



The Hundred Group
of Finance Directors

Investor Relations and Markets Committee

By email: auditconsultation@oft.gov.uk

Peter Hill
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Office of Fair Trading
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Dear Mr Hill

Statutory audit: Consultation on the OFT's provisional decision to make a market investigation reference to the Competition Commission of the supply of statutory audit services to large companies in the UK

We appreciated the opportunity to meet with the OFT as part of your consideration of next steps in the audit market. This letter is a follow up to that discussion which sets out our views on the OFT's recent referral decision and does not seek to repeat the views we expressed in that forum.

As preparers of financial statements we recognise that the ownership of the audit relationship must be between shareholders and auditors. We do not seek to comment on the requirements of shareholders, nor would it be appropriate for us to guide the regulatory requirements in this arena. However, we express in this letter our thoughts as management in so much as they may be relevant to this matter.

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

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 we support and encourage any remedies that serve to develop other providers, including those which explore the availability of capital to these firms in order to realistically tackle their global presence and technical depth. It is of critical importance to our members that their

auditor is able to provide a consistently high quality audit across our global networks and one of our key considerations is the level of international resource that a firm is able to deploy.¹

It is important the OFT understands the level of judgement required from the audit partner and the audit firm in forming an opinion on the financial statements. We observe that the relationship between the audit partner at the centre and audit partners elsewhere in the Group is of fundamental importance and where more than one firm is involved, the level of reliance the central team places on the other firm's work becomes compromised. In our experience, this leads to an increase in audit cost and a more cumbersome audit process.

We are pleased that the Consultation recognises the importance of the audit in helping to ensure the efficient allocation of capital. Indeed the operation of the capital markets is key to the success of London and the UK in attracting overseas investment and helping to promote the competitiveness of the UK economy. Any action taken by the Competition Commission can necessarily only be enforced in the UK and caution is needed to prevent the unintended consequence of damaging the relative attractiveness of the UK as a place to do business. We recognise that other regulators, including those in the EU and the US are also examining this issue – any action needs to reflect the global nature of both the audit firms and their multinational auditees.

We also echo the Consultation's concern over the complexity of the current financial reporting environment. Over recent years, our members' financial statements have become increasingly complex, and in some cases the number of pages has doubled, driven by the accounting and disclosure requirements of IFRS and other regulations. In particular it is not always the case that the accounting treatment of a particular transaction reflects the economic substance – a challenge even to experienced qualified accountants. To the extent that the complexity of accounting standards is thought to be a barrier to entry into the audit market, we would support any measures that reduce this complexity, but recognise that a concerted effort from a number of stakeholders, including standard setters, would be needed to achieve this goal.

At this stage we do not seek to comment in detail on the appropriateness of the remedies being suggested, however we continue to oppose the concept of joint or shared audits. Our experience of joint audits, predominantly arising through merger and acquisition activities, is that they encourage loss of ownership between firms, expend energy in competition without improving service, require twice as many regulatory requirements and increase costs. They may also have the unintended consequence of further reducing competition in the case where both auditors were 'Big Four.' In the UK there is no restriction over the ability to perform a joint audit – but there is no market demand and these are consequently very rarely seen in practice.

Please feel free to contact me if you wish to discuss the views contained within this letter.

Yours sincerely

Robin Freestone
Chairman
Investor Relations and Markets Committee

¹ In their 2010/11 annual report, the Audit Inspection Unit also highlighted multinational audits as a special consideration, noting that 'Firms, and in particular smaller firms, should carefully consider whether they have the appropriate resources, expertise and involvement to undertake audits of multi-national groups to the required standard.' [source: <http://www.frc.org.uk/images/uploaded/documents/AIU%20Annual%20Report%202010-11.pdf> section 3.3.5]