

**Letter**

## Evidence does not support 'conflict of interest' worries

From Jan Bouwens, University of Cambridge, UK



Stephen Hadrill has called for a probe into the break-up for the Big Four consultancies © Anna Gordon/FT

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Sir, I read with interest the remarks last week by Stephen Hadrill, chief executive of the Financial Reporting Council, that the UK's Competition and Markets Authority should investigate the case for "audit only" accounting firms to boost competition and reduce "conflicts of interest" in the sector ([report](#), March 16).

Leaving aside competition, the worry raised by critics of firms that provide both audit and advisory services is that accountants are less likely to raise shortcomings in financial reporting because this could jeopardise their firms' advisory business. Yet a considerable amount of research over the past 40 years on this subject simply does not support these concerns.

Among dozens of studies in leading journals, three auditing practices have been looked at in particular depth: first, the extent to which the accountant allows the company to manipulate results to show better financial conditions than underlying numbers warrant; second, the willingness of the accountant to issue a qualified going-concern opinion; and third, the extent to which the accountant holds on to the "conservatism principle" (recognising profit only if it is certain, while recognising uncertain losses).

All three factors affect deeply the level of trust stakeholders can put in financial statements presented by the firm, yet the research finds scant indication that the presence of related advisory services adversely affects the auditors' role or decisions in these key areas.

I understand that the public is cynical about whether lucrative advisory contracts can impair audit quality, and such scepticism can be healthy in professions that have a watchdog role. I also recognise the *potential* conflict of interest in such arrangements. However, research by leading academics over the past four decades hasn't found *actual* evidence of shortcomings that would lend support for sweeping policy changes in this regard. In fact, it is found that, with the provision of advisory services, audit firms extend their knowledge base.

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