

The BEIS committee, audit fees and a question of compet...

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The Guardian [reports this morning](#) that:

The big four accounting firms are failing to charge some of the UK's largest companies the full cost of inspecting their accounts, raising fresh concerns that the auditing industry is failing to scrutinise leading businesses properly.

The information has been released by the Commons business, energy and industrial strategy (BEIS) select committee, on the eve of the publication of its report into the "future of audit", which was prompted by a wave of accounting scandals at stock market listed companies such as Carillion, Tesco and Patisserie Valerie.

The core of the argument is that:

On Monday, the BEIS select committee released correspondence with PWC, Deloitte, KPMG and EY, which showed evidence of how the full cost of auditing company accounts was not always charged to clients; information that appears to support industry critics who argue that accounting firms can use auditing as a "loss leader" to gain more lucrative work from clients.

The letters showed that half of audits in the last five years at Deloitte and PWC ended up costing more than 10% more than originally budgeted. EY said it had cost overruns on 32% of audits, while KPMG said it did additional work 16% of the time.

So, the suggestion is that there was under-quoting against full cost recovery.

Let me be clear: that happens in audit. I know. I have been an auditor. And not recovering full cost does not make an audit loss-making. It makes it less profitable use of time than hoped. It is, therefore, possible that this is innocent incompetence on a grand scale.

Or, as is implied, it is persistent under-quoting to secure work.

It has to be said that I think the committee has reached the right conclusion. If this was

innocent either charge rates would have been altered, or bids revised. But they have not been. Assuming that these firms are competent (and I will do that) this implies persistent under-bidding instead. As many of us who have criticised auditors have for a long time suggested to be happening.