

**The impact of the Arthur Andersen and Ernst & Young  
merger on the Australian audit services market**

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**PhD**

**2010**

**Certificate**

I certify that this thesis has not already been submitted for any degree and is not being submitted as part of candidature for any other degree.

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Date:                      13 January, 2010

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## Abstract

The merger between Arthur Andersen (AA) and Ernst & Young (EY) in Australia was announced on the 16<sup>th</sup> May 2002. The merger was the culmination of seven months of speculation and drama surrounding the future of AA, following its involvement in the collapse of Enron in the United States of America (US). With the number of Big N firms having been reduced to four, concerns were raised over the impact of the merger on the competitiveness of the Australian audit services market (Boreham, 2002; Robertson, 2002; Hamilton et al., 2008).

The objective of the thesis is to evaluate the impact of the merger of AA and EY on the market for audit services in Australia. In this regard, consideration is given to two specific questions. First, whether the Australian audit services market became less competitive subsequent to the merger of AA and EY. Second, whether any benefits, either in relation to audit pricing or efficiency, accrued to the firms involved as a consequence of the merger. In order to address these objectives, the impact of the merger on Australian listed firms is examined. This was done for both the market as a whole, as well as for the clients of EY. The sample was drawn from the 1271 available firms on the Australian Stock Exchange (ASX) in 2002.

The results show that the audit services market in Australia is still competitive subsequent to the merger of AA and EY. This is so, even though the changes in concentration would suggest that anti-competitive effects could be occurring. One possible explanation for these findings is that the measures of market concentration as identified in the industrial organization literature are difficult to apply to audit firms. Additionally, the lack of benefit to EY from the merger, either through increased pricing or efficiency, may simply be due to 2002 being too early

for benefits to be realised, possibly due to the stickiness of audit service fees (Ferguson et al., 2005) or merger implementation issues (Lawrence and Glover, 1998).

## **Acknowledgements**

This thesis was realised with the support and assistance of a number of people. First I would like to thank Prof. Donald Stokes, Dr. Jane Hamilton and A/Prof. Peter Wells for their tireless efforts and guidance in supervising me over the years. I'd also like to thank Prof. Stephen Taylor, Prof. Andrew Ferguson, Prof. Anne Wyatt and my three examiners for their comments and feedback. In addition, I appreciate the suggestions from participants in research workshops at The University of Technology, Sydney and ANCAAR (2007). The School of Accounting at the University of Technology, Sydney, (UTS) also provided valuable assistance and support and finally, Ms. Melinda Jollie put in a most diligent effort in proofreading the final version of this thesis.

To my family, thank you, and to Anna, I couldn't have done this without you.

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