

Tuesday 19th March 2013

Inquiry Manager
Audit Market Investigation
Competition Commission
Victoria House
Southampton Row
LONDON WC1B 4AD

Dear Sir or Madam

I refer to your Statutory Audit Services Market Investigation and Notice of Possible Remedies under Rule 11. The following are for onward transmission to the FRC.

- 1) Those of us with Turnaround experience support an idea advocated by Lord David James of Blackheath.

Each corporate audit should include a Twelve Month Certificate of Working Capital. This would have the advantage of acting as an early warning system and make the audit as much a test of future resilience as well as confirmation of past financial performance. It would underpin the requirement to ensure audit clients were a Going Concern. The data in the form of the budget or rolling forecast for the year following audit, is in my experience already available from clients.

- 2) Adoption of the FASB expected full provisioning loan loss model to replace the IASB preferred model. The banking lobby has been overruled in the USA by the Federal Reserve and adopted a more prudent approach because balance sheets will be more robust. Excess prudence that can be dealt with through greater transparency is better than a banking institution that is in financial crisis because of under reporting bad loans.
- 3) The current rationale for those items in the Income Statement from those reported in the Comprehensive Income Statement is unclear.

This can better be addressed by definitions. Cookson Plc and GKN Plc have a number of these including Trading Profit, Profit from Operations and Profit before Tax. The word 'Income' which has a different generic connotation is avoided at this level.

The term 'Comprehensive Income Statement' that follows is utterly bemusing. This was previously named the 'Statement of Recognised Gains and Losses' which is far more the appropriate description. It needs to distinguish more clearly what these items are to investors. They surely merit explanation in the Finance Directors Report because they can embrace a series of estimates based on judgements.

- 4) If item one and three is dealt with the resulting Cash Flow Statement should be easier to comprehend. It is an important cross check with Operating Profit. The conversion ratio Operating Profit to Operating Cash Flow needs to be clear with the movement in working capital reported separately and Free Cash Flow attributable to Shareholders struck thereafter.

Yours Faithfully

Keith V Potts

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