

Inquiry Manager  
Statutory Audit Investigation  
Competition Commission  
Victoria House  
Southampton Row  
London  
WC1B 4AD  
Via email to [auditors@cc.gsi.gov.uk](mailto:auditors@cc.gsi.gov.uk)

18 March 2013

Dear Sir,

### **Statutory Audit Services Market Investigation**

The Chartered Institute of Management Accountants (CIMA) is pleased to have the opportunity to comment on this consultation. Although the CIMA qualification does not include auditing, our members have an active interest in the effectiveness of audit as a consumer. CIMA members occupy senior positions in many of the UK's largest public and private organisations and have direct involvement in the selection of audit firms and the work of auditors through various FTSE 350 audit committees and boards. We believe we are ideally positioned to comment on the possible remedies proposed by the Competition Commission to address the adverse effect on competition identified in the Audit Services Market.

#### **Mandatory Rotation**

We do not agree with the proposal to introduce mandatory rotation of audit firms. There is no guarantee that the benefits of improved independence and objectivity that may result from changing audit firm will outweigh the costs of change. We believe that there is a high probability that a new auditor will have so much less specific, in depth experience and knowledge about the company that it will take years for the new auditor to duplicate the understanding that previously existed with the incumbent auditor. As a result, investors and the public will be less rather than more protected. We would prefer that rotation of audit firm is left to the discretion of audit committees.

We also believe that mandatory rotation may restrict competition in some market segments. Certain sectors require specialist auditing skills and experience and these are built up over a number of years of working in the particular industry. Mandatory rotation is likely to deter audit firms from making this investment and so reduce the effective choice available to audit committees.

#### **Mandatory Tendering**

As with mandatory rotation, we have similar concerns with mandatory tendering proposals becoming a disincentive for audit firms to establish specialist auditing skills in certain industry sectors. Additionally the costs of undertaking a retendering process are not inconsiderable. Nevertheless, we acknowledge concerns over the length of time some companies have used the same audit firm and have concluded that the greater transparency that a tendering process would deliver could be beneficial in alleviating these fears. However, we believe that the comply or explain provision in the UK Corporate Governance Code for UK FTSE350 companies to put the external audit contract out to tender at least every ten years is sufficient and that no additional action should be taken by the Competition Commission in this area.

#### **Audit Committees**

We were pleased to note that in the revised UK Corporate Governance Code published last year, the audit committee retained primary responsibility for auditor selection. We welcome moves to strengthen accountability of the external auditor to the Audit Committee and support the proposal to require the audit engagement partner to report directly to the Audit Committee Chairman. Effective

audit reporting is essential and we believe that the Competition Commission should rely on the Financial Reporting Council to continue to progress their work in this area.

I hope that these comments will be helpful and please do not hesitate to contact me if you have any queries.

Yours faithfully

*Nick Topazio*

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