

4 July 2007

Mr Julian Rose
Secretary
Market Participants Group
Financial Reporting Council
5th Floor
71-91 Aldwych
London WC2B 4HN

Dear Mr Rose

Response to the FRC Discussion Paper "Choice in the UK Audit Market"

Further to Paul Boyle's letter of 30 April to our Chairman, Martin Adamson, we are pleased to provide a response to the interim report of the Market Participants Group advising the FRC on Choice in the UK Audit Market.

We recognise the importance of ensuring adequate choice in the UK Audit market and, from our perspective as a multinational organisation with a desire for consistency of audit approach, we accept that our choice of auditor is realistically restricted to the four international firms. Further concentration reducing this number is undesirable.

We are supportive of the desire to improve the capabilities of smaller firms but do not believe that such firms will be able to compete in the international arena in the short to medium term, however competent they are. Nor do we believe that consolidation of the second tier firms in the UK would result in a credible competitor to the Big 4 in the international market. Over time it is possible that international alliances could be formalised to create a single international practice but this will not resolve the concern of concentration of auditor choice in the short to medium term.

Although we believe the interests of major multinational organisations are likely to be best served by audit firms with an extensive international network, many large businesses with less international exposure may be equally well served by second tier firms. Second tier firms may be perceived as being unable to match the capabilities of their Big 4 competitors and may suffer from the perception that being audited by a Big 4 firm lends credibility, particularly to those with growth or international expansion aspirations. Recommendation 5, that the FRC should promote greater transparency of the capabilities of individual audit firms therefore has considerable merit. It might also help to reduce the incidence of Big 4 appointments being made as the 'safe' option when a company's needs may well be better served by a smaller firm.

The principal issue from our perspective is the preservation of the existing market. In our opinion, this will only be achieved if:

- the Big 4 continue to invest in maintaining standards through training and quality recruitment;
- steps are taken to limit the risk of worldwide collapse which is likely to be achieved through a combination of regulatory change, limitation of liability and in some cases, changes in partnership structures; and
- the role of auditors is considered sufficiently attractive so as to encourage the recruitment and retention of quality staff.

Competition in the audit market place and within the Big 4 would also be enhanced if companies audited by the Big 4 were to choose smaller firms for the provision of non-audit services rather than another member of the Big 4. Provision of such services is likely to preclude the firm from providing audit services and may therefore restrict the options for an alternative audit provider if a Big 4 firm is used.

We firmly believe that decisions on the choice of auditors should reside with the board and do not believe that the best interests of UK companies are served by enforced rotation of audit firms. We are therefore opposed to Recommendation 10 that the FRC considers the option of shareholders being given the right to vote on audit committee reports. We are concerned that audit committees might feel the need to put audits out to tender in order to be seen to be acting responsibly even though this may be sub-optimal. If such a vote were to be binding on the company it could lead to a requirement to put an audit out to tender at considerable expense to the company and with a detrimental effect on audit quality.

We appreciate the opportunity to express our opinions on the issue of concentration of auditor choice.

Yours sincerely



Peter Russell
Group Financial Controller