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Dear Mr Haddrill

### **Effective Company Stewardship**

I am writing with some comments on this consultation document. I chair the audit committees of two FTSE100 companies but I write in my personal capacity.

My points are these:

1. On page 6 and subsequently throughout the text the following words appear: "... fuller reports by Audit Committees explaining, in particular, how they discharged their responsibilities for the integrity of the Annual Report ...". In my opinion this represents a misunderstanding of the respective roles of the audit committee and the board. It is the board's responsibility to assure itself of the integrity of the Annual Report. In discharging this responsibility boards generally rely on their audit committees to report to them on the integrity of the financial statements. They may also look to the audit committee to do some necessary ground-clearing on other topics, such as risk. However, that does not make the audit committee responsible for the integrity of the Annual Report which remains only the responsibility of the board.
2. I do not consider it to be practical, as proposed in the document, to give greater investor involvement in the process by which auditors are appointed. On pages 17 and 18 the document envisages that audit committees could be required either to report on the process of auditor appointment or discuss it with a number of principal shareholders.

In the most usual case, where auditors are being reappointed, the explanation would typically be that their service is good, their charges are reasonable and there is advantage in continuity where independence is not in question. A boilerplate disclosure of this sort would soon develop and add little. Only in the case where new auditors are being appointed as a result of dissatisfaction with the incumbents or a conflict of interest or following a retender would there be a need for some commentary to be provided to shareholders.

As to the possibility of shareholders being actively canvassed in relation to the appointment of auditors, I doubt that this would be feasible or useful. I also doubt whether shareholders themselves would usually feel qualified to make a significant contribution. Has the FRC any evidence to the contrary? Clearly shareholders can at any time make direct contact with the Chairman, the Senior Independent Director or the Chairman of the audit committee to discuss any suggestions they wish to propose.

3. In proposing an expanded report from the audit committee (pages 16 and 17) the document appears to contemplate that the audit committee might have had a dialogue with some investors in relation to material audit issues. I do not think an audit committee would consider it appropriate to have such discussions, bearing in mind the need to keep all shareholders at all times equally informed.

In addition I cannot imagine the sort of issue where it would be useful (even if it were appropriate) to hold a discussion with shareholders. Where there is room for judgment as between alternatives or ranges of valuation it is in some cases desirable, or even prescribed, to disclose those issues in the notes to the accounts. In relation to matters which are not considered disclosable, I believe there would be little advantage in an open-ended discussion with shareholders having the result only of raising uncertainty about the published audited figures.

4. The document refers to the policy of not increasing the regulatory burden on companies unless there are clear benefits in doing so (page 21). It then fails to make any attempt to quantify the costs associated with the proposals. It should not be impossible to arrive at some estimate of the total extra cost of compliance for UK listed companies. The cost should include not only the obvious out of pockets (such as auditors' charges) but also the time commitment of management and directors who, if they were not spending time meeting the new requirements, would be spending it on improving the business for the benefit of shareholders.

Yours sincerely

David Challen