

Response to five working papers concerning audit prices, engagement level profitability, costs, tenure and switching

Introduction

- 1 This paper provides our response to the Competition Commission's (**CC**) five working papers (**the five WPs**) on:
 - (a) Price concentration analysis (**PCA**), where the CC sets out its views on the use of econometrics to analyse whether there is a relationship between market concentration and audit fees.
 - (b) Engagement level profitability, where the CC reports on its analysis of engagement level data that it has gathered through responses to various data requests.
 - (c) Econometric analysis of audit costs, where the CC summarises its analysis of the labour costs that are incurred by audit firms when providing audits to large companies.
 - (d) Long audit tenure companies, where the CC considers the evidence on the characteristics of companies that have what it refers to as "long" engagements with their existing audit firms.
 - (e) The lifecycle of FTSE 350 companies, where the CC considers the movement of companies between different index designations and how this has been associated with observed instances of switching auditors in the years these companies were active in the industry data set (**IDS**).

Summary

- 2 We have explained to the CC from the outset of this investigation that there is effective competition throughout the audit cycle, not just at the point of tender, and we have provided a substantial amount of evidence that demonstrates this is the case.
- 3 Our view is that the five WPs, together with econometric analysis that we have carried out in order to respond to them:
 - (a) provide further concrete evidence that the market delivers competitive outcomes in terms of prices and profitability, irrespective of whether companies tender and/or switch; and
 - (b) illustrate how the competitive process in the market works and is effective, both inside and outside of the tender process. For example, the WPs show that mid-tier firms are not at a cost disadvantage when competing with us; nor do we "target" growing companies before they enter the FTSE 350 (any more than we target other companies) or "lowball" when setting our prices.
- 4 We set out below our views on the key themes covered in the five WPs: the prices that are paid by companies for their audits; the profits that are generated by audit firms; and the competitive process.

- 5 It is, however, important to note that our response to the five WPs is limited in a number of ways because:
- (a) It is not always clear what views, if any, the CC is drawing from its analysis. By contrast, a number of the CC's earlier WPs fed into its Overview WP and its Nature and Strength of Competition (**NSC**) WP, which provided a greater degree of visibility of the CC's emerging conclusions.
 - (b) We cannot replicate or interrogate much of the analysis because it is based on the engagement dataset for the large company audit market, to which we do not have access.
 - (c) We have been asked to respond to a number of complex but potentially important pieces of analysis in a limited amount of time.
- 6 In this response, we therefore comment on some of the key points in the five WPs, and explain to the CC in high level terms what inferences we believe the CC should draw from them with regard to the nature of competition in the large company audit market.
- 7 In the event that the CC were to interpret the evidence differently, it may be necessary for us to pursue matters further (for example, by analysing the five WPs more thoroughly in the context of any conclusions the CC has drawn from them and/or exploring the use of a confidentiality ring in order to ensure that the parties are able to effectively analyse the evidence drawn from the engagement data set).

Competitive market outcomes - Prices

- 8 In its PCA WP, the CC argues that the audit market is not a "good fit" for PCA and for this reason does not carry out an econometric analysis of prices.
- 9 In our view, while we agree that a PCA of the audit market is not appropriate, a rigorous analysis of prices using econometrics can nevertheless provide important insights into competition in the market. This is one of the main reasons why we and the other audit firms made considerable efforts to define protocols for, and then populate, the IDS which provides the CC with a comprehensive dataset and the ability to carry out analysis of audit fees over a ten year period.
- 10 We have therefore carried out our own econometric analysis of audit fees using the IDS. Our analysis has been endorsed by Professor Andrew Chesher from University College, London (UCL) and is included as a companion to this response¹.
- 11 The key findings from our econometric analysis are:
- (a) Over the long-run (i.e. the period from 2000-2010 for which we have data), companies which tendered or switched did not on average obtain lower prices than those companies which did not tender or switch. This finding is important because it provides concrete

¹ "An econometric analysis of the prices of large company audits", PricewaterhouseCoopers LLP, 7 December 2012.

evidence that competitive pressures are as effective outside a formal tender process as they are for those companies that do tender or switch.

- (b) Although companies on average obtain lower prices the year after switching or tendering, the magnitude of price reduction depends on the specific context. Where the tender or switch took place as a result of a “direct” decision by the company (e.g. due to dissatisfaction or for corporate governance purposes, rather than take-over or following the demise of Arthur Andersen), on average this led to an immediate reduction in prices of 9% relative to the price paid by companies that did not tender or switch.²
 - (c) The price benefit of these “direct” tenders and switches is temporary (with prices, over a period of two to three years, generally returning to or exceeding the level that would have been obtained without tendering or switching).
 - (d) The effect of changes in audit scope and complexity on price is greater than the impact of changes in the previous year’s audit fee. This provides evidence that the annual scope and fee negotiations between non-switching companies and their auditors are substantial and important exercises which involve detailed discussions.
 - (e) Audit prices do not increase with tenure.
- 12 It follows from these observations that while companies may benefit from a short-term reduction in price when they tender and/or switch, they do not on average obtain lower prices over a ten year period than those companies which do not.
- 13 It is also important to note that:
- (a) Those companies which do switch will incur other costs (which need to be set against the short-term price benefit). These include foregone longer-term price reductions (as the benefits of familiarisation are lost; see paragraph 20 below), the time and effort that is spent by company management when developing new and effective working relationships with the new audit firm (which are important in the provision of high quality professional services)³, and the potential risk to audit quality when switching.⁴
 - (b) This profile of price reductions and cost absorption from tendering and switching is heavily dependent on the current frequency with which it occurs. As we explained in our response to the CC’s working paper on Switching Costs, if companies were to tender and switch more frequently, audit firms are unlikely to: offer the same short-run price discounts; incur the same tendering costs; or bear the same share of the costs of

² “An econometric analysis of the prices of large company audits”, PricewaterhouseCoopers LLP, 7 December 2012.

³ As we have previously set out in our response to the CC’s WP paper on Switching Costs, in spite of efforts to minimise switching costs, there remain real costs for both the new audit firm and the company in ensuring that the new auditor is capable in providing an effective audit in the first few years after appointment (e.g. staff time to get to know and understand the business, management time to educate the new auditors) (see paragraphs 9 and 10). See also paragraph 5.35 of our Initial Submission.

⁴ The CC recognises that there is a potential cost in terms of the increased risk of audit error following a switch (see paragraphs 31 to 47 of the CC’s WP on Switching Costs) and this is supported by the evidence in the case studies (see, for example, case study A where the ACC described first year audits as “scary” due to the auditors’ lack of knowledge of the company and management (paragraphs 61 and 76) and see case study G, where the GFC raised the risk of auditors missing something that management either did not want to share or that they had not fully understood as being “the most significant downside” to switching auditor (see paragraph 24)). See also paragraph 5.35(c) of our Initial Submission and our response to Q35 of the CC’s MFQ.

transition for companies.⁵ This is because, as we have explained in our submission on audit profitability (which is endorsed by Professor Ian Cooper of the London Business School), we currently generate only a normal return on our audits.⁶

Competitive market outcomes - Profits

- 14 The CC's WP on engagement level profitability confirms that companies obtain competitive market outcomes, whether or not they tender and switch.
- 15 The engagement level profitability WP shows that profits are lower in the very early years of a new audit (as the new audit firm bears the cost of getting up to speed and learning about the company, as well as offering a reduced price). This is consistent with our experience that costs rise substantially immediately after winning a new appointment, as competition in the market forces the audit firm to bear the costs of the familiarisation process (not all of which are necessarily recorded fully in our financial systems). This rise in costs contributes to margins being low immediately after a switch.
- 16 However, the engagement level profitability WP also shows that profits rise in the first five years of a new audit engagement. This is consistent with our econometric findings that prices track back up over the early years of a new audit engagement, and also consistent with the CC's findings that engagement costs fall as the new auditor becomes more familiar with the company (which we take to mean more knowledgeable about the company and therefore better able to provide a high quality audit efficiently).
- 17 We note that the CC's econometric analysis of audit engagement costs shows that costs decline with tenure as a result of "learning by doing" effects (at the rate of about 2.6% per annum over the first 10 years of engagement). We agree that such effects exist although it is difficult to be sure of the precise size of, or rate at which, they are achieved, given the other changes that affect audit costs and prices over time. It is also difficult to be certain about whether these effects continue for more than 10 years, given the underlying quality of data available.⁷
- 18 Importantly, the engagement level profitability WP finds that profitability does not continue to rise, but reaches a plateau after about five years (see paragraph 11 (b) of the WP). There is no evidence that engagement profitability differs with respect to length of audit tenure, save for the short-term⁸ effect of the combination of the relatively low initial fee and relatively high familiarisation costs borne by the audit firms in the early years of a new engagement. It is unlikely that this would occur if the market were not competitive.
- 19 We note that this pattern of engagement level profitability is consistent with evidence that we have previously submitted to the CC, most notably:
 - (a) Our analysis which shows that there is no relationship over the long-term between our measure of the profitability of our FTSE 350 audit engagements (CPy) and the length of

⁵ See paragraph 16 of our response to the CC's WP on Switching Costs.

⁶ "Observations on the assessment of audit profitability", PricewaterhouseCoopers LLP, 31 July 2012

⁷ For example, 33% of all engagements in the IDS are coded as having started in 2000 - perhaps reflecting engagements which started in an unspecified year no more recent than 2000.

⁸ Being less than or equal to five years.

tenure of these engagements (see Figure 11 in our Initial Submission and Figure 1 in our response to the CC's NSC WP).

- (b) As we have explained in our submission on audit profitability, which is endorsed by Professor Ian Cooper of the London Business School,⁹ the profits we generate from audit are consistent with a competitive market.

20 Importantly, these patterns of profitability and costs show that on current levels of tendering and switching, on average, companies benefit from reduced audit costs associated with continued tenure beyond the first three to five years (generated from learning by doing effects) which then tend to be passed onto them in the form of lower prices (as profitability remains flat).

An effective competitive process

21 The five WPs also illustrate the nature of the competitive process in the market, and how this process is effective (over and above how it delivers competitive outcomes) both inside and outside of tenders.

22 In this regard, three key points emerge from the WPs in relation to audit firm costs:

- (a) The costs of large audit firms are not substantially different from those of the mid-tier (when adjusted for differences in their size; see paragraph 77 of the Econometric analysis of audit costs WP).
- (b) There are no cost economies of scale in relation to size of audit firm (see paragraph 67 of the same WP).
- (c) There are cost economies of scale in relation to the size of the company being audited (see paragraph 65 of the Econometric analysis of audit costs WP).

23 Taken together, these observations suggest that there is no inherent cost advantage of being a large audit firm, and that the incremental engagement costs that are involved in increasing the average size of engagement are low. These observations are also consistent with our views on how mid-tier firms could grow their market positions, as set out in our response to the CC's Barriers to Entry Framework (BEF) WP.¹⁰

⁹ "Observations on the assessment of audit profitability", PricewaterhouseCoopers LLP, 31 July 2012.

¹⁰ See paragraphs 13 to 19 of our response to BEF.

- 24 The five WPs also shed light on the behaviour of large audit firms. In particular:
- (a) The four largest audit firms do not specifically “target” companies audited by the mid-tier prior to them coming into the FTSE 350 any more than any other companies are targeted (contrary to the suggestion of some of the mid-tier firms;¹¹ see paragraph 23 of the Lifecycle of FTSE 350 Companies WP).
 - (b) Nor do the four largest audit firms low-ball in order to win work (as some of the mid-tier firms have suggested;¹² see paragraph 11(d) of the Engagement Level Profitability Analysis WP).
- 25 Finally, we note that while it is particularly difficult to draw inferences from the WP on the lifecycle of FTSE 350 companies, the CC’s analysis understates the dynamic nature of the market, in particular as a result of the treatment of companies that are “*always part of the FTSE 350*” and the treatment of Andersen switches.

Conclusion and our response to each of the five WPs

- 26 Taken together with the evidence that is already available to the CC, we believe this demonstrates that the market is producing outcomes which show that it is functioning effectively and is competitive.
- 27 We highlight our main high level observations on each of the five WPs in the sections below.

Section 1: Comments on PCA WP

- 28 In the companion paper to this response, “*An econometric analysis of the prices of large company audits*”¹³, we set out our own econometric analysis of audit fees which has been endorsed by Professor Andrew Chesher from UCL.

Section 2: Comments on Engagement level profitability WP

- 29 We recognise many of the findings in this WP, in particular:
- (a) As discussed above, the patterns of profitability of engagements by tenure and the effect of switching (paragraph 11 of the WP).

¹¹ See paragraph 12 of the Competitive Strategies WP which sets out that there is a perception by mid-tier firms that the four largest firms attempt to enter the market for smaller companies by targeting mid-tier clients and offering to undertake work at close to cost price. As we explained in paragraph 1.4 of our response to this WP, the four largest firms are already present - and have significant market shares - with regard to all listed and large private companies and as the CC’s Survey shows, non-FTSE 350 companies frequently prefer the four largest firms so it would be wrong to characterise the four largest firms as trying to “enter” this market by targeting mid-tier clients. 85% of Non-FTSE 350 companies already use one of the four largest firms for their audit and 46% of non-FTSE 350 firms said they only invited the four largest firms to tender (see slides 16 and 54 of the CC’s Survey).

¹² See, for example, paragraph 1.6.2 of the initial submission by BDO (dated 13 January 2012) which suggested that large audit firms offer “*deep discounts*” in order to win business from (or not lose business to) smaller audit firms. See also paragraphs 12 to 14 of the CC’s WP on Firms’ Stated Competitive Strategies where the CC states that there is a perception by mid-tier firms of “*low-balling*”. As set out in our response to this WP, there is no evidence to support this suggestion as our approach in any audit tender to a bid aims to be competitive in terms of quality and price and to reflect the economics of the business and is not strategically aimed at targeting mid-tier audit firms (see paragraphs 1.4 and 1.5 of our response to this WP).

¹³ “*An econometric analysis of the prices of large company audits*”, PricewaterhouseCoopers LLP, 7 December 2012.

- (b) The relative profitability of engagements by market segment (i.e. that FTSE 100 audits appear more profitable than FTSE 250 audits and that top track audits are somewhere in between; see paragraph 7 of the WP). It is unclear, however, how reliable these observations are. It could, for example, simply reflect:
 - (i) the approach that has been adopted to estimating the cost of partner time. FTSE 100 audits generally require more senior (and therefore more costly) partner time but this is not reflected in the CC's analysis (or indeed our own approach to estimating engagement level profitability, CPy); and/or
 - (ii) that we are able to recover slightly more of our fixed and common costs (such as the costs of Aura - our bespoke software system designed to improve the quality, effectiveness and efficiency of our audit) on the audits of larger and more complex companies (because the demands of auditing such companies has driven these investments).
- (c) The high variation in engagement level profitability (by company and over time; see paragraph 8 of the WP). This reflects the dynamic nature of the market, the bespoke nature of the audits we provide, and the negotiations that we have with different companies.
- (d) While we price flexibly and in certain circumstances do so according to seasonal demand, there is no evidence to indicate widespread price "discrimination" based on the timing of work (see paragraph 20 of the WP).

30 We disagree with any suggestion that:

- (a) Familiarisation costs might create a barrier to entry for the mid-tier firms (paragraphs 13 - 16). The process of familiarisation (which we take to mean being more knowledgeable about the company and therefore better able to provide a high quality audit efficiently) is an inherent feature of the market faced by all audit firms when they win new appointments. As we have set out previously, audit firms have strong incentives to win new business. Indeed, we note that the CC's analysis (see paragraph 16 of the WP) shows that new business is not unprofitable. Moreover, the ability of audit firms to successfully win new business when they make a concerted effort to do so is demonstrated very clearly by the gains in market share that have been made by Deloitte over the last 10 years.¹⁴ We also refer the CC to our response to the CC's WP on BEF.
- (b) There is any meaningful relationship between engagement level profitability on the one hand and sector concentration on the other. Our views on the relationship between prices and concentration (or lack thereof) are set out in the companion to this response.¹⁵

31 Finally, we reiterate the comments we have previously provided to the CC about the accuracy of the data on which this analysis is based.¹⁶

¹⁴ See, for example, our infographic (available at <http://www.pwc.co.uk/who-we-are/the-uk-statutory-audit-market-infographic.html>) which shows the dynamism of the market and the increase in Deloitte's market share.

¹⁵ An econometric analysis of the prices of large company audits, PricewaterhouseCoopers LLP, 7 December 2012.

¹⁶ In the various cover letters that have accompanied our responses to the CC's data requests.

Section 3: Comments on Econometric analysis of audit costs WP

32 We recognise that:

- (a) Costs decrease with tenure but, as discussed above, we believe it is difficult to estimate the precise size of, or rate at which, they occur. It is also difficult to be certain about whether these effects continue for more than ten years, given the underlying quality of data available¹⁷.
- (b) There are economies of scale with respect to the size of the company being audited (see paragraphs 3 and 65 of the WP). We cannot comment on the accuracy of the CC's results (e.g. that a 10% increase in assets raises costs by only 1.9%) but we note that our own econometric analysis of prices also indicates that there are economies of scale with respect to company size. We find that a 10% increase in assets or turnover results in an increase in prices of 2.8% and 2.3%, respectively.
- (c) There is limited or no evidence on economies with respect to size or specialisation of the audit firm (see paragraphs 67 and 66 of the WP).
- (d) The CC finds no significant differences between the costs of large and smaller audit firms (when adjusted for audit firm size; see paragraph 77 of the WP).

33 These factors show that mid-tier firms do not suffer any inherent cost disadvantage relative to the four largest audit firms ((c) and (d)), and the incremental engagement costs they would incur were they to audit larger companies than those they currently audit are not high (b).

34 We also note that:

- (a) There is no systematic trend in audit costs over the period (see paragraph 78 of the WP). This is consistent with, and driven by, intense competition. Indeed, this finding appears to be in nominal terms, which suggests that the real costs of auditing have declined.
- (b) There is no evidence of significant complementarities or synergies between auditing and the provision of non-audit services (see paragraph 70 of the WP).
- (c) Costs increase when a company is involved in a merger (see paragraph 73). We do not, however, believe this is true when a company is taken-over by a company outside the dataset and the scope of its audit is reduced from a group to a subsidiary audit (with a consequent reduction in fee). We set out our views on this in our response to the CC's Descriptive Statistics WP,¹⁸ and our evidence on this in our econometric analysis of audit fees which is provided as a companion to this paper.
- (d) Costs increase when:
 - (i) a company is financially risky (see paragraph 73 of the WP). Our econometric analysis shows that two proxies for this (the ratio of a company's inventories to its

¹⁷ For example, 33% of all engagements in the IDS are coded as having started in 2000 – which we assume reflects engagements which started in an unspecified year no more recent than 2000.

¹⁸ See paragraphs 11-16 of our response to the CC's WP on Descriptive Statistics.

assets, and whether or not a company is making a loss) are statistically significant variables affecting audit fees; and

- (ii) a company's audit coincides with the audit busy period (see paragraph 76 of the WP), but we note that companies with such a year-end are also generally the largest and most complex companies so this is unsurprising.

- 35 The competitive nature of the labour market in which we operate means that we are price-takers for partners as well as for staff (see paragraph 23 of the WP where the CC suggests that this might only be true for staff). There is strong competition for the high quality and skilled people that we need to carry out audits.
- 36 Finally, we note that the CC states in paragraph 14 of the WP that it supplemented information obtained through its data requests with information from the FAME database. The CC accepted at the outset of this investigation that this database is unreliable - and this is why we, and other audit firms, went to considerable lengths to develop the IDS. In the circumstances, we expected the CC to disregard the FAME data and use instead the IDS. If this has not occurred, the results obtained by the CC are unreliable and we would wish to understand why the IDS has not been used.

Section 4: Comments on Long audit tenure companies WP

- 37 We recognise the WP's main finding that certain observable characteristics may be associated with a company not switching (e.g. size of company, complexity of audit - see paragraph 4 of the WP) but this is unsurprising. The larger and more complex the audit, the greater the switching costs for the company in question and the more effort it will take for a new auditor to become familiar with the company to ensure an effective audit. However, this is also true for the switching costs faced by the existing auditor and, as we have set out previously, the fact that each party faces such switching costs incentivises and enables companies to obtain competitive outcomes without switching.¹⁹ Our econometric analysis²⁰ shows that this in fact occurs (i.e. companies obtain competitive outcomes without switching).
- 38 The CC's finding that companies with an existing long relationship with a large audit firm are less likely to switch than other companies (paragraph 4) is also unsurprising. This reflects the fact that companies will not switch if they are currently obtaining a high quality and competitively priced audit and that the chances of this occurring are greater when companies use a large audit firm. The CC's Survey shows that companies which do not switch make this decision for positive reasons (see slide 60 of the CC's Survey) and that 94% of ACCs and 86% of FTSE 350 FDs say they are likely or very likely to switch if their auditor showed any signs of complacency (see slides 74 and 68 of the CC's Survey).
- 39 We also agree that unobserved effects will be important (see paragraphs 5 and 42 of the WP) but this reflects the nature of the service that we provide, i.e. bespoke professional services which are tailored for the specific company. Companies incorporate these qualitative factors in their decisions on whether to tender and switch as part of their approach to obtaining a high quality and reasonably priced audit.

¹⁹ See paragraph 14 of our response to the CC's WP on Switching Costs.

²⁰ "An econometric analysis of the prices of large company audits", PricewaterhouseCoopers LLP, 7 December 2012.

- 40 There are a number of points from the WP with which we take issue:
- (a) The CC focuses unduly on one aspect of its own survey results. The CC states that of those companies that have tendered in the last 5 years, 51% have not done so due to good quality of service and 25% have not done so because the audit fee is competitive- and suggests that a set of companies may therefore not have tendered due to reasons other than the quality of the audit, for example high switching costs (paragraph 2 of the WP). This is a selective and inappropriate use of the Survey evidence. The available evidence shows clearly that:
 - (i) Companies generally do not tender and switch because they are satisfied with the service that is provided. Indeed, the same slide (slide 60) that the CC is referring to in paragraph 2 in this WP shows that companies decide not to switch for positive reasons, where in unprompted responses to a question as to why companies do not switch auditor, 133% were positive reasons as compared with 29% which were negative.²¹
 - (ii) 94% of ACCs and 86% of FTSE 350 FDs say they are likely or very likely to switch if the auditor shows any signs of complacency (see slides 74 and 68 of the CC's Survey).
 - (b) The summary of our evidence at the hearing as regards long tenure engagements is incomplete (paragraph 12). Our main point in this regard was that many of our "long" tenure audits are with large and complex companies which are satisfied with the quality and price of our services. As explained above, the switching costs faced by large companies are relatively high but so are the switching costs that we face in the event of losing the audit. The fact that we each face these costs incentivises and enables companies to obtain competitive outcomes without switching. The evidence (e.g. our econometric analysis of audit prices) shows that this in fact occurs.
 - (c) We do not believe that the CC should exclude Andersen switches. We set out our views on this in our response to the CC's Descriptive Statistics WP but, in short, we believe that all switches should be included when assessing switching frequency (but not when assessing the price impact of these switches).²²
- 41 Finally, we note that the CC selected ten years as the cut off for defining "long tenure" companies (see paragraph 6 of the WP), having also focussed on a ten year time period in its analysis of learning by doing effects (in its Econometric Analysis of Audit Costs WP). We stress that there is no particular significance of ten years. Indeed, the evidence shows whether companies tender or switch within that timeframe is immaterial to their obtaining competitive outcomes.

Section 5: Comments on Lifecycle of FTSE 350 companies WP

²¹ The CC's Survey shows that the three main reasons why companies do not switch auditor are all related to receiving a competitive service: slide 60 shows that "*receive high quality service*", "*receive good value for money*", and "*happy as things are*" are the most common responses with 70% of companies citing one or more of these reasons. Indeed, the "positive" reasons for not tendering total 133% of FTSE 350 responses, with only 29% offering "negative" responses relating to cost or disruption, and a further 10% stating the time was not right for an immediate tender.

²² See paragraphs 11-16 of our response to the CC's WP on Descriptive Statistics.

- 42 We note the CC finds that switching from mid-tier audit firms to large audit firms is greater when a company moves out of the FTSE 350, rather than the other way round. This suggests that it is not necessarily the case that large audit firms target companies that are audited by mid-tier firms in advance of a FTSE 350 listing (any more than large audit firms target other companies).
- 43 However:
- (a) It is unclear what other inferences, if any, the CC intends to draw from its analysis in this WP.
 - (b) The analysis in the WP makes the market appear less dynamic than it is in reality. For example, if a company is designated as being in the FTSE 350 for all the periods that it is in the IDS, then it is treated as being “*always in the FTSE350*” - even if it has records for just one year or less. A specific example is Bumi which directly entered the FTSE 250 for the first time in Q4 2011, but is counted as one of the 208 companies which are “*always part of the FTSE 350 index*”. In fact, 40 of these 208 companies were in the FTSE 350 for five years or less. Our infographic shows much more clearly the dynamism that is in the market²³, as do the “waterfall” diagrams included as Figures 4 and 5 in our Initial Submission.
 - (c) We believe that a number of the calculations in the WP are inaccurate because the CC excludes Andersen switches from its analysis.

PricewaterhouseCoopers LLP

7 December 2012

²³ Our infographic is available at: <http://www.pwc.co.uk/who-we-are/the-uk-statutory-audit-market-infographic.html>