



The Hundred Group
of Finance Directors

Investor Relations and Markets Committee

The Clerk to the Economic Affairs Committee
House of Lords
London
SW1A 0PW

27 September 2010

Dear Sir

Call for Evidence – Auditors: Market Concentration and their role

1. We are pleased to submit our comments on the above call for evidence.

Who we are

2. The Hundred Group is a non-political, not-for-profit organisation which represents the finance directors of the UK's largest companies, with membership drawn mainly, but not entirely, from the constituents of the FTSE100 Index. Our aim is to contribute positively to the development of UK and International policy and practice on matters that affect our businesses, including taxation, financial reporting, corporate governance and capital market regulation. Whilst this letter expresses the view of The Hundred Group of Finance Directors as a whole, they are not necessarily those of our individual members or their respective employers.

Our views

3. We welcome the House of Lord's consultation and the opportunity to respond on these issues.

4. Due to the nature of the consultation we have not sought to answer the questions raised by the Committee. As preparers of financial statements we recognise that the ownership of the audit relationship must be between shareholders and auditors. We do not seek to comment on the requirements of shareholders, nor would it be appropriate for us to guide the regulatory requirements in this arena. However, we express in this letter our thoughts as management in so much as they may be relevant to the Committee's deliberations.

5. In overview, we are supportive of the current role of the auditors and the value brought to our shareholders through the audit report and through other services rendered to our members. We note the common practice of investors to utilise the audited financial statements as a reference point throughout the financial cycle, the value of which is enhanced by the associated audit report.

6. We are of the opinion that the services rendered by the 'Big 4' are of a high quality and that there exists sufficient competition in the market place to drive continuous improvement and breadth of choice to our shareholders. In particular we note the high level of competition demonstrated during an audit tender process. In our experience this process brings out a high degree of competition in terms of emphasis of approach and on audit fees paid.

7. We appreciate and recognise the value that we, as management, benefit from the ability to use our auditors to undertake non audit services where appropriate. We strongly believe that we must retain the ability to select service providers based on the highest standard of deliverable, including circumstances where the service provider is our auditor. We make this statement whilst recognising the importance of independence between management and auditors and the need to ensure at all times that this is not breached through appropriate safeguards.

8. We do not feel that the Audit market is unduly concentrated. Indeed, we see that in some arenas there is a 'Big 6' of accountancy firms providing increased competition. For our members, however, the importance of 'global reach' in an audit firm is imperative. The majority of our member organisations are global in reach and, with trade barriers opening up and market growth projections persistently dominated by developing markets we see huge growth possibilities outside the European Union.

9. Our service providers, including our auditors, are expected to be able to rise to the challenge of auditing our complex, global businesses. The barriers to entry for a global audit firm are high and require a certain 'critical mass' to be effective. Current requirements under *ISA600: Special Considerations – Audits of Group Financial Statements (including the Work of Component Auditors)* require significant input from group auditors which is practically translated as a requirement for group auditors to audit the majority of a group's global subsidiaries. This in turn will preclude smaller firms from competing in the global arena. Therefore our membership will almost exclusively seek an audit from one of the 'Big 4' auditors. The establishment of global networks necessarily takes time and the assembly of a critical mass which we feel would be inappropriate to force.

10. In addition larger auditing firms will, by their nature, have a broader base of experience to draw from when conducting their audits. Our membership represents companies that are fully listed, are acquisitive, raise debt, purchase intellectual property, have complex tax structures and run international treasury functions. These activities require advisors who have a broad background of experience to service us appropriately. In our experience the Big 4 are consistently and comfortably able to deliver the expertise we demand of our auditors and accordingly our members and their shareholders predominantly look to the Big 4 when considering new auditors.

11. We understand the basis for questioning the role of the auditor and the reporting requirements of the auditors to external bodies where appropriate. However, we would caution against any developments which will, either directly or indirectly, affect the relationship between the auditors and the audit committee. The frank, open and challenging relationship which is demonstrated in our audit committees is one which both management and non-executives value and is, in our view, effective at challenging management and the audit committee appropriately.

12. Please feel free to contact me if you wish to discuss our comments on the proposals.

Yours sincerely



Peter Williams

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Submitted on behalf of The Hundred Group, Investor Relations and Markets Committee