

Inquiry Manager  
Statutory Audit Investigation  
Competition Commission  
Victoria House  
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London, WC1B 4AD

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17 June 2013

Dear Sir

## **Notice of a Further Possible Remedy under Rule 11 of the Competition Commission's Rules of Procedure**

### **Introduction**

Mazars, the integrated international audit and advisory organisation, with over 13,500 professional staff in 71 countries is pleased to submit its views on the above further possible remedy.

### **Overview**

In response to the questions posed, we are not persuaded that this remedy will be effective with regards to:

- (a) promoting competition between audit firms so as to assist companies in comparing auditors; or
- (b) promoting competition between audit firms so as to assist shareholders to influence the auditor appointment decisions of companies in whom they hold shares

Our reasons for our views are set out in the following sections

### **FRC's approach to, and record in, promoting competition**

Our understanding is that the FRC has been very clear in recent times in stressing that it is not a competition regulator. In these circumstances it is not clear that it is likely to be vigorous in undertaking its functions, where appropriate, in a manner which will promote competition between audit firms in the provision of statutory audit services to FTSE350 companies.

Moreover, it will inherently be a highly subjective assessment as to whether a secondary objective of promoting competition has been applied and thus it will be difficult to determine the extent to which FRC has sought to fulfil a widened remit. To mitigate this challenge, more specific guidance should be provided to the FRC on how it should promote competition, ie by facilitating the introduction of additional players, and possibly also of targets to be achieved in this area by a given date..

Furthermore, the FRC's record in promoting competition, for example in its implementation of the recommendations of the Market Participants Group, has not been very successful. As an illustration of

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this point for example, the FRC's recently published 'Key Facts and Trends in the Accountancy Profession' (June 2013) shows that audit fee income for Big 4 firms increased by 4.9% in 2011/12, compared with increases of just 0.9%, -2.2%, 1.2% and 0.9% in the previous four years. In marked contrast, audit fee income in non-Big 4 firms declined by 5% in 2011/12.

#### **How the FRC is expected to promote competition**

As discussed above, it is not entirely clear from the possible further remedy how the FRC is expected to promote competition in total although much of the discussion focuses on the reports by the AQRT team and, in particular, on reports on individual company reviews being made available to shareholders. Our understanding is that they are already made available to audit committees and they presumably feel they already take appropriate action in response to them where improvement is needed. If it is felt that making them directly available to shareholders will lead to a different response this suggests a principal-agent issue which probably needs to be addressed more systemically rather than just by this isolated change.

It would be helpful for the AQRT to review how it selects its audits for review and how it prepares its reports. It may also be time to end the two-tier process whereby the Big 4 are reviewed annually and other firms less frequently. We would be surprised however, if any such changes had a significant impact on the degree of institutional bias affecting non-Big 4 firms as they seek to enter/increase their shares in the FTSE350 audit market.

We believe that if FRC were to be effective in promoting competition in the FTSE350 audit market significant changes in its composition, including at board level, would be needed. At present, as the Provisional Findings Report highlights, there is a significant imbalance between the representation from the Big 4 and the challenger firms, and other accounting firms more generally, on the staff and at Committee/Board level of the FRC.

We consider it would also be important for the FRC to establish a new body, with balanced membership, within its structure to deal with promoting competition as regards the FTSE350 audit market across the breadth of its activities, including issues, as discussed above, relating to the AQRT inspection process and Committee/Board membership.

#### **Conclusion**

Our main view, as discussed with you, is that the further remedies that are needed to address issues related to the AEC concerning barriers to entry to the FTSE350 audit market are further significant limits on the provision of non-audit services; the requirement for, or significant encouragement of, joint and shared audit and measures to address institutional bias.

If there are any issues in this letter which you would find helpful to discuss further with us, please do not hesitate to contact David Herbinet on 0207 063 4419 or Anthony Carey on 0207 063 4411.

Yours faithfully

*Mazars LLP*

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