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Competition Commission
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Dear Sir/Madam

AUDIT MARKET INVESTIGATION

Some while ago Ms Carstensen presented to an ACI breakfast at KPMG.

At that meeting, it was apparent that you were approaching the review of the audit market with a balanced and open approach. Sadly, the initial provisional conclusions you reached and, even now, some of the recommendations you have made do not seem to reflect commercial reality.

Your report questions and devalues the role of the audit committee. In most instances, audit committees comprise experienced business people who are determined to uphold the highest standards of reporting. They usually have reputations that would be damaged if they did not. Ensuring the independence and quality of the auditors is fundamental to this role.

As chairman of the audit committee of a FTSE 100 company, Next plc, and a member of the AQF, I find your conclusion that auditors are too close to management to be at odds with the facts. This may have been the case 25 years ago but in this day and age the auditors report and answer to the audit committee.

We have now had mandatory rotation of audit partners for some years and, in my experience, this has helped to further ensure that the auditors are independent of management.

Your proposal that there should be mandatory tendering every five years is not a recipe for increased competition or reduced pricing. It would almost certainly push up the cost of audits and would divert huge amounts of time from more productive efforts. It would not increase audit quality.

In case you doubt this assertion, many years ago, I led the audit tenders for several FTSE 250 companies. Each tender probably consumes an average of four months concentrated effort for large teams across the globe. Extrapolating the FTSE 250 and perhaps another 50 other organizations of substance, your proposal means

that, if averaged, there would be some 60 tenders each year. I leave you to work out the maths but the cost to the accounting firms and the management of the companies involved, let alone the non executive time, would be staggering. Your £30 million estimate is a massive under-estimate, approximating to £100,000 per tender. For most FTSE 100 companies, it is unlikely that the overall cost could conceivably be less than £1 million each.

Common sense says that mandatory retendering every five years is unnecessary and wasteful. If it results in a change of auditors, it will take the new audit firm some while to really get up to speed – with a possible reduction in audit quality; I question whether those recommending mandatory retendering have actually gone through the process or have experience of the start-up and learning costs for both sides. If retendering does not result in a change of auditors, much time and effort will have been wasted.

It will not help the audit firms outside the big 4. In fact, it will hurt them because they will suffer the costs of tendering with little prospect of success. Even if they do win work, it is likely to be at minimal margins because of the fierce price competition that exists.

I sincerely hope that common sense will prevail. Put the onus on audit committees to be responsible for assessing the quality of the audit and any need for a tender process but do not make it mandatory to have tenders every five years. If you really believe that mandatory retendering is the answer, then at least follow the FRC and look at a more realistic period of every 10 years.

Yours sincerely

SD Barber