AccountancyAge

FRC rubbishes mandatory five year audit tendering

by Richard Crump 13 Aug 2013

FORCING COMPANIES to allow auditors to bid for their work every five years will be costly and could result in a "sham process", the Financial Reporting Council has warned.

In response to the Competition Commission's plans to shake up the FTSE 350 audit market dominated by the Big Four firms of PwC, Deloitte, KPMG and EY, the accountancy watchdog rubbished the idea of compulsory tendering periods of five years.

The Big Four currently vet the accounts of the majority of Britain's biggest companies - all but one of the top 100 listed businesses is audited by the Big Four - while a third of FTSE 100 companies have had the same auditor for more than 20 years.

Compulsory tendering was one of a series of measures outlined by the Competition Commission last month aimed at encouraging greater rivalry between accountancy firms. Though the commission stopped short of imposing the more draconian measure of mandatory auditor rotation, it has proved divisive among the profession.

Claiming the proposals would be "disproportionately costly" and undermine the commission's goal of promoting competition in the audit market, the FRC also raised concerns that "tendering at five yearly intervals will not be taken seriously by companies or firms and may result in a sham process".

The FRC was also dismayed by the commission's decision to dismiss the FRC's own guidelines on audit retendering introduced last year which require companies to put their audit up for tender every ten years or explain why they didn't.

Arguing that the commission has undermined the approach already being shown by companies in the FTSE 100 - the likes of HSBC, Hargreaves Lansdown and Land Securities have all recently replaced their incumbent auditors - the FRC added that the commission had undermined "the successful comply or explain approach at the heart of the UK's corporate governance philosophy".

The FRC also voiced its opposition to the commission's instruction that it should play a more involved role by reviewing every audit engagement in the FTSE 350 every five years and make fostering competition its "secondary objective".

"The proposals could undermine the FRC's current risk-based approach to the selection of audits for inspection," it said, adding it "is not a competition regulator and it does not have the powers which would enable it to function as one".

"Whilst the FRC has, and will continue to have, due regard for competition issues, its focus must remain the quality of corporate and financial reporting," the FRC said.