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Brilliant critique of the precarious state of the Big Four firms. Essential reading.

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The Big Four firms - Deloitte, PWC, EY and KMPG have a crushing, unassailable dominance of the global accounting and auditing market. Jim Peterson, a renowned legal expert in this field, alerts us all to the massive risk posed by that situation. He writes with crystal clarity on a complex subject: a bit lyrical to call it a page turner but highly engaging it certainly is.

Peterson's most important conclusion is that the Big Four edifice is built on quicksand. It is only a matter of time - and probably not long - before another Enron, a black swan event, will bring down one of these flimsy structures, whose maximum protection is only the relatively tiny personal investment of its partners in any one country. As huge as they are in reach and employment, their capital is frighteningly minuscule compared with that of the companies which they are thought to police. Further, he convincingly shows us that a Big Three would be unsustainable: if one falls, they all fall. He reminds us that the next firms down the rankings could not save the day, as they are vastly smaller
(the number five, BDO is only a quarter the size of the number four, KPMG).

To add black irony to the plot, he makes it very clear just how pointless and useless audit opinions, to which are attached so much risk, really are, virtually unchanged as they have been for more than 150 years. The one page opinion is a non-opinion, wrapped up in wafer thin but opaque obfuscation. Peterson's explanation of the regulators' perfectly circular definition of materiality, the supposed bedrock of audit judgment, is wickedly funny.

He pulls no punches. Although the superficial butt of his devastating critique is the firms and their partners, his real target is the regulators and the governments who pull their strings.

Post Enron and the collapse of the venerable Anderson's, regulators and lawmakers scrabbled to "do something". And what they did was to grab at the solemn philosophical concept of "audit independence." This laudable idea is that auditors can only be objective and properly and professionally skeptical if they and their firms are completely independent of the companies they audit. Not only can there be no hint of personal or financial interest but they are not allowed to carry out any other services for the audited companies that might, even tangentially, affect their judgment. Thus consulting and advisory services cannot be offered by a firm auditing a company. This is common sense and is clearly essential. A huge body of statute and regulation is devoted to ensuring such independence, protecting the virtue of auditors from the ravages of commercial temptation.

Here's where Peterson throws his most damaging uppercut. Real independence is impossible nonsense because auditors' clients are the very companies they audit. The piper must dance the staves of his paymaster's score. The most basic threat to independence, who pays for the auditor's opinion, is the unchallenged heart of the audit business. The legislative and regulatory rules are thus expensively meaningless drivel. Peterson makes a very good case for dispensing with independence entirely - at the very least it will be an openly honest position.

He looks at how we might deal with this precarious and very dangerous situation. He is withering on the half-hearted or ill thought out alternatives offered up by the law- and rule-makers. He exposes the European Union's compulsory auditor rotation for the inane and risky gibberish that it is. He looks at better ways of reporting - operationally useful, business focussed analyses of risk and effectiveness.

Peterson's book is essential reading for anyone working in a Big Four firm and, more importantly, for anyone served by them. It also has much wider implications for the whole auditing profession and the basic concepts of financial reporting and assurance and so I recommend it to anyone involved in the auditing world.

I have one or two quibbles. I would have liked clearer analysis of where the auditors actually went wrong in the famous cases ("where were the auditors") - were they blinded by the commercial pressures, namely lack of independence, where they venal or just plain incompetent? Such an analysis would be important in understanding where the threats really lie. While his critique is brilliant and devastating, I found Peterson's remedies occasionally confusing or superficial. His proposal that limiting access to audit opinions to auditors' websites protected by clever disclaimers, would eradicate big liability claims, was unconvincing. Then I am not a lawyer and he is.

This book is an astonishing and courageous work. It needs to be read and digested, cover to cover, by all those who should right now be quaking in their shoes about the next Enron waiting to jump out at the next corner.