

13 August 2013

Inquiry Manager
Statutory Audit Investigation
Competition Commission
Victoria House
Southampton Row
LONDON
WC1B 4AD

Dear Sir/Madam,

The CBI welcomes the opportunity to respond to the Competition Commission's provisional decision on remedies for the audit market.

The CBI agrees that auditors must act in the interests of shareholders and believes that they generally do so at present. We believe that any reforms to the audit market should seek to improve quality, independence, resilience and choice of audit. We also believe that any reforms must respect the roles of shareholders, boards, and management and ensure that they have the right powers to be able to perform their roles effectively.

Of the possible remedies put forward by the Competition Commission, the CBI has previously advocated and would support:

- **Mandatory tendering**, which we believe would prompt companies into testing the market and considering a new auditor, whilst ensuring that the decision ultimately remains in the hands of Audit Committees and shareholders to decide who is the best placed auditor for them. This measure should adopt the "comply or explain" approach as set out in the UK corporate governance code, so that the company would not be forced into a tendering process when in the midst of significant organisational change, for example. We believe that the 10 year limit for tendering in the new corporate governance code is broadly appropriate, is already having a positive impact and complements the five year limit for lead audit partners. We believe that the tendering period should not be reduced to less than 10 years, due to the cost and resource implications of more frequent tendering and the risk that tendering becomes regarded as a compliance exercise, rather than a serious test of the market. We welcome the Competition Commission's decision not to pursue mandatory rotation of audit firm as a remedy.



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- **Removing restrictive covenants**, where business agrees barriers to growth should be tackled and we support the prohibition of “Big 4 only” clauses, for example.
- **Increasing the quality of shareholder engagement**, which we believe is best served by allowing shareholders to play a bigger role in the audit process, with involvement coming at an earlier stage in the process as part of ongoing dialogue between boards and investors. Beyond this dialogue, we believe that the current routes through which shareholders can express a view on the audit are sufficient: binding annual votes on the reports and accounts; at Audit Committee member re-election; and at auditor appointment. We do not see the merit of an additional shareholder vote on the Audit Committee report.

We believe that any reforms to the audit market must be made in light of the roles, responsibilities and capabilities of the directors involved in the audit process, including management, board members and Audit Committee members. We are concerned that the proposal to limit various audit-related engagements to the Audit Committee Chair and Audit Committee risks undermining the concept of the unitary board and does not sufficiently recognise the time and resource constraints that apply to Audit Committee Chairs and members.

Finally, we are mindful that the Competition Commission’s work is being carried out in parallel with an EU-level process of audit market reform. We believe that it is important that as the Competition Commission considers its provisional remedies, it should do so in the context of the EU process. For example, the “cooling in” and “cooling off” periods proposed at the European level (which would prohibit the provision of non-audit services in the year preceding and following an audit) could deter participation by audit firms in tendering processes if required of companies every five years, because of the operational and financial implications of ceasing non-audit service provision in order to participate.

I hope the CBI’s views on the provisional remedies are useful and I would be willing to discuss the above in greater detail at any stage.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'P. P. Leo King'.

Matthew Fell
Director, Competitive Markets