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29 July 2008

Dear Chris

**Choice in the UK Audit Market  
Progress Report and Further Consultation**

**1. Introduction**

- 1.1. Mazars, the integrated international audit and advisory firm with over 8,000 staff in 46 countries, has pleasure in submitting our comments on the above progress report.
- 1.2. We welcome the publication of regular updates on the initiative.

**2. Assessment of impact of 'Choice in the UK Audit Market'**

- 2.1. We would strongly encourage the FRC to monitor the impact of its 'Choice in the audit market' project by annually reviewing the number of listed companies changing auditors, segmented into FTSE 100, FTSE 250 and other listed companies, along with the identity of the original and replacement auditors.

**3. Discussion topic: Changes to audit firm ownership rules**

- 3.1. We are not, in principle, against further relaxations to the audit firm ownership rules however we remain to be convinced that the current recently modified ones, following implementation of the revised Eighth Directive, are a significant barrier to the much needed extension of choice in the audit market.
- 3.2. We also consider it essential that the full consequences of any further liberalisation of the audit ownership rules be considered before any changes are introduced as a number of important aspects do not appear to have been fully considered to date. In this context, we would particularly draw your attention to paragraphs 3.5, 3.7 and 3.8.
- 3.3. We firmly believe that the current model whereby statutory auditors are the majority owners of the firm and control its management is the one most likely to promote sustained and consistent support for audit quality

- 3.4. The paper suggests changes to the ownership rules could make it easier for existing or new non-Big Four firms to make step-change investments. Our experience is that we have been able to finance significant expansion within the present ownership rules and fully expect to be able to continue on this path in the future.
- 3.5. With so few audits of listed companies coming up for tender in any given year, it would be relatively pointless and potentially financially ruinous for a firm to substantially expand its capacity to undertake large audits ahead of winning new audit appointments as that capacity would, in the market conditions prevailing, be likely to remain unutilised.
- 3.6. We are not wholly persuaded by the latter part of the statement that ‘there is a risk that financial considerations associated with outside ownership could drive down audit quality but safeguards already exist’.
- 3.7. If an audit firm were listed on the Stock Market, or if it were owned by a company that was listed, its financial position may be substantially impacted by events outside the firm’s own control and this could give rise to the perception if there were significant financial pressures that audit quality might not get as much attention as would be deserved.
- 3.8. We wonder if it has been considered whether, for example, a bank-owned audit firm could have any banking relationships with audit clients of the firm which it owned or whether an institutional investor- owned audit firm could have holdings in audit clients. We presume not in both instances and this would lead to the number of potential external owners of audit firms being far more limited than anticipated.
4. **Consultation topic: Draft guidance on use of firms from more than one network**
- 4.1. We are broadly supportive of the draft guidance but are concerned that the current wording shows some bias against the use of firms from more than one network on an audit and against the use of joint auditors.
- 4.2. In the section *Use of firms from a single network* we believe the second bullet should be deleted. Whether a single network or alternative arrangement is most likely to ensure that partners and staff internationally understand the group’s business and have staff available to perform detailed ‘on-site’ audit work who have sufficient experience will depend on the particular circumstances of the business and those of the audit firms potentially involved.
- 4.3. In the section *Use of firms from more than one network* we propose deletion of the opening sentence in order to address the issue of perceived bias: *in some circumstances it may be possible to achieve a high quality and cost effective audit* (our italics), by using firms from more than one network. We have highlighted the words with which we are concerned in italics.
- 4.4. We also believe the phrasing of questions the audit committee may wish to consider when firms from more than one network are considered should be expressed in a more neutral manner. Our proposed revised wording is shown in the appendix to this letter.
- 4.5. The need for more neutral wording also arises in relation to the discussion on joint audits. For each of the concerns expressed in the paragraph on assessing the use of joint auditors, benefits may equally be derived:

- far from allowing an issue to 'fall between the gaps', a joint audit can ensure that critical issues and judgments are reviewed by two pairs of eyes;
- rather than management being able to 'divide and conquer', a joint audit can strengthen the auditors through the presentation of a consensus view by the joint auditors;
- instead of adding cost, through being able to compare the relative charges of the joint auditors, the company may be able to secure a more competitive fee

4.6 Our proposed revised wording for the paragraph on assessing the use of joint auditors is contained in the appendix to this letter

## **5 Further discussion**

If you would like to discuss any issues in our submission, please do contact Anthony Carey on 0207 063 4411 or David Herbinet on 0207 063 4419.

Yours faithfully

Mazars LLP