

Submission from Independent Audit Limited – 22 March 2013

Dear Sir or Madam

Independent Audit Limited is not, despite its name, an audit firm. We are a specialist firm advising on the effectiveness of corporate governance, widely defined to include the effectiveness of board and committees, internal audit, risk governance and external audit. Our clients include around 30 of the FTSE 100 and a larger number of the rest of the FTSE350, and we also maintain close relationships with major investors.

We have seen the comment submitted by the Financial Reporting Council dated 18 March 2013 and support it in its entirety. We have considerable respect for the FRC and have observed its regulation of auditors developing and improving as it has matured over its 10-year life. The FRC's overall views of the shortcomings of the large company audit market are consistent with those of the Competition Commission, although the FRC has a wider perspective as it places a greater emphasis on choice as an end in itself, rather than as a means to price competition but its views on remedies are different. With all respect, we do not think that the Commission should see itself as qualified to override the FRC's judgement regarding which remedies in this market are likely to be effective and free from unforeseen consequences.

The Commission's analysis of the issues in the market is generally a very good one and we particularly appreciate the fact that (unusually amongst commentators on the audit market) you have identified the problem to be one of demand more than one of supply. Your analysis is very consistent with that contained in my monograph published by the Centre for Studies in Financial Innovation some ten years ago. A copy is attached and you will find that it contains suggested remedies not yet considered by the Commission. It was written around the time that the Smith Guidance on Audit Committees was issued and does not reflect any possible improvement in the contribution made by audit committees; but this should be of no significance since your analysis concludes that the contribution of audit committees remains insufficient.

We will be happy to discuss these matters further with you if it would be helpful.

Yours faithfully

Jonathan Hayward

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