



**The Quoted
Companies Alliance**

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Dear Julian,

Choice in the UK Audit Market, Interim Report of the Market Participants Group

A more competitive environment would be welcome

The Quoted Companies Alliance, which primarily represents companies with a listing on the London Stock Exchange outside the FTSE 350 and those on the AIM and Plus markets, is pleased to submit its comments on the above consultation. I apologise for their slightly late arrival.

The issue of competition and choice in the UK audit market is an important one for our members. We note that the earlier Oxera report on this subject concluded that there was a positive link between the level of concentration in the audit market and fees charged. Audit costs are a significant overhead for many of our members and we therefore would welcome the development of a more competitive environment especially for fully listed companies. We support the three criteria you have used.

Promoting choice from among a range of different firms

We often hear our companies say that as they prepare for a public listing they are advised by their brokers that if their auditor is from outside the Big 4 they should switch to a Big 4 firm as this will increase confidence in their published figures. This view from some advisers appears to be based on their perceptions rather than the actual capabilities of the different firms. We therefore welcome those recommendations, provisional recommendations 5 and 14, that will have the effect of allowing more information to become available on a range of firms. This will enable them to be judged on their merits rather than on a general bias and provide the boards of smaller quoted companies with the opportunity to choose the auditor that is best suited to their particular needs.

Support for FRC Working Group on liability limitation

We welcome recommendation 3 that calls for regulators, when developing and implementing policy on auditor liability arrangements, to promote choice, subject to the overriding need to protect audit quality. We are pleased to see that the FRC has recently appointed a working group to prepare guidance on auditor liability limitation agreements which are permitted for the first time by the Companies Act 2006. Such guidance will provide the boards and shareholders of smaller quoted companies with reassurance that any agreements they are asked to enter into in relation to limiting auditors' liability are reasonable.

Range of firms involved in the work of QCA

Whilst provisional recommendation 4 is specifically addressed to regulators, we would emphasise that at QCA we are committed to encouraging participation in our sector's work by individuals from different sizes of audit firm.

Support for providing information relevant to the auditor selection process

We would support the provision of information relevant to the auditor selection process, as called for in provisional recommendation 8, as we believe it would reduce a barrier to the more frequent tendering of audits which is essential if the extremely high current level of concentration, even among FTSE Small Cap companies, is to be reduced.

Agree on disclosure of contractual obligations to appoint certain firms

We agree with the proposal in provisional recommendation 9 that boards should disclose a contractual obligation, eg under a loan agreement, to appoint certain types of firm as this unnecessarily restricts the choice of auditor. We believe agreement should be sought with the major banks that they will not do this in future. We do, however, feel it is reasonable for a lender to wish to be consulted on the choice of auditor but there should not be an unduly restrictive preapproved list included in lending agreements.

Practical issues on increasing shareholder engagement on auditor selection

We support provisional recommendation 10 which calls for investor groups, corporate representatives and the FRC to develop good practices for shareholder engagement on auditor appointments and to consider the option of having a shareholder vote on audit committee reports. It will be important, however, to consider the practical challenges of making this work for companies outside the FTSE 350 as a number already find it difficult to have significant contact with their major institutional shareholders due to limited resources at the institutions most of which is focussed on FTSE 350 companies.

Other recommendations

We do not have particular comments on other recommendations but are supportive of the overall package. It will be important though for the Market Participants Group to give serious thought to implementation issues to ensure the potential of the recommendations taken together to increase competition is realised in practice.

If there are any issues in our response which you would like to discuss further please do not hesitate to contact me.

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