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Select Committee on Economic Affairs

3rd Report of Session 2010–12

**Government
Response to Report
on Auditors: Market
concentration and
their role**

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Select Committee on Economic Affairs

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Government Response to the Second Report of the House of Lords Economic Affairs Select Committee, Session 2010–12

AUDITORS: MARKET CONCENTRATION AND THEIR ROLE

The House of Lords Select Committee on Economic Affairs published its report “Auditors: Market concentration and their role” on 30 March 2011. The Government’s covering letter and response is printed below in the Appendix.

APPENDIX

Letter to the Chairman from The Rt Hon Vince Cable MP, Secretary of State for Business, Innovation & Skills dated 19 May 2011

The Government is grateful to the House of Lords Select Committee on Economic Affairs for its detailed and considered inquiry into, and recommendations on, audit market concentration and the role of auditors. I am pleased to send you the Government response to your report.

GOVERNMENT RESPONSE TO THE SECOND REPORT OF THE LORDS ECONOMIC AFFAIRS SELECT COMMITTEE, SESSION 2010–12

The Committee's report is an important contribution to the domestic and international debate on market concentration and the role of auditors.

A number of recommendations refer to the Office of Fair Trading. The OFT announced on 17 May that it has provisionally decided that there are competition problems in the audit market that pass the statutory test for referral to the Competition Commission. The OFT is now to discuss with interested bodies whether, in practice, potential remedies exist that could allow the Competition Commission to resolve these problems. The Government welcomes the OFT's announcement, which reflects the widely held concern about problems of concentration in the audit market.

The following text reproduces the Committee's conclusions and recommendations in bold text and follows each grouping with the Government's response.

Recommendation

168. The audit of large firms, in the UK and internationally, is dominated by an oligopoly with all the dangers that go with that. The oligopoly's power is underpinned by the fact that large firms are legally obliged to have their financial statements audited. (para 15)

169. A self-reinforcing cycle has helped to consolidate the dominance of the Big Four. Factors include:

- (i) the internationalisation of business;**
- (ii) the scale of investment and capital required in an audit firm;**
- (iii) economies of scale in audit;**
- (iv) a semi-captive market;**
- (v) non-interventionist competition authorities;**
- (vi) the perception that big is best;**
- (vii) the reputational assurance of using Big Four auditors;**
- and**
- (viii) the fall of Arthur Anderson. (para 18)**

170. Most witnesses believe that the dominance of the Big Four limits competition and choice in the audit market. Ethically, audit firms are unable to accept work which would place them in conflict with other work for the same or other clients. This is a special problem in the UK banking sector, where only three of the Big Four are active. Banks' choice of auditor is sometimes limited by the need to avoid using a firm engaged by another bank. (para 26)

171. All witnesses fear the real possibility that one of the Big Four might withdraw leaving a Big Three (or even a Big Two, in the bank audit market). We agree. Loss of one of the Big Four would restrict competition and choice to an unacceptable extent. This is one reason for our recommendation of an Office of Fair Trading (OFT) investigation into the audit market. (para 27)

172. Attempts to introduce greater competition into the audit market have so far failed. Market concentration is as great as ever. The last set of recommendations from the Financial Reporting Council's Market Participants Group in 2007 lacked teeth. It has had no effect in lessening the dominance of the Big Four. (para 33)

173. Measures envisaged by the Minister, Mr Edward Davey MP of the Department for Business, Innovation and Skills, focus on transparency and disclosure. These echo the approach of the FRC Market Participants Group—an approach that has palpably failed. We were disappointed that the Minister is not more ambitious. We would expect exactly the same result for the measures he advocated to our Committee as the FRC's measures have had. It may be sensible to introduce these measures on their own merits. But they do not add up to a policy of creating greater competition and choice, of altering the current oligopolistic situation, or of addressing the risks of the Big Four coming down to a Big Three. (para 35)

Government response

The Government notes the Committee's findings. The Government's policy towards the audit of the largest businesses aims to meet three distinct policy objectives:

- audits that are high quality and independent of the body being audited;
- a competitive market in the supply of audits;
- an audit market that is resilient and could withstand the withdrawal of one of the major firms.

Recommendation

174. One suggested way to enhance competition would be to introduce mandatory joint audit where each audit firm signs off the audit report and opinion. The Committee is not convinced that this would deliver better accounts. It would certainly add bureaucracy and cost. It has only been applied in very few countries where the results do not amount to a resounding recommendation in their favour. But if it were promoted in the UK as a means to reduce market concentration, it should be on the basis that at least one joint auditor was a non-Big Four firm. (para 40)

Government response

The Government shares the Committee's scepticism of mandatory joint audits. The experience in the UK is that joint audits used to be more common, but companies moved away from them because they found the single auditor model more efficient and effective.

175. The very long tenure of auditors at large companies is evidence of the lack of competition and choice in the market for the provision of audit services. A regular tender, with a non Big Four auditor invited to participate, should promote greater competition to the benefit of both cost and quality. We recommend that FTSE 350 companies carry out a

mandatory tender of their audit contract every 5 years. The Audit Committee should be required to include detailed reasons for their choice of auditors in their report to shareholders. (para 44)

176. We recommend that:

- (i) audit committees should hold discussions with principal shareholders every five years;**
- (ii) the published report of the audit committee should detail significant financial reporting issues raised during the course of the audit;**
- (iii) they should also explain the basis of the decision on audit tendering and auditor choice; and**
- (iv) the FRC's UK Corporate Governance and Stewardship Codes should be amended accordingly. (para 49)**

Government response

The Government agrees with the Committee that it would improve the health of the audit market if major company audits were put out to tender more frequently than is typically the case in the UK at present. The risk with mandatory tendering is either that it causes excessive cost if the period of tendering is too frequent, or fails to achieve the objective if the period is too long. The Government believes that the frequency with which company audits are put out to tender should take account of the size and complexity of the company; and that the largest companies should explain each year: the basis for the audit committee's recommendations to the Board and to shareholders as to whom should be appointed auditor; how long the current auditor has been in post; and when a tender was last conducted. The Government also agrees on the importance of a dialogue between the principal shareholders and directors, including the members of the audit committee, but does not believe it would be right to limit this to once every five years.

The forthcoming BIS consultation on reform of narrative reporting will set out the Government's proposals for disclosure of information about the principal accounting and audit judgements.

The Government would support appropriate amendments to FRC's Corporate Governance and Stewardship Code at their next general revision.

Recommendation

177. Like the FRC's Market Participants' Group measures, the changes we recommend above should be marginally beneficial. But they would not deal with the fundamental issue of audit market concentration. Regrettably, with the notable exception of our investor witnesses, most shareholders appear to care little about a company's choice of auditor. It seems improbable that this apathy will soon be remedied. So measures which rely on shareholder engagement to help lessen audit market concentration are unlikely to be effective. (para 50)

Government response

The greater transparency of the work of the audit committee, in conjunction with the package of measures the Government and other stakeholders are working towards, may have the result, over time, of reducing concentration in the audit market.

Recommendation

178. Baroness Hogg told us that the expected abolition of the Audit Commission would provide an opportunity to increase competition and choice in the audit market if it formed the basis of a substantial new competitor to the Big Four. We recommend that the Government should work to encourage the emergence of such a competitor. (para 53)

Government response

The Government is considering a range of options for transferring the Audit Commission's in-house practice into the private sector, with the aim of achieving value for money for the taxpayer, and a good deal for partners and customers. The Department for Communities and Local Government published a consultation document on 30 March setting out proposals for the future framework for local public sector audit. These proposals, based on the principles of localism and transparency, aim to strike a balance between maintaining the quality of audit while opening up the market. This consultation runs until 30 June 2011 and is available on the DCLG website¹.

Recommendation

179. The Government should make greater efforts, within EU procurement rules, to enable non-Big Four firms to win public sector work. This should include any work no longer undertaken by the Audit Commission. (para 55)

Government response

The Government is committed to improving value for money from public procurement and to that end is centralising within Whitehall the procurement of common goods and services, including for audit and assurance. The procurement strategy that "audit and assurance" comes under is the "Professional Service" category and this will be designed to widen the supplier pool and reduce our dependency on the biggest suppliers, thereby strengthening competition in the public sector supply market.

More generally, each centrally managed category will include a specific focus on how procurement opportunities will be made available to the SME community, in support of the Government's commitment and aspirations. The size of the opportunity will vary by category and will be balanced with the overriding priority to reduce costs to Government. There will be a phased implementation of this work during 2011 and 2012.

In relation to local public bodies, as set out above, the Government is currently consulting on proposals for the future of local public sector audit. These proposals, based on the principles of localism and transparency, aim to strike a balance between maintaining the quality of audit while opening up the market. This consultation runs until 30 June 2011 and is available on the DCLG website. Ministers will consider carefully the responses to that consultation, and the conclusions of the CLG Select Committee Inquiry into the future of local audit, before making their decisions on the new framework and subsequently publishing legislation in draft.

¹ <http://www.communities.gov.uk/documents/localgovernment/pdf/1876169.pdf>

Recommendation

180. We consider that the OFT should conduct a market study of restrictive bank covenants. This would form part of the wider inquiry into the audit market which we recommend later in this report. (para 57)

Government response

In the Plan for Growth², published by the Government at the same time as the 2011 Budget, the Government called on the OFT to investigate whether clauses in lending agreements made by the banks are unfairly restricting competition in the audit market. In accordance with the OFT's announcement of 17 May, this may be one of the remedies that the OFT will be considering before it decides whether or not to refer to the Competition Commission.

Recommendation

181. Auditors' unlimited liability needs to be investigated to determine whether it deters non-Big Four auditors from taking on large listed clients. This too could form part of an Office of Fair Trading (OFT) investigation into the audit market which we recommend later in the report. (para 60)

Government response

It is for the OFT to determine the subject matter of its investigations. However, the Government has no current plans to further limit liability for auditors. The Companies Act 2006 already allows for contractual limitation of liability and some auditor liability agreements have been signed.

Recommendation

182. The leading second-tier audit firms have told us that their scope for growth is not constrained by any problems of access to capital. So we see no immediate grounds to change the law to lift limits on shareholdings by non-auditors in audit firms, especially since such a change would carry the risk that auditors might become less independent. The OFT should also examine limits on share ownership as part of its investigation. (para 64)

Government response

The Government agrees there is no immediate need. However, subject to ensuring appropriate maintenance of auditor independence, it believes it is wrong in principle to limit the sources of capital, and has therefore called on the European Commission to bring forward proposals for the necessary changes to European law to enable this to happen.

Recommendation

183. We strongly support the development of separate risk committees in banks and major financial institutions. Other large companies should institute them where appropriate. Such committees will increasingly require specialist skills and external advice. This advice should not be provided by the firm which is the company's auditor. Providing it could open opportunities for non-Big Four accountancy firms to enter the large company market in a way which they have found difficult to do. (para 69)

² http://www.hm-treasury.gov.uk/ukecon_growth_index.htm

184. We believe that every bank should have a properly constituted and effective Risk Committee of the Board. It should be one of the duties of the external auditor to ensure that this is done, by making clear that if it is not, the auditor will say so in a qualification to the accounts. This is best dealt with by rules made and guidance issued by the FRC rather than by being made a statutory requirement. Reference should however be made to it in legislation on the relationship between financial supervisors and auditors, to which we return later in the report. (para 70)

Government response

The Government agrees that separate risk committees are desirable for banks and other institutions to which they are relevant. It is for each individual institution to determine, based on its nature, scale and complexity, as well as its attitude and exposure to risk, whether or not to establish a risk committee of the governing body. There is a strong presumption³ that banks and insurers that are included in the FTSE 100 are examples of types of firm that should have separate risk committees. Firms must also justify to their supervisor the quality of risk management oversight arrangements they choose to establish.

However the rationale for prohibiting the firm's auditor from providing any advice to the risk committee is unclear. The auditor would certainly wish to talk to the risk committee to ensure it was aware of all the risks the committee considered relevant to their audit. Similarly in many cases the auditor will be best placed to highlight risks relating to a particular institution's business or business model which it has considered during the audit. While the risk committee might often want to seek additional external advice, it might also wish to ask the auditor to provide assurance work for it outside the statutory audit, especially when this is closely linked to the audit work. The Government would not wish to see the auditor prohibited from giving advice to the risk committee (the law already requires public disclosure of any non-audit services).

Recommendation

185. In order to lower regulatory costs, there is a strong case for some reduction in the audit requirement on smaller companies. This is unlikely to reduce audit market concentration, since the audit requirement would remain in place for the large listed companies where the Big Four predominate. (para 75)

Government response

The Government agrees. In its Plan for Growth the Government has committed to reducing the number of SMEs required to undertake an audit by using all of the existing small company audit exemptions in the European Directives. Similarly, the Government is pressing the European Commission to remove the audit requirement for most medium sized companies.

The Government will also take advantage of existing exemptions in EU accounting directives to exempt most subsidiaries from having their accounts audited, where their debts are guaranteed by their parent company.

Recommendation

186. Investors and others demand that audit should provide broader, more up-to-date, assurance on such matters as risk management, the firm's

³ FSA 2010/48 Controlled Functions (Amendment) Instrument 2010, which came into force 1 May 2011.

business model and the business review. This additional assurance would help the audit to meet the current expectations of investors and the wider public. Any widening of auditors' assurance would radically change their role. Again the OFT should address this issue as part of its broader review of the workings of the audit market. (para 79)

Government response

The Government believes that in order to do their job properly and engage effectively with companies, shareholders must be equipped with good quality information that allows them to make well-informed decisions. In the summer of 2011 the Government will be bringing forward for consultation proposals to clarify and improve company reporting to make it less complex and enable shareholders and other readers to access information more easily. These proposals will set out the role of audit and assurance in relation to these issues.

Recommendation

187. We are not convinced that a complete ban on audit firms carrying out non-audit work for clients whose accounts they audit is justified. But we recommend that a firm's external auditors should be banned from providing internal audit, tax advisory services and advice to the risk committee for that firm. We also recommend that the Office of Fair Trading should examine whether any other services should be banned from being carried out by a firm's external auditors. (para 87)

Government response

For the reasons set out above, the Government does not agree that external auditors should be completely banned from providing advice to the risk committee.

The Auditing Practices Board's (APB) Ethical Standards prohibit the audit firm from providing internal audit services to its audit client where it is reasonably foreseeable that: (a) for the purposes of the audit of the financial statements, the auditor would place significant reliance on the internal audit work performed by the audit firm; or (b) for the purposes of the internal audit services, the audit firm would undertake part of the role of management. The APB Ethical Standards also set out restrictions and safeguards where the auditor provides tax services for the audited entity.

The Government believes that these standards, which were revised in December 2010, are sufficient to ensure the independence of the auditors.

Recommendation

188. Any move from the Big Four to a Big Three would create an unacceptable degree of market concentration. Choice and competition in the audit market would be seriously undermined. (para 89)

189. We recommend that the Government and regulators should promote the introduction of living wills for Big Four auditors. These would lay out all the information the authorities would need to separate the good from the failing parts of an audit firm so disruption to the financial system from a collapse would be minimised. (para 92)

Government response

The Government has been working with the FRC, the FSA and Bank of England on potential responses to the one of Big 4 exiting the market. Whilst any response

would reflect the particular circumstances, we are clear that no audit firm is too big to fail.

If an audit firm did withdraw from the market, the emphasis would be on mitigation of the wider consequences for the audit clients and their investors. The Government will explore with the audit profession issues around contingency planning, including whether the major firms should have living wills. Contingency plans may need to be coordinated cross border by regulators and governments and firms in order to minimise market disruption, and the Government will continue to press for this in the EU.

Recommendation

190. In this report we have recommended a number of measures to reduce the dominance of the Big Four in the large firm audit market. But within the time and the resources available to us, we have not been able fully to address all the highly complex issues which may stem from market concentration. These include:

- (i) lack of choice;**
- (ii) higher fees than in a more competitive market;**
- (iii) lower quality; and**
- (iv) the huge risks involved if one of the Big Four left the audit market.**

A thorough review of the issues in depth and in the round is overdue. We recommend that the OFT should conduct such an investigation into the audit market in the UK, with a view to a possible referral to the Competition Commission. Its findings would need to take full account of the international dimension, but the UK could give a lead internationally by undertaking such a review. (para 98)

Government response

The Government is keen to identify ways to address practices that might inhibit growth, including those that might be detrimental to competition and choice in the audit market. The Government therefore welcomes the OFT's announcement of 17 May 2011, that it had decided that there were competition problems in the audit market that pass the statutory test for referral to the Competition Commission. The OFT intends over the next months to discuss with the Government, regulators, business and the audit industry whether, in practice, potential remedies exist that could allow the Competition Commission to resolve these problems. The OFT will then make a provisional decision, on whether or not to refer the market to the Competition Commission, which will be subject to a statutory consultation later this year.

Recommendation

191. The regulation of accounting and auditing is fragmented and unwieldy with manifold overlapping organisations and functions. This is neither productive nor necessary. Other professions have only one regulator—medicine for example under the General Medical Council. The wider powers sought by the Financial Reporting Council would go some way to simplifying and streamlining matters for audit. But further impetus needs to be given to rationalisation and reform. We hope and expect that the profession will provide that impetus. In the absence of rapid progress, we

recommend that the Government stand ready to impose a remedy. (para 110)

Government response

BIS and the Financial Reporting Council (FRC) expect to consult on possible reforms to the FRC's powers and structure during the forthcoming months. This will include any proposed legislative changes.

Recommendation

192. Obvious benefits should flow from global adoption of common accounting standards for a global economy. But there is a corresponding risk that the lowest common denominator will prevail. So all concerned need to insist on the highest possible standards of rigour, clarity and quality of accounting and audit. (para 129)

193. We accept that standards for use in many countries need clear rules which all can apply. It follows that IFRS is more rules-based than UK GAAP. But we are concerned by evidence that, by limiting auditors' scope to exercise prudent judgement, IFRS is an inferior system which offers less assurance. IFRS also has specific defects, such as its inability to account for expected losses. The weaknesses of IFRS are especially serious in relation to bank audits. (para 130)

194. We recommend that the profession, regulators and the Government should all seek ways to defend and promote the exercise of auditors' traditional, prudent scepticism. The Government should reassert the vital role of prudence in audit in the UK, whatever the accounting standard, and emphasise the importance of the going concern statement. (para 131)

Government response

The Government does not accept that IFRS has led to a loss of prudence. While prudence is no longer referred to specifically in the IASB Framework, or as a fundamental concept in UK GAAP, the concept of prudence continues to permeate accounting standards. Prudence remains a concept in the IFRS for SMEs. In UK GAAP, it still forms part of the Accounting Standards Board's statement of principles as an aspect of reliability, and therefore a desirable quality of financial information. The UK accounting standard, FRS 18 'Accounting Policies' notes that prudence needs to be exercised when there is uncertainty. Auditors conduct their audits with reference to the accounting frameworks, and are required to exercise judgment and professional scepticism.

On 8 March 2011 the FRC announced the launch of a Panel of Inquiry led by Lord Sharman to identify lessons on going concern and liquidity risk for companies and auditors. The inquiry is likely to provide its final recommendations by the end of the year. It is expected to help to inform the debate that the FRC is seeking to promote through its discussion paper: "Effective Company Stewardship—Enhancing Corporate Reporting and Audit."

Recommendation

195. Achieving general agreement on IFRS could be a long and uncertain process. In the meantime, we recommend that the Government and regulators should not extend application of IFRS beyond the larger, listed companies where it is already mandatory. Continued use of UK GAAP should be permitted elsewhere, so that the basis of a functioning,

alternative system remains in place in case IFRS do not meet their aims. (para 132)

Government response

The Government agrees that no UK company should be required to produce its own individual accounts on IFRS, but equally—as at present—would not wish to prevent companies from choosing to do so if they wished.

Recommendation

196. As it revises banking regulation, we recommend that the Government should have the importance of accounting standards at the forefront of its mind. It should promote a prudent interpretation of IFRS as applied to banks. This would include sober valuation of complex financial instruments. At present IFRS permits recognition only of incurred losses, not expected losses. So it is essential that banks put aside reserves in good times to provide against downturns. This would have the incidental advantage of reducing the scope for banks to pay bonuses on the basis of profits struck without taking account of possible losses. We recognise that a fully satisfactory outcome depends on international negotiation and believe that the Government should give a lead. (para 133)

Government response

The Government has supported the prudent and consistent revision of international valuation standards for complex financial instruments, and agrees with the Committee on the importance of sound business practices in financial institutions; including building appropriate capital buffers to provide against downturns.

At present, International Financial Reporting Standards (IFRSs) and US generally accepted accounting principles (GAAP) account for losses on loans using an incurred loss model, which requires objective evidence of a loss (known as a trigger event) before financial assets can be written down (and an estimate of incurred but not reported losses at the balance sheet date for granular pools of loans that are collectively assessed). The two accounting standards boards have published proposals to move to an expected loss model that provides a more forward-looking approach to how credit losses are accounted for, which they believe better reflects the economics of lending decisions. When finalised, these proposals will be added to IFRS 9 Financial Instruments. The IASB's target completion date for impairment accounting is 30 June 2011. This is intended to address the capturing of losses expected in future periods arising from the existing loan portfolio.

Financial reporting however, is designed to convey a true and fair view *at a point in time*. Therefore, accounting provisions are not explicitly designed to be counter-cyclical (i.e. providing in good times against potential downturns). Regulators have tools (e.g. prudential filters) to adjust banks' capital requirements if accounting valuations are inappropriate for regulatory purposes. In addition, Basel 3 recently agreed changes to enhance the quality and quantity of capital held by banks specifically to provide for more effective counter cyclical buffers.

Recommendation

197. There is a particular—and particularly serious—problem with the auditing of banks which has to be faced. An auditor who encounters a problem which might, in the ordinary course of events, justify a published qualification to the accounts, might understandably be reluctant to insist

on this in the case of a bank. They might fear that to do so could cause a collapse of confidence and a run on the bank, to the detriment of the shareholders and, quite possibly, of the wider public interest. While this problem cannot be entirely avoided, we recommend in paragraphs 164, 165 and 167 how it can best be minimised. (para 140)

198. We do not accept the defence that bank auditors did all that was required of them. In the light of what we now know, that defence appears disconcertingly complacent. It may be that the Big Four carried out their duties properly in the strictly legal sense, but we have to conclude that, in the wider sense, they did not do so. (para 142)

199. It cannot (or at least should not) be taken for granted by auditors that banks in difficulties will be bailed out by the authorities and the taxpayers. We do not accept therefore that this should at any time be a decisive consideration in making the ‘going concern’ judgment. (para 144)

Government response

The Government has, to date, made no guarantees regarding the going concern status of systemically important financial institutions, and it would be unwise for any institution to conclude, on the basis of previous action, that any implicit guarantee exists.

Lord Sharman’s Panel of Inquiry is considering what measures, if any, are necessary to improve the existing reporting regime and related guidance for companies and auditors in relation to these matters. The Government intends to await the outcome of his inquiry before determining if it needs to take action.

Recommendation

200. Adequate and timely dialogue between bank auditors and supervisors is of the first importance. It is essential not only to enable the auditors to audit more effectively and the supervisors to supervise more effectively, but in particular to overcome the problem caused by the understandable reluctance of auditors to qualify banks’ accounts. (para 155)

201. We regard the recent paucity of meetings between bank auditors and regulators, particularly in a period of looming financial crisis as a dereliction of duty by both auditors and regulators. (para 161)

202. We welcome the Code of Practice proposed by the Bank of England and the FSA for the relationship between the external auditor and the supervisor. But in the light of the regrettable backsliding of the years 1997–2007, and of the manifest importance of this issue, we believe that a Code of Practice does not go far enough. A statutory obligation is required. (para 164)

203. This might take the form of a mandatory quarterly meeting, at the highest appropriate level, between the supervisory authority and the external auditor of each bank whose failure might, in the view of the supervisory authority, pose a systemic risk. There might be a further requirement for either side to initiate a meeting between the regular quarterly meetings should information come to light which might warrant such a meeting. (para 165)

Government response

The FSA consulted on its new Code of Practice for the relationship between the external auditor and FSA earlier this year. This sets out principles to guide

interactions between supervisors and auditors. It recognises that timely, relevant information sharing is an essential part of an effective working relationship, and it indicates a minimum level of bilateral and trilateral meetings that should take place for high impact firms.

At this stage the Government is not persuaded that there is a strong case for additional legislation in this area as the Bank of England has not indicated that they would wish to see this placed on a statutory footing, and the power to request that this dialogue take place is already in the Financial Services and Markets Act 2000.

Recommendation

204. There was no single cause of the banking meltdown of 2008–09. First and foremost, the banks have themselves to blame. As our predecessor Committee found in its report on *Banking Supervision and Regulation* in 2009, the supervisory system put in place in 1997 proved unfit for purpose. But we conclude that the complacency of bank auditors was a significant contributory factor. Either they were culpably unaware of the mounting dangers, or, if they were aware of them, they equally culpably failed to alert the supervisory authority of their concerns. Our recommendations are designed to address these failings and thus make a repetition less likely. (para 167)

Government response

The Government agrees that it would be invidious to single out auditors as solely to blame for the banking crisis. It believes that a balanced response, both nationally and internationally, to the three areas of: audit quality, competitive supply of audits and contingency planning for a major audit failure are the best guarantee to ensure that the auditors can play their part in limiting the scope for failure and enhancing corporate growth.

Department for Business, Innovation & Skills

24 May 2011