

Provisional Decision on Remedies submission

Dear Sirs

As Group Finance Director of Pennon Group Plc I am writing to express concern on certain aspects of the proposed package of remedies published by the Competition Commission on 22 July 2013 to promote a more competitive audit market.

While I support the objective of enhancing competition in the market for audit services, the proposal that FTSE 350 companies should put their statutory audit engagement out to tender at least every 5 years will impose substantial additional costs which will ultimately have to be borne by companies and in my view risks damaging rather than enhancing audit quality.

Pennon Group undertook an audit tender in 2006 and so we are well aware of the costs and time commitment required by both companies and the audit firms participating in the tender to ensure a well run and comprehensive process.

When a company changes its audit firm it takes the firm some time to fully understand the organisation and the key issues to be addressed. A change of firm therefore means that there is a significant risk that audit quality may be impaired in initial years following the change. To optimise audit quality for the benefit of both audit committees/Boards and company shareholders, it is unlikely that companies will normally wish to change auditors as frequently as five yearly. The recently introduced requirement by the FRC to require a retender every 10 years looks to me to be a much more sensible balance between the need to ensure that companies test the market for auditors on a timely basis and avoid incurring unnecessary expense/management time.

The remedies also include a proposal to expand the frequency and remit of AQR reporting. The rationale for this noted in the provisional remedies was that it would facilitate comparability of companies' existing auditors with other options.

The proposed expansion of AQR frequency will significantly increase regulatory costs for companies and their shareholders. While the AQR reports are well regarded, the present level of reporting is quite sufficient to enable comparability of companies' existing auditors with other options. Hence this recommendation would not in my view enhance competition in the market for audit services. The rationale in the remedies appears now to be more focused on ensuring more frequent "audits of auditors". Given the heightened scrutiny that auditors and audit committees are now under, together with the substantial increase in required disclosures, I do not believe that the increased costs are likely to be justified in terms of either enhanced audit quality or competition for audit services.

In addition the proposal that only the Audit Committee is permitted to negotiate and agree audit fees and the scope of audit work places a substantial burden on the Audit Committee and its Chair, and effectively places them in an executive role in relation to this key aspect of corporate governance. In my view while the Audit Committee should have a key role in all aspects of auditor selection, scope of work and fees, it is right that day to day activities should be delegated to the Executive team with the Audit Committee having oversight and authorising key decisions.

I would be happy to discuss any aspect of this.

Yours sincerely

David Dupont
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Pennon Group Plc

12 August 2013