

30 October 2018

By **Email:** statutoryauditmarket@cma.gov.uk

Statutory audit market study
Competition and Markets Authority 7th floor
Victoria House
37 Southampton Row
London WC1B 4AD

Dear Sir or Madam,

With regard to the future for auditors and conflicts, I think the audit business of each of the Big 4 should be spun off into a separate firm. I would summarise my views as:

1. For a long time, I have thought that auditors should audit and do nothing else and that therefore they should be spun off from the rest of the firm so as to focus on their audit services which are so critically important to their clients and to UK business as a whole.
2. I think it is a very important question about audit having its client as ultimately the shareholders who appoint them via the AGM resolution and who also approve the company to set the auditors' fees, **whereas in contrast** the professional services businesses regard their client as executive management.
3. Another question is about remuneration and remuneration driving/supporting the culture of the firm. I recently asked this at an EY seminar and they answered by stressing that audit partners are not remuneration for fees (sales), but on the quality of their work. They are not rewarded for cross selling. EY NED Sir Peter said audit partners have balanced scorecards and a new system called LEAD is being introduced to ensure the right behaviours are followed.
4. It is argued that the audit team are able to call on non-audit people's expertise when this was needed in an audit. However, in a spun off audit only firm they could still contract with the old professional services experts to help them when needed and it would also be easier for them to go to experts **outside** the firm when needed. Also, having a more formal contract with an external supplier makes it easier to understand the value add from the work, which can become rather blurred in a multi-disciplinary firm. Hence ,I suggest it is spurious to use this as a justification for not separating audit from the rest of the firm.
5. The culture of the professional services firm is well known. I once worked for [a professional services firm]. I saw it. I also met many people who had previously worked in accountancy firms. The cultures were similar. The business strategy is predicated on client relationships. Those who hold the client relationships are expected to manage the relationship and to help the client whenever possible and to bring the full resources of the firm so as to be able to sell profitable projects and services. It is not just the client partner. Other members of the team are encouraged to spot sales opportunities and help convert them either themselves or by bringing them to the attention of more senior people in the firm. Those who are good at it are rewarded and promoted.
6. Such cultures are deeply imbedded in the psyche of the firm.
7. It is a good and sound business strategy to do this. I have no objection to this behaviour in the professional services part of the firm. It maximises value for the

- firm, its partners and its employees. The continuing stream of revenue, growth in revenue and repeat customers is confirmation that this is a successful strategy for the professional services firm.
8. However, when such a culture crosses the divide into the audit part of the firm, it is highly dangerous.
 9. The culture required for audit is different.

Consultation questions - I have only responded to some questions and have no comment to make on the others.

A) Issues

1. How well is the audit sector as a whole serving its stakeholders?

Very badly. Carillion, Conviviality and CAKE are 3 examples; and those are just the ones beginning with the letter C!

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?
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 - c) Another question is about remuneration and remuneration driving/supporting the culture of the firm. I recently asked this at an EY seminar and they answered by stressing that audit partners are not remuneration for fees (sales), but on the quality of their work. They are not rewarded for cross selling. EY NED Sir Peter said audit partners have balanced scorecards and a new system called LEAD is being introduced to ensure the right behaviours are followed.
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- i) The culture required for audit is different.

11. What are the main barriers to entry and expansion for non-Big Four audit firms?

The Big 4 have professional services businesses that are 4 times the size of their audit business, which in turn are multiples of the size of the smaller audit firms. The financial scale and muscle of the Big 4 is enormous.

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?

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As to cost benefits, you only need to avoid one Carillion to pay for any extra costs.

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?

They are mainly separate businesses which agree to cooperate internationally. They frequently have countries that switch between different groups of member firms.

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?

Start with Big 4 and see how it works.

Please note I am submitting this response in a personal capacity. My credentials are that I am a private investor managing my own portfolio and have over 30 years of experience as a remuneration consultant, working at Board level mainly on executive compensation. Nothing in this response is confidential.

Yours sincerely

Cliff Weight