AccountancyAge

Big Four find Competition Commission audit conclusions lacking

by Richard Crump 08 Apr 2013

THE BIG FOUR have delivered a scathing response to claims they are failing shareholders and that their dominance of the statutory audit market leads to higher prices, lower quality and less innovation for companies.

In February, the Competition Commissions delivered the provisional findings of its investigation into the Big Four's control of the FTSE 350 audit market. It found that the high cost of switching auditor, difficulty comparing alternative auditors, experience and reputational barriers for mid-tier firms were stifling competition and damaging the market.

In response to its findings, the Big Four audit firms - PwC, Ernst & Young, KPMG and Deloitte - have criticised the basis of the watchdog's conclusions as "flawed", "unsound" and based on selective evidence.

PwC raised "fundamental concerns" about the commission's "flawed approach to the evidence, which shows serious failures of due process in the evaluation of primary facts".

The Commission accused auditors of focusing on satisfying management interests over those of shareholders - a conclusion that PwC claims is "flawed by false certainty".

"The conclusion is based on an underlying assumption that because financial directors (FDs) are influential in the appointment of an auditor (where the Commission fails to give sufficient weight to evidence concerning the role of the audit committee), audit firms will act contrary to their duties to shareholders in order to satisfy the FD," PwC said.

According to Ernst & Young, there is "reasonable basis" for the Commission's conclusion there are significant, persistent and widespread concerns regarding the quality of audits delivered to FTSE 350.

"Such a conclusion represents a misrepresentation or misunderstanding of AQRT [audit quality review team] reports and a selective approach to the evidence," E&Y said.

On innovation, KPMG said the Commission's views are inconsistent with the facts. "Not to recognise as competitive innovation the substantial effort that has gone into innovating in the process of audit or its delivery and to making them efficient is perverse".

The firms' responses can be viewed here