Schroders

31 October 2018

Competition and Markets Authority
7th Floor
Victoria House
37 Southampton Row
London WC1B 4AD

Dear Sirs

RE: Statutory audit market study

As users and preparers of financial statements, we have a significant interest in ensuring the integrity of financial reporting. There continue to be too many examples of corporate failures and poor annual report disclosures that do not adequately identify the risks to the business. Audit firms can and should do more to ensure that companies clearly and unambiguously report the underlying business and financial risks that they face along with the significant estimates and judgements that have been made in preparing the financial results. Where the auditors believe that this is not the case, the auditors must be robust in fulfilling their existing responsibility to report these matters to shareholders.

We are concerned that there is a lack of choice for large companies selecting their auditor. The drive towards companies appointing firms outside of the Big Four is unrealistic and risks further undermining the audit profession. Based on their existing capabilities, medium and smaller audit firms are generally unable to provide a proper audit service to large global or highly regulated businesses. We believe that there needs to be a greater focus on helping these smaller firms develop the capabilities necessary to deliver a high quality audit for complex, globally diverse, companies. The barriers to new entrants entering the market, or medium and small tier firms competing for the audits of large companies, are significant and addressing these challenges requires an internationally co-ordinated approach.

There have been significant changes in the audit environment in recent years, combined with a rapidly developing accounting framework under International Financial Reporting Standards, as well accounting standards specifically for the UK. Whilst some of these developments are positive, there are developments that have increased accounting complexity and heightened the risk of inappropriate, confusing or misleading financial results. The auditor plays an important, independent, role in There have been significant changes in the audit environment in recent years, combined with

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a rapidly developing accounting framework under International Financial Reporting Standards, as well accounting standards specifically for the UK. Whilst some of these developments are positive, there are developments that have increased accounting complexity and heightened the risk of inappropriate, confusing or misleading financial results. The auditor plays an important, independent, role in ensuring the overall quality of financial reporting. However, to properly understand and address all of these aspects, we believe that it is not appropriate to focus solely on the role of the auditor. In addition, due to the global or international complexities of the accounting standards, audit market and companies, this is not capable of being solved solely within the UK. A holistic approach is required to ensure that financial reporting does not fail the primary users, the shareholder.

We believe that there are many examples of accounting standards that do not deliver the needs of shareholders and that this might add to the concerns of investors over the position of auditors. We also believe that there has been too much focus on the audit firms' quality of documentation and insufficient focus on addressing the judgements of management, which are an increasing requirement of accounting standards. The balance needs to be right between demonstrating audit evidence along with ensuring key areas of judgement receive appropriate focus. We also note a lack of transparent oversight by governing bodies of the audit firms, compared to an increased focus on this area for corporates. We believe that greater oversight from supervisory committees of audit firms, that are answerable to the shareholders of the companies they audit, may further enhance audit quality and drive increased accountability.

There must be a continued focus on high quality audits as well as an emphasis on ensuring Board's have proper regard to their responsibilities. In order to ensure that the audit market remains attractive for actual or potential participants, it is necessary to ensure that new regulations or other restrictions do not become overly burdensome or we run the risk of further reducing or removing choice.

We welcome any appropriate action that will enhance the quality of corporate reporting, including robust independent challenge to ensure that disclosures are not misleading or wrong. We believe that any actions taken by bodies such as the CMA should be carefully considered, with a deep understanding of the intended and unintended consequences. This requires involvement of the audit firms, individuals outside of the audit firms with deep experience, and the needs of the users of accounts. Each of these parties has an important role in developing corporate reporting, and the independent auditor's role, in ensuring investor confidence in the future.

We welcome further engagement on this subject.

Yours faithfully

Richard Keers	Jessica Ground
Chief Financial Officer	Global Head of Stewardship

Appendix A – Responses to consultation questions

<table>
<tr><th colspan="2">Consultation question</th><th>Response</th></tr>
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<tr><td>1.</td><td>How well is the audit sector as a whole serving its stakeholders?</td><td>See below.</td></tr>
<tr><th colspan="3">Theme 1: The audit framework</th></tr>
<tr><td>2.</td><td>How well does the audit framework support the interests of both direct shareholders and also wider stakeholders in the economy?</td><td>As both preparers and users of financial statements, we believe that the audit framework is an integral part of providing confidence in the financial markets. Whilst we believe that the external auditor has an important role in challenging companies on their accounts, disclosures and other information contained within the annual report, it is equally important to ensure that the Board takes its responsibilities in this area seriously, and that the audit committee provides appropriate oversight.

Confidence in financial reporting will only exist if financial information is reliable and of high quality and if the volume of accounting failures is minimised. The audit is important to this confidence but unless the firms perform well in their role, and are prepared to take robust positions when required, this confidence may be undermined.

There has been a significant focus, within the UK, in recent years to ensure that the Strategic Report and the governance sections of the Annual Report and Accounts are fair, balanced and understandable. The auditor's have limited but some responsibility with respect to these sections. We do not consider that there is necessarily a need to extend the responsibilities of the auditor to provide greater confidence but there should be a focus on whether the auditors are applying as much vigour to this aspect of their work as other areas of auditing standards.

The statutory auditor needs to perform a high quality audit and challenge information that is inconsistent with their work. However, to extend the auditor's responsibility to include matters such as financial viability, beyond the information that they have gathered as part of their historical audit, presents a significant challenge, as it is generally less evidential and more reliant on management judgement. We note that the auditor's responsibilities with respect to going concern should already mean that they are assessing known challenges to the assumption.

Furthermore, when considering forward looking information that is outside the control of the company, we question whether increasing the scope of the statutory auditor to encompass this forward looking information would, in fact, provide false assurance to users of the Annual Report and Accounts, that there was perhaps more certainty over projections than is possible.

The auditors are not responsible for changes to accounting standards but we have a concern that the trend in developments to these brings both greater judgement but also, in some cases, requirements that are not necessarily serving the investor community. The changes also increase the need for the auditor to independently assess and, where appropriate, challenge management's judgements effectively.

We are supportive of measures that focus on audit quality and enhance confidence in financial reporting particularly where there is significant</td></tr>
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		judgement required. The changes to the auditors report that have been made in recent years represents important positive developments, however, the auditor needs to be supported in ensuring transparent disclosure of concerns that do not lead to an audit qualification, without confusing investors. We note that audit committees have a responsibility to oversee the production of the accounts and that the Board as a whole is responsible for approving them and ensuring that they are fair, balanced and understandable. These combined responsibilities, along with the independent auditor's report, should provide shareholders and other stakeholders with confidence over corporate reporting, should all parties take these responsibilities seriously and ensure they are appropriately robust. This includes making appropriate disclosures about risk, and the future viability of the company. We believe that it is important that the relevant bodies encourage both audit committees and the statutory auditor to provide robust challenge over reporting and obtain a greater level of assurance from management, which might include the audit committee commissioning additional work from the auditor. Additionally, where organisations have established robust processes for supporting the fair, balanced and understandable presentation of the Annual Report and Accounts, we do not consider that the additional cost burden on companies of extending the auditor's scope is necessary or cost effective. We acknowledge that there may be a general lack of understanding of the scope of the auditor's responsibilities, notwithstanding the 'long form' audit reports that are now required for public interest entities. Publishing the audit report with the preliminary results, along with the report from the Audit Committee on their work, may help to address this "expectation gap" by increasing the focus it receives from investors.
Theme 2: Incentives and governance		
3.	To what extent do the decisions made by audit committees support high-quality audits, whether through competition for audit engagements or otherwise?	The audit committee has an important role to play in assessing the capability of the audit firm. They are in a unique position to evaluate the specific engagement team and to assess the audit firm's capabilities to deliver the audit in the context of the company's specific activities. Additionally, we believe that an understanding of the company is essential in ensuring that an appropriate fee structure is agreed, such that the auditor is able to appropriately resource the engagement and the audit committee is best placed to assess this. The audit committee has an existing responsibility, under the FRC guidance, to monitor the quality of the audit and there should be focus on whether audit committees are performing adequately in this area. This is an important ongoing role and helps ensure that the audit firm continues to demonstrate the skills and capabilities necessary to deliver a high quality audit following appointment. From the interactions that we have had with Audit Committees as investors, we feel that most are diligent in ensuring that there is good governance around the audit appointment process itself but there is a range of practice in the quality of audit committee reporting more generally. Ensuring that the audit committee has an appropriate balance of skills and experience is therefore an important component in ensuring the effective function of the statutory audit market. As an investor, we note the extension of the auditor's report in recent years, to provide shareholders with more information about the audit and financial

		risks. Since this was introduced, we have seen some good examples but most have become boilerplate. We believe that good reporting might help shareholders but we are also concerned that it might be difficult to properly explain the risks in succinct way and that this ought to be otherwise addressed in the audit committee report.
4.	How has this changed following the Competition Commission's intervention?	The intervention has perhaps put the focus on ensuring that committees deliver on rotating auditors as a priority, this may perhaps have led to a perceived narrowing of their role.
Theme 3: Choice and switching		
5.	Is competition in the audit market working well? If not, what are the key aspects hindering it?	Competition within the audit market is primarily constrained by the availability of audit firms that are capable of providing audit services, particularly to public companies and highly regulated and internationally diversified organisations. Furthermore, accounting standards and principles are becoming increasingly judgemental, particularly concerning fair value assessments but also in other aspects, which increase the complexity of financial reporting. The ability of smaller firms to have the breadth of experience and technical expertise and IT tools required to identify potential reporting risks and provide suitable challenge in the audit of complex and/or multi-national organisations is increasingly constrained. There is a further challenge to smaller audit practices when considering the increasingly significant and complex nature of regulation, which either directly or indirectly affects the auditor's responsibilities. The CMA's intervention in the UK may be able to address these issues but it would not be a complete solution unless there is a consistent international approach. Even within the Big Four audit firms, being able to secure the same level of audit quality in all jurisdictions in which a Group has operations or legal entities is a challenge. Outside of the Big Four firms, our experience is that the audit firms are generally unable to deliver a global audit independently. This is partially due to the legal structure of some of the firms, being a network. We question whether that structure is appropriate for global businesses today, having evolved through the coming together of local partnerships over time. We believe that, even for the Big Four firms, this presents a risk that there will be a lack of proper focus on local issues that might have a material bearing on the Group as a whole. Whilst there are challenges for the Big Four firms to control the audit, and specifically the quality of the audit, within their own network, the challenge for a mid- or small-tier firm is much larger where they would be required to control non-affiliated firms overseas. It is highly unlikely that an audit committee, who take their responsibilities in respect of the quality of the audit seriously, would be prepared to accept the additional risk presented by audits of global organisations from these smaller firms. For our organisation, the challenge for audit firms of becoming independent of the Group (partially covered by questions 16-18) is a far lower concern than the limited choice of firms able to demonstrate the minimum capabilities necessary to deliver the audit globally. Limited market and industry experience, concerns over the breadth of technical expertise and inadequate

		representation in some of the locations in which we operate are key barriers to us considering a firm from outside the Big Four. The requirement to change auditors, introduced by EU legislation and the CMA, has restricted the choice for large companies and public interest entities to only three firms, as the incumbent is not able to tender. This is a real concern for Groups and there is a significant need for more firms that are able to provide a high quality global audit, as well as the existing Big Four firms, to provider greater choice. As an investor, we support changes that increase competition and choice, but believe strongly that these must not be to the detriment of audit quality. In particular, it is imperative that audit committees, Boards, and the statutory auditor themselves retain responsibility for satisfying themselves that the audit firm has the requisite skills and experience necessary to deliver a high quality audit of the company. We believe that an internationally co-ordinated approach needs to be undertaken and that relevant auditing bodies need to determine the appropriate actions required to address the lack of competition, rather than encouraging companies to accept the additional risk associated with using a small or mid-tier audit firm for complex Groups.
6.	In particular, how effective is competition between the Big Four and between other firms and the Big Four?	Please refer to the response to question 5.
7.	How has this changed following the Competition Commission's intervention?	Please refer to the response to question 5.
8.	What is the role for competition in the provision of audit services in delivering better outcomes (i.e. consistently higher quality audits)?	As noted above, the small number of real options in the large companies and public interest entity audit market is the greatest inhibitor to competition. Even with this low level of competition, there is some benefit to audit quality, particularly given the audit committees responsibilities set out in the best practice guidance to audit committees generally and specifically with respect to audit tenders. However, in our opinion the reputational risk and other consequences of a poor quality audit far outweighs any enhancements to quality that might come from the need for regular audit tender processes. In our experience, the level of perceived quality from each of the Big Four audit firms was not the main distinguishing factor between the firms. Each of the firms have a robust audit quality framework and therefore the audit committee's assurance over audit quality is often dependent on the perceived quality of the specific audit team and particularly the lead engagement partner. In our view, being able to secure a strong engagement partner and team is more important than which, of the Big Four firms, they represent. As there are rotational requirements for key audit personnel the need for audit firms to have a breadth of capability is important and, in the absence of legislation requiring audit rotation, may have historically been the main driver of considering a change of audit firm. We believe therefore that, whilst the drive for competition is important, as considered in 5 above, there is an equally

		important need to ensure the audit firms are able to attract and retain high quality professionals to deliver their firm's audit framework, in accordance with auditing standards. If each of the firms were able to present high quality global teams of equal standard, along with a broader number of firms operating, this would inevitably enhance competition but is challenging to deliver.
9.	In practice, how much choice do large companies and public interest entities have in the appointment of an external auditor?	As set out above, the real level of choice for large companies and public interest entities is normally constrained to the Big Four firms and, with the audit rotation requirement, this becomes only three firms. Our own recent experience is that the mid-tier firms are not willing to tender for audits due to the inability to deliver the required service in each of the locations that we operate. Whilst the ability for the Big Four firms to become independent has not been a significant concern for us, where the audit tender process is sufficiently planned, this might also provide a real management challenge to some organisations where one or more of the Big Four firms are heavily involved in restricted services for audit clients. There is a cost for organisations to unwind these relationships and opportunity cost from firms to maintain independence from potential clients. It may be that some of the Big Four firms are willing to exclude themselves from potential audit opportunities due to the economic benefits, to the firm, of continuing to provide non-audit services, therefore limiting the company's choice of audit firms.
10.	What are the key factors limiting choice between auditors?	As set out above these include: • Lack of real choice beyond the Big Four firms for large companies and public interest entities • The enforced auditor rotation further limiting this choice • The breadth of quality of key audit personnel and the wider audit team within each firm • The potential for audit firms to rule themselves out of audit engagements due to the economic benefits of restricted non-audit services provided to the potential audit client
11.	What are the main barriers to entry and expansion for non-Big Four audit firms?	See question 5.
Theme 4: Resilience		
12.	Is there a significant risk that the audit market is not resilient? If so, why?	External audit plays an important role in supporting the stability of financial markets by enhancing and assuring the financial information on which investment decision are made. The effective functioning of the audit in this role is dependent on maintaining confidence in the quality of the audit. Significant audit failings can undermine this confidence and, in our opinion, reputational risk continues to be the most significant risk to the audit market. The UK's largest companies are almost exclusively audited by the Big Four, for the reasons set out above. In our opinion, this concentration creates a risk to the stability of the audit market that would be greatly increased by any move from a Big Four to a Big Three. Such a move would also further limit the choice of auditor under EU audit rotation rules to two firms for the UK's largest companies. The provision of non-audit services has the potential to limit this to a single firm due to potential independence issues or a firm choosing to rule themselves out of the process for economic reasons.

		Should one of the Big Four exit the market capacity constraints would limit the Big Three's ability to absorb additional clients. A transition period would be required to facilitate the movement of resources to increase capacity and to ensure the smooth transfer of audit clients to a new firm. Whilst the audit firms have insurance and other risk mitigation, the Arthur Anderson experience demonstrates that these firms can be destroyed through reputational issues as well as financial sanctions. With only four remaining firms that are capable of delivering to some important companies, there is a need to ensure that this does not reduce further. As an investor and reporter we would welcome action that minimises the risk of one of the Big Four withdrawing from the audit market and increases the choice of audit firms available to large companies. As highlighted above this is not a UK-centric issue and such action should be co-ordinated where possible on a global basis.
Theme 5: Regulation		
13.	What is the appropriate balance between regulation and competition in this market?	We have outlined in our answers to earlier questions why we feel that the big four are an entrenched global oligopoly. We do not believe that engineering competition will be effective, workable, or ultimately serve stakeholder needs. The focus should be on effective regulation to ensure that audit quality is delivered. We made a response to the Kingman review that outlined our thoughts on the issue. As already highlighted, audit quality is at the centre of the effective operation of the audit market. We believe that the quality of any individual audit is heavily reliant on the key audit partners and the individual audit team members. Each of the firms have audit quality frameworks that include training processes and internal quality reviews. Competition in conjunction with regulation plays an important role in ensuring firms internal quality review processes are sufficiently robust regulatory oversight provides further opportunity to challenge, monitor and assess overall audit quality and can provide transparency to aid comparability in evaluating audit capabilities. In line with guidance on audit tenders, audit quality was a key consideration in our recent audit tender process. The level of perceived quality from each of the Big Four audit firms was not a distinguishing factor in assessing the respective firms. Of greater significance was the audit committee's assessment of key individuals within the proposed engagement team and their ability to draw conclusions and provide meaningful challenge to management. In our view, being comfortable with the quality of the key audit partners and the engagement team is the most significant factor in selecting an audit firm. The depth of talent at the firm is also an important consideration in evaluating the firm's ability to rotate or replace key individuals as appropriate. Regulatory penalties, in conjunction with remuneration structures at the firms, help to ensure personal accountability at senior levels although penalties appear to have a less significant impact for the firms as whole. We believe that the audit firms themselves have an important role to play in enhancing perceived and actual audit quality and governance. The existing governance arrangements at the firms as set by the FRC is a one size fits all approach. Nor have these arrangements been focused to the same level

		scrutiny as those at public companies, and have not tended to evolve. By strengthening these governance bodies, increasing their powers and perhaps narrowing their focus at the large firms in particular to the performance of the audit practice it may be possible to further align the audit firm's objectives with those of the market and improve the governance of the firms .
Potential measures		
14.	Please comment on the costs and benefits of each of the measures in Section 4 and how each measure could be implemented?	The CMA's objective is to ensure that the audit market works in a way that delivers audits at a high enough quality and at a reasonable price. In our opinion, it is essential that any measures implemented by the CMA in achieving this objective do not result in a deterioration in existing audit quality. EU regulation, combined with the SEC independence requirements, have made it difficult to acquire non-audit services from a company's auditor and we believe that these are increasingly services that are closely related to the audit, whether or not they are required by regulation. We do not believe that prohibiting the provision of non-audit services by statutory audit firms will contribute either to an improvement in audit quality or result in a more cost efficient model, particularly where the auditor's knowledge will enhance, not inhibit, the quality of work, including challenge, through delivering certain services. Examples of such services include regulatory audits, control reports and other engagements where the auditor provides additional assurance over specific balances, transactions or disclosures. Consequently, the external auditor is often in a position that makes them uniquely qualified to deliver the services to the required standard and in the most cost efficient manner. Significant restrictions already exist on non-audit services that an audit firm can provide to an audit client. Responsibility for ensuring that non-audit services do not breach these requirements is a shared responsibility between the company and the audit firm. Companies take these responsibilities seriously and many firms publicly publish their non-audit services policy. We believe that the current processes work effectively but could benefit from simplification. The efficient delivery of non-audit services, much as audits services themselves, often requires firms to work on a global basis. Outside of the Big Four firms, there are few options available to companies in sourcing the full range of non-audit services. It is unclear to us how structural changes to the audit firms in the UK would impact the provision of non-audit services on a global basis. In our opinion, the CMA's objectives in relation to reducing perceived or actual independence issues (4.9) or increasing choice of audit firms (4.10) can only be met through a globally agreed approach. In contrast, the implementation of the proposals in the UK alone may lead to the potential drawback identified by the CMA being realised. Additionally, an inconsistent global approach is likely to result in increased complexity and ambiguity in the rules and may lead to engagements being structured so as to avoid potential limitations in the UK. This may allow companies to continue to source non-audit services from their external auditors outside the UK with no significant reduction in non-audit services provided by the external auditor on a global basis. This would restrict any potential benefit of a perceived reduction in independence conflict created by the provision of non-audit services.

		Furthermore, the proposals as outlined may have unintended consequences with companies seeking to engage with overseas firms not bound by the CMAs powers resulting in an outflow of resources and revenues from the professional services industry in the UK at a time when the UK's competitive position is uncertain. Significantly, the delivery of non-audit services enables the audit firms to attract and retain high quality individuals in specialist areas including, but not limited to, actuarial services, taxation and valuations. We are concerned that a prohibition of non-audit services would result in an outflow of talent from the audit firms, which might lead to a reduction in overall audit quality and a lack of challenge in specialist areas where there is complexity and judgement. In our opinion, the statutory auditor should be appointed on merit with the audit firm that is best able to demonstrate its ability to conduct a high quality audit for a reasonable price being the firm selected. The selection of the right firm requires careful consideration based on an understanding of the audited company's operations and the potential areas of complexity where specialist knowledge and capabilities may be required. The existing role of the audit committee in the tender process is to facilitate the effective evaluation process and to provide independent non-executive oversight. Our experience is that audit committees are diligent in fulfilling this role and we believe that the existing process works effectively. We would welcome measure aimed at strengthening the composition of the audit committee to ensure they have the necessary skills to continue to play this role. In contrast, we believe that the introduction of a new independent body would undermine the existing role of the audit committee and, because of the need to bring an understanding of the audited companies business to the selection process, would effectively result in the development of a shadow audit committee. Our experience shows that there is a meaningful difference in the capabilities demonstrated by the audit firms on a global basis even within the Big Four. We have concerns that the introduction of a market cap would restrict the choice of audit firms further in an already restricted market and may lead to the appointment of a firm that is inadequately skilled to perform the audit leading to a reduction in audit quality. Although a joint audit model may create opportunities for non-Big Four firms to develop, we do not believe it is likely to result in an overall improvement in audit quality in the short term. It may however lead to greater inefficiencies, additional costs and should not be enforced until the firms are able to demonstrate the minimum capabilities required.
15.	Are there any other measures that we should consider that address the issues highlighted in section 3? If so, please describe the following: a) aim of the measure, b) how it could be designed and implemented, and c) the costs and benefits of each such measure.	No comment.

Restrictions on audit firms providing non-audit services		
16.	One way to create audit-only firms would be through separate ownership of the audit and non-audit services practices of the UK audit firms. Could this be effective, and what would be the relative scale of benefits and costs?	See question 14 It might be possible enhance the governance arrangements around audit activities within a firm, rather than using a complete separation. This oversight mechanism would be focused on driving quality improvements and consistency across a firm. In our view the current oversight structures operating have not been effective. The quality and membership varies considerably from firm to firm. The FRC's Audit Firm Governance Code could be significantly enhanced, perhaps outlining more stringent requirements for the Big Four. We have touched on the unique challenges posed by the big firms operating as networks and global partnerships; structures that have not perhaps evolved as fast as global governance practice. The new governance arrangement would have a clear focused on measuring and understanding the quality of a firm's audit outputs. They could perhaps operate internal sanctions for perceived shortfalls. If well executed the structures could increase the robustness of the overall market.
17.	How do the international affiliations of member firms affect the creation of audit only firms? What is the extent of common ownership of audit firms at the international level?	See question 14
18.	What should be the scope of any measures restricting the provision of non-audit services? For example, applying to the Big Four only, the Big Four and the mid-tier audit firms, or any firm that tenders for the audits of large companies and PIEs?	We note our concerns set out in question 14. Allowing smaller firms to continue to provide non-audit services may support the growth of those firms and eventually allow them to challenge the Big Four. There are challenges, however, in defining the point at which a firm becomes of sufficient scale that it would be required to stop providing non-audit services. Consequently, such an approach is likely to be complicated to implement and administer. Audit standards should be maintained consistently across all firms. A two-tier approach results in firms being held to different standards and do not see that this is a benefit to investors. This has the potential to result in the perception of the audit quality being lower where firms are also providing non-audit services with the consequences of those firms facing greater challenges in growing their audit practices.
Market share cap		
19.	How should the market shares be measured? – number of companies audited, or audit fees or some other measure?	No comment.

20.	Could the potential benefits (greater choice, and resilience) of a market share cap be realised?	We are concerned that a cap would actually enhance the competitive positions for the Big Four by allowing them to chose the most lucrative audits. Meanwhile shareholders would have less say in who audited firms. Finally the cap could mean that competition lessened with a negative impact on quality and price. In our opinion any market share cap is likely to further limit choice in the audit market with smaller firms still unable to compete for larger audits until they have developed the necessary capabilities and global network. We are also concerned that restricting the choice of audit firm could have the unintended consequence of reducing audit quality with firms being appointed as statutory auditor that do not already posses the requisition capabilities to address the complexities specific to individual company audits.
21.	What do you consider to be the relative scale of the costs of a market share cap, such as increased prices and potentially reduced competition, and potential benefits?	No comment.
22.	What should be the appropriate level of such a cap, collectively for the Big Four for the measure to achieve its objective? For example, 90%, 80%, 70%?	No comment.
23.	Could a joint audit be an effective means of implementing a market share cap?	Joint audits could provide a mechanism to facilitate smaller tier firms developing the capabilities to compete with the Big Four. It is likely to take some time for the smaller firms to develop the necessary capabilities through this approach. There is also some uncertainty as to whether this approach would deliver the desired outcomes with no significant evidence from countries where similar approaches are implemented of a meaningful increase in the size of smaller tier firms. The implementation of a joint audit requirement is also likely to increase audit costs, may introduce additional inefficiencies and there is a risk that it actually reduces the quality of the audit overall. We also believe that joint audits do not necessarily enhance the quality of the audit, they are not a control mechanism over each firm. Instead we believe that there is an enhanced risk of lower quality through neither firm being accountable for the overall assessment of the true and fair presentation of the results, or the assessment of strategic report and other aspects of the Annual Report. Joint audits are a feature of some countries, but have not enabled the smaller firms to grow at an international level.
Incentives and governance		
24.	Should the auditors and those that manage them (e.g. audit committees, or an independent body as described in section 4) be accountable to a	The audit is designed to meet the needs of shareholders and not address the demands of other stakeholders. The audit scope would need to be expanded to address the needs of other stakeholders which is likely to result in a significant increase in cost for all companies, whether this additional work is important to the relevant stakeholder. Special purpose audits or other assurance engagements are already available to companies to meet the needs

	wider range of stakeholders including shareholders, pension fund trustees, employees, and creditors, rather than the current focus on shareholders?	of other stakeholders, should these be required. Although we note that such provisions might not be available should non-audit services be prohibited.
25.	If yes, should audit committees (in their current form) be replaced by an independent body that would have a 'public interest' duty, including for large privately-owned companies? Should this body be responsible for selecting the audit firm, managing the scope of the audit, setting the audit fees and managing the performance of the audit firms?	We would be concerned that such a body would effectively erode shareholder rights and possibly accountability. As set out above, there is a need to assess the capabilities of the audit firm with consideration of the company's specific circumstances and operations. In our opinion, the existing audit committee structure provides an effective body for selecting the audit firm, managing the audit relationship and determining the audit fees. Further measures could be introduced to ensure that audit committees have the appropriate skills and capabilities to perform the role to the highest possible standard.
26.	Please describe the benefits, risks and costs of such an independent body replacing audit committees.	See question 25.
27.	Should the companies be required to tender their audits and rotate their auditors with greater frequency than they currently are required to do? What would be the costs and benefits of this?	The EU audit rules already require the rotation of audit firms at public interest entities. In addition audit firms are required to rotate key audit personnel and the lead audit partner every 5 years. Although there are benefits to audit firm rotation there is also disruption and costs associated with the transition. In addition, as the new auditor develops their understanding during the transition period there is an increased risk audit quality. We believe that these challenges outweigh the potential benefits of an increased frequency in audit rotation.