

**THE STRUCTURAL BREAK-UP OF THE BIG FOUR  
ACCOUNTANCY FIRMS TO RESTORE MARKET CONFIDENCE  
IN AUDIT SERVICES**

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for the degree of  
**MSc in Accounting and Finance Management**

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**22<sup>nd</sup> of May 2020**

## Candidate Declaration

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I certify that the dissertation entitled: The structural break-up of the Big Four accountancy firms to restore market confidence in audit services

submitted for the degree of **MSc in Accounting and Finance Management** is the result of my own work and that where reference is made to the work of others, due acknowledgment is given.

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## Dedication

To God, “for from him and through him and for him are all things” (Rm 11.36), and to my lovely husband, the biggest driver of the achievements of my dreams. I would not be here without our threefold cord. Thank you!

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## **Abstract**

The increase on audit failures and scandals over the last decades helped to mitigate public confidence in audit services. The Big Four firms' oligopoly seems not to be helpful in terms of addressing this issue. UK's lawmakers and regulators have proposed through a BEIS report the separation between audit and non-audit services on the top four firms.

Given the above, the objective of this research is to understand this proposal from the point of view of the challenger firms regarding their capacity of attending more clients due to this change on audit market and whether this movement would be able to restore public confidence in audit services.

The study results indicate that the structural break-up of the Big Four is supported by smaller firms even though some of them would need to invest in more staff to attend new clients. In terms of stakeholders and general public, it is believed that such change in the market is helpful but adding a closer action of regulator might be more effective to restore confidence in audit services. The research also indicates that expectation gap is one of the key challenges that auditors face in terms of public confidence.

This change in the market might create benefits that would flow down to the market, working in favour not only of medium-tier firms but also small ones. The benefit of increase on audit quality would probably take time to be seen, but once the firms are adapted it might arise, with more independence and a better ethical culture within the firms.

**Keywords:** Audit, Big Four, accountancy firms, public confidence, audit quality, audit rotation, BEIS Committee, structural break-up.

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### List of Abbreviation

AICPA	American Institute of Chartered Professional Accountants
BEIS	Business, Energy and Industrial Strategy Committee
CMA	Competition and Markets Authority
CPA	Certified Public Accountants
IAASB	International Auditing and Assurance Standards Board
ICOFR	Internal Controls Over Financial Reporting
IESBA	International Ethics Standards Board for Accountants
ISA	International Standard on Auditing
IFAC	International Federation of Accountants
FRC	Financial Reporting Council
FTSE	Financial Times Stock Exchange
GAAS	Generally Accepted Auditing Standards
MP	Member of Parliament
PCAOB	Public Company Accounting Oversight Board

# **1 Introduction**

## **1.1 Overview**

Previous studies were addressed demonstrating that the investors believe on Big Four reputation and so their audit reports are considered reliable whereas smaller firms usually provide information with lack of knowledge and less quality [(Fuerman and Kraten, 2009); (DeAngelo, 1981); (Fuerman, 2006)]. Fuerman and Kraten (2009) analysed data closely from a different point of view to answer whether the audit reporting of this companies is so trustworthy as investors think. Different from the author's expectations of consistency, significant differences between the work of Big Four firms were found even after a few adjustments in some variables studied. Their claims were applied mainly on the USA audit system and its issues, since the lawsuits information are about American companies. It demonstrates that this is not a problem that occurs only in UK, but a global matter that must be closed investigated.

As Fuerman and Kraten (2009) the analysis of financial reporting lawsuits using the auditor litigation results to represent the probability of audit failure has affected audit quality between 1999 and 2004, demonstrating that this is not a recent matter but an old issue. Fuerman and Kraten (2009) covered 1,017 client organizations which were audited by the Big Four accountancy firms and Arthur Andersen that had experienced private securities legal action during the cited period.

The present research highlights the falling of public confidence on audit services after several audit scandals which must be recognized and addressed to restore market confidence and maintain the importance of audit profession. Based on the recent UK's proposal of a structural break-up of the Big Four accountancy firms [(BEIS Committee, 2019); (Marriage, 2019)], the study will gain understanding on the work capacity of accounting firms outside Big Four regarding their ability of conducting public and listed companies' audits and how this new scenario can impact them. It also aims to provide insights to help auditors to think about their professional responsibility and what needs to be changed inside the culture of the firms and new procedures that can be adopted.

The first chapter of this research presents the research purpose, the study significance and its objectives, as well as the organisation of the structure of the study.

## **1.2 Research Purpose**

In the last decade many scandals arose involving Big Four and the collapse of companies which had its accounts audited by them and assured to be correct and consistent. The creation of Sarbanes-Oxley after Enron and WorldCom accounting scandals (Amir *et al.*, 2010) was not enough to bring a guarantee that auditing will become more trustworthy, and a few years later Lehman Brothers collapsed bringing audit firm EY to the centre of attentions (Goldstein, 2015). The Global Financial Crisis triggered by Lehman Brother's collapse also was not enough to influence a change on the audit scenario and after that many other companies collapsed through the years such as the most recent cases in UK as BHS and Carillion [(The Guardian, 2018); (Kinder, 2019)].

The same kind of history is been repeated globally through the years, showing that the current audit system established is degenerate and has created a pattern on the market. The fact that the Big Four are huge well stablished companies which difficultly will broke for losing a big client make them very comfortable [(M. Marriage, 2019); (Gow and Kells, 2018)]. Even the rules regarding audit rotation does not cause any severe problems to these accountancy firms, since the audit rotation of large firms are usually made amongst them [(BEIS Committee, 2019); (Gow and Kells, 2018); (M. Marriage, 2019)].

UK's lawmakers have proposed a structural break-up of the Big Four accountancy firms as a solution to change the scenario [(BEIS Committee, 2019); (Marriage, 2019); (Trentmann, 2019)]. This is the main object of this research, aiming to understand the structure of audit firms outside the Big Four in Ireland and UK, they opinion regarding the possibility of a structural break-up of the Big Four and its consequences since such break-up would be the fall of the barriers on competition. Through the research, we will be able to find out whether the proposal of a structural change on the audit market will help to restore public confidence on audit services.

## **1.3 Significance of the Study**

The understanding of the importance of accuracy on audit tests and the disclosure of audit reports, the observation of several cases of financial misstatements, frauds, and the failure of many companies added to the fact that changes in audit rules and practices are not preventing the repetition of these scenarios leads to the objectives and questions of this research.

The theoretical relevance of this topic goes beyond the elucidation of the audit regulations but also demonstrates the auditor role within a social concept (Flint 1971 cited in Pratt and Van Peurseem, 1993).

The practical relevance of this study stems from the observation and reflection that the research produces regarding the actual context of the auditor role and the changes that can be applied on audit services to restore public confidence highlighting the importance of audit services on the economic scenario.

#### **1.4 Research Objective**

Power (1997 cited in Fuerman and Kraten, 2009) affirmed that the social trust in the auditors who work on Big Four is the only thing that makes their tag quality valuable. Sikka (2009 cited in Fuerman and Kraten, 2009) added that the auditors were corrupted by a business culture that has constantly denied social trust, and events such as the Global Financial Crisis arose many questions regarding the value and role of external audits.

Fuerman and Kraten (2009) demonstrate that being one of the biggest accounting firms is not an assurance of higher audit quality since the comparison between their audits shows a different level of quality and, therefore, their audit reports should not necessarily be trusted by investors and general public as a label of quality.

Steve Samek, one of the partners of Arthur Andersen, said something in 1999 that turned out to be real after Enron's collapse:

“The day Arthur Andersen loses the public's trust is the day we are out of business.” (Gini, 2004, p.13)

As Gini (2004) the economic system is carried on trust. Therefore, once the mistrust arises and a lack of ethic is established, the system is damaged. According to Solomon (cited in Gini, 2004) trust is a social capital which is not given and neither is a static or inert stuff, but it has to be built step by step and continuously since it is a result of a sequence of actions and decisions.

These cited studies and presented scenarios have led to a necessity of a more consistent action that will be able to turn audit services on the right track, restoring public confidence in its processes and reports. The recent proposal of a structural break-up of the Big Four accountancy firms by the UK's lawmakers (BEIS Committee, 2019) might be a first step for a solution. This research objective is to investigate how the market would work if such break-up is established, what would be the benefits of it and whether this change would help to restore market confidence in audit services.

## **1.5 Structure of the Study**

The study is organized into five chapters, as follows:

- The first chapter brings the objectives of this research and its relevance.
- The second chapter presents a review of the literature, firstly with a discussion about audit services, audit quality and regulation, and recent cases of scandals that arose from audits performed by Big Four accountancy firms. Then, the UK's proposal of a structural break-up of those firms is approached and the idea of a new market structure on audit services conducted to the research itself.
- The third chapter brings the study methodology, including the research questions proposals, the chosen method, the selection of the respondents for the interview, the collection and analysis process.
- The fourth chapter presents the problem analysis aiming to answer the research questions proposed on chapter three.
- The fifth and final chapter brings the research conclusions, contributions and limitations, also presenting suggestions for future research.

## **2 Literature Review**

### **2.1 Overview**

This chapter shows the review of the relevant bibliography related with the selected topic, building the basis to study the historical context and helping the elaboration of research design and conceptual framework.

### **2.2 Audit Services**

#### *2.2.1 Audit services regulators and its regulations through the years*

After Enron and WorldCom accounting scandals, the landmark of Sarbanes-Oxley Act in 2002 was established by USA Congress. One of the outcomes of Sarbanes Oxley was the creation of PCAOB, a non-profit corporation that was charged with the regulation of public company auditing (Palmrose, 2013) and the responsibility of ensure the relevance of audit standards and quality of audit services, replacing the Audit Standards Board of AICPA (Gow and Kells, 2018).

AICPA issue the GAAS which gives the set of audit standards that are a guideline used by auditors in USA when conducting audit services [(AICPA [online], 2019); (AICPA, 2007)]. In Ireland and UK, FRC, the audit and assurance council in UK, regulates auditors and actuaries, stating UK's Corporate Governance Code and Stewardship Code, focusing investors and other shareholders' needs regarding accounting reports and risk management (FRC, 2019).

Internationally, the regulators of audit service includes IFAC, the global organisation which represents professional accountants in their profession; IAASB, the part of IFAC which sets high-quality standards regarding audit, assurance and quality control seeking to grow in public confidence; and IESBA, the part of IFAC that issues international high-quality ethics standards for accountants, including requirements for auditor independence [(IFAC, 2019b);(IFAC, 2019a)].

One of the IAASB projects on auditor reporting in December 2011 emphasizes the communicative value e importance of the audit report to stakeholders and other users of the audited financial statements, exploring different forms for auditors to report using national financial reporting regimes facilitating highlighted approaches on financial reports ensuring that all the necessary content has been communicated (Hodge and Murray, 2012).

Proposed reviews to elevate audit quality removing barriers to competition between audit firms including more transparency generated from stronger audit committees and audit reports with more detailed information (Brydon, 2019) could help restore reliance in audit profession addressing important issues as independence and market structure.

The ISA are issued by IAASB and presented in a numbered order. These standards establishes the way that audit must be conducted regarding the nature, extent, and timing of the required procedures to give audit opinion on the reliability of the client's financial statements, leading the judgments that must be made during audit fieldwork and tests when analysing the financial activities and controls of the client (Biery and Capin, 2009).

Audit firms use standard audit programs since it helps to increase quality control through a very comprehensive set of procedures that supports the increase of the consensus in auditor's judgment (Hoffman and Zimbelman, 2009). Some of the standards are directly connected to audit quality control, auditor responsibility, independence, and also the recognition of fraud or other errors as follows.

*a) ISA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit*

This standard states the responsibility of external auditors to detect material misstatements regarding errors or fraud (Kassem and Higson, 2016). ISA 200 aims to get reasonable assurance on the audited financial statements and report them communicating as per auditor's findings. It requires that the auditor must follow relevant ethical requirements, working with professional scepticism and professional judgement, collecting sufficient appropriate audit evidence to reduce audit risk (IAASB, 2010).

*b) ISA 220 Quality control for an audit of Financial Statements*

It states the elements of a Quality Control system that englobes ethics, acceptance procedures, monitoring of risk, directors, and supervisors among others. The objective of ISA 220 is that the auditor implement quality control procedures at the engagement level, assuring the audit will comply with professional standards and legal and regulatory requirements, and the auditor's report issued is appropriate in the circumstances (IAASB, 2010b).

*c) ISA 240 The Auditor's Responsibility Relating to Fraud in an Audit of Financial Statements*

This standard deals with the responsibility of the auditor regarding fraud in audit of financial statements. The objectives of ISA 240 are to identify and assess risks of material misstatement as a fraud consequence, collecting sufficient appropriate audit evidence related to the risks of

material misstatement due to fraud as well as developing and applying appropriate responses to this situation, answering correctly to the identified fraud or suspected fraud (IAASB, 2010c).

*d) ISA 315 Identifying and Assessing the Risks of Material Misstatement*

ISA 315 contains requirements relating to identification and assessment of the risks of material misstatement, providing the basis for the design of the audit and its performance as well as further audit procedures (IAASB, 2010d). This standard also explains how internal audit can be useful with its finds and functions to help external auditors with such risk assessments (Cain, 2012).

*2.2.2 Audit quality*

Audit quality is a combination of items as trust and transparency in the audit process. As Sainty *et al.* (2002), it audit quality is the probability that the financial statements which were audited do not have any omission or material misstatements. According to Baah and Fogarty (2018) audit aggregates a great number of processes that involve evidence examination through professional judgement.

Judgement can be affected by personal characteristics and points of view and this is not an exact science. Standards are established since the public expects a reliable behaviour performed by professionals; however, accounting firms are also conducting a profitmaking private enterprise serving capitals market's interest (Baah and Fogarty, 2018) which gave different angles to the same matter.

Audit quality is linked to auditor attributes such as competence and independence. As DeAngelo (1981 cited in Crawford *et al.*, 2015) it englobes the probability that the auditor will not only detect a breach in a client's accounting system, but also report this breach.

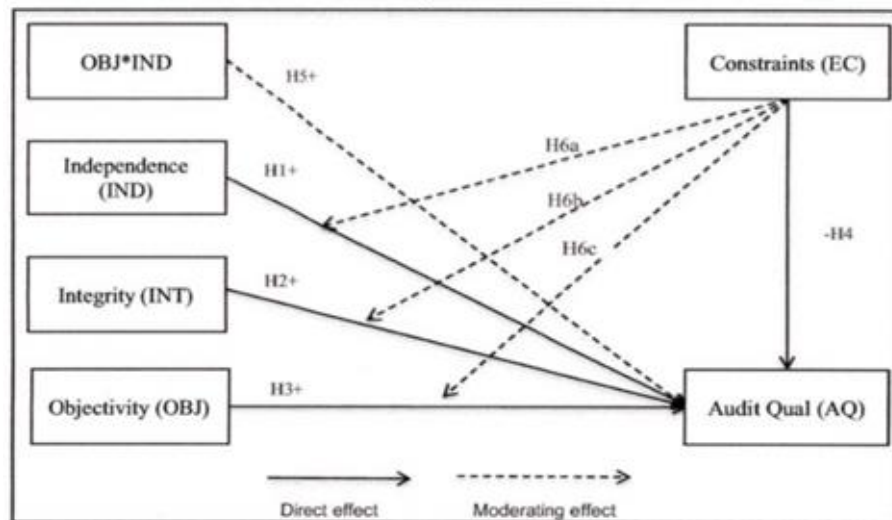
The Audit Quality Framework issued by FRC determines five drivers of audit quality (FRC, 2008):

- The internal culture of the audit firm.
- The personal qualities and skills of the audit partners and staff.
- The audit process' effectiveness.
- The reliance and usefulness of the audit report.
- Factors outside the control of the auditors that affects audit quality.



Figure 1 illustrates a conceptual model of audit quality showing that if the state of mind and the cognitive orientation that have been searched with concepts that the accountants were trained to work with are strong, it should be associated with better quality on auditing processes. A strong and effective normative agreement surrounds the connection between principles as integrity, independence, and objectivity (Baah and Fogarty, 2018).

**Figure 1 Conceptual model of audit quality**



Source: (Baah and Fogarty, 2018)

Tyrie, CMA chairman, affirmed that more than a quarter of audits regarding big companies are considered below the expected standard by the regulator, and this situation must come to an end as loads of people's savings, pensions, and other investments depend on the auditor's job being performed in a high-quality standard (Chapman, 2019).

Even with the increase of advisory work, audit services still the Big Four's major source of revenue. In spite of its low margin and status, it remains profitable thanks to their monopoly concession of the public companies auditing. The Big Four have, beyond offering other kinds of services, had many decisions that can weaken their auditing brand, as the many scandals in the last decades. Their investments in sector-expertise are proportionally smaller during the past century, and audit services has become more generic and standardised with a considerable decline in its quality (Gow and Kells, 2018).

### 2.2.3 *Ethics and independence*

The International Code of Ethics for Professional Accountants issued by IESBA, an independent standard-setting body within IFAC, established all the principles of ethics that must be followed and the acknowledgment of public interest responsibility, establishing audit fundamental principles as integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour (IESBA, 2008).

The Code provides guidance and a conceptual framework that professional accountants must use to identify threats that may arise and safeguards that can be taken to reduce or even extinguish the threats in compliance with the fundamental principles. It also emphasizes the importance of independence while working for a public interest entity. The Code of Ethics discusses accountants' responsibilities as professionals, their responsibility to serve the public interest performing all the professional obligations with the highest sense of integrity and objectivity and exercising due care in their work (IESBA, 2008). The establishment of the Code of Ethics helps us to recognise that being an ethical professional goes beyond than simple adhere and comply all the rules, but also requires a different way to approach, think and conduct the work that might result in a great performance with all the required principles in mind.

The concept of independence supports the meaning of objectivity on audit services regarding financial or even personal relationships and business between auditors and clients. IESBA defines independence on the International Code of Ethics for Professional Accountants linking independence with the principles of objectivity and integrity, explaining two important characteristics: independence of mind (the mindset of concluding without other influences that may compromise judgement) and independence in appearance (avoiding any fact or circumstance that can be seen as a lack of professional scepticism, objectivity or integrity). The Code stated that a being known as independent is proof that the firm is complying with the provisions stated on the Code (IESBA, 2008). The firm must be independent when performing an audit engagement, applying the conceptual framework established on the Code to identify, evaluate and address independence threats that could be likely to arise.

Auditors also need to have independence of action during audit services, being free to access the information necessary to the audit process and get answers and explanations from the clients (Cossierat and Rodda, 2009).

The Code of Ethics established on Section 120.12 A1 that accountants who work professionally in public practices must be independent when working on auditing or any other assurance engagement, complying with the recommended principles and avoiding facts or circumstances that can make other people conclude that any team member in the firm has their integrity or

objectivity compromised (IESBA, 2008). The Code gives instructions to avoid or extinguish any threat that may arise and affect auditor independence. Auditor lobbying for audit clients, for example, may arise an advocacy threat leading to lower audit quality (Burnett *et al.*, 2018).

According to Baah and Fogarty (2018) audit independence is an important characteristic to legitimate the profession and subsequently, to support the practitioners' privileges in their work. In the last decades, the increase of different kinds of services that accountancy companies have offered and the tendency of the clients to engage for years to an accountant have led to major concerns about how these extra activities can compromise auditor's independence and objectivity.

### **2.3 The Big Four accountancy firms**

Big Four is the title given to the four largest accounting firms in the world, formed of PwC, Deloitte, EY, and KPMG. Those firms' size, reputation, and worldwide reach led them to dominate this field, making other firms being tiny in comparison to them.

The history of all the four firms is related to predecessor firms that began during the nineteenth-century London, as it was a boom time for accounting. Whilst around during nineteenth-century business failures were up to more than 10,000 per year, accountants' work increase rapidly as a result (Gow and Kells, 2018).

By 1910, the world had eight main accounting firms (the Big Eight), and as the business was intensified, the bigger firms started to propose mergers by the end of the 20<sup>th</sup> century. The group of the Big Four was only completed as we know in 2002, after the collapse of Arthur Andersen due to Enron scandal.

Audit service is a core generator of the reputation for probity and integrity of the Big Four, but both their practice and perception are very fragile (Gow and Kells, 2018). In the USA, 97 per cent of the public companies are audited by one of them. In UK, 99 per cent of the top 100 corporations are Big Four audit clients, as well as 80 per cent of Japanese listed companies. The Big Four are the only firms that are large enough to check those multinational organizations' numbers, which give them a status of a cartel that became a state-guaranteed status since audit is a legal requirement almost everywhere (Brooks, 2019).

## 2.4 Audit scandals in the last decades

All the cases cited in this section are based on researches of published online newspapers and prescriptive articles that also have discussed these events. In this section, four of the most known scandals worldwide are explained to exemplify audit failures and their consequences.

### 2.4.1 *BHS*

Before the retail company BHS being sold, FRC affirmed that its 2014 accounts were not complete and also were misleading and inaccurate, since its owner, Taveta, would provide BHS financial support. His support was only applied while he was the owner and in March 2015, a few days before the company was sold, the audit report was signed by PwC (The Guardian, 2018).

FRC fined PwC in £6.5m in June 2018 and banned its audit partner Steve Denison from audit work for 15 years. Denison had to pay a fine of £325,000. FRC affirmed that PwC and its partner did not give any consideration to how the problems on BHS may have affected the ability of the company's going concern, since BHS collapsed right after was sold. PwC should have come to a conclusion that BHS Group had a material uncertainty, but the auditors failed on gathering audit evidence that shown that the going concern assumption made by them was appropriate (The Guardian, 2018).

PwC assumed its mistakes and said they were sorry since they felt their work were below the professional standards expected from them. Therefore, they agreed the settlement and recognise the importance of learning the necessary lesson (The Guardian, 2018).

### 2.4.2 *The trigger of the Global Financial Crisis in 2008: Lehman Brothers*

During the five years that preceded the beginning of the crisis, Lehman Brothers, America's fourth largest bank, had accumulated an enormous commercial property loan book which was the main point in securitising subprime debt. The government and Dick Fuld, Lehman's chairman and chief executive, tried to make several movements to save the bank but investors as walked away (The Guardian [online], 2008). With no other options, Lehman Brothers broke and triggered a Global Financial Crisis.

Amongst all the questions that had arisen with the crisis, EY, auditor of Lehman Brothers, was appointed as one of the responsible for its client's bankruptcy. EY had audited Lehman Brothers for seven years until 2007. Failures on the audit's processes and the fact that Lehman had used

Repo 105 to reduce its leverage ratio in 2008 presenting less debt on its books than it would have on reality if traditional repos had been used to finance the securities (Smith, 2011) made public opinion turned against the auditor's role. EY was accused of facilitating this process for the client, misleading investors and regulators (Gow and Kells, 2018).

In October 2013, EY accepted to pay \$99 million to the former investors of Lehman Brothers (Goldstein, 2015) who had accused the firm of helping the investment bank on misstating its financial records before its bankruptcy culminate the crisis. The company also paid the New York state a quantity of \$10 million for settling a lawsuit for overlooking the scheme that Lehman used for hiding the real situation of its finances.

Sikka (2009 cited in Fuerman and Kraten, 2009) said that the Global Financial Crisis in 2008 presented questions regarding the value and role of external audits. Although the unfavourable situation, EY affirmed that the financial statements that had been audited clearly demonstrating that the failure of Lehman was not caused by any accounting issues and the investment bank was 'a highly leveraged entity operating in a risk and volatile industry' (Chatterjee, P., 2015, p.online).

Besides the cited case of Lehman Brothers, all the Big Four had clients that either collapsed or required bailing out or nationalisation. All four firms had their names linked to some of the biggest failures worldwide. Regardless of their scale and consequence, those audit failures were considered to be at least as bad as the ones that were performed in 2002, which means that the era post-Arthur Andersen with the Sarbanes Oxley Act and its reforms on audit services had failed (Gow and Kells, 2018).

#### 2.4.3 *Serco*

Serco Group Plc is a company listed on the London Stock Exchange which works delivering essential public services regarding in UK, Europe and other countries.

Serco's audit firm Deloitte was fined £6.5m for misconduct its audit works on a subsidiary of Serco. FRC adverted and fine Deloitte and Helen George, Deloitte's audit engagement partner, regarding the audit of Serco Geografix in the years of 2011 and 2012, since Serco overstated its profits related to the UK's Ministry of Justice's contract for electronic tagging service which included charges regarding offenders who were dead (McCormick and Beioley, 2019).

The fines were discounted from £6.5m to £4.2m for Deloitte and from £150,000 to £97,500 for Ms. George since the parties settled. Furthermore, Deloitte also paid £300,000 towards the

investigation's cost and a training program had to be designed especially for their audit staff (McCormick and Beioley, 2019).

#### 2.4.4 *Carillion*

Carillion was an outsourcer construction company in the UK that use to have the main government contracts such as the construction of the HS2 rail line. The group owed more than £1.3bn to banks and although its reserves were only £29m in cash, its pension debit totalised £800m. Carillion collapsed in January 2018, and five months before it had issued a profit warning after its accounts were signed off by KPMG (Kinder, 2019).

KPMG is under investigation by FRC for the Carillion's audit since the Parliament said that the firm was 'complicit' in the aggressive accounting policies that the outsourcer used and also failed to challenge Carillion's management, missing out warning signs that were being presented on the financial statements regarding revenue and contract revenue (Kinder, 2019).

KPMG affirmed that its role as auditor of Carillion was conducted appropriately and responsibly and that the firm will cooperate completely with FRC investigations. The MP's inquiry also ordered EY, PwC, and Deloitte to provide detailed information regarding services that were provided to Carillion during the past decade (Kinder, 2019).

Each one of the Big Four firms has at some point approved financial statements that were later revealed to be materially incorrect making all of them became the centre of attention in many other audit scandals beyond of the ones cited here.

## **2.5 Investors' confidence and public perception**

As Gilling (cited in Pratt and Van Peurse, 1993) the function of the auditor can be defined as an agent of social control regulated by a link between legal and professional rules that connects to the status of the auditor. Porter (cited in Pratt and Van Peurse, 1993) also says that the role of the external auditor englobes many items and characteristics as their attitudes, values and behaviour that are expected from the social position they have, which means a professional who acts as an instrument of social control required of economic entities within its accountability processes.

Sarbanes-Oxley Act in 2002 was established post Enron as an attempt to restore investors' confidence. Section 404 of the Sarbanes-Oxley Act requires that managers must do an

assessment and report on their companies' ICOFR and external auditors must attest and report all the assessments made by their client's managers and provide their reports on ICOFR (Sarbanes and Oxley, 2002). This is the Act's most significant provision, giving the investors the resource they needed to satisfy the necessity of relying not only in the financial reports issued by accounting companies but furthermore in the processes and control as an essential part of these reports production (Ettredge *et al.*, 2006).

Regarding the duties of auditors on the events that triggered the Global Financial Crisis in 2008, from the professional point of view there was not any evidence that the reason for the crisis was poor audit quality (Hodge and Murray, 2012). However, the public perception was that concerns should have been raised by the auditors and stakeholders should have been advised about such concerns. A House of Lords committee that investigated whether the auditors had been sceptical when auditing banks that lead-up to the financial crisis accused the Big Four of ignoring the excesses and mismanagement of their clients, as concluded below:

“...where your duty is to report to investors the true state of the company, you were giving a statement that was deliberately designed to mislead markets and investors as to the true state of the banks. That seems to me to be a very strange thing for an auditor to do” (Lord Lipsey cited in Gow and Kells, 2018, p.1804).

The professional codes in Ireland, UK, and other countries all over the world refer to the public interest as an obligation for auditors. As Bromell (2017) for auditors who work for larges public listed companies with a major revenue and employment source, their relevant public involves investors, customers, suppliers, analysts, employees, and all the government bodies related to the company. Therefore, the more relevant part of the public for public interest consideration will probably be a larger group of people than simply those to whom the companies own a legal obligation.

Jonathan Webb (2016 cited in Gow and Kells, 2018) said that it is an interest of all the investors, customers, employees and even suppliers that the Big Four partners behave with integrity, since the auditor's name on the books is an assumption that “true and fair” means that the accounts are free of fraud as well. However, one of the things that auditors have emphasised is that they only provide an opinion about those statements' adherence to standards and whether they are materially misleading or not.

As Khan (2006 cited in Kassem and Higson, 2016) the public expectation regarding auditor's work is that they should do a great job in reducing, if not eliminating, corruption or at least identifying sensitive areas that may be an opportunity for corruption arise. Pacini *et al.* (2002 cited in Kassem and Higson, 2016) added that the auditors must satisfy the public growing expectations not only related to financial statements but moreover regarding the existence of

frauds and compliance with legal obligations, obtaining a reasonable assurance that material misstatements are correctly addressed, detected and reported.

Public perception is important to validate accounting and auditing services provided as Limperg:

“The (audit) function is rooted in the confidence that the society places in the effectiveness of the audit and the opinion of the accountant. This confidence is therefore a condition for the existence of that function; if the confidence is betrayed, the function, too, is destroyed, since it becomes useless. He must perform the work necessary to justify the confidence in his audit and his opinion” (Limperg 1985 cited in Pratt and Van Peursesem, 1993, p.12).

Flint (1971 cited in Pratt and Van Peursesem, 1993) adopts a social concept of audit and highlights that auditors have a broad and variable role in a democratic society where people who exercise power are accountable. Since such power is not absolute, it must be performed focused on public interest and it is expected that some kind of regulation and evaluation will be used to oversight the quality of work and report on accountability. This power can also be adjusted due to changes in political, economic, and social thought as well as ethics and society’s standards (Pratt and Van Peursesem, 1993).

## **2.6 UK’s proposal: the structural break-up of the Big Four accountancy firms**

The main international audit firms has decreased from eight to four since the late 1980s, arising concerns among regulators and clients such as the decrease in competition among high-quality auditors, consequent decrease in audit quality, and a possibility of a consolidation of the remaining high-quality audit firms (Newton *et al.*, 2013).

A cross-party committee of MPs in the UK urged that the Big Four firms should be broken up avoiding the repeat of the serious audit failures that have weakened public confidence in auditors [(Marriage, 2019); (BEIS Committee, 2019)].

The Big Four multiply the firms’ income working as consultancy practices that are built on the back of their captive audit market. Those accountancy firms have no rivals that can intimidate them since the five next largest accountancy firms’ turnover together are smaller than KPMG, the smallest of the top four, itself (Brooks, 2019).

Figure 2 demonstrates that the difference between the earnings of Big Four firms and other accountancy firms is extremely significant.



Investigations made by UK regulators, FRC and the UK Competition Commission, described the audit market as an oligopoly where companies very rarely switch between auditors and extremely high barriers are blocking the entry of new and smaller audit firm’s competitors (Hodge and Murray, 2012). This scenario only favours the Big Four, which is still auditing the biggest banks and companies all over the world.

“The major firms are on a growth treadmill that inevitably will stop, but each manager is determined to keep it moving even faster during his regime. This has required diversification into many ‘information-based’ services. The aggregate effect of these diversifications is to change the balance of the professional mindset – moving farther from an audit mentality and toward a consulting mentality. The diversified service draws the firms increasingly into competition with other disciplines that have few or no professional/competitive constraints, and our traditional professional standards of conduct are a competitive handicap.” (Ralph Walters 1985 cited in Gow and Kells, 2018, p.1470)



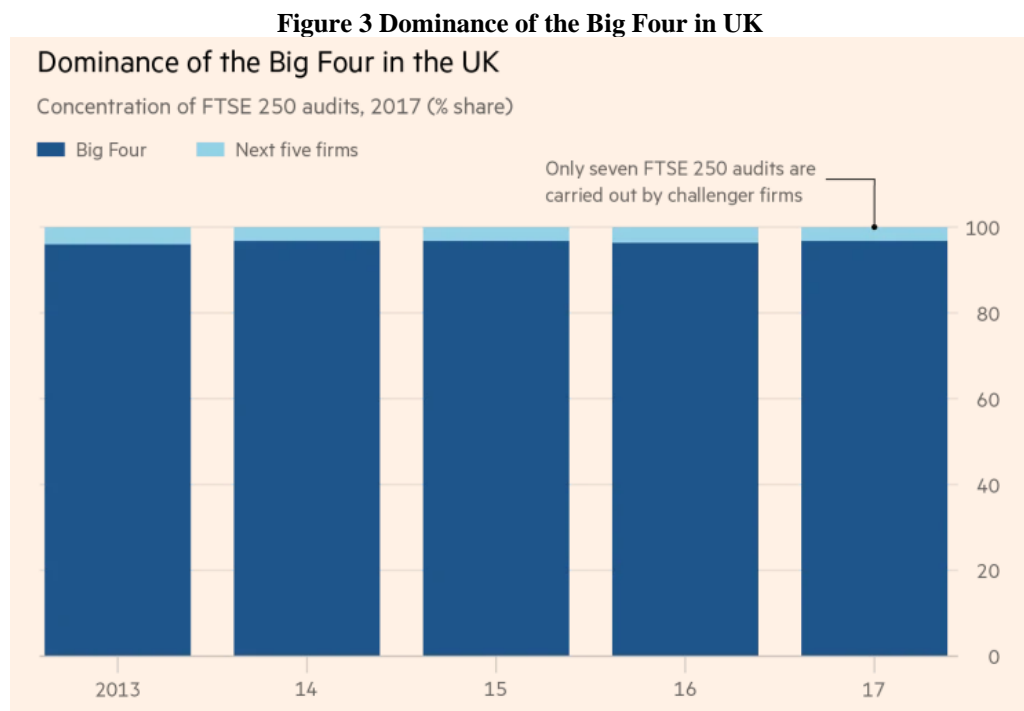
Source: (UK Parliament; House of Commons Library as cited in Financial Times [online], 2019)

The global audit market is dominated by the Big Four accountancy firms (Kleinman *et al.*, 2014), and as Yoo (2012 cited in Kleinman *et al.*, 2014) they are often considered to be providers of higher quality audit services that can be measured by disclosure transparency, discretionary accruals, restatements, and other items.

Fuerman and Kraten (2009) analysis of 1,017 financial reporting lawsuits against Big Four and Arthur Andersen from 1999 to 2004 using the auditor litigation outcomes to represent the probability of audit failure made clear that the fact that a company is audited for one of the Big Four firms cannot be considered a label of quality.

FRC wrote to CMA asking for a new investigation into competition in the statutory audit market (White, 2018b). In April 2019, BEIS Committee said that the Big Four should divide its arms of audit and consultancy into different entities in order to improve quality and competition between audit firms. CMA agreed and added that audit should be separated from other services by having separate financial statements, accounts, management, board, and chief executive (Chapman, 2019). The MPs said that this change would be more adequate for mitigating conflicts of interest also providing the professional scepticism that is necessary to conduct high-quality audit services.

The idea of a break-up in the services of the accountancy firms it is not something new since Arthur Andersen’s chairman and chief executive was forced in 1979 to take early retirement after suggesting that his firm should be split into two different businesses, audit and consulting (Zeff, 2003). Advisory services, in general, are less regulated and easier to deliver, and usually brings less risk than tax services or audit. Tax and audit services bring all kinds of potential pitfalls being subject to attempted mitigations (Gow and Kells, 2018).

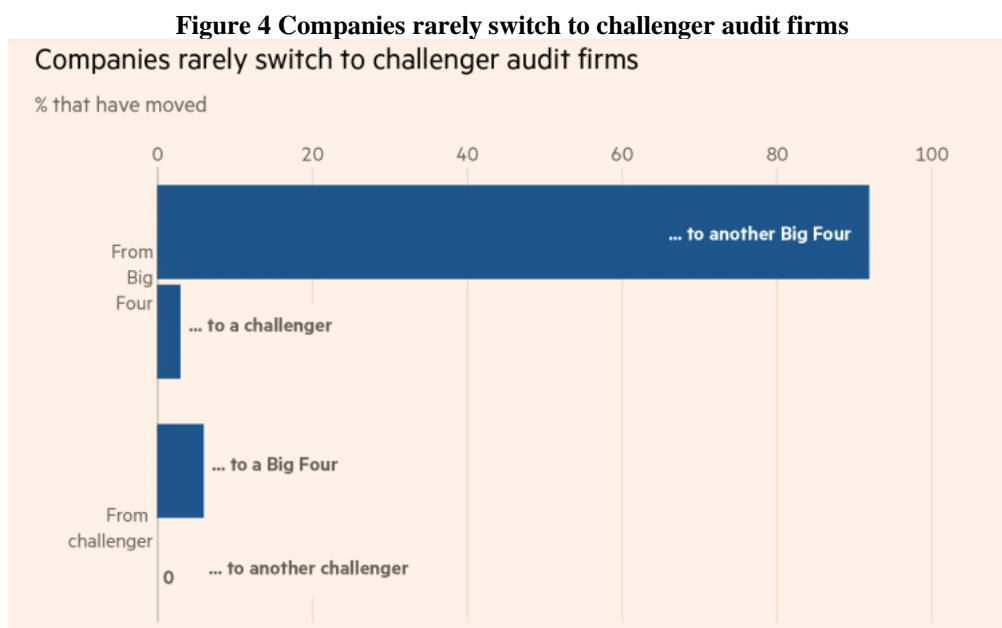


Source: (FRC as cited in Financial Times [online], 2019)

The problems that the Big Four oligopoly can bring to the market include a lower capacity of competition with other firms, a huge difficulty for clients to switch auditors (Kleinman *et al.*, 2014), and the heavy concentration of audit services in these four companies as cited before.

As demonstrated on figure 3, between 2013 and 2017, only 7 of the companies listed on the FTSE 250, composed by a capitalisation-weighted index of the 101st to the 350th largest companies listed on the London Stock Exchange, were audited by firms outside the Big Four, which clearly demonstrate that the established oligopoly does not offer chances for smaller firms to compete (Financial Times [online], 2019).

According to the BEIS Committee (2019), the Big Four firms were responsible for 99% of the audits of the companies which are listed in the FTSE 100 index (share index of the 100 highest market capitalisation companies listed on the London Stock Exchange) during the years of 2016 and 2017 and 97% of audits of companies in the FTSE 350 (stock market index that contains the largest 350 companies by capitalisation primarily listed on the London Stock Exchange) (Trentmann, 2019). In order to increase competition, CMA said that it should be required that UK listed companies use two different firms, at least one outside Big Four, to check their accounts (Giles, 2019). This application of joint audits would be mandatory to FTSE 350 companies, with a probable exemption of the 30 largest as their businesses are very complicated for smaller firms (BEIS Committee, 2019).



Source: (CIMA as cited in Financial Times [online], 2019)

Figure 4 demonstrates that audit rotation rarely reaches the challenger firms and it is usually made amongst the Big Four. As the four accounting firms became better known through the years, their clients started to gravitate towards them, which created a consolidated current (Gow and Kells, 2018).

Rachel Reeves, MP and Labour chair of BEIS Committee, said that the dominance of the Big Four on audit services has created a precarious market delivering audit which shareholders cannot rely on, and also excluding all the other firm's competitors. She pointed out that the BEIS report proposes a range of actions to boost competition improving audit product in order to guarantee that the UK continues to be the world corporate governance's leader (The Guardian [online], 2019).

“Full legal separation can provide the benefits of unquestionable independence, better quality, a proper audit culture, and transparent pricing. This is a prize well worth striving for.” (Rachel cited in Financial Times [online], 2019)

BEIS report also recommended imposing a limit of listed companies that each firm can audit trying to make joint audits and moreover reducing the time limit for audit rotation for seven years (BEIS Committee, 2019). Joint audits means that at least two independent auditors will be auditing the financial statements, involving coordination of audit planning, shared audit efforts, cross reviews, and one single audit report signed by the two jointly liable auditors (Ratzinger-Sakel *et al.*, 2013).

Audit rotation is an important instrument of safeguard of audit independence. Currently, in Ireland the articles 16 and 17 of the ARD requires a mandatory rotation of audit firms after ten years; in the UK and Northern Ireland, the SATCAR 2016 amended the Company Act 2006 establishing that the mandatory rotation of auditors is also ten years (Nolan and Nangle, 2018). BEIS Committee (2019) states that the frequency of audit rotation being stepped up to seven years would help to prevent the relationship between audit clients and audit firms become cosy. Furthermore, during the three first years of audit services, the firm will not be allowed to provide non-service audits for the audited company (Trentmann, 2019).

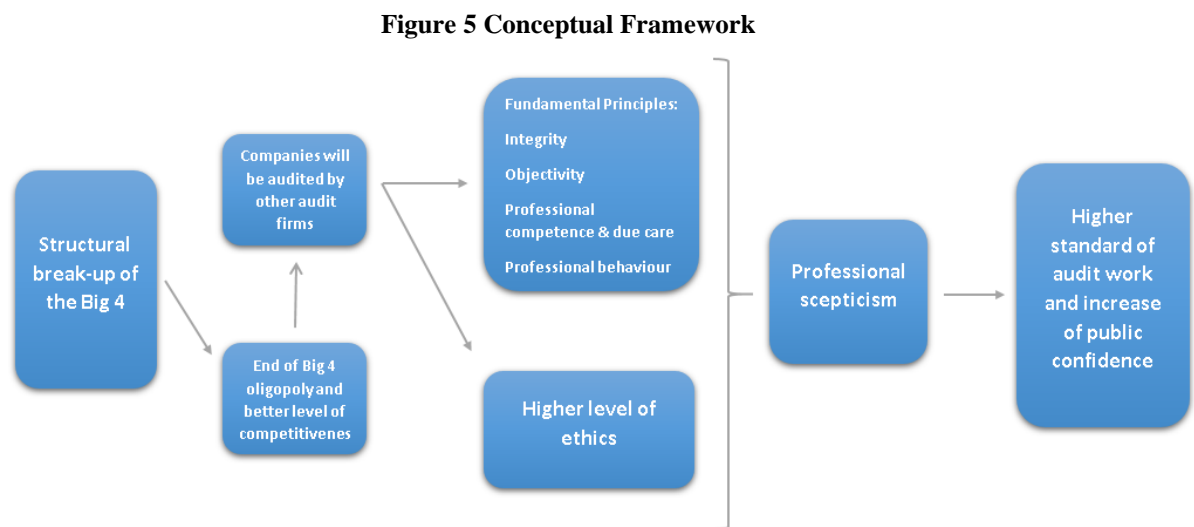
## **2.7 Conceptual Framework**

A conceptual framework is a tool that can be applied in many ways on the development and contextualization of a different kind of analysis, exploring ideas, and discussing conceptual distinctions. During research, the conceptual framework is utilised in order to highlight different options for the presentation of the chosen approach, defining the objectives of the research, conducting the literature review and the methodology that will be applied, the data collection, and its final analysis and report.

The draft of the conceptual framework can be defined through the relation of the literature review, the hypothesis of the author, and other authors' ideas. As Pratt and Van Peurse (1993),

the conceptual framework is useful in order to link the philosophy into a coherent whole, being a support for the comprehension of the rules and procedures which govern the practice. The gathered information should be well organised in order to be able to develop needed arguments and relevant topics.

Based on the items above discussed and thinking about the problems that audit work has presented through the years and the objectives of this research, the draft of the conceptual framework that will be used to develop the research was designed as figure 5.



Source: assembled by the author

The conceptual framework which helped to design the present research has its start point on the proposed structural break-up of the Big Four. The premise is that such break-up will be the end of the audit market oligopoly, giving to other accountancy firms more opportunity to bid for new contracts of larger audits and listed companies. As a consequence, this change in the market will highlight the importance of the fundamental principles where audit services are established: integrity, objectivity, professional competence and due care, and professional behaviour. These principles give the auditor the independence that he needs to do the best of his work. The Code of Ethics says that a firm been known as independent means that it is complying with the provisions stated on the Code. Performing an audit engagement, the firm must be independent and apply the conceptual framework established on the Code in order to identify, evaluate, and address any independence threats that may arise.

Whilst the fundamental principles of the audit are being complied with high standards, the level of ethics on audit services will grow as well. Those principles and ethics working together will

bring, consequently, the professional scepticism that the auditor needs to have on his work. As Thomadaskis (cited in CPA Journal, 2019), IESBA Chair, professional scepticism means that a good amount of doubt, criticism, and challenge is used at work within a limit. Being sceptical is the primary quality for an auditor who has to act as a guardian of the financial statements' integrity, working with a mindset of questioning, challenging, and verifying that must be used for all professional accountants.

As a result of the changes on the market and on the daily life of the audit firms, audit services will no longer appear as a conniving agent of financial scandals, being judged as a suspect during new crises, but to the contrary, will be able to restore public confidence on its services and raise the level of importance of auditing.

## **2.8 Conclusion**

The literature review has as its objectives to explain the rules behind audit services and present the most known cases of audit services performed by the Big Four that resulted in scandals which brought several consequences to the firms, audit clients, and the financial scenario. Following the identified problem, the literature review also demonstrates the numbers that involve Big Four accountancy firm's clients and the oligopoly situation on audit services. Those phenomena altogether led to the UK's proposal that is the focus of the present research.

By understanding the current scenario and the solution proposed by UK regulators, the questions that the present research aims to answer have arisen. As Trentmann (2019), the solution proposed is a move that objectives tackling the firms conflicts of interest and suggests not only the changes on Big Four's structure but also an expansion of the scope of audits in order to make the auditors work with focus on potential future risks of their clients.

Within this topic, the structure and information needed to draft the research methodology and the questionnaire utilised to answer the research questions were gathered.

### **3 Methodology and Research Design**

#### **3.1 Overview**

This chapter aims to explain the methodology used in the present study. Firstly, the research philosophy and approach will be described; the chosen method of research strategy and methodology of analysis used in this study and the reasons for choosing it will be presented; finally, the applied research questions will be presented to demonstrate the objectives and scope of the study. In the following part, the selection of interviewees is described. Afterwards, it will be explained how the data collection and data analysis were performed.

#### **3.2 Research Philosophy and Approach**

The present research has as its object the audit market. My interest in audit services has arisen during my internship in internal audit when I started learning the importance of audit services. Furthermore, the Advanced Audit and Assurance classes and the depth study I have had during the course lead me, with more theoretical understanding, to choose this field to research.

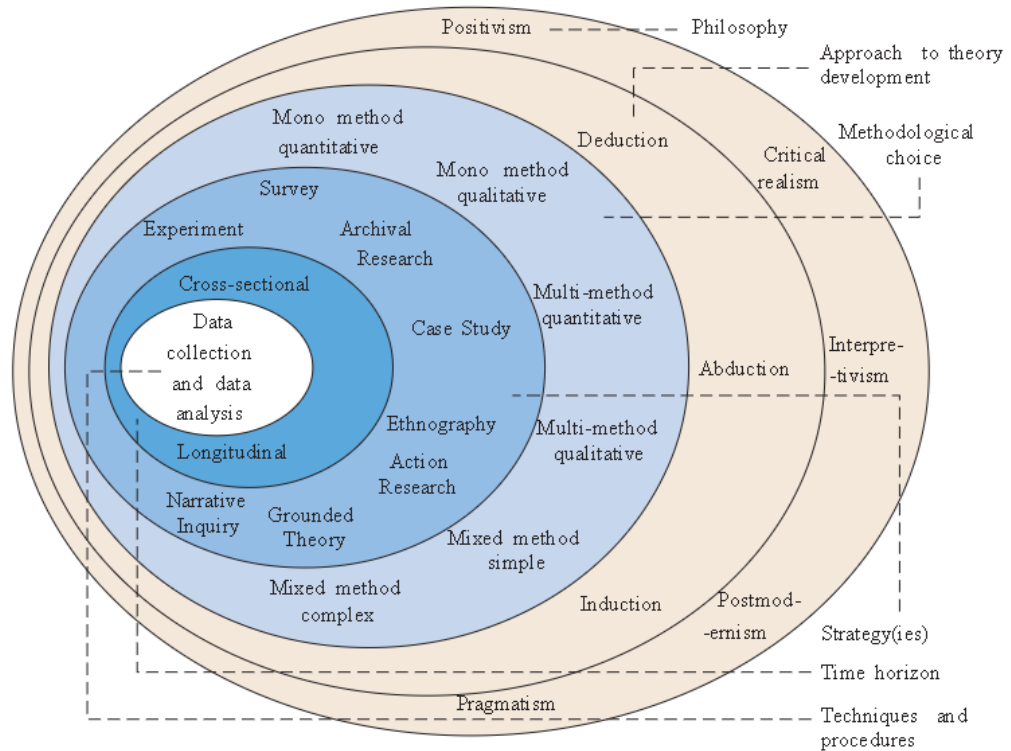
As Brannick and Roche (1997) the unity within the research process occur since the research is a way to represent life inside a business and also promotes a dialogue between researchers debating different theories and evidence whilst the business activities representation is being constructed.

The choice of quantitative or qualitative research does not come with the simplicity of a choice between numbers of answers or meaningful words. A more accurate way to understand the difference between those options is that quantitative research is usually focused on linking several specifically defined attributes regarding a large number of cases while qualitative research is focused on the existent links amongst many attributes involving fewer cases (Brannick and Roche, 1997).

To define the ideal choice of data collection method for this research, the representative figure of the research onion was analysed regarding research strategies, choices, time horizons, approach, and philosophy. As Saunders *et al.* (2019) such layers are a great way to give focus on the process of research design that will make the research questions become a research project. Saunders *et al.* (2019) developed the research onion illustrating the stages that need to be covered in the development of the research.

Based on figure 6, the overall approach for data collection and data analysis of the present research is explained as follows.

**Figure 6 Research onion**



Source: (Saunders *et al.*, 2019)

**Time horizons:** cross-sectional, since the time horizon is already established with a determined time whereby the data will be collected (Bryman, 2016). The research object is a particular phenomenon at a particular time (Saunders *et al.*, 2019) through the use of an open-ended questionnaire to collect qualitative information through in-depth interviews.

**Strategy:** survey. The strategy is the way the researcher intends to conduct the research (Saunders *et al.*, 2019). The primary data will be generated through a survey, which is a research technique in which information from a sample of people is gathered using a questionnaire (Zikmund *et al.*, 2013). This strategy is used aiming to establish the viewpoint of people on what they think, believe or feel regarding the presented subject, and can be applied in a situation in which particular perspectives from a group of experts contribute to a picture of comparisons and contrasts through a less structured interview (Jankowicz, 2000).

**Methodological choice:** mono method, since the data to be collected is qualitative rather than a combination of quantitative and qualitative. Some of the philosophical assumptions on



qualitative research are that sometimes it can be referred to as naturalistic because the researcher operates within a natural research context aiming to institute participation, participant's trust, access to meanings of the obtained answers and in-depth understanding. Qualitative research studies participants' meanings which are derived from words rather than numbers (Saunders *et al.*, 2019) so it is essential to take time during the interview to understand or clarify any doubt that might arise during the interview protocol. Primary data will be collected using a semi-structured interview since there are themes and questions pre-defined but new questions will arise during the conversation as the interview presents new important topics to be discussed.

**Approach to theory development:** inductive. Inductive approach starts from the specific and goes to the general (Bryman and Bell, 2011). The research will begin with a relevant data collection regarding the topic. After the data collection, the results will be analysed to understand and find a consensus, explaining the point of view of the experts and the findings (Saylor, n.d.).

**Philosophy:** interpretivism. Philosophy is an ensemble of beliefs that demonstrate the nature of the facts that are being investigated (Bryman, 2016) providing clearance for how the research will be conducted. As Collis and Hussey (2013) the main characteristic of interpretivism is the belief that social reality is subjective since is shaped by people's perception. Through interpretivism, the researcher interacts with what is being researched, which makes that the act of investigating social reality affects the reality itself (Collis and Hussey, 2013). Therefore, this research will use the interpretivism philosophy since the research is aiming to describe and understand the meanings of phenomena in the social world, being an investigation of qualitative data in-depth on a small sample.

### **3.3 Research Strategy**

The research design is an overall plan of how to conduct the research answering the research questions with clear objectives (Saunders *et al.*, 2019) and helps to plan the process that will be used to collect data achieving the most valid results (Collis and Hussey, 2013). This section will explain the research strategy design that will be used to collect the qualitative data necessary to answer the research questions presented.

### 3.3.1 *Research hypothesis and predictions*

Based on the researched literature review, it is clear that the changes in regulations of audit services and even the huge settlements that the Big Four had to deal with in their audit failures were not enough to change the way in conducting their audits. Furthermore, past scandals cited has been a motivation for a lack of confidence of the public and other stakeholders.

This research hypothesis is that the structural break-up of the Big Four can be a fresh start for audit services' market, restoring public confidence by making audit services a market where smaller firms have more chances to compete and the necessary capacity to conduct bigger audits.

### 3.3.2 *Research strategy: exploratory research*

The research strategy that will be used is the exploratory study since the goal of the present research is investigating what is happening (Robson as cited in Saunders *et al.*, 2019) on audit services seeking new insights regarding the recent proposal of a new structure for the biggest companies in the market using questions to assess the phenomena in a new viewpoint.

Exploratory research is a more open way to conduct researches as it is possible to change or adapt the direction as an outcome of new data collected appears to bring new insights (Saunders *et al.*, 2019). However, as Adams and Schvaneveldt (cited in Saunders *et al.*, 2019) it is important to know that the flexibility brought from exploratory research is not synonymous of an absence of direction on the investigation, but it means that the focus that could be initially broad will be narrowed progressively according to the research objective.

The likely findings of the study are if the structural break-up will help to restore public confidence, the changes that large and medium-tier firms needs to do to adapt to the new scenario being ready to conduct bigger and more complex audits as well as how the competitiveness and audit quality would be once the monopoly of Big Four is broken.

### 3.3.3 *Methods for collecting data*

The method chosen to collect primary data is interview on which participants are selected and open-ended questions are asked to find out what the interviewees think, do, and feel regarding the subject of the research (Collis and Hussey, 2013). As Arksey and Knight (1999 cited in Collis and Hussey, 2013), under an interpretivist paradigm, the main concern of an interview is

explore data in participants understandings, feelings, opinions, and analysing what people have in common.

The chosen technique, which is the step-by-step to be followed to collect data (Jankowicz, 2000), is an in-depth interview that it is usually conversational rather than only structured questions (Cooper and Schindler, 1998). A semi-structured questionnaire will be applied since the main questions and subjects are prepared to guide the interviewees through the main topics of interest in this study, but new questions can be developed whilst the interview is being done. The order of questions is also flexible to allow the interview to be conducted as a fluid conversation (Collis and Hussey, 2013).

### 3.3.4 *Research questions*

The focus of this research is the UK's proposal of a structural break-up of the Big Four accountancy firms as an opportunity to restructure audit market, bringing other accountancy firms to the same level of ability to conduct bigger audit services as well as competing equally for new clients in order to restore market confidence in audit services.

The questions that guides this research are:

1. Is the break-up of the Big Four a good way to restructure the audit market and what are the benefits that this structural change can bring?
2. Will this change be enough to create a healthier and trustful environment restoring market confidence in audit services?
3. If a structural break-up of the Big Four accountancy firms occurs and the companies are forced to go outside these firms, are smaller firms ready to start auditing larger companies such as public limited companies and listed companies?
4. Would this change make audit quality improve?

The research is structured based on these questions and a questionnaire was prepared (Appendix A) to approach the relevant topics and collect the needed answers for the conclusion of this work.

### **3.4 Collection Primary Data**

Determining the ideal sample size of the research depends on what the interview is trying to find out and also the content of the proposed questionnaire since the design of a sample is very unique for each survey (Brannick and Roche, 1997).

A sample should represent a microcosm of the population that the research intends to study and the size and specific sector of the firm are the two most important variables to be considered for analysing the findings when conducting business research (Brannick and Roche, 1997). In order to understand the outcomes of whether the UK's proposal of a structural break-up of the top four firms occurs, in-depth interviews were conducted with 9 senior auditors from different accountancy firms in Ireland and UK outside Big Four.

#### *3.4.1 Sources*

The primary source of data was in-depth interviews conducted with senior auditors. They were guided by a semi-structured interview that allowed them to answer freely demonstrating their experience and point of view. After the initial contact with them by email, the in-depth interviews were done via Zoom and recorded with their permission. The interviews were held in April 2020, with around 40 minutes long, where the participant's thoughts about the topic and their knowledge and experience in audit services were discussed. The interviews were transcribed to enable the coding and data analysis.

As secondary sources, online newspapers, books, articles, and documents regarding the UK regulator's committee were used to perform the triangulation of information, aiming to validate and substantiate the data.

#### *3.4.2 Access and Ethical Issues*

Ethics refers to the appropriate behaviour regarding those who will become the subject of the research and research ethics is related to questions regarding how the topic is formulated and explained, design to collect data, store, analyse and report the findings in a moral and responsible way (Saunders *et al.*, 2019). Ethical concerns arise at the very beginning of the research planning when start looking for access to organisations and individuals and can also continue when collecting, analysing and writing up the data. Therefore, potential ethical issues on the research must be recognised and examined from the outset of the research and correctly

addressed at all stages since these concerns are likely to occur at any point in the research project (Saunders *et al.*, 2019).

As Zikmund *et al.* (2013) the ethical issues can be addressed differently regarding the parties involved, which in the present study are the researcher and the respondents (subjects).

The rights and obligations of the respondent show the necessity of an informed consent that demonstrates that the person understands the reason for the research and abdicate of his or her right to privacy when deciding to participate in the research. The honesty of the respondents is the main obligation in the interview. In return for their truthfulness, the respondents have the right to expect anonymity and confidentiality. Another respondent's right is related to the right to be informed in terms of the aspects of the research and its purpose (Zikmund *et al.*, 2013).

Regarding the rights and obligations of the researcher, it must be clear that the purpose of the research is the research itself, meaning that the data collected should not be used in any plan, scheme or other situation that misrepresent the true status of the organisation or person who is participating of the interview. It is also extremely necessary to conduct the work with accuracy and objectivity, maintaining high standards that ensure that the data collected is accurate, not trying to prove any particular point for other purposes (Zikmund *et al.*, 2013).

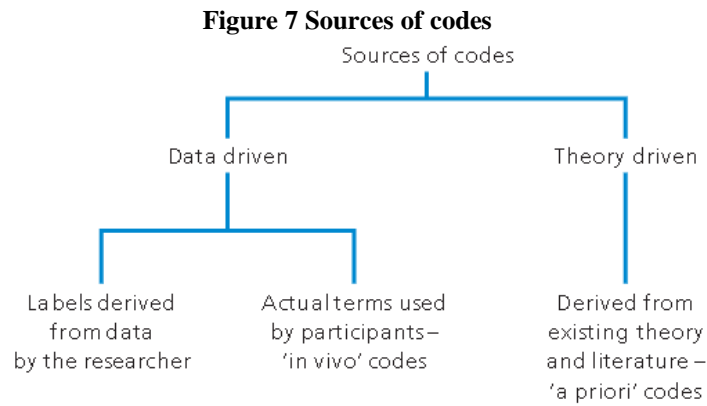
### **3.5 Approach to Data Analysis**

The next step after the collection of data through the chosen methodology is organise the collected material to analyse all the findings obtained during the research such as the transcripts of interviews, analysis of documents, and other relevant information available.

Thematic analysis was applied on the present study, which according to Braun and Clarke (2006 cited in Saunders *et al.*, 2019) is a systematic, accessible, and flexible 'foundational method for qualitative analysis'. Thematic analysis has as an essential purpose seek for themes or patterns that arise across the data collected and involves the coding of the qualitative data to recognise themes related to the research question for further analysis (Saunders *et al.*, 2019).

There are three main sources of codes that can be used dependent on the chosen approach to theory development on their own or as a combination (Saunders *et al.*, 2019), as follows:

1. Terms used by the respondents recorded on the data known as 'in vivo' codes;
2. Labels that arise from collected data;
3. 'Priori codes' that are derived from existing literature and theory.



Source: (Saunders *et al.*, 2019)

As a systematic approach, thematic analysis provides a systematic and logical way to analyse qualitative data, which allowed to analyse large qualitative data sets or even small ones in a way that leads to explanations, descriptions, and theorising.

Thematic analysis is flexible since can be used either when adopted an objectivist or subjectivist position, not being attached to a particular research philosophy. It can also be used either through a deductive or theoretical approach when the themes to be examined would be linked to an existent theory, as well as an inductive and data-based approach that does not intend to depart from a fixed grid of categories and themes but to have themes that derived from the data (Saunders *et al.*, 2019).

This method of analysis for qualitative research allows the identification of some parts of text passages or content of data that illustrates the same descriptive idea. The codes are designed to relate similar ideas from different transcripts to index and categorize them structuring thematic ideas. The chosen tool for data organization and analysis was MAXQDA.

The following steps proposed by Braun and Clarke (2008) when using thematic analysis were applied to this research:

1. Familiarization with the data, to comprehend often a large amount of qualitative data through reading.
2. Coding, to integrate related data from different transcripts using succinct labels that identify important parts of data that are relevant in order to answer research questions.
3. Generating initial themes, identifying key themes from a data set for further exploitation.
4. Revising themes, checking candidate themes against dataset, refining the themes.
5. Definition and naming themes, to develop a detailed analysis of the themes, checking the scope and focus of each one of them.

6. Report production, which is a final phase to put data extracts together and contextualising data analysis in relation to the literature review.

Whilst following the cited steps, the research objective will be the main focus, relating the results of data analysis to the research questions and confronting them with the literature review to analyse the information sets relating to the hypotheses raised.

### **3.6 Conclusion**

The potential outcomes of this research are to understand whether the UK's proposal regarding changes in the structure of the Big Four accountancy firms is a good way to restore public confidence in audit services, as well as the advantages and disadvantages of such changes to other accountancy firms. The potential outcomes are likely to benefit the accountancy firms and with insights regarding the change of the current audit market and what are the benefits that may arise, as well as the audit regulators in Ireland and UK regarding smaller firms' point of view.

Auditors will also have the opportunity to evaluate the current scenario of their profession and how the perspective of changing would affect their particular behaviour inside the firms, thinking about practices in the past decades and coming to a conclusion of a better way to sell their work with his real value.

Therefore, it can be said that this research will bring contributions in business terms. The results of the present research can benefit the accountancy firms whose auditors were interviewed since the questions and its method of conduction can be a unique time to reflect about audit services and the firms' conduction as well as their professional behaviour.

## 4 Presentation and Discussion of the Findings

### 4.1 Overview

The research was conducted through in-depth interviews of auditors outside Big Four. It is known that the central objective of this research is to understand whether the structural break-up of the Big Four accountancy firms can help to restore market confidence in audit services and what benefits this change can bring to the audit market. The other objectives are to understand the structure of the large and medium-tier firms to attend more clients, and whether this change on the top four firms will help to improve audit services.

In view of these objectives, an interview protocol was designed to gather information about audit services and the proposal of the UK's lawmakers to broken up the top four firms from the interviewees' point of view. This interview protocol was applied to 9 auditors directly involved in external audits whose experience and functions are detailed below, and it is believed to be an adequate number to obtain a relevant level of information.

**Table 1– Interviewees experience and functions**

<b>Interviewee</b>	<b>Time of experience in audit services</b>	<b>Function</b>
<b>1</b>	5 years	Senior auditor
<b>2</b>	4 years	Senior auditor
<b>3</b>	22 years	Senior auditor
<b>4</b>	9 years	Audit associate director
<b>5</b>	4 years	Senior auditor
<b>6</b>	26 years	Audit partner
<b>7</b>	4 years	Senior auditor
<b>8</b>	2.5 years	Audit semi senior
<b>9</b>	4 years	Audit associate

Source: assembled by the author based on the interviews

### 4.2 Findings and Discussion

#### 4.2.1 *The impact of the structural break-up of the Big Four accountancy firms on audit market and its benefits*

The first analysis was about the thoughts of the participants about the UK's proposal of the structural break-up of the Big Four accountancy firms and the possible outcomes and benefits of it.



The main item to be taken into consideration is the heavy dominance of the Big Four in the UK. Information presented by the BEIS Committee demonstrated as one of the reasons for the structural break-up proposal the fact that the top four firms are responsible for 99% of the audits of the companies in the FTSE 100 index and the difficulty that other firms find to enter the market on the FTSE 250 (Trentmann, 2019). This reason was also pointed out by interviewee 4 as follows:

“The Big Four have 99 of the FTSE 100 companies in London for example, so there is a massive influence of the Big Four there. I know my firm’s perspective in the next FTSE which is the next 250, we are really prevalent there, but in terms of the FTSE 100, yes, as far I can remember was that my firm found very difficult to try to get into FTSE 100 companies because the role of the Big Four was very strong.” (Interviewee 4, L13)

It was also highlighted as one of the good reasons for the proposal the poor quality in audit services in comparison to other services such as advisory and tax according to interviewee 1:

“I think that one of the best arguments for breaking up the Big Four is the lack of quality in the audits that seem to be coming out of the Big Four, although I think one of the reasons that is probably causing the lack of quality is the fact that the other services that those firms offer, so you’ve got audit, advisory, tax, and audit probably isn’t the most profitable and that’s what is probably affecting that quality.” (Interviewee 1, L106)

Such difference in the level of quality of audit and non-audit services coincided with the literature as illustrated by Gow and Kells (2018) explaining that the increase of advisory work which is usually more profitable than audit has led to lower investment in sector-expertise during the past century with a considerable decline in quality.

Given the information presented, it is noted that 6 out of 9 interviewees supports the structural break-up of the top four firms for the following reasons:

**A better competitiveness on the market.** According to interviewee 1, it would be a chance for smaller firms to succeed, and as interviewee 2 and 4 it would be a way to stop the Big Four dominance. Interviewee 6 also said that there is not enough competition, so broken up the top four firms would give big companies more choice on the market. Rachel Reeves (cited in The Guardian [online], 2019) said that the UK’s proposal report brings a set of actions to promote competition.

**An increase in auditor independence.** It would intensify the separation of audit and non-audit service staff on the top four firms, according to interviewee 5, promoting a more independent work as there would be no contact between those two teams. In the researched literature Baah

and Fogarty (2018) stated audit independence is an important characteristic to legitimate the profession; however, the increase of different kind of services that accountancy companies have offered and the tendency of the clients to engage for years with the same firm has arisen concerns regarding the compromise of auditor's independence and objectivity.

**Mitigation of conflicts of interest.** There are many firms currently offering both audit and non-audit services for the same client. According to interviewee 7, Big Four knows how to get away with conflicts of interest very easily and the structural break-up is a way to prevent such conflict of interest to happen. Sikka (cited in White, 2018a) also affirmed that the break-up should occur for the sake of reducing conflicts of interest.

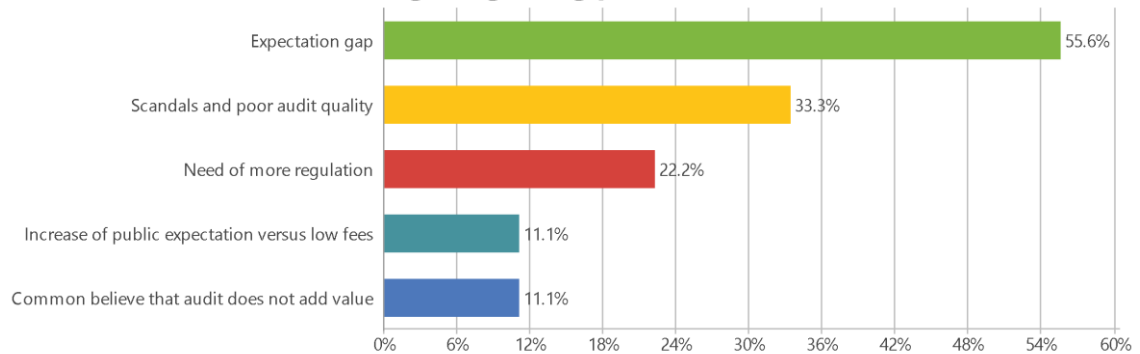
**An increase in audit rotation.** As pointed out by interviewee 8, sometimes big companies are audited by Big Four for many years without any change. The structural break-up would improve audit rotation rules, avoiding companies of being audited for a long time by the same firm as the BEIS report recommended the reduction of the time limit for audit rotation to seven years [(The Guardian [online], 2019); (BEIS Committee, 2019)].

It is observed that the reasons pointed out by the interviewees who support the structural break-up englobes not only benefits for the firms where they work, but also for the Big Four itself. As the researched literature above cited, those problems are likely to be addressed according to the BEIS report that stated the proposal.

It is also noted that 3 out of 9 interviewees disagrees with the structural break-up. For them, the best improvements that can be implemented are a more tighten audit rotation and stronger independence rules that should also be strongly monitored by the oversight bodies. Therefore, these interviewees believe that the structural break-up is not necessary to change the scenario in the audit market, as this matter is only a case for stronger regulation.

The heavy dominance of the top four accountancy firms is being highlighted by scandals regarding audit failures that led to a low trust in audit services from the public. According to Bromell (2017) auditors of large public listed companies have as their relevant public more people than simply those to whom the company owns some legal obligation. Therefore, one of the subjects during the interviews was the challenges that the audit market is currently facing regarding public confidence. The conducted interviews allowed the production of the chart presented on figure 8.

**Figure 8 Challenges regarding public confidence**  
**Challenges regarding public confidence**



Source: assembled by the author based on the interviews

The interviewees have given more than one answer on this topic. It is observed that the expectation gap was the most cited challenge regarding public confidence. Expectation gap demonstrates the huge difference of what audit services do and what is the perception of audit services by the public, as interviewee 4 said:

“People believe that auditors have to go and find fraud, but that’s not necessarily our job. Auditors find fraud in the normal course of their business. So, there is that perception that auditors go and find fraud but is not it really, it just comes out of the work that we do. I think that’s the biggest issue that the profession has and the financial scandals over the last 15 years have not helped the profession in that respect.” (Interviewee 4, L25)

According to the interviewees, the auditor’s work is not specifically finding fraud, but once it happens to find fraud during the regular course of their work, follow the audit standards to correctly address it. For them, the key to change this expectation gap is improving communication with stakeholders and the public in general to clarify auditor’s responsibility as explained by interviewee 5:

“It is just a case of communicating to the public as a team, it must be within firms someone, people with representativity in different firms to talk about this kind of thing, but I just suppose more public facing, because we do do procedures, which help (with fraud), but you can’t find everything that is going to happen. (Interviewee 5, L123)

Such viewpoint of the interviewees coincided with the literature as Jonathan Webb (2016 cited in Gow and Kells, 2018) said that the general perception of audit is that since the auditor signed the financial statements as “true and fair” the accounts are also free of fraud. Furthermore, according to Sikka *et al.* (1998) since it is understood and expected that auditors evaluate with meticulous attention various items such as internal control, creditors, debtors, cash counts, bank

balances, and many others, not only the auditees but general public continues to assume that auditors are specifically looking for fraud.

The firms must communicate better with stakeholders as well as the regulators put more effort in terms of public awareness of the auditor's work. However, as observed on the BEIS Committee Report, it is actually the audit delivery gaps that should be correctly addressed, since it is not acceptable any attempts of auditors to underplay the role of audit impliedly blaming the public for misunderstanding the purpose of audit. According to BEIS Committee (2019) firms shall concentrate on poor audit quality and what are they falling to comply with the current framework regarding their current tasks of:

- Detecting material fraud (as per ISA);
- Making a forward-looking assessment of the company's prospect;
- Stopping grossly imprudent distributions;
- Achieving a certain level of quality (currently set by FRC).

Another challenge cited by the interviewees is the scandals due to poor audit quality. Recent cases of audit failure in the UK such as Patisserie Valerie, Ted Baker, and Carillion were some of the cases cited by the interviewees. It can be said that the rise of audit failures and scandals have helped to create the expectation gap previously cited, which has a huge influence on how stakeholders and the general public see audit profession. Thus, those cited challenges are connected.

The need for more regulation on audit services is seen as a challenge for some of the interviewees. This was a recurrent subject on the interviews and demonstrates that the auditors are open to more oversight reviews. BEIS Committee (2019) informed that Kingman Review of FRC was set up to address regulator's work, which could be a solution for this matter.

Other challenges cited were the common belief that audit does not add value to the company. According to interviewee 9, because it seems that audit does not change anything in the companies, people do not see the same value as they see on advisory services, for example. Interviewee 1 pointed out as a challenge the constant increase of public expectation and the fact that usually audit fees do not increase at the same level, which leads to an understaffed audit department to attend an increase expectation.

These two first findings presented can be related since the structural break-up might help to address the challenges cited by the interviewees regarding public confidence. An increase in market competition and audit rotation with more firms auditing big companies consequently

would give more independence and reduce conflicts of interest; such change might cause a decline in the scandals due to poor audit quality and also change the culture around audit services helping to make the public aware of the auditor's duty and how it is conducted.

#### *4.2.1.1 Immediate actions to improve audit quality*

It is essential to evaluate audit quality and understand different ways to improve it. According to Cosserrat and Rodda (2009), audit quality is widely acknowledged as a major factor to restore public confidence and therefore it is still being a key issue.

Knowing their firms' culture and their routine when conducting audits, the participants were able to give their opinion regarding the immediate actions that accountancy firms can take to improve audit services. An educational approach with the public to address the expectation gap and give them awareness of the duty of the auditor was suggested by interviewee 4 as a way to improve audit services mitigating the main challenge presented on the previous item:

“I actually believe in education to the general public to say what does the audit profession actually do, how do they provide confidence to the public, to shareholders, to other stakeholders, how do they do that process, because if you wouldn't be involved in accounting, no one would understand what happens. I believe the biggest thing that the accounting firms, maybe the lower tier accounting firms could start to do is to provide awareness to the general public of what they do in order to restore confidence.” (Interviewee 4, L39).

Automation on audit processes was cited by 3 out of 9 interviewees as the primer area to be improved. According to Zhang *et al.* (2018) in the near future not only the background in accounting and auditing will be necessary for auditors but also a good understanding of data analytics, with knowledge of techniques and tools available to address audit risks and perform tests.

The implementation of automated processes and new systems that can easily improve the effectiveness of auditing can also give to firms the possibility of auditing the client whilst their financial activities are in course during the year instead of auditing after year-end. According to interviewee 6, this could be a tool to improve audit quality:

“I wonder how long we will have year ends, because to me year ends is the most archaic practice. So, you get to the end of the year, you get the books of accounts, you prepare the set of accounts, one month later you have them audited, one month later you present it to investors the shareholders, I mean, the world doesn't work in years anymore, so will audit move to become just a constant thing whereby the auditor's software will link up to the client's software and if the transaction happens and it's strange or unusual it'll flag

up straight away, and then the auditor would be involved with the business until the year end almost as a regulator capacity rather than once a year doing some tests on the balance sheet and then leave.” (Interviewee 6, L62)

There are also other immediate actions cited as follows:

- better control of fees to be charged in order to set more adequate and higher fees
- more training for staff to give them a better understanding of the clients so they can do the tests with more assertiveness
- more professional scepticism
- conduction of audit in a more efficient way without losing quality, offloading some more administrative tasks for other teams
- use of KPI on audit department

The items cited on their answers demonstrated that most of the immediate actions cited imply in a higher cost for the accountancy firms, especially in terms of automation on audit services and staff training. Therefore, proper control of audit fees to be charged seems to be essential to increase audit profits so the firms can take more effective actions improving audit quality.

#### *4.2.1.2 Benefits of the structural break-up for audit market*

The last item to be analysed in terms of the opinion of the firms outside Big Four regarding the UK’s proposal is the benefits that can arise from this change. As Chapman (2019) BEIS Committee believes that the division of the top Four firms in two arms will improve audit quality and competition between audit firms, and MPs affirmed that this change would have an effective impact on mitigating conflict of interest and increasing the professional scepticism necessary to promote high-quality audit services.

According to interviewee 1, the stakeholders could also benefit from this change once audit quality would improve with more clients going to other audit firms:

“It will be a lot of more opportunity for them to win audit engagements against the top Four, so I think it will certainly work in their favour in the revenue point of view but also in the point of view of expanding the firms and increasing their service offering, particularly within audit and I think will also work in the favour of other stakeholders in terms of audit services provided by firms if is to have a positive knock and affect audit quality.” (Interviewee 1, L278)

When thinking about the benefits that can arise from this new structure, the interviewees pointed out different items. Table 2 was developed based on the information provided by the interviewees, also illustrating the benefits that were observed in the researched literature.

**Table 2 Benefits of the structural break-up**

<b>Benefits presented in the research</b>	<b>I1</b>	<b>I2</b>	<b>I3</b>	<b>I4</b>	<b>I5</b>	<b>I6</b>	<b>I7</b>	<b>I8</b>	<b>I9</b>	<b>Incidence</b>	<b>Benefits presented in the literature</b>
More competitiveness and increase of audit quality	X	X					X			3	Improvement of quality and competition
Less conflict of interest on providing services									X	1	Mitigation of conflicts of interest
More auditor independence			X							1	Unquestionable independence
Improvement on ethical culture	X		X							2	A proper audit culture
Higher audit rotation	X							X		2	Reduce time limit for audit rotation
More accountability for auditors					X					1	Transparent pricing
New clients and growth for other firms				X		X				2	

Source: assembled by the author based on the interviews and the literature

It can be observed that most of the benefits cited by them coincided with the researched literature. More competition gives the companies more firms to choose from, which also increases audit quality since the firms would be willing to keep their clients and win competition. Moreover, the structural break-up would mitigate the conflicts of interest in the services provided by the Big Four and avoid the same problem to arise in other firms.

One of the benefits would be new clients and new challenges for smaller firms, and also a higher audit rotation. These benefits would consequently start a restructuring in the market, making the benefit of getting new clients flow down through audit market as a whole as described by interviewee 6:

“The medium-tier firms would have to look at their current client base and work out of clients they are not going to service anymore to make way for the big new clients. And other smaller firms would be able to be really successful and pick up other clients that are no longer important to the medium-tier firms since they’re doing large listed companies, so the smaller firms can do well as well by picking up clients that medium-tier firms are no longer interested. So, everyone could benefit, as long as still in a structured way, so the Big Four would resign some clients that go down to medium firms, the medium firms would get rid of some clients that go down to smaller firms. So, it can work this way.” (Interviewee 6, L191)

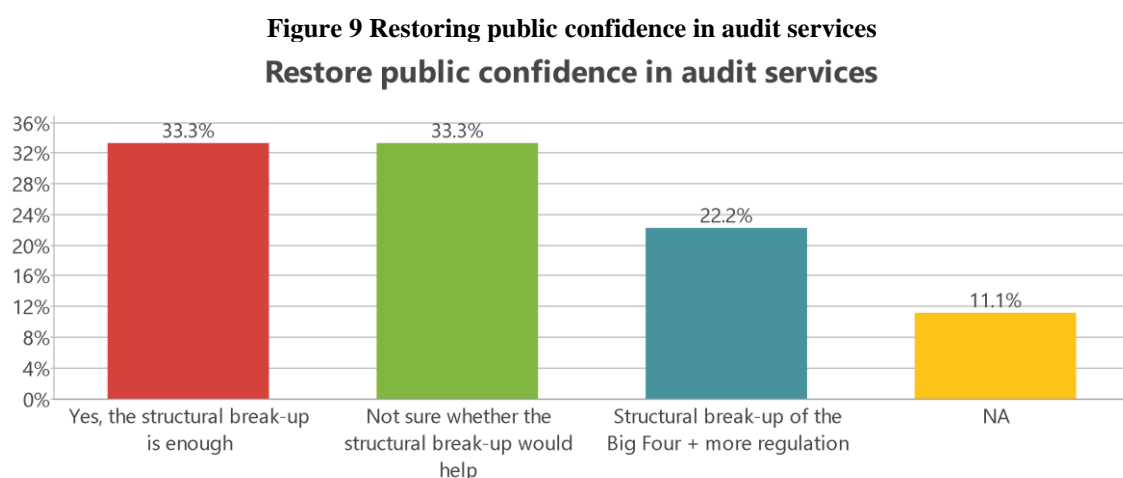
Furthermore, an important benefit would be the establishment of a proper audit culture with the improvement and strength of the ethical culture across accountancy firms in terms of how the services are provided added to a total separation of the different services being provided should influence the industry as a whole.

Even though items such as more accountability for external auditors and the growth of smaller firms were not located on the researched literature, it can be said that the increase of audit competition and a reduced time limit for audit rotation would bring more clients and growth for smaller firms as a consequence.

The benefits that can arise from this structural change on the top four firms would bring a structural improvement to the whole market once the listed companies start being audited on joint audits and audit rotation are improved. The challenger firms that are willing to have more clients would be able to do so, working without conflicts of interest and more independence, helping to create a new culture that could change the public confidence in the sector.

#### 4.2.2 Restoring public confidence on audit services

The second analysis of the research aims to evaluate whether the structural change on the Big Four accountancy firms would help to restore public confidence. According to Limperg (cited in Pratt and Van Peurse, 1993) public perception is important to validate account and audit services provided since the profession is built in the society's confidence placed on those professionals; thus, this confidence is a requisite for the existence of those functions.



Source: assembled by the author based on the interviews



As Financial Times ([online] 2019) the committee of MPs in the UK proposed the structural break-up of the Big Four firms to avoid new occurrences of the significant audit failures that undermined public confidence. Reflecting whether the structural break-up would be enough to create a more reliable image to the public, 3 out of 9 interviewees answered that they believe this new scenario would be enough to help to create a better image since “the less association with Big Four, the better” (Interviewee 2, L75). Such opinion coincided with the researched literature above cited.

However, other 3 interviewees are unsure about the benefit that the structural break-up could bring to public confidence. As interviewee 7 viewpoint, he would personally have more confidence in this new scenario, but he is unsure about the public point of view. Furthermore, according to interviewee 5, it would probably do not change so much the public confidence as it would be just a change from a firm to another, so the media would only see a different name acting more in the market. Yet according to interviewee 5, it is necessary to have more regulator action to help clarifying to the public what is the work of the auditor and what are the limitations of it.

It can be observed that for 2 out of 9 interviewees a strengthen on audit regulations and a more incisive action from regulators it is something that, added with the structural break-up, would work better to restore public confidence. The structural break-up can occur, and consequently smaller firms would pick up new audits, but it does not necessarily mean that audits would be conducted with higher quality. It is up to the regulators to ensure that they are properly overseeing audit services and that it is being conducted to sufficient quality and standard, increasing the number of audits being reviewed as interviewee 1 said:

“I do think the regulators have a massive part to play in this in terms of the external reviews they do of audits because I know in the present day, they take a sample of audits from firms, and check the quality of it, I think that it needs to be a bit more of that, maybe promote a culture of higher quality audits being conducted by these accountancy firms.” (Interviewee 1, L300)

According to interviewee 4, the structural break-up would also avoid that regulators feel somehow intimidated by the size of the accountancy firms, being truly independent and free to apply the rules in a stricter way, as interviewee 7 pointed out:

“Why not have more competition within Big Four and other bigger firms, and then also increase the part of the regulators as well? Maybe that is one thing that happened in the financial crisis, is that the regulators took an eye off the ball and they did not really hold firms to account. Maybe they did not hold Big Four to account because they were scare of the Big Four, because they are so big. So, maybe that’s the thing, maybe by breaking up they can increase the competition and the regulator connected pick up its place at the top of the system.” (Interviewee 4, L113)

White (2018a) said that usually only smaller firms are caught by regulations leaving the most established firms with some facilities in the market and medium-tier firms will still suffer with new restrictions being introduced, also giving as an example the audit market on France, where the regulatory changes favour the biggest firms just as the current rules seem to do.

The interviews demonstrated that it is believed that the structural break-up would be enough to restore public confidence, but they also admit the need for more work done from the regulators demonstrating they are open for being more accountable during the course of their work. However, it is important that the regulations established works equally for all the firms independent of their size.

Restoring public confidence in audit services would bring as a consequence more responsibility by the auditors when conducting their work in order to avoid audit failures that can generate new scandals. Any favourable change that can arise with the structural break-up of the top four firms needs to be carefully addressed to bring a change in the culture of accountancy firms.

#### 4.2.3 *Audit market competition and accountancy firms' capacity for new clients*

The third analysis was about the position of accountancy firms in terms of competition and its capacity to attend more audit clients.

As demonstrated in the researched literature, Gow and Kells (2018) said that the Big Four growth and reputation make clients gravitated towards them. According to Hodge and Murray (2012), UK's regulators pointed out that the audit market is an oligopoly where companies rarely switch between auditors. Given this information, it is important to understand if the interviewed accountancy firms have ever denied participating in a tender since it was clear that such client would be audited only by one of the top four firms.

The fact that it is difficult to beat the big firms since they have a strong brand and some clients normally choose the auditor by their name-brand reputation was the reason why 3 out of 9 respondents said their firm usually denied entering in competition with Big Four. As pointed out by interviewee 7, some clients simply think that they must have one of the Big Four auditing them. This finding coincided with the researched literature since Sainty *et al.* (2002) state that name brand recognition is one of the items that establish the credibility of an audit firm.

However, other 3 of 9 respondents said that their firms always compete with those big firms because they were specialised in some industries where the Big Four is not dominant; thus, their firm only denied competing when the client is clearly not profitable. In these cases, is also important to remember that the firms which auditors were interviewed for the purpose of this

research are mostly working in one of the top ten accountancy firms, meaning that their size and industry specialization are reasons for them not to feel too intimidated when competing with the Big Four. As pointed out by interviewee 9 for example, whose firm dominates the aircraft industry:

“I always saw them competing. The aircraft listed companies, we always won anyway. I’ve never saw them denying entering in a bid because of the Big Four, and as a result the majority of aircraft companies in Ireland are being audited by us”. (Interviewee 9, L45)

Furthermore, another interviewee told that his firm usually has good results in competition since it is also a top ten firm and in their field of specialty the investors want companies to be audited by a firm with better reputation:

“One of my clients, a charity company with an international presence, used to be audited by a top 20 firm, but the investors asked them to choose a firm with a better reputation. It was just a charity institute. So, my firm, which is a top 10, entered to the competition and won the account.” (Interviewee 9, L108)

According to Mohammad Rezaei and Mohd-Saleh (2018) competition is considered a positive force in most industries and monopoly power can allow firms and employees to work in a minimal effort. Their study has demonstrated theories that suggest that higher competition is more likely to result in higher efficiency. Therefore, since the current market scenario seems to make difficult for some firms to compete, the structural break-up of the biggest firms increases the chances of challenger firms on entering and winning competition. Nonetheless, firms that already have a culture of competing with the top four would still gain more space in the market.

As a consequence of the increase in chances of competition, smaller firms would be likely to grow, making their name-brand more well known in the market gaining a better position in terms of economic resources with an increase in their profits.

As Kleinman *et al.*, (2014) not only heavy concentration of audit service is a problem created by the Big Four oligopoly but also lower capacity of competition with other firms and a huge difficulty for clients to switch auditors. To overcome dangers inherent of excess of familiarity between auditors and clients, the audit rotation should occur more often, which requires a greater number of major accountancy firms capable to attend large audits, meaning that the top four firms should be broken up into a ‘not-quite-so-Big-Eight’ being more assailable by challenger firms (Brooks, 2019) with knowledge and resources to do so.

Given this information, it is important to understand the capacity of the accountancy firms outside Big Four to attend more clients and whether they have the knowledge to audit public or

listed companies. As Gow and Kells (2018) part of the culture of the accountancy firms is send less experienced staff to do the work that has been sold by the directors. It can be seen that such practice also occurs in smaller firms, according to the information given by the interviewees regarding the lack of seniors on audit services as follows.

“There are loads of junior staff working. The problem is that they don’t provide enough training, so the juniors have to learn whilst doing the job. What I’ve notice is people who are on the third year as a trainee, they also don’t know everything. They didn’t have enough training, so they don’t know how to teach new people. We listen a lot of things like ‘try to do it and I’ll check’. You have training with trainees that started before you, but they hadn’t been trained enough, their training wasn’t good enough. So, yes, they send a lot of juniors to audit because it’s cheaper for them. (Interviewee 9, L111)

According to interviewee 6, staff is a difficult issue in audit services since a lot of accountants qualifies in audit and leave to work in a different field, and this can affect the ability of smaller firms to provide audit services for large companies:

“Staff is an issue in audit, it’s part of the problem of the professional thing because people start working in audit, they qualify in audit and they leave audit, and there’s not many people, the vast majority and especially in bigger firms, they qualify and they move to industry, financial controller, finance director. I would think that the capability and capacity of the medium-tier firms to do a large audit is questionable because if one of those firms wants to win a large listed company because Big Four had to resign it, they would need a big team of people to won that audit and they wouldn’t have the spare capacity.” (Interviewee 6, L103)

It is essential that accountancy firms invest in staff training and benefits that help to retain qualified audit staff. However, BEIS Committee (2019) affirmed that evidence has demonstrated that the total of audit staff who permanently moved to non-audit services is reasonably low compared to the total number of graduates and audit staff. Therefore, this different perception that people have within the firms might be possible because the number of people moving from audit to non-audit services is greater than people who choose to change from non-audit to audit services.

According to interviewee 1, smaller firms are already picking up some audits from the top four firms, so even with their current structure, some firms are ready and willing to do so:

“I think we’ve already seen this, smaller firms picking up audits from the Big Four, and I think that there’s lots of room for them to continue to do that. I think smaller firms are a lot more willing to take those clients in means to increase their brand and image across the globe, across the country first and foremost, so I think that there is capacity of small firms and they’re willing to do that.” (Interviewee 1, L266)

The result has shown that 5 out of 9 participants said their firms would be able to have more clients with their current staff (firms A, B, and F). One of the interviewees just pointed out that his firm capacity to attend new clients does not include listed companies, since for this field specifically, they would need more people (firm C). Table 3 gives information about the current capacity of those firms:

**Table 3 Firms able to attend more client with their current staff**

Interviewee	Firm	Number of audit clients	Size of audit clients	Number of auditors
1	A	Unsure	Diverse, from SME to large international group of companies	20 people in public sector, Liverpool office
4	D	Arround 150 to 200	Typically between 5 to 15 million turnover	Around 25 - 30 people, Belfast office
8	F	Unsure	Small to medium size	Unsure
9	D	More than 500	Unsure	Around 200 people, Dublin office

Source: assembled by the author based on the interviews

In the cases above illustrated, accountancy firms would have to invest in training for their current staff especially in order to perform listed companies' audits. According to the interviewees, the commercial audit department normally has more staff than the public audit sector; hence, it is very important that the commercial audit staff is well prepared to assume new clients. Furthermore, in case of firm F that is more likely to audit small and medium companies, the need for training and closer supervision is even higher due to the lack of experience.

It is also observed that other 4 interviewees affirmed that their firms would need more people to attend new clients, since they are preparing themselves in terms of polices, but firms usually struggle to recruit and retain people. Table 4 illustrates the current capacity of those firms:

**Table 4 Firms that need more staff to attend more clients**

Interviewee	Firm	Number of audit clients	Size of audit clients	Number of auditors
2	B	200	Diverse, from SME to large 80 million turnover	20 people, Dublin office
5	D	Unsure	Unsure	Around 180 to 200 people in Manchester & Liverpool
6	E	Hundreds (not sure exactly)	Around 500 million turnover	Around 120 people
7	A	Around 20 in the public sector; unsure about commercial sector	Between 100 million to 1,5 billion turnover	Around 20 people in public sector, Liverpool office

Source: assembled by the author based on the interviews

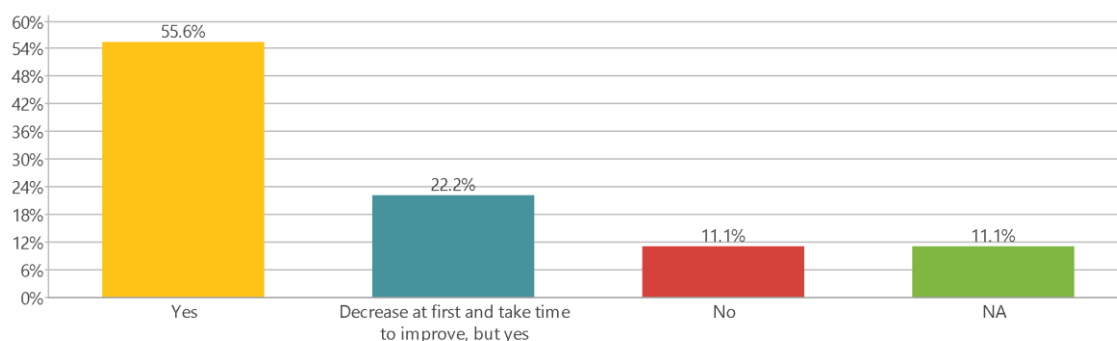
For the firms above illustrated, as they would have to increase their resource, the investment would be to contract new people and also give them the necessary training. As interviewee 2, public and listed companies would require too much time and staff for firm B. It would be an extra effort in order to do so, but once the base of clients of those firms would increase, their growth in revenue would make them able to cover those costs. Nonetheless, their profit on having more clients would not be as high as the firms that already have more staff, but they will be able to recover this investment in a medium-term.

It is important to note that, even working in the same firm, the answers of the interviewees in terms of number of staff and clients can be different depending on the location of the office. Some interviewees only have information regarding audit in public sector and are unsure about the audit department as a whole. It is also important to note that some of the interviewees did not have the exact information, but this was not an impediment for them when giving their opinion regarding their capacity of getting more clients.

#### 4.2.4 *Audit quality improvement in the new scenario*

The fourth finding of the research was the improvement of audit quality after the structural change in the top four firms. As Brooks (2019) in a market that works with not very few firms to choose from, even with many inadequate audits and scandals being recorded and growing, poor audit quality is not something that would determine whether an accountancy firms still working since losing a client due to poor quality would not affect these firms revenue. Such affirmation supports the idea that, once the audit market is open to more competition with more firms, audit quality tends to increase as it would be more choices on the market.

**Figure 10 Audit quality improvement after structural break-up**  
**Audit quality improvement after structural break-up**



Source: assembled by the author based on the interviews

As it is demonstrated in the graphic, 5 out of 9 interviewees believe that the quality in audit services would improve and the conduction of auditing would be taken with more seriousness, since more competition generally elevates quality. This result coincided with the researched literature as Newton *et al.* (2013) said that increased competition can bring innovation on the services delivered, leading to higher or at least a constant audit quality. As a consequence of better quality, audit fees could be higher, which brings to the accountancy firms the opportunity to address the lack of senior staff pointed out before and also increase staff training. Furthermore, higher quality would help to mitigate audit failures and scandals that have affected public confidence.

Even though the majority of the participants agreed that it would occur an improvement on audit quality, it is affirmed by 2 out of 9 that such a change in the market is not something simple that can be easily changed. Whether the UK's proposal becomes a reality the whole market would have to adapt. Because of the internal organisation that the firms would need to make for this new scenario, there is a possibility that the level of quality in audit services would decrease at first until accountancy firms are fully adjusted, taking more time for the quality to finally increase. As one of the interviewees said it could be a slow process as follows:

“I think that the quality would decrease at first, we can't just assume that the quality of audit would go up because there's more players, that isn't necessarily true and needs to go hand in hand with the regulation as well I think. It's going to be a slow process like a decade or more, it's going to be an evolution I think.” (Interviewee 6, L220)

The implications of this time of adaptation would certainly be a period of uncertainty at first, and it is possible that some audit failures would occur since some smaller firms would start conducting larger audits of companies that are not their industry specialty. The firms would have to invest more in staff training and moreover on closer supervision of the audits.

In this finding once more was cited the need for more regulation on audit services. Even though it is believed that the audit quality would improve, the increase in regulation was cited as the interviewee 1:

“I think there is a chance to improve the quality of the audits provide by smaller firms in comparison of what the Big Four are providing previously in the audit market, but I do think that the regulators need to continue to do a lot more work to ensure that audits are being performed with a high quality, because there's always the risk that the smaller firms would take on audit and deliver poor audit just the same of the larger firms.” (Interviewee 1, L286)

As BEIS Committee (2019), other reviews were conducted in order to address audit regulation, and the independent Kingman Review of FRC was set up aiming to enhance regulators' work and make sure their oversight, accountability, powers, among other items, will fit for the future.

Therefore, it can be observed that 7 out of 9 interviewees agreed that audit quality would improve even if it takes more time. As a result, accountancy firms would have an extra cost for staff training and more concern in terms of stronger regulation, but it is an investment that would be worth since it would reflect in a higher quality on audit services and a possibility of higher fees as a consequence.

### **4.3 Conclusion**

Aiming to answer the research questions of the present study, the research was based on in-depth interviews with senior auditors outside Big Four.

The first objective of the research was to understand the thoughts of auditors and what are the benefits that the structural break-up of the Big Four accountancy firms can bring to the market. The results demonstrated that the auditors mainly support this change as a great opportunity to break the dominance of the top four firms opening the market for more competition between other accountancy firms and increasing auditor's independence. It is also observed that the current challenges faced regarding public confidence are mainly the expectation gap and scandals generated by poor audit quality. The study also indicates that there is a need for more automation on the processes to help improving audit quality and effectiveness. Furthermore, the main benefits that would arise from this structural change are an increase of competitiveness, an improvement in ethical culture, and higher audit rotation, and it is believed that accountancy firms outside Big Four would be favoured by this new scenario.

The second objective of the present research was to understand whether this change would help to restore public confidence in audit services. The presented result has shown that part of respondents believes the structural break-up would be enough, whilst some of them are unsure about this matter. However, there are also participants that affirmed that it should also be implemented a stricter regulation where the regulators would get to dig deeper in a greater number of audits than it is currently evaluated.

The third objective was regarding competition in audit services and the firms' capacity to undertake more clients. The results demonstrated that the strong name-brand of the Big Four make very difficult for smaller firms to compete with them. However, for some top ten firms it is easier because of their expertise in specific industries. It is also observed that some offices



have the capacity to attend more clients with their current audit staff. Nevertheless, it is generally difficult for the firms to have enough senior staff, which brings the necessity of resourcing up since some firms would not have spare capacity to conduct audits of public or listed companies. Furthermore, it is essential to highlight the importance of audit training.

The fourth and last objective of this research was to understand whether audit quality would improve after the structural break-up and the opening of the market. The obtained result has shown that it is believed that audit quality would improve, and audit services would be conducted with more seriousness since more competitiveness in the market make the professionals work in a higher standard. Once more, the need for a strengthened regulation was pointed out, and it is observed that such matter is being addressed by UK regulators.

## **5 Concluding Thoughts on the Contribution of this Research, its Limitations and Suggestions for Further Research**

### **5.1 Implications of Findings for the Research Questions**

The analysis of the results of the conducted interviews allow answering the questions that are the study of this research, as proposed in chapter 3:

1. Is the break-up of the Big Four a good way to restructure the audit market and what are the benefits that this structural change can bring?

It is believed that structural break-up is a good choice for the market since it would open the market for more competition, working in favour of smaller firms. It would also be a way of accountancy firms to start addressing the challenges they are facing regarding public confidence, such as the expectation gap and audit scandals. Such change in the audit market would also bring benefits such as less conflict of interest, more independence of the auditors, an improvement in the ethical culture of the accountancy firms, and a growth of audit rotation. The auditors would be more accountable for the development of their work, helping to improve public confidence.

2. Will this change be enough to create a healthier and trustful environment restoring market confidence in audit services?

The ideal scenario would be not only broken up the top four firms but also having a strengthen on regulation since the fact that new firms would be conducting more audits does not necessarily mean that such services would be delivered in a higher quality. The regulators have an important part on this, working closely with the accountancy firms.

3. If a structural break-up of the Big Four accountancy firms occurs and the companies are forced to go outside these firms, are smaller firms ready to start auditing larger companies such as public limited companies and listed companies?

Currently, it is quite hard to compete with the Big Four as their name-brand is widely known in the market, and because some clients choose the auditor by their name-brand they usually want to be audited only by one of them. Some offices have the capacity to attend more clients but in other cases would be necessary resource up since there is a deficit of senior staff on the firms and it is usually a long process for contracting them.

4. Would this change make audit quality improve?

It is believed that the structural break-up of the Big Four would improve audit quality since the service would be taken more seriously as a consequence of the increase in competition. There is a possibility that the quality would decrease at first, until the firms adapt to a new scenario and new rules on the market, taking a longer time to be delivered in a high standard level.

## **5.2 Contributions and Limitations of the Research**

As a theoretical contribution, it is worth mentioning that the research would contribute to filling a gap of similar studies in Ireland and the UK context, also providing support to audit services' stakeholders. In addition, the research brings a practical contribution to accountancy firms and audit regulators in terms of understanding daily life at work on smaller accountancy firms and setting different paths for improvement.

However, in terms of limitations, this research was based on in-depth interviews of nine auditors of six different accountancy firms in Ireland and the UK. The sense of validity provides results for the presented survey, a good comprehension of audit experts in some of the top twenty accountancy firms reflecting their experience and viewpoint on the subjects discussed. Therefore, it might be slightly different for other firms dependent on their culture and market experience. Furthermore, it is important to remember that due to the current crises caused by the Covid-19 pandemic, most of the firms have had their staff working from home in a very different and somehow stressful scenario. This was a sort of influence in terms of having more people to interview for the research.

## **5.3 Recommendations for Practice**

The research has shown that the topic involves many other opportunities for practice in terms of audit firms and regulators. The results obtained has shown the opinion of auditors regarding the topic of the present research, but the discussions developed during the in-depth interviews has arisen different subjects that are part of their routine and therefore recommendations for practice such as:

- Expectation gap, and different ways to address it as well as the delivery gap and how accountancy firms can improve it.
- Regulation on audit services and a possibility of a strengthen in its actions checking more audit processes than it is currently done since the reviews are stricter on public

companies' audits; therefore, regulators could start checking a greater number of audits on the commercial sector as well.

- Senior auditor qualification, and actions that accountancy firms can take in order to retain those qualified employees.

#### **5.4 Recommendations for Future Research**

In the course of the research, a few topics came up as items that can lead to a more efficient way of improving audit services, its quality, and consequently the public confidence in the profession. Some suggestions for future research are:

- Automation, that can help to turn audit in a more efficient process, and perhaps give the possibility of audit be applied during the year instead of waiting for doing the whole process after the year-end. It was said that data analytics is improving in audit but not quickly enough since other companies are way ahead on automation than accountancy firms. The use of Robotic Process Automation in audit services and its outcomes in terms of audit quality improvement is one of the possible themes for future research.
- The outcomes of the reviews regarding audit regulation such as Kingman Review of FRC that was created to intensify independence, transparency, and reputation ensuring that processes, oversight, powers, culture, and resources were fit for the future, and Brydon Review of quality and effectiveness of audit.

#### **5.5 Final Conclusion and Reflections**

The process of development of the present research was a very enjoyable journey. The theoretical approach from the literature review to the research design in each one of its specificities were an amazing time of construction of knowledge and methodology.

Although the current crises brought the difficulty of talking to loads of people and not having as many positive answers as I wanted to, the interviewees that collaborated with the research were an excellent font of learning and experience that absolutely made the obtained results way richer than I expected. The end of this process was the most challenging part of it; however, its conclusion brought me the assurance of capability and the desire to continue my studies and develop future researches.

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## **Appendices**

### *Appendix A – Interview Protocol*

#### **1. Characterization of the interviewee and the accounting firm**

##### **1.1 Respondent identification (confidential information that will not be disclosed):**

- Name
- Department
- Interviewee Function
- How long have you been working in this function?
- How long have you been working in this firm?

##### **1.2 Accounting firm information (confidential information that will not be disclosed)**

- Name of the firm
- Year of firm foundation
- Industry specialties
- Number of audit clients

#### **2. General questions regarding UK's proposal**

1. What are your thoughts regarding the UK proposal to implement a structural break-up of the Big Four accountancy firms?
2. In the present market format, describe the challenges the audit sector is facing regarding public confidence in the sector.
3. What are the immediate actions that your firm could take to improve audit services performance?

#### **3. Audit department and its structure**

1. How many people are currently working in your audit department?
2. What size of companies do you usually audit?
3. With the current staff, are you able to attend more clients?
4. Are you currently able to attend more listed companies' audits?

#### **4. Audit services competition**

1. Have you ever denied participating of a bid because it was clear that such client will be audit only by one of the Big Four accountancy firms?
2. How difficult is for your firm to compete with a Big Four accounting firm?
3. How does the competition with other accounting firms usually works?
4. In general, does the audit market have a fair competition?

#### **5. The new scenario of audit market whether the UK proposal is applied**

1. Whether the UK proposal becomes a reality and the companies are forced to go outside Big Four accounting firms to be audited, are your firm ready to assume the audit services of largest companies such as banks and public limited companies?
2. Will this new scenario work in favour of your firm?
3. What benefits would arise from this new market structure?

## **6. Audit services in the future**

1. Once such changes occur, audit firms and services would improve?
2. Will these changes be enough to create a healthier and trustful environment restoring market confidence on auditing?



## GRIFFITH COLLEGE DUBLIN

### **Plain Language Statement for Research Participants**

#### **I. Introduction to the Research Study**

- The research working title is “**The structural break-up of the Big Four accountancy firms to restore market confidence in audit services**”.
- The research is being conducted by Priscila Antunes Ferreira de Souza, a MSc student in Accounting and Finance Management in Griffith College Dublin.
- The researcher can be contacted at [priscila.antunesdasilva@student.griffith.ie](mailto:priscila.antunesdasilva@student.griffith.ie) or [pri.regencia@gmail.com](mailto:pri.regencia@gmail.com).

#### **II. Details of what involvement in the Research Study will require**

- Participants will be asked to complete a questionnaire that will take about 15-20 minutes to answer. After the answers being received, it will be organised, coded and analysed.
- The questionnaire will be an open-ended questions form.

#### **III. Potential risks to participants from involvement in the Research Study (if greater than that encountered in everyday life)**

- It is not envisaged that there are any risks to participants arising from involvement in the study.

#### **IV. Benefits (direct or indirect) to participants from involvement in the Research Study**

- The outcome of this research study will help accountants, auditors and audit firms to think about the actual audit scenario and steps to improve market confidence on this field.

#### **V. Advice as to arrangements to be made to protect confidentiality of data, including that confidentiality of information provided is subject to legal limitations**

- The data collected will be analysed by the researcher alone.
- Survey will be conducted anonymously thus participants answers will never be identified to each of them in the dissertation.

#### **VI. Advice as to whether or not data is to be destroyed after a minimum period**

- All accomplished questionnaire will be destroyed after the completion of the research study.

**VII. Statement that involvement in the Research Study is voluntary**

- Participants may withdraw from the Research Study at any point.

**VIII. Any other relevant information**

- All participants must be professional accountants working as auditors in accountancy firms outside the Big Four.

**If participants have concerns about this study and wish to contact an independent person.**

**Please contact:**

Dr Garrett Ryan,  
Griffith College Research Ethics Committee  
South Circular Road, Dublin 8, Ireland

Mail: [garrett.ryan@griffith.ie](mailto:garrett.ryan@griffith.ie)

Tel: +353 1 4163324



## Informed Consent Form

### I. Research Study Title

The research study is entitled as “**The structural break-up of the Big Four accountancy firms to restore market confidence on audit services**” being conducted by Priscila Antunes Ferreira de Souza, a MSc student in Accounting and Finance Management at Griffith College Dublin.

### II. Clarification of the purpose of the research

This study highlights the falling of public confidence on audit services after several audit scandals which must be recognized and addressed to restore market confidence and maintain the importance of audit profession. Based on the recent UK proposal of a structural break-up of the Big Four accounting firms, the research will gain understanding on the structure and work capacity of accounting firms outside Big Four, if they are prepared to conduct audit of listed companies and how long would take for them to adapt to a new scenario whether such change occurs. This also aims to provide insights to help auditors to think about their professional responsibility and what needs to be changed inside the culture of the firms and new procedures that can be adopted.

### III. Confirmation of particular requirements as highlighted in the Plain Language Statement

Participant – please complete the following (Circle Yes or No for each question)

*I have read the Plain Language Statement (or had it read to me)* Yes / No

*I understand the information provided* Yes / No

*I have had an opportunity to ask questions and discuss this study* Yes / No

*I have received satisfactory answers to all my questions* Yes / No

### IV. Confirmation that involvement in the Research Study is voluntary

Participants’ involvement in this study is totally voluntary. As such, withdrawal is permitted from the Research Study at any point.

**V. Advice as to arrangements to be made to protect confidentiality of data, including that confidentiality of information provided is subject to legal limitations**

The data collected will be analysed by the researcher alone. Interviews will be conducted anonymously thus participants answers will never be identified to each of them in the dissertation.

**VII. Signature:**

I have read and understood the information in this form. My questions and concerns have been answered by the researchers, and I have a copy of this consent form. Therefore, I consent to take part in this research project.

**Participants Signature:** \_\_\_\_\_

**Name in Block Capitals:** \_\_\_\_\_

**Witness:** \_\_\_\_\_

**Date:** \_\_\_\_\_