

## My Response to your Consultation Framework

### ***A Issues***

I very much support your conclusions on audit quality and the conclusions around the things that are driving these. I feel that you have robustly set out the arguments and identified some key issues. I also agree on resilience issues and that having mainly Four Big players in the market is too risky

### ***B Remedies***

I believe that the remedies set out should apply to all FTSE 350 companies at least initially and then extended perhaps to all other public companies once it is established. In terms of large privately owned companies (such as J Lewis) I believe that they should have the option to do this and where they choose not to their audit committee should set out their reasons to the shareholders. There should be a cut off at turnover level as it would be unreasonable to expect very small companies to do this

**Regulatory Scrutiny of Audit Committees** - The duties of the Audit Committees should be set out in line with Brian Dive's Accountable Manager Framework which would be both very clear and measurable. This could be done for all elements of the role of the AC. I would then recommend that they have to include a section on this in the annual report to shareholders and also to submit more detailed feedback to the regulators office. I would also have some independent process auditors in the office who do random deep dive audits. I would also make the AC members individually liable for compliance with the requirements with an appropriate sanction system which would mean that they would hold each other to account as well.

**Mandatory Joint Audit** - I would exclude small companies based on turnover from the joint audit at an appropriate level. I would have some rules around this so that it has to be a competitor partner (not another big four under any circumstances) and that they cannot do more than 3 as partners together during any one year to avoid them becoming cosy. They should have open access to all of each other's data and interview notes etc. There is merit in the partners being appointed at different times as this might help with avoiding collusion. I would mandate a minimum split say 2/3 and 1/3 and then the ACs can vary upwards from this. I would suggest that liability is related to the share of the audit fees. I would apply this across the 350.

**Market Share Cap:-** FTSE100s should not be available to auditors until they have met their market cap on the other 250 and others. This would ensure that the smaller companies get sufficient attention from the Big Four (and the contenders)

**Additional Measures to Reduce Barriers** - I would suggest that the tender process is a standard process set by the Regulator and any costs for additional requirements on tendering should be met by the Companies asking for them. I like the idea of a fund for perhaps smaller companies to draw on for standard costs. All companies should be required to include a cost of tender with their bid and this should be submitted to the Regulator who should monitor that excessive amounts are not being spent. Again these should be auditable

**Technology** - While it is not reasonable to expect the Big Four to share their proprietary technology I do believe that all should have access to a standard system. This could be paid for by the Big Four initially, run by the Regulator and funded through a levy on audit fees for all of say 1%. Where the Big Four innovate and develop new platforms then this should be taken into account every few years to update the general system

**Market Resilience** - I believe this is not an issue with the Big Four unless a catastrophic event happens. The measures to bring in new players should provide this. I don't believe that you would want to prevent movement of auditors between firms - though there ought to be the same clause in audit contracts as the Big Four have with their clients in consultancy engagements that the client may not approach or hire any of the consultants without first discussing with the principals. You could also put a cap on movement within year. I also believe you could manage the value of the organisations around clients and people - this is about making the Big Four work a bit harder at leadership and management (and perhaps treating their people a little better!) I believe that the Regulator and Audit firms should have their duties set out in the same way as the ACs.

**Full Structural or Operational Split** - my instinct would be to go for the full split which is borne out of my distrust of the Big Four who spend a lot of resources on getting round the rules (see their tax practices!). I think you could make either work. The Big Four can give some reasonable data on the amount of specialist advice they seek on average and this could be provided to the Regulator. In guidance for Tenders all companies should include a fixed amount for this advice (more should go back to the AC for approval and funding) which would be set at a published rate (say £1500 per day) and should be available to ALL auditors not just the inhouse ones. I would set up a cross charging system between the companies and have separate published accounts for both. Invoices would need to be detailed as to what advice was and the cost. Again invoices would also need to be filed with the Regulator and perhaps a spot check on reasonableness. Of course if the Big Four put experienced staff on the audits rather than grad entrants they may not need quite so much specialist advice! A bit of experience in a business would go a long way to being able to make constructive and informed challenge. This would address the network and international elements. I don't believe either of these options are unachievable and with a robust auditable governance structure should be very workable. You could split them into three - consultancy, audit and support services and both could buy the support services at an agreed cost. That would keep the cost down. Also if you design the

orgs along Accountable Manager lines you reduce the management overhead I reckon I could do it at no extra admin cost and with all the training and people management services that they could want.

**Peer Review** Peer review should be appointed by the Regulator. You could use something like the Business Excellence Model style audit where you put together a team drawn from across the industry with a facilitator and a structure for review. Dead easy