

30 October 2018

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

Our Ref:

Dear Sirs

### Statutory Audit Market - Invitation to Comment

We are delighted to provide our comment into the Competition and Markets Authority's (CMA) review of the Statutory Audit Market and support the CMA's overall objective of their work *'to ensure that the markets work in a way that delivers audits at a high enough quality, at a reasonable price'*. Our comments and observations build on those expressed at our recent meeting.

Crowe in the UK is one of the top 10 audit firms by fee income. We are ranked eighth in the Advisor Rankings of stock market auditors both by number of clients and by market capitalisation of audit clients. Most of the clients within these numbers are listed on AIM with a number listed on the main market. We are the leading auditor to charities, having led the rankings with most audit clients for 10 successive years, and an acknowledged specialist in auditing large pension schemes.

The firm is the UK member of Crowe Global, the eighth largest international accounting network with revenues of approximately US\$3.8bn, around 45% of which is derived from audit. Our network members work with listed companies on markets around the world and collaborate on large, transnational audit assignments. Crowe Global member firms are collaborating on audit methodology and technology solutions and there is an established audit quality control programme. Crowe Global is a member of the Forum of Firms<sup>1</sup>. The depth of knowledge and experience around our global network means Crowe is ready and able to service the audit needs of international businesses and play its part in a well-functioning audit market at all levels.

An environment of high quality and effective financial reporting, high quality audit, and strong and effective regulation, is essential for the success of the UK economy. The CMA study has an important role in shaping how this can be maintained and improved in the future and we commend it for the rigour it is applying in this review.

We would urge the CMA, however, to ensure that any remedies that it does develop are targeted on addressing the issues where there appears to be most concern, principally the concentration of the audits of large, listed companies within the Big Four audit firms. There is a danger that some of the remedies proposed could have consequences that are either unintended or, indeed, unnecessary for those parts of the audit market that are functioning

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<sup>1</sup> The Forum of Firms is an independent association of international networks of firms that perform transnational audits

well. Although there have been a number of high profile cases of corporate failure over the last year or so, with the resulting scrutiny on the role of the auditors, the reality is that these are occurring in a very small, albeit extremely important, segment of the whole financial reporting and audit market. We give further details of this in our detailed response.

Our overview of the remedies proposed by the CMA are as follows:

- We support the setting of caps on the share of the large, listed company market that an audit firm may have and believe that use of the joint audit and/or shared audit models could be used to effect change. There should, however, be some reform of the joint and several liability model that presently applies in joint audits in the UK, to one of proportional liability.
- We support a ban on the provision of non-audit services for the audits of large, listed companies.
- We do not support the creation of audit-only firms or the break-up of the Big Four.
- To encourage wider competition there is a need to address some of the barriers to entry and expansion for non-Big Four firms, both on the 'demand-side' and the 'supply-side'.
- We do not support the creation of an independent body to appoint auditors of large, listed companies.

In addition to the remedies that it is already considering, we suggest that the CMA should consider the introduction of fixed tenure of audit appointments, at least for the initial period that a firm (or firms in a joint audit) is appointed. This is a model that operates in a number of different jurisdictions around the world. We believe this can be a mitigation against the 'agent-principal' issue that the CMA has identified and our colleagues in our network firms advise us that they believe this framework can assist the auditor's objectivity.

Whatever remedies are eventually proposed or enacted, we also ask the CMA to make sure that there are appropriate transition periods to allow an orderly implementation and limit the short-term disruption to the markets, companies and the wider economy. The transition period will also be necessary to ensure that firms that are keen to enter, or further develop their presence, in the large, listed company market have the time to prepare.

We provide our response to the specific questions in the review on the attached schedule. We will, of course, be very happy to provide any clarity, further input or involvement as necessary.

Yours faithfully

**Crowe U.K. LLP**

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Question No	Question text	Crowe comment
1	How well is the audit sector as a whole serving its stakeholders?	<p>It is important to define the ‘audit sector’ carefully. The CMA Audit Market Review states that this is a review of the statutory audit market although comments and questions then focus companies incorporated under the Companies Act and then, later, to ‘large’ private and public companies. The term ‘large’ is not clearly defined.</p> <p>The statutory audit market in the UK comprises not only those companies identified above but also a very large swathe of non-large companies as well as unincorporated charities, pension schemes and a variety of other entities incorporated or formed under statute which require a ‘statutory’ audit.</p> <p>According to data from the UK Audit Register, as of 19 October 2018, there are 5,484 registered audit firms in the UK with 23,692 people authorised to sign audit reports as ‘Responsible individuals’ (RIs). These firms and individuals provide audit services to thousands of businesses and other enterprises that have an audit either through statute or choice.</p> <p>There is a huge diversity in the size and scale of those audit firms. According to FRC research<sup>1</sup>, there are 1,606 RIs in the top 10 audit firms (of which we are one) and they deal with 1,871 audits that meet the formal definition of a ‘Public Interest Entity’ (PIE). Nearly 69% of those RIs are within the Big Four firms and the Big Four have nearly 87% of those PIE audits.</p> <p>The plain fact is that the problems that have come into sharp focus over the last 12 months have come from what is, in terms of quantum, a very small part of that population. Clearly, however, the size and nature of those businesses affected are such that they have had a significant impact either at a national or more local economic level.</p>

<sup>1</sup> See the FRC’s ‘Key Facts and Trends in the Accountancy Sector’, published July 2018

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		<p>We contend that the audit sector, when taken as a whole, is serving the needs of a wide and diverse range of stakeholders and if remedies are needed to address concerns in a particular sector then these need to be carefully targeted.</p> <p>The potential remedies that have been identified and are discussed in the CMA review, if applied to the whole audit sector, could well result in damaging parts of the audit sector that are functioning well and do service the needs of stakeholders. A prime example of this would be in the SME sector where there is much less segregation between the owners of the business and those who manage it. In general, SMEs want to deal with auditors who are able to use the knowledge of the business they gain through an audit assignment to provide other services and advice that are needed for the successful operation and development of their business.</p>
2	How well does the audit framework support the interests of both direct shareholders and also wider stakeholders in the economy?	<p>Overall, having regard to our comments above, we believe the current audit framework does serve the needs of direct shareholders (and equivalent parties such as trustees) and other stakeholders well in large part of the market. There is, however, a wider question as to whether the current model of statutory corporate reporting, of which the audit element is just a part, remains appropriate for the 21<sup>st</sup> century given the varied needs of shareholders and other stakeholders.</p>
3	To what extent do the decisions made by audit committees support high-quality audits, whether through competition for audit engagements or otherwise?	<p>We believe that audit quality is aided by a well-functioning and robust audit committee and board where there are high standards of corporate governance.</p> <p>Audit committees themselves need to be robust and ready to challenge management on its actions. That attitude of rigour and scepticism can lead to positive engagement with auditors. For companies that lack this rigour in corporate governance standards, the position of the auditor is more difficult. It is the board of a company that makes decisions and prepares financial statements, not the auditor. An auditor only has so much power to compel a board to a certain course of action.</p>

Question No	Question text	Crowe comment
		<p>From a competition perspective, there is challenge that decisions made by audit committees have effectively enabled greater competition between the Big Four firms for audit and non-audit services, but not more widely.</p>
4	<p>How has this changed following the Competition Commission's intervention?</p>	<p>More listed companies have been through a formal tender process since the last intervention although arguably this has only really followed since the introduction of the EU Audit Directive and Regulation. What we have observed (and this is replicated in some other areas of the audit market) is that audit committees are placing audit quality higher up their agenda and asking audit firms to demonstrate how audit quality will be assured.</p> <p>As a result of this increased tender activity, there have been a number of high profile changes of auditors, particularly where the length of continuous engagement has been very long, but this has not seen any diminution in the concentration of Big Four firms within the FTSE 350, indeed the opposite is true.</p> <p>There appears to be a reluctance by shareholders to exert pressure to change auditors. Research published by Equiniti on 26 October 2018 revealed that an analysis of AGM votes on the reappointment of auditors across the FTSE 100, 250 and all-share indexes revealed a range of 97.6% to 99.5% votes in favour of reappointing the incumbent auditor.</p> <p>It was disappointing that the FRC did not adopt the recommendation from the Competition Commission to have an objective to encourage competition. We have made our views on this known in our observations to Sir John Kingman as part of his review of the FRC.</p>
5	<p>Is competition in the audit market working well? If not, what are the key aspects hindering it?</p>	<p>We believe the audit market as a whole is very competitive with a large and diverse set of players in the market.</p> <p>The term 'listed company' can easily be misinterpreted in the UK. In terms of auditing and ethical standards, it includes companies listed on the secondary AIM market as well as the main list of the London Stock Exchange.</p>

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		<p>As of September 2018, there were 937 companies listed on AIM, compared to 1,164 on the main market. There is less concentration within the audits of AIM companies and the leading auditor, by number of companies audited, is not a Big Four firm.</p> <p>Crowe in the UK is the market leader in audits of non-profit entities. Our experience though is of a very competitive environment with regular re-tendering and a significant number of competitor firms. That we have managed to retain that market-leading position is not due to a lack of competition. We have also seen this experience in the audits of pension schemes where, again, Crowe holds a very strong position. Within the SME sector we also believe there is plenty of competition. The manner in which audit appointments are made in that sector is different, however, as there is much less use of formal tender processes. This is principally because there is less of a 'principal-agent' issue because the owners of the company are substantially the same as the management.</p> <p>If competition is being defined as the number of audit firms that a company can choose from, then clearly there is less competition in the large, listed company audit market. Not only is there a restricted number of firms who are currently appointed by the FTSE 100 and FTSE 250 companies, but there appears to be a declining number who are actively willing to participate in efforts to win such clients.</p> <p>The appetite of audit firms has become clearer over the last couple of years since the EU Audit Directive and Regulation became active within UK law and the Financial Reporting Council (FRC) become the 'competent authority' for the regulation of audit firms who audit Public Interest Entities ('PIE auditors'). At the time the FRC took on that role, there were around 50 audit firms in the UK who were PIE auditors; that number has already reduced as some firms who perhaps only had one or two PIE audits have decided that the additional level of regulation and oversight that would</p>

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		<p>follow was not something that they wished to have or was a cost which exceeded the benefits of having the PIE audits.</p> <p>Clearly, Big Four accountancy firms in the UK have a size and scale that sets them apart from the other firms. This is also true when considered in the context of their global networks. Their size will mean that they have a level of resources (both in terms of people and other areas, such as technology) that the other firms do not have.</p> <p>After the Big Four, there are a set of firms who are also large businesses operating from a range of locations within the UK, and also part of significant global networks and associations. After that, the firms are medium-sized with local, rather than national, presence and the associations through which they have international connections are not structured as global networks in the way that the larger networks are.</p> <p>Even though many of the second tier of audit firms do have the skills, experience and resources to conduct audits of large businesses, including some of those in the FTSE 100 and 350, there is not a consistency of appetite for dealing with those types of clients. There are a variety of factors behind this that include the regulatory and enforcement environment, risk and liability and the commercial aspect, i.e. the cost of getting involved even with the pitching for that work compared to the prospect of being appointed.</p> <p>Some of these 'supply side' factors interact with the 'demand side' and those who are responsible for identifying and selecting auditors.</p> <p>Although size isn't everything, there is a perception that with size come factors such as experience, knowledge and resilience (for example specialist knowledge not residing in a sole individual). The vast majority of the larger listed companies in the UK also have significant international operations. These two factors together mean that very often there is a reluctance for the large listed companies to look outside of the Big Four when identifying potential auditors.</p>

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		<p>Some of the largest businesses do require very specialist audit skills, most notably those in the banking sector and it would be true to say that the vast majority of audit firms in the UK outside of the Big Four would likely not have an appetite for that type of work, as it currently stands, due to a lack of specialist knowledge and skill within their practice and also the risks inherent in those audits.</p> <p>Although that may apply to the UK firms, that is not to say, however, that some of the networks to which those firms belong may not have relevant expertise within their international networks. Taking banking as an example, in the USA there are still many banks that operate on a state level and, accordingly, there is a greater spread of audit firms, including Crowe, that conduct audits of these and other financial institutions.</p> <p>There is a perception of an ‘alumni’ bias, with the influence of former partners of the Big Four sitting on audit committees. There will no doubt be other factors here such as the influence of significant shareholder representatives, banks, and institutional advisers but it is also worthy of note that over 60% of the FTSE 100 Chief Financial Officers come from a Big Four background<sup>2</sup>.</p>
6	In particular, how effective is competition between the Big Four and between other firms and the Big Four?	<p>There appears to be effective competition between the Big Four firms and we have seen a significant number of audit tenders for large listed companies over the last few years which has resulted in a change in auditor; some of which have been the first change in many years. As we have noted, however, there is also now a greater concentration of audits within the Big Four which indicates that in the larger, listed market, competition with firms outside of the Big Four is challenging. Indeed, there is evidence that some non-Big Four firms have declined to take part in some tender opportunities as they believe the prospect of success does not</p>

<sup>2</sup> Research conducted by ‘Accountancy’ towards the end of 2017 <https://bit.ly/2yxFO0A>



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		<p>warrant the time and expense necessary to participate in those opportunities.</p> <p>We are at pains to point out, however, that the situation that exists in the large, listed company space is not a reflection of the statutory audit market as a whole where we believe that competition between firms of all sizes is very strong. In particular sectors, the second tier of audit firms, and indeed firms that might be regarded as mid-size or smaller, believe that they are in a position to compete effectively against Big Four firms.</p> <p>We recommend that the CMA should consider what measures it could take that would promote this increased competition within the larger, listed company market and deal with the barriers that are inhibiting that competition currently.</p>
7	How has this changed following the Competition Commission's intervention?	Please refer to our comments on questions 4, 5 and 6.
8	What is the role for competition in the provision of audit services in delivering better outcomes (i.e. consistently higher quality audits)?	Having a choice of audit firms with appropriate skills, knowledge, experience and resources is very important in driving improvements in audit quality.
9	In practice, how much choice do large companies and public interest entities have in the appointment of an external auditor?	<p>Please see our comments on question 5. We believe that many companies have a lot more choice than they might realise but there are barriers that need to be addressed. There is clearly a perception in many circumstances that choice and decision is limited only to the Big Four even where other non-Big Four firms may be invited to participate in an audit tender.</p> <p>It is important that whatever remedies are proposed will assist in reducing the perception that choice is limited to only the Big Four and increase the active participation and appointment of non-Big Four firms in the audit of more large companies and public interest entities.</p>
10	What are the key factors limiting choice between auditors?	As we have set out in our response to question 5, there are a number of factors that mean certain audit firms may not wish to be in the market for

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		<p>large, listed companies. As a result, there is some restriction on choice from firms de-selecting themselves from the market.</p> <p>From the buyer's perspective, there can also be limitations in choice due to other audit firms providing non-audit services that are incompatible with being the external auditor either through the nature of the services being performed or because the level of the non-audit fees would create an independence issue. If a perception exists that the audit and non-audit services of large companies and public interest entities should be done by the Big Four, then the inherent conflicts that arise often mean there is only one realistic alternative in many cases within the Big Four. Choice is therefore being limited from the buyer's perspective by not considering non-Big Four firms for either audit or non-audit services.</p> <p>The FRC's Ethical Standard, which was updated following the EU Audit Directive and Regulation, outlines which non-audit services are prohibited from being provide by the auditor and also a fee cap on non-audit services which is referenced as a proportion of audit fees earned over a three-year period.</p>
11	What are the main barriers to entry and expansion for non-Big Four audit firms?	<p>We have already highlighted some of the barriers to entry that exist both in the market and within firms in our comments on question 5. The barriers can be regarded as both demand-side (e.g. the behaviour of buyers who will not appoint those who have the appetite to be in the market) and supply-side (those factors which discourage potential entrants into the market). We cover a number of the demand-side factors in our answers to other questions but some of the principal supply-side barriers we observe are:</p> <ul style="list-style-type: none"> <li>• the additional risk and exposure to the firm from being caught in litigation and also regulatory enforcement</li> <li>• entering into a regulatory environment for clients that may only represent a relatively small fraction of the whole client base</li> </ul>

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		<ul style="list-style-type: none"> <li>• the resources (time and expense) required for audit tenders when there seems little prospect of success</li> <li>• lack of prior engagement or relationship with large, listed companies and their senior management and boards</li> <li>• a lack of depth of knowledge, experience and resource in certain sectors</li> <li>• an inability to invest in technology solutions on a scale undertaken by the Big Four networks</li> <li>• the resources required to service businesses of a certain size and scale of business being audited, particularly when there is an international dimension.</li> </ul> <p>There appear to be a number of ‘challenger’ firms (between six and ten, including the future opportunity for new entrants) outside the Big Four, of which Crowe is one, that have the appetite to participate more widely in the larger listed company audit market if some of the barriers can be addressed and appropriate remedies to improve competition are introduced.</p>
12	Is there a significant risk that the audit market is not resilient? If so, why?	<p>We believe there is a significant risk here in the audit market for large, listed companies.</p> <p>In the early 2000s, the collapse of Arthur Andersen in the UK was due entirely to reputational reasons. It is not inconceivable that such a situation could occur again. In the event that the Big Four was reduced to a Big Three, we believe this would undermine significantly the UK (and, indeed, global) audit market and would lead, in some instances, to some very large companies (perhaps those within the banking industry) feeling that there was, indeed, no choice in the audit market at all.</p>
13	What is the appropriate balance between regulation and competition in this market?	<p>Both of these factors are, of course, important. Appropriate regulation is a necessary part of ensuring quality standards but the regulatory</p>

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		<p>environment must operate in a manner that is proportionate to those it is regulating and the factors within their businesses.</p> <p>We have recently participated and provided observations to Sir John Kingman in his review of the FRC. In our response we stated that “Our perception is that the [FRC] has struggled to define what quality is and, as a result, the reviews [of audit files] seemingly focus on compliance with the detailed requirements of the [auditing standards] rather than moving beyond this to a proper understanding of risk”. We also observed that we were “concerned that the introduction of the Audit Enforcement Procedure has meant a ‘lower bar’ before matters are escalated into the formal enforcement and discipline procedure which runs counter to the FRC’s desire to be seen as an improvement regulator”.</p>
14	Please comment on the costs and benefits of each of the measures in Section 4 and how each measure could be implemented.	<p><u>Audit-only firms</u></p> <p>We do not support audit-only firms for a variety of reasons, including some that we set out below.</p> <p>We foresee a detrimental impact on being able to service the needs of audit clients other than the large, listed companies such as those in the SME and other sectors. The value, outside large listed companies, that auditors bring is bound inextricably to them being able to provide other advice. Without that ability, we believe this would be detrimental to the SME and other sectors (and the UK economy as a whole) given the additional cost to business that would arise.</p> <p>Over time, we think that it would be difficult for audit-only firms to attract and retain top talent and this would have a big impact on the ability to deliver high quality audits.</p> <p>We do not see how the implementation of an audit-only firm rule in the UK would provide the desired results for global audits where no such rule would necessarily exist in other territories. The FRC’s Ethical Standards already treat audit firms and their networks effectively as part of single ‘entity’, even though this is evidently not the case, as the contention is that</p>

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		<p>the public regards them in that way. Making an audit-only firm rule in the UK alone would not necessarily have any impact on that perception.</p> <p>If both the audit firm and the previously-related non-audit firm could still end up being part of the same network, would the non-audit firm be barred from providing non-audit services to the company that the audit firm audits? If so, on what basis? The better solution in that case would simply be to introduce a ban on non-audit services to auditors of large, listed companies.</p> <p><u>Market share cap, joint or shared audit</u></p> <p>We support the concept of market share caps although foresee challenges, particularly with their introduction. In particular, it should not cause undue disruption to companies with their current arrangement and, if not managed properly, there will be a need to get new entrants to the market in a very short timescale. We believe this could give rise to serious risks around audit quality.</p> <p>We also support joint and/or shared audit as a remedy to the issue of concentration within the large, listed company market.</p> <p>Joint audits would provide the opportunity for other firms to get experience and further develop skills in the larger listed company market with the support of a Big Four firm which, over time, would build credibility and experience in the smaller firm. Shared audits could be part of the solution but, given that the aim is to get a greater variety of auditors into the boardroom, there is a risk that the shared audit may not achieve this goal as, invariably, it would end up with the Big Four auditor signing off on the group audit.</p> <p>We do see potential for the market share cap to work in conjunction with the joint audit solution. Our suggestion is that a joint audit should not count towards the cap in the same manner as a sole audit appointment. We</p>

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		<p>accept that in some circumstances, e.g. large banks, the joint audit may need to be between two Big Four firms.</p> <p>If joint audits were to be proposed then we believe there need to be changes to the UK position on joint and several liability, with a move to proportionate liability in joint audit engagements.</p> <p><u>Independent body for audit appointments</u></p> <p>We do not support this proposition as a remedy. We question whether the UK would remain as attractive for large multi-national businesses if audit appointments were handled in this way. We see many logistical challenges in terms of the composition of the panel, its remit, its ability to have a proper knowledge of the entity appointing auditors. There is a central appointments panel for Public Sector Audit Appointments but we perceive that market is not without its problems with a concentration issue of its own (only around six firms do this work) and there are significant barriers to entry.</p>
15	<p>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.</p>	<p>A remedy that we would like to propose is a minimum initial term of appointment for auditors. There are a variety of options here, possibly three/five years with one reappointment or perhaps seven/ten years with no reappointment.</p> <p>Such an arrangement could incentivise audit firms to invest in the audit relationship and provide a safeguard against the ‘principal-agent’ threat that is highlighted in the invitation to comment.</p> <p>Arguably, this is a remedy that could, in principle, apply to the whole of the statutory audit market, with different parameters applying to different sectors.</p>
16	<p>One way to create audit-only firms would be through separate ownership of the audit and non-audit services practices of the UK</p>	<p>We do not support this proposal as it would not provide a targeted response to the perceived problem but, rather, cause disruption across all the firms in the audit market.</p>

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	audit firms. Could this be effective, and what would be the relative scale of benefits and costs?	All the audit firms that do have large, listed audit clients also have clients that are within sectors that are not within the scope of entities that is the focus of this consultation. Creating audit-only firms would, we contend, be detrimental to other audit clients and result in greater cost due to needing to engage separately with other advisors for non-audit work which until now has ordinarily been provided by the audit firm.
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?	<p>Any remedy to create audit-only firms would only apply to the UK rather than the wider network.</p> <p>We foresee that this would cause considerable short-term market disruption and potential competition disadvantaged difficulties. If the audit-only firm was able to remain part of its original network, which network would the non-audit firm be able to belong to?</p> <p>As noted in our response to 14, above, the issue is not necessarily one of ownership. The current ethical rules around networks are promulgated on the basis that the public perceive that entities operating with the same (or substantially the same) name are already connected in a manner that implies joint ownership</p> <p>If the UK introduced a rule of audit-only firms, we do not see how this would be effective for multi-national companies given that the ownership of the other members of the same network would remain unchanged.</p>
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 do not believe the ban on non-audit services should be applied on a 'by firm' basis but, rather, on a 'by client-type' basis. For example, we suggest it could apply to FTSE premium list companies and consider that this is an appropriate and obvious remedy. Such a remedy would mirror similar rules that apply to auditors in other jurisdictions where the provision of non-audit services by the auditor is already stricter and more prohibitive.
19	How should the market shares be measured? - number of companies audited, or audit fees or some other measure?	This requires very careful consideration, especially around the monitoring of any cap. Whatever the measure, we believe it should be measured on some form of 'averaging' basis rather than a point in time.

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		<p>We also favour some form of multi-metric approach, perhaps a blend of market capitalisation, companies audited and audit fees.</p> <p>As we mentioned in our response to 14, above, we would propose that where a firm is involved in a joint audit arrangement rather than a sole engagement then the impact of this appointment on the market share cap should be diluted. This approach could provide an encouragement both to the Big Four auditor, who wishes to obtain/retain involvement with the company, and the company making the appointment, who may have a compelling reason for having that Big Four auditor, who, otherwise, might have reached its market share cap.</p> <p>Whatever measure is employed, there is a need to make sure there are not measures introduced that could encourage audit firms to 'manage' their market shares in a manner that could cause undue disruption.</p> <p>Furthermore, any such measure must be capable of being easy to understand, apply and monitor in practice.</p>
20	<p>Could the potential benefits (greater choice, and resilience) of a market share cap be realised?</p>	<p>Yes, we believe this could be realised for reasons we have covered in our other responses.</p> <p>In particular, we see the opportunity of non-Big Four firms becoming more involved with larger, listed company audits which would, over time, develop greater knowledge, skills and resilience.</p> <p>If joint audits are to be attractive, however, we believe there will need to be reform of the UK's laws on joint and several liability of the joint auditors to one of proportional liability.</p>
21	<p>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?</p>	<p>From discussion with our network colleagues in France, where there is mandatory joint audit for listed companies, we understand that, typically, a joint audit may cost in the region of 120%-140% of a sole audit. Given that the audit fees for very large listed companies sometimes represent barely a 'rounding difference' in the financial statements, we contend that this should not be a barrier.</p>



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		<p>Except in a highly specialised sector, such as banking, we do not necessarily foresee reduced competition, indeed we would hope it is the opposite.</p>
22	<p>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%?</p>	<p>We do not have a set view on this measure at the moment and we would only favour setting the cap level once the metrics for calculating the cap are established. What we would say, however, is that if the measure is going to be effective, then there has to be a reasonable proportion of the market 'opened', in order to encourage other firms to want to participate. To that end, we would suggest that any remedy was focussed towards the lower end of the suggest range.</p>
23	<p>Could a joint audit be an effective means of implementing a market share cap?</p>	<p>We believe a joint audit could be effective in achieving some of the objectives. We have concerns, however, as to whether this could work in certain areas, such as banks, where there may not be many (potentially any) non-Big Four firms who believe they have the requisite skills, knowledge, experience or appetite to be appointed as joint auditor. This may, therefore, lead to a prospect of two Big Four firms being appointed. As noted in our response to 19, above, we believe that any levels of market share cap should be set on the basis of a firm being appointed a sole auditor, with some 'dilution' if they are appointed as joint auditor.</p>
24	<p>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 wider range of stakeholders including shareholders, pension fund trustees, employees, and creditors, rather than the current focus on shareholders?</p>	<p>In the UK, the auditors' duties in respect of statutory auditor are laid down in statute and, within case law, notably '<i>Caparo Industries plc v Dickman</i>' and, more latterly, '<i>Barclays Bank plc v Grant Thornton UK LLP</i>'. The needs of different stakeholders will, by necessity, differ and their use of financial statements will similarly differ. Whilst some will be interested in historic financial performance, others will be concerned about likely future performance and/or viability. The current audit model is designed to provide assurance to those who own an enterprise that management's presentation of the historical performance of the company give as 'true and fair view' of that presentation. Recognising that management will often</p>

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		<p>provide other narrative reports to shareholders that explain the performance of the enterprise over that period, auditors also have a duty to report if such narrative statements are not consistent with matters included in the financial statements (or knowledge gained during the course of the audit) or contain material misstatements of fact.</p> <p>If auditors were to be held accountable to a wider range of stakeholders then we believe this would require significant changes to the way audits are conducted not least because the needs of the different stakeholders are so different.</p> <p>This question also opens up the question of what corporate reporting should look like for the future and whether there should be so much emphasis on reporting of historic financial information. Much work is being done in this area including by the International Integrated Reporting Council.</p>
25	<p>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?</p>	<p>This is an interesting concept and, on paper, has some merit. There would be a number of challenges to address, such as the composition of the body and their ability to understand the needs of the business being audited and to be able to assess the quality of the audit tenders being presented to them.</p> <p>We agree that such a body could potentially guard against poor boardroom discipline and could further encourage independence of thought and action as those they are dealing with do not have the 'gift' of making the engagement or setting the fees.</p> <p>We are aware that some form of analogous arrangement exists with the Public Sector Audit Appointments (PSAA). There are difficulties with this model, however, and some very significant barriers to new entrants. Currently there are only six audit firms that have taken audit appointments under the PSAA, two of which are members of the Big Four.</p> <p>The question posed does invite a reappraisal of what 'public interest' means. In adopting the EU Audit Directive and Regulation the UK decided</p>

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		not to use the available derogations to extend the definition in the UK beyond the minimum specified. After the UK's exit from the EU, we believe that this definition should be considered anew.
26	Please describe the benefits, risks and costs of such an independent body replacing audit committees.	<p>Although we can see a potential benefit in having an independent board as a safeguard against the 'principal-agent' threat, we believe the risks and costs of the independent body arrangement would outweigh these.</p> <p>We question whether the UK would remain as attractive for large multi-national businesses if audit appointments were handled in this way, which would differ from every other major financial centre around the world. The proposals for the independent body do not provide any suggestion on the composition of the body and how those involved would have sufficient knowledge and experience of the entity being audited to understand which of the audit firms being proposed would be the appropriate appointment.</p>
27	Should 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?	<p>Although the experience is short, the new rules introduced following the previous Competition Commission review and, subsequently, the EU Audit Directive and Regulation, there is no evidence that the increased tendering activity has done anything to address issues of concentration of audit assignments within the Big Four firms. We do not see how increasing the frequency of mandatory rotation alone will address this issue.</p>