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Audit Committee Chairs' Independent Forum

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To whom it may concern,

ACCIF – Internal Controls

We welcome the opportunity to respond to respond to your position paper on internal controls over financial reporting.

The Quoted Companies Alliance *Accounting, Auditing and Financial Reporting Expert Group* has examined the proposals and advised on this response from the viewpoint of small and mid-size quoted companies.

Overall, we believe that the ACCIF position paper is reasonable and in principal represents a general framework and set of controls that would be expected to be in place. However, and notwithstanding the above, we stress that it is of vital importance to ensure that the new rules are appropriately targeted at the entities that are fully able to comply. That is, the size and complexity of the entities to which these new rules are to apply must be considered in order to ensure that these entities have both the complexity of operations and the available resources to comply. In order for smaller entities to continue to be active on UK public markets, it is essential that the compliance burdens are kept proportionate.

For the above reasons, we believe that smaller entities have to be scoped out and the proposals should only be applied to the entities within the FTSE 350.

If you would like to discuss our response in more detail, we would be happy to attend a meeting.

Yours sincerely,

Tim Ward
Chief Executive

General comments

We have the following points to raise regarding the position paper:

- In considering the introduction in the UK of an enhanced framework over internal financial reporting controls, the position paper does not cover enforcement. As a result, it is not clear who will be holding the CEO/CFO and Board to account. We believe that this should come under ARGA's remit.
- There is no mention of evidence within the position paper. The CEO and/or CFO should be required in the guidance, and in the attestation, to confirm that they have sufficient evidence to back up their assertion.
- Whilst we do not disagree with the principle where the position paper states that it has sought to develop a framework which "avoids being duplicative – where an organisation already applies a framework such as Sarbanes-Oxley, Spanish ICFR or Japanese SOx there should be no additional requirements", there is a question over how much equivalence there is between different frameworks in practice. As such, consideration should be given to avoiding a situation where someone is able to claim exemption from the UK requirements because they're complying with another regime that is less demanding.
- Regarding the proposal that consideration of the financial position should be extended to cover all primary financial statements, we would argue that the notes to the financial statements contain important explanatory information which is relevant to stakeholders, and that the controls over these are equally important.

Q1 To which groups of companies should this be applied (options: FTSE100, FTSE350, all premium listed and AIM or all PIEs (but in all cases attestation should only need to be made by UK TopCos)? Please provide the rationale for your recommendation.

It is fundamentally important to ensure that the proposals are proportionate and should be focussed only on the entities of the greatest public interest.

To ensure this, it would be appropriate to move the small and mid-size entities listed on UK markets out of scope. In light of this, we believe that the proposals should only be applied to the entities within the FTSE 350, as it is these companies who are most systemically significant.

Typically, these companies have the resources and capability, and (as the consultation document points out) already have an ongoing responsibility to maintain procedures after the FPP procedures at IPO. The costs of listing for small and mid-size entities are already disproportionate and heavy. This has led to public markets that are unwelcoming and open mainly to the larger entities that can bear these costs. This situation does not encourage growth and innovation in the UK.

In addition, we note that, in Appendix B of the position paper, the Financial Reporting framework Control Environment requires the board of directors to demonstrate independence from management and exercise oversight for the development of performance and internal control. However, it is often the case that, in smaller entities, the board is not necessarily independent, but is integral to the whole process and environment. This serves to reinforce our position that smaller entities should be scoped out of the proposals.

We would also like to raise our concerns towards the links throughout the position paper to the Listing Rules (primarily Premium listed entities) and the UK Corporate Governance Code (UK Code) as this would capture those small and mid-size quoted companies that are fully listed. In addition, consideration must be given to the fact that any entity (such as those on AIM) can voluntarily apply the UK Code. As such, care should be taken in linking the proposals to the application of the UK Code. Certain entities may apply the UK Code without fully understanding the additional reporting burden, including the expanded review required by their auditors.

For this reason, it would be disproportionate to apply these proposals to any small and mid-size entities that operate on the Main Market, AIM or AQSE. The requirements should focus solely on the entities within the FTSE 350 who have the greatest impact on society.

Q2 Do you agree that this approach is capable of being applied in a proportionate manner or would some listed companies find it too inflexible or too much of a burden? If you believe that it would be too inflexible or too much of a burden, please advise why and what you would propose to address this risk.

In order for this approach to be applied in a proportionate manner, there needs to be clear and definitive guidance on how it can be applied proportionally. As previously stated, we believe fundamentally that these proposals should apply only to those that have a potential systemic impact.

Q3 What are your views on the wording of the proposed attestation to be provided by the CEO/CFO to the board as set out in Appendix E?

As set out in its current form, we are of the opinion that the wording of the proposed attestation to be provided by the CEO/CFO to the board is quite limited. That is, it provides little by way of explanation for the benefit of shareholders, investors and other stakeholders. Furthermore, it would offer little value by way of confirmation for the auditors/reporting accountants who provide the required attestation.

Furthermore, the "Board responsibilities" section notes that directors are responsible for ensuring the operational effectiveness of procedures and controls. However, the confirmation to the board makes no mention of this, simply confirming that "we have established procedures and controls".

In respect of the attestation that is "signed on behalf of the CEO and CFO", we believe that they should be giving the attestation directly, and it should therefore be signed by them.

Q4 How should we develop a UK guidance framework for the procedures, potentially drawing on elements of existing recognised frameworks, such that it can be considered for approval by the FRC as guidance for CEO/CFO as attesters plus the audit committee who would have oversight of it? (We are aware that the FRC would be unable to approve the existing ICAEW framework as they oversee the ICAEW, which would create a conflict of interest).

The ICAEW guidance in this area is useful and well-known, and, for this reason, we believe that it is important not to reinvent the wheel.

Q5 Is there appetite to consider a phase two of this project to extend to wider controls beyond those over financial reporting? This could, for example, include (i) budgeting and forecasting, and by extension, consideration of financial prospects, going concern and longer term resilience; (ii) fraud prevention and detection; (iii) wider operational and compliance controls.

As alluded to in our response to Q1, we believe that phase one of this project should be constricted to the FTSE 350, as it is these companies who are systemically significant. Therefore, if there is to be consideration for a phase two of this project to extend to wider controls beyond those over financial reporting, we believe that this should only take place once a sufficient amount of time has passed and a thorough assessment of phase one's impact has taken place. This will help to inform whether or not it is appropriate to consider a phase two of the project.

Moreover, if the consensus is that a phase two of the project should take place, we would question whether looking at certain controls in isolation will be sufficient. That is, budgeting, forecasting going concern and fraud prevention are of fundamental importance to the continuing health of a company, and any attestation regarding controls that does not cover these aspects will be less meaningful.

Appendix A

The Quoted Companies Alliance *Accounting, Auditing and Financial Reporting Expert Group*

Matthew Howells (Chair)	Smith & Williamson LLP
Rochelle Duffy (Deputy Chair)	PKF Littlejohn LLP
Edward Beale	Western Selection PLC
Matthew Brazier	Invesco Asset Management Limited
Anna Hicks	Saffery Champness LLP
Mark Hodgkins	Trackwise Designs PLC
Michael Hunt	ReNeuron Group PLC
Clive Lovett	Bilby PLC
Laura Mott	Haysmacintyre
Giles Mullins	Grant Thornton UK LLP
James Nayler	Mazars LLP
Elisa Noble	BDO LLP
Matthew Stallabrass	Crowe UK LLP
Helena Watson	KPMG LLP
Peter Westaway	Deloitte LLP