

## The audit profession can refuse clients but they have t...

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I was senior partner of a firm of accountants throughout my thirties. It helped that I started it, I admit. And I'm not claiming that this firm was a rival to the Big 4. But with my partners it meant I had to spend time deciding what we did, who we wanted to work for, and who we, by default, were not going to deal with. And I know that the fact that we did this made us decidedly unusual.

From my discussions with many other firms at that time - and I knew a lot - our policy of only working for specific sectors and then only with clients who matched our ethical requirements, was decidedly unusual. Most firms took absolutely any business that came their way. Unsurprisingly, when we took part in inter-firm performance comparisons we were way more profitable than average as a result.

Apart from turning down at least half of all business we were offered pretty much as a matter of course we have another policy that was decidedly unusual. We sacked clients. It wasn't commonplace, but those who did not want to pay us, or pay their taxes, or keep proper books and records, or who we simply felt did not match the standards we expected found themselves being invited to find another accountant. I had a paragraph that was included in letters telling clients of this which went along the lines of:

*A relationships between an accountant and their client is one of trust. In our case that relationship has failed.*

Reasons were then offered.

Why say this? Because it seems as if the profession, or at least the largest firms in it, might finally have woken up to the fact that this is a good idea. As Tabby Kinder has [reported in the FT this morning](#):

*The UK's largest accountancy firms are preparing to purge risky or unprofitable audit clients after a string of corporate collapses and scandals have increased regulatory scrutiny of the sector.*

*Big Four firms EY, KPMG, Deloitte and PwC and mid-tier accountants Grant Thornton*

*and BDO have launched sweeping reviews of clients to weed out those they consider potentially problematic. Auditors warned that companies in volatile sectors, such as retail or outsourcing, and businesses that have faced criticism over their financial controls and governance were the most likely to be dropped.*

Quite right too. Far too late, and most especially so to save those firm's reputations, but necessary nonetheless.

But what is interesting is to muse upon what will happen next. These clients will have to find another auditor, and if all the firms are using the same criteria of unacceptability (and it's likely that they are) then some companies, at least, are going to be left out in the cold. What then when it is a statutory requirement to have an auditor?

These audit firms are, of course, acting rationally in pursuing their own interests. Collectively what they are also signalling is that the audit market has failed, whether they intend to or not. If the time has come when the auditing profession has decided that some clients are simply beyond the boundaries of acceptability then that profession's days are numbered in the sense that its statutory monopoly on audit has to then come to an end.

Regulator should be taking note: the time they have available in which to sort out the mess which might descend upon auditing may be very limited indeed. I hope that they have the capacity to think this one through.