

2018 Top 100 Accounting Firms: Audit now just a side business for the big four Deloitte, EY, KPMG and PwC

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The percentage of revenue that the big four accounting and consulting firms received from their core service of auditing financial statements has fallen to an all-time low with [Deloitte](#), [EY](#), [KPMG](#) and [PwC](#) now all firmly focused on high-growth consulting services.

This move towards non-accounting services is a trend being emulated by the fastest-growing firms in the 2018 [The Australian Financial Review Top 100 Accounting Firms](#) list.

It is also a move that has previously led to [concerns that the big four firms](#), who trade off the reputation for trust they have built as auditors, are losing focus on the importance of audit work to the wider capital markets and the broader economy because consulting work is more lucrative.



Audit work at the big four accounting firms Deloitte, EY, KPMG and PwC has fallen to an all-time low. **Ryan Stuart**



The independence and [audit quality of the big four](#) has also been questioned, with KPMG Australia this week saying it was "open to considering" a move by KPMG UK to stop providing extra consulting services to clients it also audits.

'Part of market shift': CA ANZ

The peak body for accountants at the big four, Chartered Accountants ANZ, is unconcerned about the shift, seeing it as part of a general trend in the auditing market.

"Quality assurance services such as audit play an important role in the profession and ensuring the transparency and stability of our capital markets in Australia and globally," a CA ANZ spokesman said.

"Chartered Accountants ANZ has noted the reduction in audit revenues from the large firms as a whole as they grow revenues in other areas."

CA ANZ "continues to see strong growth in young graduates wanting to become chartered accountants", he said.

Revenue from financial audits at the big four fell to between 14 per cent and 21 per cent of their respective revenue, according their 2018 transparency reports.

Deloitte now earns just 14 per cent of its revenue from statutory audit, down from 19 per cent five years ago, while at PwC revenue from audits is 17 per cent of revenue, down from 22.5 per cent.

Audit revenue is now 20 per cent of KPMG's revenue, down from 24 per cent in the 2014 financial year, while audit revenue at EY is 21 per cent of total income, down from 28 per cent.

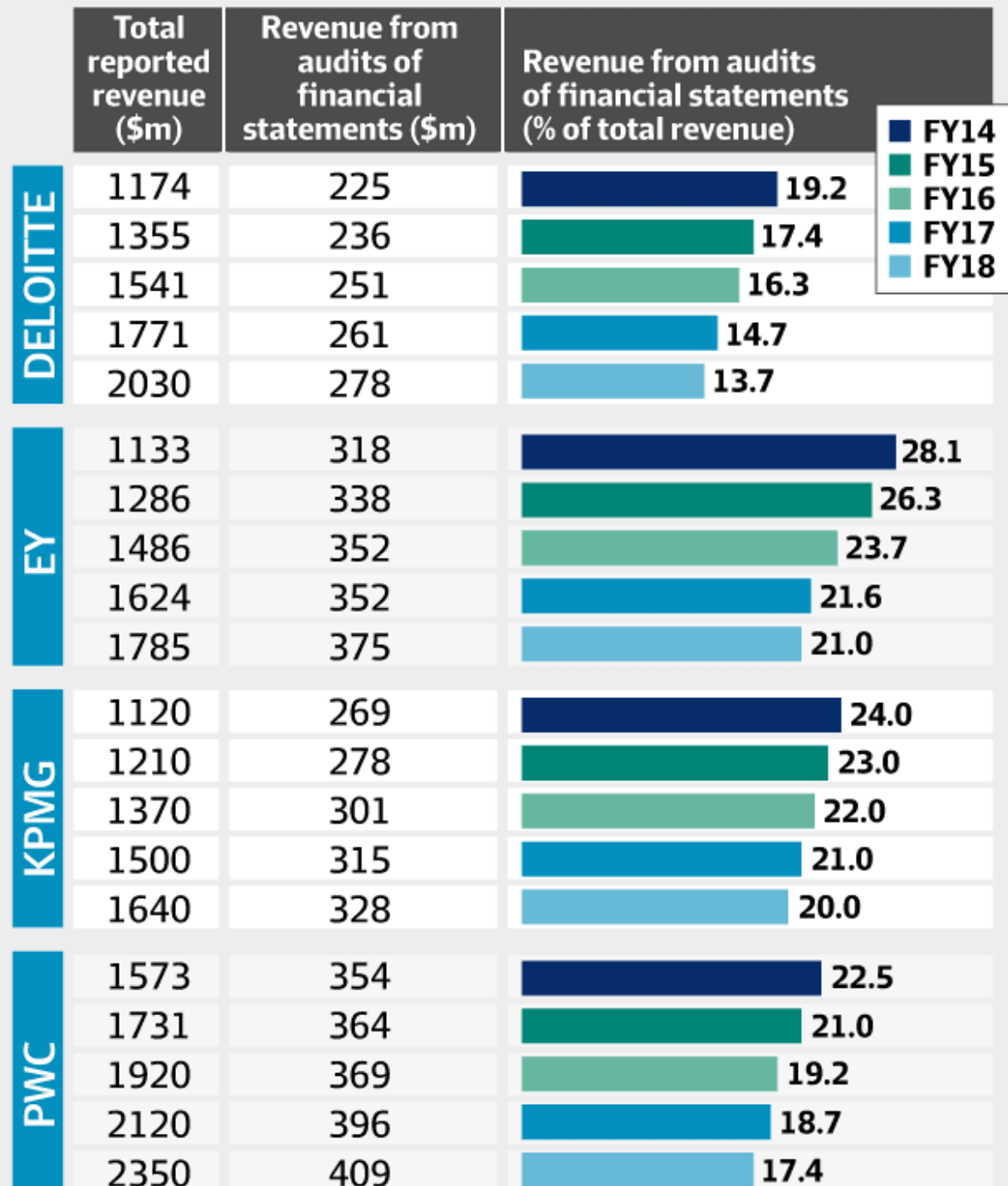
Advisory partners in demand

The shift in priorities can be seen by the type of partners that are being promoted and hired at the big four, said Andrew Jackson, a partner at executive recruitment firm Maven Partners.

"Over the last year almost half of the partner promotion or lateral hires within the big four were in their advisory practices. We do not see that trend abating any time soon," he said.



Audit work as a percentage of total big four revenue



SOURCE: FIRMS

Audit and total work at the big four over time.



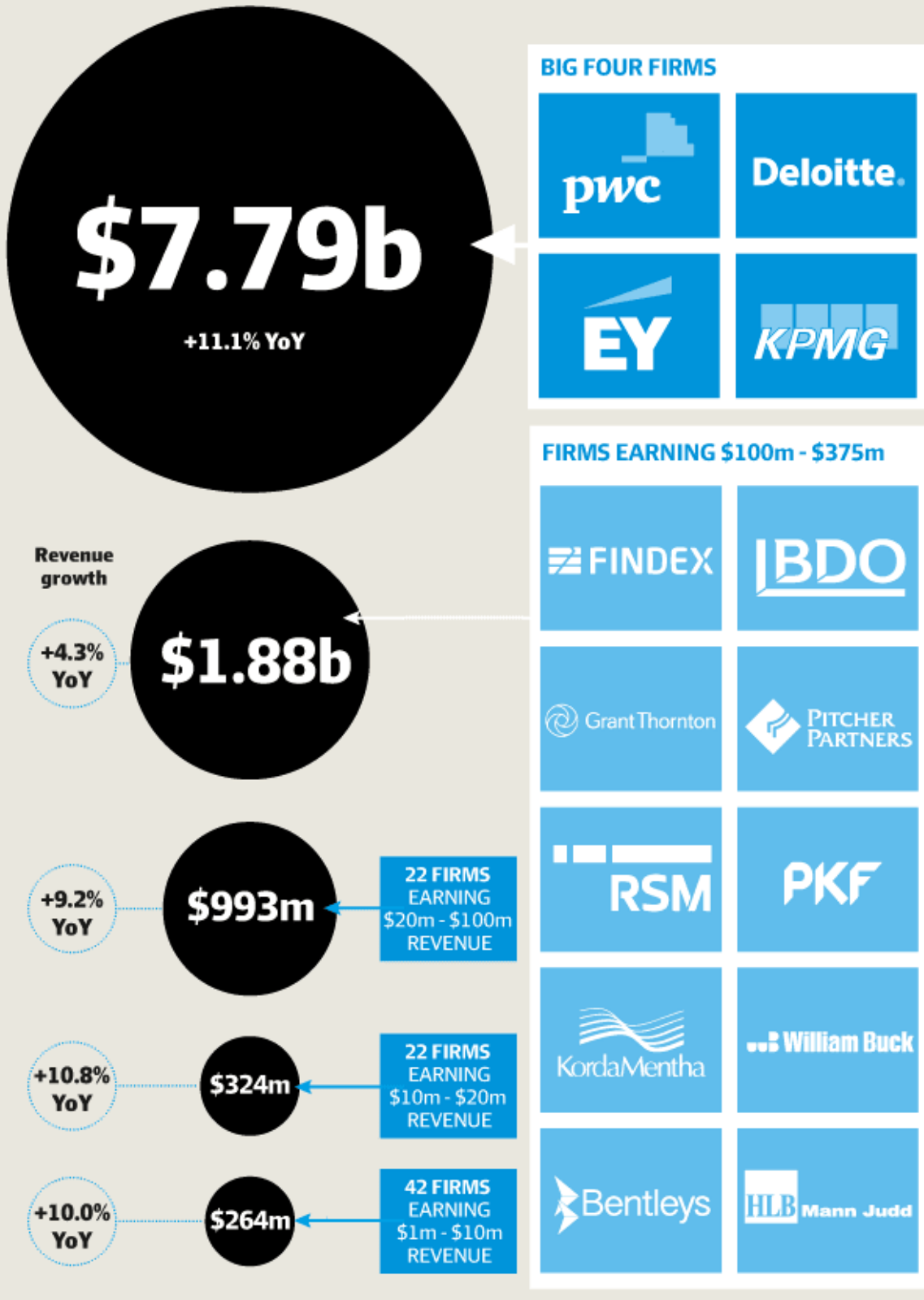
"The firms are looking for lateral hire partners across the full spectrum of technology and consulting. Skills in areas such as digital, transformation, people advisory and performance improvement."

Mr Jackson said audit was still relevant within the big four but was not growing at the same rate as advisory.

"It's always been much harder to move audit partners because of the long time it takes to transition clients," he said.

"There are still some audit partner moves happening, particularly in the middle-market operations of the big four and at the mid-tier firms."

Top 100 accounting firms FY18 revenue breakdown by firm type



Rapid growth in PwC's advisory work

The rapid growth of non-audit services is best illustrated by PwC, the nation's largest professional services firm.

Revenue from PwC's audit practice grew by 3 per cent to \$409 million in the past financial year, compared with services for non-audit clients growing more than four times faster, up 14 per cent to \$1.72 billion.

At the other end, Deloitte had the smallest but fastest-growing audit revenue, with income up 6.5 per cent to \$278 million, compared with income growth of 18 per cent, to \$1.64 billion, for non-audit services.

'Multi-disciplinary advice' is key

When asked how they saw the future of the market, the big four CEOs focused on their respective multi-disciplinary advisory offerings and technological and regulatory change.



Andrew Jackson from Maven Partners: "Over the last year almost half of the partner promotion or lateral hires within the big four were in their advisory practices." **Nick Moir** "Professional services firms have been adapting their business models over the past few years to support clients with the challenges and opportunities they face in this complex environment," said PwC CEO Luke Sayers.



"Whether it be providing trust in capital markets via a quality audit, developing technology-driven transformation solutions or navigating our increasingly complex tax system, the big four firms are increasingly being called upon to bring multi-disciplinary teams together to help companies solve their biggest problems."

KPMG's Gary Wingrove said the firm's research showed that clients were most concerned about emerging or disruptive technologies, environmental issues and the re-emergence of protectionism.

"Client appetite for innovation and data-driven technologies – including AI, IoT and blockchain – is increasing unabated," Mr Wingrove said.

"Australian CEOs are looking to digital innovation and data analytics to create value across their business and gain a competitive edge.

"At the same time, they are faced with increasing cyber risk, privacy mandates, regulatory pressures, brand reputation risk – and their impact on shareholder value."

Complex client needs

EY's CEO Tony Johnson said client issues were becoming more complex, a trend that was driving growth in the advisory space.

"As client issues become more complex, the need for expert capability will see the professional services sector expand. We will continue to see growth across the firm, including infrastructure advisory – projects are more complex, participants need expert advice gleaned from experience so that projects are more efficient and deliver better outcomes," he said.



PwC CEO Luke Sayers: "Professional services firms have been adapting their business models over the past few years to support clients with the challenges and opportunities they face in this complex environment." **James Alcock**

Deloitte CEO Richard Deutsch said that the "role of a professional services firm" in the economy had never been more important.

"Clients look to us as trusted advisers and integrators to help navigate the increasing number and complexity of challenges they face. Deloitte also has a responsibility to help shape the future economic prosperity of Australia. Businesses need to understand that a social licence has become a licence to operate."