Statutory Audit Market Inquiry: 
consultation on the CC’s selection of subjects for case studies

Introduction

1. On 21 October 2011, the Office of Fair Trading (OFT), in exercise of its powers under sections 131 and 133 of the Enterprise Act 2002 (the Act), made a reference to the Competition Commission (CC) for an investigation into the supply of statutory audit services to large companies in the UK. Under the terms of reference, ‘statutory audit services’ means an audit conducted by a person appointed as auditor under Part 16 of the Companies Act 2006, while ‘large companies’ means companies that may be listed from time to time on the London FTSE 100 and FTSE 250 indices.

2. On 7 December 2011, we published an Issues Statement which set out the possible initial theories of what might be adversely affecting competition in the market. We are now seeking evidence in various forms to inform our analysis of the market, including carrying out case studies. These must necessarily be selective (and we currently envisage completing at least an initial set of approximately ten), but we wish to ensure that the subjects of the case studies we undertake provide evidence relating to the statutory audit industry as a whole and cover the key interest groups.

3. This note sets out how we intend to select subjects for case studies. We are publishing it in order to allow interested parties to contact us directly, or to indicate other persons (or categories) who we should consider as subjects for case studies.

4. Any such submission should be made by email to auditors@cc.gsi.gov.uk or by letter to:

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

   by 5pm on 24 January 2012.

5. We are very interested the experience of large companies concerning competition in the provision of statutory audits. Our case studies will aim to provide evidence relevant to the issues identified in our Issues Statement. These case studies will provide us with insight into the way the market operates, and in particular the relationship between stakeholders, and the audit process. We wish to understand how audit relationships operate and develop in practice. This would cover such issues as negotiation of fees, the role of audit committees in resolving audit issues and evaluating audit effectiveness/quality, the scope of non-audit work, how new regulatory requirements have affected the audit process; and the companies’ reasons for selecting and (possibly) switching auditors.

6. We intend to select companies for case studies from the following categories:

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1 We refer to those collectively as the ‘FTSE 350’.
(a) FTSE 350 companies whose auditor supplies the company with statutory audit services only or with statutory audit and audit-related services, but no other non-audit services.

(b) FTSE 350 companies whose auditor also supplies the company with other non-audit services in addition to the statutory audit.

(c) FTSE 350 companies that have switched auditors within the last ten years.

(d) FTSE 350 companies whose shares are also listed in other financial centres such as the USA or Hong Kong.

(e) Entrants within the last ten years to the FTSE 250 or FTSE 100 that have switched auditor to one of the four largest auditors in advance of, on, or soon after entry.

(f) FTSE 350 companies whose audit has not been of adequate quality within the last ten years. We are considering how to define this and would welcome submissions on this point. Options include: unsatisfactory rating by the FRC; adverse court judgments against auditors; cases of companies that collapsed despite unqualified audit opinions.

(g) FTSE 350 companies who have had an audit relationship extending longer than 15 years. This would also include companies that infrequently tender for their audit services.

7. The case studies are not intended necessarily to be a representative sample of the market as a whole rather they will focus on particular market features that are relevant to our analysis. As the inquiry progresses we may decide to carry out a small number of further case studies to complement the initial set, where we consider this would be of value. We will gather evidence via hearings, interviews, questionnaires and documents requests, and conduct data analysis where necessary.