



9 August 2013

Inquiry Manager  
Audit Market Investigation, Competition Commission  
Victoria House  
Southampton Row  
London WC1B 4AD  
UK

**Submitted via email:** [auditors@cc.gsi.gov.uk](mailto:auditors@cc.gsi.gov.uk)

Dear Sir / Madam

### **Statutory Audit Services Market Investigation: Provisional Decisions**

The Institute of Chartered Accountants Australia (the Institute) is pleased to respond to the request to provide views on the *Summary of provisional decision on remedies* in relation to the investigation into the UK statutory audit services market.

The Institute is the professional body for Chartered Accountants in Australia and members operating throughout the world. Representing more than 73,000 current and future professionals and business leaders, the Institute has a pivotal role in upholding financial integrity in society. Further information on the role of the Institute is set out below.

#### **Implications of provisional remedies**

The Institute has followed the Competition Commission investigation with interest. The quality of the framework for the provision of audit services is a fundamental objective of our work. Many of our members work overseas, including in the UK, and many Australian companies have operations and businesses in the UK. The Institute is actively engaged in many international debates in relation to the audit profession, including giving evidence to the UK House of Lords hearings into auditor market concentration in 2010.

Throughout these engagements, the Institute emphasises the vital importance of accountability and transparency in relation to the roles of capital market participants. We are pleased to see, therefore, that the provisional decisions recognise the important role of the audit committee as a conduit between the shareholders and the company, and the company and the auditors. The Institute supports this approach. However, as we have previously stated in our submissions, we do not support imposing artificial constraints on shareholders' choice, nor measures which impose additional cost for limited benefit. The Institute is pleased to see that some proposals which may be deemed to fall into these categories seem to have been rejected by the Commission.

We have assessed the proposed remedies against the objectives outlined above and set out our considerations in this submission.

#### **Consideration of the proposed remedies**

##### ***(a) FTSE 350 companies should put their statutory audit engagement out to tender at least every five years***

A required tender process is an additional regulatory requirement and therefore has a cost associated with it. It is important to have clear evidence that additional regulation addresses core concerns more effectively than other non-regulatory or less costly options.

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In the provisional reports by the Commission, we have read that there is no evidence of structure limitations and no evidence of anti-competitive behaviour in relation to the UK audit market. Rather companies operating in the capital markets voluntarily chose not to change auditors. The main reasons for this have been suggested to be because (1) the directors lack knowledge about the audit quality of other firms, (2) the cost to the company of switching is substantial in terms of management time and (3) auditors focus on satisfying management who can influence the decision.

A required tender process may address the first concern as other audit firms would have the opportunity to present to the company directors. However if all large companies retender every five years, the cost to an audit firm of preparing and presenting this number of tenders could become excessive. There is a possibility therefore that some firms may choose not to participate in a tender which would negate the purpose of the requirement.

The proposal would not address the question of cost to the company. Indeed, it would compound the issue as there would be a cost to the company in preparing and assessing the tender documents every five years irrespective of whether the company then decided to change its audit provider. Also the additional cost incurred by the audit firms in preparing for tenders would need to be covered by higher audit fees. This is a further impact on the cost of doing business in the UK.

Tendering may address the third point because the audit committee is responsible for the process. Through our recent international activity in relation to audit committees, explained below, there was a general consensus across jurisdictions that the audit committee should carry the principle responsibility for advising the board on the selection, appointment and rotation of external auditors. Any shortfall in the implementation of these existing requirements or expectations may be better addressed through accountability and transparency measures.

On this basis, there does not appear to be a clear benefit, which cannot be achieved through other means, which outweighs the cost and burden of additional regulation.

**(b) *The Audit Quality Review team should review every audit engagement in the FTSE 350 on average every five years. The Audit Committee should report to shareholders on the findings.***

Adding a requirement for additional reporting by the Audit Committee addresses transparency issues. This has the potential for more information to be available about audit firms. We note the requirement for Transparency Reports by audit firms also provides shareholders information on the systems that firms use to support the provision of quality services.

**(c) *The Audit Quality Review team should report on larger mid-tier firms on an annual basis***

In Australia, all firms are subject to regulatory oversight and inspection by the regulator and also the professional bodies.

**(d) *Provisions in loan agreements restricting choice of auditor should be prohibited***

This does appear to be an artificial constraint on a free market and so the Institute supports the prohibition.

**(e) *A shareholder advisory vote on the sufficiency of disclosures in the audit committee report section of the annual report***

Although an additional regulation, the proposal supports the transparency of existing market and governance structures. It would seem to address a concern about the level of transparency and accountability in the current UK system.

**(f) *Only the audit committee may negotiate and agree audit fees and the scope of audit, initiate tender processes, make recommendation on the appointment of auditors, and authorise non-audit services***

This is good practice in many jurisdictions and reflects the unique and important role of the audit committee of the board.

**(g) *The FRC to have an objective of competition***

Although a UK specific option, we note that audit quality is the key objective for an effective capital market. We understand that the Competition Commission's remit is to consider impact on competition. However we would note that any measures relating to regulatory and governance structures could also have impact on the quality of audits. For shareholders, the quality of the role and application of that role by all market participants is their main protection.

**Further information on the Institute**

The Institute of Chartered Accountants Australia was established by Royal Charter in 1928 and today has more than 61,000 members and 12,000 talented graduates working and undertaking the Chartered Accountants Program.

Institute members strive to uphold the profession's commitment to ethics and quality in everything they do, alongside an unwavering dedication to act in the public interest.

Chartered Accountants hold diverse positions across the business community, as well as in professional services, government, not-for-profit, education and academia. The leadership and business acumen of members underpin the Institute's deep knowledge base in a broad range of policy areas impacting the Australian economy and domestic and international capital markets.

The Institute is a founding member of both the Global Accounting Alliance (GAA), which is an international coalition of accounting bodies and an 800,000-strong network of professionals and leaders worldwide; and Chartered Accountants Worldwide, which brings together leading Institutes of Chartered Accountants in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support, develop and promote over 320,000 Chartered Accountants in more than 180 countries around the world.

[charteredaccountants.com.au](http://charteredaccountants.com.au)

The Institute is active in global debates and initiatives to promote the audit profession and the standards it upholds. For example we participated in a roundtable discussion on the European audit market in Brussels in 2011, we produced a 2012 thought leadership paper *Walk the line*, in conjunction with the Financial Reporting Council (UK) and the Institute of Chartered Accountants of Scotland, we hosted an audit committee roundtable in Hong Kong for the Asian markets, also in 2012 as part of a series of roundtables with the Center for Audit Quality (covering North America participants) and the Federation of European Accounts (FEE) in Europe. These led to a joint paper [Global Observations on the Role of the Audit Committee](#) in May 2013. The Institute is also active in a number of international projects, for example the International Auditing and Assurance Standards Board (IAASB) project on additional reporting on the audit process in the audit report.

**Contact**

We trust these comments are of value in the Competition Commission's further deliberations. Please do not hesitate to contact me at [Lee.White@charteredaccountants.com.au](mailto:Lee.White@charteredaccountants.com.au) should you require further clarification or information.

Yours sincerely



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