



Inquiry Manager
Audit Market Investigation
Competition Commission
Victoria House
Southampton Row
London
WC1B 4AD

21 March 2013

Via email: auditors@cc.gsi.gov.uk

Dear Sir / Madam

**Comments on the Statutory Audit Services Market Investigation:
Summary of provisional findings and Notice of possible remedies**

BT Group plc ("BT") is one of the world's leading communications service companies, serving the needs of customers in the UK and in more than 170 countries worldwide. The shares of BT are listed on the London and New York Stock Exchanges and BT is a FTSE 100 company.

We welcome the opportunity to comment on the Competition Commission's Summary of provisional findings and Notice of possible remedies, published on 22 February 2013, in relation to their investigation into the Statutory Audit Services Market. We have considered each of the possible remedies in turn below, in the light of the matters identified within the summary of provisional findings.

1 Mandatory tendering

We recognise that there are barriers to switching external auditors, as the provisional findings state. The cost and disruption in terms of board and management time to conduct a meaningful audit tender are significant.

It is true that non-Big 4 firms face barriers to entering the market, certainly in relation to the audit of a FTSE 100 company of global scale. The risk profile in appointing a non-Big 4 firm resulting from a lack of scale and experience will usually be considered too high. We note however that a non-Big 4 firm may be appointed for non-audit work for which their experience may be considered both relevant and sufficient for them to be selected ahead of a Big 4 firm.

We do not see a need for mandatory tendering within the UK to progress beyond the most recent change in the UK Corporate Governance Code, which now reflects a 10 year timeframe for mandatory tendering on a 'comply or explain' basis. We see no particular value in determining a more frequent timetable. It would be beneficial to review the impact of the current proposals ahead of making further changes in this area.

It is worthwhile noting that a tender process is likely to need to be managed around other commitments, projects and commercial focus. It is important to time the tender process at the least disruptive time to impact on a business, and so to stipulate a 5 or 7 year cycle may not be practical to allow the necessary flexibility. We would prefer it to be consistent with the

10 year period rather than to need to seek 'derogation' for particular circumstances as is suggested in the remedies paper.

2 Mandatory rotation

In relation to mandatory rotation, we consider that the risks and costs are likely to outweigh any benefits of this proposal.

Where a FTSE 100 company of global scale changes its auditors, there is a period of investment required (in terms of time and resource to manage the transition). This is likely to involve senior levels of management. Despite careful planning this is still likely to be disruptive for the business and in extremis it can impact business performance, which ultimately is not in the interests of shareholders.

Although a new perspective on issues can often be valuable, we consider it should be the Audit Committee's decision as to when it is appropriate to make a change in the company's external audit provider. Often a change in team members (for example senior audit engagement leaders or audit partners), as well as wider consultation outside the core audit team, can be effective in bringing new insight or challenge to the external audit process while maintaining stability across the team as a whole. Hence such an improvement in the process and in its quality can be managed in ways other than enforcing a change in the firm performing the audit.

We believe also that losing the knowledge, experience and understanding of collective members of an audit team within an audit firm which has been incumbent for a number of years presents a significant burden on management, who will need to help to bring a new audit team up the learning curve. In addition, there is a heightened risk that an issue might be missed.

Large companies face limited choice when considering a new auditor. Companies commonly engage the other big audit firms to provide services that the incumbent auditor cannot provide, for example tax advice or HR consultancy. Those non-audit services must be discontinued for at least two years before a firm can meet the test for independence and eligibility for consideration as auditor.

3 Expanded remit and/or frequency of Audit Quality Review team reviews

We think this proposal has merit. The quality of audit is of paramount importance and if these reviews identify improvements in audit process or approach, they should continue to be conducted. We cannot fully comment on the cost versus benefit of such reviews.

We would also advocate continued transparency in communicating the results of the reviews and for the reports to be clear and detailed in relation to the findings for a particular company.

4 Prohibition of 'Big 4 only' clauses in loan documentation

We support this proposed remedy. We consider that it should be the company's decision as to who to appoint as auditors rather than having this enforced through requirements of loan agreements.

5 Strengthened accountability of the external auditor to the Audit Committee

We consider that the external auditor is accountable to the Audit Committee as matters currently stand. We do not see the benefit of the proposed extension of the principles that

are already set out within the Corporate Governance Code. Effective Audit Committees have a great deal of interaction with the external auditor and will review and challenge proposals made by management in relation to the approach to appointment, remuneration and/or communication with the auditors, as well as the judgements taken by the auditors during the external audit process.

We think it inappropriate to suggest that executive management and particularly the Finance Director should not take responsibility for decision making within the business. The governance structure in place in listed entities should mitigate risk in this area and provide an independent perspective.

6 Enhanced shareholder-auditor engagement

We recognise the importance of the views of shareholders and the need to respond to these. An Annual General Meeting would be the forum where interaction between the shareholders and auditors could occur. For shareholders to play a wider part in making decisions on the choice of auditor is likely to be impractical to implement.

7 Extended reporting requirements

Reporting requirements have been extended over the years and we support the FRC's focus on 'cutting clutter'. Revisions to the UK Corporate Governance Code have already enhanced the recommended reporting by the Audit Committee, which should comment on the effectiveness of the auditors and the key issues discussed with the external auditors during the year. Adding further reporting requirements makes it more difficult to achieve the FRC's objective.

We trust these comments are helpful. If you have any questions or would like to discuss these comments, please do not hesitate to contact me.

Yours faithfully,



GLYN PARRY
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BT Group PLC