

61/ACDS

30 October 2018

Will Hayter
Project Director
Statutory Audit Market Study
Competition and Markets Authority
7th Floor, Victoria House
37 Southampton Row
London WC1B 4AD

Via email: statutoryauditmarket@cma.gov.uk

Dear Mr Hayter,

We write in response to your invitation to comment on your current Market Study into the Audit Market.

BHP is a top 40 firm in the UK and is a member of the Association of Practicing Accountants (APA) and a network member of Kreston International.

Our corporate clients are typically owner managed businesses operating across a wide variety of industry sectors in the north of England who are responsible for creating economic growth and employment across their respective sectors.

BHP provides a full range of services, compliance through to business advisory, that our client base demands. As we operate in a competitive market it is generally more cost effective for our clients to have the flexibility to purchase our services from one firm rather than having to go elsewhere.

We have commented on your consultation questions as detailed below:

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

We believe that in our market, audit is serving the market well, providing an efficient and effective service to those stakeholders such as shareholders, lenders and others.

At the other end of the audit sector our belief is that following a number of high profile corporate failures which have ultimately been found to be due to audit failings, these issues have impacted negatively on the audit sector as a whole.

- 2) How well does the audit framework support the interests of both direct shareholders and also wider stakeholders in the economy?**

As the framework has evolved over a long period of time, we believe the framework supports both interests well.

- 3) To what extent do the decisions made by audit committees support high-quality audits, whether through competition for audit engagements or otherwise?**

Our clients do not generally have audit committees and so we are unable to comment with sufficient knowledge or experience.

- 4) No comment**

- 5) Is competition in the audit market working well? If not, what are the key aspects hindering it?**

Our experience is that it is very difficult for us to get any meaningful traction in the Public Interest audit market due to a number of key concerns surrounding regulation and risk.

- 6) In particular, how effective is competition between the Big Four and between other firms and the Big Four?**

Competition in the listed company audit market amongst the Big Four appears to operate effectively. But between other firms and Big Four there does not appear to be much of a competitive audit market.

- 7) How has this changed following the Competition Commission's Intervention?**

Our perception is that little has changed and indeed there may be now less competition due to greater barriers to entry.

- 8) What is the role for competition in the provision of audit services in delivering better outcomes (i.e. consistently higher quality audits)?**

Competition should encourage all audit firms to deliver high quality audits.

- 9) No comment**

- 10) No comment**

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

We audit a couple of Public Interest Entities and it is a market which we would like to explore further. However, we are very keenly aware of the regulatory environment and regulatory cost associated with being active in this market. In particular increased compliance costs, and increased liability exposure are challenges which we see as potentially prohibitive to us expanding further in the audit sector.

12) No comment

13) What is the appropriate balance between regulation and competition in this market?

As a firm that is regulated by the FRC we are concerned that the FRC is unable or unwilling to differentiate its approach to regulation between the Big Four and other firms to encourage an active competitive market. Whilst we understand the need for a robust regulatory environment we believe the FRC has a role to play in encouraging challenger firms to compete effectively and efficiently.

14) To 26) We share the views expressed by the APA in their response to this section.

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?

We do not believe that requiring more frequent retendering would have a significant impact in audit competition. Our view is that at the top end of the market, since the introduction of the EU Audit Directive, it has had the opposite effect.

To summarise, we would welcome the opportunity to compete in the larger audit market but we have concerns over regulation and cost. We believe the FRC has an effective role to play in encouraging greater competition in the audit market.

Yours sincerely

For, and on behalf of BHP LLP