White Paper on the Auditor's Reports of Certain UK Companies that Comply with International Auditing Standard (UK and Ireland) 700 (Revised June 2013)

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[1] This white paper was prepared by PCAOB staff and provides summary data and factual information for one of the Board's current standard-setting projects. The views expressed herein are those of the authors and do not necessarily reflect the views of the Board, individual Board members or PCAOB staff.

This white paper provides information about the auditor's reports of certain UK companies for the first year of implementation of expanded auditor reporting in the UK. The UK Financial Reporting Council ("FRC") revised International Standard on Auditing (UK and Ireland) 700, *The Independent Auditor's Report on Financial Statement*, (Revised June 2013) ("UK ISA 700 (Revised)") to require that auditor's reports for a select group of companies[2] include a description of the risks of material misstatement identified by the auditor, and how the audit scope addresses each risk.

Our observations about the expanded auditor's reports of these UK companies are intended to inform the PCAOB's standard-setting project on the auditor's reporting model. On August 13, 2013, the Public Company Accounting Oversight Board ("PCAOB" or "Board") issued for public comment a proposed auditing standard and related amendments on the auditor's report. The proposed auditor reporting standard was intended to increase the informational value of the auditor's report to promote the usefulness and relevance of the audit and the related auditor's report. For example, the proposed auditing standard, among other things, required auditors to communicate "critical audit matters" ("CAMs") that are specific to each audit. At the same time, the Board sought a balanced approach that would not unduly burden the financial reporting process. The approach to CAMs, as described in the Board's 2013 proposal, is different from the approach to expanded auditor reporting in the UK. Our observations related to UK auditor's reports reflect only the approach taken to comply with UK ISA 700 (Revised).[3]

We reviewed 225 annual reports published by FTSE 350 companies with a fiscal year end date from September 27, 2013 to December 31, 2013. Among the auditor's reports contained in these annual reports obtained from corporate websites, 218 included the expanded reporting required under UK ISA 700 (Revised) (the "observable group").[4] The analysis presented in this report is limited to our factual observations of the expanded auditor's reports and does not make causal inferences about the requirements of UK ISA 700 (Revised). Based on our review of the expanded auditor's reports required under UK ISA 700 (Revised) and the auditor's reports issued in the prior fiscal year, we addressed the following questions:

[2] The expanded auditor reporting requirements of UK ISA 700 (Revised) apply to entities that report on the application of the UK Corporate Governance Code (see Paragraph 19A of UK ISA 700 (Revised)). In the UK, these are companies with a Premium listing of equity shares on the London Stock Exchange. This population includes FTSE 350 companies.

[3] The FRC also released its own reports covering a review of the first and second year of extended auditor's reports. See FRC, March 2015- Extended Auditor's Reports, A Review of Experience in the First Year, and January 2016- Extended Auditor's Reports, A Further Review of Experience.

[4] We observed that seven of the 225 annual reports did not include the additional information related to audit risk and scope in the auditor's reports. The auditor's reports for all seven companies where issued in jurisdictions outside the UK and Ireland.

- *What new information did the expanded auditor's reports provide to users of the financial statements about the risks of material misstatement and audit scope compared to the prior year's auditor's report?*

  The new information in expanded auditor's reports included the descriptions of assessed risks of material misstatement identified by the principal auditor as having the greatest effect on overall audit strategy. Auditor descriptions of how the audit scope addressed each assessed risk also represented new information in the expanded auditor's reports. These descriptions provided users of the financial statements with information on how the audit scope addressed each risk topic, and in some instances, what audit procedures were performed.

- *What was the presentation and style of the expanded auditor's reports with respect to the descriptions of the assessed risks of material misstatement and how the scope of the audit addressed each risk?*

  Risk descriptions were presented in one of three formats: in single sentences, in paragraphs, or in a summary table format. Descriptions of how scope of the audit addressed each risk were either presented next to the risk description or in a separate section of the auditor's report.

- *What were the most frequently mentioned risk topics in the expanded auditor's reports?*

  The five most frequently mentioned risk topics were related to: revenue recognition (59% of the companies), tax (43% of the companies), goodwill and intangible assets – valuation and impairment (42% of the companies), accounts receivable and investments (35% of the companies), and management override of internal controls (30% of the companies).

- *How many risk topics were included in the expanded auditor's reports?*

  The average number of risk topics included in an auditor's report was four. Companies with lower market capitalizations (under £2 billion) included three risk topics on average, and auditor's reports for companies with larger market capitalizations (£5 billion and over) included five risk topics on average.

- *Was there a significant difference in the amount of time auditors took to issue the expanded auditor's reports compared to the auditor's reports issued for the prior fiscal year?*

  The expanded auditor's reports were issued on average in 63 days as compared to an average of 64 days for prior year's reports which we found not to be a statistically significant difference.

- *Was there a significant difference in audit fees for the year expanded auditor's reports took effect compared to the prior fiscal year?*

  We did not find a statistically significant difference in audit fees. The average audit fee increased 4.6%; however, the median change was 0.0% with a majority of the companies (53%) reporting no change or a decrease in audit fees.[5]

[5] We caution readers not to interpret the measures of audit fees change as an assessment of the impact of the revised UK ISA 700 (Revised) on audit fees. While the UK ISA 700 (Revised) may have been a consideration during the negotiation of audit fees, it would not have been the only factor to account for the fee changes measured for this paper.

In 2013, the UK's FRC adopted new requirements for annual reports published by Premium listed companies[6] on the London Stock Exchange. The new requirements reflect changes to the UK Corporate Governance Code[7] and UK auditing standards[8], and impact the audit committee report and the independent auditor's report, respectively, both of which are contained in UK companies' annual reports. The new requirements apply to FTSE 350 companies, among others, and became effective for financial statement fiscal years beginning on or after October 1, 2012 (i.e., September 30, 2013 fiscal year end).

The UK Corporate Governance Code (the "Code") requires a company's board of directors to "explain in the annual report their responsibility for preparing the annual report and accounts, and state that they consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy."[9] In addition, the Code requires audit committee reports to include a description of "the significant issues that the committee considered in relation to the financial statements, and how these issues were addressed."[10]

Paragraph 19A of the UK ISA 700 (Revised)[11] requires the auditor's reports, among other things, to:

- "Describe those assessed risks of material misstatement that were identified by the auditor and which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team;" and

- "Provide an overview of the scope of the audit, including an explanation of how such scope addressed the assessed risks of material misstatement disclosed"

In order to be useful to users of the financial statements, paragraph 19B of UK ISA 700 (Revised) requires, in part, the assessed risk of material misstatement and explanation of the audit scope presented in the auditor's report to be:

"[I]n a manner that complements the descriptions of significant issues relating to the financial statements, required to be set out in the separate section of the annual report describing the work of the audit committee in discharging its responsibilities. The auditor seeks to coordinate descriptions of overlapping topics addressed in these communications, to avoid duplication of reporting about them, whilst having appropriate regard to the separate responsibilities of the auditor and the board for directly communicating information primarily in their respective domains." (See Appendix A)

[6] According to the London Stock Exchange website, "A Premium Listing means the company is expected to meet the UK's highest standards of regulation and corporate governance."
[7] See FRC, September 2012 - UK Corporate Governance Code
[8] See FRC, June 2013 - International Standard on Auditing (UK and Ireland) 700 – June 2013
[9] See Code Provision C.1.1 of the UK Corporate Governance Code
[10] See Code Provision C.3.8 of the UK Corporate Governance Code
[11] See Paragraph 19A of UK ISA 700 (Revised)

In reviewing the initial period of implementation of UK ISA 700 (Revised), the focus of our analysis was limited to observations based on public sources of data related to the reporting process. The UK company annual reports provide information that allows us to identify features of the auditor's risk topics descriptions such as, how the risk topics were presented, how many topics were mentioned by auditors, and the extent of new information provided in the auditor's reports for users of the financial statements. We were also able to observe the amount of time it took auditors to issue the expanded auditor's reports and any changes in audit fees compared to the prior year. These observations are intended to inform the PCAOB's standard-setting project on the auditor's reporting model.

Market Capitalization

Among the FTSE 350 companies, we identified 218 companies that published annual reports with a fiscal year end date from September 27, 2013 to December 31, 2013 that included expanded auditor's reports with the new risk topic descriptions required under UK ISA 700 (Revised).[12] Market capitalizations of the companies range from £81.6 million to £137.3 billion.[13] Table 1 provides additional summary measures for the companies.

Table 1: 218 FTSE 350 companies

	Low	High	Mean	Median
Market Capitalization - millions	£ 82	£ 137,258	£ 7,534	£ 1,704
Sales FYE 2013 - millions(a)	£ 0	£ 272,546	£ 6,641	£ 921
Total Assets FYE 2013 - millions(a)	£ 39	£ 1,613,476	£ 37,444	£ 1,797
Audit Fees FY 2013	£ 19,000	£ 41,000,000	£ 2,694,516	£ 702,948

# of companies audited by a Big Four firm:	210
# of companies audited by a Non-Big Four firm:	8
# of Companies that Changed Auditors from FY2012 to FY 2013:	7

(a) The reporting currency for the 218 companies was one of four currencies: British Pound, Euro, US Dollar, or Georgian Lari. Sales and total assets reported in Euros, US Dollar, or Georgian Lari were converted into British Pounds at their closing December 31, 2013 exchange rates, respectively 0.831, 0.604, and 0.349.

For this analysis, we reviewed the observable group in its entirety, and in four sub-groups based on the company's market capitalization. This approach allowed for analysis of whether our observations were consistent for companies of different sizes. We identified natural thresholds for market capitalization that allowed us to divide the 218 companies into four similarly-sized groups. The four groups have the following market capitalization thresholds:

Group A – market capitalization under £1 billion (63 companies),
Group B – market capitalization equal to or greater than £1 billion and under £2 billion (52 companies),
Group C – market capitalization equal to or greater than £2 billion and under £5 billion (59 companies), and
Group D – market capitalization £5 billion and over (44 companies)

[12] September 30, 2013 fell on a Monday. We identified four companies with 2013 fiscal year end dates of September 27th, 28th or 29th, and included these companies in our study due to their immediate proximity to the effective date.
[13] Market capitalization for each company is as of January 7, 2014, and was obtained from Capital IQ using London Stock Exchange ticker symbols.

Industry Breakdown

For the companies in the observable group, the industry sector weightings are similar to the sector weightings for the overall FTSE 350 (see Table 2). Among the 75 financial sector companies, 32 are from the Asset Manager and Custody Bank industry (see Appendix B for a primary industry breakdown of the 218 companies).

Table 2: Industry Sector Breakdown - 218 FTSE 350 Companies

	Observable Group		All FTSE 350 Companies	
Industry Sector	Count	% of Total	Count	% of Total
Consumer Discretionary	35	16%	62	18%
Consumer Staples	7	3%	20	6%
Energy	15	7%	16	5%
Financials	75	34%	116	33%
Healthcare	8	4%	12	3%
Industrials	37	17%	60	17%
Information Technology	14	6%	22	6%
Materials	24	11%	30	8%
Telecommunications	1	0%	7	2%
Utilities	2	1%	8	2%
Total	218	100%	353	100%

Source: Capital IQ

A large majority of the industry sector weightings for the companies within each market capitalization group are within two percentage points of the weightings for all FTSE 350 companies. Only a few notable variances in the industry sector weightings were observed. These include consumer discretionary and energy in Group B, and consumer staples and financials in Group D (see Appendix C).

Auditors

The auditor's reports included in annual reports published by the 218 companies were issued by affiliates of the Big Four global networks, BDO International, and Grant Thornton International Limited (see Table 3). Member firms of Deloitte Touche Tohmatsu Limited issued the most auditor's reports (63).

Table 3: Auditors of 218 Companies in the FTSE 350

Auditor	**Number of Companies**	**% of Total**
BDO International	7	3%
Deloitte Touche Tohmatsu Limited	63	29%
EY Global Limited	39	18%
Grant Thornton International Limited	1	0%
KPMG International Cooperative	52	24%
PricewaterhouseCoopers International Limited	56	26%
	218	100%

Source: Company Annual Reports

We collected public information about the auditor's reports from the companies' annual reports to address the following questions:

What new information did the expanded auditor's reports provide to users of the financial statements about the risks of material misstatement and audit scope compared to the prior year's auditor's report?

The new information in the expanded auditor's reports, as required under UK ISA 700 (Revised), included descriptions of the assessed risks of material misstatement identified by the auditor as having the greatest effect on overall audit strategy. In many, but not all instances, the annual reports also included discussions by management and the audit committee related to the risk topic identified by the auditor as an assessed risk of material misstatement. Several of the auditor's reports refer readers to the page(s) of the annual report where the location of the management and audit committee discussions can be found. (see Appendix E, Examples 2 and 3)

The new information in the expanded auditor's reports, as required under UK ISA 700 (Revised), also included descriptions of how the audit scope addressed each assessed risk. These descriptions provided users of the financial statements with information on how the audit scope addressed each risk topic, and in some instances, what audit procedures were performed. Information on audit scope was not provided elsewhere in the annual report.

What was the presentation and style of the new auditor's reports with respect to the descriptions of risks of material misstatement and how the audit scope addressed each risk?

We observed variation in how the auditors presented the risk topic descriptions. For example, risk descriptions were presented in one of three formats: in single sentences, in paragraphs, or in a summary table format (see Appendix E for examples of each format). The number of risk descriptions in an auditor's report ranged from one to ten.[14] While most auditor's reports included the word "risk" in the label of this section of the auditor's report, some auditors referred to this description as an "area of focus" instead (see Appendix E, Example 3).

The required descriptions of how audit scope addressed a risk (or area of focus) were presented either next to the risk topics or in another section of the auditor's report.

[14] This count is based on an auditor's discrete presentation of a risk as opposed to our count of risk topics.

What were the most frequently discussed risk topics in the new auditor's reports?

Table 4 provides a list of the ten most frequently mentioned risk topics.[15] These topics represent 690 of the 836 risks descriptions in the auditor's reports of the observable group. The percentages in the far right column show that the auditor's reports did not consistently list the same risk descriptions.

Table 4: Ten Risk Topics Mentioned Most Frequently

Risk Topic	Number of Auditor's Reports with Risk Topic	% of Auditor's Reports with Risk Topic
Revenue Recognition	129	59%
Tax	93	43%
Goodwill and Intangible Assets - Valuation and Impairment	92	42%
Accounts Receivables and Investments Valuation	77	35%
Management Override of Internal Controls[(a)]	66	30%
Fixed Assets - Valuation and Impairment	58	27%
Off-balance Sheet Liabilities	47	22%
Pension and Other Post-Retirement	36	17%
Liabilities and Reserves	33	15%
Mergers & Acquisitions	31	14%

(a) All 56 auditor's reports issued by one firm included this risk topic.

We observed that the ten risk topics in Table 4 were also common to each of the four market capitalization sub-groups. In additional to the topics in Table 4, there were three additional risk topics that were among the top ten topics for the sub-groups: Asset Disposals (see Appendix F, Table 4C), Capitalization of Expenditures Issues (see Appendix F, Table 4A), and Financial Derivatives/Hedging Issues (see Appendix F, Table 4D). These risk topics were ranked 11, 12, and 13 respectively for the overall observable group.

[15] The number of risk descriptions in the auditor's reports (where there is a discrete description for each risk) ranged from one to ten. The descriptions were not presented with a consistent level of granularity. As a result, it was necessary for us to map these risk descriptions into risk topics to facilitate a summary analysis. For example, when describing impairment of goodwill and intangible assets, some auditors combined them into a single topic, while others separated them into two discrete topics, one for goodwill impairment and one for intangible assets impairment. In our analysis, we grouped all these descriptions into one topic – Goodwill and Intangible Assets – Valuation and Impairment.

How many risk topics were included in the new auditor's reports?

Among the observable group, auditors identified one to eight risk topics per company. Most auditor's reports contained three to five risk topics, and the average was four. A breakdown of the number of risks described in each of the 218 auditor's reports, based on the risk topics we identified, is provided in Table 5.

Table 5: Number of Auditor Risk Topics Per Auditor's report

Number of Risk Topics in an Auditor's Report	Number of Auditor's Reports
1	12
2	23
3	54
4	62
5	44
6	15
7	6
8	2
Total	218

Mean Number of Risk Topics per Auditor's report:	4
Median Number of Risk Topics per Auditor's report:	4

Among the four market capitalization groups, companies with market capitalizations under £2 billion have an average of three risk topics in their auditor's reports (see Appendix G, Tables 5A and 5B). Companies with market capitalizations of £5 billion or more have an average of five risk topics (see Appendix G, Table 5D).

Was there a significant difference in the amount of time auditors took to issue the expanded auditor's reports compared to the auditor's reports issued for the prior fiscal year?

Using the auditor's report date, we measured the number of days it took auditors to issue a financial statement auditor's report.[16] We found that on average auditors took 63 days to issue the new expanded auditor's reports, one day less than the average of 64 days for the prior year's reports. There are 210 companies in the observable group with auditor's reports for the past three years ("adjusted observable group").[17]

Table 6 provides summary measures for the 210 companies. We found no statistically significant[18] difference in the average time to issue an auditor's report after implementation of the new rules.

Table 6: Number of Days from a Company's Fiscal Year End Date to Auditor's Report Date - 210 Companies in the FTSE 350

	Days to Issue Auditor's report		
	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2011
Mean	63	64	65
Median	60	63	62
Range - low	28	29	25
Range - high	119	120	121

Source: Company Annual Reports

We also found that, for each market capitalization group, the new expanded auditor's reports were issued in fewer days than it took for the prior year's auditor's report (see Appendix H, Tables 6A to 6D), but these changes were not statistically significant.

[16] Days to Issue Auditor's report is calculated as the number of days between the company's fiscal year-end date and the auditor's report date.
[17] Among the observable group, eight companies completed their initial public offerings in calendar years 2012 or 2013. As a result, annual reports for prior years are not available for these eight companies, so they were excluded from the analysis.
[18] A statistical tool, Student's t-test, shows that fiscal year 2013 and prior years' data are not statistically different from each other (see Appendix J).

Was there a significant difference in audit fees for the year expanded auditor's reports took effect compared to the prior fiscal year?

Among the 210 companies in the adjusted observable group, the average audit fees increased by 4.6%,[19] but the median change was 0.0% as fewer than half (99 companies) reported an increase in audit fees.[20] The remaining companies reported no change in audit fees (59 companies) or a decrease in audit fees (52 companies).

Table 7 provides a summary of changes in audit fees for the adjusted observable group. We found no statistically significant[21] difference in audit fees reported for fiscal year 2013 and audit fees reported for the prior fiscal year.

Table 7: Changes in Audit Fees - 210 Companies in the FTSE 350

	% Change in Audit Fees
Mean	4.6%
Median	0.0%
Range – low	-46.6%
Range – high	91.0%

Number of Companies with an Increase in Audit Fees:	99
Number of Companies with No Change in Audit Fees:	59
Number of Companies with a Decrease in Audit Fees:	52

Source: Company Annual Reports, Capital IQ

For the four market capitalization groups, we found in Group C (market capitalization greater than or equal to £2 billion and under £5 billion) that 64% of the companies reported an increase in audit fees. As a result, the mean and median changes for this group were higher than those observed for Groups A, B, and D (see Appendix I). For

[19] Two companies with the largest increases in audit fees in the adjusted observable group also reported events during the fiscal year 2013 that may have contributed to the change in their audit fees. One of these companies made a large acquisition and changed auditors (the reported audit fees increased by 91.1%); and the other company completed a large acquisition in 2013, which contributed to an increase in total assets by approximately 50% (the reported audit fees increased by 82.4%). When the audit fees increases of the above two companies are removed from the analysis, the adjusted average increase in audit fees for the remaining companies in the adjusted observable group was 3.8%.

[20] The percent change in audit fees needs to be interpreted with caution. We found many instances in which audit fees were not reported to the single-unit value. For example, a company with £515,245 in actual audit fees alternatively could report £0.5 million or £515 thousand in its annual report. Audit fee changes in this report are based solely on the as-reported amounts. .

[21] A statistical tool, Student's t-test, shows that fiscal year 2013 and prior year's data are not statistically different from each other (see Appendix K).

the other three groups – A, B, and D – a majority of the companies reported no change or a decrease in audit fees. We did not find statistically significant differences in audit fees for these three groups. (See Appendix K)

The adjusted observable group includes 18 investment trusts, most of which have market capitalizations under £1 billion. Since audits of investment trusts may differ from audits of operating companies in the index, Tables 7A to 7D in Appendix I provide a breakdown of changes in audit fees for the 18 investment trusts versus the operating companies.

We caution readers not to interpret the measures in Table 7 as an assessment of the impact of the revised UK ISA 700 (Revised) on audit fees. Academic research has shown that many factors affect the amount of fees paid by listed companies for a financial statement audit. For example, Hay, Knechel, and Wong (2006) [22] evaluated and summarized 147 research studies on audit fees conducted over a 27-year period and published in more than 20 countries and used meta-analysis to test the combined effect of the most commonly used independent variables, including attributes related to the auditor, audit client and audit engagement. The meta-analysis found mixed results on how independent variables affect audit fees, including conflicting results on the relationship between corporate governance and audit fees.[23] In addition, the FRC simultaneously implemented new requirements in the UK that resulted in changes to the audit committee report which may also impact audit fees. Also, we are aware that the UK experienced an inflation rate of 2.0% for calendar year 2013.[24] Therefore, the measures in Table 7 should not be viewed as an observation of the change in audit fees solely due to the implementation of UK ISA 700 (Revised).

[22] Hay, David C., Knechel, W. Robert, Wong, Norman, *Audit Fees: Meta-analysis of the effect of Supply and Demand Attributes*, Contemporary Accounting Research Vol. 23 No. 1 (Spring 2006) pp.141-91. Meta-Analysis is a quantitative analysis of several separate but similar experiments or studies in order to test the pooled data for statistical significance.

[23] In a subsequent research paper published in 2013, Hay used meta-analysis to examine the accumulated effect of the drivers of audit fees identified in the 2006 study and found, among other things, that corporate governance variables are positively associated with audit fees. *See* Hay, David, *Further Evidence from Meta-Analysis of Audit Fee Research*, International Journal of Auditing 17: 162-176 (2013).

[24] UK Office for National Statistics (www.ons.gov.uk)

Appendix A: International Standard on Auditing (UK and Ireland) 700 – June 2013, paragraphs 19A and 19B

Entities that Report on Application of the UK Corporate Governance Code

19A. In the case of entities[6] that are required, and those that choose voluntarily, to report on how they have applied the UK Corporate Governance Code, or to explain why they have not, the auditor's report shall:

(a) Describe those assessed risks of material misstatement that were identified by the auditor and which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team;

(b) Provide an explanation of how the auditor applied the concept of materiality in planning and performing the audit. Such explanation shall specify the threshold used by the auditor as being materiality for the financial statements as a whole; and

(c) Provide an overview of the scope of the audit, including an explanation of how such scope addressed the assessed risks of material misstatement disclosed in accordance with (a) and was influenced by the auditor's application of materiality disclosed in accordance with (b). (Ref. Para A13A – A13C)

19B. In order to be useful to users of the financial statements, the explanations of the matters required to be set out in the auditor's report by paragraph 19A shall be described:

- So as to enable a user to understand their significance in the context of the audit of the financial statements as a whole and not as discrete opinions on separate elements of the financial statements.
- In a way that enables them to be related directly to the specific circumstances of the audited entity and are not, therefore, generic or abstract matters expressed in standardised language.
- In a manner that complements the description of significant issues relating to the financial statements, required to be set out in the separate section of the annual report describing the work of the audit committee in discharging its responsibilities. The auditor seeks to coordinate descriptions of overlapping topics addressed in these communications, to avoid duplication of reporting about them, whilst having appropriate regard to the separate responsibilities of the auditor and the board for directly communicating information primarily in their respective domains.

[6] In the UK, these include companies with a Premium listing of equity shares regardless of whether they are incorporated in the UK or elsewhere. In Ireland, these include Irish incorporated companies with a primary or secondary listing of equity shares on the Irish Stock Exchange.

Appendix B: Primary Industry Breakdown of 218 companies in the FTSE 350 with auditor's reports that conform with the new rules

Primary Industry	Number of Companies	Industry Sector
Advertising	1	Consumer Discretionary
Auto Parts and Equipment	1	Consumer Discretionary
Broadcasting	1	Consumer Discretionary
Casinos and Gaming	4	Consumer Discretionary
Distributors	1	Consumer Discretionary
Home Furnishing Retail	1	Consumer Discretionary
Homebuilding	4	Consumer Discretionary
Hotels, Resorts and Cruise Lines	5	Consumer Discretionary
Internet Retail	1	Consumer Discretionary
Leisure Facilities	1	Consumer Discretionary
Movies and Entertainment	1	Consumer Discretionary
Publishing	6	Consumer Discretionary
Research and Consulting Services	1	Consumer Discretionary
Restaurants	6	Consumer Discretionary
Specialized Consumer Services	1	Consumer Discretionary
Household Products	1	Consumer Staples
Packaged Foods and Meats	3	Consumer Staples
Soft Drinks	1	Consumer Staples
Tobacco	2	Consumer Staples
Integrated Oil and Gas	3	Energy
Oil and Gas Equipment and Services	4	Energy
Oil and Gas Exploration and Production	7	Energy
Oil and Gas Storage and Transportation	1	Energy
Asset Management and Custody Banks	32	Financials
Consumer Finance	2	Financials
Diversified Banks	6	Financials
Diversified Real Estate Activities	2	Financials
Diversified REITs	1	Financials
Industrial REITs	2	Financials
Insurance Brokers	1	Financials
Investment Banking and Brokerage	1	Financials
Life and Health Insurance	8	Financials
Multi-line Insurance	1	Financials
Office REITs	1	Financials
Other Diversified Financial Services	1	Financials
Property and Casualty Insurance	7	Financials
Real Estate Development	1	Financials
Real Estate Operating Companies	3	Financials
Real Estate Services	3	Financials
Retail REITs	2	Financials
Thrifts and Mortgage Finance	1	Financials
Healthcare Distributors	1	Healthcare
Healthcare Equipment	1	Healthcare
Healthcare Facilities	2	Healthcare
Pharmaceuticals	4	Healthcare

Aerospace and Defense	5	Industrials
Airlines	1	Industrials
Airport Services	1	Industrials
Construction and Engineering	5	Industrials
Diversified Support Services	2	Industrials
Electrical Components and Equipment	1	Industrials
Environmental and Facilities Services	3	Industrials
Human Resource and Employment Services	2	Industrials
Industrial Machinery	9	Industrials
Research and Consulting Services	1	Industrials
Security and Alarm Services	1	Industrials
Technology Distributors	1	Industrials
Trading Companies and Distributors	4	Industrials
Trucking	1	Industrials
Application Software	2	Information Technology
Communications Equipment	2	Information Technology
Computer Storage and Peripherals	1	Information Technology
Electronic Components	1	Information Technology
Electronic Equipment and Instruments	2	Information Technology
Home Entertainment Software	1	Information Technology
Internet Software and Services	2	Information Technology
IT Consulting and Other Services	1	Information Technology
Semiconductors	2	Information Technology
Coal and Consumable Fuels	1	Materials
Commodity Chemicals	1	Materials
Construction Materials	1	Materials
Diversified Metals and Mining	5	Materials
Gold	3	Materials
Metal and Glass Containers	1	Materials
Paper Products	1	Materials
Precious Metals and Minerals	3	Materials
Specialty Chemicals	6	Materials
Steel	2	Materials
Alternative Carriers	1	Telecommunication Services
Independent Power Producers and Energy Traders	1	Utilities
Multi-Utilities	1	Utilities
Total	218	

Appendix C: Industry Sector Breakdown by Market Capitalization

Table 2A: Industry Sector Breakdown - 63 Companies with Market Capitalization under £1 billion

	Observable Group		All FTSE 350 Companies	
Industry Sector	Count	% of Total	Count	% of Total
Consumer Discretionary	9	14%	16	15%
Consumer Staples	2	3%	5	5%
Energy	1	2%	2	2%
Financials	30	48%	48	45%
Healthcare	2	3%	5	5%
Industrials	7	11%	13	12%
Information Technology	6	10%	8	8%
Materials	6	10%	8	8%
Telecommunications	0	0%	1	1%
Utilities	0	0%	0	0%
Total	63	100%	106	100%

Table 2B: Industry Sector Breakdown - 52 Companies with Market Capitalization greater than or equal to £1 billion and under £2 billion

	Observable Group		All FTSE 350 Companies	
Industry Sector	Count	% of Total	Count	% of Total
Consumer Discretionary	7	13%	18	20%
Consumer Staples	1	2%	2	2%
Energy	7	13%	7	8%
Financials	15	29%	25	28%
Healthcare	1	2%	1	1%
Industrials	11	21%	17	19%
Information Technology	4	8%	9	10%
Materials	6	12%	6	7%
Telecommunications	0	0%	2	2%
Utilities	0	0%	1	1%
Total	52	100%	88	100%

Table 2C: Industry Sector Breakdown - 59 Companies with Market Capitalization greater than or equal to £2 billion and under £5 billion

	Observable Group		All FTSE 350 Companies	
Industry Sector	Count	% of Total	Count	% of Total
Consumer Discretionary	11	19%	14	16%
Consumer Staples	0	0%	2	2%
Energy	3	5%	3	3%
Financials	18	31%	28	32%
Healthcare	1	2%	2	2%
Industrials	15	25%	21	24%
Information Technology	3	5%	4	5%
Materials	6	10%	8	9%
Telecommunications	1	2%	2	2%
Utilities	1	2%	4	5%
Total	59	100%	88	100%

Table 2D: Industry Sector Breakdown - 44 Companies with Market Capitalization £5 billion and over

	Observable Group		All FTSE 350 Companies	
Industry Sector	Count	% of Total	Count	% of Total
Consumer Discretionary	8	18%	14	20%
Consumer Staples	4	9%	11	15%
Energy	4	9%	4	6%
Financials	12	27%	15	21%
Healthcare	4	9%	4	6%
Industrials	4	9%	9	13%
Information Technology	1	2%	1	1%
Materials	6	14%	8	11%
Telecommunications	0	0%	2	3%
Utilities	1	2%	3	4%
Total	44	100%	71	100%

Appendix D: Auditors by Market Capitalization

Table 3A: Auditors of 63 Companies in the FTSE 350 with Market Capitalization under £1 billion

Auditor	Number of Companies	% of Total
BDO International	4	6%
Deloitte Touche Tohmatsu Limited	17	27%
EY Global Limited	15	24%
Grant Thornton International Limited	1	2%
KPMG International Cooperative	15	24%
PricewaterhouseCoopers International Limited	11	17%
	63	100%

Table 3B: Auditors of 52 Companies in the FTSE 350 with Market Capitalization Greater Than or Equal to £1 billion and Under £2 billion

Auditor	Number of Companies	% of Total
BDO International	0	0%
Deloitte Touche Tohmatsu Limited	19	37%
EY Global Limited	12	23%
Grant Thornton International Limited	0	0%
KPMG International Cooperative	13	25%
PricewaterhouseCoopers International Limited	8	15%
	52	100%

Table 3C: Auditors of 59 Companies in the FTSE 350 with Market Capitalization Greater Than or Equal to £2 billion and Under £5 billion

Auditor	Number of Companies	% of Total
BDO International	3	5%
Deloitte Touche Tohmatsu Limited	18	31%
EY Global Limited	6	10%
Grant Thornton International Limited	0	0%
KPMG International Cooperative	14	24%
PricewaterhouseCoopers International Limited	18	31%
	59	100%

Table 3D: Auditors of 44 Companies in the FTSE 350 with Market Capitalization of £5 billion and over

Auditor	Number of Companies	% of Total
BDO International	0	0%
Deloitte Touche Tohmatsu Limited	9	20%
EY Global Limited	6	14%
Grant Thornton International Limited	0	0%
KPMG International Cooperative	10	23%
PricewaterhouseCoopers International Limited	19	43%
	44	100%

Appendix E: Examples of Auditor's Report Risk Description Presentations

1. Single sentence

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

- the assessment of the carrying value of goodwill and intangible assets;
- the valuation of inventory including appropriateness of judgements applied within the obsolescence provision; and
- the recoverability of trade receivables.

2. Paragraph

2. Our assessment of risks of material misstatement

The risks of material misstatement detailed in this section of this report are those risks that we have deemed, in our professional judgement, to have had the greatest effect on: the overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team. Our audit procedures relating to these risks were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of these risks, and we do not express an opinion on these individual risks.

In arriving at our audit opinion above on the Group financial statements, the risks of material misstatement that had the greatest effect on our Group audit were as follows:

Assessment of goodwill for impairment (€317.2m)

Refer to page 35 (Audit Committee Report), page 75 (accounting policy) and pages 88 and 89 (financial disclosures)

The risk

There is a risk that the carrying value of the Group's goodwill balance may not be recovered from future cash flows. As detailed in the summary of significant accounting policies on page 75, an impairment review of goodwill is performed at each reporting date by the Group. There is inherent uncertainty involved in preparing forecasts and discounted future cash flow reports for this purpose and significant judgement is involved in relation to the assumptions used in the Group's goodwill impairment model.

Our response

In this area, our audit procedures included, among others, interrogating the Group's goodwill impairment model, evaluating the assumptions and methodologies used by the Group, in particular those relating to revenue growth, operating profit and the discount rate and terminal growth rate applied to the forecasted cash flows in the model. We compared the Group's assumptions with externally derived data as well as our own assessment in relation to key inputs into the model. We examined the sensitivity analysis performed by Group Finance management and performed our own sensitivity analysis around the key assumptions. We also assessed whether the disclosures in note 10 presented the Group's assumptions in relation to goodwill impairment and the sensitivities of the outcome of the impairment assessment appropriately.

3. Summary table

Areas of particular audit focus

In preparing the financial statements, the directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 65.

Area of focus	How the scope of our audit addressed the area of focus
Impairment assessment We focused on this area due to the size of the goodwill balance, and because the directors' assessment of the carrying value of the Group's cash generating units ("CGUs") involves judgements about the future results of the business and the discount rate to apply to the future cash flow forecasts.	We tested the directors' future cash flow forecasts, including comparing them to the latest Board approved budgets and comparing the current year results with the equivalent figures included in the prior year forecast. We challenged the directors' key assumptions for discount and long-term growth rates by comparing rates used to available external data. We also performed sensitivity analysis around the key drivers of the cash flow forecasts, being the discount rates, revenue growth rates and operating margins.
Exceptional items Exceptional items relating to the disposal of non-core products were considered to be an area of focus due to the magnitude of the charge in the income statement.	We tested the component parts of the loss on disposal calculation to source documentation including the proceeds received, the net assets disposed of and the costs associated with the disposal, including goodwill allocation. We held detailed discussions with management regarding the methodology applied to allocate goodwill to the loss on disposal calculation and tested the supporting calculations, checking compliance with IAS 36 "Impairment of Assets".
Archer Capital litigation A compensation claim against the Group by a third party for a material sum is currently the subject of legal proceedings. We focused on this issue as there is uncertainty as to the likely outcome.	We discussed this issue with internal and external legal counsel in order to understand the latest position of the proceedings and assess the directors' views as to the strength of the claim against the Group and their conclusion that no provision is required.
Revenue recognition We focused on this area because the timing of revenue recognition and its presentation in the income statement has inherent complexities. These complexities mainly involve accounting for "bundled" transactions where software and maintenance and support elements are purchased together, with a portion of the fee being recognised immediately and the remainder of the revenue deferred and recognised over the contractual period. In addition, ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition for every audit conducted under these auditing standards.	We tested the timing of the recognition of revenue, which included testing the allocation of revenue in sales transactions including both software and maintenance and support elements and that the maintenance and support element was appropriately deferred and recognised over the contractual period. Additionally, in response to the presumptive risk of fraud, where revenue was recorded through journal entries we performed testing to establish whether a service had been provided or a sale had occurred in the financial year to support this recognition.
Risk of management override of internal controls ISAs (UK & Ireland) require that we consider this and hence it is an area that receives heightened focus on every audit conducted under these auditing standards.	We assessed the overall control environment of the Group, including the arrangements for staff to "whistle-blow" inappropriate actions, and interviewed senior management and the Group's internal audit function. We examined the significant accounting estimates and judgments relevant to the financial statements for evidence of bias by the directors that may represent a risk of material misstatement due to fraud. We also tested manual journal entries to determine the rationale for manual adjustments.

Appendix F: Most Frequent Risk Topics by Market Capitalization

Table 4A: Ten Risk Topics Mentioned Most Frequently – 63 Companies with Market Capitalization Under £1 billion

Risk Topic	Number of Auditor's reports with Risk Topic	% of Auditor's reports with Risk Topic
Revenue Recognition	38	60%
Accounts Receivables and Investments	31	49%
Goodwill and Intangible Assets - Valuation and Impairment	24	38%
Tax	20	32%
Fixed Assets - Valuation and Impairment	18	29%
Management Override of Internal Controls	13	21%
Off-balance Sheet Liabilities	11	17%
Pension and Other Post-Retirement	9	14%
Capitalization of Expenditures Issues*	6	10%
Mergers & Acquisitions	6	10%
Inventory	5	8%

Table 4B: Ten Risk Topics Mentioned Most Frequently - 52 Companies with Market Capitalization Greater Than or Equal to £1 billion and Under £2 billion

Risk Topic	Number of Auditor's reports with Risk Topic	% of Auditor's reports with Risk Topic
Revenue Recognition	24	46%
Goodwill and Intangible Assets - Valuation and Impairment	21	40%
Tax	19	37%
Accounts Receivables and Investments Valuation	16	31%
Fixed Assets - Valuation and Impairment	15	29%
Pension and Other Post-Retirement	11	21%
Management Override of Internal Controls	10	19%
Inventory	9	17%
Liabilities and Reserves	9	17%
Off-balance Sheet Liabilities	7	13%
Mergers & Acquisitions	5	10%

Table 4C: Ten Risk Topics Mentioned Most Frequently - 59 Companies with Market Capitalization Greater Than or Equal to £2 billion and Under £5 billion

Risk Topic	Number of Auditor's reports with Risk Topic	% of Auditor's reports with Risk Topic
Revenue Recognition	36	61%
Tax	31	53%
Goodwill and Intangible Assets - Valuation and Impairment	25	42%
Management Override of Internal Controls	24	41%
Accounts Receivables and Investments	17	29%
Fixed Assets - Valuation and Impairment	13	22%
Off-balance Sheet Liabilities	12	20%
Asset Disposals*	12	20%
Liabilities and Reserves	11	19%
Pension & Other Post-Retirement	10	17%
Inventory	10	17%

Table 4D: Ten Risk Topics Mentioned Most Frequently - 44 Companies with Market Capitalization of £5 billion and Over

Risk Topic	Number of Auditor's reports with Risk Topic	% of Auditor's reports with Risk Topic
Revenue Recognition	31	70%
Tax	23	52%
Goodwill and Intangible Assets - Valuation and Impairment	22	50%
Management Override of Internal Controls	19	43%
Off-balance Sheet Liabilities	17	39%
Mergers & Acquisitions	15	34%
Accounts Receivables and Investments	13	30%
Fixed Assets - Valuation and Impairment	12	27%
Liabilities and Reserves	10	23%
Financial Derivatives/Hedging Issues*	7	16%
Pension & Other Post-Retirement	6	14%

*These risk topics were not included in Table 4

Appendix G: Number of Risk Topics by Market Capitalization

Table 5A: Number of Auditor Risk Topics Per Auditor's Report - 63 companies in the FTSE 350 with Market Capitalization Under £1 billion

Number of Risk Topics in an Auditor's Report	Number of Auditor's Reports
1	7
2	12
3	12
4	19
5	11
6	2
7	-
8	-
Total	63

Mean Number of Risk Topics per Auditor's Report: 3
Median Number of Risk Topics per Auditor's Report: 4

Table 5B: Number of Auditor Risk Topics Per Auditor's Report - 52 companies in the FTSE 350 with Market Capitalization Greater than or Equal to £1 billion and Under £2 billion

Number of Risk Topics in an Auditor's Report	Number of Auditor's Reports
1	4
2	8
3	18
4	11
5	9
6	1
7	1
8	-
Total	52

Mean Number of Risk Topics per Auditor's Report: 3
Median Number of Risk Topics per Auditor's Report: 3

Table 5C: Number of Auditor Risk Topics Per Auditor's Report - 59 companies in the FTSE 350 with Market Capitalization Greater than or Equal to £2 billion and Under £5 billion

Number of Risk Topics in an Auditor's Report	Number of Auditor's Reports
1	1
2	3
3	16
4	21
5	11
6	4
7	3
8	-
Total	59

Mean Number of Risk Topics per Auditor's Report: 4
Median Number of Risk Topics per Auditor's Report: 4

Table 5D: Number of Auditor Risk Topics Per Auditor's Report - 44 companies in the FTSE 350 with Market Capitalization of £5 billion and Over

Number of Risk Topics in an Auditor's Report	Number of Auditor's Reports
1	-
2	-
3	8
4	11
5	13
6	8
7	2
8	2
Total	44

Mean Number of Risk Topics per Auditor's Report: 5
Median Number of Risk Topics per Auditor's Report: 5

Appendix H: Number of Days to Issue Auditor's Report by Market Capitalization

Table 6A: Number of Days from a Company's Fiscal Year End Date to Auditor’s Report Date - 58 Companies in the FTSE 350 with Market Capitalization Under £1 billion

	Days to Issue Auditor’s Report		
	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2011
Mean	67	68	71
Median	63	66	67
Range - low	38	39	41
Range - high	115	120	121

Table 6B: Number of Days from a Company's Fiscal Year End Date to Auditor’s Report Date - 50 Companies in the FTSE 350 with Market Capitalization Greater Than or Equal to £1 billion and Under £2 billion

	Days to Issue Auditor’s Report		
	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2011
Mean	60	61	63
Median	59	59	60
Range - low	28	29	25
Range - high	98	100	115

Table 6C: Number of Days from a Company's Fiscal Year End Date to Auditor’s Report Date - 58 Companies in the FTSE 350 with Market Capitalization Greater Than or Equal to £2 billion and Under £5 billion

	Days to Issue Auditor’s Report		
	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2011
Mean	62	64	64
Median	59	62	62
Range - low	44	45	48
Range - high	101	114	115

Table 6D: Number of Days from a Company's Fiscal Year End Date to Auditor’s Report - 44 Companies in the FTSE 350 with Market Capitalization of £5 billion and Over

	Days to Issue Auditor’s Report		
	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2011
Mean	60	61	61
Median	58	62	60
Range - low	36	30	32
Range - high	106	112	111

Appendix I: Change in Audit Fees by Market Capitalization

Table 7A: Changes in Audit Fees - 58 Companies with Market Capitalization Under £1 billion(a)

	% Change in Audit Fees		
	All 58 companies	44 companies, excluding investment trusts	14 investment trusts
Mean	3.7%	5.5%	-2.1%
Median	0.0%	0.0%	0.0%
Range - Low	-26.2%	-25.0%	-26.2%
Range - High	91.0%	91.0%	18.4%
# of Companies with an Increase in Audit Fees:	25	20	5
# of Companies with No Change in Audit Fees:	15	12	3
# of Companies with a Decrease in Audit Fees:	18	12	6

Table 7B: Changes in Audit Fees - 50 Companies with Market Capitalization greater than or equal to £1 billion and under £2 billion(a)

	% Change in Audit Fees		
	All 50 companies	47 companies, excluding investment trusts	3 investment trusts
Mean	2.5%	2.5%	1.6%
Median	0.0%	0.0%	0.0%
Range - Low	-46.6%	-46.6%	0.0%
Range - High	60.4%	60.4%	4.8%
# of Companies with an Increase in Audit Fees:	20	19	1
# of Companies with No Change in Audit Fees:	21	19	2
# of Companies with a Decrease in Audit Fees:	9	9	0

Table 7C: Changes in Audit Fees - 58 Companies with Market Capitalization greater than or equal to £2 billion and under £5 billion(a)

	% Change in Audit Fees		
	All 58 companies	57 companies, excluding investment trusts	1 investment trust
Mean	7.2%	7.2%	9.8%
Median	6.4%	6.3%	9.8%
Range - Low	-22.2%	-22.2%	-
Range - High	57.1%	57.1%	-
# of Companies with an Increase in Audit Fees:	37	36	1
# of Companies with No Change in Audit Fees:	12	12	0
# of Companies with a Decrease in Audit Fees:	9	9	0

Table 7D: Changes in Audit Fees - 44 Companies with Market Capitalization £5 billion and over(a)

	% Change in Audit Fees		
	All 44 companies	44 companies, excluding investment trusts	0 investment trust
Mean	4.9%	4.9%	-
Median	0.0%	0.0%	-
Range - Low	-26.4%	-26.4%	-
Range - High	82.4%	82.4%	-
# of Companies with an Increase in Audit Fees:	17	17	-
# of Companies with No Change in Audit Fees:	11	11	-
# of Companies with a Decrease in Audit Fees:	16	16	-

(a) The percent change in audit fees needs to be interpreted with caution. Some companies report audit fees rounded in large unit values relative to the actual audit fee amount. This can create rounding errors which can result in overstating or understating changes in audit fees. For example, a company with actual audit fees of £549,000 in 2012, may report £0.5 million in the annual report for that year. If the fees increased to £551,000 in 2013, the company would report £0.6 million for this year. The amounts reported in the annual report would indicate a 20.0% increase in audit fees when the actual increase is 0.36%.

Appendix J: Student's T-test results for statistical significance for differences in days to issue an auditor's report

Group A: Changes in days to issue new audit report - Companies with Market Capitalization Under £1 billion

	One-tailed Test		Two-tailed Test	
	1 Yr Prior	2 Yrs Prior	1 Yr Prior	2 Yrs Prior
Paired	0.150	0.009***	0.300	0.017**
Homoskedastic	0.370	0.119	0.741	0.238
Heteroskedastic	0.370	0.119	0.741	0.238

*** p<0.01, ** p<0.05, * p<0.1

Group B: Changes in days to issue new audit report - Companies with Market Capitalization greater than or equal to £1 billion and under £2 billion

	One-tailed Test		Two-tailed Test	
	1 Yr Prior	2 Yrs Prior	1 Yr Prior	2 Yrs Prior
Paired	0.437	0.055*	0.874	0.029**
Homoskedastic	0.444	0.049	0.946	0.315
Heteroskedastic	0.451	0.052	0.946	0.315

*** p<0.01, ** p<0.05, * p<0.1

Group C: Changes in days to issue new audit report - Companies with Market Capitalization greater than or equal to £2 billion and under £5 billion

	One-tailed Test		Two-tailed Test	
	1 Yr Prior	2 Yrs Prior	1 Yr Prior	2 Yrs Prior
Paired	0.011**	0.004***	0.022**	0.008***
Homoskedastic	0.108	0.100*	0.217	0.201
Heteroskedastic	0.108	0.101	0.217	0.201

*** p<0.01, ** p<0.05, * p<0.1

Group D: Changes in days to issue new audit report - Companies with Market Capitalization £5 billion and over

	One-tailed Test		Two-tailed Test	
	1 Yr Prior	2 Yrs Prior	1 Yr Prior	2 Yrs Prior
Paired	0.054*	0.207	0.108	0.415
Homoskedastic	0.304	0.357	0.608	0.715
Heteroskedastic	0.304	0.357	0.608	0.715

*** p<0.01, ** p<0.05, * p<0.1

Appendix K: Student's T-test results for statistical significance for changes in audit fees

Group A: Changes in Audit Fees - Companies with Market Capitalization Under £1 billion

	One-tailed Test	Two-tailed Test
Paired	0.206	0.412
Homoskedastic	0.478	0.955
Heteroskedastic	0.478	0.955

*** p<0.01, ** p<0.05, * p<0.1

Group B: Changes in Audit Fees - Companies with Market Capitalization greater than or equal to £1 billion and under £2 billion

	One-tailed Test	Two-tailed Test
Paired	0.170	0.340
Homoskedastic	0.426	0.853
Heteroskedastic	0.426	0.853

*** p<0.01, ** p<0.05, * p<0.1

Group C: Changes in Audit Fees - Companies with Market Capitalization greater than or equal to £2 billion and under £5 billion

	One-tailed Test	Two-tailed Test
Paired	0.009***	0.018**
Homoskedastic	0.379	0.758
Heteroskedastic	0.379	0.758

*** p<0.01, ** p<0.05, * p<0.1

Group D: Changes in Audit Fees - Companies with Market Capitalization £5 billion and over

	One-tailed Test	Two-tailed Test
Paired	0.141	0.282
Homoskedastic	0.452	0.904
Heteroskedastic	0.452	0.904

*** p<0.01, ** p<0.05, * p<0.1