FINANCIAL TIMES

June 14, 2015 1:59 am

SEC seeks views on 'shocking' auditor relationships

Madison Marriage

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Companies could soon be forced to disclose the length of their relationships with auditors amid concern that accounting firms have become too cosy with the companies they oversee.

The US regulator plans to consult investors this summer over how to strengthen the audit market. The big four accounting firms drew criticism after the financial crisis, due to their failure to highlight problems in the banking sector.

One of the ideas under consideration at the US Securities and Exchange Commission is compulsory disclosure of auditor tenure, according to Joseph Carcello, a member of the regulator's investor advisory committee.

According to figures compiled for FTfm by MSCI, the data provider, a large number of S&P 500 companies have used the same auditor for well over 50 years.

This includes Procter & Gamble, the consumer products group, which has used Deloitte as its auditor for 125 years, and General Electric, one of America's best-known conglomerates, which has used KPMG for 106 years.

Caterpillar, the heavy equipment company, has used PwC for 90 years, while Goldman Sachs, the investment bank, has employed PwC for the past 89 years.

Investors, particularly those based in Europe, are concerned that such lengthy relationships could limit an auditor's ability to deliver independent oversight of a company.

A corporate governance expert at one of the UK's biggest fund houses, speaking on condition of anonymity, said: "[Auditor tenure] at P&G is completely ridiculous. I am shocked. I don't think you would find anyone who would think having the same auditor for 100 years is a good thing."

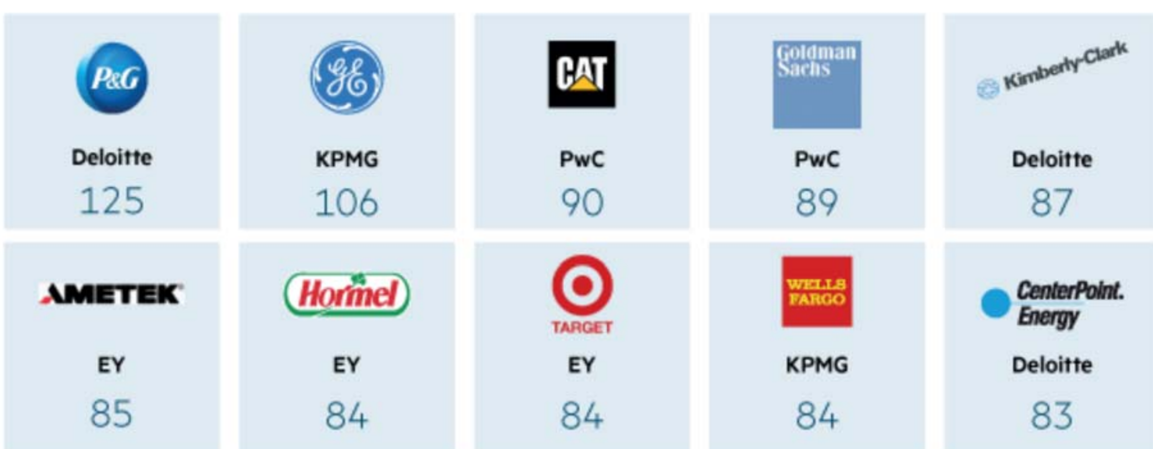
Peter Lundkvist, head of corporate governance at AP3, the Swedish national pension fund, added: "It is very difficult for auditors to claim they are independent in these cases."

A spokesperson for General Electric said: "In our engagement with investors, they generally have not had an issue with KPMG's tenure — they are more focused on disclosure. As a result, over the past few years we have significantly enhanced our proxy disclosures around the auditor engagement process."

P&G, Goldman Sachs and Caterpillar declined to comment.

Cosy accounting: the longest US auditor/company relationships

Length of tenure (years)



Average auditor tenure in the S&P 500: 26 years

Source: MSCI

ABP, the biggest Dutch pension fund, said companies should change auditor every 10 years, while Calstrs, the Californian pension fund, said auditors should be rotated every seven years.

A significant proportion (44 per cent) of S&P 500 companies give no information on how long their

The push for more transparency is widely seen in corporate governance circles as a positive development in the absence of mandatory auditor rotation, which was introduced in Europe last year. Listed European companies are now required to put their audit mandate out to tender every 10 years and to change auditors at least every 20 years.

The US Public Company Accounting Oversight Board, which oversees the audits of listed companies, attempted to introduce similar rules in 2013 but its efforts were blocked by the US House of Representatives amid fierce lobbying from the business community.

James Doty, chairman of the PCAOB, said: “Bringing greater transparency and clarity about the audit and the auditor is good for investors and capital markets.”