

Big Four audits are off the pace

Smaller firms top the list of the best audit services in the inaugural Accountancy Age Finance 360 survey of client opinions

Written by Paul Grant

[Accountancy Age](#), 25 Feb 2010



"Big is best" is a phrase often quoted in business circles, but for many corporate consumers of audit services the truth can be very different.

An independent survey into clients' views on the service they received from their last audit provider found the Big Four lagging far behind smaller rivals.

Of 12 leading audit firms, the Big Four member to receive the highest ranking, PricewaterhouseCoopers, only managed 5th place. The firm stood out for its strong technical skills but failed to impress in other areas.

advertisement

Mazars was placed first with Horwath Clark Whitehill and Grant Thornton coming in second and third.

Ernst & Young suffered the worst results, ranking 12th and coming bottom in each of the five aspects of service graded. Staff were described as "pretty dire", short on technical knowledge, confidence and even decent written English. Negative comments outnumbered the positive two to one.

"These findings are wholly inconsistent with the positive and detailed feedback we receive from our clients and other stakeholders," stated E&Y. "We are committed to audit quality and delivering technical excellence."

KPMG and Deloitte fared little better in the inaugural Finance 360 survey of senior readers of Accountancy Age and sister publication Financial Director, coming in 9th and 10th.

While KPMG won plaudits for technical skills, it was let down by perception of its added value, with one FD claiming "very little feedback on potential improvements" their money.

Deloitte also struggled to prove it added value, while clients felt the firm's audits were "mechanical" and an exercise in "box-ticking".

One FD felt Deloitte was "more concerned with gathering enough evidence to stand up in court with a defence if there were ever a negligence case".

The firm proved more popular for its transparent and fair billing. A KPMG spokesman said the firm was "committed to the very highest standards of audit quality and service". Deloitte declined to comment.

At the other end of the rankings Mazars scored well across all five categories, while Horwath came top for fair billing.

David Evans, senior partner at first-placed Mazars, said: "Every team member at Mazars strives to put clients at the heart of everything they do. It's fantastic to have this hard work and dedication recognised in the results of the survey."

Mark Lucas, head of audit, tax, advisory at 6th placed RSM Tenon, said: "It's clear the profession can all do better to build on the quality of services and responsiveness to the marketplace."

Audit services: top to bottom

Audit firms make fine promises on service – but which ones are delivering? We reveal the results of our inaugural Finance 360 survey of client opinions

Peter Joy, Accountancy Age 25 Feb 2010

Last autumn, Accountancy Age and Financial Director conducted a study of audit firms' service to their clients. From 635 financial directors, CFOs and financial controllers – a representative cross-section of UK plc – we gathered confidential input on the firm that had handled their last audit.

Each respondent graded their auditor on five distinct aspects of service (see methodology, p14). Respondents could also add their own frank background comments. This – probably the largest such independent study carried out in the UK to date – generated solid performance scores for the leading 12 audit firms.

The results are no mere curiosity. They hold cold, hard implications for clients and auditors alike. Service performance reveals much about a firm's capabilities, human capital and future viability. With embattled clients turning the screw on overheads, the standard of audit firms' services needs to move into line with their bills.

Top of the Class

It was one of the smaller firms on our list that proved the most popular with its clients. Mazars scored best overall, with a satisfaction score of 73%. On all five aspects of service, Mazars ranked among the top three firms, coming in first for Accessibility & Communication and for Initiative & Added Value. In general, clients found Mazars readily-contactable, well-organised and responsive. "We knew in advance when the partner would be available and they stuck to it," said a financial controller at a small retail business. "At the manager level and below, they were very accessible."

Most found Mazars technically strong and commercial-minded too. "Junior audit staff changed during the year, but quickly picked up the quirks of the organisation," reported a CFO at a business services firm. "They understand our business perfectly and really put effort into understanding the way we work," said an FD at a manufacturing firm. "They highlighted areas for improvement and helped create procedures for that improvement." Second overall was Horwath Clark Whitehill, with 70%. Better-than-average in all areas, Horwath's most striking performance came in Transparent & Fair Billing, where it ranked top, beating the market average by 9%. Clients found Horwath bills reasonably clear, relatively good value for money – and notably lacking in nasty surprises.

Third – on 69% – was Grant Thornton, recording good results in all areas. "There was always a number to call, messages were responded to and communication of technical aspects was clear and easily followed," said the financial controller at a telecoms business.

Others described "impeccable" technical skills – often among even relatively junior staff – plus impressive industry knowledge and a "pragmatic approach" that quickly locked onto the key risks in a business. Though not all were happy with Grant Thornton's billing, most clients found its fees reasonable. Some even thought the firm had under-charged them.

Grant Thornton got some good reports on value-added, too. "The partner and audit manager are both in contact during the year and are very approachable," said the FD at a manufacturer. "They provide a sounding board for finance and business issues." The FD at a construction firm said Grant Thornton's management letter had brought up useful non-accounting points. "They had used lateral thinking, which really added to the 'boring' audit meeting."

Fourth overall came BDO, on 68%, but it ranked only seventh on value-added. "Slow to get going on initiatives or added value," said the FD of a sizeable consultancy business. "This is an area they could improve in." On technical skill, however, BDO ranked second: clients found staff "well-trained", "well-educated" and with a strong grasp of technical topics. "Technically very sound," said the FD of an engineering firm, "especially for a group structure and for corporate tax."

Where BDO really excelled, though, was on Understanding the Business, topping the ranks. To judge by comments, BDO really seems to do its homework on a client, allocate staff that fit – and keep practical records, so that hard-won knowledge isn't lost when personnel change.

"After their pre-acceptance 'know your client' procedure, BDO selected only key audit team members with the right business expertise," reported an FD at a large-ish business services company. "Understanding was very good," said another, at a mid-sized media firm. "There was obviously quite a good set of background information in the files."

The Middle Ranks

PricewaterhouseCoopers – the most-used firm among our respondents – ranked fifth but came out as the leading Big Four member. In most areas its results were mid-table and client comment varied widely. But with "huge back-office resources" on tap, PwC claimed the top spot for Technical Skills. Clients found PwC people "quick", "proficient", "consistent", "knowledgeable", "fully-competent", "up-to-date with all new developments" and able to cope with anything. "All members of the team had excellent technical skills and their work was of a very high standard," said the FD of a logistics firm.

Several also praised their ability to impart knowledge, give "clear guidance" and offer practical solutions. "They were able to apply relevant standards," said a property sector FD, "and communicated their interpretations well."

Tenon, sixth overall, impressed on Accessibility & Communication (2nd) and on Understanding the Business (3rd). "Excellent understanding from the manager and partner," said an education sector FD. "The team come well-briefed."

But Tenon fell down on Initiative & Added Value (9th) and on Technical Skills (10th). "After at least ten years doing the audit, the audit manager seemed to have some difficulty understanding the difference between general capital and accumulated income," reported the CFO at a charity. "We ended up teaching them about accounts and payroll. Shocking," said an FD in education.

Haines Watts – seventh overall – performed even worse on Technical Skills, ranking 11th there. "I had to make numerous corrections to the statutory accounts they prepared," said the financial controller at a health-care business. "We called in their VAT expert to help with an HMRC investigation and quickly discovered that they had even less understanding of the technical issues than I did."

Still, Haines Watts scored well for Initiative & Added Value (2nd). "They usually suggest ways that we can do things to reduce the audit bill the next year," reported the CFO of a small manufacturing business.

"Comments on controls, fraud risk and tax ideas have all been on their initiative," said the FD at a property developer.

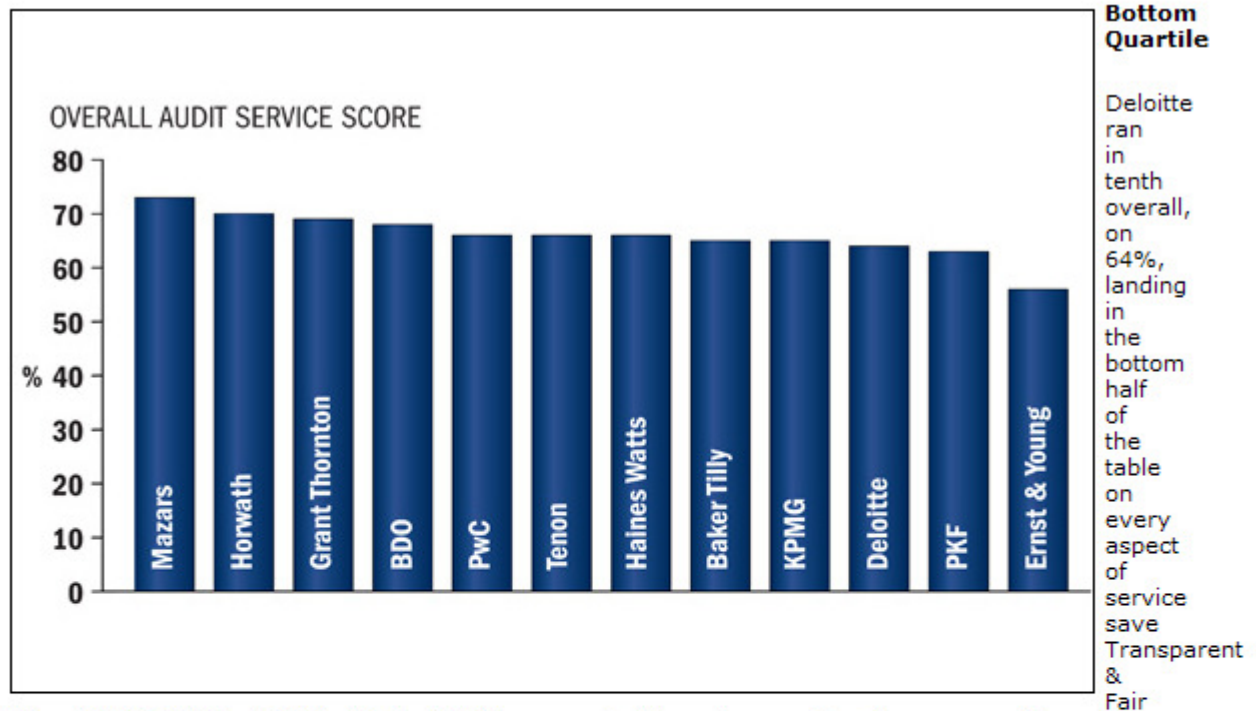
Eighth-placed Baker Tilly was fairly strong on Understanding the Business (4th). Clients reported that they had "come up to speed really quickly" and "understood the key issues facing our industry". Staff "really do understand our objectives and this helps in ensuring their approach is commercial," said the FD at a services firm. An FD in telecoms noted "a definite improvement" over the past two years in Baker Tilly's ability to "understand the real world as well as the technical audit".

But on Accessibility & Communication and Fairness & Transparency of Billing (both 10th), Baker Tilly did less well. "Extras seem to be billed very aggressively and the quality of work is low so it does not feel like good value," said the FD at a construction company. One client reported being billed £700 for a phone call – another, getting blindsided by an extra 50% in "supplementary" fees, on top of the agreed audit charge. Many more had similar stories. Said one financial controller: "We felt the billing was just what they thought they could get away with."

KPMG ranked ninth, with 65%. Its best performances were in Technical Skills and on Billing (both 7th). "Technical skills were good," said the FD in the pharmaceuticals sector, "but sometimes were too focused on rigid interpretation of a standard, before understanding the commercial reality." Client comments on billing reflected frustrations with high "disbursements" and surprise bills for extra work and over-runs – though others rated KPMG quite competitive by Big Four standards.

On Added Value, however, KPMG really bombed, coming in 11th of 12. Of 54 remarks from KPMG clients here, 34 were negative – and only seven wholly positive.

"They had good technical skills but showed low added-value when using them," said the financial controller at a foods producer. The FD at a financial services firm agreed: "Given the £100k cost, there was very little constructive feedback on potential improvements or suggestions on how to run and control the business better."



Billing (6th). Initiative & Added Value (10th) was a notably weak area. Despite some positive reports, many clients said Deloitte showed a "mechanical", "tick-box" mentality and focused mainly on "form filling and risk-avoidance". Rather than "delving deeper to understand the underlying drivers and associated risks of the business," said the FD at a large investment business, Deloitte "gave the impression they were more concerned with gathering enough evidence to stand up in court with a defence if there were ever a negligence case."

The CFO at a mid-sized manufacturer rated Added Value "probably the most disappointing area with Deloitte." He would have an easier time justifying a Big Four audit fee, he said, if Deloitte would show more initiative to "pass on their wealth of knowledge to support their clients in these difficult times".

In 11th place was PKF, with 63%. With PKF's scores falling two or three points below average in most areas, client comment was less about big failures than of slight mediocrity, in the form of indifferent communications, resourcing issues, delays, unimpressive junior personnel and uninspired service. "Staff seemed to treat audit as a routine to get through," said the FD at a sizeable charity. "We are going through a period of considerable change and this was not reflected during the audit."

Last came Ernst & Young, which scored 56% overall, seven points below any other firm; ranked last on all five aspects of service; and recorded the worst ratio of positive to negative comment in every area.

Among 193 client comments on E&Y's service, negative reports outnumbered positive two to one. Many complained of poor communication and project management, inadequate resourcing and scant access to seniors. Below partner level, E&Y personnel could be "pretty dire", short on technical knowledge and confidence. "We got sidetracked on basic issues and wasted time," said the CFO at a financial services firm. "Interpretation and application is lacking."

Some clients reported a "friendly but professional" service from "some great people", particularly at partner level. But others complained of "constant" referrals to Ernst & Young's technical department, causing delays. "Senior team members have very good technical skills," said the financial controller of a large leisure business. "The problem is when junior team members are left on site without guidance and end up asking the client questions they should be resolving within the team."

Several clients pointed out misfires on their audits: "gave incorrect information"; "they missed a material error"; "clear gaps in technical areas of banking"; "audit of tax figures demonstrated carelessness or that basic knowledge was lacking"; "poor knowledge of SSAP 21 was particularly concerning".

Feedback on billing was no better, with 20 negative comments to nine positive. "Received a ridiculously over-budget invoice during the wrap-up meeting, with no previous communication," said the FD of a logistics firm. "They put every audit inefficiency cost on the invoice as if it was the client's fault." Some E&Y teams served clients well, but the general impression was of a firm more focused on internal concerns than on its clients.

Key Lessons

What have we learned in this brief overview? Service, it seems, can vary just as much within audit firms as among them.

Quality of individual staff assigned, length of the relationship and the specific demands and perceptions of the client are all huge factors. Be that as it may, we got a clear overall service ranking: Mazars top, Horwath second, Grant Thornton third; PwC best of the Big Four; and E&Y floundering – for 2009 at least – in last place

METHODOLOGY

Between August and October 2009, 635 FDs, CFOs and financial controllers – each a reader of Accountancy Age or Financial Director – completed an online questionnaire addressing the service they got from their audit firm. Respondents were instructed to grade the firm that had conducted their last completed audit, on each five distinct aspects of service:

- * Accessibility & Communication
- * Technical Skills
- * Understanding of our Business
- * Transparent & Fair Billing
- * Initiative & Added Value

All input was confidential but each response was carefully checked and verified. For each 'Excellent' grade, an audit firm received four points. A 'Very Good' was worth three points, a 'Fair' grade two points and a 'Disappointing', one. When the results were in, we totalled up each audit firm's points score for each aspect of service – then divided it by the number of client respondents contributing to it, to produce an average performance score (from the maximum four points) per client. We then multiplied that by 25 to produce a score out of 100.

Using these percentage scores, we calculated rankings for the 12 most-used audit firms, for each of the five distinct aspects of service listed above – and for service overall. This overall service ranking is the one published here. The firms in it vary in size, capability and clientele – but CFOs and FDs are well-qualified to decide for themselves the peers against which any given firm should rightly be compared.

Numbers, of course, only go so far. So to add muscle to the basic data, we also asked clients to remark freely on their audit firm's performance. In addition, we gathered basic background information – including each respondent's business sector and the size of their company/organisation – plus further frank commentary on a range of topical accounting and general service issues.

This was a hefty study. Our 635 respondents – every one a FD, CFO or FC, and all audit clients – contributed some 2,810 service grades and well over 2,000 audit service comments. The 88 clients who used PricewaterhouseCoopers, for instance, provided 440 gradings and 379 comments on different aspects of PwC's service. Even Horwath Clark Whitehill – the least-used audit firm in our rankings – attracted 75 ratings from 15 different client CFOs and FDs. The average audit firm in our 12-strong table had 43 client-respondents providing around 215 distinct service grades.

Are these results reliable? Yes, they are. The 2010 ranking, of course, remains to be seen. Results for a fresh, enhanced and expanded edition of this study will be coming out around the end of the year.

Peter Joy has written, researched and consulted on business and professional services for 16 years and now heads Finance 360, an Incisive Media insight unit.

Further reading:

[Big Four audits are off the pace](#)

Permalink: <http://www.accountancyage.com/2258452>

This article was printed from the **Accountancy Age** web site

© Incisive Media Ltd. 2009 Incisive Media Limited, Haymarket House, 28-29 Haymarket, London SW1Y 4RX, is a company registered in England and Wales with company registration number 04038503