would in practice end up in the public domain. The benefit gained is doubtful; the risk of damage is high.

Yours sincerely



Simon Enoch
Company Secretary



For and on behalf of the KESA Electricals plc Audit Committee