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Big Four audit dominance has "adverse" effect, CC to find

by Richard Crump

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THE BIG FOUR'S dominance of the listed audit market has an "adverse" effect on competition, an investigation into the firms' concentration of the market is expected to find this week.

It is believed that the Competition Commission will propose some form of mandatory rotation, which will force companies to change their auditors, when it delivers the provisional findings of its investigation into the Big Four's grip on the market.

"It is quite interesting to see mandatory rotation come up as an answer...academic

studies show it doesn't increase competition," said James Roberts, audit partner at mid-tier firm BDO. "It would have to include some form of mandated involvement of non-Big Four firms."

The competition watchdog, which began an investigation in 2011 into a perceived lack of competitiveness in the market for FTSE 350 audits, is expected to find that the concentration of contracts among the Big Four has an adverse effect on the market.

However, it is unlikely that the findings will recommend any sweeping changes to the structure of the market.

"It will trail a pot pourri of potential answers until August [when the final findings will be published]," said Roberts, who added that he was against the commission trying to break up the Big Four's audit business.

"We have never been vindictively radical in wanting to see the Big Four broken up. We want to see a more level playing field," he said.

The UK reporting regulator, the FRC, last year decided to force FTSE 350 companies to put their audits out to tender every ten years - or explain why they didn't - while not requiring them to rotate.

Steve Maslin, head of external professional affairs at Grant Thornton, said the FRC rules had been helpful, but called for the commission to go further.

UK plc has already taken note of the toughening stance on audit tenures. In January Schroders dumped PwC as its auditor after more than 50 years, replacing the firm with Big Four rival KPMG and last year BG Group chose Ernst & Young as its new auditors, after 16 years with PwC.

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