Funding the Future

It's not just banks that need splitting in two - accoun...

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My friend and colleague Prof Prem Sikka has [argued since time immemorial](#) (or so it seems) that auditing is a corrupt profession. He is, of course, right. [His extensive C](#) V provides the links to all the evidence you need - or just read this, one of his many accounts of this.

I think PWC's failure to highlight the LIBOR risk at Barclays is just another example of this failing.

We now know banks have to be split to reform them: until that happens the cancer of investment banking will infect the rest of our economy uncurtailed.

But we also need to split up the auditors. For decades the Big 4 firms have resisted this split and have supplied a wide variety of services as well as audit in a noce cosy arrangement that keeps out all others.

That's no longer good enough. It's either time to split off their audit functions for good -= or to shift the audit function away from them altogether. Since they'll resist I think the latter has to be explored, thoroughly.

There is an obvious way to do this. Audit could be funded quite easily. A fee should be set for each company based on the size of its turnover (risk is usually related to turnover), status (plc or not) and capital. That fee would be paid as the annual return fee for having the company regulated - to a reformed Companies House. And they would then audit the company. But the payment would be unrelated to the audit and the fee would not therefore be an issue that cloud judgement on the opinion, and nor would the issue of re-election do so.

Of course: the state would also then asume responsibility for risk. But do you know what? Qualified audit reports of the sort we're familiar with in the public sector - where standards of audit are much tougher - would then become normal - as should be the case. And let's also be honest - in many cases the state carries the risk anyway.

It's not just banking that needs radical reform. Auditing does too.