

Press release: CMA launches immediate review of audit sector

As part of its review, the Competition and Markets Authority (CMA) will investigate whether the sector is competitive and resilient enough to maintain high quality standards.

The move comes amid growing concerns about statutory audits, in particular following the collapse of construction firm Carillion and the criticism of those charged with reviewing the organisation's books, as well as recent poor results from reviews of audit quality.

CMA Chairman Andrew Tyrie said:

If the many critics of the audit process are right, it is not just the companies which buy audits that lose out; it is the millions of people dependent on savings, pension funds and other investments in those companies whose audits may be defective.

Sir John Kingman's independent review of the regulator is a big step in the right direction. And the CMA will now examine the market carefully to establish what contribution more effective competition could make to improving audit quality.

CMA Chief Executive Andrea Coscelli also commented:

High quality audit work underpins a successful economy and benefits us all. Given the in-depth thinking already done by the CMA and the Competition Commission before it, we plan to move swiftly and to issue our provisional findings before Christmas.

The CMA's market study will examine 3 main areas:

- Choice and switching. Changes put in place by the Competition Commission appear to have strengthened competition between the big four firms – Deloitte, KPMG, E&Y and PwC – but the largest UK companies still turn almost exclusively to one of them when selecting an auditor to review their books.
- Resilience. The market study will examine what the role of the big four firms means for resilience – the risk being that each of the big four auditors is “too big to fail”, potentially threatening long-term competition.
- Incentives. Companies, rather than their investors, pick their own auditor. The CMA's work will examine concerns that this might result in a lack of incentive to produce challenging performance reviews.

If the CMA finds evidence that the market is not working well after examining these areas, it will scrutinise all proposals for tackling them.

The CMA has written to the government about its market study and the possible need for legislation to implement its findings and those of the independent review of the Financial Reporting Council led by Sir John Kingman.

Find out more on the [audit market study page](#).

Notes for editors

1. Market studies are carried out using powers under section 5 of the Enterprise Act 2002 (EA02) which allows the CMA to obtain information and conduct research. They allow a wide consideration of issues affecting the market. They can include a range of outcomes including recommendations to government, enforcement action and referral for market investigation.
2. The CMA intends to consult on provisional views by the end of the year and complete its work as soon as possible thereafter. As part of this, the CMA will take into account the views of a range of stakeholders, including the Financial Reporting Council as the sector regulator.
3. The CMA is the UK's primary competition and consumer authority. It is an independent non-ministerial government department with responsibility for carrying out investigations into mergers, markets and the regulated industries and enforcing competition and consumer law. For CMA updates, follow us on [Twitter](#), [LinkedIn](#) and [Facebook](#).
4. Media queries should be directed to: press@cma.gov.uk or 020 3738 6460.