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19 August 2015

By email to: s.currie@frc.org.uk

Dear Ms Currie

Review of Audit Firm Governance Code

This letter sets out Deloitte LLP's ("Deloitte's", "the firm's" or "our") response to the FRC's Review of the Audit Firm Governance Code ("AFGC" or "the Code"), which you published in May 2015.

1. Introduction

1.1. We are strong supporters of the Audit Firm Governance Code. It recognises the special role that audit firms play in building and sustaining investors' trust in capital markets and encourages firms to focus on quality, integrity and transparency. Our Independent Non-Executives (INEs) play an active part in all elements of governance at Deloitte, and are a source of healthy challenge and wise counsel.

1.2. The audit market and the regulation of audit firms have evolved considerably since the AFGC was introduced, including through changes to the Corporate Governance Code, the results of the Competition and Markets Authority's inquiry into the market for large company statutory audits and the EU's audit reforms. Questions around the public interest role of audit firms have also risen in prominence, in respect of both audit and non-audit services.

1.3. We agree, therefore, that now is appropriate time to consider whether there should be changes to the AFGC.

2. Guiding Principles

Our responses to your questions are set out in the appendix. At a high level, our views on potential reforms are guided by a number of principles:

2.1. The AFGC works well. We welcome further improvements and innovation, though would be

concerned if changes to the Code caused its existing benefits to be diluted or lost.

2.2. One of the strengths of the existing Code is that, being largely principles-based, it has sufficient flexibility to accommodate a diversity of structures (domestic and international) and governance arrangements. This flexibility should be retained in any revisions. We would also be concerned if the AFGC evolved into a regulatory tool that that focused on compliance rather than the existing "comply or explain" approach.

2.3. Investors are the ultimate users of audits. We welcome the FRC's wishes to involve investors more closely in audit firm governance and support further innovation around investor engagement.

2.4. INEs' duty of care should be owed to the firm. However, INEs have a particular contribution to make to the firm in helping to fulfil the purpose of the Code in building confidence of stakeholders and it might be appropriate for the Code to acknowledge this.

We are grateful for the opportunity to comment on your paper. We have consulted our INEs on the drafting our response and they agree with it. If you have any questions or would like to discuss any aspect of our response in more detail, please contact David Barnes on 020 7303 2888 or djbarnes@deloitte.co.uk.

Yours faithfully



Deloitte LLP

APPENDIX

Purpose (paragraphs 55-59)

Question: Do you agree that the Code's purpose should be redefined in this way?

We think that the original aim of the Code, as set out in paragraph 8, is still valid.

We agree that public interest considerations are essential to support investors' confidence in capital markets, and that the responsibility of the senior management of the firm should be to instil the necessary culture and behaviours throughout the firm. The Code should clarify what the public interest means in this respect and recognise that any definition needs to be sufficiently dynamic to address the way that perceptions can change over time. Public interest requirements sit comfortably alongside the ethical principles that we are required to uphold.

The FRC and ICAEW are currently considering the meaning of the public interest in the context of their reviews of ethical principles. It would be helpful if their definitions were aligned and applicable both to the Code and ethical standards. We urge the two bodies to work together to develop a definition that works for both applications.

We note that there is an appetite for greater clarity about the role of INEs (paragraph 57). We agree that this may be helpful, but it should be kept at a high level. It will be difficult to enforce a detailed, one-size-fits-all definition of the role of INEs, given the range of structures and governance arrangements that firms have, both at a domestic and international level.

The current Code points out that shareholders are the beneficiaries of good governance at audit firms. Although firms work hard to improve the level and quality of their engagement with investors, we support moves from the FRC to promote this further.

Safeguarding audit quality (paragraphs 60-68)

Question: Should there be separate governance arrangements for audit? What might such arrangements look like?

No. The most important contributors to good governance at Deloitte are our values, culture and tone at the top. These pervade the whole of the firm. In a multidisciplinary firm like ours, the overall reputation of non-audit services has a profound impact on perceptions of audit quality (and vice-versa), and there are strong day-to-day links between different parts of the firm. In addition, we benefit from INEs who consider audit within the wider context of the firm rather than as a standalone business. Although we believe that the Code should cover firms' entire portfolios of services, implementation of the Code should not disadvantage multidisciplinary firms from competing against standalone non-audit firms such as management consultancies.

Question: Should the Code include more detail and impose more requirements on tone at the top and professionalism more generally?

On balance, no. We agree that tone at the top and professionalism are very important, but fundamentally they are about beliefs and behaviours, which are hard to codify or impose from the outside. Although we are sympathetic with the thrust of the question, there is a danger that requirements will be overly-bureaucratic without addressing underlying behaviours.

International context (paragraphs 69-73)

Question: Do you agree that the concept of the Code should be spread elsewhere in the world? How might this be achieved?

In principle we agree with this but the practical difficulties of so doing should not be under-emphasised.

Role of the INEs (paragraphs 74-82)

Question: How might the independence of INEs be protected and demonstrated?

We would have no objection if the Code included additional measures to protect and demonstrate independence provided such measures are pragmatic and reasonable.

Question: Should the firms follow a standard process in appointing INEs, including all such positions being publicly advertised? What engagement, if any, should investors in audited entities have into an audit firm's appointment of INEs? Should the FRC or any other regulator have a role in the appointment of INEs, perhaps a right of veto?

No, we don't agree that firms should be required to follow a standard process in appointing INEs.

Since the formal duty of care of INEs is to a firm's equity holders, they should have the primary responsibility for INE appointments. However, we would support the FRC establishing guidelines setting out, for example, independence requirements and proposed credentials against which firms could assess the suitability of candidates. If necessary, the FRC could challenge firms on their application of the guidelines. We would caution against setting up a bureaucratic system that might be difficult to administer and potentially deter good candidates from agreeing to be considered.

Question: Which of these [aspects of the Corporate Governance Code] should be incorporated into the Code? Are there any other aspects of the Corporate Governance Code which should also be considered?

The Code works well and any changes should be based on their own merits rather than just because they mirror the Corporate Governance Code, which was not specifically designed for partnerships. We don't agree with some of the suggested changes, such as having an independent Chairman (we believe our firm is best served by having an existing partner as its Chairman).

Accountability (paragraphs 83-88)

Question: To who should the boards, INEs and public interest committees be accountable? How should this accountability be discharged, including to the FRC?

We believe our Board's accountability is to the firm's equity partners. INEs and public interest committees do have responsibilities to a wider stakeholder base and we acknowledge that. They have a particular contribution to make to the firm in helping to fulfil the purpose of the Code in building confidence of stakeholders and it might be appropriate for the Code to recognise this.

Question: Should the Code include specific provisions on the firms' boards and public interest bodies engaging with and disclosing certain matters to regulators?

The FRC already has regular meetings with Senior Partners and Regulatory Partners, as well as with INEs. We are happy to increase the frequency of these meetings at the FRC's request. We would also support it having regular meetings with firms' board members, though we don't think changes are required to the Code to effect this. We believe that it is appropriate for INE's to have the right of whistleblowing to the responsible regulatory body in appropriate circumstances.

Question: Is greater transparency sufficient? What else can be done?

We rarely, if ever, hear complaints that firms' Audit Transparency Reports are too short or insufficiently detailed. The FRC should focus on encouraging firms to make their reports more interesting, more engaging and more innovative, rather than appearing to impose a statutory straitjacket.

Other issues (paragraphs 89-91)

Question: Should the code be applied to a wider group of firms?

We think that the range of firms to which the Code currently applies is about right.

Question: Do you have any comments on the role of the FRC in this context?

There should be a single owner of the Code, and this should be the FRC (with oversight by the Code and Standards Committee). Nevertheless, we mustn't lose sight of the value of firms being part of profession, and the important role played by our professional institutes. We welcome the ongoing dialogue with the ICAEW at a Board and INE level.

