

**COMMENTS OF BDO LLP (“BDO”) ON THE COMPETITION COMMISSION’S
EVIDENCE RELATING TO THE SELECTION PROCESS: TENDERING, ANNUAL
RENEGOTIATIONS AND SWITCHING WORKING PAPER¹**

- 1 EVIDENCE RELATING TO THE SELECTION PROCESS: TENDERING,
ANNUAL RENEGOTIATIONS AND SWITCHING**
- 1.1 Paragraphs 2(f): all the figures cited here seem to be incorrect. BDO has examined the CC’s ‘Public data descriptive statistics’ Excel spreadsheet, which BDO assumes contains the correct numbers. Using this spreadsheet, the average switching rate for FTSE 350 companies is 2.5%, and for FTSE 100 companies 1.8%. Measured by fees switching, the FTSE 350 switching rate is 1.0% and for FTSE 100 companies 0.6%. As for auditor tenure, BDO submits that if the switching rate is 2.5%, average auditor tenure must be around 40 years. It cannot be the case that auditor tenure is 11 years, since this implies a switching rate of 9%.
- 1.2 Did the CC include tenders for internal audit, rather than statutory audit, in the figures shown in paragraphs 13, 15(a), 62, 91, 95, 97, 103, 105, 106, 111, 114, 120, 122, 126 and 131? This is not clear. (Paragraph 86 refers to bids for internal and external audit services being invited by an unnamed company). BDO considers that internal audit tenders should not be included.
- 1.3 BDO agrees with the CC that *“When [mid-tier firms] competed in tenders against the Big 4, their specialist offering was as broad”* (paragraph 64).
- 1.4 BDO agrees that *“the Big 4 were more likely to have a previous relationship to draw on, as well as more likely to be the incumbent auditor”* (paragraph 65).
- 1.5 BDO agrees that *“while companies invite Big Four firms only, they do not invite non Big Four only”* (paragraph 124).
- 1.6 BDO agrees that *“the fee is not decisive to companies when choosing their auditor”* (paragraph 126).
- 1.7 Paragraph 192 states that: *“It appears that the longer the relationship with the auditor, the higher the fee paid”*. This, BDO submits, shows the potential gains which could be achieved by tendering and switching.
- 1.8 Paragraph 194 states that: *“We found that in the first year after switching, audit fees declined for all the relevant groups analysed... It appears that the biggest decline in fees is observed for FTSE 100 companies [29%]”*. This again shows, in BDO’s view, that switching has benefits, as does paragraph 197: *“We found that fees always reduce when switching auditor regardless of whether this change is in favour of a Big 4 or non-Big-4 firm”*.
- 1.9 Paragraph 198: *“There is an increment in fees when companies switch from non-Big-4 to Big 4 firms, which suggests that companies may be willing to pay a premium when switching to a Big 4 auditor”*. BDO submits that Big Four auditors generally charge higher fees than non-Big Four firms, and that their ability to do so is increased by a lack of competition between the Big Four and by barriers to entry and expansion, including reputational advantage, and intermediary and customer conduct.

¹ Reference to paragraph numbers are to paragraphs of the relevant working paper (“WP”) unless stated otherwise.