

Enquiry Manager  
Statutory Audit Investigation  
Competition Commission  
Victoria House  
Southampton Row  
London  
WC1B 4AD

21 March 2013

Dear Sirs,

**Re: Response to the Competition Commissions provisional findings arising from their Statutory Audit Services Market Investigations**

This letter forms a response on behalf of The Berkeley Group Holdings plc to the Competition Commission's provisional findings arising from the Statutory Audit Services Market Investigations published on 22 February 2013.

The Berkeley Group Holdings plc ("Berkeley") is a listed Company within the FTSE 250 whose principal activity is that of mixed-use property development. The Company's Head Office is in Cobham, Surrey, its main area of activity is London and the South East of England and its auditors are PricewaterhouseCoopers LLP.

1. The fundamental question is whether the status quo of the audit market adequately protects the interests of shareholders. Our experience is that this responsibility is clear and consistent in the way that our auditors approach their audit and report the findings of their audit to our Audit Committee.
2. There is a direct line of communication between the External Auditors and the Audit Committee, independent of Executive Management of the Company. A well-run Audit Committee, under the existing terms of governance, has the ability to influence the choice of external auditors to protect shareholders' interests appropriately, above all though the obligatory Audit Committee reporting regime. In our view, the Audit Committee does not need additional powers nor the external auditor enhanced accountability to the Audit Committee to improve shareholder protection. We have not experienced a scenario where the information provision or approach of the auditors to the external audit has in any way been limited by virtue of the existing regulation.
3. The Commission correctly identifies that there are benefits perceived by companies to maintaining audit engagements over a number of years due to the embedded understanding of a business that the incumbent firm will enjoy. We do not however believe that this undermines a company's ability to tender the audit and/or switch the audit engagement if such an approach is appropriate to protect shareholders' interests (whether on cost grounds or otherwise). It is within the Audit Committee's remit to assess the performance of the auditors and engage with Executive Management accordingly if it believes that a change or tender is appropriate. Our view is that this decision sits best with the Audit Committee rather than being governed by an external framework which has no sensitivity to the current predicament of the business (for example, the company being mid-transaction or

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undergoing management change). On this basis, we are supportive of the FRC's 'Comply or Explain' approach as a measure which will encourage more transparency whilst protecting the Audit Committee's ability to decide what is right for the shareholders at any point in time. Shareholders can of course vote against the reappointment of auditors in any company, should they wish to force a change – this remains their ultimate protection.

4. Furthermore, we believe that the tendering process does not require change driven by regulation. There is a sensible, pragmatic accepted approach to tendering audits which provides good access to the business and key management for tendering firms. We would be highly reluctant for confidential information to be shared across various firms during a tendering process, as we do not believe this to be necessary to the process which is principally about understanding the risks, scope and a best approach to undertaking the audit.
5. Whilst we consider that there is a sufficient choice in the audit market today, the Commission raises a valid concern that there should not be unnecessary barriers to expansion for mid-tier firms (such as restrictive loan covenants on the employment of a 'Big 4' audit firm). The market should allow mid-tier firms to develop in a free market to rival and challenge existing Big 4 firms, in the knowledge that in reaching such status this will be on merit and will not have been hampered by unfair discrimination. Ultimately it will be down to such firms to demonstrate that they can perform at a level which merits this.
6. This leads into the question of understanding and communicating audit quality, both amongst the Big 4 and mid-tier firms. We do not perceive there to be significant concerns over audit quality, and our experience does not support such concerns. However there would be value in the AQRT communicating better and more frequently the findings of their reviews of audit quality. As a regulated market, it is important that those using the services of audit firms should have appropriate information to enable differentiation and a well-considered decision. It would also be appropriate to keep a level playing field for those mid-tier firms aiming for expansion where perhaps this would be a means for them to demonstrate a parity with or out-performance of Big 4 firms if appropriate.
7. In summary, Berkeley's conclusions are:
  - The Auditor's responsibility is clear in being the protection of shareholders' interests.
  - Existing regulation surrounding the role of the Audit Committee is sufficient to protect this independence.
  - The Audit Committee, taking into account Executive Management's views, is best placed to determine the appropriate time to tender the external audit.
  - Increased access to confidential working papers is not necessary to assist an effective tender process.
  - There should be no uncompetitive barriers to expansion for mid-tier firms. They need to be able to rival Big 4 firms on their own merit to be competitive in a free market.
  - Any more transparency on the findings of AQRT reviews of audit quality would be welcome to help corporates understand the market better.
  - Subject to the comments above, we do not believe that the market for statutory audit services is fundamentally uncompetitive.

Thank you for the opportunity to comment on the provisional findings of the Commission.

Yours faithfully,

AP 

**David Howell**  
Non-Executive Director