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8 November 2018

Sir John Kingman
Chairman: Kingman review
C/O FRC Review Secretariat
Victoria 1, 1st Floor
1, Victoria Street
London SW1H 0ET

Dear Sir John

Independent review of the Financial Reporting Council (FRC)

Thank you for your letter and the opportunity to consider issues relating to the audit market.

We have submitted our comprehensive thoughts to the Competition and Markets Authority call for evidence on a number of issues relating to the audit market, a copy of which is attached.

CIMA represents the views of both preparers and users of financial statements. Our members do not generally perform statutory audits. Our response is in the context of the perspective of the Professional Accountants working in business both as members of corporate boards and audit committees, and as CFOs and those working in the finance functions.

In the first instance, measures to improve audit market functioning should not negatively impact the reputation of UK public capital markets or the underlying quality of the audits of complex companies. The extent of the globalisation of these markets and the complexity of business over the past forty years has been significant. The international networks of the larger accounting firms and their investment to audit complex companies has also been significant and should be maintained and developed further within a competitive market environment.

The role of the audit committee is clearly defined in the UK Corporate Governance Code (July 2018) which enters into force this in January 2019. The Code was subject to extensive consultation and its recommendations regarding the role and independence of the audit committee are in line with governance standards around the world. Furthermore, the European Union introduced extensive legislation governing the Audit market which has only recently come into force and whose implications have yet to be fully evaluated.

It is clear from the Code that the audit committee must comprise a majority of independent non-executive directors. These directors are elected by the shareholders of a company to act as stewards of the company. This creates a direct line of accountability to the shareholders. In addition, shareholders and investors are required to ratify the appointment of external auditors every single year, regardless of how long the auditors have audited the company.



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In our view, market restrictions which redefine the procurement process, the scope of an audit or the fees charged for it, risk taking responsibility and accountability away from the discretion of the entity's Board of Directors and its Audit Committee and by extension the shareholders and investors. It is unclear who would then take have accountability when there is a failure of an audit. This would significantly increase the risk to investors and other stakeholders in the organisation.

As we stated in our earlier response to your review dated 8 June 2018, measures aimed at improving audit market effectiveness need to be evidence based, and carefully considered to ensure there are no unintended consequences.

As a consequence of the above, our recommendation is that the further strengthening of the audit profession should be addressed by your proposals arising from the original terms of reference for the review of the FRC.

Yours sincerely

Andrew Harding FCMA CGMA