

38 Degrees: Comment on update paper

Comment on the Competition and Markets Authority's statutory audit market study: Update paper 18 December 2018

Summary of individual responses from 78,040 members of the public collected by 38 Degrees

Executive summary

One year on from the Collapse of Carillion, public appetite for tighter regulation of the auditing industry is high.

Since the Competition and Markets Authority first launched an investigation into competition within the auditing industry, 38 Degrees has sought to make sure the views of the general public and small businesses are taken into account.¹ Recent news reports suggest a small number of big accounting firms are trying to dominate the debate. It is hoped that this submission will make sure those whose livelihoods, businesses, and public services are affected when auditing goes wrong will be heard by the CMA, big business and the Government.

78,040 members of the public took part in an online survey, giving their opinion on the reforms proposed by the CMA in its update paper on statutory audit market. 12,837 of this number own businesses.

The results indicate that :

There is strong public support for the proposals put forward by the CMA but appetite for more wide reaching reforms

- 97% believe the government should intervene to prevent collapses like Carillion from happening again
- 95% support the creation of an independent watchdog to scrutinise companies' choice of auditor but 43% would prefer a public body to conduct audits
- 87% support new laws to require big businesses to hire at least two audit companies to carry out audits but 34% would prefer a cap on how many audits one company can do
- 74% believe auditing companies should be stopped from providing other services to their clients
- 62% support breaking up the Big Four firms - Deloitte, PwC, EY and KPMG
- 81% of business owners surveyed (or 10,340) said they would be willing to pay a bit more for a system that makes sure all companies are audited properly

¹ 38 Degrees: Comment on statutory audit market study:
https://files.38degrees.org.uk/items/files/000/002/017/original/38Degrees_Comment_on_statutory_audit_market_%281%29.pdf

Key Findings

Survey takers were asked the following questions:

Do you think the government should do more to prevent the collapse of companies like Carillion?

In response:

- **97% answered Yes**, 2% said No, while 1% answered “I don’t know”

Right now companies can choose who signs off their accounts, and checks everything's in order. Do you think that an independent watchdog should scrutinise which auditor they choose to make sure it's for the right reasons e.g. not the easiest or cheapest option?

This question sought to understand public opinion as it relates to one of the proposals under consideration by the CMA. Specifically, “regulatory scrutiny of auditor appointment and management”. In its update paper, the CMA proposes “close scrutiny of audit appointment and management to make sure those appointing auditors are held to account and independent enough to choose the most challenging audit firm, rather than – for example – the cheapest.”

In response:

- **95% of survey-takers support the idea of an independent watchdog.**
- 43% agree with the idea but would go further still, saying it would be better if companies were audited by a public body instead
- 3% disagree with the idea, while 2% were unsure

Right now only four companies audit 97% of Britain's big businesses. Do you think there should be new rules to make big businesses hire at least two audit companies?

This question sought to understand public opinion as it relates to one of the proposals under consideration by the CMA. Specifically, “that audits of the UK's biggest companies (FTSE 350) should be carried out by at least two firms, at least one of which would be from outside the Big Four.”

In response:

- **87% of survey takers support this idea.**
- 34% agree with the idea, but would go further still, saying there should be a cap on how many audits one company can do
- 5% opposed the idea, while 8% were unsure

Right now auditing companies are allowed to provide other services for their clients, like tax advice. Do you think this should be stopped?

This question sought to understand public opinion as it relates to one of the proposals under consideration by the CMA. Specifically, “A split between audit and advisory businesses” to allow auditors to “focus exclusively on audit – not on also selling consulting services.”

In response:

- **74% of survey takers said they think this should be stopped**
- 10% disagreed, while 16% were unsure

The CMA has suggested two ways this could work.

Option 1: Audit companies should be stopped from providing any other services and only provide audits.

Option 2: Audit companies should still be allowed to provide other services, like tax advice, but should keep them completely separate e.g. they would have different people in charge of delivering the services and be paid separately

This question sought to understand public opinion as it relates to two different methods under consideration by the CMA of proposing to split audit and advisory businesses. These include a “structural break-up” or a solution whereby “audit and non-audit businesses to be split into separate operating entities.”

In response:

- **72% were in favour of Option 1**
- 24% were in favour of Option 2
- 4% were unsure

The CMA has stopped short of saying the biggest four auditing companies - Deloitte, EY, KPMG and PwC - should be broken up into smaller firms. Do you think they should?

This question sought to understand public opinion as it relates to the suggestion to break up the largest four auditing firms. MPs including Rachel Reeves, Vince Cable, and Charlie Elphicke have all suggested that PwC, KPMG, EY and Deloitte have become too powerful.²

In response:

- **62% of those surveyed would support breaking up the biggest four auditing companies**
- 8% would oppose this idea, while 30% said they were not sure

Some have said that the CMA’s plans will cost businesses more. Do you own your own business and would you be happy to pay a bit more for a system that makes sure all companies get audited properly?

This question sought to understand the opinion of business owners. 18% of those surveyed identified themselves as business owners, or a total of 12,837 people.

Of those people:

- **81% said they would be happy to pay a bit more**
- 19% said they would be opposed to this

² <http://www.cityam.com/264093/pressure-mounts-cma-break-up-accountancys-big-four>

Conclusion

The survey responses from 78,040 members of the public suggest strong support for several reforms under consideration by the CMA. These include:

- A “structural break up” between audit and advisory businesses
- Regulatory scrutiny of auditor appointment and management
- Joint audits, whereby multiple auditing companies carry out audits

This includes strong support from business owners.

Survey results also indicate that there is appetite for stronger reforms including:

- Breaking up the Big Four firms into smaller firms.
- Creating a public auditor.
- Setting market caps for the largest firms.

Given, the level of support from the public and business owners, the CMA should consider recommending these reforms to the Government.

About 38 Degrees

38 Degrees is a politically independent campaigning organisation which is funded by thousands of small donations.

There are two million of us who campaign across the country, online and offline. There are thousands of us in each and every constituency and we come from all backgrounds, ages and political outlooks.

In addition to the survey on financial auditing, more than 55,000 people have signed a petition to the Right Hon. Greg Clark, calling on him to introduce independent checks on the finances of private companies that are awarded contracts to run public services, to avoid another Carillion-style collapse.³

You can read 38 Degrees’ privacy policy [here](#).

³ 38 Degrees: Petition to Greg Clark:
<https://speakout.38degrees.org.uk/campaigns/4379>