

The Director
Market Investigation into Statutory Audit Services
Competition Commission
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9 October 2012

Dear Sir

Statutory Audit Services Market Inquiry - Working paper on Competition Commission survey results

1. Introduction

Mazars, the integrated international audit and advisory organisation with 14,000 staff in 69 countries, is pleased to submit its comments on the above working paper. These build on points made in our letter to you of 16 August 2012 *IIF Survey - matters arising therefrom* in which we raised a number of issues relating to the relative reliability of alternative methods of data collection and differences in the characteristics of the FTSE100 and FTSE250 audit markets.

2. Survey does not focus on investors' views

As we have previously mentioned, we are surprised that the survey work of the Competition Commission has just looked at the views of FDs and audit committee chairs and not investors as well given that the last mentioned, in the form of a company's shareholders, is the group to whom the auditor is responsible when issuing their audit opinion. If investors had been asked a number of the same questions as the FDs and the audit committee chairs one could have compared the answers of the three groups, where applicable, and gained an insight into the extent of the principal-agent gap in certain areas. That said, a group of leading institutional investors, including a number from the UK, have recently set out their views on auditing and related issues in *Audit-a long-term investor position paper on proposed EU reforms* and this should provide helpful insights to the Competition Commission.

3. Need to separately analyse FTSE100 and FTSE250 markets

As comes out in the working paper, and which we discussed in our letter to you of 12 August, there are a number of clear differences between the FTSE100 and FTSE250 audit markets which mean it would be helpful to show the disaggregated results for companies in each index. In paragraph 13, for example, you state that 71% of FTSE100 companies had an audit fee of more than £1m compared to 22% in the FTSE250 and go on to state that the average audit tenure is longer for those with higher fees. Similarly, paragraph 28 states that over 55% of FTSE100 companies and 40% of FTSE250

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companies have auditors with tenure of more than 10 years again highlighting that the two constituent parts of the FTSE350 audit markets have different attributes.

To highlight the concentration of fees in the FTSE100, and within that index in the upper part of it, and hence our belief that it should be treated as a separate sub-unit within the FTSE350, the 59 'mainstay' companies, which have been in the FTSE100 for at least 10 of the last 12 years, account for 69% of the aggregate market capitalisation of FTSE350 companies and 63% of total FTSE350 audit fees.

4. Switching rates most reliably assessed by reference to the public dataset- very low 'voluntary' switching rates

We would reiterate the point we made in our letter of 12 August that figures drawn from an analysis of financial statements, as in the case of the public dataset, are more likely to be reliable than directors' recollections in telephone interviews, especially as many will not have been directors of their companies when the audit was last switched or, indeed, when a competitive tender was last held.

As discussed in our letter, we note that in Table 8 on page 12 of the working paper 21% of FTSE350 companies are said to have switched auditors in the past 5 years (ie tenure up to five years) suggesting an annual switching rate of around 4% whereas you report in paragraph 50 that the dataset indicates 45 FTSE350 companies, 12.9% of the total, switched auditors in the five year period between 2006-2010, a much lower average annual rate of switching in an overlapping even if not entirely coterminous period.

Using the public dataset, we calculate that during the last 12 years 189 companies have spent at least 10 of them in the FTSE350. Of these 'mainstays' only 34 (18%) have voluntarily switched auditors. A further 17 (9%) have switched as a result of corporate mergers or due to the demise of Andersens. This gives an annual 'voluntary' switching rate of less than 1.7%. For the mainstays in the FTSE 100 the 'voluntary' switching rate is just 0.8% per annum over the period.

5. Substantial Big 4 influence among FDs and audit committee chairs

The figures in paragraph 24 highlight the degree of influence that the Big 4 have on the FTSE350 audit market with two thirds of FDs/CFOs and 60% of audit committee chairs having previously worked for/been partners in them.

6. Difference between FDs and audit committee chairs on respective influence in selecting the auditor

In paragraph 33, the survey reports that FDs consider themselves to have more influence than they are perceived to have amongst audit committee chairs. This highlights another challenge for the IFF survey in addition to that highlighted in Section 4 above, namely that much of the survey is based on perceptions of particular board members or on their recall of the range of factors taken into account in making decisions, possibly a while ago. One also cannot rule out the fact that in response to certain questions the respondents are aware of the responses they would be expected to give by professional or regulatory bodies.

7. Issues not covered in the IFF survey- how FDs and audit committee chairs assessed reputation of audit firms and strength of their international networks

Paragraph 35(b) reports that the reputation of the audit firm with investors, corporate brokers, analysts and external advisers is very important in choosing an audit firm but does not offer any further insight into how they formed their views on this issue in terms of who they consulted and the questions they

asked. Our understanding is that investors have not been widely consulted on this issue which might be thought surprising as they are the auditor's client.

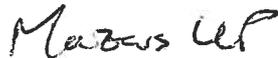
The strength of the international network is also highlighted as very important but again there is no further insight as to how companies undertook their assessment: was it, for example, by gaining an understanding of the strengths of different firms in their key territories or simply by considering the number of countries in which different firms had a presence?

Table 13 highlights that where benchmarking exercises are undertaken by FTSE350 companies they do not generally seem to extend beyond looking at fees (79% of cases with no other item being looked at in more than 29% of cases).

8. Further discussion

If you would like to discuss further any of the issues raised in this letter, please do not hesitate to contact David Herbinet, Global Head of PIE Audits on 0207 063 4419 or Anthony Carey on 0207 063 4411.

Yours faithfully



Mazars LLP