

**Robin Freestone**  
Chairman: The 100 Group

c/o Pearson PLC  
80 Strand  
London  
WC2R 0RL



Via e-mail: [auditors@cc.gsi.gov.uk](mailto:auditors@cc.gsi.gov.uk)

Laura Carstensen  
Inquiry Chair: Audit Market Investigation  
Competition Commission  
Victoria House  
Southampton Row  
LONDON  
WC1B 4AD

30 July 2013

Dear Laura

**Statutory audit services market investigation: summary of provisional decision on remedies**

I am writing in my capacity as Chairman of The 100 Group to share with you our views on the summary of provisional decision on remedies report resulting from your inquiry into the market for statutory audit services.

As Directors of large international companies, we understand the importance of the audit and the value that the independent auditor's report brings to our shareholders.

We welcome any measures that have the potential to enhance audit quality. However, we are concerned that tendering on a five year basis is, fundamentally, not the right answer for our members to promote better audit quality or, indeed, enhance competition amongst audit firms. Furthermore, recent changes made by the Financial Reporting Council (FRC), which require companies to tender their audit every 10 years on a "comply or explain" basis, are broadly sensible and need further time to become fully embedded in the marketplace.

**Who we are**

The 100 Group represents the views of the finance directors of FTSE 100 and several large UK private companies. Our member companies represent almost 90% of the market capitalisation of the FTSE 100, collectively employing over 7% of the UK workforce and in 2012, paid, or generated, taxes equivalent to 14% of total UK Government receipts. Our overall aim is to promote the competitiveness of the UK for UK businesses, particularly in the areas of tax, reporting, pensions, regulation, capital markets and corporate governance.

## **Our views**

We cannot understand why, given the balanced and sensible proposals from the FRC last year, which, given time, would have seen some real change, quite possibly for the better, the decision has been reached mandating companies to tender their audits every five years.

There is a misconception that for a modern large scale business it is possible for an auditor to reach optimal effectiveness immediately upon appointment. From a cost point of view, auditors address this by increasing staffing and review processes in the short term. The cost of this tends to be spread over the life of the audit. Accordingly the commercial risk posed by a mandatory retender would be factored into the cost and born by shareholders.

Possibly more importantly, our non-executives value auditors' ability to challenge the management. This ability is enhanced by specific experience of the company which means that the challenge tends to be more grounded than theoretical.

Further the risk of over familiarity is substantially mitigated by the partner rotation regulations which are already in place.

As a result it is very unlikely that frequent tenders are going to result in more auditor rotation as return on such a risk is likely to be negative for the audit committee and its shareholders. We would expect every other tender will be academic; merely adding a further tier of cost to the auditing firms and will have a highly disruptive effect on us, as businesses. Hence, one would expect these costs to be far higher than the estimated £30 million mentioned in the report.

Please feel free to contact me if you wish to discuss the views contained within this letter.

Throughout the Competition Commission's inquiry, we have responded to previous reports and findings. We believe the issues discussed therein remain relatively unchanged and therefore do not support further regulatory intervention forcing mandatory tendering in a market that, from the participants' point of view, is functioning satisfactorily.

Yours sincerely



**Robin Freestone**  
*Chairman*  
*The 100 Group*