

Smith & Williamson

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SW/A-GAM

12 January 2012

Inquiry Manager
Audit Market Investigation
Victoria House
Southampton Row
London
WC1B 4AD

Dear Sir

Audit Market Investigation

We are writing in response to the request made in the Competition Commission's Issues Statement published on 7 December 2012, which asked for evidence to be submitted on the supply of statutory audit services to large companies.

Smith & Williamson is a top 10 ranked accountancy firm in the UK (according to the latest survey of the market published in Accountancy Magazine) providing a range of financial services, including the provision of statutory audit services through an independent, associated company, Nexia Smith & Williamson Audit that works alongside Smith & Williamson.

We currently provide statutory audit services to over 1,200 entities, which include companies listed on AIM, but we do not currently audit any companies within the FTSE 100 or FTSE 250. However, the reasons for this and our observations on the wider audit market are, we believe, relevant evidence to your investigation of the statutory audit market for large companies.

Our credentials

We believe that we have the size and depth of resource to audit some, but by no means all, of the FTSE 250. We are members of an international network, Nexia International, that provides considerable support to our current audit client base and therefore we believe that a number of the global businesses within the FTSE 250 could be adequately serviced from our network.

We believe we have sufficient expertise in some, but not all, sectors adequately to understand, assess and address the risks of the underlying business and therefore provide sufficient, compliant audit services to these entities.

Smith & Williamson Limited

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As a result, there are a number of companies within the FTSE 250 that, in our opinion, would be well serviced if they chose to appoint us as statutory auditors. However, we currently do not do so partly through lack of opportunity and partly through choice.

Lack of opportunity

The lack of opportunity stems from the relative lack of tendering of companies in this area. The low level of formal tendering and changing of auditors of large companies is well documented. Even where tenders do occur, we perceive a level of institutional prejudice against appointing non-Big 4 firms. While we accept there is a responsibility on non-Big 4 firms to influence this, any formal barrier that supports this institutional prejudice is harmful to competition.

In addition, we believe that a requirement for compulsory tendering for large companies (but not compulsory rotation which we believe would harm audit quality) would increase the opportunities for non-Big 4 firms to be appointed as statutory auditors.

Choosing not be involved in the audit of large companies

Our decision generally not to become involved where there are opportunities comes from an imbalance in our perception of the risk reward relationship. The unlimited liability and reputational risk for non-Big 4 firms undertaking statutory audits of large companies is disproportionate to the fees that can be earned from the provision of such services.

If we were able to grow our business to a size similar to that of other Big 4 firms then this would mitigate some of the risk, but achieving this position can only be done from a starting point where we do not believe the return is commensurate with the risk.

As we do not act for any large companies, we are not aware of the precise level of profit margin that is available to the auditors of such entities, but if it is similar to other areas of the audit market, then the margins are likely to be low. In our experience pricing for audit work is already highly competitive and results in lower margins than for other accountancy services that we provide. Therefore, even if there was increased demand from the large companies and their audit committees to appoint firms such as ourselves, we fail to see how the risk reward relationship would be more favourable to that we currently achieve providing statutory audit services to entities outside of the FTSE 350.

If you would like to discuss any aspect of this letter or the wider audit market, please do not hesitate to contact Giles Murphy, National Head of Assurance & Business Services at the address shown on this letter.

Yours faithfully



Smith & Williamson