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Inquiry Manager
Audit Market Investigation
Competition Commission
Victoria House
Southampton Row
London
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Dear Sir

STATUTORY AUDIT SERVICES MARKET INVESTIGATION

We refer to the above investigation and, in particular, the Notice of Possible Remedies under Rule 11 of the Competition Commission Rules of Procedure.

About Sage

The Sage Group plc is a leading global provider of business management software to small and medium sized companies. Formed in 1981, Sage was floated on the London Stock Exchange in 1989. Sage has over 6 million customers and more than 13,500 employees in 24 countries covering the UK & Ireland, mainland Europe, North America, South Africa, Australia, Asia and Brazil.

Provisional findings on the Adverse Effect on Competition (AEC)

We have commented below on three of the Competition Commission's ("the Commission") proposals. That we have restricted our response to these proposals should not be interpreted as an acceptance of or disagreement with the other proposals, rather our desire to make particular reference to the three proposals addressed below.

Remedy 1 : Mandatory Tendering

In its findings the Commission acknowledges several features of the statutory audit that challenges more frequent, mandatory tendering. These include the time involved for a newly appointed auditor to understand the complexities of a company and the considerable opportunity cost of engaging regularly in such an extensive process. It seems to us that the FRC's recently revised UK Corporate Governance Code balances the need for safeguarding audit quality and effectiveness with pragmatism.

The Commission propose that tendering should be conducted on an open book basis. We have significant concerns with the proposal that a number of competing firms gain access to the highly confidential and sensitive information typically contained in audit working papers.

Remedy 2 : Mandatory rotation of audit firm

We are strongly opposed to Mandatory Firm Rotation (MFR). Without repeating them, certain of our concerns with Remedy 1, clearly attend to Remedy 2. Chief amongst our concerns is our view of the risk MFR poses to the quality of audits. We are not aware of any success claimed elsewhere when it has been tried. Furthermore, precluding the incumbent auditor from tendering for the audit regardless of their performance clearly reduces choice.

Remedy 5 : Strengthened accountability of the External Auditor to the Audit Committee (AC)

We consider that the Commission has significantly underestimated the critical role that Audit Committees play in protecting the interests of shareholders. Consistent with this, in common with many large businesses, at Sage there is an open, direct dialogue between the Audit Committee Chairman (ACC) and the Audit Engagement Partner (AEP).

We consider that the proposed remedy is incompatible with the non-executive, independent role of the ACC. For example, for an ACC to negotiate audit fees directly with the AEP, he would have to engage at an executive level extensively throughout the business. Furthermore, the proposal would mean shareholders would not benefit from the extensive, day to day knowledge of the business that the Finance Director brings to these negotiations. The proposal runs a clear risk of breaking the vital executive/non-executive distinction. In paragraph 52(a) the Commission asks what change to ACC availability and remuneration would be necessary. We respectfully suggest that a more fundamental question is whether materially increasing the role of the ACC runs the risk of compromise to his independence.

We trust these comments are helpful and look forward to considering the Commission's definitive proposals in due course.

Yours faithfully



 **Paul Harrison**
Group Finance Director