G A O
Accountability • Integrity • Reliability

Highlights

Highlights of GAO-08-163, a report to congressional addressees

Why GAO Did This Study

GAO has prepared this report under the Comptroller General's authority as part of a continued effort to assist Congress in reviewing concentration in the market for public company audits. The small number of large international accounting firms performing audits of almost all large public companies raises interest in potential effects on competition and the choices available to large companies needing an auditor. This report examines (1) concentration in the market for public company audits, (2) the potential for smaller accounting firms' growth to ease market concentration, and (3) proposals that have been offered by others for easing concentration and the barriers facing smaller firms in expanding their market shares.

GAO surveyed a random sample of almost 600 large, medium, and small public companies on their experiences with their auditors. GAO also interviewed the four largest accounting firms and surveyed all other U.S. accounting firms that audit at least one public company. GAO also developed an econometric model that analyzed the extent to which various factors, including concentration and new auditing requirements, affected fee levels. To supplement this work, GAO interviewed market participants, including public companies, investors, accounting firms, academics, and regulators.

This report makes no recommendations.

To view the full product, including the scope and methodology, click on GAO-08-163. To view the results of GAO's surveys to public companies and accounting firms, click on GAO-08-164SP. For more information, contact Orice Williams at (202) 512-8678 or williamso@gao.gov.

January 2008

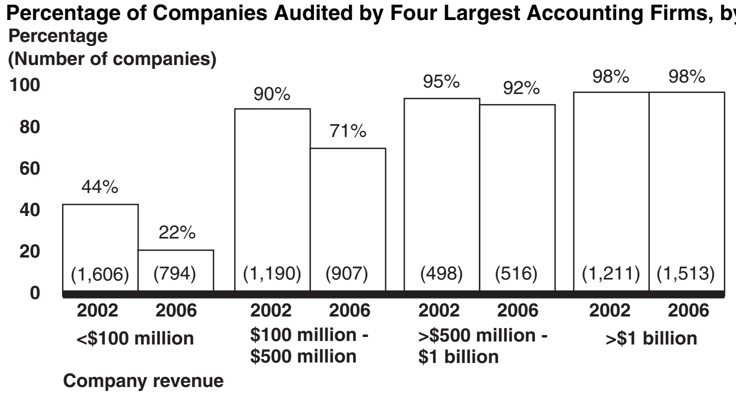
AUDITS OF PUBLIC COMPANIES

Continued Concentration in Audit Market for Large Public Companies Does Not Call for Immediate Action

What GAO Found

While the small public company audit market is much less concentrated, the four largest accounting firms continue to audit almost all large public companies. According to GAO's survey, 82 percent of large public companies—the Fortune 1000—saw their choice of auditor as limited to three or fewer firms, and about 60 percent viewed competition in their audit market as insufficient. Most small public companies reported being satisfied with the auditor choices available to them.

Percentage of Companies Audited by Four Largest Accounting Firms, by Company Size



Source: GAO analysis of Audit Analytics data.

Although audit fees rose significantly in recent years, market participants attributed these increases to expanding accounting and auditing requirements and higher costs for accounting firm personnel. GAO's model also found that factors other than concentration appeared to explain audit fee levels. Public company officials generally acknowledged that audit quality had increased. Although current concentration does not appear to be having a significant adverse effect, the loss of another large firm would further reduce large companies' auditor choice and could affect audit fee competitiveness.

Smaller accounting firms face various challenges in expanding to audit more public companies, although most are not interested in these clients. As a result, concentration in the audit market for large public companies is likely to continue. Large public companies that GAO surveyed said that smaller firms lacked the capacity and technical expertise they wanted in an auditor. Audit firms that GAO surveyed said that adding qualified staff and increasing their name recognition were the most significant challenges they faced in expanding their public company audit practices. Some have taken steps to increase their capacity by joining networks with other firms.

Academics and business groups have put forth proposals to reduce audit market concentration and address challenges facing smaller accounting firms, including capping auditors' liability and creating an office to share technical expertise. Market participants raised questions about the overall effectiveness, feasibility, and benefit of these proposals, and none were widely supported. Given the lack of significant adverse effect of concentration in the current environment and that no clear consensus exists on how to reduce concentration, no compelling need for immediate action appears to exist.