

The end of the Big 4 accountants as we know them in the...

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There are moments - and all too few of them - when you think someone is trying to do the right thing. Andrew Tyrie at the [Competition and Markets Authority](#) seems to be trying to do that with auditing. This is their press release on their final report on the future of auditing published this morning, and much to my surprise they have stuck to their guns on separating auditing from consulting firms and on mandatory joint audit. The result may be progress. I welcome this:

The Competition and Markets Authority (CMA) has published its final report with recommendations to address serious competition problems in the UK audit industry.

Legislation is needed to address both the vulnerability of the industry to the loss of one of the Big 4, and the current inadequate choice and competition.

The CMA is recommending the separation of audit from consulting services, mandatory 'joint audit' to enable firms outside the Big 4 to develop the capacity needed to review the UK's biggest companies, and the introduction of statutory regulatory powers to increase accountability of companies' audit committees.

The CMA's recommendations follow extensive discussions with audit firms, investors and major UK companies on its [update paper](#) — published in December. They also take account of the recommendations of a major report from the Business Select Committee, and the inquiry into regulation led by Sir John Kingman.

The recommendations are:

Operational split

Auditors should focus exclusively on producing the most challenging and objective audits, rather than being influenced by their much larger consultancy businesses. Given the difficulties with an immediate global structural split, the CMA is — at this stage — recommending an operational split of the Big 4's UK audit work. This will require separate management, accounts and remuneration: a separate CEO and board for the audit arm; separate financial statements for the audit practice; an end to profit-sharing

between audit and consultancy, and promotions and bonuses based on the quality of the audits.

More choice to increase resilience: mandatory joint audit

More choice and competition for the audits of big businesses can and should drive up their quality, but the barriers to entry for 'challenger' audit firms are currently large. The CMA recommends mandatory joint audit, to increase the capacity of challengers, to increase choice in the market and thereby drive up audit quality. Challenger firms should work alongside the Big 4 in these joint audits and should be jointly liable for the results. There should be initial limited exceptions to the requirement, based on criteria set by the regulator, focused on the largest and most complex companies. In addition, any company choosing a sole 'challenger' auditor should be exempt. Audits of exempt companies may be subject to rigorous, real-time peer reviews commissioned by and reporting to the regulator. The joint audit requirement should remain in place until the regulator determines that choice and competition have improved enough to address the vulnerability of the market to the loss of one of the Big 4.

Regulation of UK companies' audit committees

It is essential that audit committees choose auditors by seeking those likely to provide the most robust and constructive challenge to the accounting practices of their companies. The CMA recommends that the regulator should hold audit committees more vigorously to account. This may include ensuring that committees report their decisions as they hire and supervise auditors, and that the regulator issues public reprimands to companies whose committees fall short of adequate scrutiny of their auditors.

A 5 year review of progress by the regulator

The regulator should review the effects of these changes periodically, in the first instance five years from full implementation.