

Book review

Accounting History

2017, Vol. 22(1) 128–129

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DOI: 10.1177/1032373216670398

journals.sagepub.com/home/ach



Jim Peterson

Count Down: The Past, Present and Uncertain Future of the Big Four Accounting Firms, Bingley: Emerald Group Publishing, 2015, 240 pp.: 9781785605819

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The auditing profession is close to a turning point in its development. Perhaps that turning point has occurred in the recent past, with the passage of the Sarbanes–Oxley Act or the introduction of independent regulation. Perhaps it is about to happen in the near future with reporting on key audit matters or some other unforeseen change. In any case, we are at a point where in future it will be clear that momentous events were happening to the world of auditing.

As a result, this is a good time to review the history of auditing, and especially the history of the Big Four firms which dominate it. How did we get to where we are? Why are there so many insoluble problems? Jim Peterson addresses many important current issues, but it is not clear that this book is the history of auditing that is needed.

The book is short (240 pages) and written in a racy, highly readable style. It begins with a trenchant foreword that calls the firms ‘Big Audit’, describes the standard audit opinion as an out-moded product and declares that the Big Audit model is ‘unsuitable beyond salvation’.

The book then proceeds to three chapters, loosely on the themes of the past (34 pages), the present (146 pages) and the future (38 pages).

The chapter on the past goes back as far as 1851 and is illustrated by the (very brief) audit report issued by Mr W.W. Deloitte on the financial statements of the Great Western Railway in 1850. While the chapter draws on the history of auditing, most of the history it reports is very recent, concentrating on Enron and other scandals of the twenty-first century. Peterson here presents his arguments that the ‘obsolete obligations’ of appearance of independence are holding back auditors from taking opportunities to be able to add value. Peterson, as a lawyer, then feels a traditional obligation to tell his readers that auditing is boring and to repeat an ancient and lame joke about the profession of ‘bean-counters’.

The long chapter on the present state of audit mainly goes into what the author sees as the underlying problems or weaknesses of auditing. These include, among many other highly relevant issues, the following:

- *The vulnerability of the Big 4 firms.* It is argued that the next collapse of an audit firm will ‘go from four to zero’ – that a model of three big firms is not viable, and so auditing would somehow disappear. He also argues that breaking up the big accounting firms would somehow make their parts too small to survive. The author appears to construct an argument that the Big 4 are currently too big, but yet he argues that if they were any smaller, they would be too small. That argument does not stand up very well.

- *The fragility of the firms.* Here, Peterson estimates how much financial loss the Big Four firms could handle in the event of a crisis. The firms do not have high levels of capital, and the amount available is probably very small compared to the amount that could be lost in a corporate failure like another Enron.
- The problems being experienced with achieving convergence of accounting standards.
- The issue of auditor independence and who is the real ‘client’. Peterson sees the independence of auditors as ‘obsolete and over-valued’. He argues that it does not serve the needs of investors.
- The inability of big audit firms to innovate.
- *Rotation of audit firms.* Peterson’s discussion of the practicalities of rotation is compelling. He shows how difficult rotation might be, in a world where companies are multinational but regulators are based on a single jurisdiction.
- *The impasse between the United States and China.* The regulations under which the US Securities Exchange Commission operates required them to inspect the working papers of Chinese auditors. But the regulations in China require the firms not to reveal their working papers to a foreign regulator. This issue is still not fully resolved.

The third chapter, on the future of auditing, lists 12 possible reforms that could be made to auditing. Peterson ruthlessly dismisses many widely discussed suggestions as ‘non-starters’ without much debate. He ends by attempting to promote a surprising recommendation: non-independent auditors, who design systems as well as report on them. Peterson argues that this development could emerge spontaneously, when existing auditing collapses due to some of the many problems he has identified. He also reviews current issues, including the new audit reports. The book criticises the existing ‘pass–fail’ report in several places. Peterson is also aware of the proposals to report key audit matters, and the longer audit reports issued in the United Kingdom, but still seems unsatisfied with these proposals. Although he has argued that the pass–fail model is not working, he also dismisses longer reports, apparently because they did not have enough impact on the stock market.

The book covers many other issues, often in an entertaining and well-written way. The book has many likeable features. It covers many good issues that are not widely covered in other sources. Some of the stories he tells are very interesting and relevant. I found myself wishing that I could recommend it to auditing students, but deciding that I could not.

The problems with the book are that its nature is far too much of a polemic. It does not attempt to be a dispassionate coverage of history or of current issues. Instead, it relentlessly sells Peterson’s prescription for change to auditing. While Peterson’s model might be capable of working effectively, it is extremely improbable that auditors could reach such a model, given the current situation. In addition, the book is very light on any references to supporting material.

Peterson’s style, while clear and entertaining, is also exhausting. The reader gets rather tired with analogy after analogy. Are auditors really like undercover cops? And if so, are they also like basketball coaches? And simultaneously like tractor manufacturers? The fallacy of argument by analogy is demonstrated repeatedly by the author’s overenthusiasm for this style of argument.

In conclusion, this is a relevant, but contentious book about auditing. It does contain history, but it is not thoroughly supported by sources. It is surprising to find it as a part of a series of ‘Studies in the Development of Accounting Thought’. It has a mission, to work towards a rather unlikely solution to auditing problems: auditors who do not profess to be independent and who are instead the designers of the accounting system. There is plenty of interesting material, but there is also a load of arguments that are not well supported.

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