

## **PRESS RELEASE**

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# **Pressure to rotate auditors will lead to more dissatisfied clients says report**

- **U.S. corporations become dissatisfied with their auditor after two years**
- **Providing a value for money and innovative audit will rise in importance**

With pressure mounting on major corporations to rotate their auditor more often, a new report today (12<sup>th</sup> June 2017) predicts that this will lead to overall levels of satisfaction falling – and pressure mounting on auditors to add value beyond their traditional remit.

The report by Source Global Research, based on a survey<sup>1</sup> of senior executives in U.S. corporations involved in the audit process, found that a third of executives that retendered their audit work around two years ago were not satisfied with their auditor, and are now suffering from what the report calls, the “mid-term blues”.

Although audit rotation is not a legal requirement in the U.S., pressure has mounted on U.S. corporations to put their audit out to tender more often. Q1 2017 saw an increase in the number of SEC registrants who changed auditors compared with the same period last year<sup>2</sup>. In the UK, Barclays Bank ended its 120-year association with PwC; British American Tobacco switched from KPMG after 17 years; and Royal Bank of Scotland moved to EY after 14 years with Deloitte.

The Source report says that as audit rotation increases, the percentage of clients falling into the “mid-term blues” period will also increase – and this will create a vicious circle in which clients put their audit out to tender more frequently, but become increasingly dissatisfied.

Edward Haigh, Director of Source Global Research said:

*“The irony here is that changing auditor is designed to increase client satisfaction, but our research shows that more frequent tendering of the audit — will actually reduce it. It will also lead to more scepticism about value because it makes it harder for firms to move into a long-term, stable relationship in which clients’ views are positive because their needs are being met.”*

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<sup>1</sup> Source Global Research surveyed 200 senior executives in U.S. corporations in January 2017. Almost three quarters (70 per cent) were from firms that employed more than 5,000 people.

<sup>2</sup> <http://www.auditanalytics.com/blog/auditor-changes-roundup-q1-2017/>

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**Other key findings from the Source report include:**

- **Audit and adding value** – 48 per cent of companies say their external auditor adds value, but half (50 per cent) say that the value added is in line with fees — so audit is seen purely as a transaction rather than a value-added activity.
- **An auditor’s reputation will become less important** – Satisfied clients presently rank reputation as the most important factor determining their choice of audit firm. However, the report finds that three quarters of dissatisfied clients say they will put value for money top of their agenda when choosing their next audit firm.

**The audit client of the future**

The Source report concludes by saying that the audit client of the future will also be more concerned about a firm’s track record in innovation than its corporate reputation. Even for the audit firms that are most committed to exploiting the opportunities of new technology, this is not going to be an easy message to get across. Current marketing language only serves to reinforce the status quo, and clients tend to associate the positioning statements they like most with the firms with which they are familiar.

Edward Haigh from Source concluded:

*“There are a lot of pressures in the audit market — from regulators, clients, and audit firms — that create inertia here, but investment in innovation is going to become critical as organisations change auditors more often.*

*From the evidence we have gathered in this report, we think audit firms need to do more to convince clients that they’re using technology to be genuinely innovative, not simply to automate the status quo. Central to this will be to demonstrate tools that represent a paradigm shift in the quality of insights auditors can produce.”*

Source Global Research is the leading research and strategy firm for the global management consulting industry. For more information on Source reports contact [alice.noyelle@sourceglobalresearch.com](mailto:alice.noyelle@sourceglobalresearch.com) or telephone +44 (0)20 3795 2668/ visit [www.sourceglobalresearch.com](http://www.sourceglobalresearch.com).

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Source was founded by Fiona Czerniawska. Fiona is one of the world's leading experts on the consulting industry. She has written [numerous books](#) on the industry including: [The Intelligent Client](#) and *The Economist* books, [Business Consulting: A Guide to How it Works and How to Make it Work](#) and [Buying Professional Services](#). For further information, please visit: [www.sourceglobalresearch.com](http://www.sourceglobalresearch.com)

**About the research**

Source Global Research surveyed 200 senior executives in U.S. organisations in January 2017. Almost three quarters (70 per cent) were from firms that employed more than 5,000 people.

Respondents came from a range of different sectors, although Source skewed the sample towards financial services (25 per cent of the total), because this is such a crucial market for the professional services sector. All respondents were senior executives, including 71 per cent at CXO level. Thirty-four per cent of the sample came from the finance function. All had direct involvement with their auditors: 77 per cent were involved in selecting them.

Eighty-percent of respondents had either put their external audit out to tender in the last 12 months, or were expecting to do so in the next 12 months. The reason for putting the audit out to tender varied. Just over a third of respondents said they did so as part of a standard rotation process, and a further 22 per cent did so because audit regulations forced them to change. Other reasons were specific to the organisation and included on-going strategic changes, conflicts of interest, or because they weren't happy with their current auditor.