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Audit change data shows differences at Big 4 firms

In the churn for new auditors, one Big 4 firm has held steady with its net number of audit clients while three others have seen net losses numbering in the 20s. **Tammy Whitehouse** has the results of the latest data from Audit Analytics.

For a second straight year, one Big 4 firm has managed to hold on to its public company audit client base while three others have seen net losses numbering in the 20s.

Data assembled by Audit Analytics based on public company disclosures of audit firm changes shows Deloitte has held relatively steady for the past few years. The firm has lost no more clients than it has picked up, to end both years with net increases, even if only barely. The firm lost 28 clients in 2016 but won 29 for a net increase of one public company audit. In 2015, Deloitte lost 26 clients but picked up 31 for a net gain of five audit engagements.

The rest of the Big 4, however, have been remarkably consistent with one another both years in terms of losing engagements. PwC, for example, lost 42 engagements and won only 18 for a net drop of 24 engagements in 2016. At KPMG, gains and losses in 2016 were identical to PwC's for a net drop of 24. EY also lost a net 24 engagements, but saw even more turnover losing 50 engagements and gaining 26. In 2015, PwC ended the year down 25 engagements to EY's drop of 26 and KPMG's drop of 22.

Client churn is also evident among firms below the Big 4. BDO USA won 42 and lost 25 audits in 2015, then won 32 and lost 22 in 2016. Grant Thornton picked up 30 and lost 27 in 2015, then picked up 16 and lost 24 in 2016.

With few data points to differentiate among the Big 4, the data in audit gains and losses seems noteworthy, though not a clear indicator of firm performance. Restatement results and inspection results also get some attention as shedding light on differences among firms, but none of that data alone or in tandem seems to paint a clear picture. The Public Company Accounting Oversight Board has attempted to develop indicators of audit quality, but has not advanced the initiative beyond issuing a concept release.

Audit Analytics tracks not only gains and losses in audit engagements but also the source of new audit engagements, meaning whether companies are moving to a Big 4 firm from another Big 4 firm or from a national or regional firm, for example. There the data seems to suggest most of the audit changes in the Big 4 represent moves from one Big 4 firm to another.

Deloitte, for example, picked up 22 of its 29 new engagements in 2016 from another Big 4 firm while losing 17 of its 28 lost engagements to another Big 4 firm. KPMG took 12 of its 18 new engagements away from another Big 4 firm, and 15 of 18 new engagements at PwC were exiting other Big 4 firms. At EY, it was 16 of 26.

A fair number of Big 4 engagements are migrating to smaller firms as well. Of PwC's 42 lost engagements in 2016, 18 went to national or regional firms. Half of EY's 50 lost engagements went to non-Big 4 firms.

Adam Weissenberg, a national managing partner at Deloitte, said he sees the retention data in a positive way. The firm has invested in audit quality measures and in innovating the audit with new technology and tools, he says, which helps. "That's getting known in the marketplace," he says. "When we meet with potential clients and walk through the tools and innovation, that coupled with quality methods has really resonated with clients."

Merger and acquisition activity also plays a role in winning and losing audit clients, Weissenberg, says, and the markets have been active the past few years. "Sometimes you are on the right side of an M&A, and sometimes you're on the wrong side. That may impact the numbers in any particular year."

PwC, EY, and KPMG had no comment. ■