

**LLOYDS
BANKING
GROUP**



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By email: statutoryauditmarket@cma.gov.uk

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Dear Sirs

Statutory Audit Market Study – Update paper

Lloyds Banking Group welcomes the opportunity to comment on the Competition and Markets Authority's proposed remedies following their audit market study.

Lloyds Banking Group ('Lloyds') is a UK financial services provider with around 27 million customers. Our main business activities are retail and commercial banking, general insurance and long-term savings. Lloyds' shares are quoted on the London and New York stock exchanges and we are one of the largest companies in the FTSE 100 index.

Firstly, to reiterate a general point, notwithstanding the acknowledged need to address issues of audit quality and public confidence in Business. The UK Financial Services sector, in which Statutory Audit plays a key and core role, and UK Corporate Governance are both regarded around the world as best practice. This significant generation of economic and reputational value for the country should not be compromised by any changes in either market structure or governance. There are at least four current relevant reviews ongoing, each of which report back into the BEIS Secretary of State, and ultimately there should only be a single, holistic and consistent set of outcomes that are focused on common objectives. Taken together this could be an opportunity to create a new world class platform for corporate governance in the UK, enhancing the current competitive edge.

Secondly to note that all the reviews including the CMA study note the existence of the audit expectation gap, covered in Appendix C. The purpose and scope of Audit needs to be considered and addressed, both in terms of awareness and substance, and is likely best achieved through the BEIS sponsored Brydon review. Although this response is not focused on Appendix C questions, two areas of additional coverage may help both reduce the gap and enhance quality of outcomes. These would be to include in scope both forward looking

financial statements, primarily the viability statement, and the broader narrative in the Annual Report. The latter could more effectively integrate opinions on strategy, business model, risks, non-financial metrics reporting and viability, thus enabling evidence based opinions on possible outcomes while also moving beyond a series of backward looking binary Audit opinions.

We have recent experience of having a significantly restricted choice of auditor and are supportive of any measures likely to improve choice within the audit market and reinforce the resilience of the sector. However, we do not believe that the proposed remedies will effectively address this. The joint audit and market share cap proposals will not increase choice for the largest companies and may possibly further limit choice. The mid-tier firms lack the expertise and scale to contribute significantly to the joint audit of a large group, particularly if that group is involved in a regulated industry. Without significant investment it is difficult to envisage this situation changing and it is unclear whether the mid-tier firms will be sufficiently incentivised to do this. Should the CMA decide to proceed and introduce these measures, careful consideration will be needed to avoid compromising audit quality.

Similarly, whilst we are supportive of measures to improve audit quality, we do not believe that the study demonstrates a linkage between the lack of choice of auditor and the quality of audits. We are also concerned that some of the CMA's proposals, such as the potential break-up of the UK audit firms limiting the availability of in-house speciality, may have the effect of reducing quality. We believe that audits are generally of satisfactory quality and that audit committees are providing appropriate oversight. As we commented in our previous response, we think that quality is best addressed by better use of effective regulatory review.

In summary, I am afraid that we do not believe that the proposed measures will result in a significant increase in auditor choice or audit quality; in addition, they are likely to introduce significant additional costs for both companies and the audit firms. We have previously noted that audit is a global market and we would encourage the CMA and those charged with implementation of the remedies to consider the position of both UK companies and accounting firms to ensure that that they are not disadvantaged compared to their overseas competitors.

Yours sincerely

Simon Henry
Audit Committee Chair