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18 March 2013

Dear Sir/Madam

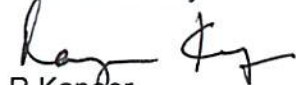
**Statutory audit services market investigation**  
**Notice of possible remedies**

We are writing in response to the invitation to comment in the notice of provisional findings published on 22 February 2013.

Our specific comments on the individual remedies are set out in the annex. However, we would like to highlight our concerns over any proposal for the mandatory rotation of auditors. We believe that such a measure is more likely to distort than enhance competition in the audit market and has the potential to reduce significantly audit quality.

Please contact me if you wish to discuss our response.

Yours faithfully



R Kapoor  
Group Chief Accountant

### **Remedy 1: Mandatory tendering**

We oppose mandatory re-tendering by audit firms. High-quality and effective audits require detailed knowledge of a company, its management, its industry, and other factors affecting the company's financial reporting process. The costs, administrative burden, and disruption to the audit caused by mandatory audit firm rotation are in our view not justified by any potential advantages. We believe such a requirement would increase costs and significantly diminish audit quality.

However, we would support the FRC proposals for tendering every 10 years on a comply or explain basis which should increase the tendering activity, giving the Competition Commission the opportunity better to monitor the effectiveness of the tendering process. Directors would be encouraged to explain to shareholders the rationale for the continuing appointment of a particular auditor at suitable intervals.

We are concerned that any required tendering process should have sufficient safeguards over confidentiality, in particular where tendering is conducted on an 'open book' basis. Our auditor's working papers will contain information relating to the bank's clients and will be covered by the normal client/ auditor confidentiality agreements. Other firms will not have similar agreements with the bank and we cannot accept any arrangements that breach our duty of confidentiality to our clients.

### **Remedy 2: Mandatory rotation of audit firm**

We oppose mandatory rotation of audit firms which would simply lead to rotation within an existing pool of those firms able to service a business of the Group's size and complexity. Mandatory rotation would have other unattractive consequences. Our ability to source high quality advice from a competitive market would be severely compromised if audit firms qualified to perform the Group's audit were to maintain full audit independence so as to be in a position to tender.

Mandatory rotation is a matter that the Commission may have to reconsider should it find evidence of the need to bolster the FRC's tendering approach.

### **Remedy 3: Expanded remit and/or frequency of FRC's Audit Quality reporting**

We question whether this remedy would have a significant effect on competition. Although it would provide companies with further information on which to base its choice of auditor, that evidence is unlikely to prove preponderant or to accelerate an audit tender process. We believe that a greater volume of reporting by the FRC is unlikely to reduce significantly the barriers to switching; most of these relate to the structure of the market, in particular the limited number of firms with appropriate size and reach.

### **Remedy 4: Prohibition of contractual clauses in template documents limiting choice to the Big 4 firms**

We do not insist on such clauses and see no objection in principle to this remedy.



#### **Remedy 5: Strengthen accountability of the External Auditor to the AC**

In our view this remedy seeks to address perceived shortcomings in auditor independence rather than adverse effects on competition. However, we do believe that current arrangements in the UK successfully ensure auditor independence. Auditors are appointed and remunerated by those (the shareholders) to whom they report. Existing professional and statutory standards on auditor independence, together with strong corporate governance and independent regulation of audit, are designed to deal with any potential conflicts. Indeed, auditor independence requirements have been significantly tightened over the past decade, with measures such as the UK APB's Ethical Standards for Auditors, the IESBA Code of Ethics for Professional Accountants and the Sarbanes-Oxley Act in the U.S.

#### **Remedy 6: Enhanced shareholder-auditor engagement**

We favour the development of good practice for shareholder engagement in the appointment of a company's auditors. There may also be opportunities for a more extensive dialogue between shareholders and auditors but these would have to be developed in a way that maintained confidentiality of unpublished market sensitive information.

#### **Remedy 7: Extended reporting requirements—in either the AC's or auditor's report**

We are encouraged by the FRC's code on enhanced Audit Committee reporting and trust that it will reach the target audience. The needs of the lay reader of financial statements should not be overlooked in any extended audit reporting, while still letting companies and shareholders judge audit quality effectively.