

21 January 2019

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

Via email: statutoryauditmarket@cma.gov.uk

Dear Sir/Madam

Submission on Statutory Audit Services Market Study – Update Paper

Thank you for the opportunity to comment on the Update Paper (“the paper”) on the statutory audit market in the United Kingdom. The paper contains significant proposals that may have far-reaching consequences for the statutory audit market in the UK and beyond. We appreciate the Competition and Markets Authority’s (CMA) efforts to consider the extra-territorial impacts of the proposals.

Below are our high-level comments in response to the paper, we have engaged with our members in Australia and New Zealand and the Association of Chartered Certified Accountants, our strategic alliance partner to consider the proposals.

Chartered Accountants Australia and New Zealand (CA ANZ) has always strongly advocated that audit quality is paramount for the health of global financial markets and we agree that audits need to serve the wider economy as effectively as possible. We also strongly believe that auditors are only one stakeholder within those markets and that regulatory responses need to be weighed carefully and undertaken with a holistic view.

We agree that, in addition to the market issues identified in the paper, there is a fundamental expectation gap issue in the audit market. This is a vital context for any reforms and responses formulated to improve audit quality and the forthcoming Future of Audit Inquiry is an important opportunity to address questions surrounding the expectation gap.

With respect to the remedies proposed overall, we believe further examination and gathering enough empirical evidence on which to base their design is critical. The remedies under consideration have considerable potential for unintended consequences including possible extra-territorial impacts and negative impacts on audit quality. We recommend comprehensive pre and post implementation review of potential impacts with ample scope for rolling back

remedies if adverse impacts on audit quality are demonstrated on implementation.

In relation to greater regulatory scrutiny of audit committees and their role in auditor appointment and management, we are supportive of measures to strengthen the role of audit committees, their connection to shareholders and how they are held accountable. It is however difficult to envisage any independent regulatory body being able to duplicate the knowledge and understanding of the business that audit committee members bring to the judgements they make in their roles. Therefore, we believe it would be detrimental to audit quality to adopt any remedies which could result in the weakening or second guessing of the core governance strengths and deliberation of the audit committee and its members.

Thank you again for the opportunity to provide our views, we would be eager to engage further if there is any way we can help with the CMA's efforts.

The appendix provides information about CA ANZ. If you have any questions about our submission, please contact Amir Ghandar; Leader, Reporting and Assurance at

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Yours sincerely

Amir Ghandar CA
Leader, Reporting and Assurance

Simon Grant FCA
Group Executive, Advocacy and Professional Standing

Appendix

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 121,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation professional accountants across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.