STATUTORY AUDIT SERVICES MARKET INVESTIGATION

Summary of hearing with Deloitte held on Wednesday 26 September 2012

Purpose of the Hearing

1. Deloitte was a limited liability partnership owned by its partners. On average for the year to May 2012, it employed 13,704 people (including 721 equity partners) 4,066 of these in Assurance. On 1 July 2011 it had 721 equity partners. For its financial year 2012, it had revenues of £2,329m. It is regulated by the ICAEW, the FRC and the FSA.

Introduction

2. Deloitte operated in a highly competitive market which had a significant and important role in the proper operation of capital markets. It was therefore right and appropriate for regulators and Government to look from time to time to satisfy themselves that the audit market was functioning properly and serving its customers well.

3. Deloitte considered one of the most important drivers of the market was the role of finance directors, or CFOs, and audit committee chairs. They were expert purchasers committed to delivery of quality and price for their business and shareholders who understood their responsibilities very clearly and were committed to their role and they were actively deciding who they wanted to audit their companies. These expert purchasers tested Deloitte continuously, throughout the audit process and wanted to understand Deloitte’s process in detail and its judgments at the end of the cycle.

4. They gathered and considered very carefully the evidence that Deloitte provided on quality and value, both in a very formal way at the end of the audit process and informally during the process.

5. Deloitte was somewhat surprised by some of the suggestions that it had seen in the course of the investigation to date about these people, their skills, their diligence and their commitment to quality and price for their business and shareholders.

6. Deloitte considered that the objectives of the CFO and the audit committee chair were aligned, in that they were working for the benefit of shareholders and competitive drivers resulted in excellent outcomes for companies and their investors. It considered audit fees were highly competitive. It was constantly conscious of fee pressure from its clients, and considered this same phenomenon was observed by its competitors, by its regulator (the FRC) and by companies themselves. Deloitte considered it had to respond to this pressure as clients tested it every single year to demonstrate value for money. Clients had a huge range of tools to apply such testing. They used benchmarking, directors had their own experience of other companies and they asked Deloitte continually revisit its audit fees on a bottom-up basis to re-price work it was doing. Deloitte was not surprised companies insisted on value. Although the audit fee may be a small proportion of company turnover, it could be a significant proportion of the expense that the CFO had to manage within his responsibility.

7. Deloitte considered audit quality was high and was increasing. As it invested and innovated in the audit process, it obtained feedback from its clients every year. This was by detailed appraisals from the audit team, internal independent assessment and independent assessments from its clients. Deloitte said that this told it that it was
doing well in delivering quality in the audit marketplace, and it was committed to continuous improvement in audit quality.

8. Deloitte said that if its clients were dissatisfied with quality or price, they would put the audit out to tender. Deloitte considered there had been a profound substantive change in the methods of auditing over the last ten years: this was one of the clearest examples of innovation in what it did across the range of businesses in which it operated. Deloitte had to keep innovating to keep ahead of the way companies were developing themselves but also to meet the expectations of regulators, standards and shareholders. Deloitte acknowledged there was a view from some investors asking for development in the content of audit reports, and it was supportive of this and of innovation in audit reporting. In October it was holding its first stakeholder forum, which would debate this issue, and would be attended by representatives of shareholders, regulators and other stakeholders in the audit business.

9. Deloitte believed competition amongst all providers of audits to large companies was intense and every audit opportunity was hard-fought. Deloitte said the median tenure of its FTSE 350 clients was nine years. Deloitte was proud of what it had achieved because it had grown its market share from 14 to 25 per cent over the last ten years. It had made a conscious decision in 1995 to grow in the large company audit market. At the time it only had 5 FTSE 100 clients. It built up sector-specialist knowledge and its engagement with clients through non-audit services first, in order to build its reputation for quality. Deloitte said it made sure clients were aware of its interest in winning audits as they came up for tender and it invested in capabilities to do so. Deloitte had made this a priority, and said its investment reflected that and its success reflected the investment it had made.

10. Deloitte considered its experience showed that opportunities existed in the market for ambitious firms prepared to make the necessary investment.

Profitability of engagements

11. Deloitte suggested assessing profitability by looking at profit per partner and compared levels within its own business, across the industry and in other comparable industries such as law partnerships.

12. Deloitte did not think that a comparison to the FTSE350 companies was sensible because of the partnership structure. Non-audit profit per partner was slightly higher over the 2006-11 period compared to audit profit per partner. Average gross margins for audit services were [X] per cent and for non-audit services were [X] per cent. The FTSE 350 average gross margin for audit was [X] per cent. Average profit per partner compared to the Magic Circle law firms was approximately [X] per cent and against the Silver Circle was approximately [X] per cent. Compared to Mid Tier firms, Deloitte accepted there was a differential in profits per partner but considered this was the result of the nature of its clients compared to Mid Tier firm clients, the additional risk it was taking, and it considered it was delivering greater quality to its clients. Deloitte considered it was achieving a reasonable profit; not super profit and not too low.

13. Deloitte’s audit pricing was competitive and clients had the incentive and ability to constrain its prices which they negotiated through annual negotiations. Clients benchmarked its activities every year and had extensive information available to them. Deloitte measured success in its business by measuring segment profitability by partner, not individual client profitability in a segment. Segments were differentiated geographical units. For example, for [X] Deloitte stated that pricing
was calculated on a bottom-up basis showing the number of hours it planned to spend on each area of the client's business. This created a benchmark within the company. Clients also had an awareness of rates per hour in the market and so could get a good appreciation of how the fee was made up. The chief measure of profitability for reporting purposes was “Revenue Recovery Rate” or RRR. Deloitte’s recovery rates were based on the charge out rate and what it recovered on that rate.

14. Deloitte did not measure engagement profitability on a fully costed basis (i.e. fully allocating each item of overhead to a particular engagement). For the purposes of this investigation, it measured profitability by subtracting direct costs such as staff costs, travel and expenses from revenue. The amount that remained was a gross margin of profitability. Deloitte indicated that its FTSE 350 clients achieved an average gross margin of about [X]% per cent and its non FTSE clients about [X]% per cent gross margin. However, Deloitte accepted that within this population there would be outliers, noting that in 2011, in the FTSE 350, [X] had its lowest recovery, at [X]% per cent and [X] had its highest recovery at [X]% per cent. Deloitte explained that there were a number of factors that were behind this, [X] involved some highly complex financial instruments requiring more complex and risky judgements, which required a high degree of specialists, which were on average more expensive and so Deloitte would expect to recover more. Deloitte indicated that [X] rate was not sustainable in the long term and it intended to work with management to see what could be done to increase it. If it could not achieve a satisfactory outcome with the client, it would expect to exit the relationship. Deloitte gave an example of [X]. The client put its audit out to tender, and Deloitte was not prepared to match the price other competitors were offering and so lost the mandate.

15. Deloitte felt that audit was not a high margin business compared to other service lines and it thought that [X] over the last couple of years probably had a higher margin than audit. Deloitte disputed that audit was low risk as it was heavily regulated, and was subject to unlimited liability which meant exposures were potentially significant.

Rivalry

16. Deloitte’s main tactic for differentiating itself from its competitors was innovation in quality using the most efficient and value added method. It emphasised bespoke and individual services and that it had taken account of changes in technology.

17. Deloitte said that its audit methods had changed over the last ten years as it responded to changes in regulation, timelines, tougher reporting standards, increased disclosure and greater levels of complexity in companies. Deloitte said that if it had not evolved its audit offering in line with these changes then it would be completely uncompetitive. Deloitte gave the example of its client [X] explaining that [X] migrated to a more shared service type of environment over the past several years. Deloitte also noted that there had been greater involvement of audit committee chairs over the last ten years which had resulted in a completely different approach to the way Deloitte conducted its audit.

18. Deloitte gave further examples of innovation regarding [X] as follows: data analysts interrogated systems to check all fixed assets for depreciation (rather than checking a sample); using technology so that checks were carried out at any time of year avoiding a busy time of year when the company was trying to meet reporting deadlines; testing the number of manual journals under €500 across European properties, so helping the client to be more efficient in gathering its own financial data.
19. Deloitte gave the example of a bid to [X] that Deloitte understood was lost because the company considered that a rival firm ([X]) was more innovative. [X] leveraged the work they had carried out on the client’s funds to deliver what the client considered to be a more insightful pitch which would deliver a more efficient audit.

Switching, tendering, marketing

20. The median tenure of Deloitte’s FTSE 350 audit clients was approximately 9 years. A company’s experience of quality and value with the current auditor dictated the decision to switch, irrespective of the characteristics of the company. All companies annually reassessed quality and set targets. Deloitte referred to one of its clients, [X], who were unhappy with the service they were getting from the audit partner. Deloitte changed the partner and said that [X] made it very clear that if Deloitte failed to deliver a quality service within that year, they would go out to tender. In the event the client was happy with the quality of the service and did not put the audit out to tender. Deloitte did not think companies should be forced to go out to tender. It said the purchasers of audit services were competent enough to know if they needed to go out to tender or not.

21. Approximately a quarter of partners’ time was spent on non-fee earning activities, including management, gaining work and building business. Most of the investment in new business was people costs, mainly the cost of building relationships and understanding the business. It considered the actual cost around a bid process was not that excessive. This was the process with every service across its business and not just audit work.

22. Deloitte gave an example of a company that it had pursued for a number of years ([X]) and finally gained the audit. It was unable to calculate the cost of these efforts. The amount of time and effort used to attempt to gain business varied according to its judgement, what it perceived as its chances of success and its commitment to invest. Deloitte felt that a large financial investment was not necessary to gain a new contract or build sector expertise but time, effort, leadership and an appetite to take risks was necessary.

Tender Process

23. Deloitte noted that the CC survey showed that 78 per cent of FTSE 350 companies had experience of building relationships and working with firms like Deloitte and the mid tiers outside the audit process. In Deloitte’s view, firms used these opportunities to build relationships so that when companies went out to tender, firms had an established relationship to draw on.

24. Deloitte explained that previous contact and experience with a firm was helpful to the tender process, but pointed out that in some cases a previous relationship had not existed or Deloitte had had limited experience of the sector ([X]) but its bid was still successful. It also emphasised that a previous relationship where the quality of Deloitte’s work in non-audit services had been demonstrated was a factor, ([X]), rather than personal relationships.

25. Deloitte said where companies had experiences of services that it had provided; it would have built a reputation with them and so would expect to be in contention for any new work required by that company where it had shown potential skills for the work. Deloitte gave an example of [X] who had asked if it would like to pitch for the audit knowing that Deloitte had some investment management experience and had carried out non-audit work for them. Deloitte said that purchasers of services were
not persuaded purely by reputation and that they needed to see quality and expertise.

26. If an audit was due for tender Deloitte created a shadow team leveraging off a relationship it may have with the business. For example, in an existing advisory relationship, audit partners may be involved with some work around the finance function as an opportunity to build a relationship with the senior decision makers in the organisation. They would have a remit to talk to these people about the wider service, including audit services that Deloitte could deliver for the client.

27. Tender invitation letters were quite detailed, and tender processes generally took place over a number of weeks, if not months and at this stage Deloitte spent time with key individuals such as the group financial controller, chief financial accountant, tax people and usually had access in all subsidiaries around the world. It was able to convey the level of innovation it could provide to the tendering company. Deloitte noted that each company was different and as such audit was not a standard product and services were tailored according to each client. These opportunities were open to all the firms that were invited to tender.

28. In Deloitte’s view, while every firm was likely to be willing to tailor its product for a particular client, each firm had to demonstrate that it understood the risks of the organisation and show, in the context of the company’s control environment and the level of work the company was going to undertake to prepare for the audit, how it would approach the risks. CFOs and ACCs would judge them on the basis of this.

29. Regarding flagship clients Deloitte felt that such clients were significant because they added value to the business and attracted people to the organisation creating opportunities for the business to grow.

30. Deloitte explained that the process of deciding the fee involved a range of factors with priorities of quality and value. It pointed out that clients exercised their ability to constrain prices. For existing clients there was ongoing negotiation and the client reviewed quality and price on a yearly basis. Deloitte gave the tender situation example of [ ]. Deloitte spent time at each office understanding the business and the control environment at each office and how [ ] intended to change that. This was then benchmarked with figures to work out a price per hour.

31. In tenders, there was usually a written submission followed by an oral presentation. At that stage the client normally gave feedback indicating if the price was too high or if some elements were not satisfactory. Until the final tender offer there was a period of negotiation. For the [ ] tender, Deloitte was successful despite its fee being 25 per cent more than one of the competitors. Clients looked for quality and innovation at the right price.

32. Deloitte opposed the idea of mandatory tendering and felt that the current system which allowed management and audit chairs to decide when to tender was a better process. In Deloitte’s view the market was competitive and it felt that more frequent tenders would not necessarily result in higher quality or lower prices. Deloitte drew the CC’s attention, though, to the recent FRC proposals to introduce mandatory tendering on a ten year basis. Regarding price transparency Deloitte explained that the previous year’s fee is publicly disclosed which gives a benchmark figure.

Choice

33. Deloitte said that limitations of independence and conflict of interest issues could usually be worked around. They gave the example of [ ] who gave notice of tender
18 or 20 months in advance which gave sufficient time for firms to become independent in time to accept an appointment. Companies often gave advance notice to allow firms to resolve conflict of interest issues.

34. In Deloitte’s view, certain Big 4 firms had larger market shares in particular sectors because the customers in those sectors had made positive choices to employ those firms. Deloitte said those choices constantly changed over time. Relative concentration in certain sectors was not a result of firms choosing to operate in certain sectors. All of the big firms had been involved in all sectors over a ten year period and there was no sector that Deloitte could not compete in. In addition Deloitte stated that (as evidenced by their submissions to the CC) Mazars, BDO and Grant Thornton felt equally able to operate in most of the market.

35. Deloitte said that the CC survey of audit committee chairs showed only 2 per cent of audit committee chairs felt they were restricted as to audit choice. Deloitte felt that the market would argue there was sufficient choice.

36. Circumstances when Deloitte would not accept an invitation to tender were exceptional and would only occur if it thought, for risk purposes, it would not be appropriate to act for an organisation.

Annual Negotiations

37. Deloitte undertook several steps with regard to benchmarking its own performance. These included conducting an annual review of the quality of work and compliance with auditing standards, and meeting key stakeholders, including the audit committee chair and the CFO. This was supplemented, where relevant, by AIU reviews.

38. The meetings were to gain an understanding of views on quality, effectiveness and innovation and in relation to price. The meetings were conducted by an independent team from Deloitte, its client service assessment team, who reported back to the lead engagement partner and the firm’s executive. This was the benchmarking process for audit and non-audit clients.

39. Audit committees typically benchmarked by looking at publicly available data. For example [●] looked at FTSE top 10 and same sector businesses across Europe. [●] also compared country-by-country audit fees to the percentage of revenue and percentage of employees within the business. Deloitte stated that formal benchmarking occurred every year on re-appointment decisions. They also said informal groups met to discuss auditors throughout the year, for example, financial controllers of retailers got together regularly and would discuss their auditors. This was an ongoing process of informal benchmarking. In addition audit committee chairs were normally on more than one board which gave them the opportunity to compare price, service and innovation. The majority also had an audit background and so could draw on that experience.

Restrictions on entry and expansion

40. Deloitte noted that a client, [●] switched from a Mid Tier firm to Deloitte. Deloitte had previously carried out non-audit work for the client. Deloitte said the client told it the reason for the switch was because there was a difference in quality. [●] switched from Mid Tier to Deloitte because of Deloitte’s upstream oil and gas expertise, links to the Moscow office and IFRS expertise. [●] switched to Deloitte because of sector expertise and IFRS expertise.
41. Deloitte’s auditor was Grant Thornton [●]. This requirement to switch was quite unhelpful to smaller auditors. Deloitte noted that Grant Thornton stated in one of its submissions to the CC, that it had 260 listed companies, although the majority were in the AIM market, which was only 10 or 15 per cent less than EY, so Grant Thornton already had a large presence in the market.

42. Deloitte felt that it was growing because it was prepared to put in time, effort and investment. It pointed out that in submissions, the Mid Tier firms said they invested and had the ability to invest more, so the firms did not see investment as a constraint on their ability to grow.

43. In Deloitte’s view, if it was the incumbent auditor in a fast growing company, it was in the best possible position to demonstrate its capabilities and skills in accordance with the needs for that specific company. If companies nevertheless switched they did so on the basis of their needs at the time and their assessment of the providers.

44. In Deloitte’s view, all firms made decisions about where they invested their people’s effort and time. Grant Thornton appeared to have focussed on AIM and had been successful in that market and had also recently won £43m of former Audit Commission work. Deloitte had chosen to invest elsewhere.

45. The removal of Big 4 clauses would have no impact on Deloitte’s business and it felt that companies should make decisions for themselves about choice of auditor. Deloitte felt that the clauses did not aid confidence in financial reporting.

Switching Costs

46. Deloitte cited [●] as an example of a new engagement where it did not agree with the existing accounting policy. Deloitte would find it quite unusual not to review all accounting policies on appointment by a new client. It also noted that it conducted a yearly review of policies and practices of all companies it audited to ensure it captured any changes in standards, any clarifications around a standard or different approaches being taken in an industry – regardless of whether the company was a new audit client or an existing audit client. Firms would normally be asked to review accounting policies as part of the tender process. Deloitte would benchmark existing judgements with others in the industry and demonstrate what best practice was in the industry.

47. In Deloitte’s view, companies did not see such appraisal of polices as a risk. Audit firms had a duty to ensure that financial statements were of quality and management and the audit committee had similar fiduciary duties towards shareholders.

48. The highest inherent risk of audit failure during the lifetime of an audit tenure was during the first year. The partner and director hours were significantly higher in the first years in order to mitigate this risk. In addition significant changes in the business, the structure, the management or strategy were all triggers that increased the risk of audit failure.

49. Deloitte said that the level of absolute risk was important and how it chose to mitigate the risk was how it operated. It said that inherent risk altered over time and was affected by globalisation of the business and increased complexity.

50. Audit Engagement Partners (AEPs) rotated in line with ethical standards which were designed to maintain independence. Audit partner rotation also helped to provide a new perspective. During the final year of transition there were discussions with the incoming partner where all judgments would be discussed, to ensure a seamless
transition and visibility to the client of the new partner. The process was carefully managed to ensure that everything would not need to be learned again from scratch. Deloitte did not see this as a tension.

51. Deloitte gave the example of where the incoming partner presented an informal tender document with new ideas that was so well received that three years into the five year tenure the AEP was asked to do the same again.

Reputation as a proxy for quality

52. Most companies had previous interaction with Deloitte and that was how the FDs and ACCs were aware of the bespoke quality, insight and expertise that Deloitte delivered. Reputation was no more than a result of the previous experiences of the company with Deloitte. The ACC and FD understood the business, the industry and the aspects that caused errors and were able to judge from their experience the effectiveness of the audit plan.

53. Deloitte said the most important criteria companies required in an auditor were the expertise and quality that the AEP brought to the process and the quality of his team.

Sunk costs

54. Deloitte indicated that Audit Partners spent approximately 75 per cent of their time on audit work and much of the remainder was spent on other areas of the business, including management of the business, business development, and delivering non-audit work, which allowed them to build relationships. Delivering work was how relationships were built.

55. The proportion of time that was non-billable was approximately 30 per cent and this was spent on holidays, training, appraising and business development.

56. Not all relationship building was for the purpose of gaining audit work. Deloitte gave the example of work they did for (a non-audit client). They were building a relationship with to win non-audit work.

57. All firms were competing in this way, providing audit and non-audit services. Examples were Grant Thornton providing non-audit services to 36 FTSE 100 companies and 66 FTSE 250 companies and BDO providing non-audit services to approximately 57 companies of which 23 were FTSE 100. Non-audit services were a way of building relationships and demonstrating the level of quality that was provided.

Liability

58. Deloitte stated that the low cost of claims against the firm over the last ten years reflected the quality of its audits rather than the business being low risk. They referred to the examples of Spicer and Pegler, Binder Hamlyn and Andersen as evidence that auditing was a high risk business. It was of the view that if it did not maintain its focus on quality and got the audit wrong, the potential result was catastrophic.

59. The loss of trust and confidence could potentially trigger the collapse of a Big 4 firm. Clients required confidence that the business would continue to be successful or they would chose to take their business elsewhere. This was what happened to Andersen.
Banking

60. Deloitte noted that in the context of the financial crisis, the judgements made by auditors had been carefully evaluated and subsequently nobody had said those judgements were wrong. Deloitte said that as a firm, it did refuse to sign the audit opinion of a financial client, where it was not able to give a clean audit. It informed the client and the FSA. [3] subsequently failed. In Deloitte’s view, it was misleading to say that audit firms were unaware and unresponsive to the issues of the financial crisis. During the banking crisis the number of modified audit opinions increased substantially, although many were not in the reference market.

61. As a consequence of the financial crisis Deloitte was working closely with the regulator and recognised the need to improve the relationship with the FSA. There is now a code of conduct between the Firms and the regulator to ensure information was shared. In addition there was an increased appetite from investors to understand more about what the big judgements were and Deloitte was talking to investors and responding to consultation papers to improve audit reporting. Audit committee reporting was an area it had seen develop over the last two or three years.

Shareholders

62. Deloitte stated that the aim of audit was to provide assurance to the shareholders (investors) of a company (as a body). Deloitte noted that under UK corporate governance, shareholders delegated their responsibility for choice and selection of the auditor to the board and the ACC. On this basis, Deloitte considered the interests of the auditor and of the shareholder were aligned. Investors were generally satisfied with the quality of audit work but some investors wanted to know more about the scope and materiality of the audit, the judgement areas and the areas of concern. Although, in Deloitte’s view, there was no homogeneity in the views of investors. Deloitte said the current form of the audit report where it had a ‘pass/fail’ test had served the market well as it left no room for doubt but recognised that there was a demand to provide more information on for example scope, materiality and areas of audit focus. Deloitte took the view that any further information should be included in the audit committee section of the financial statements rather than in the audit report and this was a debate it was having with bodies such as the FRC and the IAASB.

63. Deloitte indicated that if investors wanted to voice concerns about the quality of the audit, the formal mechanisms were there for them to be able to do so. The CC survey showed that companies listened to views of investors. Deloitte believed that the current process allowed shareholders to influence companies and that investor activism had been focused on director pay over the last nine months and not on audit scope or auditor selection decisions.

64. Deloitte said that the level of interest shown by investors had been slight until the last few years. Deloitte explained that it was going to hold its first stakeholder conference with investors, the FRC and other stakeholders shortly to improve dialogue. This was not company specific but would focus on the wider issue of the future of auditing and was specific to Deloitte.

65. Deloitte noted that for more than the last ten years the Policy and Regulatory Group had regular meetings with investors. In addition there was the corporate reporting and auditing group (a meeting of investors and auditors).

66. Deloitte also noted that it was prevented from having dialogue with investors on individual companies because of insider dealing rules but noted that while the audit report was standard, the financial report and all of the statements that went with that
were bespoke to the company. Deloitte said that, whilst not visible, the vast majority of the audits it had performed had an influence and resulted in changes to the financial statements. Deloitte saw this as part of its role as an auditor.

67. In Deloitte’s view investors had varied opinions and did not have one homogenous voice. It said investors did not have more to gain than company management from switching auditors. If after assessing quality and price a company was not satisfied and decided to switch, this was an example of the market working properly. The costs associated with switching were not significant and did not prevent a company from switching.

**ACCs**

68. Deloitte believed that in the majority of cases there was an alignment of interest between auditors, management and investors. It said that it was the role of management to put out information to the market that was reliable and as auditors Deloitte was keen to ensure that that is what happened, that the information was true and fair and this is what investors wanted. It said that the purpose of the whole corporate governance mechanism, including audits was to provide checks and balances and it noted that according to the Federation of the European Accountants the UK was a world leader in corporate governance.

69. Personal reputations and integrity were important factors to ACCs who would not risk their reputations and careers by acting with personal bias or for personal gain. In addition ACCs had legal requirements, rules and restrictions but it was their personal commitment to the right values that ensured they performed effectively. ACCs had built up their careers over 30 years and it was not in their interests to not act effectively in the interests of shareholders. Deloitte noted that ACCs were also directors of the company and had the same fiduciary duties as the executive directors of a company.

70. Deloitte stated that ACCs did not have too limited time or resources. They said that the CC case studies showed that some ACCs met the auditors ten times a year and Deloitte’s experience was that it was easy to contact the ACC to discuss any issue at any time. They also said that ACCs were very focused before accepting an appointment to obtain a detailed understanding of how an organisation was run.

**Corporate governance**

71. Deloitte said the Smith report was very clear about the duties of directors and their interactions with auditors. More generally the corporate governance system in the UK, which encompassed audit, set out how directors of a business should run a company on behalf of shareholders and covered many aspects including audit. In Deloitte’s view, the obligation of the directors to prepare financial statements to be provided to the shareholders and to have those statements audited independently was a key plank of the corporate governance regime. Deloitte confirmed that the majority of communication between audit firms and shareholders operated through company management (including non-executive directors).

**Conclusion**

72. In 1995 Deloitte audited five FTSE 100 companies and it subsequently built capabilities and invested to be able to audit top-tier clients. This was an example of how audit experience was not a barrier to expansion.
73. Switching decisions were based on extensive evidence carefully appraised and there was no bias from buyers of its services. Deloitte urged the CC to have more dialogue with companies about the process of choosing auditors. Deloitte stated that buyers of audit services were making the right decisions for the right reasons.

74. There was no reason why one or more of the Mid Tier firms could not gain additional FTSE 350 audit work in certain sectors in the next few years if they had the appetite and focus to invest.

75. Deloitte’s opinion was that the market was very competitive and working well.