

From: LEE Paul <>
Sent: 25 May 2012 17:46
To: John Grewe
Cc: paul lee
Subject: RE: FRC CONSULTATION ON QUALITY ASSURANCE REVIEWS OF AUDITORS OF ISSUERS FROM THIRD COUNTRIES

John,

To respond briefly on this. As a reminder, we at Hermes represent our clients – a group of 25 major institutional investors from around the world with total assets under advice of £90 billion – in responding to consultations such as this.

Clearly, we support the process of audit inspections. We believe that they have enhanced audit quality over time and that they help to build investor confidence in the process and outcomes of audits.

We believe therefore that it is appropriate for the POB to seek to fulfil the requirements of the Statutory Audit Directive and to find some appropriate way of monitoring the quality of the audits carried out by auditors not otherwise subject to inspections. However, this clearly must be done in a cost-effective manner and we agree with the POB's intention to have a proportional approach to the issue. We have a few comments on the proposed approach.

First, we believe that the POB's approach of classifying the significance of markets and audits is a sensible one. From what we can see of the classifications through the sample of audited companies in Annex A the classification seems to have been carried out appropriately.

Second, we believe that the proposed hierarchy of actions by the POB in relation to inspections seems in general terms to be appropriate and proportional. In particular, we welcome the clear intention that the POB should not rely on firms and their international networks unless the significance of the audits is deemed low or very low in the UK, and also welcome the intent that the POB should not rely on the assessments by professional bodies for audits which are of high significance. Naturally, we and other investors share a certain cynicism about the ability of these bodies to carry out audit oversight and monitoring as effectively as we would wish. We would caution that this approach does place a clear burden on the POB and its classification process: given that classification of an audit as of medium or low importance places the auditor into a different category in terms of what sort of monitoring might be acceptable, it is vital that the assessment is carried out rigorously.

On the basis that this rigour is applied to classification, and that the classifications disclosed are representative of the assessments carried out now and into the future, we are content to support the POB's proposals as a rational and proportional response to the requirement it faces.

Regards,

Paul Lee

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