Sports Direct Breaking news (November 2019)

RSM the mid-tier auditor for Sports Direct
Finally a mid-tier firm has agreed to be the auditor of Sports Direct. The company has appointed RSM as its auditor. This ends speculation that the government could be forced to intervene to find the UK sportswear retailer a group willing to audit its books.

The appointment of RSM, which is the seventh largest audit firm in the UK by fee income, follows the resignation of GT in August 2019. GT had audited the retailer since it floated on London’s main market in 2007 but it quit following concerns over the disclosure of a Euro 674m tax bill and the behaviour of its head, Mike Ashley. Sports Direct ‘became the first major listed business to fail to appoint an auditor in September, piling more scrutiny on to the corporate governance of Mike Ashley’s business’.

But this has raised concerns:
Much now rests on how effectively the previously low-profile RSM handles one of the UK’s most controversial retailers. Industry insiders warn that any problems could set back the process of increasing competition for big company audits and play into the hands of the Big Four, which are pushing back on some of the more dramatic reforms aimed at encouraging smaller entrants into the FTSE 350 audit market. Politicians and regulators have been ramping up calls for reforms to increase choice in auditing. The Competition and Markets Authority ruled in April that the UK cannot “afford to rely on only four firms to audit Britain’s biggest companies any longer” and called for a break-up of the Big Four firms.

Mike Ashley’s cost reduction attempts – reduce rents (a la Sir Philip Green?)
There is news that the expansion featuring the latest (Goals Soccer Centres [After several suspicious accounting issues] and Jack Wills [bought for £12.8m and is another clothing retailer but now merged into Sport Direct with the original company in insolvency] may be over, and that Mike Ashley will hunker down and concentrate on his existing businesses. May be. Fiery entrepreneurs like Mike Ashley tend not to be so settled.

/Continued

1 Kinder, T., and Eley, J., Sports Direct appoints RSM as new auditor, Financial Times, 23 October 2019. Available at: https://www.ft.com/content/9d61840a-f59b-11e9-9ef3-eca8fc8f2d65

2 Kinder, T., RSM puts its head above the parapet with Sports Direct, Financial Times, 25 October 2019. Available at: https://www.ft.com/content/dada9ce6-f5b8-11e9-9ef3-eca8fc8f2d65

3 Pheasant Clothing Limited and Union Lifestyle Holdings. These ultimate companies that owed Jack Wills may continue in some form or other.
Sports Direct Breaking news (November 2019)/Continued
Mike Ashley’s cost reduction attempts – reduce rents (a la Sir Philip Green?)/Continued

His Latest cost reduction scheme is to demand that all new rent deals across his high street empire are linked to store sales, making landlords’ income less stable.

Sports Direct founder Mike Ashley⁴:

demanding deals that link up to 15% of the rent payable to turnover in new stores and those where leases are being renewed. Ashley’s businesses, which include Sports Direct, House of Fraser and the upmarket department store Flannels, operate from a total of about 700 sites, making him one of the biggest players on the high street.

In a declining market, turnover rents help tenants by transferring some of the risk of future falls in sales to landlords, which have enjoyed the security of leases stretching for as long as 25 years, with rents that could be revised only upwards.

⁴ Chambers, S., Mike Ashley pushes landlords to link rents to sales, The Times, 17 November 2019. Available at: https://www.thetimes.co.uk/article/mike-ashley-pushes-landlords-to-link-rents-to-sales-fs5r56cg8
Sports Direct Breaking news (August to October 2019)
The sports direct mess and wider ramifications
Mike Ashley, the head of Sports Direct has said several interesting things recently. Paraphrasing:
   a) The purchase of the House of Fraser with hindsight was a mistake. The long term profitability is now suspect without many more closures.
   b) He wants a Big Four auditor; no one else has the resources and authority to provide a measure of confidence in an already hostile minatory shareholders battle over his reign.
   c) The Euro 674 Belgian tax bill was in his view not material – and our interpretation is that in his view was not worthy of auditor attention.
   d) It may be that the Department for Business (BEIS) will appoint an auditor shortly. Because of the risks and the fact that all audit firms have declined to tender for the audit, indicates that however is appointed as auditor will demand a high audit fee and can extract a premium fee as there is no choice. Either that or the BEIS sets the fee and then the auditor can wriggle out of any liability saying they did not have sufficient fees to cover the full range of the audit. Resulting in an audit qualification (perhaps).

The latter indicates the difficulty facing a choice of auditor. Would you want such a tax bill hidden or not revealed up-front? What ramifications does this have for the audit market?

The importance of the Big Four
There are reports that Mike Ashley wants to appoint one of the Big Four as auditor. Nothing else will do, restore confidence and deal with the complexities of his organisation – given that The House of Fraser is proving to be a difficult takeover. For example⁵: Sports Direct International (SDI) is pleading with the big four accountants to pitch for its audit contract after warning that a smaller firm would be unable to perform the role.

Sports Direct International (SDI) is pleading with the big four accountants to pitch for its audit contract after warning that a smaller firm would be unable to perform the role. Sky News has learnt that the retail group has in the last fortnight asked the profession's dominant firms - Deloitte, EY, KPMG and PriceWaterhouseCooper (PwC) [The Big Four] - to hold fresh talks aimed at handing one of them the controversial mandate.
The move, which came ahead of Sports Direct's annual general meeting (AGM) on Wednesday, underlines the extent to which the company's founder, Mike Ashley, is determined to restore its financial credibility after a torrid period.

Continued

Sports Direct Breaking news (August to October 2019)/Continued

Challenger firms won’t challenge

The CMA advocated growing the mid-tier firms to become challenger firms to the Big Four. The conundrum with Sports Direct has shown that this proposal is not and probably cannot (as we evaluated in our book⁶). Grant Thornton (GT) seems to be moving in the opposite direction:⁷

The UK audit market already lacks sufficient competition. Fans had hoped mid-market firm Grant Thornton would counter that by expanding. Instead, it stopped competing for FTSE 350 clients last year. Pre-tax profits of its UK business dropped 8 per cent to £71.6m in the year to June 2018.

The same article argues as we did for the appointment of auditors not to be left to tendering between the management of the company being audited and the audit firms:

Auditors are like motor insurance. Both are compulsory for the customer. Individually, they are meant to curb the social costs of bad driving and bad management. Suppliers can refuse risky business with a straight “no” or steep prices. A series of corporate car crashes has made auditors pickier. Fines for sloppy auditing have jumped. Accountants suspected of it face costly lawsuits, of the kind brewing against KPMG, auditor of Carillion.

A conundrum results. They usually do when public and private sectors both bear ill-defined responsibility for a useful industry. How should they split costs when these rise?

Heightened risks in taking on mid-market clients mean Sports Direct cannot be the only business struggling to recruit an auditor. In theory, the government can already appoint them. In practice, this job should go to a revamped accounting regulator, as mooted by John Kingman, accounting reform guru. But auditors “volunteered” for such roles might qualify accounts very heftily or charge prohibitive fees.

If the low-margin activity of auditing is a social service, it needs social underwriting more targeted than the extended blame game following the collapse of Carillion. Compulsory appointment of auditors would not work unless liabilities are strictly capped.

That said we have noted that the challenger firm Mazars seems more aggressive in gaining clients but probably finds that Sports Direct is a firm too far. The risks and potentials for fines and court cases (even in the UK where the law is against such cases) is still too great.

⁶ Bhaskar, K. et al, Disruption in the Audit Market: The Future of the Big Four, Routledge, 2019. Available at: https://www.amazon.co.uk/s?k=Disruption+in+the+Audit+Market%3A+The+Future+of+the+Big+Four&ref=nb_sb_noss

⁷ Lex, Sports Direct/UK audit: volunteered for victimhood, Financial Times, 15 August 2019. Available at: https://www.ft.com/content/4c531fde-bf71-11e9-89e2-41e555e96722

Sports Direct Breaking news (September/October 2019)/Continued

Joint audits a problem again

One strand of the CMA’s remedies were to have compulsory joint audits with the junior partner having at least 30% of the workload. One of the ramifications of the Sports Direct saga in finding an auditor shows that the challenger firms:

a) Could find the risk too high of the larger and more complex firms in the PIE categories
b) May not have the necessary expertise, systems and experience to cope
c) This also implies that as well as duplication there may be an associated learning curve set of costs
d) The issue of responsibility and liability is cast more dubious as the roles of the junior partner, as highlighted by the Sports Direct affair, is shown to be less than the Big Four. As Mike Ashley claims he needs to restore its financial credibility after a torrid period and only one of the Big Four will do that.

Sports Direct: where are we now?

Sports Direct in a race against time8:

UK retailer Sports Direct is in a race against time to find an auditor after Grant Thornton’s 12-year tenure ended at the company’s annual meeting on Wednesday.

The group has a week to find an alternative or it will be obliged to ask the government to appoint one.

Founder and chief executive Mike Ashley was also the target of a rebellion at the AGM, with almost a third of independent shareholders voting against his reappointment.

So far, both top-tier and midsized audit firms have been cool about overtures from Sports Direct, which has faced ongoing criticism of its corporate governance. Auditors are under more scrutiny over the quality of their work and are shying away from complex audits and controversial clients.

Reinforced by the fact that Andre Leadsom (minister for Business) will have to appoint an auditor soon:9

By law, if Mr Ashley cannot appoint a firm soon, Mrs Leadsom must do so. However, judging by reports ahead of the AGM, one has little faith in the other. Sky News said Sports Direct was “pleading with the Big Four accountants to pitch for its audit contract” to prevent government intervention. At the meeting, Mr Ashley insisted attempts to win over one of PwC, KPMG, EY or Deloitte — each of which has ruled itself out — had a different motivation: PA reported him as saying, “It’s like having the biggest lawyers, a little achievement.” Still, shareholders worry that time is running out and business is suffering. At the AGM, one suggested not having an auditor was putting off suppliers.

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8 Ely, J., Sports Direct in race against time to find new auditor, Financial Times, 11 September 2019. Available at: https://www.ft.com/content/b825c44c-d492-11e9-8367-807ebd53ab77
Accessed September 2019

9 Cincent, M., Hiring an auditor for Sports Direct is no job for Leadsom, Financial Times, 11 September 2019. Available at: https://www.ft.com/content/ade9d8ce-d48d-11e9-a0bd-ab8ec6435630
Accessed September 2019
A change of heart from the Big Four does not look likely, as they see risk in Mr Ashley’s proprietorial conduct as much as his accounts. PwC expressed “a reluctance to engage based on ownership structure”. Nor does the person charged with persuading them, director Richard Bottomley, appear well placed. Shareholders were urged to vote him off Sports Direct’s board by adviser Pirc, which noted his failure to alert former auditor Grant Thornton to a £600m tax bill while serving on the audit committee. At the AGM, 11 per cent of shareholders tried to do so.

A mid-tier audit firm might come to the rescue. Sports Direct is said to have held talks with Mazars and MHA MacIntyre Hudson. But Mazars was due to decide by the end of August and has since said nothing. And hiring MacIntyre Hudson would hardly signify a position of strength. The firm’s biggest job to date, at miner Ferrexpo, only came about after Deloitte resigned over management behaviour.

Each day of Sports Direct’s financial year that passes with no auditor in place only reinforces the case for a new system. Options include giving the new accounting regulator powers to assign an auditor and indemnify it from risk; the industry setting up emergency audit teams with personnel seconded from major firms; or an independent appointments panel selecting auditors for all listed companies.

Unless one of these solutions is adopted, there is a danger of hearing the multi-skilled Mrs Leadsom utter the nine most terrifying words in the English language: “I’m from the government and I’m here to help”.

What the Sports Direct conundrum has achieved is to highlight the importance of the Big Four and how the audit market really is broken. The biggest problem remains an insufficient number of large and recognised audit firms. Only our solutions seem to be able to solve this issue.
Sports Direct Breaking news (August 2019)

Sports Direct left without an auditor/Ensure companies get the audit they deserve

Looks as if Mike Ashley, and his managerial style, including employing friends and members of his family in senior positions, might be left with no auditor after the resignation of GT. The Financial Times reports this admirably as10:

Sports Direct is a company that would test the forbearance of even the most stoical auditor. Grant Thornton appears finally to have lost patience.

On the day of its annual results presentation last month, the retailer delayed an announcement for much of the day as it explained to its audit firm a significant eleventh-hour tax liability. Grant Thornton has now told the Financial Reporting Council, the regulator, that it intends to quit as Sports Direct’s auditor after September’s annual meeting.

In considering the mandate, other auditors have shown all the enthusiasm of nudists invited to study a hornets’ nest. One by one, they have ruled themselves out, citing, variously, conflicts of interest, reputational risk, or governance concerns.

Sports Direct, the idiosyncratic creation of mercurial chief executive Mike Ashley, is a dysfunctional special case. But it is unlikely to be the only UK listed company to find itself snookered in its search for a new auditor. This raises the question of whether the audit market is on the brink of failure, even before the implementation of reforms to the sector.

The aim is to improve the quality of audit, reduce the potential for conflict with more lucrative consulting mandates, and encourage challenger firms such as Grant Thornton to compete with the Big Four of EY, PwC, Deloitte and KPMG. Proposals include a legal split of audit and non-audit work, the appointment of joint auditors to large companies, and the FRC’s replacement by a more muscular watchdog.

Audit fees have risen to meet these new demands, but fines and compliance costs have risen faster. Public, political and media scrutiny of auditors has also escalated. The largest UK accountants have responded by reviewing existing audit relationships. They could stop working for companies if they believe the risk to their reputation or profitability seems too great.

The accountants protest too much. They may even be trying to throw sand in the gears of common sense reforms aimed at ending the current trust crisis.

All companies should receive the audit they deserve, in the interest of investors and the public. In the short term, the business secretary has the power to appoint auditors if a company fails to do so. Using this power is bound to revive discussion of whether the regulator should be more closely involved in auditor appointments.

10 Editorial Board Financial Times, Ensure companies get the audit they deserve, Financial Times, 4 August 2019.
Available at: https://www.ft.com/content/65cb3956-b689-11e9-8a88-aa6628ac896c
Sports Direct Breaking news (August 2019)/Continued

Sports Direct left without an auditor/Ensure companies get the audit they deserve/Continued

Non-executive directors have more intimate knowledge of a company’s requirements than any independent body would have. Shareholders seem to prefer the status quo. When consulted, only one challenger firm — Grant Thornton, as it happens — self-interestedly championed such a plan. As a result, in its review of the sector, the Competition and Markets Authority preferred to enhance scrutiny of audit committees.

Blow to mid-tier and challenger firms

We were never a great fan of the CMA recommendation for growing the mid-tier challenger firms to become the equal of the Big Four. (It would be a long way off – decades). Our solution rested more in greater independence (someone else decides the audit fee and even perhaps makes the choice of auditor) and splitting the Big Four audit from consultancy (more or less achieved) and then splitting the Big Four into eight separate audit divisions by dividing each of the Big Four’s audit division into two with some common parts. See our book Disruption in the Audit Market: The Future of the Big Four where these arguments are carefully analysed and elucidated. There were also computer simulation studies showing the degrees of freedom left in the audit market.

In the next section a Sunday Times article noted the sudden and dramatic rise in insurance costs for auditors. The same article discussed the impact of the mid-tier and challenger firms which were the champion of the CMA’s recommendations.

Auditors face rocketing insurance bills after a string of scandals - creating problems for challenger firms that want to take on bigger clients.

The soaring insurance bill is a setback for firms such as BDO and Mazars in their battle to lure clients away from the big four of Deloitte, PwC, EY and KPMG.

Grant Thornton (GT) made more than a million found loss in 2017 in 2018.

“There’s no question the challengers face headwinds and the cost of insurance could be one of them,” said Paul Boyle, who ran the Financial Reporting Council (FRC) from 2004 to 2009. “The sheer scale of resources they need to take on a big client is a real challenge.”

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Accessed September 2019

12 Dunkley, E., Auditors pay the price for scandals as insurance costs skyrocket, Financial Times, 8 September 2019. Available at: https://www.thetimes.co.uk/article/auditors-pay-the-price-for-scandals-as-insurance-costs-skyrocket-gd6wmsrjc
Accessed September 2019

13 Grant Thornton International – this may be a partial result as there are many companies with the same name.
Sports Direct Breaking news (August 2019)/Continued

Blow to mid-tier and challenger firms/Continued

In February, Grant Thornton was ordered to pay £21m damages to AssetCo, a fire engine supplier, for negligence. It followed a £2.3m fine by the FRC in 2017.

The rising cost of cover threatens to stunt proposals aimed at reducing the dominance of the big four and helping challengers take on large, listed clients.

“It could impact reforms,” said a challenger auditor. “There will be cover — but is it affordable?”

The rising cost of cover threatens to stunt proposals aimed at reducing the dominance of the big four and helping challengers take on large, listed clients.

There will always be some residual risk to be shared by the partners of the audit firm. This as we suggested in our book, among other issues, will be a cost and a risk too far for many of the smaller firms. That said Mazars replaced PwC as the European auditor for Goldman Sachs in May 2019. None of the Big Four could tender without crossing a conflict of interest line. This shows there really are insufficient large audit firms. Our thesis in the book\textsuperscript{14}.

Sports Direct Breaking news (August 2019)/Continued

Sports Direct continued criticism

Mike Ashley’s Sports Direct expanding empire has just run into problems. The empire cannot find an auditor. GT resigned. We believe that Oliver Shah of the Sunday Times is correct in his assessment of the final straw that persuaded GT to resign:

The Sports Direct tycoon, this generation’s most uninhibited plc boss, faces the unique problem of being stuck without an auditor after Grant Thornton stands down at the annual meeting next month. The firm was apparently unimpressed by the last-minute discovery of a €674m (£611m) tax bill before Sports Direct’s shambling results last month — and none of its competitors seems keen to step in.

Shah confirms the reports below that:

Deloitte is conflicted as it does the group’s tax work; KPMG has managed to find conflicts elsewhere in its “existing portfolio”; EY has suggested its role in House of Fraser’s insolvency might be a barrier; and PwC has indicated it has “a reluctance to engage based on [its] ownership structure”. (Ashley owns 62% and does almost whatever he likes.)

And that the latest attempt by Mike Ashley That has left Sports Direct scrabbling around in accounting’s lower leagues, reportedly holding talks with MHA MacIntyre Hudson — a member of Baker Tilley International, and auditor to the iron ore pellet-maker Ferrexpo, but hardly a household name.

The insightful Shah raise some serious questions:

After several years of high-profile company collapses, rising public anger over auditors’ failure to spot fraud and some stinging fines from the regulator, big firms are beginning to lose their appetite for colourful clients. Audit profit margins are too thin to justify the risk and, unlike in the days of Goldsmith, cross-selling services such as deal advice and tax planning is frowned upon.

The Panglossian view is that the free market should close the gap over time: if Ashley gets desperate, with the prospect of his shares being suspended, causing embarrassment in front of important suppliers such as Nike and Adidas, won’t he eventually offer such juicy fees that one of the accounting firms won’t be able to resist? And won’t those fees be enough to cover a belt-and-braces audit?

Continued

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16 Naively or unreasonably optimistic.
Not according to them. It’s not Sports Direct’s financial health that worries the bean counters — it recorded a 5% rise in pre-tax profits to £143.3m in the year to April — but Ashley’s character. A man who tells a newspaper he has “balls of steel” and a court he is a “power drinker” is not, in their opinion, someone whose word you want to rely on for marginal calls. “Everyone’s afraid to touch him — you’re going to get FRC’ed,” says one, referring to the Financial Reporting Council, which has belatedly discovered a set of teeth. The shunning of Ashley could even see the FRC and government order a firm to do the Sports Direct audit — an unprecedented move that would almost certainly end in court, or with taxpayers providing the unlucky bean counters with some kind of indemnity. One suggestion is the creation of a NewCo auditor specially for Sports Direct, with accountants seconded from various firms for a fixed period in the manner of an old-fashioned DTI inquiry. In other words, there is no obvious answer.

Basically the reputational damage is the concern. It is not just a question of risk – though for a smaller firm the fine and subsequent legal costs could annihilate the firm. But in our opinion, reputational damage is at the heart why the mid-tier challenger firms and the Big Four do not want to audit Sports Direct. Who is going to trust Mike Ashley to be open and transparent when his own description of himself conjures up ‘balls of steel’ and ‘power drinker’. Plus the small question family members and inappropriately qualified personnel being given premium positions.

Another private company with a well-known entrepreneurial business celebrity heading up the group – Mike Ashley. We did not cover this in the book as it is adjacent to many of the financial failures and scandals. Jolly writes:

> The FRC said in November 2016 said it was investigating Sports Direct’s auditor, Grant Thornton, over its failure to report a deal that Sports Direct struck with Barlin Delivery – which delivered online purchases to customers outside the UK. Barlin Delivery was owned by the brother of Sports Direct’s founder and controlling shareholder, Mike Ashley. Sports Direct said Grant Thornton decided that the company did not need to disclose a “related party” transaction despite the close relationship. Sports Direct said last year it had terminated its deal with Barlin.

To add to its woes, Sports Direct has come under renewed scrutiny after GT resigned as the company’s auditor.

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18 Kinder, T., and Eley, J., Grant Thornton to quit as Sports Direct auditor over €674m tax bill, Financial Times, 29 July 2019. Available at: [https://www.ft.com/content/f1c08988-b225-11e9-8cb2-799a3a8cf37b](https://www.ft.com/content/f1c08988-b225-11e9-8cb2-799a3a8cf37b) Accessed August 2019
Grant Thornton has told regulators it intends to quit as Sports Direct’s auditor following concerns over the disclosure of a €674m tax bill, in a move that would pile more scrutiny on to the corporate governance of Mike Ashley’s business.

The firm, which has audited Sports Direct since it floated on the London Stock Exchange in 2007, is set to resign after the troubled retailer’s annual general meeting in September. Grant Thornton made the decision to walk away from the company, one of its largest listed audit clients, after it was informed by Sports Direct of the significant tax liability just hours before it was due to sign off on its annual accounts, according to two people with knowledge of the matter. The Financial Reporting Council, the audit watchdog, has been informed of its plans, the people said.

The resignation could leave one of the UK’s most high-profile listed companies struggling to appoint an auditor after it admitted in its annual results last week that it had not persuaded rival accounting firms to tender for its audit contract.

Now this is significant because Sports Direct has come under criticism for its lack of governance of the reputation of its Board, Mike Ashley’s brother as a business partner, and the appointment of Mike Ashley’s son-in-law as well as Mike Ashley’s personal style and management style (who owns 62%) including ‘workhouse’ conditions of the company’s staff. So the resignation of its auditor places a new strain on the company. Remember that GT is already under scrutiny by the FRC for its existing audits of Sports Direct.19

The possible candidates to take over as auditor are limited. This adds to the insufficient numbers issues even in the mid-tier challenger firms20:

Sports Direct said in its results that it had held “early discussions” with the Big Four accounting firms over a possible tender process to replace Grant Thornton. It revealed that KPMG, Deloitte and EY had told the company they were conflicted from auditing the business, and PwC had a “reluctance to engage based on our ownership structure”. BDO, a mid-tier accountant, ruled itself out of a proposed tender process last year, citing reputational risk. Mazars, another challenger firm, approached Sports Direct about becoming its next auditor but with a number of conditions around governance.

Asked about the auditors at its results presentation, Mr Wootton said Sports Direct had a “rolling letter of engagement” with Grant Thornton, but that “you would have to ask them” if the firm would continue to audit the group. Under UK rules, the Department for Business has the power to make an appointment if a company cannot appoint an auditor. The lack of an auditor would be another significant problem for Mr Ashley and his tight-knit team of top executives.

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19 In particular, the FRC’s audit quality review team is also looking into how Grant Thornton valued Sports Direct’s holding in Debenhams before its near collapse in June 2019.

20 Ibid
Sports Direct Breaking news (August 2019)/Continued
Sports Direct continued criticism/Continued

Although Mike Ashley thinks differently²¹:
Deflating the posturing confidence of CEO Mike Ashley’s letter in the company’s release, that “we do not believe a firm outside of the Big 4 will potentially be able to cope with such an audit in the future,” none of those firms has taken the bait.

Neither have any of the next tier—BDO, RSM, or Mazars—unfortunately identified by the Competition & Markets Authority as “challengers.” As for the prospect of a candidate from the still-smaller ranks, the latest Accountancy survey conveys the telling message of scale:
- No firm smaller than Mazars audits a single company in the FTSE 350.
- Of the smaller AIM-100 companies, third-tier firms audit only five, none of which approaches the size of the Sports Direct engagement.
So the day may have arrived when a large public company is unable to secure the services of a qualified auditor.

Now the insufficient numbers issue has become serious or is it the behaviour of Mike Ashley and his management team? We reckon on balance it is the latter. Whoever audits Sports Direct there is an additional risk factor and that will translate into higher audit fees and perhaps qualifications to the audit.

²¹ Peterson, J., Why Grant Thornton Quitting As Auditor of Sports Direct Matters, Going Concern, 10 August 2019.
Available at: https://goingconcern.com/why-grant-thornton-quitting-as-auditor-of-sports-direct-matters/
Sports Direct continued criticism/Continued
Sports Direct Previously
The continuing saga of Sports Direct trying to find an auditor continues. GT has resigned. The Big Four have opted out (explained below). BDO has declined and Mazars is not so enthusiastic. The FT in an article by the wonderful Tabby KInder summarise this beautifully:

Grant Thornton’s decision could result in the company becoming the first major listed business in the UK to fail to appoint an auditor, as it has previously been unable to convince any rival accounting firm to tender for its audit contract.

BDO was approached by executives at Game Digital, the high street chain bought by Mr Ashley’s group in June, to start a dialogue with Sports Direct, according to a person close to the talks. BDO has audited Game since 2016. The person said that BDO had declined the invitation.

A person close to Mazars said the firm had held “more than one conversation” with Sports Direct since Grant Thornton’s announcement. “We need a consensus within the firm to decide whether to go for it. We are expecting to decide by the end of the month,” the person said.

Rival audit firms have said that a decision by Mazars to pitch for the contract could prove unpopular among its peers. The head of audit at one large firm said: “This is not an audit issue, it is a corporate governance issue. The audit profession wants this situation to require [government] intervention.”

BDO ruled itself out of a proposed tender process last year, citing reputational risk. Each of the Big Four firms — PwC, Deloitte, KPMG and EY — has claimed to be conflicted from auditing Sports Direct. Deloitte advises the group on tax; EY managed the sale of House of Fraser to Sports Direct; KPMG audits JD Sports, a competitor; and PwC has a “reluctance to engage based on our ownership structure”, according to Sports Direct’s annual results.

Mazars has previously approached Sports Direct about becoming its auditor but with a number of conditions around governance and a significant increase in fees. Grant Thornton was paid £1.3m to check Sports Direct’s books last year.

The renewed talks with “challenger” accounting firms come despite Sports Direct stating in its annual report that a firm outside the Big Four would not be able to “cope” with its audit because of an increase in the company’s size and complexity.

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Available at: https://www.ft.com/content/e9e49546-e335-11e9-a8e9-296ca66511e9