



## **Grant Thornton Response to the Competition Commission ("CC") working paper entitled "Law and regulation"**

1.1 This memorandum sets out the response by Grant Thornton to the Competition Commission's ("CC") working paper entitled "Law and regulation" ("the working paper") which was issued on 20 April 2012.

1.2 We believe that as currently drafted, paragraph 5.50 is misleading and should be amended. The CC's paragraph 5.50 asserts that, regarding the AIU's public inspection reports for the period 2010/2011, 5 of 55 audits reviewed of the largest four firms required significant improvement and 7 of 27 audits of the mid-tier and smaller firms required significant improvement. Notwithstanding the footnote that gives the individual results for BDO and GT, we believe that this paragraph gives the strong implication that the audit quality of the four largest firms is superior to that of all other firms. We believe that implication is flawed for the reasons set out below.

1.3 Since the sample sizes are small for each firm for each AIU report that is issued, providing the results for just one period, as paragraph 5.50 does, has the potential to give a misleading impression, particularly when the distinction between BDO and GT and other smaller auditors is contained in a footnote. The previous AIU report showed a different pattern to that inferred from paragraph 5.50, for example the audits reviewed of BDO and Grant Thornton had no audits (0) classified as requiring improvement whereas the four largest firms had at least one and in some cases two audits classified as requiring significant improvement. There is no suggestion we are aware of from the AIU that the audit quality of those firms significantly changed in the intervening period (for the better in the case of the four largest firms and for the worse in the case of BDO and Grant Thornton), rather that the sample sizes were not adequate to form a statistically sound conclusion in any one period reported on by the AIU.

1.4 We do not believe it is appropriate to categorise the AIU's findings into the four largest firms and all others. To do so, suggests that those two categories comprise firms which are homogeneous in terms of audit quality, whereas in fact there are significantly different results between each firm in both categories.

1.5 Similarly we are concerned that categorising the AIU reports in this way in the CC's working paper itself reinforces institutional prejudice in favour of the four largest firms.

1.6 We note that the AIU reports of the firms ranked 7 – 10 which were published in 2012 show that three of those firms had no files in the category of "significant improvement required". Based upon these findings, it would suggest that the highest audit quality amongst all firms would be found outside of the largest 6 firms. We do not believe that this assertion is something that would be endorsed by the FRC.