

# Press release: CMA proposes reforms to improve competition in audit sector

The Competition and Markets Authority (CMA) has published an update paper outlining serious competition concerns and proposing changes to legislation to improve the audit sector for the benefit of savers and investors alike. It is now putting these proposals out for public consultation.

Following the launch of its [market study](#) in October, the CMA has identified a number of reasons why it believes audit quality is falling short:

- companies choose their own auditors, and as a result we have seen too much evidence of them picking those with whom they have the best 'cultural fit' or 'chemistry' rather than those who offer the toughest scrutiny
- choice is too limited, with the Big Four audit firms conducting 97% of the audits of the biggest companies
- auditors' focus on quality appears diluted by the fact that at least 75% of the revenue of the Big Four comes from other services like consulting

In order to address these concerns, the CMA is proposing legislation to: separate audit from consulting services; introduce measures to substantially increase the accountability of those chairing audit committees in firms, and impose a 'joint audit' regime giving firms outside the Big Four a role in auditing the UK's biggest companies.

CMA Chairman Andrew Tyrie said:

Addressing the deep-seated problems in the audit market is now long overdue. Most people will never read an auditor's opinion on a company's accounts. But tens of millions of people depend on robust and high-quality audits. If a company's books aren't properly examined, people's jobs, pensions or savings can be at risk.

The CMA will now consult on a number of proposals for robust reform. These intractable problems may take some years to sort out. If it turns out that the proposals are not far-reaching enough, the CMA will persist until the problems are addressed.

CMA Chief Executive Andrea Coscelli also commented:

We have moved fast to come up with a comprehensive package of proposals for legislation, which we will now consult on. Successful reform of the audit market will require legislation, in combination with planned improvements to regulation as recommended by Sir John Kingman.

The reforms proposed by the CMA are:

## **A split between audit and advisory businesses**

To get higher quality, auditors should focus exclusively on audit – not on also selling consulting services. One way of achieving this could be a structural break-up. But the international networks these firms belong to and the extent to which audit firms draw on expertise of those advising businesses would make this protracted and complex. A more immediate solution would be for audit and non-audit businesses to be split into separate operating entities. To be effective this will also require separate management, accounts and remuneration. That way auditors will only be rewarded for scrutinising an organisation's accounts but will still be able to draw on expertise from other parts of the firm.

## **Regulatory scrutiny of auditor appointment and management**

Audits are a legal requirement, to ensure that companies act in the interests of their owners rather than their managers. Given the relative lack of engagement by investors and owners of some of Britain's largest companies, these companies should not be left to appoint their own auditors alone. The CMA proposes close scrutiny of audit appointment and management to make sure those appointing auditors are held to account and independent enough to choose the most challenging audit firm, rather than – for example – the cheapest.

## **Encouraging more choice**

At present, many of the UK's largest companies have little choice, given that one or more of the Big Four may be conflicted. Competition is weak. The CMA proposes that audits of the UK's biggest companies (FTSE 350) should be carried out by at least 2 firms, at least one of which would be from outside the Big Four. This will give mid-tier firms access to the largest clients, allowing them to develop their experience and credibility, while also ensuring a cross-check on quality. A possible alternative is a market share cap – ensuring that some major audit contracts are only available to non-Big Four firms.

The CMA's proposals only address some of the concerns in this sector. Sir John Kingman's independent review addresses another: issues with current regulation. Today the government has announced a review of the purpose and scope of the audit more widely. It is already clear from the CMA's work that a robust approach will likely be required here too.

The CMA now welcomes comments on its update paper by 21 January 2019.

## **Notes to 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 welcomes views on its update paper by 21 January and hopes to conclude its work as soon as possible in 2019.
3. The Big Four audit firms in the UK are Ernst & Young (EY), Deloitte, KPMG and PricewaterhouseCoopers (PwC).
4. 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](#).
5. Media queries should be directed to: [press@cma.gov.uk](mailto:press@cma.gov.uk) or 020 3738 6460.

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## [News story: Gove launches landmark blueprint for resources and waste](#)

Businesses and manufacturers will pay the full cost of recycling or disposing of their packaging waste, under a major new government strategy unveiled by the Environment Secretary today (Tuesday 18 December 2018).

The move will overhaul England's waste system, putting a legal onus on those responsible for producing damaging waste to take greater responsibility and foot the bill.

The announcement forms part of the government's ambitious new [Resources and Waste Strategy](#), the first comprehensive update in more than a decade. It will eliminate avoidable plastic waste and help leave the environment in a better state than we found it for future generations.

Producers will also be expected to take more responsibility for items that can be harder or costly to recycle including cars, electrical goods, and batteries.

Householders will also see the existing complicated recycling system simplified, with new plans for a consistent approach to recycling across England. Timings for introduction will be subject to discussions at the Spending Review.

Launching the strategy at Veolia's recycling centre in London, one of the most advanced sorting facilities in Europe, Environment Secretary Michael Gove said:

Our strategy sets out how we will go further and faster, to reduce, reuse, and recycle. Together we can move away from being a 'throw-away' society, to one that looks at waste as a valuable resource.

We will cut our reliance on single-use plastics, end confusion over household recycling, tackle the problem of packaging by making polluters pay, and end the economic, environmental and moral scandal that is food waste.

Through this plan we will cement our place as a world leader in resource efficiency, leaving our environment in a better state than we inherited it.

To help drive up recycling levels further, the government will introduce consistent set of recyclable material for collection, subject to consultation. This will be funded by industry through Extended Producer Responsibility (EPR), which will see industry pay higher fees if their products are harder to reuse, repair or recycle and will encourage sustainable design, subject to consultation. EPR for packaging will raise between £0.5 billion and £1 billion a year for recycling and disposal.

The move builds on the Autumn Budget, which announced a world-leading tax on plastic packaging which does not meet a minimum threshold of at least 30% recycled content, subject to consultation, from April 2022. This will address the current issue of it often being cheaper to use new, non-recycled plastic material despite its greater environmental impact.

### **The Resources and Waste Strategy sets out how government will:**

- Ensure producers pay the full net costs of disposal or recycling of packaging they place on the market by extending producer responsibility – up from just 10% now.
- Review our producer responsibility schemes for items that can be harder or costly to recycle including cars, electrical goods, batteries and explore extending it to textiles, fishing gear, vehicle tyres, certain materials from construction and demolition, and bulky waste such as mattresses, furniture and carpets.
- Introduce a consistent set of recyclable materials collected from all households and businesses, and consistent labelling on packaging so consumers know what they can recycle, to drive-up recycling rates.
- Ensure weekly collections of food waste, which is often smelly and unpleasant, for every household – restoring weekly collections in some local authorities. This will be subject to consultation which will also consider free garden waste collections for households with gardens, to reduce greenhouse gas emissions from landfill
- Introduce a deposit return scheme, subject to consultation, to increase the recycling of single-use drinks containers including bottles, cans, and disposable cups filled at the point of sale.
- Explore mandatory guarantees and extended warranties on products, to encourage manufacturers to design products that last longer and drive up the levels of repair and re-use.
- Introduce annual reporting of food surplus and waste by food businesses. Should progress be insufficient, we will consult on introducing mandatory targets for food waste prevention.
- Clamp-down on illegal movements of waste at home and abroad by

introducing compulsory electronic tracking of waste, and tougher penalties for rogue waste crime operators if they mislabel their waste to dodge tax rules.

The strategy sits alongside government's [25 Year Environment Plan](#), the recently published [Bioeconomy Strategy](#), and the [Clean Growth Strategy](#) which sets out how the UK is leading the world in cutting carbon emissions to combat climate change and driving economic growth.

Speaking at Veolia Southwark's Integrated Waste Management Facility in London, Richard Kirkman, Veolia's Chief Technology and Innovation Officer, said:

The government has listened to industry and these steps have the clear potential to dramatically change the way the sector operates to increase recycling and recovery rates.

With consistent collections and advanced facilities like this at Southwark more recyclable materials can be collected for reprocessing into new products. As a business we are ready to invest, to take advantage of new technology, build more infrastructure and work with brand owners and local authorities to harness resources on an industrial scale.

It's the direction we have been hoping and waiting for, and with the public and businesses playing their part the UK can build a sustainable future.

Paul Vanston, CEO of the Industry Council for Packaging and the Environment (INCPEN) said:

Substantial credit is due to Secretary of State Michael Gove, Environment Minister Therese Coffey and officials for the high quality and depth of their engagement work in the lead up to this Resources & Waste Strategy.

The focus on whole-system changes is welcome including packaging reforms, consistency of councils' household collections, and ways to increase investment in recycling infrastructure.

Gudrun Cartwright, environment director at Business in the Community, said:

We welcome the Resources and Waste Strategy and the ambitious direction it sets for the UK. By making the most of valuable resources, businesses can lead the way and help turn the tide on waste by 2030. We know that businesses want to come together, take action and get results faster with over 80 major brands signing our Waste to Wealth Commitment to help double the nation's resource

productivity and eliminate avoidable waste by 2030. Research carried out in partnership with Ipsos MORI told us that consumers welcome action from business to help them do their bit and reduce waste. Around 80% of people chose money-back incentives; dedicated spaces in shops to return used packaging and clothing; loyalty points and hiring not buying as the most popular actions from business when it comes to helping consumers reduce their own individual waste.

2030 is a critical year if we are to ensure we have an environment in which business and communities can flourish. The risks of inaction are enormous, but so too are the opportunities that could be created from a prosperous and resilient, low carbon economy. We must make the most out of precious resources, waste as little as possible and find ways of turning the waste we do create into new wealth. Business must now focus on setting targets to improve the productivity of resources that are key for their business, work collectively towards doubling the nation's resource productivity and eliminate avoidable waste by 2030, redesign how resources are used in products, services and operations, collaborate across organisations, value chains and sectors and report on progress to share learning and keep the momentum going.

Sir James Bevan, Chief Executive of the Environment Agency, said:

We support a circular economy and welcome the resource and waste strategy that will help us all deliver it.

The plan embodies a solid commitment to tackling serious and organised waste crime, which drains the economy and blights communities.

Last year, the EA closed down over 800 illegal sites and carried out 93 successful prosecutions. The strategy sets to build on our successes, with additional resources, better innovation and improved partnerships across government and enforcement agencies.

The strategy builds on existing government work to tackle unnecessary waste including a [world-leading ban on microbeads](#) in personal care products, a [5p plastic bag charge](#) which has taken over 15 billion single-use plastic bags out of circulation, a [£15 million pilot scheme for reducing food waste](#), and [up to £10 million to clear the worst abandoned waste sites](#) that blight local communities.

On the same day, the government announced £8m of funding for eight new research projects that will explore new and different ways of making, using and recycling plastics.

The government is also investing £20m to tackle plastics and boost recycling: £10m more for plastics research and development and £10m to pioneer

innovative approaches to boosting recycling and reducing litter, such as smart bins. This is in addition to the £20m for plastics research and development through the Plastics Innovation Fund announced in March 2018.

The government is committed to being a world leader in resource efficiency and driving international action, including through our ground-breaking Commonwealth Clean Oceans Alliance and a [£66 million package of funding to boost global research](#).

- ‘Extended Producer Responsibility’ (EPR) is a powerful environmental policy approach through which a producer’s responsibility for a product is extended to the post-use stage. This incentivises producers to design their products to make it easier for them to be re-used, dismantled and/or recycled at end of life. Alongside stakeholders, we consider EPR to be a crucial tool in moving waste up the hierarchy, and stimulating secondary markets. It has been adopted in many countries around the world, across a broad range of products, to deliver higher collection, recycling and recovery rates. The most successful schemes use a range of measures to encourage more sustainable design decisions at the production stage.
- The ‘circular economy’ is linked to the concept of the ‘circle of life’ – nature’s way of returning life back to the earth so that when something dies, it gives new life to another. In terms of materials and resources, the circular economy relates to the re-use, re-fashioning, or remanufacturing of goods, thus extending their lifespan.
- Packaging reform is government’s immediate priority. We will launch a consultation to reform the packaging waste regulations shortly. We will ensure that the reformed system will match or exceed targets set by the EU.
- Subject to consultation we will legislate to allow government to specify a core set of materials to be collected by all local authorities and waste operators.
- Timings of all the proposals can be found in the Strategy.
- Household waste recycling rates in England have risen from around 11% in 2000/1 to about 45%, but since 2013 rates have plateaued.
- Government recently commissioned and published the recommendations of an [independent review on Serious and Organised Crime in the waste sector](#).

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**[Press release: Government takes next step in improving standards of UK audit market with new independent](#)**

# review into audit standards

- high quality audit work is critical to financial markets and the economy – this review will consider standards being delivered by UK auditors and what more can be done to make them more effective and reputable
- review will look at what the standards and requirements should be for the UK audit profession in the future
- the Brydon Review into UK Audit Standards comes as the CMA publishes its interim findings on competition in the market and Sir John Kingman publishes his proposals for replacing the FRC with a strengthened watchdog

The government will today (Tuesday 18 December) launch a new independent review into standards in the UK audit market, with the outgoing Chairman of the London Stock Exchange tasked with recommending what more can be done to ensure audits meet public, shareholder and investor expectations.

The review will be led by Donald Brydon, chairman of the Sage Group, who has extensive experience within the finance and audit sector and will be supported by an advisory board which he will appoint.

The Brydon Review into UK Audit Standards will build on the findings of two parallel reviews looking into: the independent review by Sir John Kingman of the industry's scrutiny body – the Financial Reporting Council (FRC); and the Competition and Market Authority's (CMA) market study looking at the effectiveness of competition in the audit market, both published today.

The CMA paper identified serious competition concerns in the audit sector, as well as proposing changes to legislation to improve the audit sector for the benefit of companies and investors alike. It is now putting these proposals out for public consultation. Meanwhile Sir John Kingman's independent review has recommended to government that the FRC be replaced with a new independent regulator with clear statutory powers and objectives.

Business Secretary Greg Clark said:

The UK is rightly recognised internationally for our outstanding business environment and responsible business practices, both of which are fundamental reasons why we are one of the best places in the world to work, invest and do business.

I'm delighted that Donald Brydon will be leading this review, following the important work of Sir John Kingman and the CMA, and his work should help us improve and restore confidence in the quality and rigour of audit companies.

Audit companies need to learn the recent lessons from high profile audit failures and reform to regain public confidence, or they will be forced to do it.

This new review, building on the work of the FRC and CMA reviews, will now consider audits as a product and what the future, standards and requirements should be for audits in the future. To ensure the UK's audit sector remains world leading by constantly looking to upgrade standards, the Brydon Review into UK Audit Standards will consider:

- how far audit can and should evolve to meet the needs of investors and other stakeholders, putting the UK at the forefront;
- how auditors verify information they are signing off;
- how to manage any residual gap between what audit can and should deliver; and
- what are the public's expectations from audit.

The new Review will also test the current model and ask whether it can be made more effective as well as looking at how audit should be developed to better serve the public interest in the future, taking account of changing business models and new technology.

The review is part of the government's modern Industrial Strategy – a long term plan to build a Britain fit for the future through a stronger, fairer economy.

It comes as part of a wider package of corporate governance reforms recently introduced by the government.

A detailed Terms of Reference and project plan will be published in the New Year.

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## **Press release: Government announces new Code of Practice to tackle sexual harassment at work**

Government will introduce a new Code of Practice so employers better understand their legal responsibilities to protect their staff as part of a package of commitments to tackle sexual harassment at work.

Responding to the Women and Equalities Select Committee report, the Government Equalities Office also promised to carry out awareness raising work with the Advisory, Conciliation and Arbitration Service (Acas), the Equality and Human Rights Commission and employers on how to prevent and

address sexual harassment at work; to work with regulators to ensure they are taking action; and commission survey data on the prevalence of sexual harassment at work.

The government will also consult on:

- Non-disclosure agreements
- How to strengthen and clarify the laws in relation to third party harassment
- The evidence base for introducing a new legal duty on employers to prevent sexual harassment in the workplace

ComRes, in their 2017 research for the BBC, claim that 40% of women (and 18% of men) have experienced unwanted sexual behaviour at work at some point.

Minister for Women Victoria Atkins said:

“Sexual harassment at work is illegal, but sadly that disgusting behaviour is something that many women still experience today.

“We are taking action to make sure employers know what they have to do to protect their staff, and people know their rights at work and what action to take if they feel intimidated or humiliated.

“Everyone has the right to feel safe at work.”

Business Minister Kelly Tolhurst said:

“It continues to disappoint me that in this day and age some women still face discrimination and harassment at work.

“One part of this is the minority of cases where non-disclosure agreements are used unethically, and employees may not be aware of their protections and rights. We will be consulting on these.”

Going beyond the recommendations in the WESC report, the government has also promised to consult on whether additional protections are needed for volunteers and interns, (looking at all the protections in the Equality Act 2010, not just those on sexual harassment), and to explore the evidence for extending the time limits to bring any workplace discrimination and harassment case under the Equality Act 2010 to an employment tribunal.

Notes to editors:

The government is developing next steps on this package.

The government will:

- Introduce a new statutory code of practice on sexual harassment, which will be developed by the Equality and Human Rights Commission under its Equality Act 2006 powers
- Run awareness raising work with Advisory Conciliation and Arbitration Service (Acas), Equality and Human Rights Committee (EHRC) and employers

- Commission a survey to gather regular data on the prevalence of sexual harassment
- Consult on non-disclosure agreements
- Consult on the evidence base for a new legal duty on employers to prevent sexual harassment in the workplace
- Consult on strengthening and clarifying the laws on third party harassment in the workplace
- Consult on whether further legal protections are required for interns and volunteers
- Consult to explore the evidence for extending employment tribunal time limits for Equality Act 2010 cases
- Ensure the public sector takes action to tackle and prevent sexual harassment
- Work with regulators for whom sexual harassment is particularly relevant to ensure they are taking appropriate action
- Consider whether further learnings can be taken from the criminal justice system to use in the employment tribunal system, to ensure vulnerable claimants have appropriate protection
- Check that the list of organisations who can receive 'whistleblowing' information includes the right bodies

The ComRes research can be found [here](#)

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## [Speech: Sustainable normalisation through dialogue between Kosovo and Serbia](#)

Thank you Mr President. Thank you to the Under-Secretary-General for his briefing.

I've listened very carefully to what President Vučić and President Thaçi said today.

Mr President, we believe that the development of its own armed forces is within Kosovo's sovereignty as a self-governing independent state in close consultation with KFOR and we urge Kosovo to do this – and I hereby join the French representative – in close consultation with NATO and the wider international community. And I note from the Kosovo announcement that this development is to take place over the course of ten years.

Since Resolution 1244 was passed in 1999, Kosovo has become an independent, self-governing state recognized by over 100 members of the United Nations and its decision to extend the mandate of the Kosovo Security Force should be viewed in this context. The United Kingdom's interpretation of Resolution 1244 Mr President is that it does not – I repeat, not – contain anything that

precludes the future transition of the mandate of the KSF. In fact Mr President, I re-read it at lunchtime. I then went on to read the document that followed it, the constitutional framework and the UN Ahtisaari Plan, the so-called "comprehensive settlement." I can assure the Council that nothing in any of those three documents precludes the transformation of the KSF. The constitutional framework set up a Kosovo Protection Force. The Constitution builds on that proposal and this recent decision builds on the Constitution so I just wanted to set that out Mr President.

That said, we continue to urge Kosovo to act responsibly, to act transparently and in consultation with NATO allies and to uphold Kosovo's existing commitments to arrangements with KFOR and what President Thaçi said about his assurances today in that respect are welcome, but of course Mr President, we look for them to be put into action.

I've noted the claim that the transition of the KSF is a threat to the Kosovo-Serb community. This claim is not borne out by Kosovo's genuine efforts to make the KSF a multi-ethnic force as NATO allies have requested and the United Kingdom regrets that these multi-ethnic efforts have been undermined by external pressure. We encouraged the Kosovo Government to continue its outreach to the Kosovo-Serb community to allay any anxieties. And it's a long time Mr President since the Council visited Kosovo, but I was on one of the earlier trips and we went into the Kosovo Serb community in the north where we heard from many people, but not all of them, supported the account given by President Vučić and the Russian Ambassador today.

We don't share Belgrade's perception that the expansion in size and mandate over the next decade risk jeopardizing regional stability either and we look to Belgrade to respond in a measured way, including in their public statements.

In this light Mr President, the United Kingdom considers assertions made by senior politicians and officials about the use of force by Serbia to be unhelpful and rejects the idea that such use of force might even be floated. I think it is irresponsible that they should have been repeated by one member of the Council today. I do agree with that member that there is a risk of a return to turmoil, but it is not Mr President caused by this decision. It is caused by those from outside Kosovo who would seek to exploit it for their own ends.

I do however take encouragement from listening to the Russian support today for NATO, which I think may be a first in this Chamber.

Mr President, as other speakers have noted, the reason that we are here, the fundamental reason these problems persist is because of the lack of normalisation. At every step, settlements, progress have been blocked. The UN has tried, the EU, the US and Russia have tried, and unfortunately Mr President, at every stage of trying to settle this issue, there has been a blockage and I am sorry to say that it has come from Belgrade. But the only way is normalisation and we look to both Kosovo and Serbia to make progress in that way.

We note with optimism the resolution passed by the Assembly of Kosovo on 15 December to establish a cross-party negotiating team and I join my French and other colleagues in urging both sides to return to negotiations through the EU-facilitated dialogue. Progress on the dialogue is vital for stability, security and prosperity in the two countries in the region. Final agreement itself needs also to contribute towards local, regional and global stability. And the two sides need to keep in mind that any proposals they put forward through the negotiations need to enhance the safety and security of all – I repeat, all – their citizens.

Mr President I don't find it surprising that there was an EU-8 statement today. Obviously, I took part in it but it's not surprising because it is our region. We have cared and still care very deeply about what happens in the western Balkans and EU countries and the EU itself have put a lot of effort into helping stability and security there. But it is their future. It is the future of Kosovo and Serbia. I urge them, as other speakers have done today, I urge them to make all the steps necessary to normalise their relations through the EU-facilitated dialogue and I call on all their leaders who have been elected to represent their people's interests. I call on all their leaders to enable this to happen. Both countries must now focus on a sustainable normalisation agreement through the dialogue which enhances security, enjoys popular domestic support and benefits both countries. And we stand ready Mr President, as we have always done, to support such an agreement. Thank you.