

**Submission by Tony Shearer**

**on the Competition Commission's enquiry into the Audit Market**

**13<sup>th</sup> April 2012**

- 1) Audits of the accounts of businesses are strategically important to the UK.
  - a) Reliable financial information is essential to trading and investing activities, as well as to others such as regulators. Suppliers and customers as well as investors need information about the ability of businesses to repay their debts and their ability to survive.
  - b) Audited financial information is not the only source of such assurances or information, but an important part.
  - c) Even if all the "interested parties" do not read the financial information themselves, they acquire the information through "osmosis".
- 2) The firms of auditors have frequently failed to carry out their work with proper diligence.
  - a) Inappropriate accounting policies (for example those set out by International Financial Reporting Standards "IFRS") played an important part in the banking failures.
  - b) Auditors measured the requirement for financial statements to give a "true and fair view" against inappropriate reporting standards, such as IFRS. In addition auditors performed poor audit work, and also allowed a "box-ticking mentality" through compliance with detailed requirements (for instance under Company law) to override the requirement that accounts give a "true and fair view".
  - c) The drive to introduce IFRS in the mid-2000s came from the auditing firms seeing the extra revenues that actuaries had generated through the adoption of Financial Reporting Standards on accounting for pension funds in the accounts of the employing company, and seeking to generate extra revenues for themselves. In doing this they focused on the theoretical, rather than the practical, impacts of IFRS.
- 3) Over the past 30 years the major auditing firms have diversified their businesses, and their auditing business are now smaller than their non-audit activities.
  - a) These non-audit services are not of strategic importance to the UK.
  - b) The senior management of many of the large auditing firms now come from backgrounds other than audit.
  - c) The major auditing firms have lost their focus, and audit is no longer the most important aspect of their businesses.
  - d) The strategically important issue of auditing is no longer sufficiently important to the auditing firms.
- 4) The Competition Commission should , in my opinion, require:

- a) Firms that seek to audit the accounts of “major businesses” to ensure that their focus is on audit. To do this they should require those firms to divest themselves of all non-audit services; and
  - b) All firms of auditors to improve their audit work, and to ensure that Financial Reporting Standards are appropriate, and not introduced as a means of generating extra revenues for the auditing firms and in a futile search for international harmony.
- 5) This submission summarises the specific issues without attempting to repeat the mass of evidence that is available to support the conclusions.

Tony Shearer, 13<sup>th</sup> April 2012.

Tony Shearer started his career as a chartered accountant, and has held senior executive roles in investment management, banking, insurance, and technology. He is a former partner in Deloitte Haskins & Sells, former Finance Director and Chief Operating Officer of M&G Group, former Finance Director and Chief Executive of Singer & Friedlander, and for the last 6 years has developed a portfolio of non-executive directorships.

Tony is Non-Executive Chairman of Abbey Protection plc (AIM listed specialist insurance and consultancy), Triple Plate Junction (AIM listed gold explorer), and Updata (financial software company), and a Non-Executive director of Harvard International (AIM listed consumer electrical group) and Sanctuary Partners (mineral trader). He has been chairman of Uruguay Mineral Exploration Inc (the AIM listed gold producer), Gees Haulage, UK Wealth Management, and Caxton FX (foreign exchange broker).

Tony has written numerous articles, appeared on BBC Television, BBC Radio, Channel 4 and Skye commenting on the “Banking crisis” and, in his earlier career, on accounting and Company Law issues. He has also given written and oral evidence to the Treasury Select Committee on his experiences of the FSA’s regulatory failures.