



**The Quoted  
Companies Alliance**

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16 June 2008

Dear Chris,

**FRC CONSULTATION ON PROPOSED CHANGES TO GUIDANCE ON AUDIT  
COMMITTEES (THE SMITH GUIDANCE)**

***INTRODUCTION***

The Quoted Companies Alliance (QCA) is a not-for-profit membership organisation dedicated to promoting the cause of smaller quoted companies (SQC), which we define as those 2,000+ quoted companies outside the FTSE 350 (including those on AIM and PLUS) representing 85% of the UK quoted companies by number. Their individual market capitalisations tend to be below €500m.

The QCA is a founder member of European**Issuers**, which represents over 9,000 quoted companies in twelve EU member states.

***RESPONSE***

We welcome the opportunity to comment on the above discussion paper and apologise for the delay in getting this response to you.

We welcome the attempt to bolster the Smith guidance for audit committees. It is important to reflect the work of the Market Participants Group as QCA members would strongly welcome a more vibrant audit market in which smaller audit firms played a greater role. Many QCA members are audited by firms smaller than the Big 4 and would welcome these firms becoming more robust by their offering audit services across the full range of companies. We also welcome the other proposed changes, subject to the comments below.

We would note that the crucial role of the audit committee is currently under-represented in the disclosures made to shareholders and in the dialogue between companies and their

investors. We believe that more guidance is needed for audit committees. As an attempt to address this need, we are preparing such guidance for our members.

The one area of the current proposals about which we have specific concerns is in the section on independence. While this intends to reflect more closely the framework of risks and safeguards laid out in Ethical Standard 1, it is not clear to us that in practice it does so. In particular, there is no direct mention of safeguards which might ensure that any apparent lack of independence was not in practice problematic. For example, proposed paragraph 4.26 requires the audit committee to identify any impairment or appearance of impairment of auditor independence. Without mention of a need to consider safeguards which would mitigate any apparent impairment of independence, we are concerned that this sets a very high standard which may not reflect business realities, as well as not reflecting the framework set by ES1. We are concerned that this may drive an overly adversarial relationship between audit committees and the auditors, rather than driving the collaborative and business-focused approach which will be most productive. Smaller company audit committees are often more in need of support from the auditors, and a regulatory framework which hampers this would be particularly unhelpful to them. We would therefore ask that all the paragraphs in the section on independence are reconsidered in order to reflect these concerns.

Yours sincerely

A handwritten signature in black ink that reads "John Pierce". The signature is written in a cursive style and is underlined with a single horizontal line.

John Pierce  
Chief Executive