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Dear respondent,

INDEPENDENT REVIEW OF THE FINANCIAL REPORTING COUNCIL – ARRANGEMENTS FOR AUDITOR PROCUREMENT AND REMUNERATION

I am very grateful for your response to the Review's Call for Evidence.

As you will see from the attached letter from the Business Secretary, the Rt Hon Greg Clark MP, he has now asked me to consider, additionally, a further question not covered in the Review's original terms of reference: whether there should be any change in the way in which audits are currently procured, and audit fees and scope are set, particularly for major companies of public interest.

The way audit is procured can, of course, have implications for market competition so I will be liaising with the Competition and Markets Authority as it carries out its recently announced further work on the audit market.

The underlying question here is whether the present arrangements are sufficiently responsive to the needs of consumers of accounts, particularly in relation to audit quality. In particular,

- notwithstanding the important role played by audit committees, as well as the formal requirement for shareholder approval, can present arrangements risk auditors being too close to company management, and insufficiently incentivised to pose suitable scepticism, objectivity and challenge?
- notwithstanding the FRC's Guidance which states that Audit Committees must be satisfied that "the level of fee payable in respect of the audit services provided is appropriate and that an effective, high quality, audit can be conducted for such a fee", could present arrangements in practice contribute to a situation where audit work is under-priced, under-resourced or cross-subsidised from other work?

There is then a critical question of whether any alternative arrangement is feasible and workable in practice, including,

- If auditors of some or all major companies of public interest were to be appointed in a different way, by whom could this be done in practice?
- What capability would need to be built up to do this competently? How could this be properly governed?
- How could this be done in a way which commanded the confidence of users of accounts, such as investors? How could investors' rights of approval over auditor appointments be protected in any new arrangement?
- How would any alternative body take into account the views of Audit Committees?
- What companies should any new arrangement apply to? Is there a case for piloting an alternative approach, for instance in relation to cases where deficiencies in audit have been identified?

The Review is due to report before the end of the year. In the time available, as the Secretary of State's letter acknowledges, it will not be possible to consult fully on these new issues or to provide more than an informed personal opinion at this stage, and the Government has accordingly committed to further consultation were any change to present arrangements to be contemplated.

Nevertheless, if you have views or ideas on these questions. I would very much like to hear them, if possible by 9 November.

Yours,



Sir John Kingman