

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

Dear Sir or Madam

**Response to the provisional decision on remedies addressing the supply of statutory audit services to large companies in the UK**

ITV plc welcomes the opportunity to respond to the Competition Commission's (CC) provisional decision on remedies to promote a more competitive audit market. The CC has put forward a number of measures with proposed changes that are relevant and require further scrutiny and consideration. This letter does not address all measures, but rather will focus on the CC's proposal mandating FTSE 350 companies to tender their statutory audit engagement at least every five years.

Following a communication by the Audit Committee (Committee) to shareholders in December 2011, we put our 2013 statutory audit engagement out to tender. KPMG had been the Company's auditor since 2004 and the Committee felt that it was appropriate and in keeping with good governance to conduct a tender. After careful and thorough evaluation of what each firm had to offer, the Committee concluded on the basis of KPMG's approach and detailed knowledge of our business that they remained the best firm to serve ITV.

In light of our recent experience with a tender process, which required significant time involvement by senior management as well as executive and non-executive directors, we caution against imposing mandatory audit tenders every five years for the following reasons:

1. **Audit quality (time):** Delivery of an audit of high quality requires the audit firm to gain a deep understanding of a group. Such an understanding is only achieved with a substantial investment in time, over a prolonged period of time, by the management and by the Committee (especially the chairman) as well as the audit firm. Unnecessary investment in time leads to frustration and is disruptive to the business. Therefore, in the absence of a specific reason or deficiency in the quality of the audit, it is unlikely that a Company or its Committee would make the decision to change audit firms on a regular basis.
2. **Audit quality (risk):** During a new auditor's period of transition there is the risk that there would be a deterioration in the quality of the audit. There is tremendous value to a Company and its Committee in having an audit firm that understands the transactions of a business. Until the new audit firm has gained a deep understanding of a group, there is a risk that some of the business risks and complex audit issues arising from such transactions will be overlooked. This leads to a less effective audit and would likely decrease the quality of audit. The counter argument that the familiarity of a continuing firm may obscure new or emerging issues we believe is substantially mitigated by the mandatory rotation of the audit engagement partner and the managed change in other senior team members.

3. Increase in costs: Despite the price competition which may arise as a result of a regular competitive tendering process, the cost (both direct and indirect) of integrating a new audit firm would increase. The Company would bear cost in time and fees as the new audit team gets accustomed to the business. Further, over time it is likely that audit firms will seek to recoup the large costs of constant tendering and charge for the significant investment of senior partner time in each 5 year cycle.
4. Decrease in effectiveness of a tender: Given the drawbacks noted above, and perhaps more generally where the management and Committee of a Company find that the incumbent is delivering a high quality audit, a mandatory tender process will be ineffective since there could be no real intention to change. This will result in a process that would solely exist to show a Company had complied with regulation and in the worse case scenario, by moving audit firm resources from focused tendering, counter the aims of promoting real market competition.

Last year we responded to the Financial Reporting Council's consultation document on revisions to the UK Corporate Governance Code ('the Code') and our support of the fundamental "comply or explain" principle of UK corporate governance. Within this framework we support the ten year tendering cycle for FTSE 350 companies set out in the Code. We emphasised in our response the fact that the right to appoint, evaluate effectiveness over time, especially with regards of the specific circumstance of the Company, and determine the tenure of auditors should be retained by the shareholders and is the primary responsibility of the Audit Committee. We continue to strongly hold this view.

If you have any questions regarding our comments, please feel free to contact us.

Yours sincerely

John Ormerod  
Non Executive Director  
Audit Committee Chairman