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Auditors in the spotlight

The focus of this edition of The Private Investor is unequivocally on the auditors. Barely a week now passes without the auditing profession hitting the headlines.

2018 perhaps marks a watershed for the profession. The January collapse of the UK construction and services company Carillion raised questions about the 'Big Four' (EY, Deloitte & Touche, KPMG and PwC), which had advised the company before its liquidation.

In February MP and chair of the Work and Pensions Select Committee Frank Field accused the Big Four accounting firms of 'feasting on what was soon to become a carcass' after charging large sums for Carillion work during the years leading up to the collapse. The final report of a Parliamentary inquiry into the collapse of Carillion, published in May, accused the Big Four of operating as a 'cosy club'. The report recommended that the Government refer the statutory audit market to the Competition and Markets Authority, calling for consideration to be given to a break-up of the Big Four. In September, Business Secretary Greg Clark announced that he had asked the CMA to conduct an inquiry into competition in the audit sector and last week the CMA announced it had launched a detailed study to address concerns that the sector is not delivering for the economy or investors. As part of its review, the CMA will investigate whether the sector is competitive and resilient enough to maintain high quality standards.

Andrew Tyrie, Chairman of the CMA, said: "If the many critics of the audit process are right, it is not just the companies which buy audits that lose out; it is the millions of people dependent on savings, pension funds and other investments in those companies whose audits may be defective. Sir John Kingman's independent review of the regulator is a big step in the right direction. And the CMA will now examine the market carefully to establish what contribution more effective competition could make to improving audit quality."

Peter Parry's article on page 6 offers a distinct perspective on the Kingman Review.

The CMA's market study will examine three main areas:

Choice and switching. Changes put in place by the Competition Commission appear to have strengthened competition between the big four firms, but the largest UK companies still turn almost exclusively to one of them when selecting an auditor to review their books.

Resilience. The market study will examine what the role of the Big Four firms means for resilience – the risk being that each of the Big Four auditors is "too big to fail", potentially threatening long-term competition.

Incentives. Companies, rather than their investors, pick their own auditor. The CMA's work will examine concerns that this might result in a lack of incentive to produce challenging performance reviews.

If the CMA finds evidence that the market is not working well after examining these areas, it will scrutinise all proposals for tackling them. UKSA is working with ShareSoc to draw up a submission to the CMA.

Helen Gibbons

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