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Big Four dismiss claims they are failing shareholders

by Beth Abel 22 Feb 2013

THE COMPETITION COMMISSION'S suggestion that auditors focus on satisfying management interests above the interests of shareholders has been met with disbelief from many of the Big Four accountancy firms.

Among the findings of the commission's preliminary report into the Big Four's dominance of the large company audit market - which include claims companies are overpaying for lower-quality audits - was that auditors have misaligned incentives between shareholders and management.

The commission's argument has been dismissed by the Big Four. KPMG's chairman and senior partner Simon Collins argued that "audit objectivity and appropriate levels of scepticism are the mainstays of what we do". He added that audit quality and competition in the UK is strong.

Richard Sexton, head of reputation and public policy at PwC, said the firm is "clear that we report to the shareholders and engage with the Audit Committee as their representatives". He also claimed the report had "grossly underestimated" the critical role that audit committees play in "protecting the interests" of shareholders.

Head of assurance at Ernst & Young Hywel Ball echoed the sentiment. Ball disagreed that the audit market is "not serving shareholders", and that there were important omissions in the report about how the framework corporate governance and regulation works.

"There is no mention of the role of the chair of boards and the senior independent directors in representing and safeguarding shareholder interests, nor of the importance of unitary boards themselves," Ball said.

"We think the somewhat stark description in black and white terms of the role and power of the finance directors and their motives does not represent the real world as we experience it.

"We...are focused first and foremost on audit quality - it is our primary responsibility and directly in the interests of the shareholders of the companies we audit."

The commission said that lack of competition leads to higher prices, lower quality and less innovation for companies. It proposed more frequent reviews and extended reporting requirements, as well as strengthening accountability and independence by giving audit committees and shareholders greater control of external audit.

However, Deloitte argued that evidence gathered by the commission was "not properly reflected in some of the provisional findings".

"We don't believe the evidence supports the contention that current market conditions have led to unnecessarily higher prices, lower quality or less innovation," said David Barnes, partner and UK head of public policy Deloitte.

High costs of switching auditor, difficulty comparing alternative auditors and experience and reputational barriers for mid-tier firms to expand in the audit market were all found to be competition-restricting factors.

Grant Thornton welcomed the recognition that there are barriers to entry which prevent "capable and credible audit service providers" from competing in the market, while fellow mid-tier firm BDO said the findings had confirmed the "significant flaw" in the structure of the audit market.

Mazars applauded the findings, and added the commission's focus should now be on "effective remedies", such as a reform package to help additional players gain market share within the next three-to-five years.

"No one can deny now that a major programme of reform is required as an urgent matter of public interest," said David Herbinet, head of public interest markets at Mazars.

"In addition to the primary list of potential remedies established by the Competition Commission, full consideration should also be given to restrictions on non-audit services and the potential contribution of co-audit," he added.

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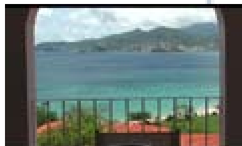

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