

**Private and Confidential**

Competition and Markets Authority  
Victoria House  
37 Southampton Row  
London  
WC1B 4AD

21 January 2019

Dear Sirs

**Statutory Audit Services Market Study**

We are the independent non-executives (INEs) of BDO LLP appointed under the Audit Firm Governance Code.

Our responsibilities are set out in the code and we have reported on how we have fulfilled them in BDO's Transparency Report.

We have the following concerns which we wish to raise in relation to your recent paper.

First, as you yourselves note, a number of the largest FTSE 100 companies (and possibly some more specialised companies in the FTSE 250) would be difficult for a challenger firm, such as BDO, to audit. It would be likely that we, as INEs, would recommend that the firm did not seek to accept appointment either as a single auditor or a joint auditor to such companies. If this view were replicated across other challenger firms then it would be some considerable time (until challenger firms built up their expertise) before such firms became auditors of this segment of the FTSE 350. Accordingly, either these companies would continue with sole auditors (and thus presumably not incur the additional charges arising from joint audits payable by the rest of the market-see below) or would have joint audits from two members of the big 4-further restricting choice. It might be possible to have shared audits for some of the companies as a transition measure, but this is not something that you, or we, favour as a solution to the current lack of choice in the audit market.

Second, we note from the paper that costs for joint audits would likely increase: by anything up to 50% (4.57 of your paper). This would translate into a requirement for significant extra staff-particularly at the more senior levels where the bulk of reviewing work takes place. It is unclear how this is to be satisfied as experienced auditors appear to be in short supply. Whilst one would expect this to be fixed over the longer term through recruitment, retention and training, it would seem to us this will take considerable time.

Third, as more fully explained in BDO's submission, instituting joint audits across the FTSE 350 has particular challenges, especially in the short term. Leaving aside cost increases, such a significant change may have unintended effects. Accordingly, should this remain the CMA's preferred option, we urge caution in the way this may be, and the speed with which it is, mandated.

Fourth, your analysis proceeds broadly on the basis that all challenger firms will be interested in performing audits (either jointly or shared) across all the FTSE 350 and that any capacity or capability issues will, in time, be resolved. This is not necessarily true. Some challenger firms may take the view that they wish to concentrate their efforts on the FTSE 250 and smaller companies and not propose for audits in the FTSE 100. Accordingly mandatory joint audits across the FTSE 100 may not achieve the objectives set out in your paper.

For the reasons set out above we support a wider range of measures which could include caps (and could also include joint audits in appropriate circumstances) overseen by a more powerful regulator as envisaged by Sir John Kingman.

BDO's response sets out in more detail their comments and proposals; we have seen it and agree with its conclusions.

We would be happy to meet with you to discuss if you would find that helpful.

Yours faithfully,



*RP* Simon Figgis

*RP* Russell King

*RP* Jeff Randall

Independent non-executives, BDO LLP