

Provisional Decision on Remedies submission

I am writing to you in my capacity as the Audit Committee Chairman for Wolseley Plc, Intertek Plc and Cobham Plc regarding your recently published proposals for the Audit Market.

You will be aware that the Board of FTSE companies delegates the responsibility for the oversight of the external audit relationship and of the auditors' independence and effectiveness to their Audit Committees and in my experience the Audit Committees take these responsibilities very seriously. Each of my own Audit Committees regularly monitors and discusses these issues and have also held many discussions over the last year or so regarding the various proposals for the regulation of the Audit Market as proposed by yourselves, the FRC and the EU. We have been reviewing the merits and impact of each of these sets of proposals and have also been discussing our own plans for tendering our external audit.

I would like to make two specific comments on your own proposals.

Firstly, we welcome your focus on the tendering, rather than the rotation of audit relationships. In our view, the mandatory rotation of the external auditor would be a bad policy and would very likely lead a reduction in audit quality as well as a reduction in competition (since by definition one major competitor - the incumbent firm - cannot compete).

Secondly, whilst we therefore welcome your proposals regarding tendering, we are very concerned about the length of the period between mandatory tenders that you have proposed, namely every five years. In our view this would be a mistake and would cause unintended consequences over not only the quality of the tender process, but also the robustness of the process. This in turn would be very likely to lead to a reduction, rather than an improvement, in the competitive nature of the tender process itself - presumably therefore the very opposite of what you are trying to achieve.

When handled on a proper basis, the tendering of the audit for a FTSE company is a time consuming, major exercise for the company and for its Audit Committee of Non Executive Directors. In most cases the company has extensive International operations, many with their own finance function and finance executives. A full, properly competitive audit tender will usually involve access to these for each of the firms competing in a tender, together with extensive dialogue with the corporate headquarters. This is just to allow the respective firms to get up to a reasonable level of knowledge of the group and its operations to enable them to submit a competitive proposal. The proposal selection process itself would then be on top of this effort and if a new firm is selected there would also follow an extensive period of induction and familiarisation with all the business operations and the accounting policies and methods of the company in question, all before the first audit could start. This is a major undertaking both for the company and also for the firms. If the company is forced to carry out such a process every five years, then it will be increasingly likely that after time the process will be reduced to a mere "desk top" exercise as the burden on the company's finance staff would otherwise be simply too great.

We are already facing the real prospect that some firms may decline to tender for FTSE audits if the FRC's proposals of this happening every 10 years are followed and at least one of my above companies has recently discussed this at some length as we are concerned that this could well happen in reality. If the period between tenders is moved from 10 years, as proposed by the FRC, to 5, then the likelihood of this happening increases greatly. This would have a very negative impact on competition and would be generally a bad thing for the companies concerned. We would therefore urge you to reconsider your 5 year proposal and amend this to 10 years.

There has been a great deal of activity and debate following the FRC's proposals , the full impact of which will only be fully seen in the next year or two, as regards tendering activity and the adoption of a 10 year retendering period. If you adopted the same 10 year time interval between tenders this would allow the Market to adjust to this regime and prove its validity.

I hope you find these comments useful.

Michael Wareing CMG
Audit Committee Chairman - Wolseley Plc, Intertek Plc, Cobham Plc

6 August 2013