



15 March 2013

Inquiry Manager, Audit Market Investigation
Competition Commission
Victoria House
Southampton Row
London.WC1B 4AD
United Kingdom

Email: auditors@cc.gsi.gov.uk

Dear Sir/Madam,

SUBMISSION: Statutory Audit Services Market Investigation

The Institute of Chartered Accountants Australia is pleased to respond to the request to provide views in relation to the *Notice of possible remedies under Rule 11 of the Competition Commission Rules of Procedure* in relation to the investigation into the UK statutory audit services market.

The Institute is the professional body for Chartered Accountants in Australia and members operating throughout the world.

Representing more than 72,000 current and future professionals and business leaders, the Institute has a pivotal role in upholding financial integrity in society. Members strive to uphold the profession's commitment to ethics and quality in everything they do, alongside an unwavering dedication to act in the public interest. Chartered Accountants hold diverse positions across the business community, as well as in professional services, government, not-for-profit, education and academia. The leadership and business acumen of members underpin the Institute's deep knowledge base in a broad range of policy areas impacting the Australian economy and domestic and international capital markets.

The Institute of Chartered Accountants Australia was established by Royal Charter in 1928 and today has more than 60,000 members and 12,000 talented graduates working and undertaking the Chartered Accountants Program.

The Institute is a founding member of the Global Accounting Alliance (GAA), which is an international coalition of accounting bodies and an 800,000-strong network of professionals and leaders worldwide. charteredaccountants.com.au

Implications of proposed remedies being explored

The Institute commends the Competition Commission on the extent of research undertaken. We note the preliminary findings suggest limited engagement on the part of shareholders and a possibility that companies face significant hurdles comparing and assessing audit services. These matters relate to the effective operation of the corporate governance framework.

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The Institute is actively engaged in many international debates in relation to these matters. For example:

- We gave evidence at the UK House of Lords hearings into auditor market concentration in 2010, to provide a non-European perspective on implications of audit reforms.
- We participated in a roundtable discussion on the European audit market in Brussels in 2011.
- We explored the role of the audit committee in providing transparency and oversight in our 2012 thought leadership paper *Walk the line*, produced in conjunction with the Financial Reporting Council (UK) and the Institute of Chartered Accountants of Scotland. This paper was produced on the basis of a series of interviews with audit committee chairmen and others which evoked discussion on how chairmen ensured their committees were effective.
- In 2012 we hosted an audit committee roundtable in Hong Kong for the Asian markets, as part of a series of roundtables with the Center for Audit Quality (covering North America participants) and the Federation of European Accountants (FEE) in Europe.

Through this engagement, overseas and in Australia, we have seen the important role the audit committee plays in fostering high quality financial reporting and good corporate governance. On this basis, we welcome proposals to strengthen the accountability of the external auditors to the audit committee.

We also support measures to enhance transparency of the oversight role of audit committees. We suggest that this transparency and accountability may, in addition, address the concern stated in the Competition Commissions material about shareholder engagement. In many countries the audit committee stands as the representative of shareholders.

We would also draw attention to a number of international projects currently looking at the issue of transparency. These include, the International Auditing and Assurance Standards Board (IAASB) project on additional reporting on the audit process in the audit report and the requirement in many countries, including Australia, for auditors of listed entities to provide Transparency Reports detailing their internal processes to maintain quality in their audit practices.

In relation to proposals to introduce mandatory audit firm rotation or mandatory tendering of the financial statement audit to force competition, we suggest that adopting artificial parameters around shareholders' choice of auditor should be proposed only if there was unequivocal evidence of need and benefit which cannot be catered for through other means. Audit committees are charged with the oversight and review of the external audit, and are well placed to assess the effectiveness of the audit and the appropriateness of their re-appointment. Indeed our paper, referred to above, found a general consensus across jurisdictions that the audit committee should carry the principal responsibility for advising the board on the selection, appointment and rotation of external auditors.

We understand that the Competition Commission's remit is to consider impact on competition. However we would note that any measures relating to regulatory and governance structures could also have impact on the quality of audits, which needs to be a consideration. We also note that companies with global operations require the involvement of external auditors in other jurisdictions. Any proposals therefore may have international repercussions.

We trust these comments are of value in the Competition Commission's further deliberations. Please do not hesitate to contact me should you require further clarification or information.

Yours sincerely

Lee White

Chief Executive Officer,
Institute of Chartered Accountants Australia.