

Dear Sir

I am writing to object to the proposal, contained in the Provisional Decision on Remedies which the Competition Commission has recently published, that audits should be tendered every five years. I strongly believe that the proposal will have very damaging consequences and should be dropped. The current UK Corporate Governance Code requiring audit tenders to take place at least every ten years on a comply or explain basis has set the most appropriate timescale.

I am currently chairman of the audit and risk committees of Vodafone Group plc, BBA Aviation plc and the Ashmore Group plc. I also chair the audit and risk committee of Alliance Boots GmbH which, although it is a very large private company, seeks to comply wherever possible with the UK Corporate Governance Code.

My reasons for strongly objecting to the proposals are -

- For large and complex companies a proper tendering process together with the induction of a new audit firm, should the board decide to change auditors, is time consuming, disruptive and expensive for all parties. It requires a great deal of valuable management time. To potentially have to incur this cost every five years is unrealistic and unnecessary.
- Whilst I am fully supportive of regular tendering at least every ten years and believe that this will trigger a change of auditor in the majority of cases, which I also believe is a good thing, it has to be recognised that the transition to a new auditor will inevitably adversely impact audit quality in the first and possibly second year. It takes time for a new auditor of a

complex business to fully appreciate the strengths and weaknesses of the company's business model, its business risks and in particular the culture of the company. Whilst this risk is acceptable over a reasonable long period of time with the benefits greatly outweighing the risks I do not believe this is the case over a five year period.

- Central to the role of the auditor is auditor independence. Given that audit firms are major suppliers of a wide range of services to FTSE 350 companies it can be a complex exercise both for the audit firm and the company to unwind existing contracts particularly large multi year consulting contracts or tax services involving protracted negotiations with tax authorities. The position of auditors of banks and insurance companies can be even more complex requiring the audit firm to move their banking and other financial arrangements on a global basis.
- The complexity of achieving auditor independence will be further exacerbated if the EU proposal to prohibit a firm from providing certain non-audit services to a company during the year preceding the year it first undertakes the audit and the year after it ceases to be the auditor is enacted. Frankly, this will mean that tendering every five years will be completely untenable in many instances.
- Whilst I believe that audit committees are supportive of 10 year tendering as I suspect are the larger audit firms if 5 year tendering is imposed there is a grave danger that audit firms will not be confident of recovering their tendering costs and will be inhibited from investing in their skill base and innovating their

audit. There must also be a real possibility that many audit committees will continue to focus their tendering efforts at 10 year intervals for the reasons outlined above and develop a "light touch" approach at the five-year stage. There is, therefore, a real risk that audit firms will be reluctant to invest in new audit opportunities and may well judge that there is a strong likelihood that the incumbent will be reappointed. This may in, particular, influence the views of the non Big 4 firms.

There is every reason to believe that the changes made to the UK Corporate Governance Code requiring ten year tendering will have a major impact on the market and as stated earlier there is a strong belief amongst the audit firms and companies that more often than not a new firm will be appointed. As is frequently the case with changes to the Code many companies have decided to be early adopters. The strong evidence to date of large companies that have already put their audit out to tender or have indicated in their annual report that they intend to do so in the near term clearly demonstrates that 10 year tendering is being taken very seriously and achieving significant change. It, therefore, is somewhat strange that the Competition Commission should seek at this particular time to override these important changes to the Code which were subject to a full and vigorous consultation by the FRC with investors, companies, audit firms and other stakeholders and, generally, received wide support.

Finally, as the chairman of a number of audit and risk committees I am very dependent on the work of external auditors in properly discharging my personal and legal responsibilities and I am, therefore, as concerned as anybody and probably more so than most that I have rigorous, high quality, independent auditors. Your proposal

has the potential to undermine a quality audit and, therefore, greatly increase my personal risk both in relation to my reputation and my legal responsibilities.

I, therefore, ask you to reconsider this particular proposal and to allow the recent changes to the Code to prove their worth as I am confident they will. I am sure that the concerns that I have expressed in this note are shared by many of other audit committee members.

I also have significant concerns about the proposal that the AQR findings be disclosed in the report from the chairman of the audit committee. I am very supportive of improving the transparency that investors have of the work carried out by both the audit committee and auditor. However, I am concerned about the practical difficulties arising from the provisional remedy.

There is a grave danger that the AQR conclusions and grades are misconstrued by investors and are taken to relate directly to the company's financial statements rather than the audit. A poor audit of impairment does not mean that the company has accounted for impairment incorrectly.

For this and other reasons I am concerned that there will be protracted discussions between the audit committee and the auditor about the precise wording of the report from the chairman of the audit committee in respect of the AQR conclusions. I fear that these discussions may well become legalistic in nature; that the report from the audit committee chair will become overlong and convoluted; and that the dialogue between the auditor and AQR will become considerably more difficult and legalistic.

Nick Land

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