Don't believe the headlines: the Big 4 are not going an...

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The FT notes this morning:

The UK’s Big Four accounting firms have until 2024 to separate their audit practices, per the latest reporting by the FT’s Tabby Kinder. The firms must outline how they will implement it by the end of October, although they will have four years to put it into effect.

There is just one problem with this claim: it is completely untrue.

The truth is that the Financial Reporting Council said nothing remotely akin to what the headlines claim. Their so-called 'principles' (ne'er was the word ever so abused) actually permit the audit functions to stay within the Big 4 firms.

And they permit the audit function to carry on much as before.

Audit staff just have to work the majority of their time on audit, which they will already.

But they can still be seconded to the rest of the firm, seemingly almost on a daily basis, as can staff from the rest of the firm be seconded into audit, at will.

What is more, the audit department that the new arrangement permits only has to make 51% of its income from audit. It is allowed to supply 49% other services, including to audit clients in many cases.

So all we actually have is a sham of a division that in essence asks that the Big 4 rig their own accounts to make sure that it can be shown that the audit partners are predominantly paid for the work that they do on audit, and not other work.

And that's it.

As sham reforms go this one really takes some beating.

What's my thinking? I think the Big 4 leaned on their friends at the FRC. And an all too compliant government that has no wish to deliver audit reform just as they are intent on creating tax haven UK more than readily agreed to turn a blind eye so long as headlines of the sort that the FT and others have delivered now could be produced.

And the media have fallen for it.

This is not good news for audit reform.

It's not good news for business resilience.

It's not good news for the City.

It's not good news for the pensioners and others who will still be ripped off by accounting failures.

It's bad news for businesses that rely on audited accounts to appraise credit-worthiness.

In fact, it's bad news for everyone but the Big 4.

And they really did not need help.

The campaign for audit reform will have to go on.

And it remains the case that the Financial Reporting Council has itself to be abolished as the last government intended, but it looks like its death throes might be very protracted.