Can EY really split off its audit division if no one el...

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Those who follow accountancy will have noticed the news that emerged at the end of last week that EY (or Ernst & Young, as it used to be called) has announced that it is to spin off its auditing arm as a separate entity and the consulting division is to go it alone.

Those with long memories will recall that they did this before. Twenty or so years ago the EY consulting arm was sold to Cap Gemini. EY then rebuilt an entirely new consulting arm, which is now to be split from audit, yet again. For this reason I take anything said on this issue with a large pinch of salt: the chance that the existing partners want to simply do some profit taking on capitalising the consulting firm is very high.

That said, the move is welcome, if genuine. The conflicts within the Big 4 auditors are apparent. They have to be resolved. So far there is no sign they will be within existing structures. That is why separation is welcome.

But I am cautious. First, EY is not one firm, but may be hundreds. The chance all will agree to this proposal is low.

Second, the likelihood that a pure audit firm will emerge is very low. It will just have less consulting, I suspect. But some ancillary services will remain, I am sure. In that case purists wanting pure audit activity should not celebrate now.

Third, unless the other firms follow there will be no real reform in the audit market. That will include on price, where the new firm might struggle to be viable as a result given the believed levels of cross subsidy assumed to be going on in these firms right now.

Fourth, call my cynical, but if this is all about ring-fencing risk for the consulting partners the loss of their capital base makes the failure of an audit firm much more likely.

Fifth, unless legislation stops these firms returning to consulting then they will.

My summary is that this is an interesting, high risk move probably motivated for all the wrong reasons with significant inherent risk in it as a result meaning it may be undeliverable by EY, and with no guarantee of success if they alone do it. In other words, regulation has to drive this process fir all firms simultaneously if it is to work as I doubt markets can deliver what EY is seeking to do.