

Our Reference:
Your Reference:

30th October 2018

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

By Email & Post

Dear Sir/Madam

Re: Statutory Audit Market – Invitation to Comment

I set out below responses to the above Invitation. I am writing in my capacity as Group Finance Director of Galliford Try plc, a FTSE 350 listed housebuilder and contractor, operating almost exclusively in the UK, and the responses are made on behalf of the Group.

The comments may be treated as not confidential, save that certain specified additional detail in the first answer is required to be considered strictly confidential.

Questions 5 & 9

Competition is severely limited in general, and further hindered by a lack of depth of knowledge and experience in particular sectors. Both the construction and housebuilding sectors require specialised accounting treatments and significant levels of judgement, which demand a high level of specific experience. We have found this to be limited, even within the Big Four, and sparse in the mid-tier firms.

The position is obviously made more difficult by the need to utilise the accounting firms for other services, such as tax and internal audit, creating a challenge of conflict avoidance when changing auditors.

The issue has been exacerbated more recently by an apparent reluctance among certain firms from taking on new engagements in a sector perceived to represent high inherent audit risk, following issues at Carillion and elsewhere. If Big Four firms can simply elect to limit their exposure to certain sectors, audit committees may be faced with a very difficult challenge in appointing a competent auditor.

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Question 8

Competition has a role to play in delivering better audits, for the benefit of all stakeholders. For example, evidence of a firm's investment in sector-focused resource, able to demonstrate market knowledge and a good understanding of typical risks, potential issues and key judgements will heavily influence the committee's selection.

However, the delivery of a high quality audit depends more widely on independence of thought, a balanced perspective, and strength of purpose in the audit partner and team, which are more generic qualities, deriving from training and experience, and enforced by review and regulation.

Question 16

The resolution of perceived conflicts of interest by demonstrable separation of audit from non-audit firms carries significant longer term risks to audit quality. It seems clear that the profession could not attract the large numbers of the brightest graduates that it needs, if the sole offered career path was audit. In the highly competitive graduate recruitment market, the principal attraction of the accounting firms is the breadth of disciplines and variety of experience they offer. In addition, the quality of audit is enhanced by the ability to draw on specialist teams from other disciplines around the firm; also the insight, judgement and business expertise within audit teams is enhanced by the range of experiences to which the team members have been exposed.

It is accepted that wider stakeholders may require some demonstrable separation of interests, rather than the perceived inherent conflicts to which the current structures are prone. This might be achievable by an internal ring-fencing of incentive and reward, such that remuneration of senior individuals is linked only to their own service line. This would break the link between audit and other services, whilst continuing with the clear benefits of multi-disciplinary firms.

Question 23

Whilst joint audits might be efficient for large or international businesses, for a UK mid-cap they would seem to add to cost, effort and complexity (for both auditor and client), without obviously adding to audit quality. It is not clear why the presence of a second firm would have avoided the recent high profile failures, however, the challenge of appointing a second audit firm would redouble the difficulties of choice and competition for audit committees.

Question 24

Broadening the accountability of auditors to a wider stakeholder group would risk distorting an already complex balance of responsibilities and liability. By adding further specific litigation risks, the central purpose of audit will be further complicated, increasing liability and cost without clearly improving quality. There is perhaps a perception gap between the assurance an audit is designed to deliver and the certainty which the public seems to expect, however, the answer should not simply be an infeasible expansion of that assurance. A properly functioning audit market will deliver reliable financial statements which offer an important element of the range of information available to stakeholders, however those stakeholders (such as creditors) have an intrinsic responsibility to conduct due diligence appropriate to their own purposes, which should not be alleviated by extending the specific liability of the auditor.

Question 25

A well-functioning audit committee, with a good knowledge of the business, management and inherent risk is far more appropriate to select, appoint, challenge and monitor auditors than an independent public body.