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## FRC boss defends 'comply or explain' audit tendering

by Richard Crump

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**THE HEAD** of the UK's reporting watchdog has defended the concept of comply or explain after it was criticised in a recent report on audit competition.

Speaking at the Financial Reporting Council's open meeting yesterday afternoon, chief executive Stephen Hadrill dismissed claims that a comply or explain provision for audit tendering would allow companies to swerve the requirement.

Under the FRC's revised UK corporate governance code, FTSE 350 companies must put their audits out to tender or explain why they didn't. But according to the

Competition Commission, a comply or explain provision could "undermine compliance" with the rule.

Hadrill supports the commission's stance on mandatory tendering as a remedy to a lack of competition for large company audits, but said he doesn't buy the argument that "it's got to be black letter law".

The concept of comply or explain underpins the very principles of the FRC's voluntary governance code. According to Hadrill, comments from the CC do not merit a rethink.

"We're not going to suddenly change overnight," Hadrill said. "We think it works. It enables people to get comfortable with something they find very difficult."

Hadrill was also unsure that the Competition Commission was right in wanting to expand the scope of audit quality review reports. According to the CC, there should be greater frequency and granularity of audit inspection reports and better identification of emerging issues. Audit inspections are a "fundamental and important role" for the FRC, Hadrill said, adding that the FRC would be working closely with the commission on the issue.

The FRC reviewed the scope of its audit inspection work as part of the its reform programme last year, and concluded the scope was "about right", Hadrill said.

"We need to think hard about whether an increase of the kind the Competition Commission is talking about makes sense," he said.

The FRC used the open meeting to discuss its strategy for the coming year and emphasised the importance of extending its influence in the setting of global standards.

Concerns have been raised however, that the FRC may suffer a loss of influence if it fails to gain a seat at the IASB's new club of national standard setters and regional bodies.

The global accounting rulemaker is creating a 12-member advisory forum as part of a new approach to standard setting following the collapse of its convergence project with the US.

The board will be made up by three representatives from, respectively, Europe, the Americas and Asia-Oceania, with Africa taking one seat and the rest of the world getting an additional two seats. Regional bodies such as AOSSG, GLASS and PAFA are likely to be represented, leaving little room for national standard setters.

Hadrill conceded there will be "a lot of competition" for space on the board - in Europe, the UK, French, Italian and German standard setters will be left to contend for the remaining spot if EFRAG took a seat, with a second seat going to a non-EU member - but said membership would not be the only way to influence the international agenda.

"It's important nobody gets over focused, including the IASB, to just listen to one group of 12," Haddrill said, and added that the FRC is doing more collective work with its fellow European standard setters.



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