

Response to the invitation to comment on the CMA's market study notice

My answers to the consultation questions are in italics.

A) Issues

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

If the audit sector's stakeholders are considered to be the organisations who pay for the audits, they are well served because the organisations carrying out the audits want to continue be their suppliers. However the true stakeholders include anyone who is affected by the success of the organisation, which is millions of people. The continued corporate failures show that the true stakeholders are poorly served.

Theme 1: The audit framework

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

Poorly, especially for wider stakeholders. It supports the interests of management.

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?

They don't.

4. How has this changed following the Competition Commission's intervention?

Hardly at all.

Theme 3: Choice and switching

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

It's hindered by the dominance of the Big 4.

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

The Big 4 compete fiercely. The others are uncompetitive by comparison.

7. How has this changed following the Competition Commission's intervention?

Hardly at all.

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

None, without changes to the audit framework.

9. In practice, how much choice do large companies and public interest entities have in the appointment of an external auditor?

Little.

10. What are the key factors limiting choice between auditors?

The historical and fragmented nature of company information, the complexity of the audit and regulatory framework, and the limited range of technical skills and geographical footprint of smaller firms.

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

The historical and fragmented nature of company information, the complexity of the audit and regulatory framework, and the limited range of technical skills and geographical footprint of smaller firms.

Theme 4: Resilience

12. Is there a significant risk that the audit market is not resilient? If so, why?

Yes, for the reasons stated in the CMA's Invitation to comment.

Theme 5: Regulation

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

Regulation should be simplified and reduced to encourage more firms to compete.

B) Potential measures

14. Please comment on the costs and benefits of each of the measures in Section 4 and how each measure could be implemented.

Interference in markets can have undesirable and counter-productive consequences.

15. 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.

I recommend use of a digital platform which would make audit more comprehensive, transparent, objective and predictive by providing a single picture of everything a company is aiming and likely to achieve, do and employ.

The transparency, predictability and integration provided by the platform could make audit everyone's day job, automatically improving its quality; meet the public expectation that audit should prevent problems; and increase the chance of smaller firms obtaining work from large organisations by simplifying and expediting data gathering.

If laws, regulations and standards required companies to use the platform, it would increase their integrity, transparency, productivity and profitability; and the role of audit could expand from inspecting the past to predicting the future and ensuring that the use of the platform, and the information on it, is correct.

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?

Doing this may make audit uneconomic for some current providers and reduce the choice in, and resilience of, the audit market.

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?

Does the UK have the power to create audit-only firms and if so, might global audit firms determine that it was uneconomic to operate here?

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?

To be fair, the measures should apply to all audit firms.

Market share cap

19. How should the market shares be measured? - number of companies audited, or audit fees or some other measure?

Audit fees, though I think this measure would reduce the number of auditors willing to audit large companies.

20. Could the potential benefits (greater choice, and resilience) of a market share cap be realised?

It would probably only reduce the resilience of the market.

21. 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?

The drawbacks would outweigh the benefits, which are uncertain.

22. 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%?

75%.

23. Could a joint audit be an effective means of implementing a market share cap?

No, it would be too complicated, bureaucratic and adversarial.

Incentives and governance

24. 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?

Yes. I would favour weakening the link between company management and external and internal auditors to increase objectivity. Internal auditors could have a beneficial whistle-blowing role if emancipated from company management.

25. 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?

No, appoint stakeholder representatives to chair and form a majority on Audit Committees.

26. Please describe the benefits, risks and costs of such an independent body replacing audit committees.

It would disfranchise companies, increase their costs, and is unnecessary.

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?

No, because it would increase costs without increasing competition.

We intend to publish responses to this launch document in full. In providing responses, please supply a brief summary of the interests or organisations you represent, where appropriate.

I represent Perendie (www.perendie.com), provider of a digital platform which would make audit more comprehensive, transparent, objective and predictive by providing a single picture of everything a company is aiming and likely to achieve, do and employ.

Please consider whether you are providing any material that you consider to be confidential, and explain why this is the case. Please provide both a confidential and non-confidential version of your response.

I'm not.

If you are an individual (i.e. you are not representing a business), please indicate whether you wish your response to be attributed to you by name or published anonymously.

I'm representing Perendie.