

Appendix 3.01.3 The Authors and Methodology

The Authors' and Contributors' Perspectives

The involvement of the three of us has helped to achieve balance and we are open about the differences among our views. All three of us have extensive and varied experience in financial reporting and the accounting profession. Two of us are broadly pro-Big Four in some shape or form and one of us is against. All three of us have experience both from the reporting viewpoint and audit experience. One of us has had a lifetime career in industry with preparer experience including audit committees and shareholders. But we all agree that the current disputes between the FRC/ARGA, the users of reports, the Government and the Big Four has to lead to a re-evaluation of the audit experience, not least because of the gap between what the public expects and what the auditors actually currently deliver. This expectations gap is currently widening and unstable, especially after the plethora of failures early in 2018. In addition, the rate of increase of financial failures during 2017 and 2018 seems to be accelerating. Recent improvements to financial reporting and auditing seem not to be working.

Professor Krish Bhaskar¹ is the principal author of this book. He has published more than 50 books and many refereed articles. He has also worked in the IT, consulting, investment banking, automotive and forecasting sectors. He has experience of running companies, preparing reports and auditing² – though mainly computer auditing as it used to be called.

Krish has been aided and abetted by Professor John Flower whose major role is as an auditor and researcher into multinational financial reporting. John would probably classify himself as left of centre and leaning towards anti-capitalism and environmentalism. He has published scholarly critiques of the profession including *Global Financial Reporting*, with Dr Gabi Ebberts, Palgrave, 2002 and two more radical books by Routledge: *Accounting and Distributive Justice* (2010) and *The Social Function of Accounts: Reforming accountancy to serve mankind* (2017). He has undertaken substantial research on financial reporting and standard setting. He also introduced modern auditing methods for the Common Agricultural Policy and undertook a number of innovative techniques in auditing what was and is massive-scale mega audits³.

¹ Brother of philosopher Roy Bhaskar, now deceased and previously leader of the realist movement (The Realist Theory of Science amongst others).

² Although he has no formal accounting qualification he has been an examiner, written books for the ICAEW and CIMA and undertaken and supervised audits for those with ICAEW and ACCA qualification, and undertaken national and country audits; in addition he has helped one the Big Five with certain aspects of FTSE 100 audits. And undertaken numerous assurance reviews for investment banks. He also taught auditing and computer auditing as part of continual professional development programmes to qualified ACAs and others; and also internationally. Close association with US and French universities. Runs two boutique consulting companies.

³ See above.

Rod Sellers OBE⁴, FCA⁵ has spent almost 50 years in senior financial and corporate roles in industry. Rod has given his time, written material, and given his views relentlessly, unstintingly and without complaint. But he does not want to be regarded as an author – just a contributor. He is deemed part of the auditing establishment (as he sat on the advisory board of one of the Big Four accounting/auditing/consulting firms) and was financial director and then chief executive of a FTSE 250⁶ company. For the last 20 years, he has been a portfolio

NED/Chairman with a dozen companies – from private family businesses to PIE entities. His role has often included serving on audit committees and working closely with the financial departments. He defends the accounting and auditing profession and, although he realises the impact of disruption, he does not believe that very much has gone wrong or usually requires anything more than evolutionary change. He also believes that, in most cases, management is honest and trustworthy. His motivation to be involved in this series of books is to make sure his viewpoint and that of the profession is taken into account. Rod came to many of the interviews and collected considerable amounts of written evidence (emails etc.).

However, as said earlier, although we share a common view of what the problem is, we do not all share the same opinion of what has caused the problem, or the best way to address it.

- John Flower is slightly negative towards financial reporting as it currently is, and current accounting rules. John is disillusioned with the public interest notion of auditing and wants radical change.
- Rod Sellers believes that in general the preparers of financial reports do so honestly and fairly. He believes that the available published evidence tends to concentrate on the frauds and scandals, thereby negating much of the good work which is undertaken between a company's financial team and its auditors out of the public eye. But he recognises that change is coming and may be necessary.
- Krish Bhaskar takes the middle ground and keeps a balanced view. However, he is aware that in a situation like Tesco for example, there is high motivation for senior management to manipulate financial reports, however slightly, to their advantage, for financial gain (salary, bonuses and share options, etc.) or for face-saving aspirations.

There are also many other contributors to this book, practitioners with the Big Four, directors and managers from boards of directors, all of whom prefer to remain anonymous but who have provided significant input. We also draw on the views of a variety of institutions. These range from support of the current status quo, critical of it, or in some cases highly critical of the status quo and ardently wishing for change.

All of the above demonstrates our key aim: to ensure that this book is relevant fair and transparent. You know whose view it is you are reading – whether it is one of the authors, a Big Four accounting partner, a member of a board, or someone lower down being hard pressed to get the routine accounts out in time.

⁴ UK Royal honour: Officer of the Most Excellent Order of the British Empire.

⁵ Fellow of the ICAEW, rather than just ACA which is a chartered accountant.

⁶ The Financial Times Stock Exchange 250 Index, also called the FTSE 250 Index, FTSE 250 is a capitalisation-weighted index consisting of the 101st to the 350th largest companies listed on the London Stock Exchange. Rod describes it as a share index of mid-sized companies (after the top 100) listed on the London stock exchange by market capitalisation.

Methodology

During this project, we have performed the classic research criteria. The literature search: we have examined and incorporated over 10,000 academic and professional pieces and articles on the relevant subject matter. Since we published our first books and articles, there is now a wealth of information online. It is impossible to precisely list all the sources, apart from the most important. However, since the inception of this project in 2012, we have accessed and researched well over 100,000 online pieces and titles⁷.

During the process of researching this book series, we have talked to many people in industry, the City of London, the Big Four Firms, smaller accountancy and auditing practices, analysts, the accounting organisations, bankers, professional investors, including the senior management of investment banks and a wider set of those currently involved. And, of course, the heads and senior management of the groups and companies who are subjected to increasing reporting requirements which are frequently regarded as a necessary evil. We include pieces or views that are attributed to these people. We have also had a few whistle-blowers.

To canvass these views, we have conducted over 200 interviews lasting more than an hour where full notes were taken, many more casual meetings and probably over several thousand emails, short interviews, calls or correspondence with participants, mainly non-academics to ensure that we have canvassed opinion widely. We cannot say that this is a representative sample, in any statistical sample or even in a stratified way, however, it is a cross-section of anecdotal evidence from practitioners large and small, professional and other investors, shareholders, analysts, financial journalist, management of medium-sized and large companies/groups and other interested parties.

We have had notable input from a host of academics, partners in the Big Four accounting/auditing firms, and less senior personnel from the same. Input from boards and managers. Krish has also been lucky enough to have had a range of input from former students. All the Big Four have contributed in some way. PwC provided much support until 2014. Deloitte's and KPMG have been very helpful. EY have been the least enthusiastic – perhaps wrongly thinking that we were in some way against the Big Four. We are not, but the Big Four themselves acknowledge that change is needed - just look at any of their websites. That said, we are taking a longer forecast range (sometimes as far as 2035 or beyond) in which to explore possible scenarios, observations, forecasts, events and solutions: most of the Big Four have much shorter time ranges.

⁷ Several hundred with Krish Bhaskar and Rod Sellers present (sometimes accompanied by John Flower). In total including interviews, phone calls, emails and correspondence we probably had more than 5,000 individual views and thoughts. And several hundred with Krish alone. John has conducted his own empirical research with many entities and personnel on continental Europe, and we draw upon studies and original research amounting to several hundreds of thousands of interviews.

Included as our own text are sections written by a variety of interviewees including partners from the Big Four, senior auditors, accountants, analysts, investment bankers, other professional investors, shareholders, proxy advisors⁸, and senior and lower level managers of the FTSE 350. When we have quoted an interviewee, director, manager, auditor, accountant, or commentator. You can be sure that they are in a senior position or experienced; a fair number of the quotes come from senior partners in the Big Four but for reason of anonymity we have not always referenced them as such. Many have required anonymity so there are only a handful of attributions given. We have not always identified quotes separately especially if they came from several sources even though we may have used the actual words from a single source. Credit should be given to those people who have given much time and effort in providing input to this volume – especially written input. We do indeed thank them very much. Of course, as these written sources have requested anonymity, we are not at liberty to release their names. However, many of the ideas incorporated here include input and sometimes their actual words. Where we have incorporated ideas into our own thinking then we adhere to the normal observation to the effect that the views expressed here are our own notwithstanding the comments of others.

Where possible we have also referenced press reports. Usually these articles are published long after the annual report is published but they are sometimes contemporaneous with the failure or event. Most importantly, where possible we always try to provide a balanced view.

Many of the comments we received have been added for balance to reflect all the many comments received from reviewers and practitioners, some of which have been involved in the various cases we consider. Often their response is to disagree with our conclusions in the strongest possible terms. However, our conclusions are based on evidence and are often reinforced by others those references have been given.

⁸ A **proxy advisor or firm** (also known as a proxy voting agency, vote service provider or shareholder voting research provider) provides services to shareholders (in most cases an institutional **investor** of some type) to vote their shares at shareholder meetings of listed companies. Also to provide research and views. These include ISS, PRIC, Glass-Lewis and others including several in India.