

Rachel Reeves MP  
Chair of the Business, Energy and Industrial  
Strategy Select Committee  
House of Commons  
London  
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From: The Rt. Hon. Lord Tyrie  
Chairman

18 April 2019



### **CMA's response to BEIS Select Committee's report 'The Future of Audit'**

The Committee's report on The Future of Audit, published on 2 April, is welcome. Improvements in the audit sector are much needed. The CMA strongly supports the Committee's aim to 'ensure that what emerges from the reviews is a coherent framework for auditing that regains the confidence of investors and the public'.<sup>1</sup>

Sections four to eight of the CMA's final report addresses the Committee's recommendations concerning: the split of audit from non-audit (the subject of two recommendations); the potential for independent appointment of auditors; increasing the frequency of auditor rotations; introducing a cooling-off period; joint audit; a segmented market share cap; and proposals to mitigate the consequences of an audit market failure.

The report also supports consideration of other proposals put forward by the Committee. We agree with your view that the delivery gap is far wider than the expectations gap and must be fixed as soon as possible.<sup>2</sup> We note your proposals with respect to the audit product including ensuring that the detection of material fraud is, and continues to be, a priority within an audit; audit is forward-looking; the FRC makes graduated findings mandatory; and the scope of the audit is extended to cover the entire annual report. We also note the Committee's proposals to increase investor

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<sup>1</sup> BEIS Select Committee (2 April 2019), [The Future of Audit](#), paragraph 15.

<sup>2</sup> *Ibid*, paragraph 56.

engagement. We think these proposals would work well with our recommendation for greater regulation of Audit Committees. Similarly, we support further consideration of your Committee's proposals in relation to capital maintenance, audit fees and regulation of audit. We would draw the Committee's attention to our summary report and section one of the final report detailing our support for these issues to be examined further.

Our remedies take the form of recommendations to Government and we have written separately to the Secretary of State seeking a response. We endorse the Committee's conclusion that 'the Government should act without delay, to take a lead and mitigate the risk of further damaging corporate failures and audit embarrassments'.<sup>3</sup>

High quality audits of big companies matter to all of us. Too many audits fail to meet an acceptable standard. This cannot be allowed to continue.

**Andrew Tyrie**

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<sup>3</sup> BEIS Select Committee (2 April 2019), [The Future of Audit](#), paragraph 264.