



21 January 2019

**Response to Competition and Markets Authority's Statutory Audit Services Market Study,  
Update Paper**

Aviva is one of the UK's largest insurance companies, providing general insurance, life, health, pensions, and investment services to about 33 million individual and business customers globally.

We welcome the opportunity to comment on the Competition & Markets Authority's statutory audit services market study proposals. As a range of representative bodies are providing more comprehensive responses – including the Association of British Insurers of which we are members - we have focused our individual response on those recommendations of direct relevance to Aviva.

Aviva is fully supportive of measures that improve audit quality and increase competition in the statutory audit market. As well as being essential to giving investors confidence in UK companies, high quality audits are of equal importance to preparers of accounts, who want to ensure that investors' confidence in them is justified.

There is currently a particularly limited choice of auditors for large, complex insurance companies such as Aviva. We recognise that there can be challenges in the market in an audit tender scenario, which when taking conflicts, rotation requirements and provider appetite into account, can at times result in a very limited choice.

As a general point, we note the CMA's strong focus on regulating the demand side of the statutory audit market as a method of ensuring effective competition in a market. We support the need to ensure that remedies are properly targeted at the problem areas, particularly in the supply side of the market, and where there is good evidence that they will have the desired effect.

We believe in shareholder primacy. Auditor appointment is currently a matter reserved ultimately for shareholders as the owners of the company, and this nexus should, if anything, be strengthened rather than broken with the insertion of other bodies. We note the Kingman findings that a fundamental shift in approach is needed to ensure that the revised Stewardship Code more clearly differentiates excellence in stewardship. We would encourage a review of whether auditor selection could form part of this shift, which would then uphold, rather than subvert, shareholder accountability.

With the forthcoming Kingman reforms, it is particularly important to ensure that the remedies put forward by the CMA are properly co-ordinated with Kingman, and we welcome the CMA's acknowledgement of the importance of this.

Overall, we are currently unclear on the benefits of the proposed remedy for additional regulatory scrutiny of Audit Committees and we do not believe that the increased costs and practical challenges of the proposed mandatory joint audit remedy are sufficiently outweighed by any benefits from increased audit quality and/or competition within the market.

## **Remedy 1: Regulatory scrutiny of Audit Committees**

We believe that as independent bodies with relevant experience and knowledge of both the sector and the company in which they operate, Audit Committees work diligently to ensure the interests of shareholders are properly protected. This has been a prominent feature of UK Corporate Governance since the original Combined Code and is something we continue to support.

Audit quality is of paramount importance to the Audit Committee, both in terms of review and selection of auditor during tendering processes and also during ongoing audit monitoring.

Overall, it is unclear how additional regulatory oversight would add any significant benefits to audit quality compared to that of an experienced audit committee with knowledge and understanding of the business.

In addition, insurers including Aviva are already highly regulated by the PRA and the FCA, and there are clear lines of communication between external auditors and regulators. It is unclear in the circumstances that additional regulatory scrutiny would lead to any further improvements in the quality of audits.

## **Remedy 2: Mandatory joint audit**

We do not believe that the increased costs and practical challenges of this proposed remedy would be sufficiently offset by any benefits from increased audit quality, or that this remedy would increase competition in the market.

As the CMA acknowledges, the extra cost of joint audit is likely to be significant. We also believe managing joint auditors is likely to increase complexity for preparers of accounts and could increase the time taken to finalise audits. For example, resolution of any disagreements may be more difficult and / or time consuming for all parties.

For large, complex insurance groups such as Aviva, one of the primary selection considerations is whether tendering audit firms have sufficient insurance sectoral expertise and knowledge to carry out the audit and provide appropriate independent challenge, particularly in relation to actuarial expertise across both life and general insurance. These skills are currently mainly focussed in the big 4 firms and therefore challenger firms may not have the skills, resources or reach necessary to be considered.

If under the joint audit remedy there was a requirement for one of the joint auditors to be a challenger firm, we are also concerned whether the challenger firms currently have the expertise to provide challenge to a Big 4 firm (which may have more relevant experience).

Any requirement for mandatory joint audit may mean that in practice large insurers like Aviva need to use two Big 4 firms. We believe this would have the consequence of restricting choice for audit services and is also likely to reduce competition in the advisory market where a Big 4 firm is the best option for a global advisory engagement and the joint auditors are comprised of two Big 4 firms.

We also believe that in the event that one of the joint auditors was required to be a challenger firm, the proposed remedy would not increase competition (and could reduce it) in the market for large insurers such as Aviva, as whilst the demand for audit firms would increase, there would likely only be a very limited number of challenger firms to select from in addition to the Big 4.

Finally, there are a number of practical challenges that would need to be resolved before this remedy could be implemented, particularly in relation to the division of responsibilities (including

significant audit judgements) and communication between the joint audit firms, to ensure that any risk arising from gaps in coverage and/or duplication of work is appropriately mitigated.

**ENDS**