

19 December 2018

Cavendish

a finnCap company

The Statutory Audit Market Study
Competition and Markets Authority
Victoria House
Southampton Row
London
WC1B 4AD

Dear Sirs

I am the Senior Partner of Cavendish Corporate Finance LLP and Executive Deputy Chairman of the finnCap Group plc. My firm offers M&A advisory services.

I am a qualified Chartered Accountant who helped to establish the corporate finance division of Deloitte Haskins & Sells in 1985, and was one of the first Chartered Accountants to work on a contingent transaction in the mergers and acquisitions sector.

I served as Chairman of the Faculty of The Institute of Chartered Accountants in England and Wales from 2000-2004. The Faculty grew during my Chairmanship from 3,000 to some 5,000 members, making it the largest representative body of corporate financiers in the UK.

I also served as a proxy for the President of the ICAEW on the Takeover Panel.

I am writing in a personal capacity and not that of my partners or employers.

I am concentrating my remarks on the non-audit services (NAS) mentioned in the report and the conflicts they bring.

My concerns relate to the integrity of the audit of a company where the auditors are engaged in negotiations either for and on behalf of that company, or against that company in adversarial conditions.

This is perhaps best explained by way of an example.

If company A employs audit firm X to act as its M&A adviser, audit firm X will seek to contact a large range of potential purchasers. Some of these potential purchasers will include clients of its audit practice.

If firm X identifies company B as an appropriate potential purchaser and that company is also audited by its partners, can it properly manage conflicts in those circumstances?

Will it seek to access company B through its audit partners?

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Will it be as rigorous in its negotiations against its own audit client as opposed to another purchaser?

Will it tell company A that it is not in a position to have adversarial negotiations against company B because it is the auditor?

So far the report has only looked at NAS in terms of restricting percentage of income. It might also consider the appropriateness of an audit firm engaging in adversarial negotiations with companies which might include its own audit clients, or offering contingent type services to its own audit clients, which might encourage the auditor to recommend transactions as they will clearly lead to substantial fees.

Yours faithfully

Lord Leigh of Hurley
Senior Partner