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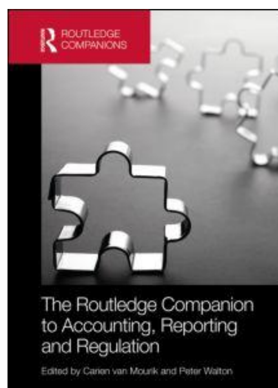

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Auditors and International Financial Reporting

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Auditors and International Financial Reporting

Kathryn Cearns

1. Introduction

The early to mid-nineteenth century saw the genesis of all the major accounting firms we know of today, including the 'Big 4' – Deloitte Touche Tomatsu (Deloitte), Ernst & Young (E&Y), KPMG and PricewaterhouseCoopers (PwC) – and many of the other international network firms. The histories of these firms are intertwined with the nascent development of the accounting profession in the UK (the ICAEW was established from its founding societies in 1880, for example), the USA and Canada and elsewhere, and their births and subsequent developments are startlingly similar in terms of where they started life, the type of men who founded them, what entrenched their establishment amongst a raft of similar small firms of accountants and their accelerated growth through acquisitions and mergers, particularly from the late 1960s. Before then (since 1856), UK law limited the number of partners in any general partnership to 20. Once this limitation was repealed in the Companies Act of 1967, the firms grew exponentially. In fact the extent to which the large firms grew through mergers and acquisitions was so great that it is almost impossible to fit the family tree of the antecedents of any one of the firms on one piece of paper.[1]

Without the internationalization of the auditing and accounting profession as reflected in the history of the large firms, the calls for international accounting and auditing standards would probably have been weaker and longer in coming, and certainly more difficult to achieve given the significant cost and time involved. For these firms, enormously successful in tracking the needs of their multinational clients, international standards that transcend national regulation are greatly to their advantage in terms of risk management, client service delivery and the establishment and maintenance of their brand and match their truly global coverage. The more fragmented voices of the financial statement user community – shareholders and their proxies, including analysts and fund managers, as well as creditors and their proxies, including credit rating agencies and bank lenders – would probably have got there in the end (not that the end has yet been reached, of course, although significant progress has been made), but it might have taken rather longer.

In addition, the firms have effectively acted as a cost diffuser and absorber as they have incurred substantial costs in dealing with both direct and indirect adoption of IFRS across the globe. As their clients moved to IFRS the costs have been passed on to them, but in a more efficient fashion

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than if each company had needed to undertake all the preparation itself. Tokar (2005) has written of the substantial efforts KPMG undertook in dealing with the increasing prevalence of IFRS, and these reflect similar work of the other large firms, but it is also interesting to note, as discussed further below, how the rise in IFRS has affected how the big firms operate in order to achieve consistency of application across the world.

2. The rise of the 'supra-national' audit firm networks

As noted above, the histories of the largest firms show great similarities in terms of timing of birth and growth, means of expansion and establishment of their brand. Although each of the Big 4 now operate using various different legal structures (which are in many cases still developing and change periodically due to regulatory and other impetuses) their overall structure is very similar in substance.

In the case of each of the Big 4 firms, their last merger may often have been their biggest but it was only the final one of many that preceded it. The following gives a potted history of some of the earliest origins of each of the Big 4 and a summary of their development. Not all the limbs of each firm are mentioned, but the following should be sufficient to give an overview.

2.1 A brief history

2.1.1 Deloitte[2]

The main founders of the firm as it currently stands were William Welch Deloitte and Sir George Touche (as well as Nobuzo Tohmatsu in Japan and Philip Ross in Canada).

William Welch Deloitte, born in 1818, opened his own offices in Basinghall Street in London in 1845. It was the creation of joint stock companies that offered the first real opportunity to establish the modern audit function, and Deloitte made his name in dealing with the major 'bubble' industry of the day, namely railways. He became auditor of the Great Western Railway and uncovered a fraud at the Great Northern Railway. He set up new accounting systems, both for railways and hotels. By the time of his retirement in 1897, from the firm that was by then Deloitte, Plender, Griffiths & Co, he was the oldest practising accountant and had been in business the longest. He was an early president of the ICAEW and his successor firms were also instrumental in establishing PwC. In 1952, Deloitte's firm in the United States merged with Haskins & Sells.

George (subsequently Sir George) Touche was born in Edinburgh in 1861 and apprenticed to A. T. Niven, Chartered Accountant of the same city. His move to London in 1883 was to the firm of Broads, Paterson & May where he apparently uncovered a fraud on his first ever assignment. Sir George made his early reputation through involvement with, and effectively helping to clean up, the investment trusts sector – so another 'bubble' sector was a driver for progress in the auditing profession. In 1889 he was appointed Secretary of the Industrial and General Trust. In these early days of investment trusts there was much poor practice. Britain in the late nineteenth century was the largest creditor nation, with capital flowing out all over the world. Investment trusts raised equity to invest in portfolios of investments, but also raised debt through debentures. The Barings Crisis in the 1890s badly damaged the sector, causing permanent reductions of capital due to losses. Sir George Touche helped to restore the sector to health, with others such as Robert Fleming.

Sir George founded his own firm, George A. Touche & Co., in 1899, and in 1900 Touche, Niven & Co was founded in the USA. There were further forays internationally, including Java and Buenos Aires, but the world wars interrupted the business of these outposts. More

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successfully, in 1911 George A. Touche & Co. opened in Canada, and subsequently expanded across the country.

It is worth noting in passing that the US firm was involved in one of the early substantial pieces of litigation relating to audit negligence, known as the Ultramares case, in the mid-1920s and early 1930s. This effectively established many important principles as applied to audit, including proximity and the establishment of a duty of care to third parties, upon which current audit negligence case law is based.[3]

In 1958 the Canadian firm of P. S. Ross & Sons, founded by Philip Ross in the mid-nineteenth century, merged with George A. Touche & Co. to become Ross, Touche & Co. in Canada and in 1960 the US, Canadian and UK firms merged and began trading under the same name of Touche, Ross, Bailey & Smart. In 1990 the firm merged with Spicer & Oppenheimer, and an international merger was effected, also in 1990, between Deloitte Haskins & Sells and Touche Ross to form Deloitte & Touche. Confusingly, the UK Deloitte firm and some others instead merged with Coopers & Lybrand to form Coopers & Lybrand Deloitte, which subsequently dropped 'Deloitte' and merged with Price Waterhouse to form PwC. In 2002 the UK practice of Arthur Andersen joined Deloitte following the collapse of Arthur Andersen (AA). In addition, AA's practices in Belgium, Brazil, Canada, Mexico, the Netherlands, Portugal and Spain also agreed to merge with Deloitte (most of the remainder of AA's practices going to E&Y as mentioned below).

2.1.2 Ernst & Young[4]

The mid-nineteenth century also saw the foundation of the main predecessor firms of Ernst & Young and perhaps the main names of note were Arthur Young and Alwin C. Ernst, although both these names are from the US branches of the organization.

Beginning first with the main UK branch, however, in 1849 Harding & Pullein was founded in England and joined by Frederick Whinney, who subsequently became a partner in 1859. The firm was subsequently renamed Whinney, Smith and Whinney.

Arthur Young was born in 1863 in Glasgow (yet another Scot at the forefront of the new profession), qualifying in law but moving on to an interest in finance. He moved to the USA to pursue an interest in accounting, starting his first firm, Stuart and Young, in Chicago in 1894. In 1906 Arthur and his brother Stanley founded Arthur Young & Company, which in 1924 allied itself with Broad Paterson & Co. in England. In 1944 the firm Clarkson Gordon & Company, which had expanded into management consulting, joined forces with Arthur Young & Co.

It is worth noting the origins of some of the other predecessor firms that began life as early as the 1820s and eventually, via mergers and changes of name, joined up with Arthur Young in the 1950s, 1960s and 1970s. Many of their founders and partners originated in Glasgow and Edinburgh and the names include James McClelland, Alexander Moore, James Haldane, Richard Brown, John Graham and Peter Rintoul – a remarkably strong element of the firm thus deriving from Scotland.

Alwin C. Ernst was born in 1881 and started work as a bookkeeper, then with his brother Theodore he formed Ernst & Ernst in Cleveland in 1903. The firm joined forces with Whinney, Smith & Whinney in 1924, again around the time that it became more obviously advantageous to have cross-Atlantic links to service clients expanding overseas.

Eventually in 1979 Ernst & Whinney was formed, creating a broadly Anglo-American firm, and in the same year Arthur Young's European offices joined several large local European firms which all became members of Arthur Young International. Finally in 1989 Arthur Young merged with Ernst & Whinney to create Ernst & Young (E&Y).

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Although that was apparently the last big merger,[5] E&Y's size was also augmented in 2002 during the fallout from the failure of Arthur Andersen & Co. E&Y took over many of the AA practices internationally, although not those in the UK, China or the Netherlands. In addition, in 2010 E&Y acquired the Brazilian practice of Grant Thornton.

2.1.3 KPMG[6]

KPMG's antecedents appear to have come rather later to the field than those of the other big firms, but the firm made up for it by being one of the earliest to undertake a so-called 'mega merger'.

In 1870 William Barclay Peat formed William Barclay Peat & Co. in London (although predecessor firms in the names of Robert Fletcher & Co. and R. Mackay & Co. had existed since 1867). In 1877 accountancy firm Thomson McLintock opened an office in Glasgow and in 1911 William Barclay Peat & Co. and Marwick Mitchell & Co. merged to form Peat Marwick Mitchell & Co., later known as Peat Marwick.

Perhaps in contrast to the other firms, there was a strong continental flavour from practices that joined from mainland Europe, which in places had almost an equally long history as the UK and US firms. In 1917 Piet Klijnveld opened his accounting firm in Amsterdam, later merging with Kraayenhof to form Klynveld Kraayenhof & Co.

In 1979 Klynveld Kraayenhof & Co. (Netherlands), Thomson McLintock and Deutsche Treuhandgesellschaft (Germany) formed KMG (Klynveld Main Goerdeler) as a grouping of independent national practices to create a European-based international firm. Then in 1987 KMG and Peat Marwick joined forces in the first mega-merger of large accounting firms and formed a firm called KPMG in the US (and most of the rest of the world), but called Peat Marwick McLintock in the UK. By 1999 the firm was known as KPMG worldwide.

As already noted, in 1997 KPMG and E&Y announced a merger following that which had formed PwC. Lack of regulatory approval, as well as other reasons, later led the KPMG/E&Y tie-up to be abandoned.

2.1.4 PricewaterhouseCoopers[7]

Now the biggest professional services firm in the world by revenues, PwC's was the last 'mega merger' to be successfully effected, between Price Waterhouse and Coopers & Lybrand. Like the other firms discussed above, the two firms each had histories dating back to the nineteenth century.

On the Coopers & Lybrand side, in 1854 William Cooper founded an accountancy practice in London, which became Cooper Brothers seven years later when his three brothers joined. In 1898, Robert H. Montgomery, William M. Lybrand, Adam A. Ross Jr and his brother T. Edward Ross formed Lybrand, Ross Brothers and Montgomery in the USA.

In 1957 Cooper Brothers, Lybrand, Ross Bros & Montgomery and a Canadian firm McDonald, Currie and Co., agreed to adopt the name Coopers & Lybrand in international practice. In 1973 the three member firms in the UK, US and Canada changed their names to Coopers & Lybrand. In 1990 in certain countries including the UK Coopers & Lybrand merged with Deloitte Haskins & Sells to become Coopers & Lybrand Deloitte, in 1992 renamed Coopers & Lybrand.

On the Price Waterhouse side of things, Samuel Lowell Price founded an accountancy practice in London in 1849, going into partnership with William Hopkins Holyland and Edwin Waterhouse in 1865. Holyland left shortly after and the firm was known from 1874 as Price, Waterhouse & Co.

By the late nineteenth century, Price Waterhouse had gained significant recognition as an accounting firm. As a result of growing trade between the UK and the USA, Price Waterhouse

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opened an office in New York in 1890 and the American firm expanded quickly. The original British firm opened offices elsewhere in the UK and worldwide, each time establishing a separate partnership in each country. Thus the worldwide practice of PW was a federation of collaborating firms that had grown organically rather than being the result of an international merger.

PW and Arthur Andersen discussed a merger in 1989 but the negotiations failed mainly because of conflicts of interest such as Andersen's strong commercial links with IBM and PW's audit of the same. Finally, in 1998 Price Waterhouse merged with Coopers & Lybrand to form PwC. In 2002, the Hong Kong and China practices of Arthur Andersen joined PwC (most of AA joining E&Y as noted above).

2.2 Lessons from history

The history of the Big 4 – and the other major firms such as BDO, Grant Thornton and Baker Tilly – bear some remarkable similarities. The main founding firms usually had their birth in the UK and/or North America at roughly the same time, as global trade expanded rapidly across empires and commonwealths, hampered only temporarily it seems by intervening world wars. International expansion was needed to follow the clients and their money and links were often established early on, particularly between English-speaking, common law jurisdictions. Unlike the more ancient professions such as law or medicine, accountancy and audit practice, in its much more recent infancy, could transcend national regulation and boundaries using the universal language of finance – for them, national regulation came later. Within the UK, Scotland was at the forefront of the establishment of the accountancy profession:

> Stacey [*English Accountancy,* 1954] suggests that historically accountancy divides itself into three periods. First there is the period which covered the detailed and concise records of transactions and estates which existed and developed through Roman times to the Middle Ages. There is then the period of merchant capitalism which runs through to the industrial revolution and saw the introduction of double entry bookkeeping. Finally there is the period from the nineteenth century to the present time when the profession of accountancy emerged. This last period probably started in the second half of the century for England but … it was a little earlier for Scotland (White, 2003).

The need for assurance and a better approach to accounting grew as joint stock companies began to be permitted by law during the nineteenth century and the position of creditors became, as a consequence, more precarious. But, in addition, wider pools of equity investors were not directly involved in the management of the business and demanded more and better information with some direct assurance. As we still find today, the case for accounting and audit – and the reform thereof – was frequently linked to major scandals when investors and creditors were unable to verify the accounts produced by 'asset bubble' companies such as railroads and investment trusts. The accountants who pioneered the practice of accounting and audit and founded major accounting firms were often responsible for cleaning up some of these scandals and instituting better practice:

> The development of a UK railway system coincided with the growth of factories and cities. The 1840s saw the beginning of 'railway mania' that some compare to the dotcom revolution at the end of the twentieth century. The development of the railway companies preceded the developments in company law and specific railway legislation was introduced imposing greater public controls on the larger railway companies. These included

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> the requirements for audit and as one accountant at the time [Frederick Whinney, The Accountant, 2 July 1887] said, 'The rail mania of 1845 brought us a very great acquisition of business not only in audits, but also in winding-up of companies' (White, 2003).

As the accounting firms were developing in competition with each other, the founders wished to be seen as professionals who could work together for the public interest. The rise of the professional accountancy bodies was the result, leading to an enhanced status for those who might earlier have been dismissed as mere bookkeepers. The UK institutes in their current form developed in many cases from regional bodies. For example the ICAEW, which received its Royal Charter in 1880, was the result of a merger between predecessor societies in Liverpool, London, Sheffield and Manchester, as well as the Society of Accountants in England, but these had all been founded only in the 1870s. The American Institute of Public Certified Accountants was founded in 1887 and the Canadian Institute of Certified Accountants formally in 1902. As noted above, these were all preceded by the development of the profession in Scotland (arising probably from the different legal approaches to certain issues there), and the first Scottish accountants then emigrated to other parts of the world where they could grow their businesses:

> The interchange of ideas and experience amongst men pursuing the same techniques and concept of ethics was eventually bound to bring about closer co-operation. The Society of Accountants in Edinburgh was formed in 1853 and received a Royal Charter in 1854. The Institute of Accountants and Actuaries in Glasgow was formed in 1853 and received a Royal Charter in 1855. The Society of Accountants in Aberdeen was formed and incorporated by Royal Charter in 1867 (White, 2003).

The need to be in partnership and the inability to limit liability meant that firms had to be ingenious to grow nationally and internationally. Until restrictions were removed on the number of partners permitted in a general partnership, for example, alliances between separate firms could not lead to full merger, so different formats were used to achieve synergies and cooperative working.[8] The removal of the partner limit, as well as moves to deregulate financial services generally, led to a surge of growth from the late 1960s and early 1970s that has given us the huge firms we have today.

2.3 The current state of affairs

That brings us neatly to the current formation of the big firms. In contrast to the point made above about the power of a more recently developed profession to take paths to international cooperation not open to older professions, the hand of national regulation has weighed on the firms in certain ways such that it has usually been necessary to maintain a separate entity (whether partnership or corporate entity) in each jurisdiction of operation. This is particularly true of audit. Although anyone can call themselves an accountant, in most countries certain activities are regulated, including audit and insolvency practice, and where regulation is national there is a need to establish a nationally delineated firm to be regulated.

This has not been entirely to the detriment of the firms: liability leakage across a network is a major risk factor and this can be prevented more easily if liabilities can be isolated within national practices, restricting the risk of vicarious liabilities for the acts of other national practices within a network. In extremis, national practices can be abandoned and a new national practice established or taken over from another firm. For example, PwC's affiliated practice in Japan, ChuoAoyama Audit Corporation, was temporarily stripped of its licence

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to practice in 2006 following the collapse of cosmetics company Kanebo and action by the Japanese courts and the Financial Services Agency of Japan. This led to the establishment of a new firm there, PricewaterhouseCoopers Aarata, and the old firm was effectively abandoned. Similarly Grant Thornton International dropped its Italian practice after the discovery of the Parmalat fraud.

Range of practice areas

The other major development over the past half a century has been the growing scope and breadth of the activities undertaken by the large accounting firms, in particular into consulting services, ranging from major computing and business process advice to actuarial and surveying services. Regulators (and some clients) became nervous in the 1990s that the firms were providing such a wide range of services that there was a risk that the central function of audit, a key governance plank underpinning markets and built into both corporate and securities laws in highly regulated markets, would become a poor relation. Although the primary concern was direct conflicts of interest where many different services were provided to audit clients, there was particular concern that the independence of the auditor would be undermined by commercial pressures to keep clients happy.

Matters were somewhat brought to a head after the Enron scandal and the collapse of Arthur Andersen, as well as some of the other scandals that came out around the same time, including WorldCom, Adelphia and Tyco. The USA passed the Sarbanes–Oxley Act of 2002 ('SOX'), which sought to address some of the major weaknesses identified in corporate governance and which also introduced new standards for those auditing large publicly listed companies. This involved, inter alia, the establishment of a new Public Company Accounting Oversight Board to oversee the audit firms, including inspecting their work and with the ability to discipline them. SOX has been contentious for a number of reasons, mainly on the grounds that it introduced huge complexity, the cost of which is not justified by the benefits it introduced. Nevertheless, it has survived legal challenge[9] and other countries have introduced similar legislation. Title II of SOX covers auditor independence and, among other things, restricts the non-audit services, including consulting, that auditors can offer to their clients. There had been SEC rules before SOX, but the SOX rules were a step up in stringency.

As a consequence of the pressure which culminated in SOX (which was under discussion well before it was finally passed, so it had been signalled for some time), most of the big firms sold their consultancy practices or spun them off in the early 2000s; only Deloitte retained theirs (although Deloitte France spun off its consultancy practice as Ineum Consulting, now part of Kurt Salmon). These consultancies were to some extent focussed on implementing complex integrated hardware and software solutions for clients and were in competition with other businesses supplying the same services. As the opportunities to outsource ERP (enterprise resource planning) systems to clients increased, so did potential conflicts of interest with the audit side of the firm, as noted above, and problems arose in demonstrating audit independence. The questions were about perceptions of independence, not just independence in fact.

E&Y was the first mover, when in 2000 it sold its consulting business to Cap Gemini, the French IT consultancy group, forming Cap Gemini Ernst & Young, which was subsequently renamed Capgemini. The deal was for approximately $11bn of stock in the French business. In 2002, after various abortive attempts to sell or float its consultancy, PwC sold its consultancy business for approximately $3.9bn in cash and stocks to IBM. In 2001 KPMG divested its US consulting arm through an initial public offering of KPMG Consulting Inc (subsequently BearingPoint Inc, which filed for Chapter 11 bankruptcy protection in 2009 only to be purchased subsequently by Deloitte). The UK and Dutch KPMG consulting businesses were sold in 2002 to Atos Origin.

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Contractual non-compete restrictions following divestment of their consulting businesses meant that the big audit firms could not venture back onto the same playing field as their former businesses. The firms were in any case apparently already moving into different areas of consulting and leaving, at least to some extent, the field of major IT infrastructure for other competitors. Even as the non-compete restrictions fell away, but probably in any case as a matter of choice, all the firms have moved into and expanded activities that might be labelled as 'consultancy' because they are not part of their core audit/assurance, insolvency or tax work. Some of these activities are useful adjuncts to audit work, for example the major firms have either developed or purchased actuarial practices, which means they have the necessary expertise to hand when dealing with major insurance or pension clients. Other types of business include property companies (Deloitte bought Drivas Jonas in the UK in 2010) and most recently the firms have been moving into the sustainability consulting field. SOX itself, somewhat ironically, provided significant opportunities for the large firms in helping clients to comply with the rules affecting companies, particularly on internal controls (section 404 of SOX)

Most of the firms also run recruitment and HR businesses, and offer risk management and governance services, thus delivering a very wide range of business services. This has not all been plain sailing: forays into some fields have proved rather less successful or come up against regulatory barriers, and the firms have sold or abandoned the businesses they bought or created. The most obvious example, at least in the UK, was the attempt to create associated law practices in the 1990s (although legal restrictions at the time meant that the law firms had to be owned and run by lawyers). The idea of a 'one stop shop' service at the very large end of the market, with the big audit firms supplying both financial and legal services, did not find much favour with clients, fell foul of regulatory moves to restrict non-audit services, and perhaps also underestimated the brand power of the large incumbent legal practices. The legal firms owned or allied to the big audit firms were gradually closed or sold off, for example, KLegal, the KPMG-associated legal practice, was closed in 2003 (and the firm also sold its Disputes Advisory Practice to FTI Consulting). Tite & Lewis moved from E&Y to merge with Lawrence Graham in 2004. Bucking the trend, however, PwC Legal LLP still exists. In addition, some business lines have proved problematic for regulatory and brand reasons, for example the aggressive sale of tax products has come under scrutiny: KPMG was the subject of a deferred prosecution agreement in the USA in 2005–8 after admitting criminal wrongdoing in creating fraudulent tax shelters to help wealthy clients avoid taxes.

In spite of the odd failure, however, what is striking is the range of business lines into which the large audit practices have moved, successfully combining a wide variety of types of professional service under the same powerful brand and creating synergies and risk management benefits for their audit and capital markets service lines. Regulators may have concerns about the impact on audit – and possibly other regulated activities – but as a business model it has proved extremely successful as clients have welcomed both the depth and breadth of service delivery.

In any case, in the last few years the firms have shifted the focus of their non-audit services to non-audit clients, in reaction to the increasing regulatory scrutiny of audit independence and deference to client concerns.[10] There are those who wish to see the firms provide even fewer non-audit services to clients, in order to ensure auditor independence, although these risk destabilizing capital market transactions where the auditors are usually the best placed to do financial due diligence in a way that is fairly well-aligned with their audit function. There are also those with continuing concerns about the range of activities the firms carry out, even if these are all directed at non-audit clients, and who therefore wish to see 'audit only' firms, as if some kind of functional purity would make audits better and safer. The reverse may be true, however, and proposals along these lines, particularly from the European Commission,[11] risk undermining the entire business model of the firms and hence undermining quality at the top end of the audit market.

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Current legal and business structures

The current legal and business structures have to some extent evolved as a reaction to regulatory and litigation threats. As is often pointed out (rather accusingly), none of the big firms is one unified business in the way that corporate multinationals operate, by way of ownership and control; rather they each operate as a form of network of firms that voluntarily work together under the same name and branding. The criticism of this approach should perhaps be directed more at the national regulatory and statutory rules over audit firms, which often prevent forms of ownership of national firms that take power away from nationally registered auditors. While these structures allow some benefit to the firms in preventing liabilities leakage across different jurisdictions – vicarious liability is avoided because individual firms within networks cannot obligate each other – that position is constantly under threat, particularly in the USA where attempts are frequently made to draw in the worldwide practices as parties to national litigation (an argument advanced, for example, in the litigation against BDO over Banco Espiritu Santo). In spite of this, some of the firms have demonstrated a desire and willingness to become more integrated.

Deloitte's member firms are all members of a UK private company limited by guarantee, by which means they associate with each other while being separate legal entities regulated by their own national authorities. The network was previously organised through a Swiss Verein. E&Y use EY Global to set policies and practice, but with client work performed by the network firms. It is managed regionally as well, over the Americas, Asia, Japan and finally Europe, Middle East, India and Africa. KPMG operates its network through a Swiss co-operative, but there has also been some recent movement to regionalize from 2007 with the formation of KPMG Europe LLP (a UK limited liability partnership), of which many of the firm's major European practices are members, although they still retain their separate legal structures. PwC uses a UK limited company as its international umbrella vehicle with much the same function as that of the other firms. So although the specific legal vehicles may vary, the overall structures adopted by the large firms are very similar in substance.

In terms of business lines, there are similarities, but in the main the choice of where specific business lines are located in the overall structure may be a matter of history. PwC runs across three main business lines: assurance services, tax advisory and advisory (the latter encompassing most of the consulting businesses). KPMG similarly offers audit, tax and advisory, but with some differences as to what sits where within that structure. E&Y splits some areas out further under the headings of assurance services, tax services, advisory services and transaction advisory services. Deloitte arguably has a slightly different business line structure covering audit and enterprise risk services, consulting, financial advisory, tax and other services.

The range of activity across the firms is thus substantial and gives credence to the tendency for the firms to identify themselves as 'professional services' firms rather than audit or accountancy firms. Nevertheless, auditing and the assurance services most closely related to audit continue to underpin their brands. The ability of the firms to maintain those brands across the world is in no small part due to their internationalization of internal compliance manuals and standards. Their approach both to accounting and auditing has in turn and over time given great impetus to the external development of international standards.

3. Internationalization of auditing and accounting standards

The push to internationalize standards is familiar in a wide range of activity, some driven by absolute necessity – how flight control systems operate, for example – and others by market demand. In the case of accounting and auditing, the increase in global capital flows and growth of multinational companies are two of the factors that have driven the desire to harmonize. The role of the large audit firms in this process reflects those drivers.

3.1 IFAC and the forum of firms

The drive to internationalization outlined above moved to a new level as the accountancy profession started to react to the needs of supra-national audit firms which in turn were reacting to the needs of their multinational clients. The International Federation of Accountants (IFAC) was established in 1977 at the 11th World Congress of Accountants. It is a membership body of professional accountancy bodies and now has 167 members and associates in 127 countries and jurisdictions worldwide.[12] Box 19.1 shows IFAC's original 12-point programme.

Box 19.1
IFAC's original 12-point programme

The following 12-point work programme was established at the inaugural meetings of the IFAC Assembly and of the Council in Munich, Germany in October 1977. These 12 points guided IFAC committees and staff through the first five years of operation. Many elements of this work program are still relevant today.

Develop statements which serve as guidelines for international and auditing guidelines.

Establish the basic principles which should be included in the code of ethics of any member body of IFAC and to refine or elaborate on such principles as deemed appropriate.

Determine the requirements and develop programs for the professional education and training of accountants.

Collect, analyse, research and disseminate information on the management of public accounting practices to assist practitioners in more effectively conducting their practices.

Evaluate, develop and report on financial management and other management techniques and procedures.

Undertake other studies of value to accountants, such as a possible study on the legal liabilities of auditors.

Foster closer relationships with users of financial statements including preparers, trade unions, financial institutions, industry, governments and others.

Maintain good relations with regional organizations and explore the potential for establishing other regional organizations, as well as assisting in their organizations and development.

Establish regular communications among the members of IFAC and other interested organizations, principally through an IFAC Newsletter.

Organize and promote the exchange of technical information, educational materials and professional publications, and other literature emanating from member bodies.

Organize and conduct an international congress of accountants approximately every five years.

Seek to expand the membership of IFAC.

Source: www.ifac.org/about-ifac/organization-overview/history, accessed 30 May 2012.

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In recognition of the importance of the major audit networks in supporting the development of international auditing standards, the Forum of Firms was formally established by IFAC in 2001. Although membership is open to any firm or network that puts itself forward and which meets the relevant criteria, and a network's suitability is effectively self-certified, this mechanism pulls together and binds the largest global firms into an association that requires adherence to international auditing and quality control standards. For IFAC, this mechanism cements the biggest audit firms into the profession at an international level, giving great advantages in terms of engagement in IFAC's work, including standard setting. The advantage to the member firms may be less obvious, yet undoubtedly it offers them a quality marque that gives a proto-regulatory reason for following international auditing (and quality control and ethics) standards which are beneficial to the firms, but which they would struggle to set themselves acting in concert due to a lack of perceived independence and, perhaps more recently, cartel concerns, and which might well otherwise be resisted by clients in less regulated jurisdictions.

It is notable that, although the Forum of Firms requires adherence to international auditing and quality control standards, as well as its Code of Ethics, its objective includes a reference to financial reporting more generally: 'The objective of the Forum is to promote consistent and high quality standards of financial reporting and auditing practices world-wide.'[13] Box 19.2 shows the IFAC Forum of Firms, membership requirements and obligations.

Box 19.2
IFAC Forum of Firms, membership requirements and obligations

Membership in the Forum is open to networks and firms of all sizes that conduct, or have an interest in conducting, transnational audits; promote the consistent application of high-quality audit practices and standards worldwide; support convergence of national audit standards with the International Standards on Auditing (ISAs); and commit to meeting the Forum's membership obligations.

The Forum's membership obligations require that members:

- maintain quality control standards in accordance with the International Standard on Quality Control (ISQC 1) issued by the IAASB in addition to relevant national quality control standards;
- conduct, to the extent not prohibited by national regulation, regular globally coordinated internal quality assurance reviews;
- have policies and methodologies for the conduct of transnational audits that are based, to the extent practicable, on the International Standards on Auditing (ISAs) issued by the IAASB;
- have policies and methodologies that conform to the IESBA Code of Ethics for Professional Accountants and national codes of ethics; and
- agree to submit to the Secretary of the Forum an annual report, in an approved format, indicating that it meets the membership obligations set forth above.

International networks of firms practising under the same name or whose member firms are otherwise closely identified with one another, such as through common elements in their name, will be expected to join as one organization.

Source: www.ifac.org/about-ifac/forum-firms, accessed 30 May 2012

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What this has effectively done is to allow the large international audit networks both to support and take advantage of international auditing standards that otherwise would have no regulatory or legal basis because auditing standards have been until now usually set by national regulators or sometimes national professional bodies, where there are any national standards at all. The large audit networks will thus overlay local auditing standards or rules with those international standards to which they have signed up through IFAC's Forum of Firms. In jurisdictions where auditing standards are non-existent or relatively undeveloped, this raises the bar of audit quality and helps the firms maintain their brand. In places where the national standards are well developed and relatively sophisticated, they may be quite close to the international version or even go beyond them, but the overall commitment to high quality standards is maintained. Depending on the level of local regulatory enforcement of auditors, local or national rules will in theory trump an ISA when the two are in conflict. This is unlikely to be a problem in most jurisdictions, however, as it is rare for there to be an impediment to carrying out additional procedures.[14]

3.2 ISAs and their interaction with national rules and standards

The International Auditing and Assurance Standards Board (IAASB) was founded in March 1978. Formerly known as the International Auditing Practices Committee (IAPC), the IAPC's initial work focused on three areas: object and scope of audits of financial statements, engagement letters and general auditing guidelines. The IAPC's guidelines were subsequently reconfigured as International Standards on Auditing (ISAs) in 1991.

Following a comprehensive review of the IAPC, it was reconstituted in 2002 as the International Auditing and Assurance Standards Board (IAASB). Subsequent reforms followed in order to strengthen its standard-setting processes, and in 2004 the IAASB began what it called the Clarity Project, a comprehensive programme to enhance the ISAs. The aim of this programme was to a great extent to ensure the acceptability of the standards to regulatory enforcement agencies around the world, particularly in the USA. The International Organization of Securities Commisions (IOSCO) was influential in this debate,[15] as it has been on the improvements necessary to IFRS to make them acceptable to world stock markets and their regulators; the IASC duly followed the advice given to improve the relevant standards that were found wanting.[16] Box 19.3 shows the IAASB: Changes resulting from the Clarity Project.

The IAASB and IFAC recognised that the ISAs would never achieve widespread formal endorsement at national and regional levels unless the relevant audit and/or securities regulators believed them to be enforceable. This was in spite of the fact that, as already noted, ISAs were already effectively being used for major company audits throughout the world through the Forum of Firms agreement. Here the path of auditing and accounting standards has diverged: the IASB's standards had to be accepted by regulators in major capital markets countries to be used by publicly-quoted companies; whereas the IAASB standards could be imposed as an overarching layer of good practice over any standards at national level, with official endorsement coming after the event as ISAs gained in reputation and acceptance. On this basis, arguably, ISAs have an easier ride towards global adoption, but this also reflects the more contentious nature of accounting standards due to the wider number of stakeholders with vested interests. So far, in comparison to the IASB's situation, there have been very few calls for changing the governance over the IAASB, which while under the auspices of a Public Interest Oversight Board is nevertheless still housed in the organization, IFAC, whose members represent the auditing profession.

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Box 19.3
IAASB: Changes resulting from the Clarity Project

Improvements arising from the Clarity Project broadly compromise the following:

identifying the auditor's overall objectives when conducting an audit in accordance with ISAs;

setting an objective in each ISA and establishing the auditor's obligation in relation to that objective;

clarifying the obligations imposed on auditors by the requirements of the ISAs and the language used to communicate such requirements;

eliminating any possible ambiguity about the requirements an auditor needs to fulfill; and

improving the overall readability and understandability of the ISAs through structural and drafting improvements.

Auditors and others should look to ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, for assistance in understanding the purpose and scope of an audit. This ISA sets out how the objectives, requirements, and guidance in all ISAs are to be understood.

Source: www.ifac.org/auditing-assurance/clarity-center, accessed 31 May 2012

3.3 International accounting standards as an underpinning for international audit

It may be a fairly obvious statement to make that one of the difficulties in promulgating International Standards on Auditing is the fact that there is no global set of accounting standards to which the ISAs can refer in relation to what constitutes a suitable accounting framework such that an ISA-based audit may be carried out. This problem is tackled by the ISAs, although not necessarily completely overcome, by classifying two types of 'applicable financial reporting framework', namely a 'fair presentation framework' and a 'compliance framework'. Under the former, there is either an explicit or implicit acknowledgement that additional disclosures may be required beyond the specified rules, and it is explicitly stated that departure from those rules is permitted in order to give a fair presentation. In a compliance framework, these criteria are absent.[17]

Some form of accounting framework is thus a necessity for an ISA audit, because otherwise the audit opinion has no anchor in what is expected by users of the financial statements, and some attempt has been made to account for different histories and traditions. (Other criteria are also imposed by ISAs, in particular the requirement for management of the auditee company to acknowledge its responsibility for the financial statements and internal controls and to undertake to give all information and explanations to the auditor.) The more that accounting standards are converged and harmonised across the world, the more ISAs can also be uniformly applied. It may be argued that differences in accounting framework are less of an issue in this context than, say, management culture or corporate governance in a jurisdiction, but the adoption of international accounting standards in a country will often give a signal about the desire for transparency and international acceptability.

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3.4 Audit firm risk management and the desire to harmonize standards

One of the most important contributors to the brand of the large audit practices is the great technical depth and breadth that underpins their service delivery, although this is also a defensive mechanism against litigation and regulatory actions that would otherwise cost the firms dearly. It naturally follows, therefore, that the advent of international standards, both in financial reporting and auditing, plays greatly to the benefit of supra-national auditors. To the extent that staff can be trained in one set of standards to service the needs of the largest multinational clients, but at the same time those standards are also applied in servicing national companies, costs are reduced in terms of training. In addition, risk exposures are reduced, because the firms can, through their network agreements, impose consistency of interpretation and application.

This is not to say the increasing dominance of IFRS has been a painless process for the large firms and it has led to changes in the way they operate across the national firms that make up their networks. In some ways, in the short term, it also leads to additional risk:

> The widespread adoption of IFRSs, both directly and indirectly via convergence of national requirements, presents a number of challenges for auditors both as individuals and as firms. … the challenges can be much greater for countries that opt for direct adoption of IFRSs, since there is no corresponding single international regulatory framework or infrastructure built around IFRS, and companies and their auditors often are required to make wholesale changes to their financial reporting practices (Tokar, 2005).

4. Influence of audit on financial reporting standards development

The output of financial reporting standards has to be capable of audit. Nevertheless, until relatively recently there has been little formal liaison between accounting and auditing standard setters. Where the influence has come it has generally been through the direct involvement of auditors or former auditors as members of relevant standard setting boards who, through their experience of auditing financial information, will tend to consider the capacity of that information to be audited in a satisfactory manner. There are those who would argue that this may have a deadening effect on the development of accounting standards and hold back innovation. In the past 10–15 years, however, there have been significant developments in accounting standards, particularly in relation to pensions, financial instruments and share-based payment, which are arguably harder to audit, and yet auditing standards and practices have developed to deal with these significant changes and the auditors or former auditors involved in their development did not object (or at least, not for long once they had got used to a new idea). In addition, auditors have not been on their own in setting accounting standards; they tend to be accompanied by colleagues with experience of preparing financial statements (the 'preparer' community), academics, analysts and other investor representatives, credit-rating agencies and others from the 'user' community. Thus the voice of the auditor has been only one voice in the development of accounting standards, albeit a powerful one.

More recently, the IASB has begun to liaise more formally with the IAASB. Representatives meet on a regular basis and better communication will presumably be beneficial to both. It remains to be seen how much this affects the standard setting of either board. It may be that the IASB will be swayed by the views of auditors about the 'auditability' of the financial statements produced under IFRS. For example, the question currently under consideration by the IASB of moving from an incurred loss to an expected loss model for loan impairments is likely to cause

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greater difficulty for auditors where management expectations will need to be judged. Having said that, however, the first constituents that need a reasonable level of certainty about what goes into the financial statements is the preparers of the financial statements: how will directors know they can stand by the information they have put out if it is too subjective or otherwise unreliable?[18] In terms of influencing in the other direction, this may be limited as the pressure on audit seems now to be coming from those who wish to have assurance on information that is not in the historical financial statements, namely forward-looking information, risk disclosures and key performance indicators. Auditing standard setters may therefore be focussed more on how assurance might be given in other areas rather than on the financial statements, and the IAASB's recent issuance of a standard of assurance on greenhouse gas statements is an example of this.

It has generally been the audit firms, rather than the formal audit standard setting bodies, that have arguably had much more impact on IFRS. As well as developing their own internal approach to applying IFRS worldwide, in terms of training and risk management, they publish generic guidance to clients and the wider market. They also take some of the decisions necessary to promote consistent application:

> These discussions and comparisons [with local GAAPs] also strengthened the acceptance within the KPMG network of firms of IFRSs as a separate body of standards with its own interpretations that should not be stretched to accommodate inconsistent existing national practices. Seeking to accommodate inconsistent national practices turns IFRSs into a reference framework rather than an independent body of standards for direct application (Tokar, 2005).

Overall, this has meant that the firms have had to coordinate their views on IFRS, including on particular accounting treatments and commenting on proposed standards to the IASB, in a way they had not done before. This has led to greater centralization of technical decision-making, but it has also required consensus-building mechanisms to be developed in the firms as the use of IFRS, as indicated above, has to be implemented properly at national level; simply imposing views from the centre is unlikely to be successful in the longer term:

> [T]he expectation is that KPMG member engagement teams will endorse the approach illustrated in every audit around the world. Therefore, it was very important that the positions taken reflect the consensus view of the member firms (Tokar, 2005).

5. Factors militating against internationalization of audit and financial reporting

Anyone who has been involved in the tortuous process by which IFRS are endorsed in the EU and waited in vain for the USA to commit itself to applying IFRS for domestic issuers while telling everyone else what IFRS should look like, will recognize that the introduction of international accounting standards is not plain sailing. The huge success story of IFRS adoption over the past few years masks some problems which are only now coming to the fore. Some of these problems are inevitable and predictable barriers to the internationalization of standards. How can accounting practices which have been developed and applied over considerable periods of time, which are affected by local history, culture and regulatory frameworks, give way to an absolutely consistent application of international standards? As Nicolas Véron has convincingly argued,[19] however, some of the problems are not technical but political and arise from powerful vested interests realizing after the event that their hold over these rules becomes much more tenuous as standard setting moves from a national to an international stage.

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5.1 Local practice, culture and legal/regulatory frameworks

In the UK, perhaps ironically, accounting standards originally developed because members of the accountancy profession in business felt that they were at the mercy of their auditors in deciding how their results should be calculated and presented. Company law dictated (and still does) that financial statements must be produced on a true and fair basis and that these must be audited. The financial statements acted as a means of reporting to shareholders but also, to the extent the company had limited liability, as a mechanism for creditor protection. There was a call by business members of the ICAEW to start a process of codification of accounting rules so that business people could be masters of their own information, if not their fate. Only later did the stewardship imperative of reporting to shareholders and the creditor protection measures become augmented by the provisions of securities law, requiring information for markets where shares in companies are traded.

In the USA, by contrast, accounting standards developed as a direct result of securities laws introduced following the Wall Street Crash and related problems. There is, to European eyes at least, surprisingly little provision of rules for accounting for small companies, with very different views on creditor protection and stewardship reporting to shareholders about management performance. With very different views of corporate governance in the USA, the buy/hold/sell decision-making of investors is the primary focus.

As we have already seen in some of the history of the large audit firms, some of their founders were also the progenitors of the accountancy institutes that allowed accountants in both business and practice to come together to formulate some of the early accounting standards. Only later, as potential conflicts of interest became more pronounced, did standard setting tend to move into structures independent of the profession, such as the UK Accounting Standards Board and the US Financial Accounting Standards Board. In such cases it has nevertheless been vital to the production of successful standards, capable of practical application, to pull in as members of the standard setters those with direct experience of application, whether through audit, preparation or use of financial statements.

In some countries in Europe, accounting has developed on a more legalistic basis, tied to the taxation and distribution systems. In others, the route has been more focussed on shareholder information for stewardship and decision-making purposes, which tends to be more closely aligned to the UK and US positions. But Europe has since the 1970s had accounting directives that have to some extent unified accounting, although they have had to encompass the different legal and regulatory developments within the EU. With the advent of IFRS and the decision to adopt them into law for all listed companies in the EU in 2002, which took effect in 2005, the EU moved to a position where securities law took a more international approach focussing on investor needs, and now IFRS are embedded in the main aspects of securities law in the EU, namely the Prospectus and Transparency Directives.[20] While adoption of IFRS is permitted for unlisted companies as a member state option, the take up of the option is frequently indicative of the history of accounting in each state: those with a tax and distribution-based system, usually entirely based on historical cost, tend not to permit the use of IFRS (including France and Germany); others with less of a legalistic approach to accounting, with a shareholder-centric approach, tend to permit use of IFRS. (States with no real private sector accounting history at all, such as the former Communist states, tend to leap straight to IFRS for all, often on a mandatory basis.)

There is also an issue about those left behind by the IFRS world. As discussed below, some EU countries choose not to permit unlisted companies to use IFRS. This means that a split is developing in the accounting profession between IFRS and non-IFRS practitioners, which may vary from country to country. In the UK the unlisted sector is about to move away from UK GAAP (which has become an unhappy mixture of old UK standards and adopted IFRS standards) onto

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an IFRS-based approach. Its basis is the IFRS for SMEs, although this is being modified quite substantially for a variety of reasons, including maintaining consistency with the law, which in Europe is extremely detailed.[21] One of the drivers for the change discussed by the UK Accounting Standards Board is the fact that the UK accountancy profession now tends to base all its training on IFRS, not on UK GAAP, and this causes additional costs and problems for companies and audit firms that straddle both the listed/quoted sector (which includes the AIM [Alternative Investment Market]) and the unlisted market or those just focussed on the unlisted market. The UK profession has broadly welcomed this move to alignment of local rules with IFRS, with mechanisms that allow helpful relaxation of disclosure rules for subsidiaries, for example. The expectation that this will be pushed down to the smallest companies, albeit in an even more simplified form. In contrast, the divergence in practice between IFRS and non-IFRS reporting in other countries may fade over time or may grow to be a permanent fault line in the accounting profession.

5.2 Regulatory and political intervention

The IASB is not able to enforce its own standards or require them to be followed: only governments or regional blocs such as the EU are able to do so through their own laws. There will always be the temptation, therefore, to alter the standards in some way. The drivers for such amendments come in a variety of guises. Powerful regulators may wish to amend the accounting rules to suit their regulatory purpose. Bank regulators, for example, may wish to impose additional provisioning on top of IFRS requirements, something that arguably happened in Spain through 'dynamic provisioning' and which some bank regulators would still like to impose following the financial crisis. Political interventions tend to be the result of lobbying by those who believe that proposed new accounting rules are detrimental to their business, often because they would lead to significant changes in practice. The 'carve out' of IAS 39 has been a running sore in the debate on accounting in Europe, but there are also problems on the horizon in the form of accounting in regulated industries.

Inevitably there are many who resent the loss of national control over standard setting. Experience suggests, however, that a move to adopt international standards is beneficial to the functioning of capital allocation, allowing companies to 'brand' their financial information as meeting internationally accepted criteria and giving users much better information. Although application may not be entirely consistent, the fact that companies are broadly using one framework for delivering financial statements and that framework is widely understood is seen to be beneficial. It might be argued, therefore, that those who seek to amend the standards locally will lose much of the benefit of international standards; but, on the other hand, such deviations from the standards are likely to fall away over time as countries recognize the benefit and value of international comparability.

It should also be recognized that, although IFRS is subject to threats to deviate from the standards and risks of different local application, political interference has been just as much of a problem for national standard setting. In the USA, the FASB was forced to make its standard on share-based payment, SFAS 123, voluntary as to recognition and measurement, due to substantial political pressure, whereas a mandatory standard was successfully introduced by the IASB in the form of IFRS 2. (There have also been controversies in the UK over PFI [Private Finance Initiative] accounting and pensions accounting which also involved some political pressure on the UK standard setter.) Whereas some argue that the IASB is unaccountable in comparison with national standard setters, others would suggest it has had some notable successes. Moreover, the fact that the IASB has no application or enforcement rights means that it has no choice but to garner widespread support for its standards through due process and continual outreach to its key stakeholders, proper post-implementation reviews and engagement and dialogue with dissenters.

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5.3 Regionalization

The balance between different regional interests is changing over time in relation to international standards. This is true in both accounting and auditing and is partly a function of the changing economic circumstances of different regions, which at the moment are in a great state of flux.

North America's deep and liquid capital markets have in many ways been the cradle of standard setting. Their influence is still great in terms of the level of sophistication of their legal and regulatory framework and the strength of the rule of law. But their share of the world's stock market capitalization is declining and their model is under threat from rising powers elsewhere, particularly China.

Europe's push for a single internal market in the EU should have provided a counterbalance to the US model. But in terms of accounting and auditing, the EU remains fragmented, divided by different cultural and legal norms, which EU-wide laws tend to paper over but do little to harmonize. The recent debates over changes to the EU Accounting Directives have shown just how divided that view is; some in Europe advocate going back to historical cost accounting (and so aligning accounting with tax and capital maintenance rules) with no permitted use of current values at all, including both revaluations of property and fair value of financial derivatives (which would thus remain off balance sheet). In contrast, others have embraced a model that provides more current value information for users of financial statements. Although a pan-European private sector body, the European Financial Reporting Advisory Board (EFRAG), works to draw EU views together to respond to the IASB as well as advising the European Commission on adoption of IFRS into EU law, strong differences of opinion remain. Some undoubtedly view the standards as something to be negotiated over, as with any law, rather than as a final result of a due process.

Where the US influence will possibly be further counterbalanced is in groupings forming in the Asia-Pacific region. Many countries, including Japan and China, have welcomed the advent of IFRS and have realised the need to invest in their own infrastructure in order to take part in the IFRS debate, so significantly raising their game on the international stage. They have also started to cooperate and coordinate with each other, increasing the possibility of developing joint positions on major accounting and auditing issues. Some emerging economies are starting to do the same, and regional groupings in Africa, for example, are beginning to form.

6. Summary and conclusions

The large audit firms have grown over the past century into some of the most successful businesses in the world, capable of acting as one globally and yet regulated and owned on a national basis. Their beginnings and histories bear striking similarities. Their global presence has acted as a catalyst of and mechanism for internationalization of accounting and auditing standard setting. Their risk management and internal processes act, at least to some extent, as a force for consistent application of IFRS as well as local GAAP, often above and beyond that achieved by regulatory means, and generally the internationalization of both accounting and auditing standard setting is directly beneficial to them.

They are under intense regulatory scrutiny as a result of the financial crisis. That regulatory action will affect their business models is a given, but they have in the past dealt with these successfully and indeed operate in highly regulated environments. There is a danger, however, that regulatory action that damages their businesses to too great an extent might actually undermine their function in the world's capital markets, weakening audit quality and the brands that create trust in companies coming to markets around the world. A fundamental debate about what society wants from corporate reporting and the role of audit within that would be a better place to start in producing a case for change.

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Notes

1 I am hugely indebted to the work of Peter Boys, BA FCA and the results thereof that he makes freely available on the ICAEW website in relation to the history and family trees of the large accountancy practices. See www.icaew.com/en/library/subject-gateways/accounting-history/resources/whats-in-a-name/preface%20and%20introduction#introduction.
2 I am grateful to William Touche for allowing me access to some early histories of his forbears and those others instrumental in the history of the firm.
3 *Ultramares Corporation v Touche et al.*, 174 N.E. 441 (1932).
4 My thanks to Allister Wilson of Ernst&Young. Certain information is taken from the Ernst & Young website at www.ey.com/US/en/About-us/Our-history and http://www.ey.com/US/en/About-us/Our-history/About-us-Our-history-timeline. Other information is from the work of Peter Boys, as noted above.
5 An attempt was made in 1997 to merge with KPMG (following the merger of Price Waterhouse and Coopers & Lybrand) but this was eventually abandoned for various reasons, including anti-trust issues.
6 My thanks to Lynn Pearcy of KPMG. As well as the Roger White text cited below, certain information is also derived from 'Winstbury' (1977).
7 My thanks to Pauline Wallace of PwC. Information is derived from 'Jones' (1995) and from the work of Peter Boys, noted above.
8 Although the limit on the number of partners (20) was removed in the UK through the 1967 Companies Act, there are countries where such restrictions still prevail, such as India.
9 *Free Enterprise Fund v. Public Company Accounting Oversight Board,* 561 US (2010).
10 See for example the report by Audit Analytics in 2008 at www.thecaq.org/publicpolicy/pdfs/AuditAnalytic_Non-Audit_Fee_5YrRprt_3-6-08.pdf. This indicates that the proportion of fees paid to the auditors of accelerated filers in the USA fell from an average of 50 per cent to under 20 per cent between 2002 and 2006.
11 See COM (2011) 779 final, 2011/0359 (COD) dates 30 November 2011 at http://ec.europa.eu/internal_market/auditing/docs/reform/regulation_en.pdf.
12 www.ifac.org/about-ifac/organization-overview/history, accessed 30 May 2012.
13 Forum of Firms Constitution as at September 2011, available at www.ifac.org/sites/default/files/callouts/Forum%20of%20Firms%20Constitution-September%205,%202011-FINAL.pdf, accessed 30 May 2012.
14 Where directors' duties and the rules to disclose information to auditors vary from country to country, auditors seek to impose the rights to information required by the ISAs through the contract of engagement and associated management representations.
15 See www.iosco.org/library/statements/pdf/statements-7.pdf.
16 See www.iosco.org/library/pubdocs/pdf/IOSCOPD182.pdf.
17 See ISA 200 *Overall objectives of the independent auditor*, para 13.
18 See the ICAEW document *Changes to financial reporting and audit practice* (May 2009) for further debate on this point.
19 For example in *Keeping the Promise of Global Accounting Standards* (July 2011), Bruegel Policy Brief.
20 Directives 2004/109/EC and 2003/71/EC respectively.
21 See www.frc.org.uk/asb/press/pub2702.html for further details.

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