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8 August 2013

Dear Ms Carstensen,

RESPONSE TO COMPETITION COMMISSION
STATUTORY AUDIT SERVICES MARKET INVESTIGATION

We are writing to respond to the Competition Commission's (the Commission) recent investigation into the Audit Services Market Investigation.

We note that you have requested responses to your provisional decision on a package of Remedies and our response covers each of these Remedies in turn.

We welcome the decision of the Commission not to pursue further its possible Remedy to mandate audit firm rotation. However, we do have concerns over the Commission's proposed mandatory tendering of the audit contract on a more frequent, five-yearly, basis. The Financial Reporting Council (FRC) has recently updated the UK Corporate Governance Code (the UK Code) to require companies to tender audit services every 10 years on a *"comply or explain"* basis. We believe that this change, which enjoys the widespread support of the audit profession, listed companies and investors alike, should be allowed time to take effect before introducing any further changes. Mandatory re-tendering every five years – aligned to audit partner rotation - with only limited grounds for deferral of up to two years, is likely to lead to significant cost increases, cause regular business disruption, interfere with judgment of audit committees who are best placed to assess timing of tendering activity in the best interests of shareholders. In addition, it is unlikely to improve either auditing quality or address the barriers of entry for mid-tier audit firms in terms of time and resources required to bid for FTSE 350 audit contracts.

In our response to your provisional findings and possible remedies issued in February 2013, we contended that they did not take account of the importance and strength of Audit Committees, particularly in holding auditors to account, and we illustrated this by describing the role of our own Audit & Risk Committee in some detail. We note that the proposed Remedy designed to increase the accountability of the auditor to the Audit Committee, essentially codifies a number of best practice measures that our Audit & Risk Committee and other audit committees have already implemented and oversee. In addition, it does not factor in that, like other listed companies, the Non Executive members of the Board are particularly keen to ensure that our auditors are independent and accountable and that they carry out their role with rigour, as they provide another means for the Board to oversee the management of the Group and ensure the protection of shareholders and their long-term interests.

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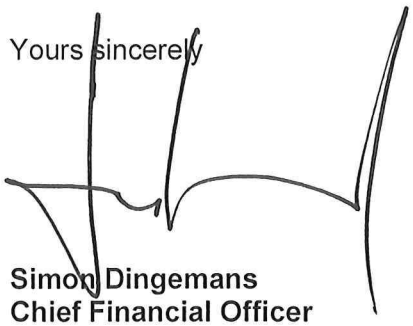
Overall, we are still concerned that the proposed Remedies are unlikely to increase competition in the market place and enable mid-tier firms to take on work for bigger and more complex global companies.

Please do not hesitate to contact Simon Bicknell, our Company Secretary, (Tel: 0208 047 4502 or Email:simon.m.bicknell@gsk.com) should you wish to discuss our response.

Yours sincerely



Simon Dingemans
Chief Financial Officer
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Judy Lewent
Audit & Risk Committee Chairman
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RESPONSE TO PROPOSED PACKAGE OF REMEDIES

1. **FTSE 350 companies should put their statutory audit engagement out to tender at least every five years. Companies may defer this obligation to go out to tender by up to two years in exceptional circumstances. There will be a transitional period of five years before the measure comes into full effect.**

We support the provision in the recently revised UK Code that the external audit contract should be put out to tender at least every ten years on a *"comply or explain"* basis. We believe that this new regime should be allowed to operate for a few years and be given a chance to prove itself (and there is evidence that, even at this early stage, it already is) before any further changes are made.

We believe that the ten year period is appropriate given the work involved both for the Audit Committee, Management and for the auditor and prospective auditors both in the tendering period, and crucially should a change of auditor be the outcome, in the early years of educating the new auditor about the Group.

We do not understand how mandatory tendering the audit every five years (with a deferral of up to two year in limited circumstances) necessarily increases the likelihood of more mid-tier firms being appointed auditors to FTSE-350 companies. We believe that mid-tier firms are put off tendering for FTSE-350 contracts because of the time and resources required to tender and immediately after appointment. For example, we have operations in over a hundred different countries and would have concerns regarding the ability of smaller firms to have the international expertise, scope and resources to resource and handle such a large audit.

A five year cycle, particularly for large and complex organisations, is such a short one in terms of the time and resources required to prepare and issue a tender and, if a new auditor is selected, the time devoted to both support and educate them and to gauge their performance levels before the cycle of tender preparation commences once again. Such short audit tendering intervals may lead to audit committees to conclude that the benefits for shareholders of retaining the incumbent audit firm outweigh the risks of selecting a new auditor and therefore potentially turning the process into a risk aderse *"box ticking"* exercise.

This Remedy may also be at cross purposes with the measures the Commission propose under Remedy 5 to strengthen the independence of audit committees by fettering their judgment and putting them under undue pressure to tender at a time when it is not appropriate in the long-term interests of shareholders to do so.

Finally, we are concerned that this Remedy removes the *"comply and explain"* basis for audit tendering without providing compelling evidence as to why the central tenet of the UK's principles based approach to corporate governance should be dispensed with in favour of a prescriptive approach.

2. **The Financial Reporting Council's (FRC's) Audit Quality Review (AQR) team should review every audit engagement in the FTSE 350 on average every five years. The Audit Committee should report to shareholders on the findings of any AQR report concluded on the company's audit engagement during the reporting period.**

There could be some benefits resulting from expanding the role and frequency of AQRs which are currently selected on the basis of risk rather than, as this Remedy proposes, coverage. If this Remedy is adopted, it is accepted that a significant scaling up of the resources of the FRC from its current levels will be required in order to cope with such an uplift in its workload. Care would also need to be taken to devise a structure robust enough so that the high standards of the FRC's current AQRs would not be compromised by the movement to a volume based approach. At the moment, it is understood that *"Big 4"* firms are inspected on an annual basis, whilst the mid tier firms are only inspected on a three yearly basis. By increasing the coverage and frequency of AQRs and providing reporting standards are not impaired, it should give an opportunity for audit committees to more directly compare audit quality between the *"Big 4"* and mid-tier firms.

3. **A prohibition of "Big 4" clauses in loan documentation**

We would not object to the removal of *"Big 4"* clauses in loan documentation, although we do not see that this would necessarily make a significant difference in whether or not a company will decide to appoint a mid-tier firm. The decision to appoint a mid-tier firm will depend on their ability to conduct an audit of the complexity and scope required. This would create a learning curve for mid-tier firms to climb quickly to be able to provide such a service.

4. **A shareholders' vote on whether Audit Committee Reports in company annual reports contain sufficient information**

We do not support the recommendation within this Remedy.

We do not believe that it is appropriate for an advisory vote to be introduced. In our view, this would add further bureaucracy to the AGM process. Shareholders already have the right to raise questions on the audit and financial reporting at the AGM and this right is rarely exercised. We believe that support for the work of the Audit Committee and the quality of its reporting is implicit in the vote on the Annual Report. Shareholders already have the opportunity to, and currently do, express their satisfaction with the wider governance and performance of a company via the annual votes on a company's Annual Report, directors' remuneration report and the re-appointment of auditors. Adding a specific vote on the sufficiency of information in Audit Committee Reports could not only potentially lead to an increased level of boilerplate disclosure in this important area, but to a box ticking mentality, which would only ultimately serve to constrain the way in which companies, and by extension their audit committees, communicate with shareholders on these matters.

We also do not understand how this Remedy would serve to facilitate greater use of mid-tier firms and promote increased competition in the audit market.

5. **Measures to strengthen the accountability of the external auditor to the Audit Committee and reduce the influence of management, including a stipulation that only the Audit Committee is permitted to negotiate and agree audit fees and the scope of audit work, initiate tender processes, make recommendations for appointment of auditors and authorize the external audit firm to carry out non-audit services.**

As we explained in our covering letter, these measures largely codify the FRC's best practice measures and guidance contained in the UK Code and their Guidance to Audit Committees publication that our Audit & Risk Committee and other audit committees have already implemented and observe. Such a prescriptive approach encroaches on this established area of best practice and dimishes the authority of the *"comply or explain"* regime whilst doing little to address the issue of expanding the audit service market to mid tier firms. A further caveat is that the Commission would expect that only the audit committee would, for instance, negotiate the audit fee. It is a matter of audit committees controlling and being the final arbiter in relation these matters rather than performing the actual work itself and it is unrealistic for the Commission to expect the audit committees have the resources to discharge these tasks without the assistance of management.

6. **The FRC should amend its articles of association to include a secondary objective to have due regard to competition.**

We understand that the FRC takes account of competition as part of its wider responsibilities; however, this is a matter for the Commission to discuss with the FRC.