Dear Sirs,

I write in response to your recent update paper.

I am writing in an individual capacity and am happy to be identified in any published responses.

Over the past 10 years, I have chaired the audit committees of four listed companies [ ] and of two public sector bodies, (HMRC and the London Development Agency). I have also chaired a listed company [redacted]. So, I have extensive experience as a participant and observer in the statutory audit market.

Issues

I do not agree with the basic premise that there is a quality issue in audit. The paper makes the assertion that 'audits too often fall short', without offering evidence. The collapse recently of a couple of high profile companies does not prove that there is a systematic issue that needs to be addressed. Nor is it yet proven that the audits of such companies were not carried out in an appropriate manner. Companies fail from time to time; that is a feature of the capitalist system. And of course, the primary responsibility lies with the Board and management.

Nor is the assertion proven that audit committees are not doing their job properly in the appointment and monitoring of performance of auditors. In my experience, audit committees take their role very seriously and effectively and are well staffed with appropriate expertise and management support. The landscape has changed substantially over the past 10 years or so with the additional responsibilities given to audit committees. The suggestion that the involvement of a regulator in the audit appointment process would add to quality is not credible and the implication that considerations of cultural fit are not an important element in appointment decisions shows a lack of understanding of how an effective audit is carried out. Without the right working relationship and spirit of cooperation audit quality can readily be undermined, not the other way around.

The big issue here, which is only given passing reference, is not competition or a perceived lack of it but Sir Don Bridon's review of what is known as the expectation gap between what auditors are contracted to do and what the public believe is their role. This is much more fruitful ground and any recommendations to expand their role and give them greater reporting powers eg in relation to a regulator as is the case with financial services are well worth waiting for before any of the remedies suggested in this paper are considered further.

Not covered in your paper is the role of Internal Audit. As a non-executive it is to this function that I turn to primarily for comfort on the financial controls and overall risk management of the business. Their role deserves much greater prominence in external reporting as is the case in the public sector. In terms of helping to prevent corporate failures I ascribe more importance to this function than to external audit.

In terms of choice, as an audit chair I would of course prefer greater choice and have recently involved next tier firms in tenders where their expertise is credible. I observe that, in relation to companies not requiring the extensive international capabilities needed for the most international of businesses, the next tier are gradually building their capability, reputation and through that success. I support practical ways of supporting this growth in capability but oppose too many market interventions when the market seems to be operating effectively, albeit gradually, in this space. I don't regard the proposed remedies - particularly on separate regulation of audit committees and joint audits - as achieving that objective.

One area not explored is the possibility of creating a new competitor to the Big Four. This would require substantial financial investment which in turn would require the relaxation of rules on the ownership of audit firms.

Remedy - regulation of audit committees

This is unnecessary for the reasons given above. There is no demonstrable failure of AC's to perform effectively including in the appointment of auditors. The AC forms part of an integrated governance system revolving around the unitary board. Holding AC's 'to account' separately cuts across this system. The FRC, or a successor with increased powers as suggested in the Kingman report, can already hold the board and any of its committees to account.

In relation to auditor appointment I recently conducted an audit tender efficiently in just three weeks and previously for a large international company in 5 weeks, in both cases with experienced AC members and good management support. I cannot see what a regulator's involvement would have added to the process in terms of rigour or expertise and it would likely have slowed the process down.

Joint Auditors

When I originally joined the profession, joint audits were not unusual. However, over the years they have disappeared for the obvious reasons of efficiency and accountability. I understand that the only major country where they are mandated is France and that the evidence of their effect is mixed. I also understand that Denmark experimented with this and have dropped the requirement.

I have not of course experienced a joint audit but would be concerned about how accountability would work - with a single auditor there is no doubt where the ultimate responsibility lies i.e with the signing partner; with the capabilities of the non Big Four firm to match those of their fellow auditor; and with the costs for my business that would result from the inevitable need for liaison between the firms and some duplication of role necessary for each firm to satisfy itself it can rely on the other's work to arrive at its opinion.

Market Share Cap

In general, there are usually problems with interference in a market to create share limits. It seems to me to be the opposite of the intended result of this review to create more competition.

Other barriers

I can see merit in investigating whether any of these factors could be improved or barriers removed. The key question for me though is how the next tier can develop the expertise, domain knowledge, strength in depth and consistency of international networks to be truly competitive on the more challenging audits of heavily international companies.

Structural splits

I don't subscribe to the view that the culture of non-audit has undermined the quality of audit. My view is that all the Big Four firms have audit at the core of their brands and any shortfall in quality has a disproportionate effect on their business standing. Doing non-audit services on audit clients has already been in practice eliminated and a statutory total prohibition to eliminate any doubt over conflicts, perceived or otherwise, would be sensible.

Having the supporting advisory services such as pensions, tax and domain relevant expertise, available within the one firm in my view enhances quality not the reverse. I am doubtful that a formal separation of the practices within one firm would add to quality but can see merit in exploring the practical implications. I see the analogy to banking but it is too soon to determine whether this has achieved its goals.

Peer reviews

These already take place within the audit firm with an independent reviewing partner. Requiring him/her to report separately to the AC could be considered. Getting a second firm to do this seems unnecessary and will introduce additional cost.

Yours sincerely,

Ian Barlow