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bringing technology to life

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

By email to: auditors@cc.gsi.gov.uk

I am writing to offer views in response to the Competition Commission's publication of provisional findings and a Notice of possible remedies in respect of its investigation into the statutory audit services market.

Smiths Group is a FTSE-100 technology business, serving customers across the healthcare, energy, telecommunications, transportation and security sectors. We employ some 23,000 people in more than 50 countries around the world.

Smiths submitted observations at an earlier stage in the Commission's investigation, in which we expressed the belief, based on our experience, that there is a competitive market for audit services in the UK and that audit firms are prepared to compete aggressively to win business. We consider our audit fees, determined on the basis of annual negotiation, to be fair.

Remedy 1: Mandatory tendering

We are therefore concerned by aspects of the first remedy, on mandatory testing, which the Commission is now exploring. We do not believe this to be a necessary or proportionate provision. Further, we consider that this approach could lead to additional cost and significant disruption for companies:

(a) As the Commission notes, the FRC revised the UK Corporate Governance Code as recently as September 2012 to require FTSE350 companies to adopt a 'comply or explain' approach to putting their external audit contract out to tender at least every ten years. Rather than introduce new changes so hastily after this revision, the FRC provisions should be given time to prove their effectiveness. Accordingly, we do not believe that the Commission's proposed remedy of more frequent mandatory testing every five or every seven years is timely or proportionate.

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(b) As above, we consider that the 'comply or explain' approach adopted by the FRC should be given time to prove its effectiveness, rather than move to a mandatory approach to tendering.

(c) We are concerned at proposals for tendering to be conducted on an 'open book' basis, in which tendering firms would have access to relevant information from the company and the files of the incumbent auditor. Such an approach is likely to enhance the risk of exposure of commercially sensitive data and processes, and would impose additional administration costs upon a company. In our view, it would prove to be neither practicable nor proportionate.

(d) We believe the introduction of a mandatory testing remedy is likely to impose significant additional costs, risks, and disruption upon tendering companies.

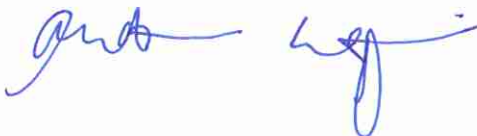
Remedy 2: Mandatory rotation of audit firm

In our experience, an auditor with previous years' experience of auditing a company can often use this knowledge to provide a more robust and challenging audit. There are, therefore, benefits for shareholders of a degree of continuity in the relationship, which would be negated by a requirement for mandatory rotation.

We consider that the benefits of continuity and renewed challenge are appropriately met by current requirements for the mandatory rotation of lead audit partners, rather than the entire audit firm, after a given period. This is a more proportionate, effective, and practicable approach.

I hope these views are of value to the Commission as it continues its investigation into the statutory audit services market. Please do not hesitate to contact me if I can be of further assistance.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Andrew Lappin', with a stylized flourish at the end.

Andrew Lappin
Director, Government Relations