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For the attention of Julian Rose

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Dear Julian

CHOICE IN THE UK AUDIT MARKET

Mazars welcomes the opportunity to comment on the Discussion Paper, *Choice in the UK Audit Market* ('the Discussion Paper') prepared by the staff of the Financial Reporting Council ('FRC'). Our general comments on the Discussion Paper are presented below and responses to the specific questions of the Discussion Paper are attached to this letter.

GENERAL COMMENTS

The Discussion Paper is based on the conclusions of the Oxera report and, although we are broadly supportive of the findings and conclusions of the Oxera report, we would like to comment below, by exception, on areas where we disagree with the conclusions of the report or the emphasis of the Discussion Paper. We also comment on areas which, we feel, deserve further emphasis or scrutiny.

The debate on Choice in the UK audit market and the Discussion Paper

We welcome the current and long overdue debate on Choice in the UK audit market. This debate must now come to real and effective conclusions because the issues at stake are critical to ensure that UK Plcs have a more diverse choice and that the Public Interest continues to be a primary driver for the development of auditing.



Appetite of audit firms

The statement that audit firms outside the Big4 do not have an appetite to enter the large corporate audit market is incorrect. Mazars' strategy has long been to be a key player in the European audit market, in particular for large and international listed companies. We have made the necessary investments to succeed and we currently have the capability and the capacity to operate in the FTSE350 market. We are succeeding in our strategy in most countries across Europe: we already audit 7 of the constituents of the FTSEurofirst 100 index. But we are finding that the structure of the UK audit market and the barriers that exist here prevent us from making further progress, notably in the FTSE350 market.

Focusing on the top end of the listed market

We do believe that the issue of concentration is particularly worrying at the top end of the market, notably for FTSE350 companies, as this is where independence and conflict of interest issues often reduce choice even further. This was confirmed by the findings of Oxera, for example in the financial services sector, or in the context of international M&A activity. We should like the debate to propose solutions specifically for that part of the market as well as for the wider UK Plc market.

Facilitating access to the audit market

We believe that the debate must be positioned primarily to facilitate access to the large corporate audit market to new players, rather than protect the existing oligopoly in order to prevent a further reduction in the choice available. We do value and recognise the contribution that the Big4 firms make to the accountancy profession and the economy. We believe, however, that the interests of UK Plcs, shareholders and the wider public would be better served by a larger number of significant players contributing their own perspectives, cultures and values.

The international dimension and entry models

The debate must consider the international dimension, first because a significant number of UK Plcs operate internationally, secondly because the development of international standards and cross-border regulations effectively create a truly international market for audit services. We understand from Oxera that they have not considered in preparing their report the 'international' entry model (one where a firm with a strong presence in an overseas audit market would penetrate the UK audit market) as they have only focused on a 'UK to UK' entry model. This international entry model is the one followed by Mazars. We believe that it is one likely to succeed in the current market environment as it enables full operational integration and the sharing of technical investments and resources to meet the needs of companies, investors and regulators. In particular we call for a rapid implementation of the 8th Directive into UK legislation to enable the formation of truly international audit firms.

Choice and quality

We would like to see the debate on Choice in the UK audit market take into account 'quality' considerations as the issue is as much one of degree of choice (Are there other players ready to meet the requirements of the market?) as one of the nature of that choice (Are there players in the market that are distinctively different from the Big4 firms?). In our opinion, in an environment more receptive to new entrants, companies, shareholders and the public interest at large would benefit from less monolithic and US-centric viewpoints. The European market is becoming a reality and requires firms that can understand the cultural characteristics of this regional market. In addition, a wider breadth of perspectives is likely to accelerate innovation and as a consequence stand a better chance of 'de-commoditising' the audit service.

Action against prejudice

It is our experience that significant prejudice against non Big4 firms exists within companies, boards, and the financial community. This prejudice is a major barrier that prevents these firms from being able to demonstrate their capabilities and credentials. We would like to see more ‘open’ and frequent tenders where all firms are given a fair chance to express their interest and can be assessed on the back of their strengths, weaknesses and areas of differentiation. OJEU tenders in the public sector are a good example of how this could take place in practice. If needed, independent ‘external monitors’ could supervise the tendering process to ensure the outcome is fair and reasonable.

Role of regulators

Because the dominance of just four mega-firms can create a number of threats to audit quality and could be to the detriment of the public interest, we believe that regulators and government must play a strong role in promoting competition and choice in the audit markets and must have teeth to protect the public interest.

Need for full transparency

In our opinion, the current perception that companies and investors have of audit firms is significantly affected by a lack of transparency on these firms. League tables, whether UK or internationally focused, are unhelpful as they do not give any indication of the capacity or capability of firms for audit work. The promotion in the market place of international networks should be challenged by companies, investors and regulators alike as these networks are often without much operational substance. The firms that want to act in the UK Plc audit market must be fully transparent on their structures, operations, adherence to ISQC1 and financial position (including off balance sheet commitments and contingent liabilities, notably arising from pending litigation).

Market intervention

We believe that the dominance of just four firms in the global market for audit services and the strength of existing barriers to entry into this market are so serious as to prevent a significant and rapid shift in the structure of that market without some form of market intervention. In order to re-create an open market where market forces play their full role, we call for market intervention. This should be limited in scope and not be effected without a full Regulatory Impact Assessment. In our opinion, joint audit – where two firms with equal roles in the audit jointly form an opinion on the financial statements of a group - would be a potential solution with strong appeal. Joint audits are a tested and simple mechanism with negligible ‘side effects’. Joint audit has proved to be effective in establishing deeper competition in France and India. In France for example, 35% of audit mandates within the SBF120 market are held by non big 4 firms¹. Joint audits also go a long way to improving quality and reinforcing the integrity and public interest dimensions of auditing as has been the case, for example, in the South African Financial Services sector.

Clarifying independence rules

We believe that the independence rules should be made much clearer and stricter in the UK Plc market. Services which are totally unrelated to the audit should be prohibited to give third parties further re-assurance that commercial considerations cannot take precedence over professional ones. In addition, we would like to see clearer guidance on the potential conflict of interest that may exist when a company’s FD or Audit Committee chairman appoints as auditor the audit firm from which they come.

¹ This is a correction from our original submission which read: ‘(...) there are 35 audit mandates within the CAC40 market held by non big 4 firms.’.

Next steps

We welcome the debate that has just started and are committed to contribute to it. We are very interested to listen to the feedback from companies, boards, investors and the wider financial community to better understand how Mazars could better meet their needs and expectations. We strongly believe that audit is a profession before being a business and we are keen to engage further with the FRC and with other interested parties to help rejuvenate the UK Plc audit market for the benefit of all stakeholders. We are convinced that the FRC will be open to all suggestions and that all ideas will be given full consideration.

We remain at your disposal should you require further clarification or additional information.

Yours sincerely

**David Herbinet**

Head of Corporate and Public Interest Markets