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Competition questions over mandatory audit tendering

by Richard Crump 22 Jul 2013

FORCING AUDITORS to bid for the work of Britain's largest businesses every five years may not result in a more competitive market, according to members of the profession.

The requirement is one of a series of measures introduced by the Competition Commission to shake-up the FTSE 350 audit market, encourage more rivalry between the firms and improve the quality and transparency of the market.

Though some of the measures, such as the prohibition of Big Four-only clauses in loan documentation, were universally welcomed, the decision to halve the FRC's recently introduced ten year retendering period to five years was met with disapproval.

ICAEW chief executive Michael Izza questioned whether or not tendering would "help achieve" greater competition, while ICAS director of technical policy James Barbour was unsure if it would would create a net improvement.

"Some stakeholders will be unsure about the merits of reducing the mandatory retendering period from ten to five years. They may question whether the benefits from this proposed change will outweigh the additional costs to be incurred," Barbour said.

Grant Thornton, one of the firms most likely to benefit from the changes welcomed the package of reforms, claimed the recommendation would help the firm build on its "strategy of developing deeper relationships" with FTSE companies.

However, members of the Big Four, the firms at which the investigation was ostensibly aimed, appeared unconcerned with the new tendering rules that represent a step back from the more radical mandatory rotation plans originally being considered.

James Chalmers, UK head of assurance at PwC said: "This is a significant package of remedies clearly focused on competition, transparency and quality. The proposed halving of the retendering period...to five years is a significant change which will have a major impact on UK companies. It will be critical to get the transition right in order to manage the cost for businesses and potential market disruption."

The FRC could also face increased costs as a result of a proposal that its Audit Quality Review team should review every audit engagement in the FTSE 350 on average every five years.

"This proposal has potential cost and resource implications for the FRC," Barbour said. "How is this to be resourced?" said Barbour at ICAS.

The FRC, for its part, said it had "concerns over a number of its other proposed measures and the related costs".