

**The Association of Corporate Treasurers**  
Comments in Response to

***Choice in the UK Audit Market***

Issued by FRC Market Participants Group: Interim Report,  
April 2007

May 2007

**The Association of Corporate Treasurers (ACT)**

The ACT is a professional body for those working in corporate treasury, risk and corporate finance. Further information is provided at the end of these comments and on our website [www.treasurers.org](http://www.treasurers.org).

Contact details are also at the end of these comments.

We have canvassed the opinion of our members through our Policy and Technical Committee.

**General**

The ACT welcomes the opportunity to contribute to this consultation. In passing, we appreciated the clear layout and language used in the consultation.

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**Response**

The ACT broadly supports the initiative of the FRC in seeking to increase the choice of auditors available to public interest entities.

We wish to comment particularly on one aspect of the Interim Report, Section A.2.5.

**Section A.2.5**

This section is concerned with circumstances where advisers may recommend or require the use of a 'Big Four' firm. In particular this has been linked to banks advising use of big 4 auditors or even imposing conditions as part of loan documentation.

The ACT strongly believes that banks should expect prudent and appropriate standards of corporate governance. However, this should not extend to banks requiring restrictive covenants or contractual terms with respect to the appointment of audit firms unless, after proper consideration, there are demonstrably good reasons for it. We believe that, in practice, incorporation of a specific restriction in loan documentation is rare.

The Interim Report suggests that a requirement to use a particular firm or one of a group of firms is not inherently unreasonable. In some cases, we agree, but believe that it is too easy for a bank's officers to get into a habit of urging clients to "move up" to use of the big 4, without considering whether it really is appropriate in the particular case. It is too easy for a company to defer to the bank's suggestion.

An example of where such stipulation is not unreasonable is in cases where finance is provided for a separately incorporated stand-alone project in a foreign country. More broadly, complexity or geographic spread of a group's operations may require the reach and experience of a big 4 firm or experience of a particular industry which are more likely to be found in such a firm.

We think however that much more common than a contractual stipulation is rather that a bank's officers may simply indicate to a company that they would be more comfortable with a switch to a big 4 auditor. The company may take the view that

- as it grows, eventually it expects to switch anyway
- agreeing other terms of the agreement with the bank is hard enough and conceding on the formal requirement or informal suggestion is something it can use to let the bank think it has won at least one point

so it may as well take the path of least resistance and switch now at the bank's behest.

If this happens prematurely, this denies firms outside the big 4 the opportunity to grow with its clients and establish a level of credibility. Also, a medium sized company which "moves up" to use the big 4 is likely fairly quickly to find itself facing a material cost increase while being serviced by the most inexperienced of teams in that audit firm. It does, of course, have the advantage of having access to specialised staff of the firm and to its geographic reach, in case of need. To switch is a matter of judgement.

The Market Participants Group can usefully exhort companies to make that judgement carefully. We support provisional recommendation 9 that 'Boards should disclose any contractual obligations to appoint any given type of audit firm'. More broadly, while we would be comfortable with companies indicating the main factors taken into account in appointing an audit firm, we doubt the value in more complex or detailed disclosure as envisaged in the commentary on provisional recommendation 8, in A.2.4.

However the more important factor is not banks (or other advisers) "requiring" but in their "advising" (more or less formally) the use of a given type of firm, so exhortation must be addressed to the banks and other advisers. Accordingly, we urge the Market Participants Group to address directly the relevant banks (the number of banks directly involved with medium sized firms where the issue arises is small) and their representative bodies. This dialogue should advise bank officers *not* automatically to urge a switch to one of a selected group of audit firms, but to do so only after mature consideration of the specific contingencies applicable in the particular case.

## The Association of Corporate Treasurers (ACT)

The ACT is the international body for finance professionals working in treasury, risk and corporate finance. Through the ACT we come together as practitioners, technical experts and educators in a range of disciplines that underpin the financial security and prosperity of an organisation.

The ACT defines and promotes best practice in treasury and makes representations to government, regulators and standard setters.

We are also the world's leading examining body for treasury, providing benchmark qualifications and continuing development through training, conferences, publications, including The Treasurer magazine and the annual Treasurer's Handbook, and online.

Our 3,600 members work widely in companies of all sizes through industry, commerce, financial institutions and professional service firms.

Our guidelines on policy and technical matters are available at <http://www.treasurers.org/technical/resources/manifestosept2006.pdf>.

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