

The Rt. Hon. Greg Clark MP
Secretary of State
Department of Business, Energy and
Industrial Strategy
1 Victoria Street
London
SW1H 0ET

From: The Rt. Hon. Lord Tyrie
Chairman

18 April 2019

Dear Greg,

CMA's final report for statutory audit market study

The CMA has today published its final report for its market study into the statutory audit market. I am writing to you to draw your attention to our findings and recommendations and suggested next steps.

Overview of our recommendations

We have made four recommendations to you to address the issues we have identified.

1. Robust regulatory oversight of the committees that run the selection process for audited companies, and oversee the audit, to make them more accountable and ensure that they prioritise quality.
2. Mandatory joint audit, to increase the capacity of challenger firms, to increase choice in the market and thereby drive up audit quality. There should be initial limited exceptions to the requirement, based on criteria set by the regulator – mainly the largest and most complex companies. Any company choosing a sole challenger auditor should also be exempt. Audits of exempt companies may be subject to rigorous, real-time peer reviews commissioned by and reporting to the regulator.
3. An operational split between the Big Four's audit and non-audit businesses, to ensure maximum focus on audit quality.
4. A five-year review of progress by the regulator.

There are some other matters on which we are not making formal recommendations but which merit further consideration. These are also set out in sections four to eight of the report.

Suggested next steps

The recommendations are designed to enable you to act without delay, consistent with your letter of 9 October 2018 requesting that we ‘move swiftly’, and in tandem with legislation required to implement the Kingman review. Progress need not await the outcome of the Brydon review, important though his work will be for the long-term future of the industry.

Following completion of our market study, we would welcome a response to our findings and recommendations from the Government within 90 days.¹ We normally publish such responses on our website.

I would be happy to discuss the CMA’s work further with you.

Andrew Tyrie

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¹ The 90 day response time to market studies is a Government commitment made in the White Paper, [Productivity and Enterprise: a world class competition regime](#), Department of Trade and Industry, 2001.