



## **Grant Thornton Response to the Competition Commission ("CC") working paper entitled "Firms' stated competitive strategies "**

### ***1 Introduction***

1.1 This memorandum sets out the response by Grant Thornton to the Competition Commission's ("CC") working paper entitled "Firms' stated competitive strategies " ("the working paper") which was issued on 12 September 2012. We comment below on two specific points. The first concerns the existence of a central bid support team within Grant Thornton; and the second concerns the implications of the CC's findings on firms' stated competitive strategies for the CC's assessment on the risks of tacit co-ordination.

### ***2 Central bid support team***

2.1 In paragraph 28, the CC notes that "Non-Big-4 firms in their submissions appear not to have dedicated central bid support teams". This is not correct. Grant Thornton has a central bid support team who assist in compiling data on identified targets and in the preparation of tender documents and pitch presentations. This team has been in existence for a number of years and provides support across the range of services provided by GT.

2.2 The existence within Grant Thornton of a bid support team further re-inforces the observations made during the hearing on the 4 October, that the difficulties experienced by Grant Thornton in winning audit appointments from FTSE 350 firms is not a consequence of a failure to invest in the systems and processes necessary to bid for and service the audit requirements of a majority of the FTSE 350. Grant Thornton already has those attributes and capabilities.

### ***3 Implications of competitive strategies for the risk of tacit coordination***

3.1 In paragraphs 28 and 29 of the CC's working paper on evidence of tacit coordination, the CC observes that its initial view is that the provision of audit services to the FTSE 350 is not a market in which prices are particularly transparent and that comparison of audit fees is not straightforward as products are not homogenous and there are a range of firm specific factors that affect audit fees. In our response to the working paper on evidence of tacit coordination, we explained why we disagreed with the CC's initial views on pricing transparency.

3.2 Grant Thornton considers that a number of findings by the CC in its working paper on firms' stated competitive strategies, provide further evidence of why the level of audit fees in relation to individual FTSE 350 firms is more transparent than acknowledged by the CC. In particular, the working paper on firms' stated competitive strategies highlights the efforts that audit firms put in to understanding the requirements of potential clients, with the principal strategies for developing client awareness including:

- the provision of non-audit services to develop relationships with key individuals (paragraphs 20(a) and 22);
- regular face-to-face contact with key client staff, regardless of whether any services are provided (paragraph 20(b));
- developing experience in the sector through work with companies in the same market as the target client (with the CC acknowledging that familiarity with other companies in the same sector will increase the likelihood that an auditor will have encountered any

previous difficulties and it will appreciate the most appropriate, efficient audit approach) (paragraph 21); and

- the creation of shadow teams with the aim of developing knowledge and understanding of a company before any tender arises (paragraph 29).

3.3 The CC acknowledges that these practices allow the audit firm "*to develop its own knowledge of the client's operations and business risks and use this in a subsequent tender*" (paragraph 18). This detailed knowledge, coupled with the transparent nature of the audit fees in published accounts, means that meaningful comparisons of audit fees can take place.