

The Director
Market Investigation into Statutory Audit Services
Competition Commission
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Dear Sir

Audit Market Investigation - Barriers to entry: International networks

1. Introduction

Mazars, the integrated international audit and advisory organisation with 14,000 professional staff in 69 countries, is pleased to submit its comments on the above working paper.

2. Belief in integrated international structure

We are firmly committed to, and believe there are merits to our integrated international structure with the partners from around the world being directly members of the main international organisation (CARL) and with there being international profit sharing through a mutualisation process. We believe our unique international structure improves client service, facilitates cross-border quality control and reduces the risk of Mazars partners in a given country moving to an alternative firm as they would not have the right to bring clients with them.

3. The international coverage of networks - investment by 'challenger' firms highlighted

We note your comment in paragraph 88 that 'as a proportion of their network coverage these increases [of member firms] were particularly significant for the smaller networks, and may be seen as evidence of increasing international coverage'. We believe this highlights that it is time for some of the Big 4 to stop seeking to give the impression that the leading 'challenger' firms outside the Big 4 have not invested to build their capabilities in order to be better able to meet the needs of larger listed companies.

4. Number of staff employed not a reliable guide to ability to service international clients

We believe comparison of networks/international organisations by reference to average number of people in each country serviced is very misleading. In saying this, we recognise that you state that Table 5 on average number of employees per country should 'be treated as indicative of relative scale, rather than conclusive in respect of a network's international audit capacity and capability'. There are a relatively small number of countries accounting for a significant majority of the staff in most networks.

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Hence, if you are very dominant in one or more of those jurisdictions, this is likely to increase artificially the average size per country.

Also, most importantly, the key issue is not the number of staff in a particular country, *per se*, but whether they have the expertise to serve large international clients. One network may have a large number of staff in a particular country mainly geared to serving smaller domestic clients. Another may have a smaller number but with their focus on serving large international ones. This is particularly true when one looks at networks/international organisations outside the Big 4. Mazars has invested heavily in international expansion in recent years and it has been very much focused on developing offices able to serve large international clients.

5. UK element of FTSE350 audit fees increasing by less than overall FTSE350 audit fees

In paragraph 107 you say it is not clear why in the FTSE350 the UK element of FTSE350 fees has only grown by 1.1% a year compared to 5.2% for the overall fee. We presume this is due to the differential growth rate between the main European economies and those in the BRICs and other leading emerging economies.

6. Are board perceptions of non-Big 4 international capabilities reliable?

The key question which the working paper does not really address is whether individual FTSE350 companies are excluding non-Big4 firms from consideration as possible auditors on the grounds that their international network is not strong enough to meet their specific needs or whether the view is based on assumptions that would not bear close scrutiny. The case studies reported in paragraph 126 suggest it may be the latter. For example the ACC in 126(a) was concerned about the geographic coverage of the non-Big 4 firms though clearly had little knowledge of it. Similarly in 126 (c) the ACC seemed to be suggesting that the non-Big 4 were only acceptable for 'simple operations solely in the UK'. In 126(e) the company did not know where it would have operations in the near future, suggesting it was not a leading global business with activities everywhere, but was nevertheless ruling out the non-Big 4 in advance.

7. Addressing the virtuous/vicious circle issues

We have some sympathy with the virtuous/vicious circle views of the Competition Commission as regards international networks with any success reinforcing the strength of a network and making it more attractive to potential future clients. Given, however, the current situation is based on a misapprehension concerning the international capabilities of Mazars and other leading non-Big 4 firms we believe very firmly that it is in the interest of a competitive market that it be addressed.

8. Serious underestimation of potential impact of the forced exit of a major firm from a Big 4 network

The view in paragraph 137 that the impact of the collapse of the US firm of Andersen 'was possibly greater than it might have been in other circumstances' is expressed in very vague terms but the general point being made seems misguided.

Firstly, Andersen in the UK had a much smaller share of, for example, the FTSE100 audit market than any of the Big 4 today and so if any of these networks were to fail/have to leave the market unexpectedly the impact on the FTSE350 audit market would be far graver than in the case of Andersen.

Secondly, the problem with Andersen was one of a catastrophic loss of reputation. In today's world of global communications this is not determined by, probably, relatively modest differences in the percentage of inbound referred work.

Thirdly, when firms/networks start to fail the situation moves very quickly and nearly always, to some extent at least, unpredictably. We believe it would be very short-sighted to assume the relatively smooth move of Andersen's people to other Big 4 firms would be replicated if a similar event were to affect one of the remaining dominant networks.

Fourthly, there are specific features of the capital markets and/or the audit market in Japan and India which means the collapse of firms there, *a priori*, might be thought to be more easily able to be ring-fenced than in other situations involving the collapse of a firm in a major economy.

Fifthly, as the working paper points out, the proportion of FTSE350 audit fees being earned abroad is rising and would expect the same to be true for other firms in the network with regards to their capital markets thus affecting inbound referrals. Thus, UK firms in the Big 4 networks are increasingly dependent on what happens to other firms in the network for their success.

Sixthly, there is a view that regulators are already nervous about imposing sanctions that would be expected to have a very serious impact on a dominant firm/network and that this may already be working in the Big 4's favour. If it is, there is already a major problem with 'regulatory capture' that would need to be addressed.

9. Further discussion

If there are any issues discussed in this paper on which it would be helpful to have further discussion please do not hesitate to contact David Herbinet, Global Head of PIE Audits, on 0207 063 4419 or Anthony Carey on 0207 063 4411.

Yours faithfully



Mazars LLP