



EUROPEAN COMMISSION
Directorate General Internal Market and Services

Director General

Brussels, 01 AOUT 2013 Ares(2013)2804594
MARKT/F4/MR/cv ARES(2013)2936546

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

Subject: Audit – UK - Competition Commission

Dear Sir,

The European Commission has closely followed the UK Competition Commission's (CC) investigation into the UK market for statutory audit services. We welcome and acknowledge the depth of the work that has been undertaken by the CC in this investigation.

We have examined the provisional remedies, published by the CC on 22 July 2013, to mitigate or prevent the adverse effects on competition that were identified in the CC's provisional findings into the market for the supply of statutory audit services to large companies in the UK.

We note that the CC is proposing mandatory tendering on a five-year basis, which can be further extended to seven years in exceptional circumstances, in order to address concerns about competition concerns in the UK market.

On our side, the European Commission is aiming to address a wider range of issues for the EU market, such as enhancing auditor independence and improving audit quality.

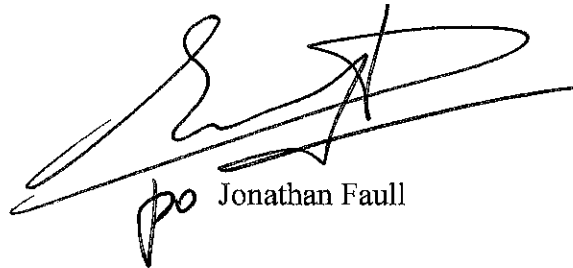
In November 2011, the European Commission put forward ambitious proposals for the European audit sector. These proposals aimed at clarifying the role of auditors, strengthening their independence, stepping up supervision and bringing more diversity into the currently, highly concentrated audit market.

The European Commission proposed mandatory rotation of audit firms for the statutory audit of public-interest entities, as this is an essential step for ensuring the independence and professional scepticism of auditors. Audit firm rotation is necessary to ensure a "fresh pair of eyes" and to avoid the relationship between management and auditors becoming too close. There is a real risk that incumbent auditors would be unwilling to challenge their own past judgments where such an act would be likely to either inflict

reputational damage or where restatements might result in potential legal liabilities. Moreover, when an audit firm knows it will be replaced, it will be incentivised to maintain scepticism as its judgments will be reviewed in detail by the incoming auditor.

The European Commission is open to improving the proposals and is currently discussing, in a constructive spirit, the way forward in audit reform with the Council and the European Parliament.

Yours faithfully,



Jonathan Faull