

GAO

Report to the Senate Committee on  
Banking, Housing, and Urban Affairs and  
the House Committee on Financial  
Services

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September 2003

# ACCOUNTING FIRM CONSOLIDATION

## Selected Large Public Company Views on Audit Fees, Quality, Independence, and Choice



G A O

Accountability \* Integrity \* Reliability

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Highlights of [GAO-03-1158](#), a report to Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Financial Services

# ACCOUNTING FIRM CONSOLIDATION

## Views of Surveyed Large Public Companies on Audit Fees, Quality, Independence, and Choice

### Why GAO Did This Study

The largest accounting firms, known as the “Big 4,” currently audit over 78 percent of U.S. public companies and 99 percent of public company annual sales. To address concerns raised by this concentration and as mandated by the Sarbanes-Oxley Act of 2002, on July 30, 2003, GAO issued a report entitled *Public Accounting Firms: Mandated Study on Consolidation and Competition*, GAO-03-864. As part of that study, GAO surveyed a random sample of 250 public companies from the Fortune 1000 list; preliminary findings were included in the July report. This supplemental report details more comprehensively the 159 responses we received through August 11, 2003, focusing on (1) the relationship of their company with their auditor of record in terms of satisfaction, tenure relationship, and services provided; (2) the effects of consolidation on audit fees, quality, and independence; and (3) the potential implications of consolidation for competition and auditor choice.

### What GAO Found

Most of the 159 respondents said that they were satisfied with the current auditor, and half had used their current auditor for 10 years or more (see figure below). Generally, the longer a respondent had been with an auditor, the higher the overall level of satisfaction. Consistent with high levels of satisfaction, GAO found that, aside from former clients of Arthur Andersen, few respondents had switched auditors in the past decade. When they did, they switched because of reputation, concerns about audit fees, and corporate mergers or management changes. In looking for a new auditor, the most commonly cited factors the respondents gave were quality of service, industry specialization, and “chemistry” with the audit team. Finally, almost all respondents used their auditor of record for a variety of nonaudit services, including tax-related services and assistance with company debt and equity offerings.

Respondents had differing views about whether past consolidation had some influence on audit fees, but most believed that consolidation had little or no influence on audit quality or independence. Respondents commented that other factors—such as new regulations deriving from the Sarbanes–Oxley Act and changing auditing standards—have had a greater impact on audit price, quality, and independence.

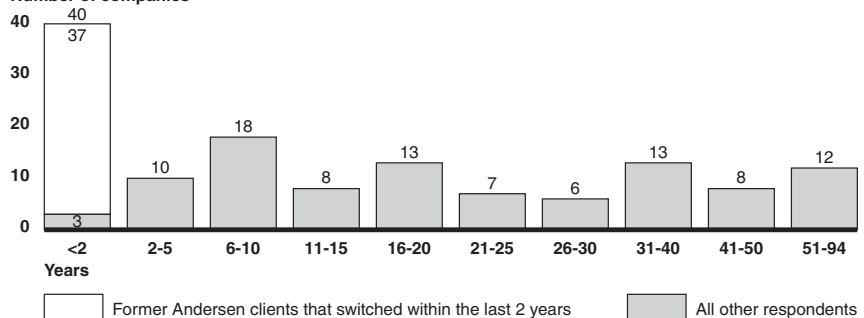
While half of the respondents said that past consolidation had little or no influence on competition and just over half said they had a sufficient number of auditor choices, 84 percent also indicated a preference for more firms from which to choose as most would not consider using a non-Big 4 firm. Reasons most frequently cited included (1) the need for auditors with technical skills or industry-specific knowledge, (2) the reputation of the firm, and (3) the capacity of the firm. Finally, some expressed concerns about further consolidation in the industry and the limited number of alternatives were they to change auditors under existing independence rules.

[www.gao.gov/cgi-bin/getrpt?GAO-03-1158](http://www.gao.gov/cgi-bin/getrpt?GAO-03-1158).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Davi M. D’Agostino at (202) 512-8678 or [d'agostinod@gao.gov](mailto:d'agostinod@gao.gov).

**Length of Relationship with Current Auditor**

Number of companies



Source: GAO.

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## Abbreviations

GAAP	generally accepted accounting principles
GAAS	generally accepted auditing standards
SIC	Standard Industry Classification
SEC	Securities and Exchange Commission

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United States General Accounting Office  
Washington, D.C. 20548

September 30, 2003

The Honorable Richard C. Shelby  
Chairman  
The Honorable Paul S. Sarbanes  
Ranking Minority Member  
Committee on Banking, Housing, and Urban Affairs  
United States Senate

The Honorable Michael G. Oxley  
Chairman  
The Honorable Barney Frank  
Ranking Minority Member  
Committee on Financial Services  
House of Representatives

The number of public accounting firms widely considered capable of providing audit services to large national and multinational public companies decreased from eight (the “Big 8”) in the 1980s to four (the “Big 4”) today.<sup>1</sup> These four firms currently audit over 78 percent of all U.S. public companies and 99 percent of public company annual sales. The Big 4 also dominate the market for audit services internationally. On July 30, 2003, we issued a report on the impact of this consolidation on competition and audit services provided to large national and multinational companies (as mandated by the Sarbanes-Oxley Act of 2002).<sup>2</sup> This supplemental report details more comprehensively the responses we received through August 11, 2003, to a survey of a random sample of Fortune 1000 companies on their experiences with their auditors of record.<sup>3</sup> Specifically, our objective was to obtain the views of the chief financial officers of large

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<sup>1</sup>The Big 8 were Arthur Andersen LLP, Arthur Young LLP, Coopers & Lybrand LLP, Deloitte Haskins & Sells LLP, Ernst & Whinney LLP, Peat Marwick Mitchell LLP, Price Waterhouse LLP, and Touche Ross LLP. The Big 4 accounting firms are Deloitte and Touche LLP, Ernst & Young LLP, KPMG LLP, and PricewaterhouseCoopers LLP. These firms differ from other firms by their total revenues, size, and global reach.

<sup>2</sup>See U.S. General Accounting Office, *Public Accounting Firms: Mandated Study on Consolidation and Competition*, [GAO-03-864](#) (Washington, D.C.: July 30, 2003) and Pub. L. No. 107-204 § 701 (2002).

<sup>3</sup>We also surveyed the 97 largest public accounting firms for their views on accounting firm consolidation and its potential implications; their responses are included in our July 30, 2003, report. This report focuses on the views of large public companies as clients of accounting firms.

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national and multinational public companies on (1) the relationship of their company with their auditor of record in terms of satisfaction, tenure of the relationship, and services provided; (2) the effects of consolidation on audit fees, quality, and auditor independence; and (3) the potential implications of consolidation for competition and auditor choice.

We drew a random sample of 250 of the largest publicly held companies from the 2003 list of the Fortune 1000 companies produced by Fortune, a division of Time, Inc., after removing 40 private companies from this list. Of the 250 companies surveyed, we received responses from 159 companies, or 64 percent; all of whom used a Big 4 firm as their auditor of record. The response rates for individual questions varied, depending on how many respondents answered each question. Because of the limited level of participation in the survey, the responses discussed in this report reflect only the views of the public companies that responded to the survey and are not projected to the entire population of public Fortune 1000 companies. Appendix I discusses our survey methodology in detail. A copy of the questionnaire, annotated to show the respondents' answers to each question, is included as appendix II. In addition, nearly 94 percent (149 of 159) of the respondents provided narrative comments on at least one of the key questions about their experiences with their auditors of record. Included as appendix III, these narrative comments provide valuable insight into how the respondents interpreted key questions and amplify the respondents' views and experiences.

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## Results in Brief

Most of the public companies responding to the survey (respondents) said they were satisfied with their current auditor, half had used their current auditor for 10 years or more, and almost all used their auditor of record for other nonaudit services. More than three-quarters of the respondents said that they were satisfied with their relationship with their current auditor of record. We also found an association between audit tenure and satisfaction. That is, the longer respondents had been with their current auditors, the more satisfied they were. Company-auditor relationships averaged 19 years, ranging from less than 1 year to 94 years. Although 61 of the 159 respondents had switched auditors since 1987, 37 of the 61 were former clients of Arthur Andersen (Andersen) that had switched since 2001. Aside from the dissolution of Andersen, other reasons cited for changing auditors included concerns about auditor reputation, concern about the fees charged for audit and attest services, mergers and other ownership or management changes, and the desire to obtain a "fresh perspective." When looking for a new auditor, most respondents said

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quality of services, the auditor's reputation, industry specialization or expertise, and the engagement team's chemistry or perceived ability to work with the company were of "great" or "very great" importance. Almost all the respondents used their auditor of record for a variety of services besides audit and attest, such as tax-related services and assistance with company debt and equity offerings.

Respondents had differing views about whether the past consolidation of public accounting firms had some influence on audit fees, but most believed that it had little or no influence on audit quality or auditor independence. Although most (93 percent) respondents indicated that audit fees had increased over the past decade, they were split evenly between those who thought that the consolidation among the largest public accounting firms had an "upward influence" on audit fees and those who thought that it had "little or no influence" (47 percent versus 46 percent). More than twice as many respondents believed that audit quality increased over the past decade than decreased (44 percent compared to 18 percent) and a majority (63 percent) believed that accounting firm consolidation had little or no influence on changes in audit quality. Rather than consolidation, some respondents cited other reasons for changes in audit quality, such as new regulations resulting from the Sarbanes-Oxley Act and a change in the audit partner in charge of their audit.<sup>4</sup> Similarly, while many respondents (59 percent) agreed that independence had increased over the past decade, 72 percent of respondents believed that the past consolidation had little or no influence on auditor independence.

While a majority of respondents believed that past consolidation had little or no impact on competition, many were concerned that the limited number of choices they have for audit services might create problems, given that 88 percent of the respondents said that they would not consider using a non-Big 4 firm for audit and attest services. The reasons they cited for choosing a Big 4 over a non-Big 4 firm included industry and technical expertise, reputation, and geographic presence. While over half of the 158 respondents said that the options their company currently had were adequate, some companies expressed concerns about having too few alternatives if they were to change auditors. Respondents cited multiple

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<sup>4</sup>Sarbanes-Oxley requires that the Securities and Exchange Commission (SEC) enact independence rules, which address areas such as prohibited nonaudit services, audit partner rotation, and conflicts of interest. See Pub. L. No. 107-204, Title II § 201- § 206 and 17 C.F.R. Parts 210 and 240, *Final Rule: Revision of the Commission's Auditor Independence Requirements*.

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reasons to explain their concerns about limited choices among the Big 4, including auditor independence rules and their companies' need for certain industry expertise. Moreover, a large majority (86 percent) of respondents said that they would prefer a market with more than four big firms. Many of these respondents also commented that they did not want to see further consolidation within the Big 4. However, almost two-thirds of all respondents said that they would not suggest any actions, such as government intervention, to increase competition in the provision of audit and attest services for large national and multinational companies.

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## Background

Since the Securities Act of 1933 and the Securities Exchange Act of 1934 established the principle of full disclosure—requiring public companies to provide full and accurate information to the investing public—public accounting firms have played a critical role in companies' financial reporting and disclosure. While officers and directors of a public company are responsible for the preparation and content of financial statements that fully and accurately reflect the company's financial condition and the results of its operations, public accounting firms, which function as independent external auditors are expected to provide an additional safeguard. The external auditor is responsible for auditing companies' financial statements in accordance with generally accepted auditing standards (GAAS) to provide reasonable assurance that a company's financial statements are fairly presented in all material respects in accordance with generally accepted accounting principles (GAAP).

Public accounting firms offer a broad range of services to their clients. In addition to traditional audit and attest and tax services, firms also offer consulting services in areas such as information technology. Although all of the Big 4 firms continue to offer certain consulting services, three of the Big 4 have sold or divested portions of their consulting businesses.<sup>5</sup> Following the implementation of Sarbanes-Oxley, SEC issued new independence rules in March 2003, which place additional limitations on management consulting and other nonaudit services that firms could provide to their audit clients. Sarbanes-Oxley also requires auditors to report to and be overseen by a public company's audit committee, which consists of members of the company's board of directors who are required

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<sup>5</sup>PricewaterhouseCoopers' consulting practice was sold to International Business Machines Corp.; KPMG's consulting practice became BearingPoint; and Ernst & Young sold its practice to Cap Gemini Group USA.



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to be independent. The external auditor also interacts closely with the company's senior management, including the chief financial officer.

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## Most Respondents Were Satisfied with Their Auditor, Had Long-term Relationships, and Used Their Auditor for a Variety of Services

Most of the survey respondents said they were satisfied with their current auditor. Moreover, half of the respondents reported that they have had the same auditor of record for 10 or more years.<sup>6</sup> Respondents gave various reasons for changing auditors, including concerns about their auditor's reputation and fees. They also told us what factors would drive their decision in choosing a new auditor. Almost all respondents said that they used their auditor of record for more than audit and attest functions, including tax-related services and assistance with company debt and equity offerings.

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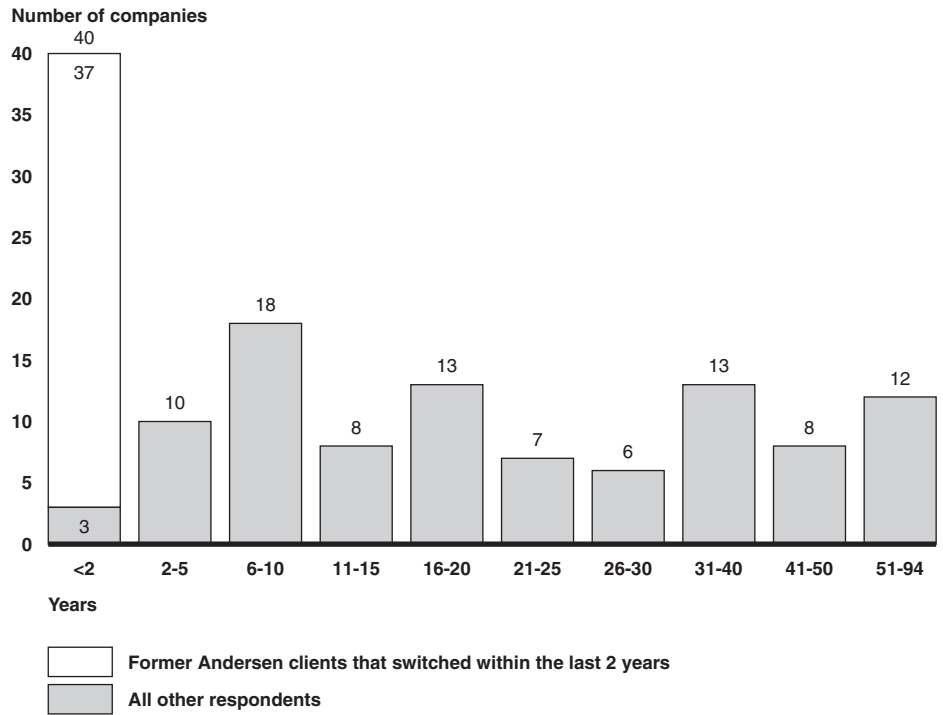
## High Degree of Client Satisfaction and Auditor Tenure

Overall, 80 percent (127 out of 158 respondents answering this question) of the respondents said they were "very" or "somewhat" satisfied with their current auditor of record, while 12 percent (19 of 158) said that they were very or somewhat dissatisfied, and 8 percent (12 of 158) said they were neither satisfied nor dissatisfied. Similarly, of the 135 respondents that provided the year they first employed their auditor of record, half of them said they had retained their auditor of record for 10 years or more. The average tenure was 19 years, ranging from less than 1 year to 94 years. When the 37 public companies that switched from Andersen because of Andersen's dissolution were excluded, the average tenure increased to 25 years, and the percentage of public companies that had retained their auditor for 10 years or more increased to 68 percent. Figure 1 shows the length of the relationship these respondents had with their current auditor.

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<sup>6</sup> The 159 respondents include 37 public companies that had to switch from Andersen since 2002; Andersen dissolved in 2002.

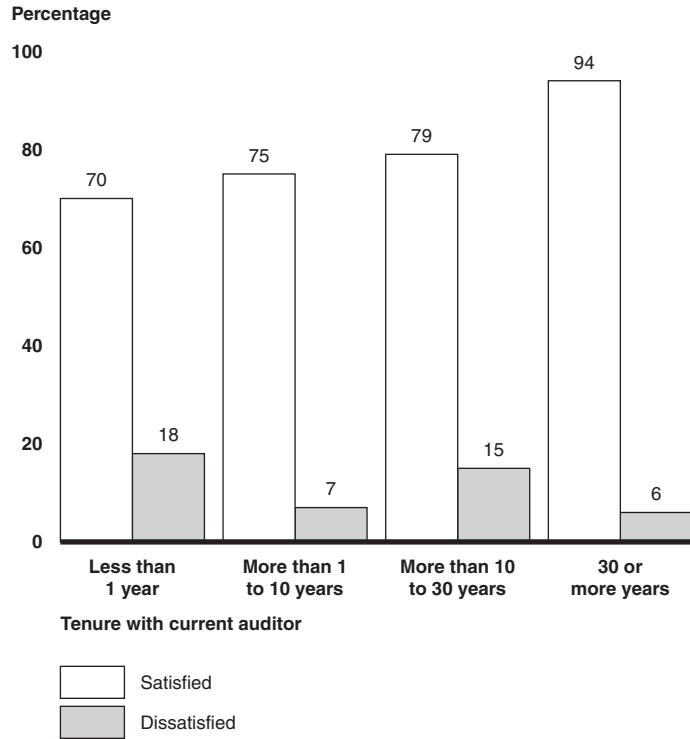
**Figure 1: Length of Relationship with Current Auditor**



Source: GAO.

We found that there was an association between the length of the company-auditor relationship and satisfaction. That is, the longer the relationship between a company and its auditor, the more likely that the company was satisfied with its auditor of record. As figure 2 shows, 94 percent (30 of 32) of companies with auditor tenure of more than 30 years were very or somewhat satisfied with their auditor, whereas 70 percent (28 of 40) of companies using their current auditor for 1 year or less said they were very or somewhat satisfied with their auditor.

**Figure 2: Satisfaction with Current Auditor, by Tenure**



Source: GAO.

Sixty-one of the respondents reported that they switched auditors since 1987. Of those 61, 37 were former Andersen clients that switched within the last 2 years as a result of Andersen’s dissolution, five were former Andersen clients that switched over 2 years ago for reasons other than Andersen’s dissolution, and 19 were other respondents that switched from another Big 4 or non-Big 4 firm since 1987, as shown in table 1. The respondents who were clients of Andersen and had to change auditors within the last 2 years as a result of Andersen’s dissolution were somewhat less satisfied with their current auditor than a separate group of 19 respondents that had switched from another Big 4 or non-Big 4 firm since 1987. Of the 37 former Andersen clients, 25 respondents indicated that they were satisfied with their current auditor of record, seven said that they were dissatisfied with their current auditor, and five said they were neither satisfied nor dissatisfied. Of the 19 other respondents that switched from other firms since 1987, proportionally more (16 respondents) said they were satisfied with their current auditor of record, while only one was

somehow dissatisfied and two were neither satisfied nor dissatisfied. While this suggests that clients leaving Andersen because of its dissolution are less satisfied with their current audit arrangements than other firms that had changed auditors in the past, it is important to note that the 37 respondents who were former Andersen clients also had the shortest tenures with their current auditors, which may in part explain their lower satisfaction.

**Table 1: Respondents That Had Switched Auditors Since 1987**

Categories of companies that switched auditors	Satisfied with current auditor	Dissatisfied with current auditor	Neither satisfied nor dissatisfied	Number of switching companies
Former Andersen clients that switched within the past 2 years because of Andersen's dissolution in 2002	25	7	5	37
Former Andersen clients that switched from Andersen from 1987 through 2000, for other reasons	3	0	2	5
Respondents that switched from other Big 4 or non-Big 4 firms (not Andersen) from 1987 through 2003	16	1	2	19
<b>Total</b>	<b>44</b>	<b>8</b>	<b>9</b>	<b>61</b>

Source: GAO.

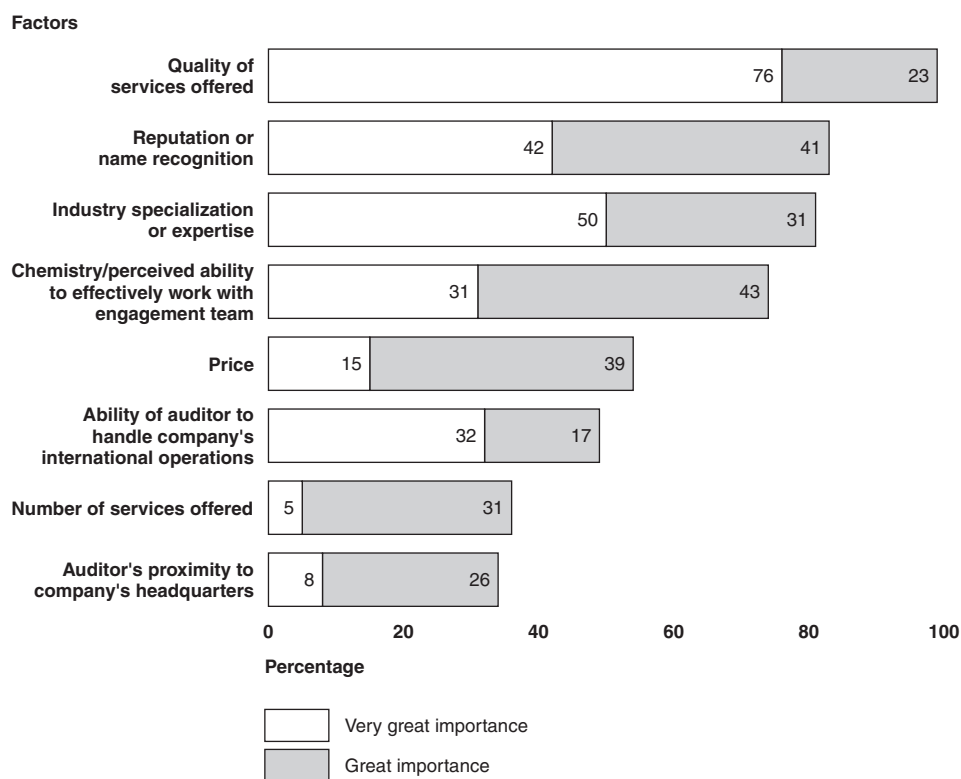
### Respondents Cited Varied Reasons for Changing Auditors and Factors for Selecting a New Auditor

Respondents gave a variety of reasons for switching, including concerns about the reputation of their auditor, the need to retain an auditor that could meet companies' new demands, concerns about the level of fees charged for audit and attest services, and increased demands resulting from a corporate merger or change in company ownership. Four respondents said their relationship with their former auditor was no longer working, and another respondent cited a disagreement over an accounting policy that resulted in the switch. While none of the respondents said their company had a mandatory rotation policy, two respondents said their companies switched auditors to obtain a "fresh perspective" and "as a form of good governance."

When we asked the respondents what factors would drive their decision if they had to choose a new auditor, they most often cited "quality of services offered" as a factor of "very great" or "great" importance (99 percent or 157

of 159).<sup>7</sup> The second most highly rated factor was “reputation or name recognition of the auditor” (83 percent or 132 of 159), followed by “industry specialization or expertise” (81 percent or 128 of 159).

**Figure 3: Factors Cited in Choosing a New Auditor**



Source: GAO.

### Almost All Respondents Used Auditors for Nonaudit Services

Ninety-four percent (149 of 159) of respondents obtained other services from their auditors in addition to audit and attest services. We asked respondents if their auditor provided any of the three following categories of services: tax-related, assistance with company debt and equity offerings,

<sup>7</sup>The survey stated that “Audit quality is thought to include the knowledge and experience of audit firm partners and staff, the capability to efficiently respond to a client’s needs, and the ability and willingness to appropriately identify and surface material reporting issues in financial reports.”

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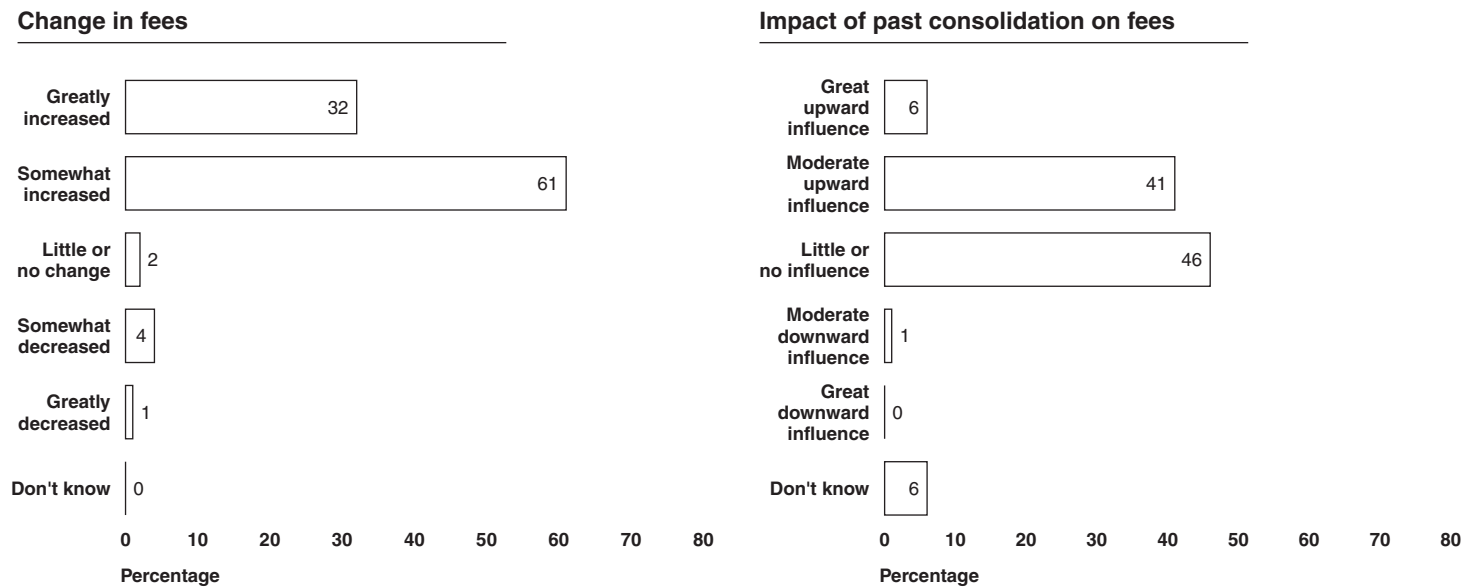
and “other services.” Only 10 companies, or 6 percent, reported that their auditor of record provided them with only audit and attest services. Respondents for the remaining 149 companies said they used their auditor of record for one or a combination of other services. Specifically, 87 percent (130 of 149) said their auditor provided tax-related services, such as tax preparation and 71 percent (106 of 149) said they received assistance with company debt and equity offerings. Thirty-seven percent (55 of 149) said they received other services, such as merger and acquisition due diligence, internal control reviews, or tax planning assistance.

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## Respondents Had Differing Views about Past Consolidation’s Influence on Audit Fees but Most Agreed That It Had Little or No Influence on Audit Quality or Auditor Independence

Respondents had differing views about the impact of past consolidation among the largest accounting firms on audit fees, but most agreed that it had little or no influence on audit quality or auditor independence. While 93 percent (147 of 158) of respondents said that their audit fees increased over the past decade, they were almost evenly divided about whether past consolidation of the largest accounting firms had a “moderate upward” or “great upward” influence (47 percent or 75 of 158) or little or no influence (46 percent or 72 of 158). See figure 4.

**Figure 4: Views on Change and Impact of Past Consolidation on Audit Fees**



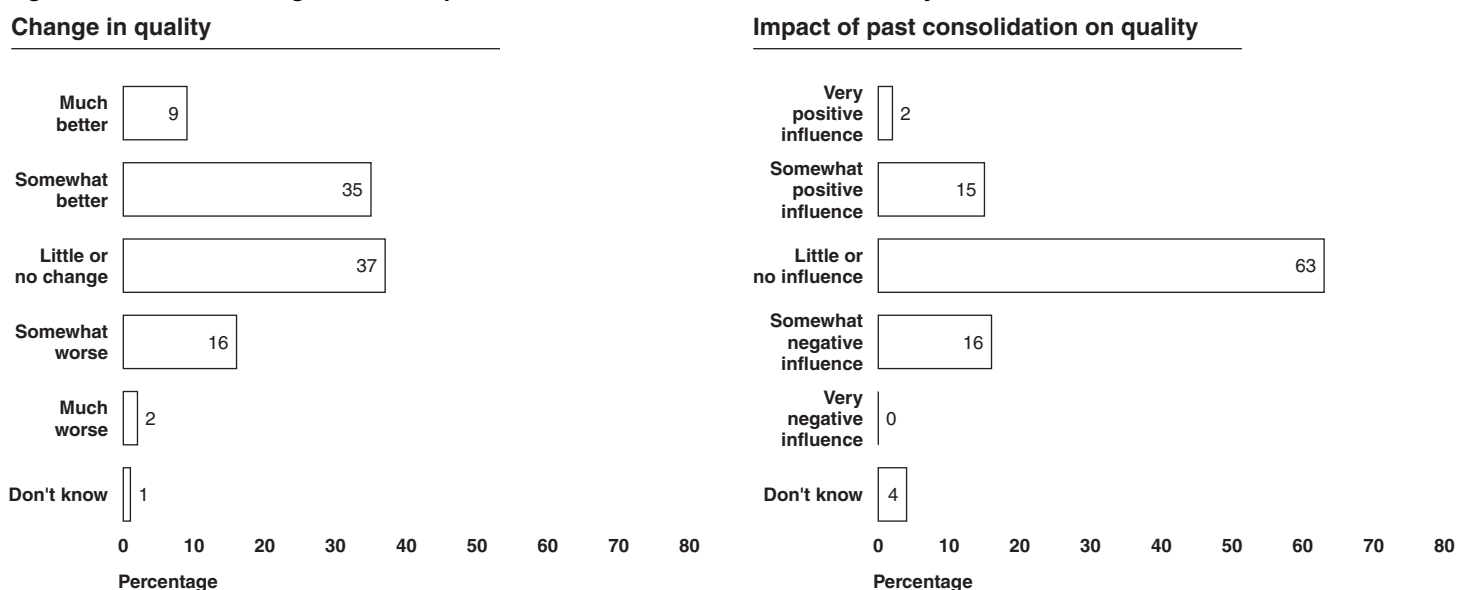
Source: GAO.

More respondents said that audit quality had increased over the past decade rather than decreased, but the majority of them did not believe that past consolidation of the largest accounting firms influenced these changes. Specifically, 44 percent (69 of 158) of the respondents said that audit quality had increased, while 18 percent (29 of 158) said quality had decreased and 37 percent (58 of 158) said there had been little or no change. However, 63 percent (100 of 158) of the respondents believed that consolidation of the largest firms had little or no influence on the quality of audit and attest services their companies received (see fig. 5).

The respondents provided other reasons for changes in audit quality, including changes in audit partner, new regulations and audit standards, and technical expertise of the audit team. Several respondents cited the importance of the assigned audit partner to overall audit quality. One respondent noted, “The partner in charge is critical [to audit quality].” Another respondent said audit quality improved because of “more personal involvement of the audit partner.” Other respondents believed that changes in audit quality were due to changes in audit methodologies and the Sarbanes-Oxley Act. According to one respondent, “The change in the depth and quality of the audit process is due to a more rigorous regulatory

and litigation environment and not to audit firm consolidation.” Another respondent noted, “Following the Sarbanes-Oxley Act and Andersen’s downfall, other firms are increasing the level of work they do and the depth of the audit.” Finally, we received comments about the skills and experience of the audit team. One respondent wrote, “Answers to accounting questions take too long and quality of staff is poor. Fundamental audit practices are gone.” Another respondent similarly commented that the “level of experience seems to have declined, contributing to lower quality, [and] partners supervise more jobs.” However, that same respondent also noted that since his company had changed auditors, the “level of experience has improved.”

**Figure 5: Views on Changes in and Impact of Past Consolidation on Audit Quality**



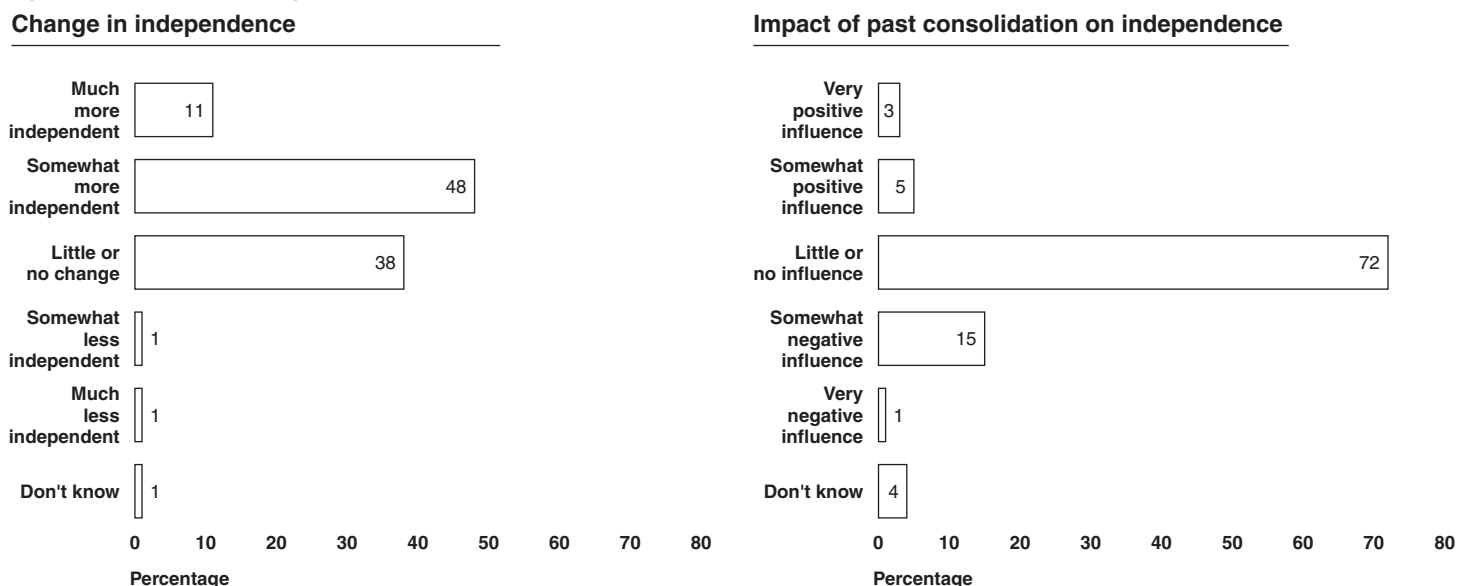
Source: GAO.

Finally, 59 percent (94 of 158) of the respondents indicated that their auditor had become more independent over the past decade, while 1 percent (2 of 158) said that their auditor had become less independent and 38 percent (60 of 158) said that there had been no change in their auditor’s independence. However, 72 percent (114 of 158) of the respondents also said that past consolidations of the largest accounting firms had little or no influence on auditor independence (see fig. 6). The remaining views varied, with 16 percent (26 of 158) of respondents believing that the



consolidations had a negative influence on auditor independence and 8 percent (12 of 158) saying that it had a positive influence. Some of the respondents commented that audits had been positively affected by SEC's new independence requirements, while one respondent said that the new rules had not significantly enhanced auditor independence.

**Figure 6: Views on Changes in and Impact of Past Consolidation on Auditor Independence**



Source: GAO.

## Respondents Were Concerned That Limited Audit Choices May Create Problems

Respondents raised concerns about the future implications of consolidation, especially about possible limitations on audit firm choice. A significant majority of respondents said that their companies would not use a non-Big 4 accounting firm for audit services, which limited their choices. While most respondents said that they would be able to use another Big 4 firm as their auditor of record if they had to change, they also said that they would prefer more large firms from which to choose. Moreover, they raised concerns that further consolidation among the largest accounting firms would result in too few choices. Yet, despite those concerns, most respondents favored allowing market forces to dictate the level of competition in the market for audit and attest services.

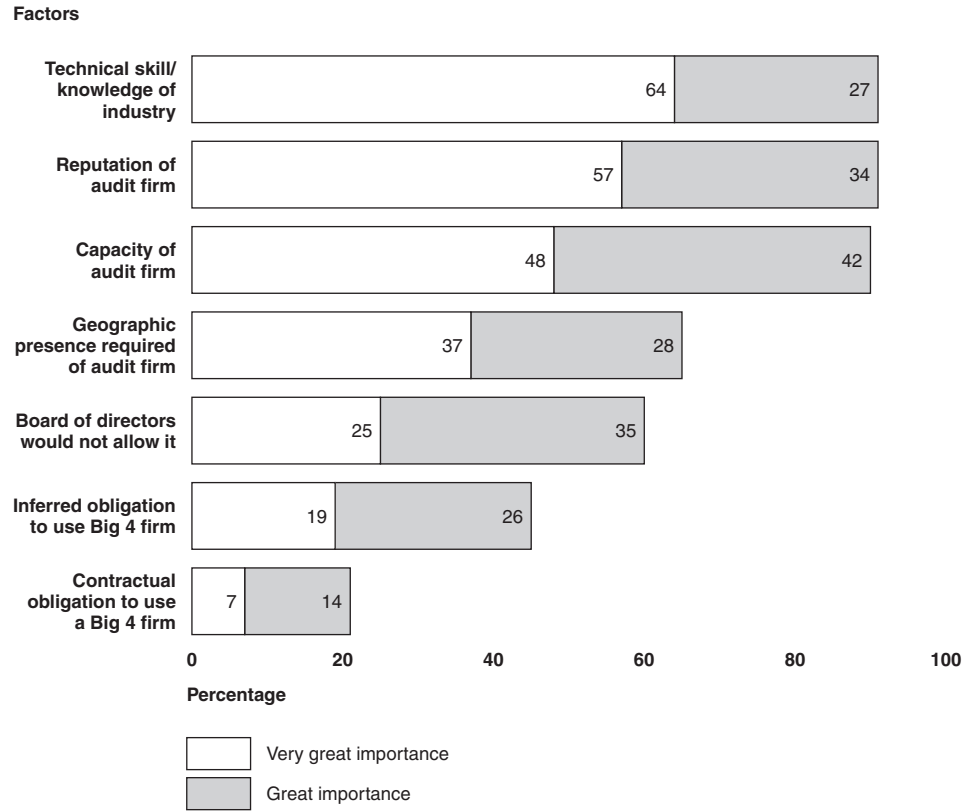
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## Respondents Preferred Big 4 Firms over Non-Big 4 Firms for Audit Services

Eighty-eight percent (139 of 158) of respondents indicated that they would not consider using a non-Big 4 firm for audit and attest services. As shown in figure 7, nearly all the respondents cited three factors as being of great or very great importance in determining why their companies would not use a non-Big 4 firm: (1) auditor's technical skills and knowledge of the company's industry (91 percent or 126 of 138); (2) the reputation of the accounting firm (91 percent or 126 of 138); and (3) the capacity of the firm (90 percent or 125 of 138). These three factors also corresponded closely to the most frequently cited factors in choosing a new auditor as previously noted in figure 3. One respondent noted, "We have operations in 40 countries and want all our auditors to operate with the same systems and procedures. Only a global firm can deal with this complexity in a cost-effective manner and give us the continuity of support for U.S. generally accepted accounting principles and local statutory requirements." Another respondent noted, "We would want a Big 4 firm because of its global presence and capabilities, reputation, and depth of resources available." Sixty-five percent (89 of 137) of respondents also cited geographic presence and 60 percent (81 of 134) cited the lack of consent from the company's board of directors as reasons of great or very great importance. Respondents also provided the following reasons as to why they would not use a non-Big 4 firm: their shareholders would not want a non-Big 4 firm; to gain investor confidence or stock market acceptance; Big 4 firms have financial resources to stand behind their work; public companies are expected to use them; and the quality of services from a Big 4.

**Figure 7: Reasons Cited for Not Using a Non-Big 4 Firm**



Source: GAO.

## Majority of Survey Respondents Preferred More Audit Choices

While 57 (90 of 158) percent of respondents said that the number of firms their companies could use for audit and attest services was adequate as compared with the 43 percent (68 of 158) who said it was not, 86 percent (117 of 136) told us that ideally there should be more than four large accounting firms as viable choices for large national and multinational public companies. In responding to our question on what they thought the optimal number of firms for large companies should be, 74 percent (100 of 136) said they would prefer from five to eight large accounting firms to provide audit and attest services to large national and multinational public companies and 12 percent (17 of 136) of the respondents preferred more than eight firms. Fourteen percent (19 of 136) of the respondents said four or fewer firms would be optimal. Most comments we received in favor of more firms addressed the need to increase competition, decrease fees, and

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comply with the new independence rules as required by Sarbanes-Oxley. Respondents noted, “More firms will improve the competition in the [accounting] industry,” “more choices, more competition, lower cost,” and “one firm provides [our] tax planning services which may impair [its] independence.” Another respondent wrote, “Slightly more options would enhance technical resourcing opportunities external to current auditors.”

However, we also received many comments cautioning that too great a number of firms might have negative implications. One respondent said, “Any greater number of firms would have difficulty in maintaining scale to properly serve large international companies.” According to another respondent, “If the number gets too big, then [it would be] hard to have level of expertise in certain industries.” Some respondents felt that four or five big firms would be sufficient. One respondent wrote, “As a firm believer in the efficiency of the marketplace, I believe that the current number of large firms (4) is probably close to the optimum number, but wouldn’t mind seeing another major firm gradually emerge.” Another respondent wrote, “Balance must be struck between competition and fragmentation of a fixed talent pool.”

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### Respondents Said Further Consolidation Would Result in Too Few Choices

When asked the minimum number of accounting firms necessary to provide audit and attest services to large national and multinational public companies, 82 percent (120 of 147) of respondents indicated that the market was either at its minimum or already below the minimum number required. Fifty-nine percent (86 of 147) said that four or five large accounting firms would be the necessary minimum. According to one respondent, “Four is the absolute minimum, because if you currently use one firm for external audit purposes and another firm for internal audit purposes, that only leaves two other firms from which to choose if you want to change auditors or use a Big 4 firm for consulting services.”

Some respondents pointed out that not even all the Big 4 firms have the necessary industry expertise required to conduct their companies’ audits. According to one respondent, “From a realistic standpoint, only one other Big 4 firm has a utility practice that would help [it] understand our industry.” Another respondent wrote, “We use one of the Big 4. Two of them do not have industry expertise. Only one of the remaining three has industry expertise in the geographic region.”

Although Sarbanes-Oxley prohibits a company’s external auditor from providing internal audit services and certain other consulting services to

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the same company, many companies currently use one of the Big 4 as their external auditor and one of the remaining three Big 4 firms for nonaudit services such as tax consulting and internal audits. Therefore, a company with this arrangement that needed to change auditors would have one fewer alternative or would need to terminate its internal audit or consulting relationship. For example, one respondent noted, “Aside from our current auditor, we use another of the Big 4 as a co-source provider of internal audit services, so [we] would not consider them. We are using a third for tax work so it would be hard under Sarbanes-Oxley to switch to them.”

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### Most Respondents Prefer to Allow Market Forces to Dictate the Level of Competition in the Audit Market

Despite the fact that 94 percent of respondents said they had three or fewer options from which to choose if they had to change auditors, 62 percent (98 of 159) of respondents said they would not suggest that any actions be taken to increase competition in the provision of audit and attest services for large national and multinational companies. When asked whether steps should be taken to increase the number of available choices, 79 percent (65 of 83) opposed government action to break up the Big 4, while 66 (55 of 83) percent opposed any government action to assist non-Big 4 firms. Seventy-eight percent (64 of 82) of respondents said they would favor letting market forces operate without government intervention.

While some respondents expressed their belief that the market would adjust to create a more competitive environment, others expressed uncertainty about whether government actions could increase competition. According to one respondent, “Government action to assist the non-Big 4 firms will not work. The level of expertise and depth of resources required to deal with ever increasing levels of complexity and regulation cannot be [solved through] government intervention.” However, another respondent commented, “Having only four large firms is a concern. The benefits of consolidation should be higher quality, less variation in advice, stronger financial resources of the accounting firm, and more accountability. If these benefits are not achieved, then the government may need to intervene.” In addition, several respondents expressed concern about further consolidation. Referring to the dissolution of Andersen, one respondent said, “Our biggest concern is the ease with which a firm can disappear.” Another stated, “The failure of Andersen had a devastating impact and ultimately resulted in fewer qualified professionals providing attest services during a time of rapidly increasing complexity in applying GAAP.”

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We are sending copies of this report to the Chairman and Ranking Minority Member of the House Committee on Energy and Commerce. We are also sending copies of this report to the Chairman of SEC, the Chairman of the Public Company Accounting Oversight Board, and other interested parties. We also will make copies available to others upon request. In addition, the report will be available at no charge on the GAO web site at <http://www.gao.gov>.

This report was prepared under the direction of Orice M. Williams, Assistant Director. Please contact her or me at (202) 512-8678 if you or your staffs have any questions concerning this work. Key contributors are acknowledged in appendix IV.

A handwritten signature in black ink, appearing to read "Davi M. D'Agostino". The signature is fluid and cursive, with the first name "Davi" being the most prominent.

Davi M. D'Agostino  
Director, Financial Markets and  
Community Investment

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# Scope and Methodology

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We surveyed a random sample of 250 of the 960 largest publicly-held companies. We defined this population using the 2003 list of the Fortune 1000 companies produced by Fortune, a division of Time, Inc., after removing 40 private companies from this list. We mailed a paper questionnaire to the chief financial officers, or other executives performing a similar role, requesting their views on the services they received from their auditor of record, the effects of past consolidation on competition among accounting firms, and its potential implications. To develop this questionnaire, we consulted with a number of experts at GAO, the American Institute of Certified Public Accountants, and the Securities and Exchange Commission, and pretested a draft questionnaire with six large public companies from a variety of industries. The survey began on May 6, 2003. We removed one company that had gone out of business and received 159 usable responses as of August 11, 2003, from the final sample of 249 companies, for an overall response rate of 64 percent. The number of responses to an individual question may be fewer than 159, depending on how many respondents answered that question.

While the survey results are based on a random sample drawn to be representative of the population of publicly held Fortune 1000 companies and thus could be adjusted statistically to represent the whole population, including those not sampled, we are instead reporting totals and percentages only for those companies actually returning questionnaires. We did this because a significant number of sampled companies did not respond, and the answers respondents gave could differ from those nonrespondents might have given had they participated. This kind of potential error from nonresponse, when coupled with the sampling error that results from studying only a fraction of the population, made it particularly risky to project the results of our survey to not only the nonrespondents, but also to the part of the public company population we did not sample. There are other practical difficulties in conducting any survey that may also contribute to errors in survey results. For example, differences in how a question is interpreted or the sources of information available to respondents can introduce unwanted variability into the survey results. We took steps during data collection and analysis to minimize such errors. In addition to the questionnaire testing and development measures mentioned above, we followed up with nonresponding companies with telephone calls to help them overcome problems they encountered in completing the survey and to encourage them to respond. We also checked and edited the survey data and programs used to produce our survey results.

All 159 companies responding to our survey employed a Big 4 firm as their auditor of record. These companies derived an average of 83 percent of their total revenues from operations within the United States and paid, on average, \$3.19 million in fees to their auditor of record in the fiscal year prior to the survey. Using Standard Industry Classification (SIC) codes, we found that 149 respondents represented 39 different industry sectors; we could not identify an SIC code for the other 10 respondents. The top 7 industry sectors represented were

- electric, gas, and sanitary services (17 companies),
- depository institutions (10 companies),
- business services (9 companies),
- industrial and commercial machinery and computer equipment (9 companies),
- wholesale trade-non-durable goods (9 companies),
- chemicals and allied products (8 companies), and
- electronic and other electrical equipment and components, except computer equipment (6 companies).



# Annotated Public Company Survey



United States General Accounting Office

## Survey of Public Companies

### Introduction

The Sarbanes-Oxley Act of 2002 mandated that the U.S. General Accounting Office (GAO), the independent research and investigative arm of Congress, study the impact of the recent consolidation of firms in the accounting profession.

To provide a thorough, fair, and balanced report to Congress, it is essential that we obtain the experiences and viewpoints of a representative sample of public companies.

Your company was selected randomly from the 2002 list of Fortune 1000 companies. It is important for every selected firm to respond to ensure the validity of our research.

The results of the survey will be compiled and presented in summary form only as part of our report, and GAO will not release individually identifiable data from this survey, unless compelled by law or required to do so by the Congress.

### Instructions

Please complete this questionnaire specifically for the company named in the cover letter, and not for any subsidiaries or related companies.

This questionnaire should be completed by the Chief Financial Officer (CFO) or other executive of this organization who can provide historical information on mergers, operations and finance, as well as report the corporate policy of this firm.

Please return the completed questionnaire in the enclosed envelope within 10 business days of receipt. If the envelope is misplaced, our address is:

U. S. General Accounting Office  
Attn: Cecile Trop  
200 W. Adams Street, #700  
Chicago, IL 60606

If you have any questions or concerns about this survey, please contact:

Michelle Pannor  
Telephone: (202) 512-3608  
Email: pannorm@gao.gov

Thank you for participating in this survey.

**Background**

1. Approximately what percentage of your company's total revenues are derived from operations within and outside of the United States?  
*Please enter percentages totaling 100%.*

\_\_\_\_% of our revenues are derived from operations within the United States  
**N=158 Mean=83 Median=95 Range=12-100**

\_\_\_\_% of our revenues are derived from operations outside of the United States  
**N=110 Mean=25 Median=20 Range=0-88**

100 % Total revenues

2. If your company was founded in the past decade, in what year was it founded?  
*Please enter 4-digit year.*

\_\_\_\_\_ Year founded

3. What is the name of your company's current auditor of record and when did this firm become your auditor of record? *Please enter name of auditor and 4-digit year hired.*

\_\_\_\_\_ Name of auditor

\_\_\_\_\_ First year employed as auditor

4. What type of services does your auditor of record currently provide to your company? *Please check all that apply.*

- |  |              |
|--|--------------|
| 1. <input type="checkbox"/> Only audit and attest services   | <b>N=10</b>  |
| 2. <input type="checkbox"/> Tax-related services (e.g., tax preparation)                             | <b>N=130</b> |
| 3. <input type="checkbox"/> Assistance with company debt and equity offerings (e.g. comfort letters) | <b>N=106</b> |
| 4. <input type="checkbox"/> Other services - please describe:  | <b>N=54</b>  |

\_\_\_\_\_

**Appendix II**  
**Annotated Public Company Survey**

5. Approximately how much were the total annual fees that your company paid to your auditor of record for audit and attest services during your last fiscal year?  
*Please enter approximate dollar figure.*

**N=156**

\$ \_\_\_\_\_ Annual fees

**Mean=\$3,189,578**  
**Median=\$1,334,500**  
**Range=\$13,807-\$62,000,000**

6. Starting in 1987, when consolidation of the largest accounting firms began, or since your company was founded (if that occurred after 1987), has your company employed more than one auditor of record? *Please check one box.*

**N=158**

- 1.  Yes - how many: \_\_\_\_\_ **38%**
- 2.  No **➡ SKIP TO NEXT PAGE** **62%**

7. What were the names and tenures of the most recent previous auditor(s) of record your company has employed since 1987? *Please name up to two of the most recent previous auditors and years employed.*

\_\_\_\_\_ Name of auditor from (year) \_\_\_\_\_ to (year) \_\_\_\_\_  
 \_\_\_\_\_ Name of auditor from (year) \_\_\_\_\_ to (year) \_\_\_\_\_

8. Which of the following reasons explain why your company changed auditor of record one or more times since 1987? *Please check all that apply.*

- 1.  Our company had a mandatory rotation policy **N=0**
- 2.  Expansion of our company required an auditor of record that could meet new demands **N=7**
- 3.  New regulations forbidding use of auditor for management consulting and other services **N=2**
- 4.  Fees for audit and attest services **N=7**
- 5.  Concern about reputation of our auditor of record **N=10**
- 6.  Our auditor of record was going out of business **N=31**
- 7.  Our auditor of record resigned **N=0**
- 8.  Relationship with our auditor of record was no longer working **N=4**
- 9.  Other – please describe: **N=19**

\_\_\_\_\_

9. If your company previously employed Arthur Andersen as your auditor of record and switched to another firm in the past two years, did you switch to the firm to which your previous Arthur Andersen partner moved? *Please check one box.*

N=56

- |   |     |
|---|-----|
| 1. <input type="checkbox"/> Not applicable – did not employ Arthur Andersen       | 34% |
| 2. <input type="checkbox"/> Yes, switched to partner's new firm                   | 30% |
| 3. <input type="checkbox"/> No, switched to other firm –<br>please explain: _____ | 36% |

#### Consolidation in the Accounting Profession

We are focusing on the trend toward consolidation that has occurred in the public accounting profession starting in 1987, when consolidation activity among the largest firms began, primarily the consolidation of the "Big 8" into the "Big 4." This section asks you to consider how your company's relationship with its auditor of record, and the audit services it provides, has changed over this time frame. Although a number of factors may have influenced these changes, we would like you to assess the influence of consolidation in the accounting profession in particular. Please base your answers on your experience in the past decade or, if this is not possible, on the time frame that reflects your experience.

10. How have the fees that your company pays for audit and attest services changed over the past decade? *If it is not possible for you to answer for the past decade, please base your answer on the time frame that best reflects your experiences. Please check one box.*

N=158

- |   |     |
|---|-----|
| 1. <input type="checkbox"/> Greatly increased   | 32% |
| 2. <input type="checkbox"/> Somewhat increased  | 61% |
| 3. <input type="checkbox"/> Little or no change | 2%  |
| 4. <input type="checkbox"/> Somewhat decreased  | 4%  |
| 5. <input type="checkbox"/> Greatly decreased   | 1%  |

**Appendix II**  
**Annotated Public Company Survey**

11. If your company changed auditors within the last two years, how have the fees your company pays your current auditor of record changed compared to the fees paid to your previous auditor?  
*Please check one box.*

**N=156**

- |  |            |
|--|------------|
| 1. <input type="checkbox"/> Not applicable – have not changed auditors | <b>71%</b> |
| -----  |            |
| 2. <input type="checkbox"/> Greatly increased                          | <b>5%</b>  |
| 3. <input type="checkbox"/> Somewhat increased                         | <b>15%</b> |
| 4. <input type="checkbox"/> Little or no change                        | <b>7%</b>  |
| 5. <input type="checkbox"/> Somewhat decreased                         | <b>2%</b>  |
| 6. <input type="checkbox"/> Greatly decreased                          | <b>0%</b>  |

12. In your opinion, how has the consolidation of the largest accounting firms over the past decade influenced the fees that your company pays for auditing and attest services?

**N=158**

- |   |            |
|---|------------|
| 1. <input type="checkbox"/> Great upward influence      | <b>6%</b>  |
| 2. <input type="checkbox"/> Moderate upward influence   | <b>41%</b> |
| 3. <input type="checkbox"/> Little or no influence      | <b>46%</b> |
| 4. <input type="checkbox"/> Moderate downward influence | <b>1%</b>  |
| 5. <input type="checkbox"/> Great downward influence    | <b>0%</b>  |
| -----   |            |
| 6. <input type="checkbox"/> Don't know                  | <b>6%</b>  |

13. Audit quality is often thought to include the knowledge and experience of audit firm partners and staff, the capability to efficiently respond to a client's needs, and the ability and willingness to appropriately identify and surface material reporting issues in financial reports.

Do you believe that the overall quality of audit services your company receives has gotten better or worse over the past decade? *Please check one box.*

**N=158**

- |   |            |
|---|------------|
| 1. <input type="checkbox"/> Much better         | <b>9%</b>  |
| 2. <input type="checkbox"/> Somewhat better     | <b>35%</b> |
| 3. <input type="checkbox"/> Little or no change | <b>37%</b> |
| 4. <input type="checkbox"/> Somewhat worse      | <b>16%</b> |
| 5. <input type="checkbox"/> Much worse          | <b>3%</b>  |
| -----   |            |
| 6. <input type="checkbox"/> Don't know          | <b>1%</b>  |

**Appendix II**  
**Annotated Public Company Survey**

14. If your company changed auditors within the last two years, do you believe that the overall quality of audit services your company receives from your current auditor is better or worse than the overall quality of audit services your company received from its previous auditor?  
*Please check one box.*

**N=154**

- |  |            |
|--|------------|
| 1. <input type="checkbox"/> Not applicable – have not changed auditors | <b>71%</b> |
| -----  |            |
| 2. <input type="checkbox"/> Much better                                | <b>5%</b>  |
| 3. <input type="checkbox"/> Somewhat better                            | <b>10%</b> |
| 4. <input type="checkbox"/> Little or no change                        | <b>8%</b>  |
| 5. <input type="checkbox"/> Somewhat worse                             | <b>5%</b>  |
| 6. <input type="checkbox"/> Much worse                                 | <b>1%</b>  |
| -----  |            |
| 7. <input type="checkbox"/> Don't know                                 | <b>0%</b>  |

15. In your opinion, how has the consolidation of the largest accounting firms over the past decade influenced the quality of audit and attest services that your company receives?

**N=158**

- |   |            |
|---|------------|
| 1. <input type="checkbox"/> Very positive influence     | <b>2%</b>  |
| 2. <input type="checkbox"/> Somewhat positive influence | <b>15%</b> |
| 3. <input type="checkbox"/> Little or no influence      | <b>63%</b> |
| 4. <input type="checkbox"/> Somewhat negative influence | <b>16%</b> |
| 5. <input type="checkbox"/> Very negative influence     | <b>0%</b>  |
| -----   |            |
| 6. <input type="checkbox"/> Don't know                  | <b>4%</b>  |

16. If you have experienced a change in audit quality, please explain:

*If you have not experienced a change, please enter "none."*

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**Appendix II**  
**Annotated Public Company Survey**

17. Auditor independence is often thought to relate to the accounting firm's ability and willingness to appropriately deal with (a) financial reporting issues that may indicate materially misstated financial statements; (b) the appearance of independence in terms of the other services a firm is allowed to and chooses to provide to their clients; and (c) how much influence clients appear to have in the audit decisions.

Do you believe that your company's auditor(s) has become more or less independent over the past decade? *Please check one box.*

**N=158**

- |   |            |
|---|------------|
| 1. <input type="checkbox"/> Much more independent     | <b>11%</b> |
| 2. <input type="checkbox"/> Somewhat more independent | <b>48%</b> |
| 3. <input type="checkbox"/> Little or no change       | <b>38%</b> |
| 4. <input type="checkbox"/> Somewhat less independent | <b>1%</b>  |
| 5. <input type="checkbox"/> Much less independent     | <b>1%</b>  |
| -----   |            |
| 6. <input type="checkbox"/> Don't know                | <b>1%</b>  |

18. If your company changed auditors within the last two years, do you believe that your current auditor is more or less independent than your previous auditor?

*Please check one box.*

**N=155**

- |  |            |
|--|------------|
| 1. <input type="checkbox"/> Not applicable – have not changed auditors | <b>72%</b> |
| -----  |            |
| 2. <input type="checkbox"/> Much more independent                      | <b>5%</b>  |
| 3. <input type="checkbox"/> Somewhat more independent                  | <b>11%</b> |
| 4. <input type="checkbox"/> Little or no change                        | <b>12%</b> |
| 5. <input type="checkbox"/> Somewhat less independent                  | <b>0%</b>  |
| 6. <input type="checkbox"/> Much less independent                      | <b>0%</b>  |
| -----  |            |
| 7. <input type="checkbox"/> Don't know                                 | <b>0%</b>  |

**Appendix II**  
**Annotated Public Company Survey**

19. In your opinion, how has the consolidation of the largest accounting firms over the past decade influenced the ability of your auditor of record to maintain independence in the audit and attest services it provides to your company? *Please check one box.*

**N=158**

- |   |     |
|---|-----|
| 1. <input type="checkbox"/> Very positive influence     | 3%  |
| 2. <input type="checkbox"/> Somewhat positive influence | 5%  |
| 3. <input type="checkbox"/> Little or no influence      | 72% |
| 4. <input type="checkbox"/> Somewhat negative influence | 15% |
| 5. <input type="checkbox"/> Very negative influence     | 1%  |
| -----   |     |
| 6. <input type="checkbox"/> Don't know                  | 4%  |

20. How satisfied are you with your current auditor of record?

*Please check one box*

**N=158**

- |  |     |
|--|-----|
| 1. <input type="checkbox"/> Very satisfied                     | 45% |
| 2. <input type="checkbox"/> Somewhat satisfied                 | 35% |
| 3. <input type="checkbox"/> Neither satisfied nor dissatisfied | 8%  |
| 4. <input type="checkbox"/> Somewhat dissatisfied              | 11% |
| 5. <input type="checkbox"/> Very dissatisfied                  | 1%  |
| -----  |     |
| 6. <input type="checkbox"/> Don't know                         | 0%  |



**Appendix II  
Annotated Public Company Survey**

**Competition in the Public Accounting Profession**

21. Would you consider using a non-Big 4 firm for audit and attest services?

*Please check one box*

**N=158**

- 1.  Not applicable – already use a non-Big 4 firm → SKIP TO QUESTION 23 **4%**
- 2.  Yes → SKIP TO QUESTION 23 **8%**
- 3.  No **88%**

22. IF NO: How important are the following reasons in explaining why you would not consider using a non-Big 4 firm? *Please check one box in each row.*

	Very Great Importance (1)	Great Importance (2)	Moderate Importance (3)	Some Importance (4)	Little or No Importance (5)	Don't Know (6)
Geographic presence that our company requires of an auditor <b>N=137</b>	37%	28%	18%	9%	8%	0%
Technical skill/knowledge of industry <b>N=138</b>	64%	27%	6%	3%	0%	0%
Capacity of audit firm <b>N=138</b>	48%	42%	8%	1%	1%	0%
Reputation of audit firm <b>N=138</b>	57%	34%	9%	0%	0%	0%
Contractual obligation to use a Big 4 firm (e.g., with banks, lenders, or landlords) <b>N=137</b>	7%	14%	15%	11%	46%	7%
Inferred obligation to use a Big 4 firm (e.g., with banks, lenders, or landlords) <b>N=136</b>	19%	26%	19%	12%	20%	4%
Our Board of Directors would not allow it <b>N=134</b>	25%	35%	14%	4%	4%	18%
Other - please describe: <b>N=20</b>	<b>N=10</b>	<b>N=3</b>	<b>N=0</b>	<b>N=0</b>	<b>N=0</b>	<b>N=7</b>

**Appendix II  
Annotated Public Company Survey**

23. If you had to switch your auditor of record, how easy or difficult would each of the following stages be? *Please check one box in each row.*

	Very Difficult (1)	Somewhat Difficult (2)	Neither Easy nor Difficult (3)	Somewhat Easy (4)	Very Easy (5)	Don't Know (6)
Identifying eligible candidates <b>N=158</b>	1%	11%	8%	15%	65%	0%
Reviewing proposals and selecting the new auditor <b>N=157</b>	3%	38%	29%	21%	9%	0%
Transitioning to the new auditor (e.g., training) <b>N=158</b>	39%	53%	5%	1%	1%	1%
Other - please describe: <b>N=19</b>	N=11	N=2	N=0	N=0	N=0	N=6

24. Aside from your current auditor of record, how many firms do you think your company would have as options if you needed to change auditors?

*Please enter the number of firms to which your company could switch.*

**N=157**

\_\_\_\_\_ firm(s)

**Range of responses=0-3                      N=148                      94%**  
**Range of responses=4-8                      N=9                                      6%**

Please explain: \_\_\_\_\_

\_\_\_\_\_

25. Do you think the number of firms your company has as options for auditing and attest services is enough? *Please check one box.*

**N=158**

- 1.  Yes 57%
- 2.  No 43%

Please explain: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Appendix II**  
**Annotated Public Company Survey**

26. Would your company choose as your auditor of record an accounting firm that currently audits one of your competitors? *Please check one box.*

N=157

1.  Yes **92%**  
 2.  No **8%**

Please explain: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

27. If you had to choose a new auditor of record, how important would each of the following factors be to your decision? *Please check one box in each row.*

	Very Great Importance (1)	Great Importance (2)	Moderate Importance (3)	Some Importance (4)	Little or No Importance (5)	Don't Know (6)
Price N=157	15%	39%	37%	7%	2%	0%
Number of services offered N=158	5%	31%	33%	20%	10%	1%
Quality of services offered N=159	76%	23%	1%	0%	0%	0%
Industry specialization or Expertise N=159	50%	31%	15%	4%	0%	0%
Reputation or name recognition of the auditor N=159	42%	41%	11%	5%	1%	0%
Auditor's proximity to your company's headquarters N=159	8%	26%	42%	9%	15%	0%
Ability of auditor to handle your company's international operations N=155	32%	17%	8%	7%	35%	1%
Chemistry/perceived ability to effectively work with engagement team N=159	31%	43%	18%	6%	2%	0%
Other - please describe: N=12	N=5	N=2	N=0	N=0	N=0	N=5

**Appendix II  
Annotated Public Company Survey**

28. Has the consolidation of the largest accounting firms over the past decade made it harder or easier for your company to satisfactorily select an auditor and maintain a relationship with that auditor? *Please check one box.*

**N=158**

- 1.  Much harder 6%
  - 2.  Somewhat harder 17%
  - 3.  Little or no effect 68%
  - 4.  Somewhat easier 3%
  - 5.  Much easier 0%
- 
- 6.  Don't know 6%

29. How, if at all, has the consolidation of the largest accounting firms over the past decade affected competition in the provision of audit and attest services? *If it is not possible for you to answer for the past decade, please base your answer on the time frame that best reflects your experiences. Please check one box.*

**N=159**

- 1.  Greatly increased competition 1%
  - 2.  Somewhat increased competition 9%
  - 3.  Little or no effect 50%      **→ SKIP TO QUESTION 31**
  - 4.  Somewhat decreased competition 24%
  - 5.  Greatly decreased competition 11%
- 
- 6.  Don't know 5%

30. How, if at all, has this change in competition affected each of the following areas?

	Greatly Increased (1)	Somewhat Increased (2)	Little or No Effect (3)	Somewhat Decreased (4)	Greatly Decreased (5)	Don't Know (6)
Costs N=77	12%	61%	14%	5%	0%	8%
Quality of service N=77	1%	16%	43%	31%	1%	8%
Auditor independence at the overall firm level N=77	1%	10%	68%	14%	0%	6%
Auditor independence at the individual partner level N=77	4%	9%	70%	8%	0%	9%
Other - please describe: N=7	N=3	N=1	N=1	N=0	N=0	N=2

31. What do you believe is the minimum number of accounting firms necessary to provide audit and attest services to large national and multinational public companies? *Please enter a number.*

\_\_\_\_\_ number of firms

**N=147**

<b>Range of responses=0-3</b>	<b>N=27</b>	<b>18%</b>
<b>Range of responses=4-5</b>	<b>N=86</b>	<b>59%</b>
<b>Range of responses=6-8</b>	<b>N=31</b>	<b>21%</b>
<b>Range of responses=10+</b>	<b>N=3</b>	<b>2%</b>

Please explain: \_\_\_\_\_

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

32. What do you believe is the optimal number of accounting firms for providing audit and attest services to large national and multinational public companies? *Please enter a number.*

\_\_\_\_\_ number of firms

**N=136**

<b>Range of responses=0-2</b>	<b>N=5</b>	<b>4%</b>
<b>Range of responses=3-4</b>	<b>N=14</b>	<b>10%</b>
<b>Range of responses=5-8</b>	<b>N=100</b>	<b>74%</b>
<b>Range of responses=9+</b>	<b>N=17</b>	<b>12%</b>

Please explain: \_\_\_\_\_

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

**Appendix II**  
**Annotated Public Company Survey**

33. Do you suggest that any actions be taken to increase competition in the provision of audit and attest services for large national and multinational public companies? *Please check one box.*  
**N=159**

- 1.  Yes **22%**
- 2.  No **62%**
- 3.  Don't know **16%**

Please explain: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

34. Would you favor or oppose the following actions to increase competition to provide audit and attest services for large national and multinational clients? *Please check one box in each row.*

	Strongly Favor (1)	Somewhat Favor (2)	Neither Favor nor Oppose (3)	Somewhat Oppose (4)	Strongly Oppose (5)	Don't Know (6)
Government action to break up the Big 4 <b>N=83</b>	<b>2%</b>	<b>7%</b>	<b>12%</b>	<b>22%</b>	<b>57%</b>	<b>0%</b>
Government action to assist the non-Big 4 firms <b>N=83</b>	<b>2%</b>	<b>18%</b>	<b>13%</b>	<b>17%</b>	<b>49%</b>	<b>0%</b>
Let market forces operate without intervention <b>N=82</b>	<b>48%</b>	<b>31%</b>	<b>13%</b>	<b>4%</b>	<b>2%</b>	<b>2%</b>
Other - please describe: <b>N=10</b>	<b>N=9</b>	<b>N=1</b>	<b>N=0</b>	<b>N=0</b>	<b>N=0</b>	<b>N=0</b>
Other - please describe: <b>N=2</b>	<b>N=1</b>	<b>N=0</b>	<b>N=0</b>	<b>N=0</b>	<b>N=1</b>	<b>N=0</b>
Other - please describe: <b>N=0</b>	<b>N=0</b>	<b>N=0</b>	<b>N=0</b>	<b>N=0</b>	<b>N=0</b>	<b>N=0</b>

35. Do you have any additional comments on any of the issues covered by this survey?  
*Please use the space below to make additional comments or clarifications of any answers you gave in this survey.*

**Thank you for your assistance with this survey!**  
**Please return it in the envelope provided.**

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# Summary of Written Comments to the Public Company Survey

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Companies surveyed were invited to add written comments to a number of questions to further explain their answers. Of the 159 respondents that responded to the survey, 149 volunteered written answers to at least one of the eight key open-ended comment questions in our survey:

- change in audit quality,
- the number of auditor options,
- the sufficiency of such options,
- willingness to use the auditor of a competitor,
- minimum number of audit firms necessary,
- optimal number of firms,
- suggested actions for increasing competition, and
- any additional comments on the survey.

The following tables display selected comments from some respondents to these eight questions. Some of the quotes illustrate typical comments made by several other companies, while others represent a unique viewpoint of only that company. While these specific comments provide valuable insights, the number of comments of a particular type reproduced here is not necessarily proportional to the number of other similar responses, and, therefore, the comments do not represent the variety of opinion that might be found in the population of large public companies as a whole.

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## Change in Audit Quality

More respondents said that overall audit quality had gotten better over the past decade than worse (44 percent compared to 18 percent). The reasons behind these ratings are presented in table 2, grouped into summary categories.



**Appendix III  
Summary of Written Comments to the Public  
Company Survey**

**Table 2: Explanations for Changes in Audit Quality**

Drawn from 56 responses to question 16—"If you have experienced a change in audit quality, please explain."

Direction of quality change	General category of explanation	Comment
<b>Better</b>	Audit methods	"Improved methodologies and documentation. Improved support tools and depth of expertise."
		"Improvements largely reflect steady, incremental improvements in effectiveness—applying new technology, lessons learned from customer feedback, etc."
		"More focus on risk analysis and internal controls."
	Staffing/expertise	"Better experienced audit staff; better national level resources available."
		"Greater familiarity and experience of auditors with our company has had some positive impact on quality. They understand our business more and are much more efficient."
		"Broader client base gives greater practice experience."
	Environmental forces	"I believe there has been a change, but driven more by the environment and Sarbanes-Oxley."
		"Change in the depth and quality of the audit process is due to a more rigorous regulatory and litigation environment and not audit consolidation."
	Changing requirements	"Audit quality is somewhat higher, due to added GAAS requirements rather than consolidation of audit firms."
		"Audit quality has been positively impacted by new independence requirements and scrutiny of the accounting industry."
Client actions	"Our audit quality has increased as we have changed audit partners and have requested an increase in scope and scrutiny."	
	"We are challenged thoroughly to document fully matters of judgment and estimates."	
	"Recent events have caused [our auditor] to scrutinize more closely and we have asked for more coverage in certain areas."	
<b>Worse</b>	Audit methods	Less specific transaction testing now than before."
		"Less insightful; rarely identifies known matters of concern; overly simplistic in approach; poor identification of financial and business risks."
		"Focus on 'form' of compliance not substance... Audits in '90s did not focus on controls...Sarbanes-Oxley 404 brings controls back to forefront but of little value as audit firms are focused on fee, opportunity & form (not substance) which should have been there (in audits) these past 10 years for auditors to attest as to validity of financial results."
		"Auditors are increasingly worried about 'checklist' compliance with unduly complicated GAAP rules rather than assessing 'fair presentation' in the context of the company's line of business."

**Appendix III**  
**Summary of Written Comments to the Public**  
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*(Continued From Previous Page)*

Direction of quality change	General category of explanation	Comment
	Staffing/expertise	<p>"Less involvement by partners/senior management, lower quality planning and execution."</p> <p>"Too much reliance on technology to cut hours; less on the ground time; staff turnover higher."</p> <p>"Firms have become cookie-cutter checklist type of auditors. Very little business sense of experience exists. The auditor should know more than the client but that doesn't exist today."</p>
	Environmental forces	<p>"Slight decline mainly due to fee pressure."</p> <p>"Less competition; more regulation; more complexity; more 'legalistic,' nonproductive effort and protectionism on everyone's part."</p>
	Timeliness	<p>"The timeliness of resolving issues is much slower and the answers to key accounting issues can change shortly before filings and/or press releases."</p> <p>"Too much info to keep 'current' on results in longer internal review process and longer decision-making process on part of the auditors."</p>

Source: GAO.

## Number of Auditor Options Available

Almost all respondents—94 percent—indicated that they had three or fewer options from which to choose if they had to change auditors, and 61 percent said exactly three. The explanatory comments we received to that question, shown in table 3, confirm that respondents are almost always referring to the Big 4 firms other than the one they currently employ. As only 8 percent of respondents said they currently use or would consider using a non-Big 4 firm, there were few written explanations for why they thought they had more than three or four options. Those who did explain mentioned the national prominence of the larger second-tier firms and smaller firms with special industry expertise as reasons.

**Table 3: Explanations for the Number of Auditor Options Available**

Of the 157 responses to question 24—“Aside from your current auditor of record, how many firms do you think your company would have as options if you needed to change auditors?”—130 respondents also provided comments. Below are selected comments.

Range of options	Comment
Three remaining Big 4 firms	<p>“As a Fortune 100 company, I believe that our realistic options are currently limited to the Big 4.”</p> <p>“I believe the board and management would require that the switch be made to a Big 4 firm.”</p> <p>“Because of our size and technical complexity, we would choose from the remaining Big 3.”</p> <p>“We have operations in 40 countries—all operating on the same systems, procedures. Only a global firm can deal with this complexity in a cost effective manner and continuity of support for US GAAP and local statutory requirements.”</p>
Only one or two of the Big 4 firms	<p>“Remainder of Big 4 firms who have an expertise/knowledge of our industry and a willingness to take on new clients in our industry.”</p> <p>“...Aside from our current auditor, we use another of the Big 4 as a co-source provider of internal audit services, so would not consider them. We are using a third for tax work so it would be hard under Sarbanes-Oxley to switch to them.”</p> <p>“One of the remaining Big 4 would probably be excluded due to potential independence issues.”</p> <p>“Only two firms other than [our current auditor] in the northwest that have energy experience and expertise.”</p> <p>“Current and predecessor audit firm exclusion leaves only two other Big 4 firms. However, both of these firms have existing relationship with major direct competitors.”</p>
Others in addition to the Big 4 firms	<p>“It would be fairly easy to transition to one of the other ‘Big 4.’ However, there are probably only a couple regional firms that have industry expertise and a base of operations in Nevada, such that we could utilize them.”</p> <p>“Other three of the Big 4; two other firms of sufficient capability (technical expertise, SEC experience, industry experience, sufficient staff resources-quantity &amp; quality) could probably be identified.”</p> <p>“We would consider the remaining Big 4 firms and could also consider the top 2 non-Big 4 firms. But because of our international operations, our bias would be strongly in favor of a Big 4 firm.”</p> <p>“National firms of prominence.” [This company said it had five options.]</p>

Source: GAO.

## Sufficiency of the Number of Options

Almost half of the respondents (43 percent) said they did not have enough options and desired more. Respondents who said they had enough options said the Big 4 firms were able to meet their needs. However, several of these respondents cautioned that further reductions could be problematic. Those saying the number of firms was not sufficient often took the position that “more competition is always better.” Other comments included that differentiation between the firms’ services was declining, special expertise was not longer readily available, and monopolistic tendencies in setting fees. See table 4.

**Table 4: Number of Auditor Options Available**

Of the 158 responses to question 25—“Do you think the number of firms your company has as options for auditing and attest services is enough?”—63 respondents also provided comments. Below are selected comments.

Sufficiency of options	General category of explanation	Comment
Sufficient	General	“Current firms as sufficient to meet business needs and independence rules. Sarbanes-Oxley Act and subsequent rules are more constraining than [number] of firms.”
		“[Sufficient] but just barely. I felt much more comfortable with 5 or 6.”
	Competition/fees	“Three firms still provide a variety of choices and competition; however, if it declines further problems could arise.”
		“There is adequate competition and rivalry among 4 firms.”
	Specialties/expertise	“...While more firms would possibly increase competition, I think the fee effect would be modest.”
		“The other 3 Big 4 CPA firms should possess appropriate professional qualifications and be able to provide services on a global basis.” “All 4 firms have good technical competence and sufficient resources.”
Insufficient	General	“I do not believe that the 4 major firms offer sufficient alternatives. Too many potential conflicts with customers, vendors, partners, etc., to ensure independence in all cases.”
		“Considering a need to spread work among non-competitor firms, 4 is too small. Also, in-house auditing can't be done by the named firm, audit-related work is being spread to others, as is non-audit work; 4 large firms limits choices.”
		“It is always better to have more competition.”
	Competition/fees	“It is clear that [auditor] believes they can become more aggressive with billings due to the lower number of competitors.”
		“We believe that there are not enough choices. More competition might drive audit fees down.”
	Specialties/expertise	“We would feel more comfortable about locating a firm that fit our geographic and technical needs if there were more options.”

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Sufficiency of options	General category of explanation	Comment
		"It would be great to have large national alternatives to call on like the old Kenneth Leventhal & Co. which had an expertise in real estate and was national."
	Differentiation	"Not sufficient differentiation in audit approach, personality." "Talent pool is restricted."

Source: GAO.

## Willingness to Use Auditor of Competitor

More than 90 percent of our respondents said that their company would choose the auditor of a competitor. A few of those respondents provided explanations as to why they would or would not, as shown in table 5.

**Table 5: Explanations of Why a Company Would or Would Not Choose the Auditor of a Competitor**

Of the 157 responses to question 26—"Would your company choose as your auditor of record an accounting firm that currently audits one of your competitors?"—87 respondents also provided comments. Below are selected comments.

Would choose a competitor's auditor?	Comment
No	"Not in same city. Would not want same personnel auditing a competitor."
	"Probably not if a primary competitor in our key markets - concerns about auditor personnel discussions, etc."
	"Too much competitive intelligence."
	"Not one of our major, direct competitors. Partly for confidentiality and partly because we don't want to be the '#2' client and fail to attract the best talent at our auditor."
	"I would rather say 'maybe.' The fact that our major competitor was one of the 3 other Big 4 firms available would be a 'strike' against that firm due to sensitive information."
	"Industry too small and potential conflicts too risky."
Yes	"Comfort that there would be no risk of competitive information being communicated within audit firm or to competitor client."
	"The confidentiality and integrity of the audit firm should allow for this."
	"We have too many competitors to use this as a valid screening criterion. Also, we have confidence in the 'Chinese walls' inside of [our auditor]."

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Would choose a competitor's auditor?	Comment
	"With only 4 firms to choose from, we've had to change our views on this."
	"Because of the limited choices we must be willing to choose a firm that audits competitors."
	"Our current auditor audits a significant portion of our peer group. We consider that a good thing for addressing new accounting issues."
	"This decision will be based on the professional qualifications of the CPA firm and we would expect that firm to maintain the highest level of confidentiality. Some of our competitors are audited by other Big 4 firms so it is possible that we may select one of these firms"
	As long as the competitor's audit was not performed out of the same local office.

Source: GAO.

## Minimum Number of Firms Necessary

A large majority (82 percent) of respondents said that the minimum number of firms necessary to provide audit services to large companies such as theirs was four or more. The largest number of responses was received for four or five firms. See table 6.

**Table 6: Explanations of Minimum Number of Firms Necessary**

Of the 147 responses to question 31—"What do you believe is the minimum number of accounting firms necessary to provide audit and attest services to large national and multinational public companies?"—84 respondents also provided comments. Below are selected comments.

Number of firms	Comment
2-3	"One firm would be a monopoly—two firms would allow for some competition."
	"If for some reason we had to switch auditors (poor service, conflicts of interest, etc.) we would have at least two firms to look at."
	"Having at least two choices from your current firm is important to maintain competition. Otherwise, there would be no competition when you made a decision to change and fees/quality would be adversely impacted."

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<b>Number of firms</b>	<b>Comment</b>
4	<p>"Seems ok now but shouldn't be any less. Better now for primarily domestic companies like ours."</p> <p>"We're doing it now. I'd hate to see that number go lower. A higher number would be preferred."</p> <p>"If there are more firms than this you have to question whether they would have the size and scale to support multinational audit."</p> <p>"There should not be further consolidation within the Big 4 firms. This group represents our service provider choices given the size and complexity of [our] worldwide operations."</p> <p>"Current set up is minimum to provide coverage due to risk of big 4 regressing to an oligopolistic common cost/performance level that provides insufficient audit quality at too high a cost."</p>
5-6	<p>"No good reason other than 4 is too few. If one more firm fails/choices for separate firm consulting and it projects - conflicts between businesses become impossible."</p> <p>"The minimum of 6 firms is based upon expanding competition is many geographical areas. Currently with only 4, there are areas where only 2 or 3 are active."</p> <p>"With four firms, a 25% success rate on bid is high. Fair competition is better served when the success rate to bid is below 20%."</p> <p>"Biggest issue is that the potential for overlaps of coverage of closely associated competitors, vendors and customers makes it harder to ensure independence absentee conflicts. With six, this should be able to be avoided."</p>
7-12	<p>"In order to get competition and assure that all your competitors don't use same people (firms). You need more firms than currently available. We've lost creativity and competition as a result of consolidation."</p> <p>"Right balance of competition in price &amp; service."</p> <p>"With a restriction that no firm has more than 20% of the market—defined as member of SEC registrants."</p>

Source: GAO.

## Optimal Number of Firms

Most (86 percent) respondents said the optimal number of firms was greater than four, although the majority of those responses remained in the five to eight range. See table 7 for selected comments.

**Table 7: Explanations of Optimal Number of Firms**

Of the 136 responses to question 32—"What do you believe is the optimal number of accounting firms for providing audit and attest services to large national and multinational public companies?"—66 respondents also provided comments. Below are selected comments.

Number of firms	Comment
4-6	<p>"As a firm believer in the efficiency of the market place, I believe that the current number of large firms (4) is probably close to the optimum number, but wouldn't mind seeing another major firm gradually emerge."</p> <p>"Any more would result in consolidation as we have seen over past 15 years."</p> <p>"Four firms provide enough choices from which to select. Also, by limiting the number of firms to four ensures that there will be capable &amp; talented individuals available at the firms."</p> <p>"We believe that a couple more choices than currently available would be optimal, but any additional beyond that would not be incrementally beneficial to companies."</p> <p>"Need a balance between the healthy level of diverse views of accounting application, and having too much inconsistency."</p> <p>"Two more large firms would help avoid problems - particularly if certain firms are conflicted through board membership, and other issues."</p>
7-8	<p>"The highest quality of service came at a time in history when there were 8 firms."</p> <p>"Big 8 provided more choice, competition."</p> <p>"Beyond 8 I don't believe there will be enough qualified personnel."</p> <p>"More choice would be preferable, although industry experience is very important to us."</p> <p>"Having a few large firms has caused the firms to take on more of a 'market share' mentality with too much focus on increasing client base and fees and not enough focus on providing a quality audit."</p>
10 or more	<p>"The more firms of similar size, caliber, quality, knowledge the more choices for public companies."</p> <p>"Enough for both scale and price competition."</p> <p>"This number [20] would allow for better stratification of clients by size, geographic needs, etc. However current legal environment and complexity of rules and regulations probably makes this difficult. We choose the large firms because of their depth of resources and expertise. Increasing the level of complexity just eliminates more firms."</p>

Source: GAO.



## Suggestions for Increasing Competition

While 62 percent said no actions should be taken and 16 percent did not know, 22 percent of respondents said that they thought actions should be taken to increase competition in the audit industry. When asked to explain, those that favored action mentioned assisting non-Big 4 firms to by reducing barriers to entry, preventing further consolidation, breaking up the Big 4, and other actions. Many suggested that market forces should be allowed to operate without intervention. See table 8.

**Table 8: Suggestions for Taking Action to Increase Competition**

Of the 159 responses to question 33—"Do you suggest that any actions be taken to increase competition in the provision of audit and attest services for large national and multinational public companies?"—37 respondents also provided comments. Below are selected comments.

Action suggested?	Comment
Yes	"Perhaps assist the non-Big 4 to become 'big' by reducing some barriers to entry."
	"Government assistance to non-Big 4 accounting firms."
	"Encourage regional firms to develop national organization."
	"Expand the number of companies and reduce the educational inequities placed upon new public accountants versus accountants in the private sector."
	"...Help smaller firms grow larger. Incentives [to] companies to use smaller firms..."
	"Financial solvency of existing Big 4 firms must be secured primarily through tort reform."
	"Action should be taken to maintain current level of competition or choice."
	"Liability for audit failures should be limited. The failure of Andersen had a devastating impact and ultimately resulted in fewer qualified professionals providing attest services during a time of rapidly increasing complexity in applying GAAP."
	"Allow no more mergers. Fire the idiots in the Justice Dept. that killed Andersen; absolutely asinine."
	"I would like to see some of the firms broken up. How to do so is another question."
	"They will need some effort to break them up. The idea that one firm is needed to handle worldwide engagements is absurd."
	"Require rotation of audit firms."

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<b>Action suggested?</b>	<b>Comment</b>
	"Separate audit & attestation services."
	"Enable a competing firm to provide a company's Sarbanes-Oxley attest function."
No or don't know	"Market forces should be allowed to work freely without constraints."
	"The market will adjust/add more competitors if needed/supported, over time."
	"Allow market based forces to continue to operate without intervention."
	"I believe in free enterprise market conditions & competition will provide adequate alternatives."
	"Do not favor government intervention in the marketplace."
	"Current level of competition combined with strong corporate reporting regulations, appears sufficient to allow market forces to operate."
	"I cannot foresee how this would be accomplished. 'Competition' for the audit piece comes into play very infrequently and switching costs/disruption are very high. I oppose any government action to encourage a breakup."
	"There should be opportunities for smaller firms (e.g., BDO Seidman) to get bigger and be able to handle large, international accounts."
	"Big 4 firms are competitive today. No need to take action."
	"Enough pressure on price, quality pressure remains high."

Source: GAO.

## Additional Comments

We asked respondents to volunteer any additional comments on the issues in the survey. A number of respondents mentioned concerns about further consolidation in the accounting profession, cost and quality, and other issues such as the impact of the Sarbanes-Oxley act and proposals for mandatory audit firm rotation.

**Table 9: Additional Comments**

Drawn from the 33 answers given to question 35—"Do you have any additional comments on any of the issues covered by this survey?"

Type of Comment	Comment
Consolidation concerns	<p>"The number of firms cannot be permitted to go below 4. To destroy a firm like Andersen because of the action of a few partners was nonsense and must not happen again. The remaining firms have now a license to increase fees disproportionately to existing levels, especially with Sarbanes-Oxley. Has anyone calculated the cost to us industry of this and measured the impact on future earnings and jobs - I doubt it!"</p>
	<p>"Having only 4 large firms is a concern! However, the benefit should be: —higher quality—less variation in advice— stronger financial resources—more accountability. If these benefits are not achieved, then government may need to intervene."</p>
	<p>"...Our biggest concern is the ease at which a firm can disappear (e.g., A. Andersen)...Competition does not affect us now, but actions beyond our control (e.g., firm disappears) could put us in a position to search..."</p>
	<p>"4 major audit firms is too few! 6+ is a minimum."</p>
	<p>"It would be in the best interest of the public to have more choices. However, the reason there is less is due to the fixed infrastructure cost of large firms and the need for a global reach. Therefore size does count."</p>
	<p>"Consolidation of auditors and increased regulation has greatly increased the cost of governance. I'm not sure society is benefiting from this."</p>
	<p>"Government action to assist the non-Big 4 firms will not work. The level of expertise and depth of resources required to deal with ever increasing levels of complexity and regulation cannot be provided by government intervention."</p>
	<p>"...I am concerned about the stability of the existing Big 4 firms with the implications from audit-failure lawsuits. Can these firms survive financially an Enron-like lawsuit? What choices do global fortune 500 companies have if another one of these firms fail? The next tier of firms has not developed a strong enough global network to be viewed as viable."</p>
	<p>The government forced Arthur Andersen out of business! I certainly don't condone the activities of a few who did 'bad,' but 99.9% of the AA people were honest, hard-working people, with the highest integrity."</p>

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<b>Type of Comment</b>	<b>Comment</b>
Cost and quality and concerns	<p>"The accounting and auditing profession is clearly broken. The source 1 root cause appears to be the enormous compensation levels of the partners in the Big 4—often exceeding those of the CFOs they are suppose to audit. There is an eternal quest for higher fees, higher profits and growth. The result of which is to perform less work for more money. Auditing standards need to be very specific - as an example, review the documentation/testing now performed on fraud. Even though numerous standards on fraud detection have been released, the firms have not substantially changed their audits."</p>
	<p>"I think the public accounting profession is in disarray predominantly because, for several years, audit expertise has been de-emphasized for selling. While this may appear to be an economic model for success, it has led to major problems, some of which we have seen coming to fruition recently. (i.e., lack of ethical standards, lack of basic accounting &amp; auditing knowledge, etc.)"</p>
	<p>"The evolution of the current system of auditing U.S. companies is bordering on being worthless. We have kids from colleges with no business experience auditing companies using checklists &amp; cookie cutter approaches rather than using sound business experience to ferret out problems."</p>
	<p>"Very timely subject. I am greatly concerned about this topic. It is very difficult to manage audit costs. We are paying \$150/hour for a college graduate with very little experience; yet that is what the lack of competition brings. We are classed for 4 different partner/(3 hrs each) at \$450/hr reviews on a simple SEC consent letter and we are told 'that is our firm policy:'"</p>
	<p>"The biggest issue today with audit quality is 'check list' GAAP audits. We need to be standards based, not rules based. Audits should employ thoughtful and insightful analysis of the company, industry and economic environment. This issue however will only be corrected with well thought out tax reform that allows thoughtful analysis of facts and national resolutions of disputes."</p>
	<p>"Our 2002 audit fees are about 4x those of a decade ago. I do not believe our stake holders would conclude that they are receiving 4x the value. I do not believe there is a single solution that would be effective, but enthusiastically endorse the efforts by GAO to explore the matter."</p>
	<p>"As indicated early on in the survey, my perception of the real problem with auditing today is as follows: —complex standard setting with minimal consideration of the impact or value to the investing public—audit firms treat audit like a 'loss leader' for other selling opportunities. — audit firms financially reward partners for selling—not performing quality audits. Audit staff are inadequately trained to keep up with changing accounting standards and the complexity of operations."</p>
	<p>Engagement partners need very high level of technical competence not sales skills—engagement partners should be subject to ongoing periodic proficiency evaluation of some type.</p>

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<b>Type of Comment</b>	<b>Comment</b>
	<p>"My responses do not reflect my expectations about fees in the future. Although our fees did not increase in 2002, I anticipate that we will see significant increases in the future (50%-100%) to cover increased hours required as a result of the new provisions under Sarbanes-Oxley and the audit firms bearing the cost of securities litigation. We need smart professionals performing our audits, and increased exposure to audit failures drives these people to jobs in industry."</p>
<p>Other concerns</p>	<p>"I have a developing concern. The Big 4 provide excellent audit &amp; attest services in the financial area. Legislation is preventing/restricting 'other' services. Yet corporations are reporting in more than financial areas, and the shareholders, employees and public want these other areas (environmental, social, etc.) to be attested and verified. It would seem beneficial to have the named audit firm provide such verification. Yet current legislative developments will prevent that. It seem that the named auditor could provide the best overall verification. As corporations report in global reporting initiative (GRI) reports, on sustainability report on triple bottom line (economic, environmental &amp; social) reports, will there have to be multiple verifying firms?"</p> <p>"Litigation/securities reform. Lawsuits are sapping capital &amp; causing audit fees to rise. CEO &amp; CFOs need to do hard time for the misery they have inflicted on the rest of us. SEC needs to be a bit restrained in interpreting S.O. act—we're getting a little too much enthusiasm right now."</p> <p>"Summary points: (1) need more competition in the auditing industry. (2) don't know how best to accomplish this!! (3) in any event - need the SEC to be more active in the resolution of accounting issues - not just policy setting!"</p> <p>"Sarbanes-Oxley legislation has been primarily responsible for increasing fees and reducing auditor selection choices."</p> <p>"Strongly opposed to mandatory rotation of independent firms. The start up costs to corporations would be significant. Also mandatory rotations may limit the individual firms from innovating to differentiate their service offering in the marketplace...."</p> <p>"I am leery of government intervention as it tends to create other problems. I believe the current focus on audit quality and corporate governance which is arising out of government policies will (1) raise costs of being public significantly, (2) fuel going private, (3) change the capital profile of investors, [and] (4) lead to less efficient markets and less creativity."</p>

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<b>Type of Comment</b>	<b>Comment</b>
	"The biggest 'independence' and 'quality' issues faced by corporate America today are from credit rating agencies, e.g., S&P and Moody's, not auditors. Rating agencies are a de facto duopoly, are opaque (how they derive their ratings is largely not determinable based on quantitative measures), and full of conflicts (selling consulting services regarding how to improve a company's rating). The government should (1) forbid rating agencies to sell rating consulting services, (2) require greater disclosure regarding ratings methodology, and as a last resort (3) consider breaking up S&P and Moody's or other action to lessen their duopoly power."
	"Companies should be encouraged, not discouraged, to use their audit firm for tax return and planning support because of the efficiencies gained."
	"Consider having investors directly fund audits by an assessment against assets invested in public entities. Investors could provide audits through a nongovernment entity like NASD, or they could contract with existing audit firms."

Source: GAO.

# GAO Contacts and Staff Acknowledgments

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## GAO Contacts

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## Staff Acknowledgments

In addition to those individuals named above, Martha Chow, Marc Molino, Michelle Pannor, David Pittman, Carl Ramirez, Barbara Roesmann, and Derald Seid made key contributions to this report.

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