



Our Ref SAM/MC/MSD

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Dear Sirs

Investigation into the market for the supply of statutory audit services to large companies in the UK – notice of a further possible remedy

Grant Thornton UK LLP (Grant Thornton) welcomes the opportunity to provide comments on the further possible remedy proposed by the Competition Commission (CC) in its Notice of a Further Possible Remedy, which was issued on 5 June 2013.

We have previously responded to the CC's earlier notice of possible remedies and we believe that the further possible remedy, to give the Financial Reporting Council (FRC) a secondary duty to promote competition between firms providing audits to FTSE 350 companies, would be a useful addition to the CC's package of proposed remedies.

However, the further remedy should not, in our view, replace or otherwise reduce the need for the other remedies proposed by the CC (and supported by us).

As we have commented previously, we believe that the proposed interventions (including the additional remedies we have suggested in our response to the remedies notice) need to be taken together and considered in aggregate. The proposed remedies are not mutually exclusive and no one remedy will bring about sufficient change in the market. In our view it is therefore essential that a balanced package of remedies is introduced, which together will bring about positive change for customers.

Secondary duty

We would see the additional secondary duty of the FRC to promote competition as being consistent with good regulatory practice and in line with developments in other areas of regulation, and in particular with other professional services regulation. For example, Ofcom, the Financial Conduct Authority and the Legal Services Board, amongst others, all have duties to promote competition and/or to prevent adverse effects on competition in the sectors for which they have responsibility.

These duties reflect a recognition that, where the regulator has a requirement to promote competition, this can be expected to have a positive impact on the delivery of services to users. We would expect that dynamic to also hold in the market for audit services.

Further possible remedy

General comments

As we have noted in earlier responses to this investigation, Grant Thornton supports the introduction of better AQR T reviews, in terms of the degree to which they allow more effective and transparent comparison between different audit firms. Further, we believe that giving the FRC a duty to consider promoting competition between firms providing audit services to FTSE 350 companies would be a useful incentive to improve the way in which AQR T reports are performed and reported.

The primary benefit of improved AQR T reporting would be the transparency to shareholders and companies about capabilities of audit firms auditing FTSE 350 companies. In particular, increasing the comparability of different audit firms operating in the FTSE 350 would reduce barriers for companies to switch by providing them with relevant information to be able to assess alternative suppliers. This would be particularly pertinent for shareholders who currently have very limited ability to compare alternative audit firms.

However, it is not clear from the CC's Notice how the duty would be acted upon and implemented by the FRC. Further clarity and/or direction may assist the FRC in taking proactive steps to fulfil that duty. We have therefore sought to consider some practical steps that the FRC might take were the remedy to be implemented.

Regularity of review

One way of improving the ability for companies and investors to compare audit firms is to increase the regularity of AQR T reviews on audit firms which are not amongst the four largest firms, such as Grant Thornton, so that those reviews are undertaken on a comparable frequency to those of the four largest firms, where companies of a comparable size and complexity are being audited. That is, there should be an identical frequency of publishing reports for all 9 major firms who are the subject of AQR T inspections. In the absence of this consistency, the visibility of quality of different firms, for shareholders and companies, is blurred.

Nature of review

The FRC will need to adapt the framework and nature of their reviews to allow greater comparability between audit firms. The FRC currently conducts both "thematic reviews" and "firm reviews"; the latter focusing on specific company audits, whereas the former deals with key audit issues, germane to a number of audits conducted by all firms (e.g. ethics, group audits, letter box companies etc).

The FRC's primary focus on "firm reviews" will present issues when reporting findings for smaller audit firms who have fewer clients within the AQR T remit, as it will become increasingly obvious which companies' audits have been reviewed for those smaller audit firms. Further, under the current AQR T review regime, those companies with a smaller audit firm are likely to be selected for AQR T review more regularly than if they were being audited by a larger audit firm. This may act as a disincentive for companies to select a smaller audit firm as their auditor.

Accordingly, we would recommend the FRC's primary review approach is a "thematic" one, focusing on the same audit "theme(s)" (rather than audit client) across all 9 major firms, to provide comparability without compromising the identity of the audit client.

However there may be other ways in which the FRC can achieve greater comparability between audit firms in AQR T reporting and we would be happy to contribute further to any discussions in this regard.

Content of the reviews

Regarding the content of AQR T inspections, we support efforts to ensure that AQR T reports refer specifically, where possible, to the output that investors are concerned about, including a review of the ethical practices which the audit firm undertook prior to providing any non-audit services and the level of challenge and scepticism which is evident over material accounting issues.

With respect to the content of the AQR T inspection reports, the FRC might also:

- Provide a broad comparison of findings when they have undertaken comparable levels of inspection on comparable audits between different audit firms.
- Include a proportionate and relevant summary in AQR T reports instead of a list of deficiencies, as with current practice, which would further aid the ability of companies and shareholders to perform a meaningful comparison.

In making these suggestions, we also wish to acknowledge that the FRC has sought to make improvements in the structure and content of its reports each year.

Information disclosure

We also suggest that the FRC introduces an explicit reporting requirement for FTSE 350 companies to state on the company's website or in the annual report, the following information where relevant:

- the company's approach to the audit tender and audit firm selection decision, including its approach to re-tendering;
- the company's policy on maximum auditor tenure and the period until mandatory audit partner rotation and mandatory audit firm rotation;
- any restrictions imposed on the company by third parties regarding the company's choice of auditor;
- the company's policy for using a range of accounting firms; and details of how they get to know and use accounting firms which are not among the dominant firms;
- the company's policy for using its auditor for undertaking non-audit services, including any limits imposed on the volume of non-audit services provided by the auditor, services which may be provided by the auditor but only with prior approval of the audit committee, and use of firms other than the auditor; and
- the company's approach and policy for ensuring sufficient engagement/dialogue is had with the company's shareholders in the above areas.

The above requirements would force Audit Committees and companies to spend time considering their policy for the use of accounting firms for audit and non-audit work, and provide shareholders with more transparent information about the audit firm's engagement with the company, and the company's actions to ensure that the audit firm is independent.

Nomenclature used by the FRC

A further measure which would have a meaningful impact is to report the AQR results of the 9 major firms in the same way, to avoid the perception that the largest four firms are different from the others. At present, the reports of the largest four firms are released at the same time under the guise of "Big-4" reports, whilst the other firms are published separately. Further, the FRC should eliminate references to "Big-4 firms", "mid-tier firms" and "other firms" etc, which only serve to reinforce incorrect notions that the audit firms should be grouped in this manner.

If you have any questions on this response, please contact either Steve Maslin (Direct T: +44 (0)20 7728 2736; E: steve.maslin@uk.gt.com), Mark Cardiff (Direct T: +44 (0)20 7728 2580; E: mark.cardiff@uk.gt.com) or Martin Drew (Direct T: +44 (0)1865 799914; E: martin.s.drew@uk.gt.com).

Yours faithfully



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