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*Dear Mr. Witcomb,*

**Response to the Competition Commission's final report on its investigation into the market for statutory audit services to the largest companies**

The Government welcomes the conclusions of the Competition Commission following its investigation into the market for statutory audits of FTSE 350 companies. This is an important step forward in addressing concerns about the audit market.

The Government's view is that any regulatory intervention into company audit should balance the following four objectives:

- avoiding and reducing excessive concentration in the market;
- securing independence in auditor judgements;
- securing high quality audits more generally; and,
- not imposing additional burdens on businesses unless they are objectively justified.

The Government has referred back to these objectives regularly through the development of proposals affecting company audit over recent years, particularly in Europe.

Negotiations on a European Audit Directive and Regulation have reached agreement. We expect that these measures will be formally adopted in the next few months with the requirement that it should be applicable as part of Member State law in the middle of 2016. We are pleased to note that there is a wide measure of consistency between the remedies the Commission has identified and the measures that are emerging from the EU.

Particular EU proposals that are consistent with the remedies identified by the Competition Commission include:

- retendering of auditor appointments at least every 10 years;
- outlawing contractual clauses that limit a company's choice of auditor to a pre-selected list;

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- clear allocation of responsibilities to audit committees in respect of auditor retendering and recommendation for appointment and approval of non-audit services to be provided by the appointed auditor.

Together, the EU and CC changes represent the most extensive development in the audit regulatory framework for a decade, and an opportunity to effect real improvement in competition in the audit market. It would seem sensible to take a coordinated approach to ensure that there is a coherent regulatory framework that ensures all market participants can make the most of opportunities flowing from improved competition in the audit market and improved auditor independence and audit quality.

This would suggest a phased approach, so that necessary changes can be made with an eye to what the regulatory landscape will look like as the European Directive and Regulation are in place.

This will need further consideration of how the Competition Commission remedies and EU measures will work together.

For example, it may be that a specific provision could wait until the relevant part of the EU framework applies, or that a Competition Commission remedy in the first phase will then form part of or be superseded by legislation implementing the EU requirements later. Of course we recognise there may be areas where the Commission's remedies go further than the EU framework and where, for UK domestic reasons the remedy would continue to apply following implementation of the EU measures.

Whatever the measures implemented in each phase, we think it key that there is a smooth transition to the new approach and through each phase. It is also important that this is communicated clearly in advance. This is something I would hope the Government, the Competition Commission and the Financial Reporting Council could work together on to make sure there is a clear line of sight through the process for those affected.

Government will also work closely with the Financial Reporting Council as it develops and consults on its response to the Commission's recommendations, all of which would be implemented by the FRC in the first instance.

We are grateful for the work the Commission has done, both in developing and applying a framework to identify adverse effects on competition and in identifying and proposing remedies. I am sure that all those who might be affected, particularly companies and investors, will be alert in the future to these possible effects on competition.

We look forward to the Commission's further proposals on the Orders it plans to make, and to working with the Commission as they are developed.

*Yours sincerely,  
Jenny Willott*

**JENNY WILLOTT MP**

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