The Quoted Companies Alliance
6 Kinghorn Street
London EC1A 7HW
Tel: +44 20 7600 3745
Fax: +44 20 7600 8288

Web: www.quotedcompaniesalliance.co.uk
Email: mail@quotedcompaniesalliance.co.uk

The Quoted Companies Alliance

Hazel O'Sullivan
Project Director
The Auditing Practices Board Limited
5th Floor
Aldwych House
71-91 Aldwych
London WC2B4HN

h.osullivan@frc-apb.org.uk

1 February 2010

Dear Ms O'Sullivan,

APB Ethical Standards – Consultation on Audit Firms Providing Non-Audit Services to Listed Companies that They Audit

INTRODUCTION

The Quoted Companies Alliance (QCA) is a not-for-profit membership organisation working for small and mid-cap quoted companies. 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 fourteen European countries.

The QCA Corporate Governance Committee has examined your proposals and advised on this response. A list of Committee members is at Appendix A.

RESPONSE

We welcome the opportunity to submit our views on this consultation. Our general comments are as follows:

We recognise the consultation is in response to the question raised by the Treasury Select Committee (TSC") in its report entitled, "Banking Crisis: reforming corporate governance and pay in the City".

We note that the TSC report was produced as a result of enquiries made specifically of the banking sector and that the recommendation for a consultation appeared to be as a result of high levels of fees paid to auditors for non-audit services in certain specific examples. We also note that the report was critical of many boardroom practices and behaviours, but that there was very little evidence those auditors had failed to fulfil their duties as currently stipulated.

It is important to recognise that non-audit work for listed companies is considered and approved by the Audit Committees, who are well placed to assess whether a conflict could be perceived to arise. The Combined Code under a 'comply or explain' mechanism requires an explanation to be given in the annual report on how auditor objectivity and independence is safeguarded. We are not aware of any evidence that audit quality is impacted by the level of non-audit services provided.

We believe that the threats and safeguards approach adopted by the APB is appropriate and preferable to a prohibition on non-audit services. Companies, in particular smaller listed companies, can benefit from the experience their auditor has of the business, which can help reduce costs and management time, particularly in situations where speed of reporting is required.

Some respondents have raised the issue of whether auditors can remain independent while also giving advice on restructuring to companies in distress. We would hope that Audit Committees can fulfil their stewardship responsibilities faithfully when deciding whether or not to ask a company's auditors for advice on restructuring, as well as asking the same auditors to consider as part of their audit whether or not the directors' view on going concern is appropriate. However, we recognise the potential for conflicts of interest and that in certain circumstances investors will have more confidence in the going concern assumption underlying the accounts if separate firms provide the restructuring advice and the report on going concern.

It is often more effective to turn to auditors for restructuring advice, for example the auditors may have already been giving advice on related business issues. There is also the practical issue on determining when business advice becomes advice on a restructuring. It may not make sense to change advisors mid-way through providing advice on a deteriorating business situation. Banks will often appoint their own firm to review any reconstruction plans, thus providing further indirect reassurance to investors.

There are already many checks and balances in place to ensure continuing auditor independence. In order to ban an audit firm from providing advice on restructuring where a company is in distress, there would need to be some sort of definition of a "restructuring where a company is in distress" and we think that this sort of rule-based regulation will be difficult to frame and enforce. We prefer a more principled, corporate governance-led approach.

While we would not go as far as to forbid auditors from providing restructuring advice, we recommend that Audit Committees think very carefully about the messages that need to be conveyed to investors, so that investors can continue to have the utmost confidence in the going concern assumption underlying accounts. If Audit Committees proceed to ask auditors to provide restructuring advice when a company is in distress, we consider that best practice should be that they will then appoint new auditors at the earliest possible opportunity, or explain clearly why they have not done so.

We therefore do not think that this is an issue for regulation by the APB. We think that this is a practical corporate governance implementation point that is already covered by the provision on use of auditors for non-audit services and does not warrant separate coverage in the forthcoming UK Corporate Governance Code (the revised Combined Code).

We recognise that the perception of independence is of crucial importance, and there can be a perception that auditor independence is impaired where the fees earned for non-audit work are large relative to fees for an audit. We believe that it is the duty of the board to determine whether the perception of auditor objectivity or independence is affected but that greater clarity and explanation of why audit firms are used and disclosure of non-audit fees would benefit understanding.

If you wish to discuss these issues with us, we will be pleased to attend a meeting.

Yours sincerely,

Tim Ward
Chief Executive

APPENDIX A

QCA CORPORATE GOVERNANCE COMMITTEE

Edward Beale* (Chairman)	-	City Group PLC
Mirza Baig	-	F & C Asset Management
Nigel Burton	-	Advanced Power
Anthony Carey	-	Mazars LLP
Louis Cooper	-	Horwath Clark Whitehill LLP
Clive Garston	-	Davies Arnold Cooper LLP
Tim Goodman	-	Hermes Equity Ownership Services Ltd
Mark Harwood	-	Baker Tilly LLP
Murray Steele	-	Cranfield School of Management
Andrew Viner*	-	BDO LLP
Melanie Wadsworth	-	Faegre & Benson LLP
Tim Ward	-	The Quoted Companies Alliance
Kate Jalbert	-	The Quoted Companies Alliance

*Main Author(s)

APPENDIX B

THE QUOTED COMPANIES ALLIANCE (QCA)

A not-for-profit organisation funded by its membership, the QCA represents the interests of small and mid-cap quoted companies, their advisors and investors. It was founded in 1992, originally known as CISCO.

The QCA is governed by an elected Executive Committee, and undertakes its work through a number of highly focussed, multi-disciplinary committees and working groups of members who concentrate on specific areas of concern, in particular:

- taxation
- legislation affecting small and mid-cap quoted companies
- corporate governance
- employee share schemes
- trading, settlement and custody of shares
- structure and regulation of stock markets for small and mid-cap quoted companies; Financial Services Authority (FSA) consultations
- political liaison – briefing and influencing Westminster and Whitehall, the City and Brussels
- accounting standards proposals from various standard-setters

The QCA is a founder member of European**Issuers**, which represents quoted companies in fourteen European countries.

QCA's Aims and Objectives

The QCA works for small and mid-cap quoted companies in the United Kingdom and Europe to promote and maintain vibrant, healthy and liquid capital markets. Its principal objectives are:

Lobbying the Government, Brussels and other regulators to reduce the costing and time consuming burden of regulation, which falls disproportionately on smaller quoted companies

Promoting the smaller quoted company sector and taking steps to increase investor interest and improve shareholder liquidity for companies in it.

Educating companies in the sector about best practice in areas such as corporate governance and investor relations.

Providing a forum for small and mid-cap quoted company directors to network and discuss solutions to topical issues with their peer group, sector professionals and influential City figures.

Small and mid-cap quoted companies' contribute considerably to the UK economy:

- There are approximately 2,000 small and mid-cap quoted companies
- They represent around 85% of all quoted companies in the UK
- They employ approximately 1 million people, representing around 4% of total private sector employment
- Every 5% growth in the small and mid-cap quoted company sector could reduce UK unemployment by a further 50,000
- They generate:

- corporation tax payable of £560 million per annum
- income tax paid of £3 billion per annum
- social security paid (employers' NIC) of £3 billion per annum
- employees' national insurance contribution paid of £2 billion per annum

The tax figures exclude business rates, VAT and other indirect taxes.

For more information contact:

Tim Ward
The Quoted Companies Alliance
6 Kinghorn Street
London EC1A 7HW
020 7600 3745
www.quotedcompaniesalliance.co.uk

-o0o-