



The Rt Hon Greg Clark MP
Secretary of State for Business, Energy and Industrial Strategy
Department for Business, Energy and Industrial Strategy
1 Victoria Street
London
SW1H OET

18th February 2019

Dear Secretary of State,

Re: Appointment of auditors

We are writing to you on behalf of the United Kingdom Shareholders' Association (UKSA) and the UK Individual Shareholders' Society (ShareSoc). Our two organisations represent the interests of private shareholders. In addition to our own members, there are 5 million people who own shares and have investment accounts with platforms in the UK. The Office for National Statistics estimates that individual investors own 12% of the UK stock market by value. In addition to this there are many more who have money invested in shares via funds, pensions and savings products such as employee share ownership schemes.

Sir John Kingman in his letter to you in December 2018 made a very clear recommendation that auditors of Public Interest Entities (PIEs) should in future be appointed by the new regulator which would replace the Financial Reporting Council. He set out his proposals under the heading 'A different model'.

We believe that Sir John's proposals for the appointment of auditors make eminently good sense. The current system for appointing auditors has failed miserably. It is riddled with conflicts of interest and effectively creates an unhealthy and inappropriate dependency between the auditors and the executive directors of the client companies. It creates a situation in which there is every incentive for auditors to acquiesce to the blandishments of the executive directors over the presentation of the financial statements and to suspend professional scepticism.

We are most unhappy about the resistance from the Investment Association (IA) and its members to Sir John's proposals on auditor appointment. The large institutional shareholders have for many years been complicit in going along with a system which patently fails to protect the interests of their customers, the end-investors. Even in cases recently in which there have been serious audit failures, it has been common for the auditors be reappointed at the AGM by an overwhelming majority of votes.

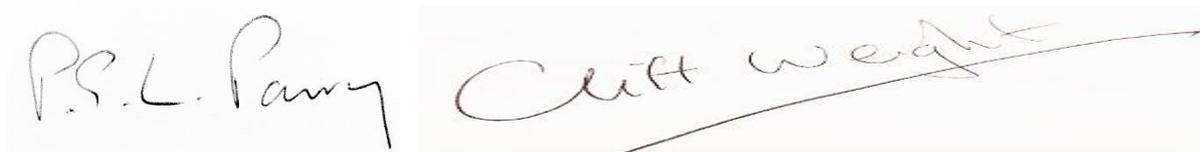
We are particularly concerned that Sir John in his letter to you appears to row back so readily from pressing his case for serious reform in the face of stiff resistance from the IA. The fact that the IA is a powerful lobby with a loud voice is not a reason to cave in to its call for retention of the status quo with minor amendments. The time for fiddling around on the periphery is over. Radical change, as suggested by Sir John, is overdue.

Appointment of auditors by a third party with the relevant skills and expertise would, once and for all, **break the current link of excessive dependency between auditors and those they audit**. It is a change that should not be difficult or costly to implement and would be effective in achieving much greater auditor independence than at present. Auditors are currently appointed for a maximum term of ten years. If, on a trial basis, the Regulator started by managing the appointment of auditors for FTSE 100 companies this would mean an average of ten appointments a year. This should not be a particularly onerous workload for a team of experts. It is low-risk and requires relatively little investment.

We strongly urge you and your Department to consider very seriously the recommendations that Sir John has made. Many of those arguing for minimal change have shown themselves to be very poor stewards of other people's money. Please do not give in to their Siren voices.

We would appreciate the opportunity to meet with you to share our experiences and observations in more detail.

Yours sincerely,

The image shows two handwritten signatures in black ink on a white background. The signature on the left is 'P.S.L. Parry' and the signature on the right is 'Cliff Weight'.

Peter Parry – Policy Director – UK Shareholders' Association

Cliff Weight – Policy Director - UK Individual Shareholders' Society