THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

Department of Accounting

The auditing oligopoly and lobbying on accounting standards

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Abstract

The last twenty-five years has witnessed a tightening of the U.S. auditing oligopoly, as the Big 8 has successively become the Big 6, the Big 5, and, since 2002, the Big 4. We expect the tighter oligopoly to affect the incentives of the Big N, with implications for how they lobby on accounting standards. We find, as the oligopoly has tightened, Big N auditors are more likely to express concerns about decreased "reliability" in FASB-proposed accounting standards (relative to an independent benchmark), after controlling for various alternative explanations. The results are consistent with the Big N auditors facing greater political and litigation costs attributable to their increased visibility from tightening oligopoly and with decreased competitive pressure among the Big N to satisfy client preferences (who usually demand accounting flexibility at the expense of reliability). The results are inconsistent with the claim that the Big N increasingly consider themselves "too big to fail" as the audit oligopoly tightens.