



Our Ref.: CJ/S&R/UKCMA

30 October 2018

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

Dear Sirs,

**CMA Invitation to comment
Statutory audit market**

The Hong Kong Institute of Certified Public Accountants (the Institute) is the only statutory licensing body of accountants in Hong Kong responsible for the professional training, development and regulation of the accountancy profession. The Institute sets auditing and assurance standards, ethical standards and financial reporting standards in Hong Kong. The Institute is committed to ensuring that audit quality is maintained at the highest standards and therefore welcomes initiatives that share this aim.

It is with great interest that the Institute is monitoring the development in the UK on this matter. With the effect of globalisation, you would appreciate that any measures taken by regulatory and other authorities in one jurisdiction such as yourself could have significant repercussions in other jurisdictions.

The Institute concurs with CMA's observations of the Big 4 firms capturing the market share of auditing FTSE 350 companies and the difficulties of non-Big 4 firms entering the market. However, we do not believe imposing regulatory measures or restrictions such as breaking up firms or introducing market caps to manipulate the market would enhance audit quality. Careful thought is needed before considering such regulatory intervention.

We believe that the profession is fully aware of the concerns of stakeholders and their expectation of auditors to fulfill its role. The international standard setters and relevant regulators are closely monitoring the situation and are making efforts through their respective activities to enhance audit quality.

Although the UK has had requirements such as mandatory tendering of audit contracts in place for a few years now, the direct effect on encouraging competition, enhancing audit quality and meeting stakeholders' expectations is not immediately clear. The Institute is not supportive of such measures. We believe it is more effective to encourage all stakeholders to look at how their respective roles and responsibilities can contribute to enhancing audit quality. Consideration should be given to supporting audit committees in their role of overseeing and assessing the performance of auditors including appointment of auditors and recommending tendering for audit services. Guidance could be developed to educate audit committees on the factors to be considered in appointing auditors, particularly to take the emphasis away from fee levels and emphasise factors such as audit quality, independence and professional skepticism. The attitude of audit committees in upholding audit quality is critical.



We do not believe that audit only firms would have a positive impact on audit quality for the reasons stated in paragraph 4.10 of the ITC, in particular in retaining or recruiting high quality staff.

The Institute is supportive of changes that will enhance the understanding of the value and quality of audit. The Institute would strongly urge the CMA to work closely with relevant regulatory and standard setting bodies, to ensure that any measures introduced to address CMA's concerns about market access in the UK are compatible with the important steps that are being taken internationally to enhance audit quality.

I trust that the above comments are of assistance to you. If you require any clarification on our comments, please do not hesitate to contact me by email or telephone

Yours faithfully,

Chris Joy
Executive Director

CJ/jn