

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

Audit Market Investigation - Evidence of tacit co-ordination

1. Introduction

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

2. Our overall view

Whilst we are not suggesting there is tacit co-ordination amongst the dominant players in the FTSE350 audit market, we note the conclusion of the working paper that 'many of the market conditions conducive to tacit collusion in relation to market share appear to be satisfied...' and would therefore encourage the Competition Commission to keep an open mind on the issue.

3. A reasonably transparent market in terms of price

We are not wholly persuaded by the comment in paragraph 28 of the working paper that this is not a market where prices are particularly transparent. We accept that the work undertaken on each audit will be specific to that client at that time. That said, the audit fee is published in the annual report and would generally be fairly stable from year to year unless the structure or composition of the business changed, which would be well known when it occurred in the case of a leading company, or where there was a major new regulatory requirement, e.g. the introduction of IFRS. Moreover, through the extensive non-audit services provided by the Big 4 to many FTSE350 companies they would have a good understanding of the structure of and issues affecting most of them which would enable them to have a fairly good understanding of an individual company's audit needs and hence how to price it fairly reliably. Indeed in this they would have an advantage over non-Big 4 firms which are not generally involved to the same degree in providing non-audit services to the FTSE350.

In addition, your *Working paper on Competition Commission survey results* has highlighted (see Table 13 page 18) that when FTSE350 companies try to benchmark the audit 79% of them seek to compare the fee within the sector and with that of companies of a similar size and complexity. No other

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benchmarking factor is used by more than 29% of companies. This suggests the companies feel there is a reasonable degree of price transparency in the market.

There may be merit, however, in asking the shareholders whether they would find it helpful to have further information disclosed around the time spent on the audit, analysed by grade of staff. This would enable them to have a better understanding of the fee in the context of the amount of work undertaken.

4. Lack of switching possible pointer to tacit collusion

We are also a little surprised by your sentence in paragraph 56 within the 'Overall initial conclusion' that factors exist in particular the frequency of switching, uncertainty around value of engagements and movements in the FTSE350 companies which, for some of the reasons given by the parties, would not be conducive to tacit coordination'. We have discussed price transparency in the previous section but we would have thought that the very low rates especially of 'voluntary' switching which we have highlighted to you in our response to the *Working Paper on Competition Commission survey results* might *a priori* be thought to raise questions as to whether there was tacit coordination rather than to lean in the alternative direction. The figures offered by Deloitte in paragraph 4 of Annex 1 need to be treated with some caution as their increased market share includes previous Andersen audits they took over when Andersen partners transferred to them though this does not account for all of their increase.

As the audit requirements do not change as firms move in and out of the FTSE350 and the interest in maintaining/building market share is likely to be broadly similar amongst the dominant players with regards to a company just outside the FTSE350 as it is for one just inside it, we are not sure what is meant by the comment that movements in the FTSE350 would act against tacit coordination.

5. Need to look for signs of tacit coordination with regards to regulatory and other requirements the dominant players have a key role in shaping

We believe there would be merit in the Competition Commission looking at the ways in which the dominant players have opportunities to shape regulatory, standard-setting and professional requirements, whether the non-Big 4 have equal access to put their view forward, and whether the resultant shape of the market has taken full account of the investors' views which it would not seem to have done having regard to their recent paper *Audit- a long-term investor position paper on proposed EU reforms*. We believe this issue is a very important one that does not seem to have been sufficiently explored to date. Among the specific issues to be considered is the extent to which there is an open and robust nominations and selection process when making appointments to key roles in regulatory, standard-setting and professional bodies, whether there are any roles which appear to rotate between the dominant players and whether there are any organisations in which the dominant players have a leading role and which has a very restricted membership.

6. Further discussion.

If there are any issues in this response which you would find it helpful to discuss further with us 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