



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

5 August 2013

Dear Sirs

Response to Press Release of 22 July 2013

I am writing to you, on behalf of the Audit Committee of The Weir Group PLC, to express concern with certain aspects of your provisional decision regarding the remedies you are considering introducing when your final report on the supply of statutory audit services to large companies in the UK is published later this autumn.

Specifically, our concern lies in two main areas: mandatory tendering of statutory audit provision every five years and the changing role of the audit committee in the relationship with the external auditors.

Mandatory tendering

We are firmly of the view that the changes to the UK Corporate Governance Code effective from 1 October 2012 that will require tendering of the external audit relationship every ten years is an appropriate principle that strikes a good balance between the level and quality of audit assurance, the independence of the external auditor and the costs to both corporates and the audit firms of delivering a high quality output that investors can rely on.

It is our view that the Competition Commission's proposal that FTSE350 companies should put their statutory audit out to tender at least every five years is highly likely to have a significant detrimental effect on audit quality and yet will inevitably result in increased fees for the audit firms whilst doing little if anything to change the issues you perceive around the competitive landscape.

While independence and professional scepticism are vitally important aspects of audit quality so are trust-based relationships and understanding of the business. In our view audit quality will be impacted principally by the constant transitional phases that will occur if the audit provider is changed every five years and by the length of time it will take a new provider to 'learn' the business, particularly in the case of large and complex multi-national organisations. The five year period between audit tenders will consist of two years spent on

transition and development of the relationship between external audit and senior management of the company with a significant amount of time invested by both parties; there will then be two years, at the most, of good quality audit services with the final year being heavily impacted by the running of a tender process.

Furthermore, mandatory tendering will also result in high incremental costs being incurred by both FTSE350 companies and audit firms driven by involvement in tender processes, whether through cash outlay or management time. We estimate that, for an organisation of our size, complexity and geographic spread, at least a three month period would be required to run a comprehensive tender process, with a further three months spent introducing new people to the business, finalising terms of engagement and completion of the multitude administrative and statutory tasks required in a change of auditor. It is for these reasons that a multi-national company like The Weir Group would not tender its other professional service relationships, such as legal advisors, every five years and we see no benefit, only downsides, from being ordered to do this in respect of the audit. We also find it strange that at a time when a number of your proposals clearly support strengthening the role of the Audit Committee you are proposing to disempower it by dictating when to put the audit out to tender.

As a point of principle, we agree that there should be focus given to ensuring that the external audit is carried out in an efficient and effective manner by a professional services firm with the appropriate resources and who are independent of the company. However, we would strongly argue that the 'comply or explain' concept underpinning the UK Corporate Governance Code has already proven very effective in providing a framework within which to operate in this regard. Given this we don't understand why you feel the need to introduce a rule rather than relying on principles. If you look at how corporate governance has developed over time it is clear that principles and guidance have been proven to work, just look at the way non audit fees payable to the auditors have been significantly reduced over recent time.

Given this we would request that you allow the recent amendments to the UK Corporate Governance Code to run for longer. You can then review its impact in a few years' time, if at that point it is felt that a change in corporate behaviour with regard to audit tendering has not taken place. We should not forget that shareholders, the key stakeholders here, have the ability at every AGM to vote against the re-election of the auditors or indeed the directors if they are uncomfortable about this matter. Let's not disempower Audit Committees from making one of their key decisions about when to tender the audit by introducing a rule.

Audit committee relationship with the auditors

We understand the need for balance between the roles of the Audit Committee, Executive Directors/management and the auditors, the key word here being balance.

Perhaps there have been instances in the past where that balance has not always been right but that does not justify in our opinion the Order which gives the Audit Committee sole responsibility for all aspects of the external audit. Firstly there needs to be significant input from management in relation to the audit given its reach and complexity and an Order is too inflexible a measure to accommodate that. Secondly by its very nature an Order cuts across the principle of a unitary board, as it empowers some members of the board at the expense

of others. It also starts to blur the executive/non-executive boundary which is a vitally important distinction and of course significantly increases the work load of the Audit Committee. All of this could have unintended consequences.

As a result we would recommend that any such changes are made through the UK Corporate Governance Code which will allow Audit Committees, and indeed Boards, to make sure they are comfortable with the issue of balance between the auditors, management and themselves. With increased disclosure requirements the shareholders will be able to judge how this is working and of course can ultimately vote against the directors' re-election if they feel this is required.

We would urge the inquiry to consider these points in finalising their report and would welcome the opportunity to discuss them further should the opportunity arise.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Alan Ferguson', with a small dot at the end.

Alan Ferguson
Audit Committee Chairman, The Weir Group PLC