



## Royal Dutch Shell plc

UK Competition Commission  
For the attention of Ms Laura Carstensen  
Chair Audit Market Investigation Group  
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Wednesday 30<sup>th</sup> July 2013,

Dear Ms Carstensen,

In view of the relative short comment period on the Commission's provisional decision on remedies to promote a more competitive market for external audit appointments, I would like to take this somewhat unusual step to share with you our views about the possible unintended consequences of certain aspects of the proposal.

Not surprisingly, I take an immediate interest in the quality of the external audit service provided to our company and I am very conscious of the need for the audit firm to have a deep understanding of the industry we operate in and the large operational footprint we have globally. Having access to consistent high quality advice and challenge, in the many countries where we are present, is of paramount importance in the selection of an audit firm.

We support efforts to promote auditor independence and to strengthen the remit of audit committees. We also believe auditors already have a number of incentives and powers to remain objective and exercise appropriate professional scepticism. The regulations in place for the conduct of audits, such as mandatory partner rotation and independence rules, are both comprehensive and appropriate. More consistent enforcement of existing rules may help to address some of the perceived weaknesses and concerns in this regard.

Our company carried out a formal tender process in 2004-2005 for its external audit assignment. Based on that experience I do have serious concerns about the requirement for mandatory tendering every five years, which forms part of the Competition Commission's provisional proposal. In order to carry out a robust review of bids submitted, including aspects such as an assessment of key audit firm staff, appropriate due diligence on other audit assignments, specific industry knowledge and global coverage, significant senior management attention and time is required, both of the company tendering and invited audit firms.

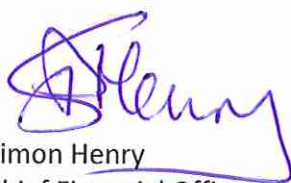
To mandate such a tender process every five years can only impact the quality of the review and therefore, ultimately, the quality of the external audit. At the same, the significant management commitment may lead audit firms to be more selective in the tenders they can participate in, with the unintended consequence that the ultimate aim of greater competition may not be achieved. This will particularly be the case for larger companies, where prospective firms may have relationships, not audit related, that would still be subject to a cooling off period.

Over the last year markedly different proposals on the subject of external audit appointments have emerged from the European Commission, The Financial Reporting Council and now the Competition Commission. There is an urgent need for clarity on this subject.

The Financial Reporting Council introduced a new set of requirements in its revised Corporate Governance Code issued late September 2012. These requirements include a number of important and additional measures, including mandatory tendering every ten years, aimed at addressing the concerns about auditor independence and the perceived lack of competition in the audit market.

Given the significant unintended consequences in respect of quality and cost of the Commission's proposals on mandatory tendering, the measures introduced by the Financial Reporting Council deserve the opportunity to prove themselves.

Yours sincerely,



Simon Henry  
Chief Financial Officer  
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