Competition Commission Audit Services Market Inquiry
12 October 2012

*Deloitte response to the Competition Commission’s working paper “Evidence relating to the selection process: tendering, annual renegotiations and switching”*
Deloitte response to the Competition Commission’s working paper “Evidence relating to the selection process: tendering, annual renegotiations and switching”

1. Introduction and summary

1.1 Deloitte is grateful for the opportunity to comment on the paper published by the Competition Commission (the CC) on “Evidence relating to the selection process: tendering annual renegotiations and switching” (the Working Paper).

1.2 This response comments on the following areas:

(a) The evidence relied upon by the CC in preparing the Working Paper;

(b) Tender process: evidence of a detailed tender process;

(c) Tender process: evidence of innovation;

(d) Tender process: opportunities outside a formal tender process;

(e) Tender process: costs of participation;

(f) Renegotiation: evidence of a detailed renegotiation process;

(g) Renegotiation: robustness of benchmarking;

(h) Switching: effects of switching; and

(i) Additional comments contained in an annex

1.3 We have already addressed some of these issues in our response to the CC’s working paper on “The framework for the CC’s assessment and revised theories of harm” (the Theories of Harm Working Paper) and our response to the CC’s working paper on “Restrictions on entry and expansion” (the Barriers to Entry Working Paper).

2. The evidence relied upon by the CC in preparing the Working Paper

2.1 The Working Paper purports to address the strategies of companies in their auditor selection and reappointment decisions. However, the evidence on which it relies is that provided by audit firms, to the exclusion of evidence from companies themselves (and their officers who conduct the selection process). The Working Paper explains that it relies “largely” on the MFQ responses from audit firms and specifically states that it has not taken account of evidence from the company case studies undertaken by the CC (the Case Studies) or from the IFF survey conducted for the CC (the CC Survey).

2.2 We urge the CC to consider all of the information before it, in particular that from the Case Studies and the CC Survey, in addition to the information provided by the audit firms in their MFQ responses. We note two areas which are particularly impacted:

(a) The Working Paper relies upon tender information supplied by audit firms. However, this information is limited in duration and detail. Most firms, as is the case with Deloitte, appear only recently to have started systematically tracking tender information. Information was...
provided by audit firms to the CC in February 2012. If this information had been supplemented by discussion with the relevant companies themselves it would likely have provided a more complete picture.  

(b) The consideration of benchmarking, which takes into account only processes conducted by and/or with the auditor, to the exclusion of work done separately by the company to benchmark their auditor.  

2.3 The CC cannot draw any conclusions on the basis of this Working Paper since it does not set out and consider the evidence in the round. Furthermore, even the totality of the evidence that the CC has gathered would not give a sufficient evidential basis for the conclusions that are set out in other working papers, in particular that ACCs and CFOs rely on “proxy measures” such as reputation in making their auditor appointment, appraisal and reappointment decisions. On the basis of the evidence gathered to date, it is not open to the CC to come to such a conclusion.  

3. **Tendering: detailed nature of the process provides opportunities to demonstrate quality**  

3.1 The Working Paper sets out significant evidence that the tender process is detailed and in-depth, discussing the three key stages of a process. It covers the following areas: fees, team, service approach, transition to new auditor, services offered, selection process, and proposal documentation. This evidence is strongly supported by the evidence in the Case Studies and the CC Survey. In particular, they demonstrate that:  

(a) companies regard as most important – and make their decisions based on – a range of factors concretely related to value and quality provided by the auditor;  

(b) companies are committed to ensuring that the process is carried out with widespread input from across the company; and  

(c) they invest appropriate time and effort in ensuring that the process is robust and that the outcome is the one which is the best for the company.  

3.2 The detailed tender process has a number of important consequences:  

(a) First, it means that audit firms have an excellent opportunity to get to know the business before submitting their tender. This reduces any incumbency advantage and levels the playing field for companies with less direct experience of conducting an audit of an exactly comparable company. The absence of significant incumbency advantages is shown by the fact that the incumbent firm wins only 20% of audit tenders.  

(b) Second, it gives firms multiple opportunities to show an understanding and appreciation of the business, even prior to submitting their formal tender.  

(c) Third, it means that company decision-makers are able to make their decision on the basis of:  

(i) properly-informed bids;  

(ii) detailed interaction with the audit firms;  

---  

4 See also our query relating to a specific sentence in paragraph 16, which is included in the Annex  
5 Paragraphs 159-162  
6 The Working Paper discusses the ‘tender process’ over 17 pages and 60 paragraphs (30 to 89)  
8 Paragraph 125
(iii) insight into the audit process envisaged by the audit firms;

(iv) insight into innovations envisaged by the audit firms; and

(v) insight into the audit firms’ assessment of the risk areas

3.3 That such a process is constructed by firms is not surprising: as the CC notes in the working paper on the “Nature and strength of competition in the supply of FTSE 350 audits” (the *Nature and Strength of Competition Working Paper*), it reflects the sophisticated nature of FTSE 350 ACCs and CFOs.

3.4 In the light of this evidence, we find it surprising that the CC appears to conclude elsewhere in the working papers that companies make auditor appointment decisions based on proxies for quality and capability because true quality and capability cannot be properly assessed. There is no good basis for such a conclusion in the evidence before the CC, as set out in this Working Paper and other working papers.

4. **Tendering: Innovation in the tendering process**

4.1 The Working Paper suggests that the CC’s review of tendering documents indicates that innovation plays little role in the tendering process. This is entirely wrong. Innovation is at the heart of tendering:

(a) First, a firm that had failed to innovate to be able to meet the changing needs and demands of companies in the FTSE 350 would be entirely unable to compete in a tender. As Deloitte has explained, there have been enormous changes in companies in the FTSE 350 in the past several years: they have become more international; their business models have developed and, commonly, become more complex; their financing structures have become more complex; and the deadlines within which they report have shortened. Any firm which had not innovated to adapt to (and, indeed, stay ahead of) these changes would stand no chance of winning any tender.

(b) Second, a tender process is about showing that the audit firm understands the company, its risk areas and its business, and is able to adopt a bespoke approach to the audit accordingly. If a firm is not able to work innovatively and flexibly to reflect and respond to this, it will not win tenders.

(c) Third, tendering firms seek to show that they will be able to offer innovations over and above what is being delivered by the incumbent auditor – by identifying efficiencies or additional insights that can be delivered. Examples of which Deloitte is aware include:

(i) [×] (won in [×] by [×] from [×]): the client’s selection panel was looking for the following from their auditors: a more commercial approach, value added from the audit and an detailed understanding of how we would work with them going forward;

(ii) [×] (won in [×] by [×] from [×]): [×] won the audit engagement on demonstrable value adds (in addition to a reduced fee). The winning firm impressed the client with its high level of global coordination and consistency. In addition, the winning firm demonstrated their audit software and provided examples of how they would report to the Audit Committee. They also provided benchmarking of policies and approach against the company’s peer group which was felt to add real value.

---

9 Paragraph 76 of the Nature and Strength of Competition Working Paper

10 For example, paragraphs 73-80 of the Barriers to Entry Working Paper

11 Paragraph 74

12 Information taken from post tender feedback received from clients or potential clients.
4.2 Of course, it is important to realise that innovation and a fresh perspective is not only delivered in the context of a tender process: companies expect it also from their incumbent auditor year on year. It is notable in this context that the most cited reason for going out to tender in the CC’s survey is the “complacency” of the incumbent auditor. Thus regardless of whether or not a tender takes place, audit firms will be expected to display and deliver innovation, and companies will make their decisions on which audit firm can best deliver the audit by taking that into account.

5. Tendering: opportunities outside a formal tender process

5.1 The Working Paper states that the “vast majority” of opportunities to build a FTSE 350 audit client portfolio arise from tenders. This understates the opportunities that arise from retaining growing clients who move into the FTSE 350. These opportunities are significant: the constituents of the FTSE 350 are continually changing, as shown by the fact that there have been nearly 700 firms in the FTSE 350 over the past decade.

5.2 Opportunities to retain a client as it moves into the FTSE 350 are particularly significant because an audit firm will have had the opportunity to impress the company with its capabilities in the conduct of its audit to date. This provides a countervailing argument to the complaint which some mid tier firms have made that companies are insufficiently aware of their capabilities (which is not correct in any case).

6. Tendering: costs of participation

6.1 The Working Paper suggests that “the costs to the audit firm of participating in competitive tenders are usually high”. As we have already submitted to the CC in response to its working paper “Evidence on switching costs (and implications for barriers to entry)” (the Switching Costs Working Paper), the fact that auditors incur costs of tendering is evidence that audit firms are prepared to invest in these relationships. This represents a pro-competitive feature of the market and not, as the Switching Costs Working Paper suggests, a barrier to entry.

6.2 The costs of tendering are incurred as a necessary cost of competition. Without incurring these costs, it would not be possible for bidding audit firms to provide companies with the insights that companies demand during the course of tenders and to compete on the quality dimension. As noted by the CC elsewhere, relatively poor performance in a tender can have adverse effects on a firm’s wider reputation with the potential client.

6.3 Most importantly, no firm has indicated to the CC that these costs represent a barrier to entry or expansion. There is no evidence for any suggestion to the contrary. This, of course, is the relevant benchmark by which the question of whether participation costs are high or not should be assessed, and there is no evidence that firms regard them as such.

7. Reappointment: detailed process with multiple tools

7.1 The Working Paper suggests that “annual reappointments are typically a standardized process”. While it is not clear exactly what this means, it is the implication of this Working Paper and other working papers that the reappointment process may not be sufficiently robust to allow a company
to make a judgement on the value and quality that it is receiving. There is no basis for this suggestion.

7.2 First, as noted above, it is surprising that the CC should seek to draw conclusions on the robustness of the reappointment process without taking proper evidence directly from companies.

7.3 Second, even the evidence provided by firms alone indicates that the renegotiation process is an in depth process. The Working Paper sets out significant evidence, discussing the process, changes in scope, documentation, parties involved, fees, companies’ buyer power, benchmarking, challenges from the company and the threat of tender. The Working Paper also acknowledges that there are clearly discussions that take place in the renegotiation process about which the CC has been unable to collate evidence.

7.4 Third, this is supplemented by the evidence in the Case Studies, which show an enormously detailed process of bottom-up quality appraisal, commonly involving detailed information gathering from a very wide range of officers and staff who have interacted with the auditor. This is commonly supplemented by benchmarking (both within the company and relative to peers) and other appraisal steps:

(a) **Company A**: the ACC states that the auditor is appraised annually against a long and detailed list of criteria, under the following top-level headings: robustness of the audit process (including professional scepticism); quality of delivery, and quality of people and service.

(b) **Company C**: the CFO explains the process of: "[the] annual appraisal of the auditor's effectiveness through a formal questionnaire completed by members of the Audit Committee, the Chief Auditor, General Counsel and regional senior management".

(c) **Company D**: the finance director explains that: "most years, the company sent a survey to its subsidiaries to rate the quality of the audit...The survey covered topics such as meeting deadlines, understanding the local businesses, the audit team continuity and performance, insights provided by the audit team."

(d) **Company E**: the finance director notes that there is an annual ‘discussion at all levels of the business’ on the auditor’s performance, conducted by management and also involving the audit committee;

(e) **Company F**: the ACC notes the “annual review process” based on the following criteria: quality of work, independence, timeliness of work, effectiveness of reporting, rigour and relationship with management.

(f) **Company G**: the Global Financial Controller explains a detailed process for assessing the performance of the auditor, by means of a “thorough questionnaire...sent each year to around 40 or 50 people around the company who had the main contact with the auditors.”

---

22 The Working Paper discusses the ‘annual reappointments’ over 12 pages and 40 paragraphs (135 to 174).

23 Paragraph 137

24 See also the Deloitte response to the Theories of Harm Working Paper, paragraph 2.23.

25 Paragraph 60 of the Company A case study

26 Paragraph 25 of the Company C case study

27 Paragraph 39 of the Company D case study

28 Paragraph 19 of the Company E case study

29 Paragraph 50 of the Company E case study

30 Paragraph 49 of the Company F case study

31 Paragraph 17 of the Company G case study
(g) **Company H**: the FD explains that the company “produced a full written report on the auditor every year”, based in part on best practice guidelines produced by ICAS.

(h) **Company I**: the company runs an annual appraisal process, assessing the auditor against criteria including: independence and objectivity, the members of the audit team, technical skills and service level and fees.32

7.5 Fourth, the CC Survey also shows the range of tools employed by companies, including appraisals, benchmarking, testing via contacts with other firms, negotiation of the audit fee, and requiring a re-proposal from the incumbent firm. The survey indicates that 91% of FTSE 350 companies undertake an annual post-audit review of the quality and value provided by the auditor.33 This is supported by other surveys of audit committee behaviour.34

7.6 Fifth, the reappointment process has to be viewed in the light of the expert nature of the buyers in this market who are clear of their duty to shareholders to obtain the best value for money from their auditor.

7.7 In summary, there is no basis for the Working Paper’s comment that the reappointment process is in any way “standardized” or rudimentary. The processes employed by companies are thorough, detailed and provide an opportunity for the companies to appraise the performance of the auditor, to identify areas where improvement is required or desired, to examine the audit plan for the following year, to challenge and agree the efficiency improvements proposed, and, without exception, the fee.35 The Working Paper’s categorisation that the renegotiation process “consists mainly of discussing the scope of the work and the fees for the following year”36 is therefore wrong.

7.8 If the CC is not satisfied that the evidence clearly indicates that the auditor appraisal and reappointment process is highly detailed and robust, we urge it to seek further evidence directly from CFOs and ACCs.

8. **Reappointment: robustness of benchmarking**

8.1 The Working Paper appears to be sceptical about the value of benchmarking. Again, it is important to note that the Working Paper is here again relying only on the evidence provided to it by audit firms – it has not sought or obtained the documents from companies that would evidence their own processes or the value that companies derive from them.

8.2 No evidence is presented in the Working Paper (or elsewhere in the CC’s evidence base) which could justify a conclusion that benchmarking is not a robust tool. The large majority of survey participants (79%) explain that they benchmark on fees by comparing with similar companies. This is performed on the basis of detailed analysis of the factors that will inform the audit fees of different companies, taking account of, for example, industry sector, turnover, market capitalisation and the extent of international activities. The comments we made in response to the Theories of Harm Working Paper warrant repetition here:

(a) the CC Survey shows that benchmarking is widespread and regular:

(i) a quarter of FTSE 350 companies (a proportion much higher than outside the reference market) benchmark audit fees every single year;

---

32 Paragraph 17 of the Company I case study

33 CC Survey, slide 46

34 See, for example, the KPMG survey of audit committee members at [http://www.audit-committee-institute.be/dbfetch/52616e646f6d4955637c548d72e9cc59976a8399c8d6b/aci_survey_june2010_1_1.pdf](http://www.audit-committee-institute.be/dbfetch/52616e646f6d4955637c548d72e9cc59976a8399c8d6b/aci_survey_june2010_1_1.pdf).

35 In particular, we disagree with the statement in paragraph 172 that in some cases “it appears that companies accepted price rises without challenge”. This is far from the case. We note the CC recognises that some fee negotiation is conducted in person and therefore not documented.

36 Paragraph 138
(ii) more than half benchmark at least every three years; and

(iii) more than two thirds benchmark at least every five years.\(^{37}\)

This strongly suggests that companies see benchmarking as a meaningful and effective tool to generate value for money. Our experience is that clients internally benchmark our audit work (for example across divisions of the same client) as well as externally;

(b) this is supported by the bulk of the evidence gathered in the Case Studies. The expert buyers in FTSE 350 companies are well able to discern within the various parameters that mark out one FTSE 350 company from another what level of audit fee would be appropriate:

(i) **Company A**: the ACC states that:

“The fee was negotiated annually and was benchmarked against other companies in the sector, for example [redacted]."\(^{38}\)

(ii) **Company D**: the finance director notes that the company “periodically benchmarked audit fees against other companies"\(^{39}\), the finance director and ACC also describe the informal retender which the company’s existing auditor was required to undertake, which involved a benchmarking exercise;\(^{40}\)

(iii) **Company E**: the ACC states that he “used benchmarking to assess whether the audit fee was fair”. Although the unusual nature of the company is widely noted throughout this case study,\(^{41}\) the ACC explains that even though the company was a “unique business”;

“this did not hinder the effectiveness of benchmarking as there were similar companies in terms of size and complexity to which to compare the audit fee.”\(^{42}\)

(iv) **Company G**: the global financial controller observes that he is “able to benchmark the fees the company paid against other banks’ audit fees”. He also explains that he cross checks against “other global FTSE 100 companies such as BP and Aviva”\(^{43}\);

(v) **Company H**: the ACC explains that the Audit Committee asked the finance function in the company to undertake a benchmarking exercise. The finance director explains that “the company did some benchmarking against other companies in extractive industries and companies with overseas requirements”\(^{44}\);

(vi) **Company I**: the finance director explains that the company has an annual benchmarking process:

---

\(^{37}\) See page 46 of the CC Survey

\(^{38}\) Paragraph 70 of the Company A case study

\(^{39}\) Paragraph 37 of the Company D case study

\(^{40}\) See paragraph 91 of the Company D case study

\(^{41}\) Paragraph 60 of the Company E case study

\(^{42}\) See paragraph 38 of the Company E case study

\(^{43}\) Paragraph 60 of the Company E case study

\(^{44}\) Paragraph 30 of the Company G case study

\(^{45}\) Ibid.

\(^{46}\) Paragraph 77 of the Company H case study

\(^{47}\) Paragraph 39 of the Company H case study
“The company benchmarked against similar companies, mainly in the same sector, which formed part of the regular Audit Committee papers when reviewing the fee every year.”  

The ACC gives further detail:

“Benchmarking included a combination of experience, looking at the charge-out rates and the number of hours, and making comparisons against other companies based on the publicly available information on audit fees, taking account of market capitalization and perceived complexity.”

(vii) Company J: the fund accounting manager states that:

“the [audit] fee was reviewed against the audit fees of other similar investment trusts to ensure that it was competitive.”

Moreover, internal or external procurement teams are increasingly used in the process – a point noted by 3i Group in its evidence to the CC:

“The Company instructed their Buying Team to assist in negotiating fees at the last review and would typically engage someone outside the direct audit engagement. The Buying Team was an external procurement consultancy that would not be swayed by any relationship issues and which had experience across the largest four auditors to identify best practice, time estimates and differing rates.”

8.3 Furthermore, we have explained to the CC that formal benchmarking is just one of many tools employed by the company. In particular, companies can benchmark formally between comparator firms, and also benchmark more informally through the other roles held by the ACC and other directors, and by informal contact with other firms. Comparative quality can also be assessed by means of the approach of other firms to non-audit work they are undertaking for the company, audit or non-audit work they are undertaking for other companies with which the other directors have a relationship, and from the directors’ own accounting and audit backgrounds. The Working Paper notes the evidence that CFOs and ACCs are in regular contact with other firms, who will use these opportunities to impress on those CFOs and ACCs the quality and value of their own proposition; the CC Survey shows that fully 78% of FTSE companies have these contacts every year. This contact does not appear to have been adequately factored into the Working Paper’s conclusions.

8.4 The Working Paper explains that audits are bespoke (a point with which we agree) and this may make it difficult for companies to benchmark against their peers. This underestimates the capabilities of those conducting the process. They universally have accounting (and commonly auditing) backgrounds. They are commercially aware, and are certainly aware of those dimensions of peer companies that would affect the audit fee. It is entirely within their abilities to make an informed assessment of how the features of peer companies might affect the audit fee, and consider the competitiveness of their own company’s audit fee in that light.

---

48 Paragraph 26 of the Company I case study
49 Paragraph 55 of the Company I case study
50 Paragraph 16 of the Company J case study
51 This point is also noted in Cerniawska and Smith, Buying Professional Services: How to get value for money from consultants and other professional services, 2010 (see page 35 et seq, where Stuart Diack of Deloitte explains the challenges that are sometimes faced when dealing with internal or external procurement teams).
52 Paragraph 12 of the summary of the conference call with 3i Group
53 Paragraph 99 of the Working Paper
54 Page 46 of the CC Survey
55 See also the Deloitte response to the Theories of Harm Working Paper, paragraph 3.9
9. **Switching: effect of switching**

9.1 The Working Paper sets out evidence on the effect of switching on audit fees. In general, the evidence shows that companies obtain a reduction in audit fees when they switch. This is to be expected and is a welcome sign of a market working well.

9.2 The CC will note that the most important reason why companies do not go out to tender is that they are happy with the value and/or quality being provided by their current auditor. By contrast, companies who do go out to tender are thus more likely to be those who are not satisfied with the quality and/or value of their current auditor.

9.3 This is consistent with the fact that incumbent auditors win a lower proportion of tenders than would be statistically expected if they had an even chance with other tender participants. Out of the tenders in which Deloitte participated in the five years to February 2012, Deloitte were incumbent in 19% of the tenders which it won (19%), and in 28% of the tenders which it lost (28%). As noted above, the CC’s statistic using the details of 50 FTSE 350 tender wins is that only 20% were won by the incumbent.

9.4 The Working Paper calculates the impact of switching on audit fees using audit fee per £1m turnover. This rightly allows for the scope of the audit to be controlled for across years.

9.5 We believe that the Working Paper misstates the results of the analysis in commenting that “We also considered whether, in the group of FTSE 350 companies, switching in favour of a Big 4 or a non-Big 4 has an effect on fees. We found that fees always reduce when switching auditor regardless of whether this change is in favour of a Big 4 or a non Big 4 firm.”

(a) Deloitte’s analysis of the public data set also found that on average the audit fee per £m of turnover decreased following a FTSE 350 switch for a Big 4 to either a Big 4 or a non-Big 4, but certainly not that this was always the case.

(b) Of the 57 cases that we identified (with adequate data) of a FTSE 350 company switching from one Big 4 to another there were 18 where the audit fee to turnover ratio in fact increased. To name a few these include:

(i) BAA plc switched from Deloitte to PwC in 2003 – 24% increase in audit fee per £1m turnover.

(ii) United Utilities Group plc switched from KPMG to Deloitte in 2002 – 19% increase in audit fee per £1m turnover.

(iii) Halfords Group plc switched from PwC to KPMG in 2009 – 30% increase in audit fee per £1m turnover.

(c) There were only 2 cases of FTSE 350 switches from a Big 4 auditor to a non-Big 4 auditor (with a cited 83% decrease noted in the Working Paper). However, Deloitte has found that there is a material error in the calculation, and additionally, in one case the audit fee per £1m turnover actually increased:

(i) Countrywide plc: Following a switch from KPMG to BDO in 2005 the audit fee per £1m turnover decreased by 83% based on the public data set.

---

56 Paragraphs 193-198  
57 Slide 60 of the CC Survey  
58 Paragraph 125  
59 Paragraph 194  
60 Note, we have included switches only when these occurred while the company was within the FTSE 350  
61 Paragraph 198
However, we note that there is an error in the 2004 audit fee which is driving this result. The public data set records the 2004 audit fee as £1,943k; however it should be £332k (an item of non-audit fee is included in error). Upon amending this error, as well as correcting the 2004 turnover figure, the percentage change in audit fee per £1m turnover is a decrease of 14%.

(ii) Fidelity European Values plc: Following a switch from PwC to Grant Thornton in 2006 the audit fee per £1m turnover increased by 23%.

9.6 The Working Paper is therefore misleading in its conclusions related to the impact of switching on the audit fee to turnover ratio. Whilst on average switching from a Big 4 to either another Big 4 or a non-Big 4 has the impact of reducing the ratio, there is a great deal of variation. The specific circumstances surrounding each switch will ultimately determine the impact on the audit fee on a case by case basis. This is unsurprising: there are a large number of factors which can affect the audit fee from year to year – whether or not in the context of a tender. These can include changes in the company’s business or operations, a shift in the balance of work between the auditor and the company, and innovations by the auditor and/or the company.

10. Conclusion

10.1 The Working Paper appears to rest on an implicit assumption that only formal tendering generates a truly robust outcome for a company in terms of ensuing optimal value and quality from the audit. There is no good basis for, and no evidence has been gathered which supports, such an assumption.

10.2 On the contrary, we consider there to be significant evidence that tendering and annual renegotiation processes are robust, and that companies perform numerous exercises to reassure themselves that their tender and reappointment/switch decision is correct.

10.3 Based on the informed nature of purchasers, who are well able to determine whether or not their company would benefit from tendering and/or switching auditor, the evidence base does not support any conclusion that auditor selection processes, or their outcomes, are anything other than optimal. On the basis of the evidence gathered by the CC to date, it is not open to the CC to conclude otherwise.

62 Via RSM Robson Rhodes LLP. Although the initial switch was from PwC to RSM Robson Rhodes, during the year end 31 Dec 2007 RSM Robson Rhodes merged with Grant Thornton to Grant Thornton UK LLP.

63 Deloitte was unable to trace the turnover figures in the public data set to the Fidelity European Values plc annual reports. However, we calculated the change to be an increase of 26% which is not dissimilar.

64 Deloitte has submitted substantial information on the informed nature of purchasers. See, for example, the Deloitte responses to the Theories of Harm Working Paper (paragraphs 2.19-2.26) and the Barriers to Entry Working Paper (paragraph 6.5-6.8).
### Annex 1
Responses to points of detail

<table>
<thead>
<tr>
<th>¶</th>
<th>Working Paper wording</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2(b)</td>
<td>‘Tenders are infrequent’</td>
<td>Across the working papers to date there have been various comments about the rate of tenders being ‘low’ or ‘infrequent’ without reference to a benchmark. Both words are relative, and require a comparison in order to be justifiable. Our view is that the current rate of tendering is in fact optimal based on the current market circumstances.</td>
</tr>
<tr>
<td>2(b)</td>
<td>‘Only 4 per cent of FTSE 350 companies (both FTSE 100 and FTSE 250) tender their audit each year.’</td>
<td>We understand how the CC has calculated the 4%; however we refer the CC to its own conclusion in paragraph 15 about the reliability of the data it has collated. Reference could be made instead to the CC Survey, which states, on slide 46, that 61% of FTSE 350 companies request a formal proposal from their auditor at least every five years (and 28% request a formal proposal every year). In addition, slide 60 details reasons for not tendering an audit, which include receiving a high quality service (51%), receiving good value for money (25%) or being happy as things are (21%).</td>
</tr>
<tr>
<td>16</td>
<td>‘The data-set limitations (see paragraph 15) mean that the statistics derived from it have been used as market trend indications rather than definitive results. The number of further errors that have been identified is limited and would not significantly change the results reported in this paper. Nonetheless we will review all the statistics presented in this document as we turn to consideration of our preliminary findings in due course, and update them according to firms’ latest submissions.’</td>
<td>This paragraph suggests that the CC is waiting for additional information with respect to tender costs from each of the firms. We are not aware of any additional data request.</td>
</tr>
<tr>
<td>Annex, 14</td>
<td>‘Deloitte stated that clients significantly valued the ability to receive non-audit services from their auditor.’</td>
<td>The key point is that clients significantly value the ability to choose which supplier provides which service.</td>
</tr>
</tbody>
</table>