

Mr Chris Hodge
Financial Reporting Council
Fifth Floor
Aldwych House
71 - 91 Aldwych
London
WC2B 4HN

Our ref DH/AC/kag

Direct line 020 7063 4411

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Dear Chris

Consultation on Proposed Changes to Guidance on Audit Committees (The Smith Guidance)

1.1 Mazars, one of Europe's leading audit and advisory firms with turnover of approximately £100m in the UK and 104 partners and around 1100 staff, is pleased to submit its response to the above consultation.

Consultation question 1: Changes based on MPG recommendations

2.1 Subject to paragraph 2.2 below, we strongly support the proposed changes based on the recommendations of the Market Participants Group and especially those proposed in (new) paragraph 4.22 which indicate that disclosures should *normally* (our italics) include:

- any contractual obligations that acted to restrict the audit committee's choice of external auditors;
- when the audit was last subject to tender; and
- when the current group auditor was appointed.

2.2 We would recommend strengthening the proposed guidance in the following respects:

- by deleting the word 'normally';
- by asking for disclosure of when the current group auditor was *first* appointed, recognising that as a matter of law the auditor is appointed on an annual basis;
- by calling for an explanation if the audit committee has not been put out to tender during the previous 7 or 8 years or, at most, 10 years, together with a statement of the audit committee's future intentions on tendering;
- by asking for disclosure of links between members of the board and the audit firm (eg. where the FD, members of the Audit Committee or other board members are former partners or staff of the audit firm).

Mazars LLP - Tower Bridge House - St Katharine's Way - London - E1W 1DD
Tel: +44 (0)20 7063 4000 - Fax: +44 (0)20 7063 4001 - www.mazars.co.uk

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Consultation question 2: Comments to assist the FRC in finalising its impact assessment

We are not persuaded by the argument sometimes put forward that more frequent audit tendering would involve companies in unnecessary costs. We firmly believe that more frequent tendering of audits by listed and other public interest entities would bring the companies concerned direct benefits from, in some instances, a reduction in costs and/or from the provision of improved service. Such a change would also lead to benefits for investors arising both from the benefits enjoyed by the companies in which they hold shares and from those related to enhanced innovation and responsiveness which we consider would more generally result from increased competitiveness in the audit market. We believe these benefits should be reflected in the impact assessment.

We note that the Oxera Report, for example, found that more than 70% of the FTSE 100 had not held a competitive tender in the previous 15 years. Moreover, in a number of instances, it may, of course, be much longer than 15 years since the audit was subject to tender. The proposed new disclosure would provide up to date reliable information on this issue which would be helpful especially to investors.

Further discussion

If you would like to discuss further any of the comments in our response, please do not hesitate to contact David Herbinet on 020 7063 4419 or Anthony Carey on 020 7063 4411.

Yours faithfully


Mazars LLP