AccountancyAge

Tendering changes will cost audit market £100m a year

by Richard Crump 16 Aug 2013

THE COSTS associated with forcing Britain's largest companies to put their audits out to tender every five years have been grossly underestimated by the Competition Commission, according to the UK's largest accountancy firm.

PwC said tendering every five years, as compared with the ten year regime introduced by the FRC, would cost auditors and FTSE 350 companies around £52m more a year, significantly higher than the Commission's estimate of between £10m to £20m.

According to the Big Four firm, £44m is already being spent every year because more tenders have been taking place as a result of the investigation and implementing the FRC's ten year tendering regime. Taken together, the tendering changes will add around £100m to the annual costs borne by the large company audit market.

"This figure does not take any account of the substantial disruption and transition costs of more frequent tenders to both companies and audit firms," James Chalmers, head of assurance at PwC, said in his response to the commission's proposals.

PwC expects 50 companies from the FTSE 350 to tender in this calendar year, with a similar number taking place in the following twelve months, proving that the FRC's regime introduced last year is already proving effective.

However, the firm warned that halving the tender period to five years would devalue the process and deter firms from competing for work.

"Having incurred the time and costs of a thorough tender process and of getting the new firm up to speed with the business, the company would lack incentive to switch again," Chalmers said,

"This would in turn reduce the incentive for audit firms to participate and/or bid aggressively in the tender. This raises a serious risk that many tenders will become compliance exercises that waste the time and resources of both the companies and audit firms involved."

Earlier this week, the FRC itself suggested that the commission's stance could result in a "sham process" in which tendering at five yearly intervals would not be taken seriously.

Arguing that the Commission had 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 incumbent auditors - the FRC said it had also damaged the comply or explain approach "at the heart of the UK's corporate governance philosophy".