



13 August 2013

Our ref: ICAEW Rep 102/13

Inquiry Manager
Statutory Audit Investigation
Competition Commission
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By email: auditors@cc.gsi.gov.uk

Dear Sirs

Statutory audit services market investigation: provisional decision on remedies

ICAEW welcomes the opportunity to comment on the *Provisional Decision on Remedies* (the Decision) published by the Competition Commission on 22 July 2013, a copy of which is available from this [link](#).

ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 140,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

General comments

We note that the proposed remedies included in the Decision are based on those included in the Commission's interim Notices of Provisional Findings and Remedies and Notice of a Further Possible Remedy, to which ICAEW responded in March and June 2013 respectively¹. To the extent that recommendations included in those documents have been carried forward, our previous comments remain valid and we have not repeated them in detail here. However, we do make the following additional observations.

Mandatory tendering

We are particularly disappointed that the Commission has ignored the wide range of responses urging it to give the recently introduced 10 year comply-or-explain tendering requirements in the FRC's Corporate Governance Code time to bed in. The key concern with any of these proposals is whether

¹ Our March 2013 response to the interim findings is available from this [link](#) and the June 2013 response to the notice of a further possible remedy is available from this [link](#).

they will help to reduce concentration without adversely affecting audit quality or imposing undue cost. In our view increasing the frequency of tendering from 10 to five years is unlikely to enhance competition and will increase cost.

We have a number of concerns that five years is too frequent for something as potentially disruptive to the market and as time-consuming and costly to companies as well as the auditors as audit tendering. The link in the Decision with the FRC requirements for engagement partners to rotate after five years ignores the point that those requirements are to achieve a completely different purpose, namely auditor independence. Our concerns are that:

- With upwards of 70 FTSE350 companies needing to tender each year, the potential turbulence in the market runs the risk of reducing audit quality, as attention is diverted, albeit subconsciously, away from performing the audit.
- The cost estimates in the Decision look low and underestimate the management time needed.
- As the Decision notes, with such frequent tendering, audit firms are likely to be deterred from putting themselves forward for consideration unless they believe they have a realistic chance of success. This will limit any competition benefits.

It is not unreasonable for the Commission to monitor the impact of the FRC 10 year requirements. Therefore, we urge that the proposed remedy in this area be deferred for a few years pending review of the impact of recent those changes to the Corporate Governance Code.

We note the proposals on access to certain information from the audit files. The Commission recognises the issue of commercial sensitivity, but we repeat our previous observation about liability reform which is recorded in the appendix to the Decision but not in the main body of the report. Without reform, liability concerns could reduce the effectiveness of the Commission's proposed measure.

Other proposed remedies

We note that many of the proposed remedies result in recommendations to the FRC to take various actions. As noted above, we believe our previous comments on those recommendations remain valid, and where appropriate, we will engage with FRC on any proposed changes in due course.

One of the remedies proposed to be implemented by Order is that of requiring audit committees (through audit committee chairs) to take responsibility for negotiating audit fees, the tendering process, replacement of audit engagement partners, and authorising 'any' non-audit services. In respect of the latter point, the FRC's Corporate Governance Code requires audit committees to have a policy on authorisation of non-audit services provided by auditors. This gives them control but allows detailed approval to be tailored to the circumstances. It would be impractical for an audit committee to have to approve every single non-audit service provided by the auditors of a large or complex business, regardless of size or impact: this could be a full time job. It is important that the Order is phrased to allow continued exercise of judgement.

If you have any questions about this response, please contact me.

Yours sincerely

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