

30 March 2007

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Dear Mr Grant

DISCUSSION PAPER – PROMOTING AUDIT QUALITY

Standard Life Investments is an indirectly wholly-owned subsidiary of Standard Life plc. We manage investments which had a value of £132.1 billion as at 31 December 2006.

Audit quality is critical for us because we rely on audited financial statements fulfilling our responsibilities. Therefore, we welcome the opportunity to comment on the matters raised in the Discussion Paper. Our responses to the questions posed in the Paper are set out in the enclosure.

To summarise the key points, audit quality will be promoted by:

- Informative audit reports that have enlightened professional content. This would yield greater investor confidence in the quality of audits. For example, investor confidence would be enhanced if auditors reported more matters of emphasis – irrespective of whether the matters are disclosed elsewhere – and contained less qualification of auditor responsibility, which does nothing for audit quality, than is currently the case.
- Improving further the transparency of audit firms and strengthening the relationship between audit firms, shareholders and investors. We have seen some positive developments in this regard over the past year but we should like to see the FRC provide greater encouragement and guidance to those involved.
- Creating the conditions that would enable an improved awareness of circumstances associated with a change of auditor. Currently the cloak of confidentiality constrains the ability of companies and auditors to explain the circumstances. This needs to be addressed.
- Audit committees providing additional – but not boiler-plate – disclosures about how they evaluate audit effectiveness. This will improve investor confidence in the whole audit process. However, we are not convinced that audit committees require more detailed guidance regarding how to evaluate audit effectiveness. A competent audit committee should be able to do this effectively and we are wary of unintended adverse consequences – not least box-ticking – of having formal detailed guidance.

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Some have suggested to us that to review the guidance provided by the Smith Committee would be consistent with the aim of improving audit quality. We regard Sir Robert's report as very useful and it remains very relevant. Notwithstanding, we recognise the audit environment has developed significantly since the Report was published. Therefore, we concur with the spirit of the suggestion provided that the scope and terms of reference are appropriate: in this regard, we would wish to see a review that built on the Report's guidance and embraced the contribution to audit quality of audit firms, investors, regulators as well as audit committees. If this suggestion is taken forward a genuine round-table approach, which seeks to establish consensus between the respective stakeholders would be very desirable.

We hope our comments will assist the FRC in its endeavours to promote audit quality.

Yours sincerely

Guy R Jubb
Investment Director, Head of Corporate Governance
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