

Financial Reporting Council
Aldwych House
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Dear Sirs

Consultation on changes to Smith Guidance on audit committees

The CBI is pleased to respond to your consultation.

We are broadly content with most of the proposed changes which reflect developments since the original Smith Guidance was promulgated.

However in seeking to reflect certain of the recommendations made by the Market Participants Group in connection with the Audit Choice project, CBI members are concerned about how the proposed amendments to new Paragraph 4.22 might be interpreted and applied.

When comparing audit firm rotation with audit partner rotation, CBI members strongly prefer regulatory intervention to be limited to audit partner rotation and not extend to requirements or guidance in respect of audit firm rotation.

Auditors have to be re-appointed by shareholders each year, so the appropriateness of their re-election comes up for consideration every year.

However for listed companies, a change of audit firm (as opposed to the rotation of an audit partner within the existing audit firm) is a very costly and major exercise, with any new audit firm needing time to understand the business, which itself heightens the risk of an audit failure following change-over.

CBI members are therefore concerned that Paragraph 4.22 is putting undue pressure on companies to review their auditors and be expected to put the audit out to tender on a too frequent and unjustified basis.

With regard to Paragraph 4.21, this may be appropriate as a matter for an audit committee to consider, but they should not be expected to publicly report on their deliberations.

Audit committees and company boards should be allowed to continue to exercise their own judgement on audit firm performance and selection without undue or excessive regulatory intervention.

Yours sincerely


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