



The 100 Group

Investor Relations and Markets Committee

Catherine Woods
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

11 December 2015

By email: ARDconsultation@frc.org.uk

Dear Ms Woods

Enhancing Confidence in Audit: Proposed Revisions to the Ethical Standard, Auditing Standards, UK Corporate Governance Code and Guidance on Audit Committees

I am writing in my capacity as Chairman of The 100 Group Investor Relations and Markets Committee to share with you our views on the FRC's consultation document on the above topic.

Who we are

The 100 Group represents the views of the finance directors of FTSE 100 and several large UK private companies. Our member companies represent around 90% of the market capitalisation of the FTSE 100, collectively employing over 7% of the UK workforce and in 2014, paid, or generated, taxes equivalent to over 14% of total UK Government receipts. Our overall aim is to promote the competitiveness of the UK for UK businesses, particularly in the areas of tax, reporting, pensions, regulation, capital markets and corporate governance.

Our views

We have provided input into a number of UK and European consultation processes in the past few years on proposals for reforms in the audit market. We look forward to the completion of the process of reform and the re-establishment of certainty over the rules and future rules in this area.

In our response to the FRC's previous consultation on this topic we had two main concerns:

- 1) That the proposals went beyond the EU rules in some areas, proposing additional rules or requirements and extending the scope of the EU rules; and
- 2) That the approach to certain member-state options proposed potentially more onerous rules than could be applied by other member states.

We are pleased to see that in the latest consultation both of our concerns have largely been addressed. The appendix to this letter highlights some areas of concern, or where we have identified proposed amendments that may lead to unintended consequences.

Please feel free to contact me if you wish to discuss the views contained within this letter.

Yours sincerely

Matthew Lester

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Appendix

We have not responded to the specific questions posed in the consultation. However, we outline in this appendix some areas where we have concerns.

We have focussed on the factors that affect large listed companies. We have not focussed on the structure of the regulation of audit or on the proposed extension of the requirements to non-‘PIE’ companies as these have less direct implications for our member companies.

References to sections of the consultation and relevant questions are provided for your convenience.

Section 4: UK Corporate Governance Code

Question 24: Do you agree with the changes to section C.3 of the Code?

Section C.3.1 of the code says:

“The board should satisfy itself that at least one member of the audit committee has **competence in accounting and/or auditing** ~~recent and relevant financial~~ ~~experience~~. **The audit committee as a whole shall have competence relevant to the sector in which the company operates.**”

We believe that the previous wording “recent and relevant financial experience” was well understood and respected by Boards and Audit Committees and the proposed wording “Competence in accounting and/or auditing” is too narrow.

Section 5: Guidance on Audit Committees

Question 26: Do you agree with the changes to the Guidance?

Skills, experience and training

Paragraph 16 says:

“It is desirable that the audit committee member whom the board considers to have **competence in accounting and/or auditing** ~~recent and relevant financial~~ ~~experience~~ should have a professional qualification from a professional accountancy body.”

Please see our response to question 24.

Appointment and tendering

Paragraph 56 says:

“The audit committee should have primary responsibility for the appointment of the auditor. This includes **negotiating the fee** and scope of the audit, initiating a tender process, influencing the appointment of an engagement partner and making formal recommendations to the board on the appointment, reappointment and removal of the external auditors.”

We believe the fee should not be negotiated between the external auditor and the Audit Committee. The Audit Committee should approve the fee negotiated by management.

Communications with Shareholders

Paragraph 80 says:

“The audit committee section should include the following matters:

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- an explanation of how the committee has assessed the effectiveness of the external audit process and of the approach taken to the appointment or reappointment of the external auditor; the length of tenure of the current audit firm; **the current audit partner name, and for how long the partner has held the role**; when a tender was last conducted; **an indication in advance of when the next tender process will be undertaken and an explanation of changes to the intended tender timing...**”

We believe this adds clutter to a section which has become lengthy in many annual reports. The prescriptive information (as per above) will be of little interest to the users of the annual report and accounts. We note that paragraph 83 says "The section need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information". However prescriptive information like this will likely lead to boiler plate information rolled forward year on year. We are concerned that this type of prescriptive information goes against your Clear and Concise Reporting initiative, an initiative we fully support.