

38 Degrees: Comment on statutory audit market study

Competition and Market Authority's statutory audit market study:

Summary of individual responses from 13,880 members of the public collected
by 38 Degrees

"We are all affected, as taxpayers." - Angela, 38 Degrees member, October 2018.

Executive summary

Since the collapse of Carillion, there has been increased public scrutiny on the financial auditing of large companies, especially those that hold contracts to run public services. As the Competition & Markets Authority states in its Invitation to Comment:

"Most people will never read an auditor's opinion on a company's accounts. But often without realising it, tens of millions of ordinary people depend in some way on independent audits to help ensure that companies report truthfully on their performance."¹

38 Degrees has sought the stories and opinions of the general public, whose livelihoods, savings, and public services are affected by under-regulated financial auditing practices. 13,880 members of 38 Degrees from across the UK have taken part in an online survey, sharing their views on whether the market for the provision of statutory audit is working as well as it should.² The results show that, among those who responded to the survey:

- **92% agree that a public body should decide which auditor signs off a company's accounts.**
- **86% agree that there should be a cap on how many businesses an auditor can work for.**
- **70% think that a company's auditor should not be allowed to provide other services to that client.**
- Of these three suggestions, **70% of respondents said that they would *most* like to see a public body deciding which auditor signs off a company's accounts.**
- Personal stories shared by respondents demonstrate the far-reaching social consequences of under-regulated financial auditing practices on people's savings, jobs, pensions, and the public services they rely on.

¹ Competition & Markets Authority: Statutory audit market study: Invitation to comment 9 October 2018:

https://assets.publishing.service.gov.uk/media/5bbc66f3e5274a222b994bfd/invitation_to_comment.pdf

² As referred to in the summary of the CMA's statutory audit market study: invitation to comment.

Quantitative Responses

Survey takers were asked the following three questions:

1. Right now, companies can choose which auditor signs off their accounts. Do you agree that a public body should decide which auditor they get instead?

This question sought to understand public opinion as it relates to one of the options under consideration by the CMA, to “address the incentives arising in audits, for instance by moving responsibility for appointing auditors away from audited companies, in certain circumstances, to an independent body.”³

In response:

- 92% of respondents either strongly agreed (74%) or agreed (18%) that a public body should decide.
- 4% either strongly disagreed (2%) or disagreed (2%), while 4% were unsure [see appendix].

2. Currently just four auditing businesses check the finances of 97% of Britain’s biggest companies. Do you agree there should be a cap on how many companies these businesses can work for?

This question sought to understand public opinion as it relates to one of the options under consideration by the CMA, to “increase competition from non-Big Four audit firms, for instance through a market share cap and / or joint / shared audit.”⁴

In response:

- 86% of respondents either strongly agreed (58%) or agreed (28%) that there should be a cap on how many companies these businesses can work for.
- Only 4% either strongly disagreed (1%) or disagreed (3%), while 10% were unsure [see appendix].

3. It’s common for businesses that audit big companies to also provide other services, like tax advice. Do you agree that should be allowed?

This question sought to understand public opinion as it relates to one of the options under consideration by the CMA, to “increase competition between the Big Four, for instance by creating audit-only firms.”⁵

In response:

- 70% of respondents either strongly disagreed (43%) or disagreed (27%) that this should be allowed.
- 14% either strongly agreed (6%) or agreed (8%), while 16% were unsure [see appendix].

³ Competition & Markets Authority: Statutory audit market Invitation to comment 9 October 2018: https://assets.publishing.service.gov.uk/media/5bbc66f3e5274a222b994bfd/invitation_to_comment.pdf

⁴ As above.

⁵ As above

Respondents were asked to rank the three reforms in the order of those they'd most like to see:

In response:

- 70% of respondents said they would most like to see a public body to decide who audits the finances of big companies.
- 22% of respondents said their first preference would be to stop auditing companies from providing other services to their clients.
- 8% would most like to see a market share cap on auditing firms.

Qualitative responses

A number of respondents chose to share their personal story of how the collapse of Carillion impacted them. The small sample provided below gives an indication of the importance of strong regulations in financial auditing. Bad auditing practices put public services, jobs, pensions, and the livelihoods of people all over the UK at risk.

Here are some of their stories:

"My niece's partner worked for Carillion for more than 5 years. They just bought a house and she's expecting twins! He was [also] studying to progress his career when Carillion collapsed - so a very worrying time for them, he didn't know if he was going to get paid."

"As [an] employee of the NHS and working in Liverpool, we are all affected by the delayed completion of the new hospital."

"Just a stone's throw away from my house is the Midland Metropolitan Hospital which has been all but deserted since Carillion collapsed."

"As a Carillion pensioner I am in danger of losing out [because of] the way the pension fund was underfunded."

"Carillion were commissioned to build a new council services HQ which would house the library, CAB, job centre+, welfare rights, customer services together with a new advanced skills education facility for the local college, plus a retail outlet. The collapse occurred just 105 days from completion and the council had to make the decision to commission another contractor to complete the work or to mothball a build that would simply deteriorate quickly thus wasting a huge amount of public funds already spent. The decision was made to find the resource to complete which the council can ill afford."

"I owned shares in Carillion and have lost money through this investment. I have always voted against companies using the same auditors when I vote on AGMs, I believe these auditors get too close to the companies whose finances they are supposed to be checking."

"Yes. I worked at the battersea power station development. The company I worked for lost money as a direct result of the Carillion collapse."

“I held shares in Carillion when it collapsed, having bought them on the advice of a financial expert writing in a regulated investment newsletter who recognised that they were vulnerable but was evidently as shocked as everyone else by the extent of company misreporting.”

“As a shareholder in Galliford Try plc, my shares have lost value as a result of Galliford Try having to pick up the pieces on joint venture contracts they held with Carillion.”

“I work at the Royal Liverpool Hospital. Our new hospital will be at least 3 years late. Even more upsetting is the number of local companies and workers which didn't get paid.”

“The Cardiac Rehab programme I follow cannot be run in the new hospital buildings at the Liverpool Royal as planned.”

“I had Carillion in my ISA, and have lost 100% of my investment. Incredible how the auditors missed the warning signs.”

“I'm a pension trustee and I've seen auditors at work on our scheme. Conflicts of interest in auditing businesses are a really serious issue. And it's utterly ridiculous that the market is ruled by just 4 businesses (none of which [get] very good AQR scores).”

“As a retired public sector auditor I know the importance of independence, and it seems to me that companies paying their auditors direct and involving them in the provision of other services is, in itself, a conflict of interest and curtails independence.”

“I had shares in Carillion, which are now valueless. I assumed that their press announcements about strong order books were correct. I find it astonishing that the people who did their audits did nothing about the lies put out by Carillion directors. Also, it is astonishing that the directors seem to have got away scot free, as well as with well-lined pockets.”

“I worked for Carillion for 32+ years. I have lost so much personally and financially. I have a very different future ahead of me now than the one I'd planned for. I have never understood why we had same auditors year in year out. It's very clear now. I used to hear about dodgy dealings going on with the govt to get contracts but we had to keep our mouth shut. I know so many people who have been affected by the collapse. It's sad. It's heartbreaking. It's wrong.”

Conclusions

The survey responses from 13,880 members of the public suggest strong public support for several reforms under consideration by the CMA. These include:

- A public body to appoint auditors
- A market share cap on large auditing firms
- Legislation that would ensure auditors cannot provide other services to clients, or the creation of audit-only firms.

The stories and opinions of members of the general public, documented here, demonstrate the human cost if reforms fail to bring the industry under tighter regulation.

About 38 Degrees

38 Degrees is a politically independent campaigning organisation which is funded by thousands of small donations.

There are two million of us who campaign across the country, online and offline. There are thousands of us in each and every constituency and we come from all backgrounds, ages and political outlooks.

In addition to the survey on financial auditing, more than 55,000 people have signed a petition to the Right Hon. Greg Clark, calling on him to introduce independent checks on the finances of private companies that are awarded contracts to run public services, to avoid another Carillion-style collapse.⁶

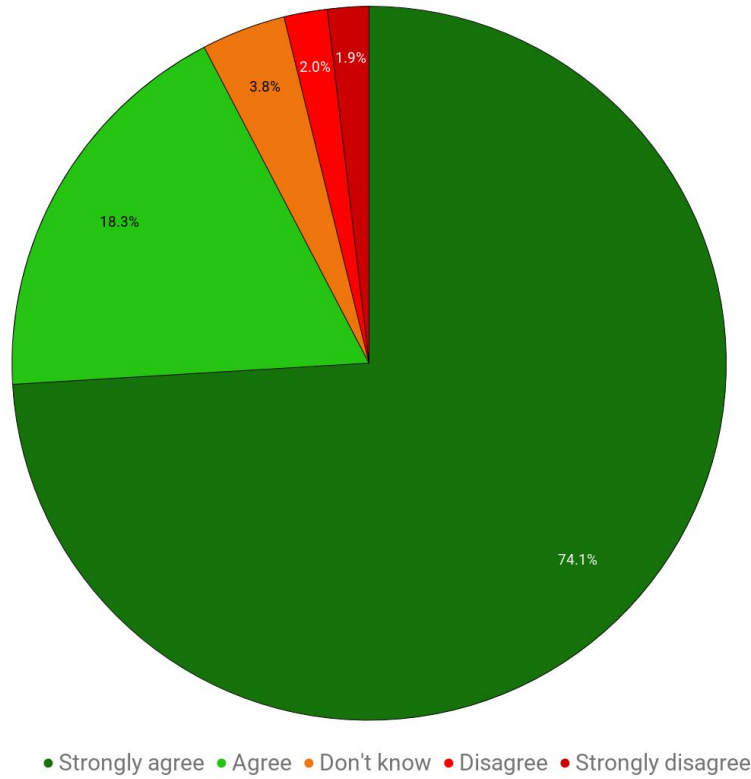
You can read 38 Degrees' privacy policy [here](#).

⁶ 38 Degrees: Petition to Greg Clark:
<https://speakout.38degrees.org.uk/campaigns/4379>

Appendix

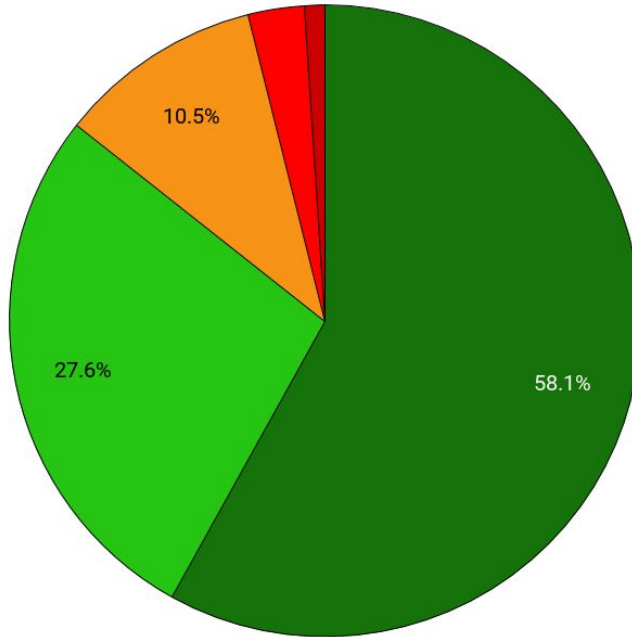
Graph 1: Results of Question 1

Right now, companies can choose which auditor signs off their accounts. Do you agree that a public body should decide which auditor they get instead?



Graph: Results of Question 2

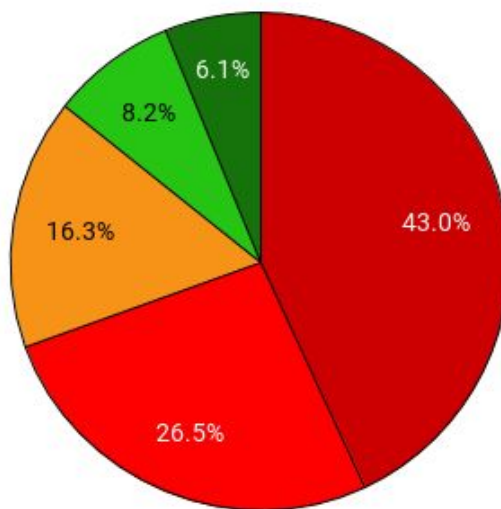
Currently just four auditing businesses check the finances of 97% of Britain's biggest companies. Do you agree there should be a cap on how many companies these businesses can work for?



● Strongly agree ● Agree ● Don't know ● Disagree ● Strongly disagree

Graph: Results of Question 3

It's common for businesses that audit big companies to also provide other services, like tax advice. Do you agree that should be allowed?



● Strongly disagree ● Disagree ● Don't know ● Agree ● Strongly agree