



Association
of International
Certified Professional
Accountants®

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Statutory audit market study
Competition and Markets Authority
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**Statutory audit services market study
Update paper 18 December 2018**

The Association of International Certified Professional Accountants (the Association) appreciates the opportunity to comment on the Competition and Markets Authority's Statutory audit services market study, Update paper 18 December 2018 (the study).

The Association is the largest professional accountancy body in the world, representing 667,000 chartered global management accountants (CGMA), associates (ACMA) and fellows (FCMA) of the Chartered Institute of Management Accountants (CIMA), United States certified public accountants (U.S. CPA), and accounting and finance professionals, supporting them from our offices and centers across the U.K. and in 24 other countries around the world. We are dedicated to driving a dynamic accounting profession ready to meet the demands of a constantly changing world. We advance the quality of CGMAs, ACMAs, FCMAs, U.S. CPAs and accounting and finance professionals globally. Our members represent many areas of practice, including business and industry, public practice, government, education, and consulting. The Association includes CIMA and the American Institute of Certified Public Accountants (AICPA).

CIMA is the world's leading and largest professional body of management accountants, with more than 150,000 members and students operating in more than 180 countries, working at the heart of business. CIMA members, which include CGMAs, ACMAs, and FCMAs, and students work in industry, commerce, the public sector and not-for-profit organizations. CIMA sponsors leading-edge research, constantly updating the qualifications, professional experience

requirements and continuing professional development to ensure they remain relevant and provide highly qualified financially-trained business professionals and leaders.

The AICPA sets professional and ethical standards for the U.S. accounting profession, including auditing standards for private companies, nonprofit organizations, and federal, state and local governments. It develops and scores the Uniform CPA Examination, and offers specialty credentials for professionals who concentrate on forensic accounting; business valuation; information management and technology assurance, and personal financial planning. AICPA members represent many areas of practice, including business and industry, public practice, government, education and consulting.

We believe that independent audits are vital to ensuring that information can be trusted and provide an essential service to shareholders and the wider public good. A well-functioning market must have high-quality audits and we agree with the CMA that competition and regulation should work together so that audit firms and individual auditors have the strongest possible incentives to deliver quality. It is in this spirit that we suggest that the following principles should be kept top of mind as possible remedies are considered.

1. Innovation and Technology

The pace of change that the audit profession, and business in general, is facing is the fastest in history and it will likely accelerate in coming years. Innovation in business processes and disruption caused by advances in technology will prove challenging for even the best audit firms and their clients.

Potential remedies should therefore possess sufficient flexibility to ensure they can withstand future challenges without requiring constant legislative amendments. We believe that audit firms and their clients require as stable an operating and regulatory environment as possible for the desired impact of potential remedies to achieve maximum effect.

Further, the regulatory environment should encourage innovation and more effective use of technology throughout the corporate reporting supply chain: from transactional recording and financial reporting by entities; to the audit firms' audit processes; and the overarching oversight and regulatory mechanisms.

2. Improving and Contributing to Consistent Global Regulation

Unfortunately, the UK has not been the only jurisdiction impacted by a recent corporate failure or scandal. The United States, Japan, and South Africa are among a list of such jurisdictions.

If there is a silver lining to these events, it is that they motivate regulatory and legislative authorities to action in the pursuit of improved audit quality and oversight. As jurisdictions around the world respond to events within their own jurisdiction, it is important that they take advantage of learnings from other jurisdictions that have undertaken similarly motivated reforms.

By learning and building on other jurisdictions' precedents and experiences, from the Sarbanes-Oxley Act and the establishment of the Public Company Accounting Oversight Board in the United States in 2002 to the recent measures instituted by Japan's Financial Services Agency post Toshiba, regulatory and legislative authorities can improve their own domestic policies while simultaneously contributing to the creation of a more consistent and cohesive global regulatory environment.

3. Governance

Improving governance processes is a laudable ambition and one that we support.

When weighing potential remedies, we suggest that consideration should be given to the abilities and skill sets of directors, management, and audit professionals. Remedies should seek to build on those abilities, enhance those skill sets, and increase individual accountability.

However, they should not curtail the ability of those individuals to exercise their good and sound judgement for that may lead to unintended consequences that run counter to the objectives set out in the study.

4. Balance

The study proposes remedies to improve competition among audit firms. Over time, these remedies may allow audit clients to have a larger pool of qualified audit firms from which to select their auditors.

However, while the remedies may create more competition and choice, they also may curtail the ability of audit clients to exercise that newfound choice by moving the auditor selection process to the domain of the regulatory authorities.

While the reasons that lead to these remedies are explained within the study, we believe that safeguards should be implemented to ensure an appropriate balance exists so that the regulator's observance of due process in the selection of an auditor does not overstep and manifest into the confiscation of the auditor selection process from the audit client.

5. Attracting and Retaining Talent

Attracting and retaining qualified and skilled individuals in the audit profession is critical to the success of the study's remedies and is in the public interest.

Individuals are drawn to the audit profession because of the wide range of opportunities it offers. For example, it is not unusual for audit professionals to transfer to different areas of their firm to provide other highly important professional services (e.g., taxation, valuation), improve their skills or enhance their career prospects. Remedies that curtail these opportunities or that may force an audit professional to change audit firms in order to continue to serve an audit client, while leaving behind career growth opportunities, may affect the individual's ability to attain their long-term career goals or conflict with other personal life aspirations. Therefore, the unintended consequence of some of the proposed remedies may be that fewer individuals will join, or remain, in the audit profession.

6. Cost-Benefit

The study mentions that audit fees will increase; possibly significantly.

We believe that when new policies are considered, an important part of the process is to weigh the increased cost to all parties, whether they be the regulatory authorities, shareholders, audit clients, audit firms, audit professionals, or the economy as a whole, in relation to the benefit that will be derived.

In conclusion, we thank the CMA for this opportunity to comment on the study and we look forward to reviewing future updates on its work.

Sincerely yours,

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