

20th March 2013

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

Dear Sir/Madam,

I am writing to set out the CBI's views on the Competition Commission's provisional findings and notice of possible remedies on the audit market.

The CBI agrees that auditors must act in the interests of shareholders and believes that they generally do so at present. We believe that any reforms to the audit market should seek to improve quality, independence, resilience and choice of audit. We also believe that any reforms must respect the roles of shareholders, boards, and management and ensure that they have the right powers to be able to perform their roles effectively. We believe the conclusions drawn on the role of Audit Committees and their Chairs, for example, blur the important distinction between the roles of management and non-executive directors in relation to audits.

Of the possible remedies put forward by the Competition Commission, the CBI has previously advocated and would support:

- **Mandatory tendering**, which we believe would prompt companies into testing the market and considering a new auditor, whilst ensuring that the decision ultimately remains in the hands of Audit Committees and shareholders to decide who is the best placed auditor for them. If introduced, we believe that this measure should adopt the "comply or explain" approach as set out in the UK corporate governance code, so that the company would not be forced into a tendering process when in the midst of significant organisational change, for example. We believe that the 10 year limit for tendering in the new corporate governance code is broadly appropriate, and complements the five year limit for lead audit partners.
- **Removing restrictive covenants**, where business agrees barriers to growth should be tackled and we would support the prohibition of "Big 4 only" clauses, for example, in banking covenants.



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- **Enhanced shareholder-auditor engagement**, which we support if the emphasis is on helping to change buying patterns, bearing in mind that Audit Committees and their Chairs currently play an important role in protecting shareholders' interests. Any proposals to re-cast the relationships to the audit of management and Audit Committee Chairs should be grounded in the important distinction between executive and non-executive directors, and their respective roles in company stewardship. To enable shareholders to play a bigger role in audit tendering decisions, involvement should come at an earlier stage in the process, as part of ongoing dialogue between boards and investors.

The CBI has also previously suggested other measures which we believe would increase choice and competition in the audit market, such as introducing an EU passport to help market entry, and reforms that would support growth in the mid-tier audit sector such as reforms on auditor liability.

The CBI has previously considered the case for mandatory audit firm rotation and rejected it. We believe that businesses would incur increased cost from fixed rotation, that it would have a detrimental impact on quality if a new auditor was "forced" on a firm who would then be unfamiliar with the firm, particularly if it coincided with a period of significant change. This measure would also take power out of the hands of shareholders which in our view would be a retrograde step. Finally, we think this measure could reduce choice and competition in the audit market, as it would rule out the incumbent auditor.

Finally, we are mindful that the Competition Commission's work is being carried out in parallel with reforms being considered at the EU level to reform the audit market. We believe that it is important that when the Competition Commission reaches its conclusions, it should make clear those remedies that it has considered and ultimately rejected. We emphasise this because otherwise there is a risk that they are seen in European circles as legitimising options that are being pushed by some groups that we do not believe are in the interests of shareholders or business.

I hope these views from business are helpful to the Competition Commission in reaching its final recommendations. I would be happy to discuss the views set out here with you in more detail if that would be helpful at any stage.

A handwritten signature in black ink, appearing to read 'Matthew Fell', written in a cursive style.

Matthew Fell
Director, Competitive Markets