

PwC Response

Bundling of Audit and Non-audit Services Working Paper

- 1 This paper sets out our comments on the Bundling of audit and non-audit services (**NAS**) working paper (the **Bundling WP**).
- 2 We agree with the CC's initial view that there is "*no evidence to support the view that the bundling of NAS with the statutory audit acts as a barrier to entry*" (paragraph 52). We set out our views in this respect in our Initial Submission.¹
- 3 As the CC observes:
 - (a) Regulatory standards require that audit services are sold ensuring that fees "*are not influenced or determined by the provision of non-audit services to the audited entity.*"²
 - (b) The regulatory climate has changed in the last decade and NAS are purchased from auditors to a far lesser extent than historically has been the case.³
 - (c) The case studies, tender information, CC survey, and MFQ responses show no evidence of bundling of audit and NAS, although companies recognise that it is more efficient for the auditor to provide NAS in certain circumstances.⁴ Importantly, the MFQ responses showed "*no references to discounting the audit fee if a client also bought NAS.*"⁵
 - (d) The CC's quantitative analysis shows that the proportion of FTSE 350 companies receiving NAS from their auditors is in decline,⁶ and that the value of these NAS relative to the audit fee is also declining⁷.
 - (e) The CC found "*there does not appear to be any meaningful relationship between the level of NAS and engagement profitability*"⁸ - a finding consistent with our own analysis presented in our Initial Submission⁹.
 - (f) The CC observes that "*Companies may request firms to include the price for certain services in their tender but we do not believe that these services exclude any of the largest challenger firms.*"¹⁰

¹ Submission and Response to the Issues Statement (our **Initial Submission**), 12 January 2012, paragraphs 7.19-7.30.
² Paragraph 6, citing the APB's *Ethical Standard 4: Fees, Remuneration, and Evaluation Policies, Litigation, Gifts and Hospitality* (ES4).

³ In particular, paragraph 10 cites a Deloitte report showing provision of non-audit services to FTSE 100 companies has declined from over 300 per cent of audit fees in 2001 to 75 per cent in 2008.

⁴ Paragraph 15, citing case studies of Companies G, H and J.

⁵ Paragraph 18.

⁶ Table 1.

⁷ Tables 2 and 3 in Annex 1.

⁸ Paragraph 40.

⁹ See paragraphs 6.26 to 6.31 and Figure 12 of our Initial Submission showing no relationship between the level of non-audit fees and audit engagement profitability (an inverse relationship would be expected if lower audit fees were accepted in order to secure higher audit profits).

¹⁰ Paragraph 52.



- (g) The CC notes that *“evidence from the survey of purchasers of audit services does not indicate that NAS is a significant consideration when selecting an auditor.”*¹¹
- 4 In this context, we note, and agree with, the *“key finding”* in the CC’s Profitability part 2 working paper *“that contrary to some suggestions received, assurance (including audit) does not appear to be a ‘loss leader’ for the firms. The firms’ Assurance divisions are often not the lowest margin service line.”*¹²
- 5 On this basis, we would expect the CC’s provisional findings to confirm that there is no evidence of bundling of NAS and audit services in the reference market. We have not commented in detail on other observations in this paper, but reserve the right to do so should they be given weight in the provisional findings.

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¹¹ Paragraph 52.

¹² Profitability part 2 working paper, paragraph 4.