STATUTORY AUDIT SERVICES MARKET INVESTIGATION

Summary of a conference call with 3i Group plc held on 16 January 2012

Background

1. 3i Group plc (the Company) was a FTSE 250 business (ranked at around 180) that had been listed on the London Stock Exchange since the mid-1990s. It was an investment business with over £10 billion of assets under management. The business operated from offices in 13 countries across Europe, Asia and the Americas.

2. The Company had been audited by Ernst and Young for over 25 years. In 2011 the audit fee was £2 million. Ernst and Young provided some other assurance and tax services to the Company.

The Group Finance Director's view

3. The Group Finance Director (FD), Julia Wilson, trained with Arthur Andersen in its tax practice. She then worked in senior tax and finance roles for a number of listed companies prior to joining the Company in 2006. She joined the Company's Board in 2008, upon appointment as FD.

Relationships

Auditors

4. The FD met the Audit Engagement Partner (AEP) approximately once every month and the Group Financial Controller met the lead audit manager once every month. The audit was planned by the FD, the Group Financial Controller and the Director, Group Reporting and Valuations. They met with the CEO and the AEP.

5. The audit was conducted via peer-to-peer engagement. The audit firm had a team of around 15 people on site during the fieldwork stage, with their own security passes. The finance team met the audit team every two to three days during the audit process, and there was a joint audit plan which was used to track progress in order to meet the reporting deadline. Issues (ie differences between the auditors and the Company staff) were escalated rapidly. If peers could not resolve differences they were passed up to the AEP, the FD and ultimately to the Audit Committee.

Audit Committee

6. There were four Audit Committee meetings each year (the Company reported half yearly). The Audit Committee Chair would meet the AEP in a private session without management present before each of these.

AGM/shareholders

7. The FD was not aware of any instance where the shareholders had not appointed the audit firm recommended by the Audit Committee. Likewise there was no debate regarding the accounts. The AEP used to present the auditor's report to the AGM but the report was now sent to shareholders in advance of the meeting.

Resolution of audit issues

8. A draft report was prepared by the auditors for review by the Group Financial Controller and the Director, Group Reporting and Valuations to check primarily for factual accuracy. This included details of issues that had been resolved. It was unusual for this draft report to contain any 'surprises'. A second draft report was then reviewed by the FD. The report was then passed to the Audit Committee where it was discussed. It was rare to disagree on points of principle. Any accounting issues were typically flagged up early on in the process and escalated until they had been resolved. The intention was that few differences would remain by the time the report was passed to the Audit Committee.

Auditor appointment and reappointment

9. Each year, management prepared a paper for the Audit Committee on the auditor's Independence and Objectivity, which reported on the auditor's performance during the year, including factors such as the structure of the audit team, the relationship with the audit team and the level of non-audit services. Further, there was a year-end debrief, in which the Group Financial Controller had a detailed meeting with the auditors to provide two-way feedback, with the aim of identifying areas for improvement for the following year's audit. In addition there were regular peer-to-peer meetings between the finance team heads and the top three audit managers.

10. While there was an annual review of the audit relationship, every five years there was a more thorough review of the audit appointment. This review would consider factors such as audit fees and international capability. A full tendering process would be very time consuming, and given that the level of service offered across the largest four auditors was very similar, there would need to be very compelling reasons to go out to tender. Decisions about the reappointment of auditors were taken equally by the FD and ACC. However, it was the FD that drove the process. The process was managed by head office, but other offices in other countries would play a role.

Fees

11. Fees were negotiated on a three-year basis. This was led by the Group Financial Controller, with input from the FD and this was then approved by the Audit Committee.

12. The Company instructed the Buying Team to assist in negotiating fees at the last review and would typically engage someone outside the direct audit engagement. The Buying Team was an external procurement consultancy that would not be swayed by any relationship issues and which had experience across the largest four auditors to identify best practice, time estimates and differing rates.

Audit quality

13. The Company was concerned about the costs of an audit, but there was a statutory requirement to hold an audit, so the Company was most concerned that its auditor could provide the necessary availability and effectiveness. The day-to-day competence and efficiency of the audit firm's staff were key.

14. The audit firm carried out an internal independent technical review which considered and signed off any key judgements being made. If this generated an internal debate within the audit firm then this part of the process could be difficult for the Company particularly if such issues arose late in the reporting process.