



The Hundred Group
of Finance Directors

Chris Hodge
Financial Reporting Council
5th Floor
Aldwych House
71 – 91 Aldwych
London
WC2B 4HN

10 June 2008

Dear Sir

**Response to the consultation on proposed changes to guidance on Audit Committees
(The Smith Guidance)**

The Hundred Group of Finance Directors represents the views of the finance directors of the UK's largest companies drawn largely, but not entirely, from the constituents of the FTSE100 Index. Our members are the finance directors of companies whose market capitalisation collectively represents over 80% of companies listed on the London Stock Exchange. Views expressed in this letter are those of The Hundred Group of Finance Directors but are not necessarily those of our individual members or their respective employers. We meet periodically to discuss issues affecting major corporations, and selectively respond to governmental and other consultation exercises where we believe that our role in companies and collective experience give us a particular insight into often complex matters.

We read with interest your consultation document. Whilst we appreciated that the changes proposed are in response to the recommendations made by the Market Participants Group, we have concerns about how two of these amendments will work and how they may be interpreted in practice.

4.21 Assess the risks associated with the possible withdrawal of the external auditors from the market

We appreciate that it may be appropriate for Audit Committees to assess the risks associated with the possible withdrawal of their external auditor but it is unclear what mitigating action you are expecting companies to take. If the mitigating action proposed is to set up a "stand-by" firm, a joint auditor arrangement or to employ another firm to audit part of the group we consider it unlikely, given the costs, that companies will be willing to take this action unless a specific event occurs.

For some sectors, particularly the financial services sector, it is a very costly exercise for companies to ensure that their auditors are "clean" prior to taking over the audit. Taking action to ensure that an audit firm complies with independence rules when Banks and Insurance companies provide products to the audit firms' employees is costly for both the audit firm and the company (in terms of reduced profit from this business).

As we mentioned to Paul Boyle at a 100 Group speaker evening we think it is more appropriate for the FRC to have a contingency plan in place to minimise the impact on the market should one of the external audit firms withdraw from the market than to expect each company to put contingency plans in place.

It is also unclear from your proposals whether you are expecting Audit Committees to report on their assessment of the risk associated with the possible withdrawal of their external auditor from the market and any mitigating action taken. We do not consider this appropriate and would not support any disclosure.

We also note that your impact assessment does not consider the extra cost of taking mitigating action and we recommend that the FRC undertakes an assessment of the cost to companies of undertaking mitigating action.

4.22 Proposed disclosure regarding how the Audit Committee has reached its recommendation on the appointment, re-appointment and removal of auditors

We agree that information regarding how an Audit Committee has reached its recommendation for the appointment, re-appointment and removal of auditors is useful to investors but we are concerned about the implications of including dates as to when the audit was last subject to tender and how that may be interpreted.

Audit tenders are costly for both audit firms and companies in terms of direct external costs as well as management time. An audit tender is a good mechanism for checking that a company is receiving value for money and a quality audit but it is not the only method of ensuring both these key attributes of an audit service. Companies, on a regular basis, already review the cost of their audit and benchmark it against similar organisations. Quality of opinion and service is also reviewed regularly by Audit Committees and management.

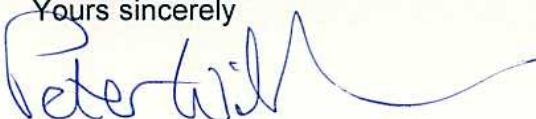
Auditors have to be re-appointed by shareholders each year, so the appropriateness of their re-election comes up for consideration every year.

We are concerned that this specific disclosure will put undue pressure on companies to review their auditors and put their audit out for tender on a too frequent basis for no benefit. Companies are able to provide this information as part of their explanation to shareholders of how they have reached their recommendation if they so choose. We do not consider that it should be included as a specific recommendation as it places undue prominence on tenders rather than other methods of evaluating auditors. We therefore propose that 4.22 is amended to delete the two bullets noted below:

- When the audit was last subject to tender; and
- When the current group auditor was appointed.

We hope you find this letter of interest. We would be happy to discuss it further at your convenience.

Yours sincerely



Peter Williams
Chairman of Investor Relations and Markets Committee
The Hundred Group