



**The Hundred Group**  
of Finance Directors

## Investor Relations and Markets Committee

By email: [markt-greenpaper-audit@ec.europa.eu](mailto:markt-greenpaper-audit@ec.europa.eu)

Mr Michel Barnier  
Internal Market and Services Commissioner  
European Commission  
BERL 10/034  
B – 1049 Brussels  
Belgium

8 December 2010

Dear Sir

### **European Commission Green Paper – Audit Policy: Lessons from a Crisis**

We are pleased to submit our comments on the above consultation.

#### **Who we are**

The Hundred Group is a non-political, not-for-profit organisation which represents the finance directors of the UK's largest companies, with membership drawn mainly, but not entirely, from the constituents of the FTSE100 Index. Our aim is to contribute positively to the development of UK and International policy and practice on matters that affect our businesses, including taxation, financial reporting, corporate governance and capital market regulation. Whilst this letter expresses the view of The Hundred Group of Finance Directors as a whole, they are not necessarily those of our individual members or their respective employers.

#### **Our views**

We welcome the Commission's consultation and the opportunity to respond on these issues.

In overview, we are supportive of the current role of the auditors and the value brought to our shareholders through the audit report and through other services rendered to our members. Any changes in regulation that occur as a consequence of this consultation must be to promote and enhance the quality and relevance of audit.

Our responses and opinions are formed from a reflection of an extensive period of recession and financial uncertainty. During this time, however, we note that, contrary to some initial concerns and in the vast majority of cases, corporate governance has not failed.

In our opinion the role of the auditor is a fundamental cornerstone within this Corporate Governance structure. We believe that the right to appoint and evaluate the auditors must be retained by the shareholders as a strong and necessary arm of corporate governance and should not be a matter of public policy. We are deeply concerned with the potential impact of some of the proposals to undermine the relationship between the shareholder, Audit Committee and the auditor and thus weaken this structure. It is important that when

assessing the appropriate response to the crisis that the actual observed deficiencies are addressed. There is no evidence that bad auditing was a route cause of the problem.

We are pleased to note the Commission's intent to ensure that a differentiated and calibrated approach is adapted by any subsequent regulation which is proportionate to the companies involved. While this sentiment has been applied to the need to calibrate a response for small and medium sized companies we would also campaign for a moderate and appropriate response to the financial crisis. Lessons can, and indeed should, be learned. However this must be made in the context of a financial market which has, predominantly, survived the deepest recession of modern times. In our opinion changes and improvements should be addressed, but fundamental restructuring of the strong corporate governance platforms that we have experienced in the UK is not required.

As preparers of the financial statements we believe that it is our duty to communicate with our stakeholders over the key risks and uncertainties within the financial statements. In our communications we include details of our business; our short and long term strategies including financing strategy, as well as key areas of judgement within the financial statements themselves. In turn the auditors should, and do, report on the veracity of our statements. To require auditors to report directly on these areas (rather than on management's own reporting thereon) by providing details of their own risk assessment or detailed commentary on other aspects of the business is a fundamental and inappropriate change to the relationship between the Company's owners (and other stakeholders) and the management.

We believe that the services rendered by the 'Big 4' are of a high quality and that there exists sufficient competition in the market place to drive continuous improvement and breadth of choice to our shareholders. We strongly believe that management must retain the ability to select service providers based on the highest standard of deliverable, competitively priced, including certain circumstances where that service provider is also our auditor. We make this statement whilst recognising the importance of independence between management and auditors and the need to ensure at all times that this is not breached through appropriate safeguards.

We do not feel that the Audit market is unduly concentrated. We are deeply concerned that some of the current proposals including mandatory rotation or retendering, joint audits and third party appointments are impractical and would lead to a significant burden increase for preparers without commensurate greater good either for society or the individual stakeholder or preparer. In addition some of those proposals have the ability to actually reduce audit quality and effectiveness, which could lead to a subsequent loss of confidence in the European Capital market.

We feel that there are, however, constructive improvements that should be further investigated in order to improve the understanding of the role of the auditor and the relationship with stakeholders to reduce the 'expectation gap'

Please feel free to contact me if you wish to discuss our comments on the proposals.

Yours sincerely



**Robin Freestone**

*The Hundred Group – Investor Relations and Markets Committee*

## Appendix 1

### Introduction

#### **Question 1: Do you have general remarks on the approach and purposes of this Green Paper?**

We welcome the consultation by the Commission and the intention to assume leadership at an international level on this debate. In particular we are pleased that the Commission will seek co-operation from its global partners within the Financial Stability Board and the G20.

The themes addressed and debated within the Green Paper are wide ranging and drive deep into questions over corporate governance, the needs of investors and wider stakeholders and the societal benefit of some aspects of these relationships. We represent companies which operate on a truly international platform whilst supporting and believing in the value of our UK and European economic society. We urge the Commission to ensure that any changes in regulation that are recommended as a result of the consultation be reviewed, debated and agreed at an International level.

In addition we note that the recently implemented 8<sup>th</sup> Directive, which emphasises the role of the Audit Committee, has yet to be fully implemented across the European Union. We would endorse a period of reflection to understand the impact of the directive before further changes are implemented or proposed.

We note with interest the Commission's discussion over the 'expectation gap' regarding the role of the auditor. We consider that there should indeed be efforts made to improve the understanding of the role of the auditor and the level of comfort provided by the audit opinion should be further understood.

Investing in corporates and the purchase of equity is not, and should not be represented to be, without risk. There will always be risk and uncertainty over future performance of companies and this should be made clear so that investors and other stakeholders appropriately understand the level of risk involved in their investment.

As an overarching principle we would also warn against any changes to regulation which either lead to uninformative disclosures in an attempt at transparency, or disengaged 'box ticking' in response to regulatory reform. As preparers we are highly concerned with the volume of disclosure requirements that prevail in modern financial statements and the associated risk that we are being required to provide stakeholders with increased volumes of data which serve only to confuse and obscure key messages.

#### **Question 2: Do you believe that there is a need to better set out the societal role of the audit with regard to the veracity of financial statements?**

We believe that there is a need for stakeholders within the financial markets to understand the role of each part of the corporate governance structure, including the role of the audit. This is imperative to ensure that investors and stakeholders have a realistic understanding of the risks and uncertainties involved and make an informed investment decision at all times.

#### **Question 3: Do you believe that the general level of 'audit quality' could be further enhanced?**

As preparers of financial statements our appreciation of 'audit quality' will be limited to our interaction with our respective auditors.

In our experience the quality of audit is strong. We would however note that there is discrepancy within the market. The UK regulator, the Audit Inspection Unit, publishes annual



reports over the quality of audits from the annual inspection process. We note that these results show a difference in quality between audits carried out by 'Big Four' auditors and those of their smaller counterparts.

From our experience of audit tenders we are concerned that some of the smaller audit firms, which the Commission is rightly looking to support, currently do not perform audit work to the same level of quality as their larger competitors. This would cause concern to us and our investors, whose ultimate decision it is as to which firm carries out our audit. Audit reputation is built on quality. We note the Commission's desire to reduce concentration in the large listed company audit market and urge the Commission to ensure that consideration is given to the need for the quality of the audit offering to be maintained. There should not be a move to change the markets at any cost.

We would also emphasise that the quality of audit is, in our opinion, improved by the quality of audit staff. The consideration of 'specialist' audit firms who only carry out audits could likely lead to the long term erosion of audit quality. The variety of work carried out by our auditors, as well as their ability to perform non-audit work for our companies, improves the quality of their audit work by deepening knowledge and enhancing credibility.

### **Role of the Auditor**

#### **Question 4: Do you believe that audits should provide comfort on the financial health of companies? Are audits fit for such a purpose?**

We strongly believe that it is the duty of management, in particular the Directors of the Company, to provide information to investors over the financial health of the companies they are employed by.

The relationship between stakeholders and management is based, appropriately, on the principle of 'trust with verification'. If there is a demand from stakeholders that auditors should provide additional comfort over the financial health of a company this should be first defined and then addressed. Currently a mechanism exists to provide an evaluation of a basic financial health of a company by the auditors performing sufficient appropriate tests in order to conclude that the business is a 'going concern'.

We must, as Directors, provide the appropriate and relevant information to stakeholders so that they can, in turn, make an informed decision regarding their involvement in the company. Neither audit nor the disclosure made by management should be considered as an insurance policy against future corporate failure – but it should allow an investor or other stakeholder to compare their own risk appetite with the performance and position of the company and decide whether or not to enter in to any further relationship with that entity.

#### **Question 5: To bridge the expectation gap and in order to clarify the role of audits, should the audit methodology employed be better explained to users?**

We do not seek to assume the level of knowledge held by users over the audit methodology. However, we see no reason why further information over their approach should not be better explained.

However, we would caution against any developments which will, either directly or indirectly, affect the relationship between the auditors and the Audit Committee. The frank, open and challenging relationship which is demonstrated in our audit committees is one which both management and non-executives value and is, in our view, effective at challenging management and the audit committee appropriately. We would therefore not be in favour of proposals which had the – albeit unintended – consequence of reducing the quality of, or level of detail in, the dialogue between the auditor and the audit committee.

The Commission discusses in the consultation the possible case for 'going back to basics' and increasing the focus on substantive verification of the balance sheet and less reliance on compliance and systems work. In our opinion this could be wholly impractical and inappropriate. Indeed, there is no evidence to suggest that further substantive focus by auditors would have prevented or impacted the financial crisis. It would appear to us that the shortfall of the profession would not be in an over attention to the detail, but in a lack of focus on current and future risks and a fulsome assessment of potential events that could impact the going concern of the audited entities.

In addition we would highlight that the approach taken by auditors to audit systems and perform compliance work is reflective of the technological improvements made by companies over recent years. As technology forces more dynamic, responsive business activities to develop so the tools to perform verification procedures must also adapt. As preparers we ourselves place reliance on these systems and on the embedded and imposed controls over them in order to gain comfort over our financial results. Indeed, for those of us who are listed with the SEC a key requisite of controls testing under the Sarbanes-Oxley regulations includes an appropriate understanding and reliance on systems controls.

The results from these systems, however, are only as valid as the inputs made in to them. Auditors should focus their attention on all aspects of the financial data, but to adopt an approach which ignores fundamental elements of the business model is unwise and unnecessary.

**Question 6: Should 'professional scepticism' be reinforced? How could this be achieved?**

The need for auditors to be professionally sceptical is imperative to their ability to be independent and provide a high quality of audit delivery.

In our experience we have seen no indicators that professional scepticism has been impaired in the profession. We would refer the Commission to other responses.

**Question 7: Should the negative perception attached to the qualification in audit reports be reconsidered? If so, how?**

The perception attached to qualified audit reports will vary depending on the nature of the company and industry involved for the particular group.

In the majority of cases the negative perception of an audit report is entirely appropriate – for example, if the audit report is qualified as inappropriate audit evidence is received, or if the Director's report given is materially different to the information provided to the auditors for the financial statement audit. These would both indicate underlying problems with the quality of the accounting records of the company. In these circumstances a negative perception is helpful as it applies appropriate pressure for companies when considering their accounting policies, risk and disclosure.

However this is different from situations that lead to a modified audit opinion, such as including an emphasis of matter paragraph which can have an adverse reaction. We note however, that in some sectors, for example early stage mining project or early stage pharmaceutical companies, audit opinions which include an 'emphasis of matter' paragraph highlighting financing assumptions are well understood by investors and do not have the same connotations that they would in different industries. In our consideration the key point for these matters is around communication with investors. Those that have an understanding of the financing principles and structure of the group would not be alarmed in these situations.

The current binary approach of the audit report does result in a limited approach for auditors to communicate with shareholders directly. However we would not endorse any changes to the audit report which would undermine the reporting relationship of management and the verification role of the auditor.

**Question 8: What additional information should be provided to external stakeholders and how?**

As Directors of large international companies we understand the importance of stakeholder dialogue. If investors are not engaged with us, or if we are not engaged with investors, any lack of transparency is reflected in the value of our share price. We work hard to ensure that investors have sufficient, appropriate information to make informed investment decisions.

In the past this feedback mechanism has led to additional disclosures being made by us as preparers. We would continue to endorse this process as an ongoing method for introducing disclosures and being responsive to the live development of needs, rather than by introducing additional regulations which could lead to a situation that the Commission notes would be unwelcome – a proliferation of disclosures that have less meaning for stakeholders.

We note the consideration by the Commission for auditors to provide information over 'the company's exposure to future risks or events, the risks to intellectual property, the extent to which intangible assets would be adversely affected, etc'. We are concerned that this type of communication would at best be repetitive for stakeholders, and at worst fundamentally undermine the relationship between Directors and investors. It is the responsibility of Directors to report on these matters, and for auditors to verify the report made by Directors. In our opinion such a change would destabilise the current and appropriate corporate governance structure. We would encourage the Commission to consider whether or not it would be appropriate for the auditors to separately comment on the risks disclosed and discussed by management.

**Question 9: Is there adequate and regular dialogue between the external auditors, internal auditors and the Audit Committee? If not, how can this communication be improved?**

As representatives of large corporations we have experience of active relationships between our external and internal auditors and the Audit Committee. Our Audit Committees demand a high quality of interaction and provide strong challenge to both our internal and external audit functions who provide distinct and different areas of assurance and reporting lines.

We understand the consideration of the German 'long-form' report and endorse a wide review of current practice in order to embrace the best in class behaviours on a European basis. We are not aware that, as a result of the requirements of this report, alternative audit procedures are performed during the audit of our German counterparts nor would we expect it. Consequently if this is a matter of debate we would consider that this should be driven by the requirements of the Audit Committee and not a place for public policy.

We would refer to other responses, but see no need for any further requirements in this area.

**Question 10: Do you think auditors should play a role in ensuring the reliability of information companies are reporting in the field of CSR?**

We refer to our answer of Question 8. We would look for stakeholders and investors to drive the demand for areas where third party verification is desirable. This allows for an ongoing dialogue and development of requirements which are appropriate. For example, investors in mining companies may be more concerned with the impact of the company on the wider



environment than investors in service industries. Contrary to this, 'green' investment funds are increasing in size and importance. If companies are in a position where these funds will not invest without further verification then this will drive an increase in attestation.

Likewise, if focus should change in the future this can, and should, be driven by market forces.

**Question 11: Should there be more regular communication by the auditor to stakeholders? Also, should the time gap between the year end and the date of the audit opinion be reduced?**

We refer to the responses from stakeholders as to what further communication they would request. We do, however, note that any communications should be appropriately balanced in order to ensure that the roles and responsibilities of the auditors and the Directors of the company are distinct and retained appropriately.

The auditors are not responsible for, nor should be requested to disclose information over, the strategy and management of the company. It is our opinion that any further communication should therefore be limited to verification over ongoing communications between stakeholders and their investors.

In the vast majority of member's operating models the auditor will provide their opinion on our financial information at the same time that we produce our financial statements and communicate our results to the market. We do not therefore see the need to address any 'time gap' from our own practice. As a representative of complex, global organisations there is an appropriate time period necessary to produce well controlled, accurate and representative financial information. We would not endorse any changes that could engender a loss of integrity of information.

**Question 12: What other measures could be envisaged to enhance the value of audits?**

Nil response

**Question 13: What are your views on the introduction of ISAs in the EU?**

We endorse and support a regime which provides and requires and high standard of audit. As we set out in our response to question 1, audit is an intrinsic part of the financial market and the higher the quality and confidence in audit the stronger the market.

We also endorse an International standard base which is aligned with our operating model as truly international businesses. As Directors we take comfort that all our companies are audited to the same basic levels.

We would therefore support the European Commission undertaking a requirement that ISAs are followed by European practitioners.

**Question 14: Should ISAs be made legally binding throughout the EU? If so, should a similar endorsement approach be chosen to the one existing for the endorsement of International Financial Reporting Standards (IFRS)? Alternatively, and given the current widespread use of ISAs in the EU, should the use of ISAs be further encouraged through non-binding legal instruments (Recommendations, Code of Conduct)?**

We would refer the Commission to responses from Audit firms on the practical consequences of implementation.

**Question 15: Should ISAs be further adapted to meet the needs of SMEs and SMPs?**

Nil response

**Governance and Independence of Audit Firms**

**Question 16: Is there a conflict in the auditor being appointed and remunerated by the audited entity? What alternative arrangements would you recommend in this context?**

In the UK there is, in our opinion, appropriate segregation between appointment and remuneration of the auditor.

The appointment of auditors is recommended by the Audit Committee to the Board which in turn proposed a resolution for approval at the subsequent AGM by shareholders. The role of the Audit Committee is therefore an essential component of corporate governance, and this is reinforced by the 8<sup>th</sup> Directive.

The appointment process has the advantage that decision to appoint or tender an audit is not made by those who are involved on a day to day basis with the practicalities of the same. Consequently, elements such as ease of retention are not relevant to these members. The level of independence when considering remuneration decisions is helpful and ensures appropriate challenge occurs. At the same time, Audit Committee members have an appreciation of the specific circumstances of a company, the quality of the audit that is undertaken and, generally, experience of other audit firms from other executive or non-executive roles which together provide the best perspective to determine whether or not tendering of the audit is appropriate at that point in time.

If stakeholders feel that they would like to enhance their involvement in the decisions over audit appointment this could be further explored.

**Question 17: Would the appointment by a third party be justified in some cases?**

We are strongly of the opinion that appointment by a third party could not be justified.

The role of the auditor is to be appointed by, and report to, the investors in the company. Through this appointment the investors have a direct mandate to the auditors and a clear line of instruction. Any dilution of this mandate would, we consider, be highly inappropriate and detrimental to corporate governance.

The investors, and the Audit Committee on their behalf, must be able to make or change appointments which they believe are most appropriate to meet their needs. They may, for example, wish to choose an audit firm which does not provide services to its direct competitors in order to ensure confidentiality at all times. This decision would best align to the needs of the investors but may not be considered by a third party.

Investors must be allowed to select their auditors based only on the circumstances that best suit the company that they are investing in. Appointment by a third party would clearly compromise this position and dilute investor authority. In addition this arrangement could be seen to divide responsibility for appointment without accountability for any consequences if the audit is not performed appropriately.

**Question 18: Should the continuous engagement of audit firms be limited in time? If so, what should be the maximum length of an audit firm engagement?**



We strongly believe that investors must be allowed to decide who is best placed to perform the audit of the company without restriction, including the length of time of engagement.

As preparers we are concerned that an unintended consequence of limited engagement would be to increase the risk within the financial markets. Within the financial cycle we note that the period of time where there is most risk in the quality of audit is within the first year of an audit appointment.

By necessity an in-depth knowledge of a global business takes time and resources. The build up of auditor knowledge and understanding will take time. In the first year of appointment the associated risk to audit quality is inherently increased due to a shortfall in historical experience. Indeed, there is evidence to suggest that the highest level of audit failure occurs in the period just after appointment. In addition, appointment for a set period of time could reduce the efforts of the incumbent auditor, thereby increasing risk in the latter years.

We would draw the Commission's attention to research performed on the relative merits of a mandatory audit rotation period and to be cautious of the destabilising impact any increase in audit failures may have on the European market.

We note the Commission's comments that even with the rotation of key audit partners 'the threat of familiarity' persists. In our experience this is not the case, and the rotation of key audit partners has decreased threats of familiarity.

From our experience robust challenge exists over the appointment and remuneration of auditors. The Commission may like to consider changes to disclosures to improve transparency over this process.

**Question 19: Should the provision of non-audit services by audit firms be prohibited? Should any such prohibition be applied to all firms and their clients or should this be the case for certain types of institutions, such as systemic financial institutions?**

We are strongly of the opinion that non-audit services by audit firms should not be prohibited. The independence of auditors is paramount, and must be retained in order to uphold the quality of their offering. However we do not believe that it is not possible to retain independence as a consequence of performing other services.

In the UK, the Auditing Practices Board (APB) of the Financial Regulatory Council has conducted extensive consultation on this area and we fully endorse their findings.

In particular we fully support the APB's conclusions both 'that a blanket prohibition of non-audit services to audited entities would not be proportionate' and that 'there are a number of specific services (audit related services) in relation to which the APB believes that most shareholders would not consider it controversial for the auditor to undertake the work'.

To enhance investor understanding we have supported improvements to disclosures, including further clarity over the nature of the work performed and the considerations made by the Audit Committee over any possible impact on the independence of the auditor.

**Question 20: Should the maximum level of fees an audit firm can receive from a single client be regulated?**

In our opinion fees should be dictated purely by the level of work performed.

We would note that as global clients, our auditors receive a global fee which may be impractical to limit on a European only basis. In addition, any limits based on the size of the audit firm may prohibit smaller companies from engaging larger audits.

**Question 21: Should new rules be introduced regarding the transparency of the financial statements of audit firms?**

Nil response

**Question 22: What further measures could be envisaged in the governance of audit firms to enhance the independence of auditors?**

The importance and value of the role of the non-executives in enhancing corporate governance for our members should not be underestimated. We would suggest that the Commission could consider a requirement for audit firms to appoint non-executives to further strengthen corporate governance including independence.

**Question 23: Should alternative structure be explored to allow audit firms to raise capital from external sources?**

If the Commission is determined to support the growth of the mid-tier and smaller audit firms we believe that alternative structure to capital raising should be explored.

As noted by the Commission, barriers to entry are high, and to be truly competitive to service organisations such as those that we represent, global reach will need to be achieved by these firms. Only through significant investment could this be achieved. We are therefore supportive of this suggestion.

**Question 24: Do you support the suggestions regarding Group Auditors? Do you have any further ideas on the matter?**

In our experience it is common practice for Audit Committees to appoint a single, global audit provider to perform both the Group Audit and local statutory audits. Subsequently the suggestions by the Commission that 'group auditors should have access to the reports and other documentation of all auditors reviewing sub-entities of the group' and 'to be involved in and have a clear overview of the complete audit process to be able to support and defend the group audit opinion' are absolutely imperative.

**Supervision**

**Question 25: Which measures should be envisaged to further the integration and cooperation on audit firm supervision at EU level?**

Nil response

**Question 26: How could increased consultation and communication between the auditor of large listed companies and the regulator be achieved?**

We refer the Commission to responses from audit firms and regulators.

**Concentration and Market Structure**

**Question 27: Could the current configuration of the audit market present a systemic risk?**

We believe that the services rendered by the 'Big Four' are of a high quality and that there exists sufficient competition in the market place to drive continuous improvement and breadth of choice to our shareholders. We do not feel that the Audit market is unduly concentrated.

For our members the importance of 'global reach' in an audit firm is imperative. The majority of our member organisations are global in reach and, with trade barriers opening up and market growth projections persistently dominated by developing markets we see huge growth possibilities outside the European Union.

As noted by the Commission barriers to entry for a global audit firms are high and require a certain 'critical mass' to be effective. Current requirements under *ISA600: Special Considerations – Audits of Group Financial Statements (including the Work of Component Auditors)* requires significant input from group auditors which is practically translated as a requirement for group auditors to audit the majority of a group's global subsidiaries. This in turn will preclude smaller firms from competing in the global arena. Therefore our membership will almost exclusively seek an audit from one of the 'Big 4' auditors. The establishment of global networks necessarily takes time and the assembly of a critical mass which we feel would be inappropriate to force.

In addition larger auditing firms will, by their nature, have a broader base of experience to draw from when conducting their audits. Our membership represents companies that are fully listed, are acquisitive, raise debt, purchase intellectual property, have complex tax structures and run international treasury functions. These activities require advisors who have a broad background of experience to service us appropriately. In our experience the 'Big Four' are consistently and comfortably able to deliver the expertise we demand of our auditors and accordingly our members and their shareholders predominantly look to the 'Big Four' when considering new auditors.

We do not believe that this market structure presents a systemic risk due to the national nature of the audit firm practice.

**Question 28: Do you believe that the mandatory formation of an audit firm consortium with the inclusion of at least one smaller, non systemic audit firm could act as a catalyst for dynamising the audit market and allowing small and medium-sized firms to participate more substantially in the segment of larger audits?**

We do not support such a consortium.

**Question 29: From the viewpoint of enhancing the structure of audit markets, do you agree to a mandatory rotation and tendering after a fixed period? What should the length of such a period?**

We do not support a mandatory rotation and tendering after a fixed period and refer to our response to Question 18.

In our opinion this would not enhance the structure of audit markets. Since 2003, 17 of the FTSE100 (as at 31 December 2009) in the UK have put their audit out to tender. Of these 12 resulted in a change of auditor, and of these, all but one of the changes were to another 'big Four' audit firm.

This is not because smaller audit firms are not invited to tender, but because they do not currently have the skill set to deliver the quality of audit required by a large, international, complex group. We note that, in Italy, where mandatory rotation is required, the market continues to be highly dominated by the 'Big Four'.



If the Commission feels it would be of interest to users of the financial statements we would be supportive of a request for further disclosure around considerations taken by the Audit Committee when evaluating whether or not the audit should be put to tender. As a matter of course our members review all their long term supplier arrangements, including the audit relationship. We see no reason why further details could not be provided to enhance understanding.

**Question 30: How should the 'Big Four bias' be addressed?**

In our opinion the 'Big Four' bias exists because the quality, breadth and experience offered by the Big Four is unmatched by other providers.

In order to address this inequality the development of other providers should be supported and encouraged. We believe that the Commission is right to explore the availability of capital to these firms in order to realistically tackle their global presence and technical depth.

We note the Commissions suggestions over the mandatory requirement of joint audits. In our opinion this would be inappropriate and serve to increase audit risk rather than improve audit quality.

From our experience of joint audits, predominantly arising through merger and acquisition activities, we are of the opinion that these serve to engender loss of ownership between firms, expend energy in competition without improving service, require twice as many regulatory requirements and increase costs. In addition we believe that this acts to further decrease competition in the market place as two of the 'Big Four' would likely become joint auditors. This is directly contradictory to the Commission's intent to 'dynamise' the markets to allow mid-tier non-systemic firms to become active players.

In the UK there is no restriction over the ability to perform a joint audit – however we note that there is no market demand for the joint audit. In circumstances where joint audits arise, for example on consolidation of groups, the overwhelming trend is to revert to a single organisation in the very near term.

We believe that this approach has been largely successful in France, however we would note the differences in the audit market structure before implementation and suggest that it would be inappropriate to assume that, in this case, one approach suits all.

**Question 31: Do you agree that contingency plans, including living wills, could be key in addressing systemic risks and the risks of a firm failure?**

Addressing contingency plans could indeed be helpful to the future market and we would support its exploration.

**Question 32: Is the broader rationale for consolidation of large audit firms over the past two decades (i.e. a global offer, synergies) still valid? In which circumstances, could a reversal be envisaged?**

Yes we believe that the case is still valid. In our experience the services that we require from our auditors could not be performed without a global infrastructure which can mirror our own. Indeed, to make changes which would result in a particular market or geographic location to be particularly weak would only serve to undermine the quality of offering of these firms.

As outlined in our response to Question 27 our members represent some of the more complex, financially acquisitive UK groups. In order to provide an appropriate level of service we require our auditors to be able to rise to the challenge of matching the depth of experience to draw from.

We do not support the case for a reversal of this consolidation.

### **Creation of a European Market**

**Question 33: What in your view is the best manner to enhance cross border mobility of audit professionals.**

We would refer the Commission in the first place to the responses from the audit firms.

We support the general principle of cross border mobility as a way of improving and enhancing the audit offering. From our own experience we find international mobility pivotal to developing our own staff and improving our own business practices. We expect our auditors to follow the same approach.

**Question 34: Do you agree with 'maximum harmonisation' combined with a single European passport for auditors and audit firms? Do you believe this should also apply for smaller firms?**

Nil response

### **Small and Medium Sized Practitioners**

**Question 35: Would you favour a lower level of service than an audit, a so called 'limited audit' or 'statutory review' for the financial statements of SMEs instead of a statutory audit? Should such a service be conditional depending on whether a suitably qualified (internal or external) accountant prepared the accounts?**

As a representative body of large international groups we have limited input to the development of requirements for small and medium sized practitioners.

However, when considering our European based subsidiaries we would question the need for individual statutory audits on these entities, and could see an advantage a more limited 'statutory review' to be performed over these financial statements. As subsidiaries the number of stakeholders is reduced compared to those associated with the Group accounts, and consequently the need for verification of the financial reports could also be reduced.

**Question 36: Should there be a 'safe harbour' regarding any potential future prohibition of non-audit services when servicing SME clients**

Nil response

**Question 37: Should a 'limited audit' or 'statutory review' be accompanied by less burdensome internal quality control rules and oversight by supervisors? Could you suggest examples of how this could be done in practice?**

Nil response

### **International Co-Operation**

**Question 38: What measures could in your view enhance the quality of the oversight of global audit players through international co-operation?**

Nil response