

Statutory Audit Market Study
Competition and Markets Authority
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Dear Sir/Madam,

AstraZeneca Response to the Competition and Market Authority's (CMA) Statutory Audit Service Market Study

Thank you for the opportunity to respond to the above study.

AstraZeneca (the Company) is a global, science-led biopharmaceutical company that focuses on the discovery, development and commercialisation of prescription medicines. AstraZeneca operates in over 100 countries worldwide and it is a constituent member of the FTSE100.

As requested, the Company participated in the CMA's call for evidence in November 2018; which included a discussion with the Company's Audit Committee Chairman, Rudy Markham.

Set out below is the Company and Audit Committee's response to matters, and, in particular the proposed remedies that are the subject of the CMA's current consultation. References throughout this letter to the Company should be taken to include the Company's Audit Committee, and vice versa.

Introduction

The Company welcomes the CMA's review of the statutory audit market, which aims to ensure that this market is functioning effectively, and that audit quality is assured for companies, their key stakeholders and wider society. The Company supports the aims of the review, and particularly the need to increase choice in the audit market and the introduction of market resilience measures to avoid the 'big four' becoming the 'big three'.

The Company notes that the CMA has not sought to define 'audit quality'. It would be helpful for it to do so and to provide further detail on methods to enhance audit quality in the interests of good corporate governance.

The Company agrees that by increasing competition in the sector there is the potential to increase audit quality, however, we note that, of itself, it may not be a determinative factor in audit quality and that certain other remedies may be required. The Company is mindful that some of the proposed

remedies may have unintended negative consequences, including potentially adversely affecting audit quality in the short term. Similarly, the Company believes that it is important that the CMA does not overlook the prime role of audit committees and the responsibility of the boards of UK companies as a whole to seek to ensure audit quality and to report to shareholders on the governance of those companies.

The Company is concerned that, in seeking to assure the functioning of the audit market, the CMA's proposed remedies may inadvertently penalise companies for failings in that market. While the Company recognises that this is a question of balance, the Company is mindful that the additional complexity envisaged by certain remedies including, most notably, greater regulatory scrutiny and joint audits, may impede our business flexibility, speed of decision making, resourcing, and attractiveness to key employee talent which may, ultimately, have the potential to negatively impact the Company's performance against its global peers.

At this time in particular we also believe that it is important that any changes to the regulatory environment enables the UK to maintain its business attractiveness and competitiveness globally.

Finally, the Company notes that certain remedies are predicated on actions against 'higher-risk' companies. The Company encourages the CMA to consider carefully and develop a sophisticated method for determining the meaning of 'higher risk' and to avoid an unsubstantiated conclusion that larger companies are, by their nature, higher risk and require supplemental measures without due consideration as to the way they are currently governed.

Remedy 1 – Regulatory scrutiny of Audit Committees

The Company welcomes scrutiny of the role and functioning of the Audit Committee as part of its commitment to best practice and good corporate governance. The Company however believes that the best way to achieve the stated aim of the remedy, such that audit committees fully protect the interests of shareholders when making decisions about auditor selection and monitoring the audit engagement, is through a reasonable and proportionate interaction with the regulator that is balanced against a company's commercial sensitivities.

The Company believes that, in order to provide a more thorough assessment of the CMAs' proposals the CMA's view of the role, responsibility and mandate of the regulator and its powers needs to be more clearly defined.

We also believe that further clarification is needed as to what is envisaged by the CMA's reference to the regulator making 'public reprimands or direct statements to shareholders'. Suffice to say that we believe such measures should be considered only in the latter stages of dialogue with the target of the statement/reprimand and where the regulator has sufficiently strong evidential concerns about the target's conduct.

The Company is mindful that the CMA's proposals, particularly under which a regulator may attend at or observe audit committee meetings, or by which audit committees are required to report to a regulator could impede the functioning and effectiveness of audit committees. The Company has particular concerns in this regard to ensure that the role and the responsibilities of the regulator do not conflict with a director's existing legal responsibilities and duties under English law and that there is not a resultant shift in the burden of that responsibility. The Company has additional concerns that the

proposals could reduce the speed of decision making required by companies and, by reporting to a third party, may compromise its commercial interests.

We believe that proposals for greater regulatory scrutiny should seek to strike an appropriate balance in view of the above. To this end, the Company does not necessarily object to a requirement to report throughout the tender selection process to a regulator on its progress made, and considerations for the tender; and it recognises that it may be appropriate for the Audit Committee to periodically inform (rather than directly report to) a regulator about its work and its impact on the audit process. The Company believes such engagement could assist it, and the regulator, to understand and develop benchmarks for industry/sector best practice.

In addition, the Company supports the continued opportunity to broaden the content of its Audit Committee Report in its Annual Report to provide more insight into its deliberations to its shareholders and other stakeholders.

Remedy 2A: Mandatory joint audit

The Company supports increasing the ability of the challenger audit firms to build experience and scale but does not expect that, of itself, introducing mandatory joint audits would achieve this or significantly improve audit quality. Joint audits are likely to be impractical and introduce duplication of effort and increased complexity leading in turn to additional monetary and time costs for companies without the evidential benefit to justify it.

In the case of large companies, the role of a challenger audit firm is likely to be constrained (and audit quality compromised) due to the challenger firm's insufficient reach and capability to participate fully. The proposed remedy assumes that the joint auditors will reach the same conclusions on matters of judgement, however it is unclear how this would be resolved if the auditors did not agree.

The Company believes that, subject to the audit firms' views, a better way to improve the capabilities of the challenger firms may be to consider some sharing of audit process.

Remedy 2B: Market share cap

It is not clear to us that the introduction of a market share cap would stimulate competition and, conversely, we believe that it may even create additional barriers for audit firms.

It is not clear how the market cap would work in practice and, accordingly, the Company encourages detailed consideration by the CMA to ensure that there are no negative or unintended consequences. It is very important to the Company that any such measures do not restrict its ability to find an auditor with sufficient scale and geographical reach to complete a comprehensive and high quality audit for a global company of our size and complexity.

Remedy 3: Additional measures to reduce barriers for challenger firms

The Company is supportive of initiatives to encourage the development of challenger firms, including, notably, supporting challenger firms to participate in the provision of non-audit services to help them develop the skills and knowledge required to increase their presence across the range of services and, ultimately, to develop scale and be more competitive in the audit market. In order to do this, the

Company supports the need for the challenger firms to have access to the established firms' technology and systems.

The Company welcomes the proposal for the interchange of staff between audit firms, noting that confidentiality and non-compete issues may need to be addressed in a fair and equitable manner.

Remedy 4: Market resilience

As set out in the introduction, the Company supports proposals to increase the number of firms able to compete for audit work as a competitive market would be in the interest of the Company, its stakeholders and the wider economy and also supports a review of resilience measures to avoid the 'big four' becoming the 'big three'.

However, we believe it is beyond our remit to indicate remedies for this matter and thus we believe that the existing audit firms are best placed to consider this matter with particular reference to their own risk management and viability considerations.

Remedy 5: Full structural or operational split between audit and non-audit services

We note that the balance between audit and non-audit services has been the subject of periodic change over many years, with a continued decline in permitted non-audit services. A trend, in our opinion, that is likely to continue.

We note that an important factor in carrying out a high quality audit is the ability for an auditor to access certain specialist, technical or industry-specific, expertise and it is vital, therefore, that any proposals under this remedy do not have the unintended impact of compromising audit quality and accordingly, that this access to expertise is safeguarded.

Relatedly, we believe that any such proposals should seek to ensure that the attractiveness of audit firms as employers of choice is not diminished so that they can continue to attract and retain high quality staff with sufficient technical expertise and sector knowledge.

While the Company believes that it may be appropriate for audit firms to consider reducing their reliance on non-audit services over time, it is not well placed to assess whether an operational or structural split would be preferable at this stage.

Remedy 6: Peer review

The Company believes that, in order to provide a fuller response, the CMA should provide greater detail on the remedy including, notably, the level of peer review it considers necessary and the circumstances under which the peer review would be triggered. However, we note that a full audit review would have significant time, cost and efficiency implications for the Company and would be a significant distraction to the business.

The Company notes that there is an existing process for peer review under which the FRC reviews the quality of certain audits. Action under Sir John Kingman's Report will doubtless address how this will be organised in the future. We also note that the big audit firms already carry out a level of peer review through their audit quality functions and query whether the CMA has given sufficient weight to that

process; and, similarly, to consider whether there is sufficient visibility of the outcome of these processes.

Yours faithfully,

Marc Dunoyer

Chief Financial Officer, AstraZeneca PLC

Rudy Markham

Chairman of the Audit Committee, AstraZeneca PLC