

Assurance

INTERNATIONAL STANDARDS ON AUDITING

Auditor choice: prepared to invest?

Questions relating to auditor choice are a concern to company management teams as well as the audit profession – they are being examined in the UK and Europe, as well as in the US. But it looks likely that it will be up to the free market to initiate change.



In the UK, the Financial Reporting Council's (FRC) Market Participants Group (MPG) published recommendations that it hopes will contribute to increased auditor choice 'while at least maintaining audit quality'. However, it accepted the 'strong preference among stakeholders for market-led solutions', prompting some critics to bemoan a slow pace of change.

The MPG – among its other recommendations – suggested that the FRC should explore the possibilities of changes to audit ownership rules. This could open audit firms up to external investors and enable smaller firms to raise capital for expansion more readily.

Other recommendations include requiring firms to disclose the financial results of their work on statutory audits and directly related services 'on a comparable basis', and encouraging more transparency surrounding auditor choice.

The European Commission's Internal Market Directorate published a similar report shortly after and was even more explicit about changes to ownership rules. Its key conclusions argued that '...an audit firm owned by external investors, instead of auditors, might take more easily the decision to expand into the market of large audits. One of the reasons is that existing ownership structures are estimated to increase audit firms'

cost of raising capital by perhaps as much as 10%.'

The issue is also receiving high-profile attention in the US. The US Treasury has asked former Securities and Exchange Commission (SEC) chairman Arthur Levitt and former SEC chief accountant Donald Nicolaisen to serve as co-chairs of a non-partisan committee to address auditing industry 'concentration', among other things. Given US Treasury secretary Henry Paulson's recent letter to the *Financial Times* in which he noted there are 'legitimate questions about the sustainability of the auditing profession's business model', we can expect more of the same when findings are published during 2008.