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Research Paper

Enhancing Transparency and Independence: Unveiling Challenges in the Global Financial Services Industry with a Focus on the Big Four

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ABSTRACT
Nowadays the global financial services industry is certainly experiencing an unprecedented crisis of trust. Being dominated by a handful of worldwide market players, commonly known as the Big Four, the industry is literally shaking from an endless stream of scandals and desperately calling for reforms.
The primary objective of this research article is to investigate underlying conditions which have resulted in the lack of transparency and independence among those who, by their mission, are responsible for upholding and promoting these values. Based on the research findings, potential solutions to address the existing issues and challenges encountered by the industry are proposed.
The article explores the latest available financial results of Deloitte, PwC, EY and KPMG, comparing their revenue composition and determining their overall market share within the global financial services industry. Additionally, the article examines the legislation governing auditors' independence in various countries, highlighting its shortcomings and limitations and suggests potential strategies to strengthen and improve it.
Keywords: *Advisory, Audit, Conflict of interest, Financial services, Legislation, the Big Four, Transparency*

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I. INTRODUCTION

The globalization of the economy has given rise to the emergence of large and complex multinational corporations that require auditors with comprehensive global expertise spanning diverse areas which include derivatives valuation, sustainability and green tax strategy, cryptocurrencies and cyber analytics, to name just a few. Only the Big Four possess the necessary resources and capacity to provide such extensive expertise on a global scale.

The consolidation that occurred in the professional services market during the 19th and 20th centuries has resulted in the formation of an oligopoly within the industry, which is currently dominated by four major players: Deloitte, PwC, EY and KPMG, commonly referred to as the "Big Four." As of 2022 the overall share of the Big Four firms in the global professional services market has reached 65%, with their domination in the Audit & Assurance sector being as high as 70-75% [1].

The Big Four networks hold a highly prominent position in the global professional services industry. They possess deep industry knowledge and professional expertise accumulated over the years of their establishment and development. They play an active role in advancing accounting and auditing standards, frequently partnering with regulatory bodies to influence industry norms and standards.

After numerous accounting scandals[1] that have occurred in the past 25 years, there is widespread concern among legislators, investors and the general public regarding the Big Four's lack of transparency and independence. The question "Who audit the auditors?" has become more relevant than ever before.

[1] The collapses and/or financial scandals include notable cases such as Enron (2001), Kmart (2001), WorldCom (2002), Xerox (2002), Petrobras (2014), Toshiba (2015), BHS (2016), Rolls-Royce (2016), Carillion (2018) and National Australian Bank (2018), among others.

All the four networks continue to adhere to their historic legal structure of global independent partnerships working under the same brand name. On top of giving opportunities to provide services worldwide and offering significant flexibility in decision making, this structure allows the Big Four companies to avoid public scrutiny as it doesn't require open disclosure of the financial results.

The Big Four companies are multidisciplinary professional services organizations, and over time their service offerings have become increasingly diverse. A notable trend is the growing proportion of more lucrative advisory work and a diminishing share of audit and assurance-related fees. High compensations derived by the Big Four companies from provision of non-audit consultancy work has proved to compromise their independence while expressing audit opinion for the same client.

Despite the presence of legislation[2] that imposes significant restrictions on the ability of the Big Four to offer consulting services to their audit clients, there are still certain allowances and conditions that exist. This situation creates a potential for deliberate misinterpretation and temptation to circumvent the rules.

This research paper places significant emphasis on evaluating relevant financial and operational indicators of the Big Four companies. It analyzes their revenue breakdown by geographical regions and service lines, examines the changes in their revenue composition over time and discusses their worldwide market share with the view to identify the major risks for the global industry. The legal structure of the Big Four networks, its drawbacks and embedded risks for the wider stakeholders' groups is another focus of the paper. Finally, the article assesses the current legislation that regulates the independence of external auditors and proposes potential solutions to address the major challenges in the industry.

II. OVERVIEW AND HISTORY OF THE BIG FOUR COMPANIES

The domination of the "Big Four" companies, namely Deloitte, PricewaterhouseCoopers (PwC), Ernst & Young (EY) and KPMG, in the worldwide professional services market is tremendous. These companies are globally recognized as multidisciplinary professional services organizations that offer similar services which can be grouped into three main service lines: 1. Audit & Assurance, 2. Tax & Legal, and 3. Advisory, with the latest standing out as the most diverse and comprehensive, encompassing areas such as Business Consulting, Strategy & Transactions, Financial Advisory, Risk Advisory and more.

Undoubtedly, the Big Four companies possess deep industry knowledge and professional expertise accumulated over the years of their establishment and development. These firms invest heavily in research, thought leadership and market analysis. They publish reports, surveys and studies on various business and industry topics, offering valuable insights and trends to clients, regulators and the public. They actively contribute to the development of accounting and auditing standards, often collaborating with regulatory bodies.

The history of the Big Four accounting firms, Deloitte, PwC, EY and KPMG, dates back to the second half of the 19th century. Over the course of nearly 150 years, until the end of 20th century there were numerous mergers, acquisitions and expansions that ultimately shaped the modern professional services industry.

Deloitte traces its roots back to 1845 when William Welch Deloitte founded an accounting firm in London, United Kingdom. Over the years the firm expanded its services globally and merged with several other firms. In 1989, it merged with Touche Ross, forming the entity known as Deloitte & Touche. Today, it operates under the Deloitte brand name.

PwC has a history that dates back to 1849 when Samuel Price founded an accounting firm in London, and shortly after, William Cooper established his own firm. In 1998, Price Waterhouse and Coopers & Lybrand merged to form PricewaterhouseCoopers. In 2010 the company went through the rebranding process and now operates under the PwC trading name.

EY's origins can also be traced back to 1849 when Arthur Young and Alwin C. Ernst founded separate accounting firms in the United States. Both firms expanded their operations globally and eventually merged in 1989 to create a new company. The company was named Ernst & Young until a rebranding campaign officially changed its name to EY in 2013.

KPMG history began in 1891 when William Barclay Peat established his accounting firm in London. A couple of years after that James Marwick and Roger Mitchell established Marwick Mitchell & Co. in New York City. The KPMG brand was born through a series of mergers and acquisitions with the latest of them in 1987 when Peat Marwick International and Klynveld Main Goerdeler (KMG) combined their businesses.

In the 1990s the large accounting firms, including Big Four, reached a ceiling in the accounting and auditing services they made available to their clients. Having reached their natural limit on growth with more than 90% of auditing for public companies, they branched out to become multidisciplinary in legal, technology and employment services.

[2] Sarbanes-Oxley Act (U.S., 2002), Audit Directive and Regulation (EU, 2014 revision), FRC Ethical Standards (UK, 2016 revision).

By the beginning of the 21st century the consolidation of the global financial consultancy industry was not yet complete. In the early 2000s there was an additional significant player in the market alongside the four previously mentioned firms - Arthur Andersen.

In 2001 Arthur Andersen's reputation suffered a severe blow due to its involvement in the Enron scandal. Enron, an energy company, collapsed in one of the largest corporate frauds in history. Arthur Andersen faced allegations of improper accounting practices and document shredding related to its auditing of Enron. As a result, the U.S. Department of Justice indicted Arthur Andersen on obstruction of justice charges in 2005 **[2]**. The indictment led to a loss of clients and business, which eventually led to the dissolution of the firm. After the dissolution of Arthur Andersen some of its practices and personnel were absorbed by the remaining major market players: Deloitte, PwC, EY and KPMG.

III. THE BIG FOUR'S PERFORMANCE AND MARKET SHARE

In 2022 the overall share of the Big Four firms in the global professional services market was close to 65%, with their domination in the Audit & Assurance sector being as high as 70-75%. Out of the 457 clients that had public information on the Fortune 500 list[3], 100% are audited by the Big Four companies [3].

As of May 2022, the Big Four companies (PwC, Deloitte, EY and KPMG combined) have audited approximately 76% of companies listed on the New York Stock Exchange (NYSE) and more than 51% of companies listed on the National Association of Securities Dealers Automated Quotations (NASDAQ) [4].

A comparative analysis of the Big Four companies' financial performance, market shares and selected operating indicators was performed as a part of the research[4].

3.1 The companies' size in terms of global revenue and a headcount

In 2022, the combined revenue of the Big Four companies across all service lines was nearly $190 billion. Deloitte held the largest share at 31%, followed by PwC at 27%, EY at 24% and KPMG at 18%. The total headcount of the companies varied significantly and was not always directly correlated with the revenue earned.

The revenue per employee is one of the objective indicators of the companies' operational effectiveness and, eventually, their overall competitiveness.

The Big Four companies do not disclose their bottom-line (i.e., Net income, Earnings before interest, taxes, depreciation, amortization (EBITDA), etc.), so their business profitability cannot be directly compared. However, it is evident that payroll expenses form a significant portion of the consultancy business cost base. In this context revenue per employee can also serve as an indicator of the relative profitability among the four major players.

Figure 1 illustrates the global revenue earned by Deloitte, PwC, EY and KPMG in 2022, along with their respective total headcounts. Additionally, the lower segment of the diagram depicts the fluctuation in revenue per employee among the four companies, represented as a pattern filled area.

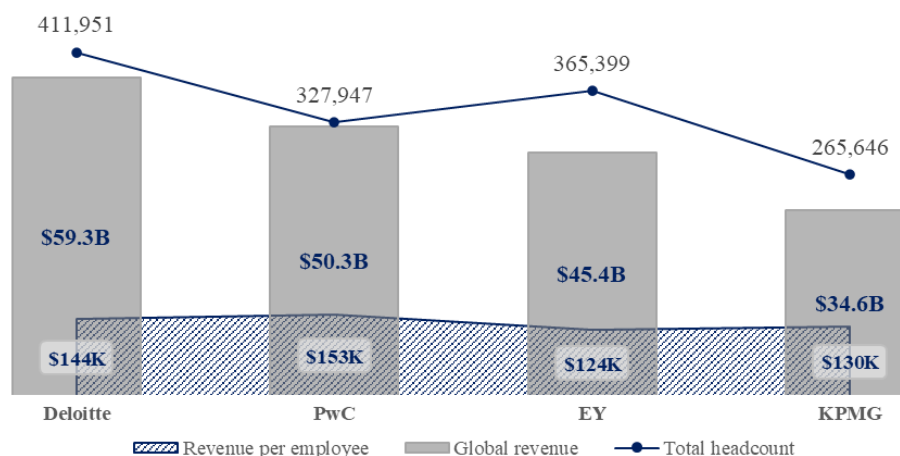

Fig. 1 Worldwide revenue and total employee headcount of the Big Four companies for the fiscal year 2022

[3] The Fortune Global 500, also known as Global 500, is an annual ranking of the top 500 corporations worldwide as measured by revenue. The list is compiled and published annually by Fortune magazine.
[4] The Big Four companies issue publicly available reports, containing their global high-level financial and operating data, on the annual basis.

Deloitte is the leader among the Big Four companies based on the global revenue earned. However, the most operationally effective company among the four is PwC, as its revenue per employee is the highest. At the same time EY's revenue per employee is the lowest of all Big Four companies: the company earns only $124,248 per employee which is 23% less than PwC.

3.2 Geographical segmentation of revenue

All four companies are presented globally: PwC and EY operate in 152 countries, Deloitte is present in 150 countries and KPMG, although slightly behind its competitors, maintains offices in 143 countries

It is worth noting that Big Four companies have similar approaches to the geographical segmentation – they define three geographical segments:

- Americas
- EMEA (Europe, Middle East, Africa)
- Asia Pacific

The geographical segmentation is graphically presented by Figure 2.

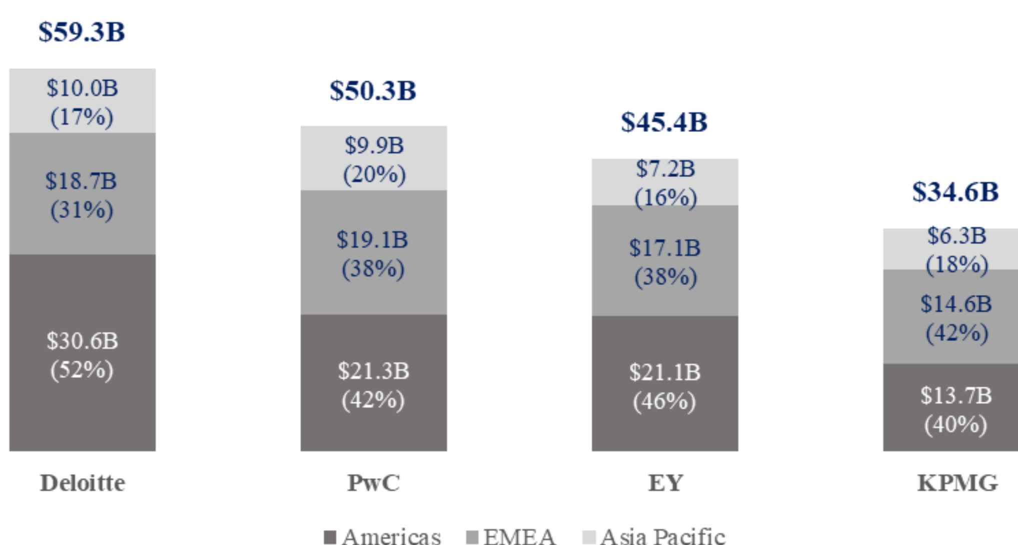

Fig. 2 The Big Four's revenue mix by geographical segments for the fiscal year 2022

The Americas region serves as a leading business segment for all the companies, although the share varies significantly among them. Deloitte earns more than half of its total revenue from the Americas segment, while the remaining companies are less concentrated in any particular segment.

3.3 Operating segmentation of revenue

The Big Four companies divide their operations into several service lines. Audit & Assurance, which originally was their primary business stream, has been experiencing a decline of its share in total revenue. This can be attributable to the maturity of the industry, which has resulted in significant slowdown in revenue year-on-year growth rates and decreased profitability.

On the other hand, the Advisory segment is currently experiencing growth across all the companies included in the research. The Advisory segment is highly diverse and encompasses various sub-segments, including Strategy & Transactions, Financial Advisory, Risk Advisory and Business Consulting. In fact, two out of the four companies (Deloitte and EY) have segregated it into separate segments.

Although the Tax & Legal segment is also losing its share to the Advisory segment in the overall revenue mix of the Big Four companies, its ratio to the Audit & Assurance segment continues to grow year-on-year. Moreover, in certain national markets like the United States, the Tax & Legal segment has already surpassed the Audit & Assurance segment in absolute terms[5].

Table 1 represents the reconciliation of the operating segments among the Big Four companies, while Figure 3 illustrates the share of the segments in the total revenue of each individual company.

[5] In 2022 EY U.S. reported Tax & Legal revenues amounted to $5,100 (27% of the total revenue) compared to $4,900 derived from Audit & Assurance service line (26% of the total revenue)

Table 1 Reconciliation of operating segments of the Big Four companies

Deloitte	PwC	EY	KPMG
Audit & Assurance	Assurance	Assurance	Audit & Assurance
Consulting	Advisory	Consulting	Advisory
Financial Advisory		Strategy & Transactions	
Risk Advisory			
Tax & Legal	Tax & Legal	Tax	Tax & Legal

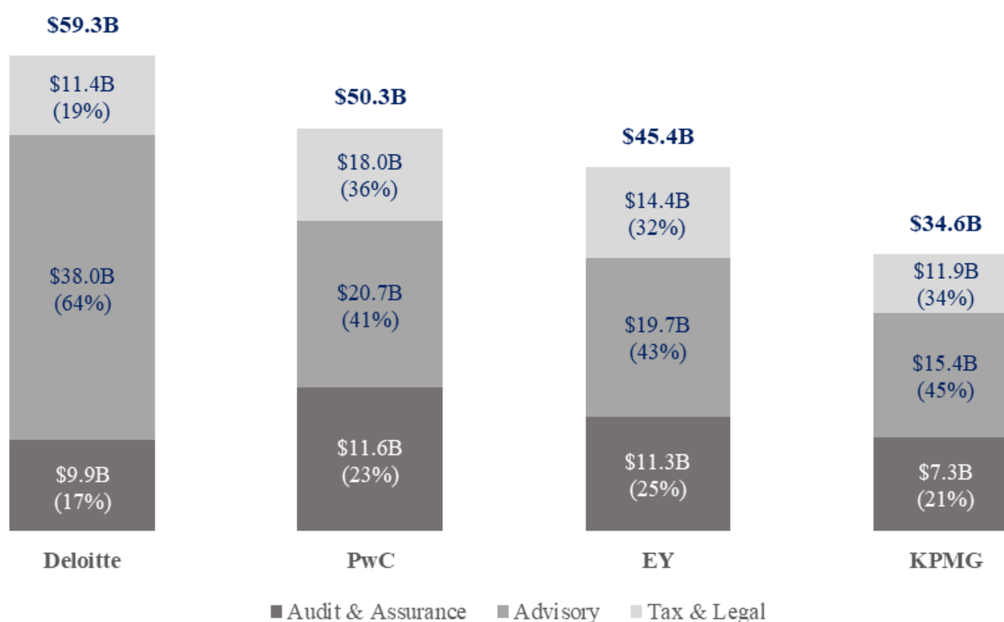

Fig. 3 The Big Four's revenue mix by operating segment segments for the fiscal year 2022

In 2022, Deloitte's Advisory segment achieved an impressive share of 64% in the total revenue, surpassing the combined share of the other two segments. EY maintains a more balanced approach: although its Advisory segment's share outweighed both the Audit & Assurance and Tax & Legal segments individually, none of EY's segments accounts for more than a quarter of the company's total revenue. In terms of revenue distribution, PwC and KPMG show some similarity when measured in percentages, despite the apparent distinction in the scale of their operations.

3.4 Shifts in revenue segmentation by line of service during three-years period

Throughout 2020-2022 a considerable shift towards the Advisory segment is observed, which is demonstrated by an intensifying double-digits growth year-on-year. Both the Audit & Assurance and Tax & Legal service lines continue to consistently lose their share in the overall revenue due to their more modest growth potential.

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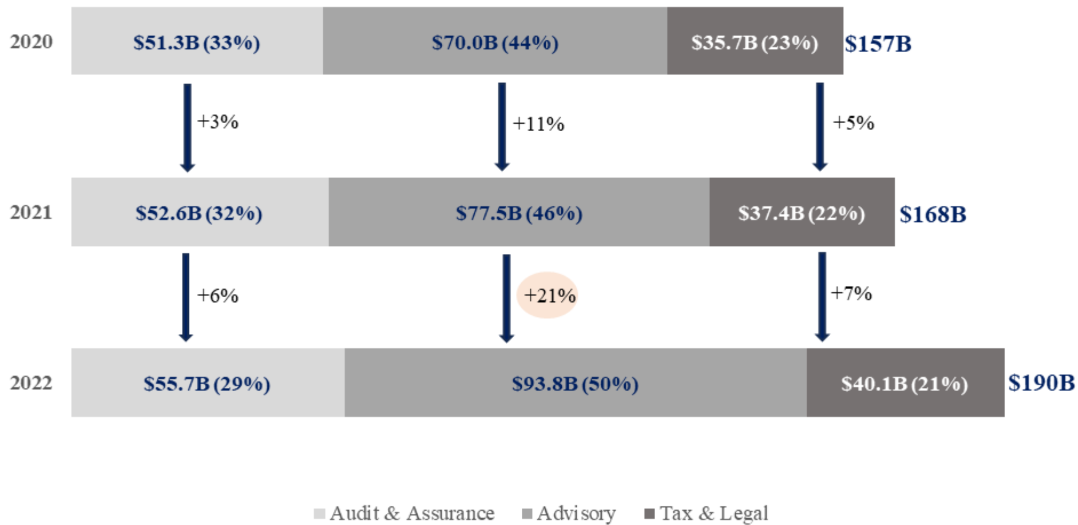

Fig. 4 Consolidated Big Four revenue mix changes over 2022/2021/2020 fiscal years

IV. THE BIG FOUR'S LEGAL STRUCTURE

In the context of this research, it is crucial to outline that Deloitte, PwC, EY and KPMG are not groups of companies, holdings, or corporations. Instead, they are all structured as global networks of separate entities, which individually take the legal form of partnerships. Each Big Four network has a legal disclaimer posted on its website that it is "not a global partnership, a single firm, a multinational corporation, or a joint venture" [5], and the individual partnerships "are not subsidiaries or branch offices of a global parent" [6].

All the individual partnerships within the network are members of, or have other legal connection to, a private umbrella organization. Among three out of Big Four (Deloitte, PwC, KPMG), each network has a single umbrella organization which is structured as a private company limited by guarantee, which is incorporated in the United Kingdom. These umbrella organizations are named Deloitte Touche Tohmatsu Ltd. (or Deloitte Global), PricewaterhouseCoopers International Ltd. and KPMG International Ltd. respectively.

EY's structure differs from the other firms, as it consists of three distinct umbrella organizations, each corresponding to a specific geographical area: Americas, EMEA and Asia Pacific. Ernst & Young Americas LLC, a Delaware LLC, coordinates the activities of the firms in the Americas region. Ernst & Young EMEIA Ltd., an English company limited by guarantee, serves as the principal governance entity for the EMEIA firms. Ernst & Young Asia-Pacific Ltd., a Hong Kong company limited by guarantee, functions as the principal governance entity for the Asia-Pacific firms.

It's important to note that the umbrella organizations do not provide professional services to clients. Instead, their primary purpose is to facilitate coordination among member firms within the network, with a specific focus on key areas such as strategy, brand management and risk and quality control. The principal governance entities cannot act as agents of the network member firms, nor can they impose obligations on any individual member firm. They are solely liable for their own acts or omissions.

The Big Four companies explain their network structure, rather than corporate structure, as a response to the national requirements in various countries that accounting firms must be locally owned and independent. They also see advantages of such structures because of "significant strengths, including a deep understanding of local markets and a sense of responsibility among firm professionals, who have direct stakes in the integrity and growth of their local practices" [7].

Professional network structures are widely utilized in the fields of law and accounting. The development of accounting networks was initially driven by the need to comply with the requirements set by the US Securities and Exchange Commission (SEC) for auditing public companies. The SEC was established in 1934 and "strongly influenced the development of the public accounting profession" [8].

As companies expanded their global presence, it became essential to audit their financial results in every location where they operated. This necessity prompted the expansion of accounting networks beyond the borders of the United States. Without a network that shared standardized practices and provided internal channels of communication, fulfilling the mandatory auditing requirements would not be possible.

However, in recent times the Big Four companies have faced significant and widespread criticism regarding their network structure, as it is commonly seen as a way to justify their lack of transparency. The Big Four companies are not structured as formalized group of companies and they are not publicly traded; therefore, there are no obligations for them to disclose their consolidated financial data[6]. While all four companies do publish global annual reports and transparency reports, these reports primarily focus on environmental, social and governance (ESG) reporting, along with some basic performance metrics such as global revenues. The main concern regarding these reports is that they provide only a high-level overview and lack independent verification.

V. INDUSTRY CHALLENGES AND UNDERLYING LEGISLATION OVERVIEW

The conflict of interest and threat to auditors' independence have been major concerns for the multidisciplinary professional services organizations. Karthik Ramanna, an Oxford Professor of Business and Public Policy, made a warning statement in his paper "Building a culture of challenge in audit firms" that "auditing today faces a crisis of trust, an especially perverse situation given the audit's central role in fostering trust in markets" [9].

After the Enron scandal, followed by the dissolution of Arthur Andersen in 2002, the Sarbanes-Oxley Act (SOX) came into effect. This legislation set standards for external auditor independence to mitigate conflicts of interest. Among other provisions, SOX prohibits contingent fees, requires rotation of lead and concurring partners after five years of serving the client and imposes a defined system of audit quality control. More importantly, it restricts auditing companies from providing certain non-audit services for the same clients. The restricted services include:

- Bookkeeping
- Financial information systems design and implementation
- Appraisal and valuations services
- Actuarial services
- Internal audit outsourcing services
- Management functions or HR services
- Broker/dealer or investment adviser services
- Legal services
- Expert services unrelated to audit [11]

The restrictions, however, do not imply a complete prohibition. There is a provision known as defeasance, that allows restricted non-audit services to be provided to the audit client if it is "reasonable to conclude that the results of these services will not be subject to audit procedures during an audit of the audit client's financial statements" [12].

At the same time, Section 201 of the Sarbanes-Oxley Act specifically provides that "a registered public accounting firm may engage in any non-audit services, including tax services," that are not expressly prohibited after Audit Committee pre-approval" [13]. The mergers and acquisitions (M&A) assistance is also not disallowed provided that "the accounting firm is in compliance with the applicable independence standards related to such services or relationships" [14].

In Europe regulations governing the provision of non-audit services by auditors are outlined in the EU Audit Directive and Regulation, as well as the 2016 FRC Revised Ethical Standards. These regulations stipulate that the Audit Committee should not approve the audit firm providing any service that compromises their independence or violates applicable laws or regulations. Factors to consider when granting approval include ensuring that the audit firm does not audit its own work, makes management decisions for the company, creates a mutual interest or acts as an advocate for the company. The Directives allow for the provision of non-audit services, such as tax return preparation, under certain conditions. These conditions include ensuring that the services have no material impact on the audited financial statements, providing comprehensive documentation and explanation to the Audit Committee, adhering to principles of independence, and not relying significantly on the audit firm's work for the statutory audit of the financial statements [15].

To further mitigate risk of audit financial dependency on the client and subsequent risk of biased audit opinion, the EU law stipulates that fees received by an audit firm from a single client for non-audit services must not exceed 70% of audit fees over a three-year period. If a firm receives more than 15% of its total fees from a single client, this must be disclosed to the Audit Committee in order to discuss measures to mitigate dangers to independence [16].

[6] Only publicly traded companies are required to disclose their financial statements to the general public. The SEC requires all the U.S. publicly traded organizations to file annual reports on Form 10-K and quarterly reports on Form 10-Q. The EU Transparency Directive (2004/109/EC) requires issuers of securities traded on regulated markets within the EU to make their activities transparent, by regularly publishing certain information, including yearly and half-year financial reports.

While the passage of the Sarbanes-Oxley Act in the USA and similar audit independence regulations in Europe were driven by the objectives of addressing fraud, enhancing the reliability of financial reporting and rebuilding investor trust, they inadvertently placed a disproportionate burden on smaller accounting and consulting firms. The imposition of additional restrictions, procedures and reporting requirements on auditors inadvertently contributed to further consolidation in the professional services market.

Furthermore, the existence of multiple provisions that, under certain circumstances, permit rendering of both audit and non-audit services to the same client, along with vague and ambiguous wording in legislation, have created a breeding ground for misinterpretation of the law and have incentivized audit firms to engage in abuses with the aim of extracting additional fees from clients.

More lucrative advisory work generates significantly higher profit margins compared to auditing. This is one of the reasons why the Big Four companies are motivated to increase the share of the advisory fees in the overall revenue mix. In 2022, advisory engagements accounted for approximately 50% of the Big Four's total revenue, compared to 46% in 2021 and 44% in 2020 (as displayed by Figure 4).

The main factors that ensure extra margins in the non-audit revenue stream are:

1. More sophisticated and intellectually demanding work
2. Lower payroll costs per unit of revenue

Moreover, as pointed by Gelter M., Gurrea-Martínez A. in their research paper “Addressing the Auditor Independence Puzzle: Regulatory Models and Proposal for Reform”, “on the level of the individual client, there are considerable economies of scope between audit services and related non-audit services that create cost savings (relative to the separate provision of such services by a different firm), which can also be partially passed on to clients” [12].

Despite the potential significant penalties for non-compliance with the audit independence regulations, providing consulting services to audit clients continues to create a temptation that is difficult for Big Four companies to resist. For instance, auditors were reportedly categorizing non-audit services as part of an auditing engagements in order to generate additional fees. PwC allegedly engaged in this practice for 15 clients between 2013 and 2016, resulting in a $7.9 million settlement with the Securities and Exchange Commission.

In the United Kingdom, a report by the Competition and Markets Authority revealed that all four major auditing firms failed to meet audit quality targets in 2019. Similarly, data obtained during the 2019 audit quality inspection conducted by the U.S. Public Company Accounting Oversight Board (PCAOB) revealed a high failure rate among auditing firms. The data indicated that Deloitte, PwC, EY and KPMG had inadequate audits in 20%, 23.6%, 27.3% and 50% of the cases examined respectively [17]. Although the issue with audit quality seems unrelated to the auditors’ independence and legislators’ persistent attempts to separate audit and non-audit services, they have much in common.

The history of recent accounting scandals involving Big Four companies highlights the recurring issue of auditors' independence when expressing their opinions. These scandals typically involve major fraud or irregularities in accounting records which raise questions about the effectiveness and objectivity of the auditing process conducted by the Big Four firms.

High compensation for non-audit services can create more economic dependency if the auditor’s client portfolio is not diversified. To address this problem regulators have often responded by limiting the fees potentially charged to a single client.

Additionally, the provision of certain services can give rise to the issue of self-review. This means that auditors may find themselves in a conflict of interest when they have to review or assess something that their own firm has previously prepared for the client, such as tax-related matters or valuations. Since the primary role of auditors is to independently verify company's financial statements and ensure compliance with accounting standards, this situation creates a potential conflict between their auditing responsibilities and their involvement in other professional services.

Therefore, non-audit services “may not only threaten independence by tightening the economic ties to the client but also by the fact that the auditor has to review its own work” [12].

There have been multiple attempts in different jurisdictions to discuss the complete prohibition of the provision of non-audit services by Big Four companies. However, this radical measure has never been enforced in any major jurisdiction, which is understandable considering that services provided to other clients do not pose a direct threat to the independence of audit clients.

Another measure that was previously discussed by U.S. regulators but never implemented was mandatory rotation of auditors. Research conducted by Joseph Gerakos and Chad Syverson suggests that, if audit firm rotation was mandatory every 10 years, it would result in consumer surplus losses of $2.4-$3.6 billion. Furthermore, if rotation was required every four years, the estimated cost for U.S. firms would be even higher, ranging from $4.3 billion to $5.5 billion [18].

While lawmakers around the world are occupied with developing legislation that would ensure the independence of auditors, the Big Four companies themselves are actively seeking ways to further increase their revenues. Thus, in 2022-2023 EY has attempted to separate the auditing function, which focuses on promoting public transparency and integrity, from other services such as tax minimization advice, mergers and acquisitions and other advisory work, which are more centered around private profit rather than the public interest.

The concept behind EY's Project Everest was aimed at accelerating the growth of its audit and consulting divisions. The separation of these divisions would create an opportunity to serve the same clients both as an auditor and as a provider of non-audit services. By establishing two distinct companies operating under separate brand names, it was believed that EY could navigate potential conflicts of interest more effectively and enhance the perceived independence of its auditing services.

Originally, EY had proposed a plan to sell approximately 15% of its consulting business for over $10 billion, while allocating another 15% for staff equity incentives, and retaining 70% for partners. The intention was for the consulting division to move away from the partnership model and become a publicly traded company with the project name NewCo.

Under this plan NewCo would have been responsible for 60% of EY's projected revenue, while the audit arm, named AssureCo, would handle the remaining 40%. The two parts of the business would be subject to a non-compete clause. However, the division of the firm into these separate entities became the subject of intense negotiations and discussions within the organization. In April 2023 EY announced the cancellation of its Project Everest due to opposition from the US executive committee.

At the same time regulators around the world continue to call for significant industry reforms to address conflicts of interest and improve working practices.

According to Ian Gow, Professor of Accounting and Director of the Melbourne Centre for Corporate Governance and Regulation at the University of Melbourne, “As the failure of EY’s Project Everest showed, the Big Four are probably incapable of unwinding their own deep-seated conflicts. Sooner or later the task of imposing structural changes will fall to governments and regulators around the world. By rejecting demergers on their own terms, the Big Four have effectively chosen uncontrolled and possibly chaotic break-ups on someone else’s terms and someone else’s clock” [19].

VI. HOW THE FUTURE OF THE BIG FOUR MAY LOOK LIKE

6.1 Transferring from independent partnerships to the corporate structures

Given that both regulators and the general public are deeply concerned about the lack of transparency, the legal restructuring of the Big Four networks could serve as an effective initial measure in reforming the global professional services industry.

It's highly unlikely that these corporations would achieve true global status since several countries, including China, India, Brazil and Malaysia, have regulations mandating that accounting and auditing firms must have local ownership. However, creating separate corporations even on the national level will significantly improve transparency of the Big Four giants.

Despite the Big Four's attempt to proclaim their dedication to the interests of a wide range of stakeholders, including employees, clients, governments, communities and the general public, their current structure of separate partnerships primarily serves the exclusive interests of the only one group – their partners. Transitioning from a partnership structure to a corporate model would bring about a shift in mindset. The partner-centric approach and internal conflicts that are prevalent within the Big Four, would be replaced by a customer-focused approach and a sense of shared purpose [20].

Recent accounting scandals involving the Big Four have highlighted that, in many instances the network as a whole is neither the initial provoker of the breakdown of the audit principles nor even a contributor to it. Instead, a key engagement partner or a small group of key persons that are involved in the auditing process and have developed relationships with the client, appear to be a weak link in the chain. This is, actually, another drawback with the partnership structure, as the key interests of the network are not fully aligned with the interests of its partners. While the network's main objectives are to ensure compliance with internal and external standards and to maintain and promote the brand name, each individual partner's primary goal is to derive profit. The disbalance of objectives gives rise to the so called “agency problem”[7]. It is quite evident that this problem cannot be solved solely through the prohibition of non-audit services and the requirement to rotate partners. At the same time, transitioning from a network structure to a corporate structure would be beneficial in addressing agency problem, as it would bring about more transparency and alignment of stakeholders' interests.

[7] An agency problem is a conflict of interest inherent in any relationship where one party is expected to act in another party's best interests.

The recent case with the Everest Project, although it did not go through, has demonstrated that the Big Four companies themselves realized that incorporating is an inevitable step that should be taken to restore public trust and harmonize their legal structure with the requirements of the modern world.

6.2 Introducing changes on the client's side

Another significant inconsistency lies in the structure of the auditing process itself. The corporate auditor of a publicly traded firm is typically approved and overseen by the Audit Committee. The Audit Committee usually comprises 3 to 6 independent outside directors, with at least one member qualifying as a financial expert. This requirement is nearly identical in both the USA and Europe.

Although independent directors are supposed to be unbiased, maintain integrity and protect shareholders' interests, the reality has shown that this is often far from the truth in a significant number of cases. In reality, the audit fee, which is approved by the Audit Committee, can become a bargaining point between the directors seeking auditors' loyalty and the auditors themselves, who may desire higher compensation for their services. This is where a double conflict of interest can arise, both on the client's and the auditor's side.

The problem described above presents a compelling argument for the inclusion of investors or their representatives in the Audit Committee. Including investors in the Audit Committee offers multiple advantages.

Firstly, it enhances the independence and objectivity of the Committee by bringing in external perspectives and reducing the influence of management. Investors have a vested interest in accurate and reliable financial reporting, which aligns with the goals of the Audit Committee in ensuring the integrity of financial statements.

Secondly, investors can contribute valuable financial expertise and industry knowledge. Their insights and understanding of market dynamics can help identify potential risks and ensure that auditing practices are in line with industry standards and best practices.

Furthermore, investors' presence in the Audit Committee increases transparency and accountability. Their involvement provides a direct link between the audit process and the interests of shareholders and other stakeholders. This fosters confidence in the audit process and promotes trust in financial reporting.

Lastly, having investors in the Audit Committee improves communication and engagement between the company and its shareholders. It allows investors to voice their concerns, ask relevant questions and receive direct feedback from the auditors. This promotes a collaborative and cooperative approach to addressing audit-related issues and strengthens the relationship between the company and its investors.

Overall, enactment of two major reforms, including:

1. Enforcing a statutory requirement for the Big Four to transition from partnerships to the corporate structures, and
2. Concurrent enhancing the role and composition of the Audit Committee in public companies by inclusion investors and/or their representatives

would significantly contribute to the robustness and functionality of the legislation regulating auditors' independence and transparency. The implementation of these changes is capable of fostering greater accountability, reinforcing corporate governance mechanisms and facilitating public confidence in the integrity of the auditing profession.

ABBREVIATIONS

EBITDA - Earnings before interest, taxes, depreciation, amortization
EMEA - Europe, Middle East, Africa
ESG - Environmental, social and governance
M&A - mergers and acquisitions
NASDAQ - National Association of Securities Dealers Automated Quotations
NYSE - New York Stock Exchange
PCAOB - Public Company Accounting Oversight Board
SEC - Securities and Exchange Commission
SOX - Sarbanes-Oxley Act

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