AccountancyAge

Competition Commission aims to break Big Four dominance

by Richard Crump 22 Feb 2013

COMPANIES could be forced to switch auditors every seven, ten or 14 years under proposals being considered by the Competition Commission to break the Big Four's dominance of the large company audit market.

Enforcing mandatory rotation of audit firms is one of a number of possible remedies being considered by the competition watchdog after if found a lack of competition meant audits too often fail to fulfil their intended purpose.

In a summary of provisional findings of its investigation into the statutory audit market, the commission accused auditors of focusing on satisfying management interests over those of shareholders.

"Shareholders play very little role in appointing auditors compared to executive management-and despite the presence of audit committees and other safeguards-audit firms naturally focus more on meeting management interests. The result is a rather static market," said Laura Carstensen, chairman of the Audit Investigation Group.

Factors restricting competition include the high cost of switching auditor, difficulty comparing alternative auditors, experience and reputational barriers for mid-tier firms to expand into the Big Four-dominated FTSE 350 audit market.

According to research by *Accountancy Age's* sister title *Financial Director*, the Big Four accountancy firms - PwC, KPMG, Ernst & Young and Deloitte - audited 334 members of the FTSE 350, based on companies' 2011/12 annual accounts.

The commission, which found 31% of FTSE 100 companies and 20% of FTSE 250 companies have had the same auditor for more than 20 years, added that the lack of competition leads to higher prices, lower quality and less innovation for companies and a failure to meet the demands of shareholders and investors.

"It is clear that there is significant dissatisfaction amongst some institutional investors with the relevance and extent of reporting in audited financial reports.

"This needs to change so that external audit becomes a more genuinely independent and challenging exercise where auditors are less like corporate advisors and more like examining inspectors," Carstensen said.

Among the possible ways to encourage greater competition the commission is considering enforcing mandatory tendering and rotation; increasing information and transparency with more frequent reviews and extended reporting requirements; and strengthening accountability and independence by giving audit committees and shareholders greater control of external audit.

"It will undoubtedly be challenging to change a long-standing and entrenched system but our proposals will look to create a situation where tendering and switching become the norm," said Carstensen.

The commission found no evidence to suggest that the Big 4 engage in tacit collusion, bundle audit and non-audit services together, in order to raise barriers to expansion to other firms; target the customers of mid-tier firms with particularly low prices, or that they are able to exercise undue influence over the formation of regulation or on regulatory bodies through their extensive alumni networks.