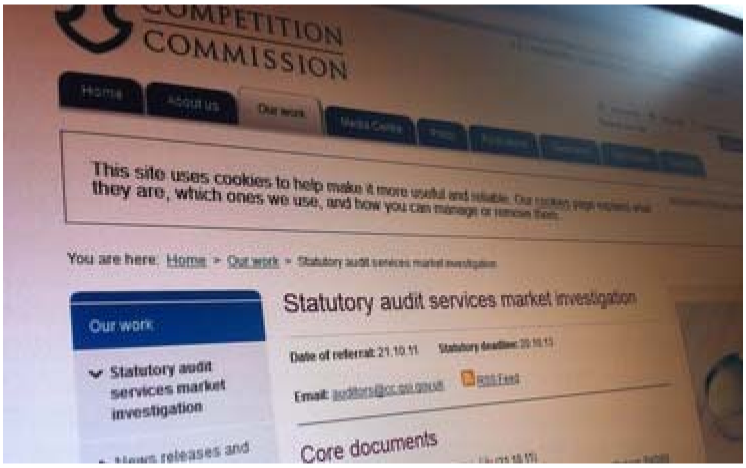
AccountancyAge

Competition watchdog urged to water down audit tendering rules

by Richard Crump 27 Aug 2013



FORCING COMPANIES to put their audit work out for tender every five years should be scrapped in favour of a less draconian approach adopted by the FRC, the Competition Commission has been told.

In response to its plans to shake up the FTSE 350 audit market; investors, listed companies and members of the audit profession have urged the UK competition watchdog to water down its proposals and allow the Financial Reporting Council's guidelines on ten-year audit retendering time to take effect.

Last month, the commission published a series of measures aimed at encouraging greater rivalry among accountancy firms for the audit work of Britain's largest businesses, while breaking the Big Four's stranglehold of the market - between them PwC, Deloitte, KPMG and EY currently vet the accounts of all but one of the FTSE 100.

However, a series of responses from some of Britain's largest household names have criticised the commission's tendering rules as too costly and disruptive, and for unlikely being able to improve audit quality or open up the market to firms outside of the Big Four.

"There is a risk that tendering would become less thorough, less meaningful and may result in deterioration of audit quality standards if forced to be conducted too frequently," Glyn Parry, director of group financial control at BT, wrote in a letter to the Competition Commission.

These concerns were echoed by GlaxoSmithKline, which suggested in its response that mandatory tendering every five years will "lead to significant cost increases, cause regular business disruption" and "interfere with judgment of audit committees".

PwC, the UK's largest accountancy firm, went so far as to attach a figure to the costs, which it claims the commission grossly underestimated. 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.

Opponents of five-year tendering contend that the FRC's less frequent comply or explain approach is already having a positive effect on company behaviour with the likes of HSBC, Land Securities and Hargreaves Lansdown all replacing their incumbent auditors in recent months.

Land Securities, which in June changed its audit firm for the first time in its entire 69-year history, suggested that a shorter tendering period may discourage an auditor to make the "considerable investment required to undertake a high quality audit".

"The real issue faced by companies is that there are at most four firms with the overall resource, quality and experience to audit a large listed company. The number falls to three or two as firms withdraw for fear of losing out on lucrative non-audit work and others lack the breadth or depth in complex businesses to be credible candidates," the company said in its response to the proposals.

The Competition Commission's final recommendations are expected later this year.