

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

12th August 2013

Dear Sir,

STATUTORY AUDIT SERVICES MARKET INVESTIGATION – Provisional Decision on Remedies

As demonstrated by the recent proposals from The European Parliament Legal Affairs committee and the provisional decisions of the Competition Commission in the UK, it seems to us that it is generally accepted that something must be done to improve the perception by the public and stakeholders of the quality of auditing, and to demonstrate that it has improved by a step change, so that confidence can be restored in the report of the auditor which is attached to accounts. However, the proposals regarding mandatory tendering and certainly those for mandatory rotation, do not necessarily guarantee any improvement at all, where one auditor's opinion will replace another's. The proposals will, however, guarantee that there will be further costs in the system without necessarily there being a requisite benefit.

If the Competition Commission proposed Mandatory Tendering proposal proceeds, we believe, whilst there will be plentiful tenders every 5 years for the FTSE 350 companies, this will mean plenty of additional costs with arguably no viable benefit. In fact, with time, or perhaps sooner, there might be a material reduction in the number of 'valid' tenders, as non-big four firms in particular realise that this is simply a process, required by law, but where the result is not in doubt at the start. Thus non-big four will not be willing to tender when this would incur expenses with no chance of an adequate return.

The Financial Reporting Council has further made the equally valid point that Mandatory Rotation reduces choice and may exclude the best auditor for the business. It also reduces competition in the tendering process at the time of rotation, because the in-situ firm is prohibited from tendering.

However, given that any 'solution' will mean that there are going to be extra costs for the firms to be audited, (approaching 30 million pounds according to the Competition Commission) on a cost benefit analysis, the Joint Audit would seem to us to be well worth considering, as there will, with some certainty, be a benefit for the costs incurred. With a Joint Audit the quality of auditing should improve especially at the review and finalisation stage and equally importantly stakeholders, will perceive the improvement, for the following reasons.

1. The reputation of two firms, rather than one, will be on the line.
2. The financial risk of the audit is spread over two firms.
3. No unilateral, arguably high risk or ill-considered, marginal auditing opinion, should be possible.

4. The economic incentives of the audit firms involved are both brought to bear.
5. All interested parties and the public should be able to clearly see that steps have been taken to increase the reliability and quality of the audit opinion. Confidence in an audit report should increase.

It is our contention as well, that all affected Companies, with an eye on the cost of their audit, will, where currently they appoint one of the largest firms in the UK, appoint as one of the Joint Auditors, a smaller firm. This will have, we believe, the effect, wherever in the world Joint Audits are made statutorily necessary, of enabling smaller firms to gain experience and the capability of their larger competitors.

Additionally, in the unlikely event of a further cataclysmic collapse of one of the largest firms (e.g. Arthur Andersen) it will provide continuity for the company directly affected, protect the capability of the auditing profession in the UK and globally, and might even provide governments worldwide with a little reassurance!

Yours faithfully,

J B Smith
Managing Partner Eacotts Chartered Accountants

G Gordon
CEO Praxity-Global Alliance Ltd

E Kench
Managing Director Kench & Co Ltd Chartered Accountants

P Wagstaff
Partner - Dickinsons Chartered Accountants.

M Leyland
Finance Director, Biostatus Limited
Formerly Deputy Treasurer Glaxo Welcome