Funding the Future

The Big 4 are unable to imagine a process of change

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Accoring to The Times:

The heads of Deloitte, KPMG, EY and PWC have written to the Commons business committee to say the competition watchdog should postpone moves to overhaul the audit market until the completion of a separate review by Donald Brydon, chairman of the London Stock Exchange, which could take another 12 months.

I admit that this reminds me of St Augustine's prayer that he be celibate, but not yet.

So what are the Big 4 frightened of? Two things.

First, joint audit, although these are quite common in France, Germany and Denmark, for example. In other words, they know how they work. They just do not want to make them work.

And, secondly, not being able to sell consultancy services. That's because if the mid-tier accountancy firms are not willing or able to do joint audit (and so, more importantly, accept joint risk) with the Big 4 firms then the Big 4 will have to work with each other on those audits. And to create any market choice that means they will be forced to split and sell their consultancy services separately from their audit services.

The letter can then be seen as a cry of financial pain. The cross subsidies that keep this market going now will disappear and the auditors fear they will not make £700,000 a year ticking boxes, which is what they have reduced the audit function to since it became an exercise in confirming rule compliance rather than expressing opinion.

Well, maybe that fear is well placed.

But frankly, I doubt it: given that the statutory monopoly will remain under the CMA plans the simple fact is the price will go up and it will be doubles all round. If these firms can't make money out of a monopoly it would be worrying.

Either way that our supposed top management consultants can't imagine surviving a process of change should be eye-opening.

And it says a great deal about the quality of the advice that they must provide to their clients.