



18 March 2013

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By email to [auditors@cc.gsi.gov.uk.2](mailto:auditors@cc.gsi.gov.uk.2)

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

Dear Sirs,

**Response to the publication of provisional findings and possible remedies arising from the Competition Commission's statutory audit services market investigation**

The Hong Kong Institute of Certified Public Accountants (the Institute) is the only statutory licensing body of accountants in Hong Kong responsible for the professional training, development and regulation of the accountancy profession. The Institute sets auditing and assurance standards, ethical standards and financial reporting standards in Hong Kong. The Institute is committed to ensuring that audit quality is maintained at the highest standards and therefore welcomes initiatives that share this aim.

The Institute recognises that the Commission's investigation related only to the audit market for large listed companies in the United Kingdom (FTSE 350). The Commission will however be aware that large listed companies invariably operate on a global scale, regardless of the jurisdiction in which they are listed. The audit of such entities is also on a global scale and audit firms have developed international networks to provide an efficient and effective audit service. Therefore, actions taken by regulatory and other authorities that affect audit firms and the audit market in one jurisdiction could have significant repercussions in other jurisdictions.

The Institute notes that in its investigation the Commission found no evidence of anti-competitive practices among the large audit firms and had no significant issues around the quality of audit. The conclusion that the large company audit market is heavily concentrated in four audit firms (the Big 4) reinforces a fact that is well known and also exists in most significant jurisdictions outside of the United Kingdom. It is a situation that has been created by market forces and in principle the Institute would not favour artificial measures to re-model the market.

The Institute of course recognises that many stakeholders, especially shareholders, have very legitimate concerns about the lack of transparency around the audit process and understanding of the quality of audit. These issues have been identified and are being addressed by a number of relevant bodies including the United Kingdom Financial Reporting Council, the European Commission and the International Audit and Assurance Standards Board. Key areas that are under consideration include the scope and content of the auditor's report and the role of audit committees. In a number of jurisdictions

corporate governance codes have been strengthened. The Commission's conclusions do not appear to fully acknowledge the already vital role played by audit committees in overseeing and assessing the performance of auditors on behalf of shareholders including appointment of auditors and recommending tendering for audit services.

The first three possible remedies set out by the Commission are not supported by the Institute. The Institute does not believe that there is evidence to show that mandatory rotation of audit firm or mandatory tendering will have a positive effect on audit quality or in opening the market for more participants to provide audit services to large companies. These are areas where a strong and effective audit committee should take appropriate action to ensure the company and shareholders receive a quality audit at a fair cost. The Institute is also concerned that legal and practical consequences of the suggestion that outgoing auditors should open audit files to potential incoming auditors have not been fully considered. The cost effectiveness and quality implications of increasing scope and frequency of independent inspections of auditors needs to be fully thought through before being mandated.

The Institute is supportive of changes that will enhance the understanding of the value and quality of audit. The Institute would strongly urge the Commission to work closely with relevant regulatory and standard setting bodies to ensure that any measures introduced to address the Commission's concerns about market access in the United Kingdom are compatible with the important steps that are being taken internationally to enhance audit quality.

I trust that the above comments are of assistance to you. If you require any clarification on our comments, please do not hesitate to contact me by email ([chris@hkicpa.org.hk](mailto:chris@hkicpa.org.hk)) or telephone (direct line +852 22877372).

Yours faithfully,

Chris Joy  
Executive Director

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