

The Big 4 - marching on like the banks and exploiting u...

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Prem Sikka [has an excellent article in the Guardian](#) in which he argues:

The long-awaited [report by the Competition Commission](#) on the UK auditing market is a disappointment. The market is dominated by just four accounting firms — PricewaterhouseCoopers, KPMG, Deloitte and Ernst & Young — who collectively audit more than 95% of the FTSE 350 companies.

Why? This is his shortened litany:

The audit report on company accounts is addressed to shareholders, but they have no means of assessing the quality of the audit work. They do not have any sight of the audit contract, audit files, audit tender, assurances given by management, or suspicious items investigated by auditors. The audit files are available to regulators who continue to produce anodyne reports. Any complaints against errant auditors take year to investigate. The Farepak scandal unfolded in 2006, but the disciplinary action against auditors Ernst & Young is still not finalised. The eventual fines are puny compared to the size of the oversights and fees collected by auditors.

In the absence of effective competition and regulation, auditors continue to reduce the time they devote to an audit assignment. Academic research has consistently shown that bored and hard-pressed staff routinely resort to falsification of audit files — that is, they claim that work has been done which in fact has never been done. The Competition Commission is oblivious to the culture of auditing firms.

In market economies, manufacturers of goods and services frequently provide warranties for their products. Disgruntled customers can ask for refunds, and can even sue negligent producers. The likelihood of liability may spur producers to improve the quality of their products and services, but the auditing pressure points are weak.

It is almost impossible to sue auditors for negligence, as in general they owe a "duty of care" to the company only, rather than to any individual shareholder, creditor, employee or any other stakeholder. Court cases such as MAN Nutzfahrzeuge AG & Anor

v Freightliner Ltd & Anor [2007] EWCA Civ 910 show that auditors can easily escape any penalties. Despite major scandals, the Department for Business, Innovation and Skills has never prosecuted any UK auditing firm for negligence.

Prem's right. This is a public monopoly that is being exploited for private gain at cost to us all.

The power these firms are given is also being used via such bodies as the International Accounting Standards Board, which they dominate, to block essential reforms such as country-by-country reporting, which would reveal the full extent of profit shifting to tax havens which is at the heart of the current corporate tax crisis, as I argue in '[Over here and under-taxed](#)'.

And as [KPMG showed last week](#), they are key defenders of tax haven abuse. They're even now taking over H M Revenue & Customs where their influence is wholly inappropriate.

They've even been exempted from the new rules on procurement and tax abuse.

Real reform is required. And we're not going to get it. And that's a disaster for markets, for transparency, accountability, good governance, auditing, and the accounting profession itself.