

Choice in the Audit Market

A Discussion Paper from the Financial Reporting Council

A response by

The National Association of Pension Funds

July 2007

This response is from the National Association of Pension Funds (NAPF). The NAPF is the leading voice of workplace pension provision in the UK. Some 10 million working people are currently in NAPF Member schemes, while around 5 million pensioners are receiving valuable retirement income from such schemes. NAPF members hold assets of some £750bn, and account for one sixth of investment in the UK stock market.

The NAPF welcomes the FRC's interim report on "Choice in the Audit Market" which provides a thorough and considered view of the issues. We do not intend to comment in detail on all of the recommendations and will focus on those which are of direct concern to investors and which will do most to support increased choice of auditors. We see increased choice as the immediate priority for the FRC, as from more choice will come less risk in the market for audit services.

The supply and demand side recommendations should encourage the development of a healthier market and we would like to see the FRC take these forward as a matter of urgency.

Representing a substantial investor constituency, the NAPF can have perhaps greater influence on improving board accountability for auditor selection decisions. We support the recommendations (Nos 8&9) to amend the Smith Guidance to improve disclosure on the auditor re-selection decision and to disclose any contractual obligations to appoint audit firms. We also agree (recommendation No 10) that the NAPF should develop good practices for shareholder engagement on auditor appointments and re-appointments. We have previously commented that there is merit in putting the audit committee report to a vote and remain of that view. We will take these issues forward as part of our review of the NAPF Corporate Governance Guidelines which will begin very shortly and will report to the FRC on our proposals.

Our only other comment relates to recommendation No14. Investors would benefit from greater transparency of governance practices in audit firms and the suggestion that they should comply with the provisions of the Combined Code has considerable merit.