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THE PROVISION OF NON-AUDIT SERVICES BY AUDIT FIRMS IN AUSTRALIA

2012 - 2018

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Authored by Professor Elizabeth Carson, UNSW Sydney

The Provision of Non-Audit Services by Audit Firms in Australia: 2012–2018

Professor Elizabeth Carson

UNSW Sydney

Email: e.carson@unsw.edu.au

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The Provision of Non-Audit Services by Audit Firms in Australia: 2012–2018

Executive Summary

While concerns have been raised regarding the provision of non-audit services by auditors to their audit clients, there has been little consideration of the underlying data in the Australian audit market beyond the very largest listed companies. Accordingly, this report provides an evidence-based perspective on the size and changes in the non-audit services market in Australia for ASX listed firms. This is an important input into any future proposal to further regulate the Australian audit market.

In this research paper, I provide a detailed analysis of the Australian market for non-audit services provided by auditors over the period 2012–2018 to their listed company clients. This analysis demonstrates that the market for non-audit services provided by auditors to their audit clients has declined from $183 million in 2012 to $172 million by 2018. The Big 4 have the largest share of the auditor provided other services market, and this share has declined from over 92% to around 88% over this period. Over 60% of non-audit services are purchased by the largest 200 listed companies. The average purchase by these firms has decreased from over $700,000 to around $590,000 over the period. The number of largest 200 clients which do not purchase services from their audit firms has decreased over the period, with only 12 clients purchasing no other services from their audit firm in 2018. The dominant type of non-audit services provided are taxation, audit and assurance related, consulting and advisory, with a significant proportion of these services not separately identified. Additional guidance regarding the preparation of these disclosures regarding the detailed description of non-audit services would be helpful to users seeking to understand the nature as well as the quantum provided.

The ratio of non-audit service fees to audit fees has often been seen as an area of concern for regulators. The evidence provided here is that the proportion of non-audit services as a percentage of the audit fee is declining on average for Australian listed companies. Clients of the Big 4 purchase the highest proportion of non-audit services relative to their audit fees, and this has declined from around 40% of the audit fee to 33% over the period. Purchase of non-audit services by clients of the Large Non-Big 4 firms average 30% of the audit fee whilst clients of the medium and small firms are around 20%. Whilst the very largest clients purchase the highest amount of non-audit services in dollar terms, as a percentage of the audit fee it is the next largest group of clients that purchase the highest ratio of non-audit services at around 50% (compared to around 30% for other groups of clients). This suggests that this group of clients would be most impacted by any further regulation restricting the amount of non-audit services able to be provided by auditors. My analysis also considers audit firm tenure for Australian listed companies. I find that the highest proportion of clients have audit firm tenure of less than five years. Median audit firm tenure is unchanged at five years across the period investigated.

The audit firm revenue data disclosed in audit firm transparency reports provides some additional insights into the overall delivery of non-audit services by Big 4 firms. This data reveals the growth of the non-audit segment of the Big 4's business with audit declining from 35% of consulting and other services revenues in 2012 to under 22% by 2018. In further analysis, it is clear that this growth is not in non-audit services provided to audit clients but to non-audit clients. By 2018, only 10% of the consulting services provided by the Big 4 relate to their audit clients. This analysis demonstrates that the audit practice is declining in significance for the Big 4 relative to the growth of the consulting and other services business segments. Further, it is not growth in the provision of these consulting services delivered to audit clients, but it is the non-audit client market that is driving this growth.

This report provides an important input into any decision-making process to limit or regulate the behaviour of audit market participants in relation to provision of non-audit services which would benefit from a current and comprehensive understanding of the Australian listed company audit and non-audit services markets.

The Provision of Non-Audit Services by Audit Firms in Australia: 2012–2018

Introduction

Regulators around the world have publicised their concerns regarding the market dominance of the largest audit firms in the provision of audit and non-audit services and the impact on the independence of auditors. In the UK (Brydon Review 2019; CMA Market Study 2019) and Australia (Parliamentary Joint Committee on Corporations and Financial Services Inquiry 2019) concerns have been raised regarding the consequences of provision of non-audit services by auditors and whether this may have adverse impacts on audit independence and audit quality. In the current environment, where the quality of audit services is being questioned, it is important for regulators, standard-setters and the profession in Australia to have a contemporary understanding of the Australian listed company audit market for non-audit services. Whilst research conducted in other environments is informative, it is critical that a systematic current understanding of these issues in the Australian context is available as an input to any proposal designed to limit or otherwise regulate the behaviour of market participants.

The contribution of this research paper is to provide a commentary informed by academic research on the current provision of non-audit services, primarily focussed on non-audit services to audit clients, in the Australian audit market. To do this, I use a comprehensive dataset of Australian listed companies over the period 2012–2018 to analyse the Australian audit market for non-audit services. To my knowledge, whilst this data is publicly available, this is the most comprehensive systematically collected database of Australian audit market data and so I provide a unique perspective on the Australian audit market for non-audit services.

The market I focus on here is the Australian listed company market, and the analysis is conducted using data available on non-audit services purchased by clients from their auditors. There is some limited publicly available data on the total market for non-audit services included in transparency reports which covers non-audit services provided by audit firms to all purchasers (whether they are audit clients or not) and this is also analysed. The key participants in the audit market for listed company audits are a group of firms commonly referred to as the Big 4 accounting firms (Deloitte, EY, KPMG, PwC) primarily servicing the largest clients, with smaller clients serviced by a range of other providers. It is the provision of non-audit services by Big 4 firms that has aroused significant concerns by regulators, together with concerns around audit market structure and concentration (which I cover in AUASB Research Report No. 3).

Analysis of the Current Australian Market for Non-Audit Services

Audit fees and the non-audit services provided to Australian listed companies by their auditors are required to be disclosed and are publicly available in the notes to the financial statements for Australian listed companies. In this research paper, I do not examine the market for the audit services but focus on the provision of ‘other’ services by audit firms to their audit clients. The current structure of the Australian market for audit services is examined in detail in AUASB Research Report No. 3 (Carson, 2019). For a summary of the academic literature as it relates to non-audit services in Australia, I refer the interested reader to Carey et al. (2014).

This research paper presents analysis of the most current data available for the Australian audit market utilising the UNSW Audit Fee and Audit Reporting database, which covers all Australian listed companies for the period 2000 onward. The focus here is on the period 2012–2018 which is contemporary and is temporally removed from the Global Financial Crisis which impacted the market for non-audit services in Australia. The results of this analysis are placed in the context of the current

Australian market for non-audit services. Whilst prior research usually splits audit firms into two categorisations (Big 4 and Non-Big 4), I split audit firms into four categories, the Big 4 (Deloitte, EY, KPMG, PwC), Large Non-Big 4 firms (BDO, Grant Thornton), Medium Non-Big 4 firms (the next 17 largest audit firms, required to prepare transparency reports with more than 10 public interest entity audits per year) and Small Non-Big 4 firms, to allow for a more nuanced view of the structure of the audit market. Accordingly this research paper provides the most complete, up-to-date and relevant analysis available for a contemporary insight into the current market for non-audit services for Australian listed companies.

Market Share

In the analysis conducted in the following Tables, I identify all companies (removing trusts, Exchange Traded Funds and similar entities) listed on the Australian Stock Exchange headquartered in Australia, with audit opinions signed in Australia and disclosing audit fees in Australian dollars in their annual reports over the period 2012–2018, noting that 2018 is the latest full year of data available at the time of writing. In total, 12,357 listed companies meeting these criteria with all data available are analysed. There has been a general decline in the number of listed firms meeting these criteria over this period, starting with 1,803 firms in 2012 to 1,727 firms by the end of 2018.[1]

Table 1: Market Share Based on Number of Listed Companies with Audit Opinions Signed in Australia

Year	Total	Big 4 No.	Big 4 %	Large Non-Big 4 No.	Large Non-Big 4 %	Medium Non-Big 4 No.	Medium Non-Big 4 %	Small Non-Big 4 No.	Small Non-Big 4 %
2012	1,803	734	**40.71**	402	**22.30**	526	**29.17**	141	**7.82**
2013	1,792	736	**41.07**	405	**22.60**	530	**29.58**	122	**6.81**
2014	1,778	717	**40.33**	399	**22.44**	542	**30.48**	120	**6.75**
2015	1,815	743	**40.94**	393	**21.65**	564	**31.07**	115	**6.34**
2016	1,718	677	**39.41**	372	**21.65**	562	**32.71**	107	**6.23**
2017	1,724	669	**38.81**	368	**21.35**	588	**34.11**	99	**5.74**
2018	1,727	651	**37.70**	356	**20.61**	616	**35.67**	104	**6.02**
Avg	**1,765**	**704**	**39.85**	**385**	**21.80**	**561**	**31.82**	**115**	**6.53**

Note:

1. Big 4: Deloitte, EY, KPMG and PwC
2. Large Non-Big 4: BDO, Grant Thornton
3. Medium Non-Big 4: Issued transparency report in one or more years across the period 2012–2018: Bentleys, Crowe Horwath, Hall Chadwick, HLB Mann Judd, KS Black, Lawler Hacketts, Moore Stephens, Nexia, Pitcher Partners, PKF Hacketts, PKF Mack & Co, Rothsay, RSM Bird Cameron, ShineWing, Somes Cooke, Stantons International, William Buck and all firms are included as Medium Non-Big 4 Firms in each year of the analysis.
4. Small Non-Big 4: auditors not otherwise classified.

[1] There are over 2,000 entities listed on the ASX in each of these years. I remove Exchange Traded Funds, Trusts, companies that are newly listed, delisted or suspended during the year from this analysis as well as companies headquartered outside Australia, not reporting in Australian Dollars, or where the office of the signing auditor is located outside Australia to ensure that the sample is comprised of companies (and auditors) subject to Australian reporting requirements for companies.

Whilst in many other countries, the market share for listed company audits based on number of clients of Big 4 audit firms is around 70% (for example, the United States) and in the UK it is currently 84% (CMA, 2019), as shown in Table 1 it is clear that the market share of Big 4 audit firms in Australia is substantially lower and has declined from 40.71% to 37.70% over this period, with an average market share of just under 40%. Relative to the period 2000–2012, the market shares observed are fairly stable over this period with Small Non-Big 4 firms experiencing a small decline in their share of listed company audits (from 7.82% to 6.02%) and Large Non-Big 4 audit firms also seeing a slight decline from 22.30% to 20.61%. The only group of firms to increase their market share over this period are the Medium Non-Big 4 firms (from 29.17% to 35.67%). Compared to other listed company audit markets, the Australian listed company audit market has a diverse group of suppliers with relatively low market share for the very largest audit firms.

In Table 2, the data for Table 1 is examined in detail for each of the six largest providers of audit services. This group of audit firms comprises the Big 4 audit firms (Deloitte, EY, KPMG and PwC) as well as the two largest of the Non-Big 4 providers (BDO, Grant Thornton). It is interesting to note that the audit firm with the biggest market share by number of clients in 2018 is a Large Non-Big 4 audit firm (BDO, with 12.45% of the number of listed company clients). The smallest provider in 2018 is also a Large Non-Big 4 firm (Grant Thornton with 8.16% of the clients of the audit market). The descending rank order of firms by market share in 2012 was BDO, EY, KPMG, PwC, Deloitte and Grant Thornton. By 2018, BDO and EY were still the largest two by market share with PwC and KPMG with similar shares, and Deloitte remaining as the smallest of the Big 4 audit firms ahead of Grant Thornton.

Table 2: Market Share for Six Largest Audit Firms Based on Number of Listed Companies with Audit Opinions Signed in Australia

Year	Total	DT No.	DT %	EY No.	EY %	KPMG No.	KPMG %	PwC No.	PwC %	BDO No.	BDO %	GT No.	GT %
2012	1,803	164	**9.10**	232	**12.87**	171	**9.48**	167	**9.26**	240	**13.31**	162	**8.99**
2013	1,792	164	**9.15**	229	**12.78**	174	**9.71**	168	**9.38**	242	**13.50**	163	**9.10**
2014	1,778	171	**9.62**	228	**12.82**	158	**8.89**	160	**9.00**	240	**13.50**	159	**8.94**
2015	1,815	174	**9.59**	241	**13.28**	171	**9.42**	157	**8.65**	242	**13.33**	151	**8.32**
2016	1,718	157	**9.14**	216	**12.57**	146	**8.50**	158	**9.20**	221	**12.86**	151	**8.79**
2017	1,724	155	**8.99**	202	**11.72**	154	**8.93**	158	**9.16**	220	**12.76**	148	**8.58**
2018	1,727	143	**8.28**	210	**12.16**	149	**8.63**	149	**8.63**	215	**12.45**	141	**8.16**
Avg	**1,765**	**161**	**9.12**	**223**	**12.60**	**160**	**9.08**	**159**	**9.04**	**231**	**13.10**	**154**	**8.70**

In Table 3, I split listed companies into four market segments based on end of year market capitalisation[2,3]: the very largest 200 clients, the next largest 300 clients (201–500 by market capitalisation), the smallest 500 clients by market capitalisation, and the remaining clients are categorised as medium. It is evident that the largest auditors are the most important providers of audit services to very large clients with a market share of over 90% throughout the period. For the next group

2 As a result there can be changes in the composition of clients included in each category based on year-end changes in market capitalisation.

3 Market capitalisation refers to the market value of the company's equity capital. Market capitalisation is calculated by multiplying the number of common shares by the current price. Other classes of equity such as preference shares are normally not included. I use the market capitalisation data on the last trading date in December each year. For companies without market capitalisation data in December, I code them as small clients.

of clients, the Big 4 audit about two-thirds of these, with the Large and Medium Non-Big 4 audit firms also participating in this market. The Big 4 auditors have a declining share of the next largest, medium and small client markets over this period. The Medium Non-Big 4 firms have grown market share in both the large, medium and small client markets over this period with the Large Non-Big 4 maintaining fairly static share in these markets, whilst the smallest audit firms have had an overall decline in their market share.

Table 3: Market Share Based on Number of Listed Companies with Audit Opinions Signed in Australia Categorised by Client Size

Year	Big 4 No.	Big 4 %	Large Non-Big 4 No.	Large Non-Big 4 %	Medium Non-Big 4 No.	Medium Non-Big 4 %	Small Non-Big 4 No.	Small Non-Big 4 %
Panel A: Very Large Clients (Top 200 by Market Capitalisation)								
2012	183	**91.50**	6	**3.00**	9	**4.50**	2	**1.00**
2013	180	**90.00**	8	**4.00**	10	**5.00**	2	**1.00**
2014	181	**90.50**	7	**3.50**	11	**5.50**	1	**0.50**
2015	184	**92.00**	5	**2.50**	10	**5.00**	1	**0.50**
2016	182	**91.00**	6	**3.00**	10	**5.00**	2	**1.00**
2017	181	**90.50**	6	**3.00**	11	**5.50**	2	**1.00**
2018	184	**92.00**	4	**2.00**	11	**5.50**	1	**0.50**
Panel B: Large Clients (201–500 by Market Capitalisation)								
2012	203	**67.67**	45	**15.00**	37	**12.33**	15	**5.00**
2013	212	**70.67**	40	**13.33**	34	**11.33**	14	**4.67**
2014	199	**66.33**	44	**14.67**	46	**15.33**	11	**3.67**
2015	205	**68.33**	38	**12.67**	45	**15.00**	12	**4.00**
2016	201	**67.00**	45	**15.00**	45	**15.00**	9	**3.00**
2017	197	**65.67**	45	**15.00**	51	**17.00**	7	**2.33**
2018	194	**64.67**	42	**14.00**	60	**20.00**	4	**1.33**
Panel C: Medium Clients (Others)								
2012	254	**31.63**	221	**27.52**	257	**32.00**	71	**8.84**
2013	261	**32.95**	229	**28.91**	243	**30.68**	59	**7.45**
2014	262	**33.68**	215	**27.63**	240	**30.85**	61	**7.84**
2015	264	**32.39**	228	**27.98**	263	**32.27**	60	**7.36**
2016	223	**31.06**	185	**25.77**	259	**36.07**	51	**7.10**
2017	225	**31.08**	177	**24.45**	277	**38.26**	45	**6.22**
2018	224	**30.81**	169	**23.25**	287	**39.48**	47	**6.33**
Panel D: Small Clients (Bottom 500 by Market Capitalisation)								
2012	94	**18.80**	130	**26.00**	223	**44.60**	53	**10.60**
2013	82	**16.40**	128	**25.60**	243	**48.60**	47	**9.40**
2014	75	**15.00**	133	**26.60**	245	**49.00**	47	**9.40**
2015	90	**18.00**	122	**24.40**	246	**49.20**	42	**8.40**
2016	71	**14.20**	136	**27.20**	248	**49.60**	45	**9.00**
2017	66	**13.20**	140	**28.00**	249	**49.80**	45	**9.00**
2018	49	**9.90**	141	**28.20**	258	**51.60**	52	**10.40**

Trends in Audit Fees

As shown in Table 4, the total audit fee paid by Australian listed companies ranges from $488 million in 2012 to $579 million in 2017, declining to $546 million in 2018. Total audit fees paid to Big 4 audit firms are in the range of $425 million (2012) to $504 million (2017) and decline to $473 million in 2018. Over the period 2012–2018, audit fees paid to the Big 4 represent over 87% of total audit fees, noting that this has declined from a high of 88.30% in 2014 to 86.51% in 2018. The Large Non-Big 4 audit firms (BDO, Grant Thornton) together receive audit fees from their listed company clients of $26 million in 2012 to a high of $31 million in 2017, overall representing 5% of the total audit market by audit fees. The Medium Non-Big 4 firms (17 firms) in total receive audit fees of $29 million in 2012 growing to $40 million by 2018 and growing their share of the market from 5.97% to 7.37% by 2018. Small Non-Big 4 firms are shown to be receiving a declining total audit fee revenue from over $7 million in 2012 to under $5 million in 2017, with an average share of around 1% of total audit fee revenues. Overall, the market for audit services is relatively stable over the period 2012–2018.

Table 4: Market Share Based on Total Audit Fees of Listed Companies with Audit Opinions Signed in Australia

Year	Total $ million	Big 4 $ million	Big 4 %	Large Non-Big 4 $ million	Large Non-Big 4 %	Medium Non-Big 4 $ million	Medium Non-Big 4 %	Small Non-Big 4 $ million	Small Non-Big 4 %
2012	488.198	425.027	**87.06**	26.623	**5.45**	29.159	**5.97**	7.387	**1.51**
2013	492.616	429.772	**87.24**	27.492	**5.58**	28.889	**5.86**	6.463	**1.31**
2014	538.316	475.328	**88.30**	27.519	**5.11**	29.982	**5.57**	5.486	**1.02**
2015	534.584	470.420	**88.00**	27.557	**5.15**	30.594	**5.72**	6.012	**1.12**
2016	542.568	473.472	**87.27**	29.497	**5.44**	33.781	**6.23**	5.816	**1.07**
2017	579.575	504.523	**87.05**	31.233	**5.39**	38.856	**6.70**	4.962	**0.86**
2018	546.975	473.171	**86.51**	28.207	**5.16**	40.324	**7.37**	5.271	**0.96**
Avg	**531.833**	**464.530**	**87.35**	**28.304**	**5.33**	**33.084**	**6.20**	**5.914**	**1.12**

Trends in Non-Audit Service Fees

In Table 5 onward, the total non-audit service fees analysed include fees paid to the principal (signing) auditor, together with audit fees paid to members of the principal auditor's network. It is important to note that this is not the aggregate size of the non-audit service market, this is the portion of the market that comprises non-audit services provided by auditors to their audit clients. It does not include non-audit services provided by auditors to their other clients. The categorisation between audit and non-audit service fees is 'as disclosed' in the notes to the published financial statements.

As shown in Table 5, the total non-audit services purchased by Australian listed companies from their current auditor ranges from $183 million in 2012 and declines to $162 million in 2014, before growing to $172 million by 2018. The total non-audit service fees paid to Big 4 audit firms collectively are in the range of $147 million (2014) to $171 million (2013) and generally decline over the period 2012–2018. Over the period 2012–2018, the non-audit services provided by the Big 4 to their audit clients represent over 90% of the total non-audit services provided to audit clients, noting that this has declined from a high of 92.58% in 2012 to 88.58% by 2018. The Large Non-Big 4 audit firms (BDO, Grant Thornton) together receive non-audit service fees from their listed company clients of an average of

$8.47 million per year. The Medium Non-Big 4 firms (17 firms) in total receive non-audit fees ranging from $5.53 million in 2012 and growing to $11.655 million by 2018. Small Non-Big 4 firms are shown to be receiving a declining total non-audit fee revenue over the period 2012–2018, with a negligible share of this market.

Table 5: Market Share Based on Total Non-Audit Service Fees to Audit Clients of Listed Companies with Audit Opinions Signed in Australia

Year	Total $ mill.	Big 4 $ mill.	Big 4 %	Large Non-Big 4 $ mill.	Large Non-Big 4 %	Medium Non-Big 4 $ mill.	Medium Non-Big 4 %	Small Non-Big 4 $ mill.	Small Non-Big 4 %
2012	183.360	169.763	**92.58**	6.684	**3.65**	5.530	**3.02**	1.382	**0.75**
2013	186.360	171.195	**91.86**	9.485	**5.09**	4.426	**2.38**	1.252	**0.67**
2014	162.624	147.835	**90.91**	8.171	**5.02**	5.645	**3.47**	0.972	**0.60**
2015	172.331	154.803	**89.83**	9.593	**5.57**	6.865	**3.98**	1.068	**0.62**
2016	175.712	158.652	**90.29**	9.033	**5.14**	6.970	**3.97**	1.057	**0.60**
2017	171.448	153.837	**89.73**	9.076	**5.29**	7.895	**4.61**	0.638	**0.37**
2018	172.300	152.631	**88.58**	7.250	**4.21**	11.655	**6.76**	0.762	**0.44**

Table 6 analyses non-audit fees split into groups by size of client. For the largest 200 clients by market capitalisation, nearly all firms purchase non-audit services from their auditors, with only 12 clients purchasing no other services from their audit firm in 2018 (a reduction from 29 in 2014). However, the average spend on non-audit services has declined from over $700,000 in 2012 to around $588,000 by 2018. For the next largest group of clients, approximately three quarters purchase other services from their auditors with an average spend of around $160,000. For medium clients, just over half purchase other services from their auditors averaging $50,000. For the smallest clients, the majority of clients do not purchase additional services from their auditors, but for the one third that do, this is around $25,000 per year and declining. This suggests that the purchase of other services from auditors is associated with the size of the clients and their ability to pay for these services.

Table 6: Total Non-Audit Service Fees of Listed Companies with Audit Opinions Signed in Australia Categorised by Client Size

Year	Total Non-Audit Fees ($ mill.)	No. of Observations	No. of Observations Reporting No Non-Audit Services from Audit Firm	% of Observations Reporting No Non-Audit Services from Audit Firm	Mean Non-Audit Service Fees (Excluding Firms with No Non-Audit Services from Audit Firm) ($)
Panel A: Very Large Clients (Top 200 by Market Capitalisation)					
2012	125.729	200	21	10.5	**702,396**
2013	122.935	200	14	7.0	**660,940**
2014	101.176	200	29	14.5	**591,672**
2015	97.596	200	24	12.0	**554,522**
2016	114.262	200	16	8.0	**620,989**
2017	111.479	200	17	8.5	**609,175**
2018	110.624	200	12	6.0	**588,425**
Panel B: Large Clients (201–500 by Market Capitalisation)					
2012	32.865	300	73	24.3	**144,780**
2013	36.814	300	74	24.7	**162,894**
2014	37.170	300	80	26.7	**168,955**
2015	37.039	300	81	27.0	**169,128**
2016	36.490	300	65	21.7	**155,277**
2017	35.337	300	80	26.7	**160,622**
2018	38.429	300	73	24.3	**169,291**
Panel C: Medium Clients (Others)					
2012	18.540	803	365	45.5	**42,329**
2013	20.748	792	361	45.6	**48,139**
2014	20.242	778	373	47.9	**49,980**
2015	18.284	815	404	49.6	**44,487**
2016	21.263	718	339	47.2	**56,103**
2017	20.560	724	350	48.3	**54,973**
2018	20.194	727	359	49.4	**54,875**
Panel D: Small Clients (Bottom 500 by Market Capitalisation)					
2012	6.225	500	319	63.8	**34,392**
2013	5.861	500	326	65.2	**33,684**
2014	4.034	500	341	68.2	**25,371**
2015	19.410	500	335	67.0	**117,636**
2016	3.696	500	326	65.2	**21,241**
2017	4.070	500	304	60.8	**20,765**
2018	3.051	500	315	63.0	**16,492**

Table 7 examines the break-down of the non-audit services purchased by clients from their auditors as disclosed in the notes to the financial statements. For many clients, the total spend on non-audit services is not separately broken down into specific types of non-audit services. To enable users to better understand the types of non-audit services purchased it would be useful to require the disclosure of non-audit services to more clearly outline the types purchased and the amount paid for each type of service purchased. The largest non-audit service purchased relates to taxation services, including taxation planning and compliance. Audit related services as well as other assurance services are also significant types of non-audit services. This is followed by consulting and advisory and due diligence services. Legal and IT services represent a very small share of purchases from auditors.

Table 7: Types of Non-Audit Services Purchased by Clients from their Auditor

Type of Non-Audit Service	**2012 ($ mill.)**	**2013 ($ mill.)**	**2014 ($ mill.)**	**2015 ($ mill.)**	**2016 ($ mill.)**	**2017 ($ mill.)**	**2018 ($ mill.)**
Taxation Services	78.000	68.946	69.581	68.304	74.416	70.950	62.290
Audit Related Services	29.080	29.865	1.961	2.499	9.258	0.679	8.909
Accounting Services	2.040	0.967	2.158	1.343	2.328	0.869	4.942
Consulting and Advisory Services	12.218	10.145	11.526	17.110	15.710	23.786	17.637
IT Services	0.220	0.116	0.021	0.564	0.494	0.067	0.945
Due Diligence Services	8.511	9.371	13.711	12.008	14.299	14.266	7.976
Other Assurance Services	18.853	21.526	10.473	20.466	12.244	13.444	14.538
Internal Audit Services	0.108	0.065	0.177	0.098	0	0.071	0.199
Legal, Compliance and Litigation Services	0.708	0.624	0.005	0.205	0	0.232	0.857
Non-Audit Services (not separately disclosed)	33.619	44.732	53.008	49.731	46.960	47.078	54.003
Total Non-Audit Services	183.360	186.360	162.624	172.331	175.712	171.448	172.300

Trends in the Ratio of Non-Audit Service Fees to Audit Fees

A key area of concern for regulators and investors is the quantum of non-audit services provided by auditors to their clients, particularly relative to the audit fee charged. It has been alleged that auditors use the audit to 'get in the door' at key clients to sell additional services and are dependent on the non-audit service fees generated. In other jurisdictions, limits have been proposed on not just the type of non-audit services allowed to be provided but also the ratio of non-audit services to audit services able to be provided by audit firms.

Table 8 analyses this ratio of non-audit service fees to audit fees by audit firm type. Not surprisingly, given the size of Big 4 clients that they purchase a higher proportion of non-audit services from their audit firm relative to audit fees than clients of other firms (an average of 34% relative to 30% for Large Non-Big 4, 21% for Medium Non-Big 4 and 17% for Small Non-Big 4 firms). This ratio was less than 40% in 2012 and has declined over the period to 2018 to 33%, suggesting that these concerns have lessened over the period investigated. The ratios observed for Australian listed companies are lower than those documented in the UK in the CMA Market Report (2019) where the ratio for Big 4 clients has declined from 55% in 2011 to 38% in 2018 and for challenger firms this ratio was 42% in 2018. This provides further evidence of differences in the structure of the Australian audit market and for regulation to be informed by evidence from our local market.

Table 8: Ratio of Non-Audit Services Purchased by Clients from their Auditors as a Percentage of Audit Fees by Auditor Type

Year	Big 4 %	Large Non-Big 4 %	Medium Non-Big 4 %	Small Non-Big 4 %
2012	39.94	25.11	18.97	18.71
2013	39.83	34.50	15.32	19.37
2014	31.10	29.69	18.83	17.72
2015	32.91	34.81	22.44	17.77
2016	33.51	30.62	20.63	18.18
2017	30.49	29.06	21.09	12.86
2018	33.31	25.71	28.90	14.47
Avg	34.44	29.93	20.88	17.01

Table 9 analyses this ratio by client segment. The very largest clients purchase an amount around 30% of their audit fee in non-audit services, declining from 38% to less than 30% over the period. The next largest group of clients have the highest ratio of the four client segments with other services purchases averaging over 50% of their audit fee. Medium-sized clients have average purchase ratios of under 30% and the smallest clients have low and declining ratios from 25% to 13% over the period with some large outliers in 2015. The ratios observed by client segment suggest that it is not our very largest companies that are purchasing relatively large amounts of non-audit services but the next largest client segment which are doing so. This provides evidence of the nuances in the Australian market not revealed by an exclusive focus on our very largest companies and that regulatory change directed at one market segment (for example, very large clients) may have unintended consequences for other client segments.

Table 9: Ratio of Non-Audit Services Purchased by Clients from their Auditors as a Percentage of Audit Fees by Client Segment

Year	Very Large Clients (Top 200 by Market Capitalisation) %	Large Clients (201–500 by Market Capitalisation) %	Medium Clients (Others) %	Small Clients (Bottom 500 by Market Capitalisation) %
2012	38.02	51.43	26.86	25.35
2013	37.00	54.72	29.98	24.57
2014	26.54	54.76	30.44	17.73
2015	26.01	54.18	27.72	77.65
2016	30.55	47.62	31.58	15.04
2017	27.48	46.21	30.49	14.27
2018	29.96	52.66	29.84	13.82
Avg	30.79	51.65	29.56	26.92

Table 10 outlines the audit firm tenure for listed company clients. The dataset I use contains information regarding audit firms from 2000, so the longest tenure period I am able to observe in 2012 is 13 years, hence this is set as the maximum category. In addition, this means that an average audit firm tenure period is not able to be accurately calculated. Median audit firm tenure over the period 2012–2018 is five years and does not change over the period.

Table 10: Audit Firm Tenure for Audit Clients of Listed Companies with Audit Opinions Signed in Australia

Year	Total	1-4 Years	5-8 Years	9-12 Years	> 12 Years	Median Tenure Years
2012	1,803	861	559	205	178	5
2013	1,792	878	506	210	198	5
2014	1,778	846	493	219	220	5
2015	1,815	844	474	270	227	5
2016	1,718	807	396	290	225	5
2017	1,724	845	395	257	227	5
2018	1,727	851	379	243	254	5

Tables 11 and 12 analyse the audit firm tenure data by audit firm type and by client segment, respectively. For all audit firms, the largest proportion of clients have audit firm tenure of one to four years. The proportion of clients with audit firm tenures greater than 12 years is highest for clients of the Big 4 (over 27% in 2018), and lowest for the smallest audit firms (over 5% in 2018).

For the very largest clients, audit firm tenure is reasonably spread across the years, with an increasing trend in audit firm tenure observed over the period consistently observed for all sizes of clients.

Table 11: Audit Firm Tenure for Audit Clients of Listed Companies with Audit Opinions Signed in Australia Categorised by Audit Firm Type

Year	Total	1-4 Years	5-8 Years	9-12 Years	> 12 Years
Panel A: Big 4					
2012	734	254	222	129	129
2013	736	272	192	127	145
2014	717	252	174	129	162
2015	743	289	156	130	168
2016	677	276	117	117	167
2017	669	287	121	100	161
2018	651	272	117	84	178
Panel B: Large Non-Big 4					
2012	402	222	147	21	12
2013	405	235	128	27	15
2014	399	229	123	30	17
2015	393	211	102	61	19
2016	372	155	116	84	17
2017	368	152	118	75	23
2018	356	151	112	65	28
Panel C: Medium Non-Big 4					
2012	526	303	151	47	25
2013	530	307	147	49	27
2014	542	290	167	51	34
2015	564	272	192	66	34
2016	562	306	141	79	36
2017	588	336	143	70	39
2018	616	356	132	86	42
Panel D: Small Non-Big 4					
2012	141	82	39	8	12
2013	122	65	39	7	11
2014	120	75	29	9	7
2015	115	72	24	13	6
2016	107	70	22	10	5
2017	99	70	13	12	4
2018	104	72	18	8	6

Table 12: Audit Firm Tenure for Audit Clients of Listed Companies with Audit Opinions Signed in Australia Categorised by Client Size

Year	Total	1-4 Years	5-8 Years	9-12 Years	> 12 Years
Panel A: Very Large Clients (Top 200 by Market Capitalisation)					
2012	200	42	58	44	56
2013	200	44	49	48	59
2014	200	43	39	46	72
2015	200	47	34	45	74
2016	200	57	29	45	69
2017	200	66	29	35	70
2018	200	59	34	29	78
Panel B: Large Clients (201–500 by Market Capitalisation)					
2012	300	103	95	57	45
2013	300	113	91	43	53
2014	300	125	79	45	51
2015	300	128	61	56	55
2016	300	151	63	32	54
2017	300	141	57	53	49
2018	300	144	62	37	57
Panel C: Medium Clients (Others)					
2012	803	425	259	69	50
2013	792	429	223	78	62
2014	778	403	227	79	69
2015	815	393	237	113	72
2016	718	353	173	124	68
2017	724	368	194	98	64
2018	727	377	164	113	73
Panel D: Small Clients (Bottom 500 by Market Capitalisation)					
2012	500	291	147	35	27
2013	500	292	143	41	24
2014	500	275	148	49	28
2015	500	276	142	56	26
2016	500	246	131	89	34
2017	500	270	115	71	44
2018	500	271	119	64	46

Trends in Big 4 Firm Revenue Composition

Since 2013, Australian audit firms have been required to prepare transparency reports which provide a range of publicly available information on their audit practice. Included in these reports is information about firm revenues and composition of those revenues. Table 13 and Table 14 analyse the data available for the Big 4. Table 13 examines the relative importance of audit services to the overall audit firm. Over the period 2012–2018, there is growth in both audit and non-audit services, but the growth in non-audit services far exceeds the growth in audit revenues. On average, the revenues of the audit practice have declined from 35.8% of non-audit revenues to 21.7% of non-audit revenues over the period 2013–2018. This suggests that there may be a diminished importance of the audit practice to the overall firm performance and that resources are likely to be directed towards more rapidly growing revenue streams.

Table 13: Total Firm Revenue Data for Big 4 Audit Firms Based on Transparency Report Disclosures

Year	DT Audit (mill.)	DT NAS[1] (mill.)	EY Audit (mill.)	EY NAS[2] (mill.)	KPMG Audit (mill.)	KPMG NAS (mill.)	PwC Audit (mill.)	PwC NAS (mill.)	Average Ratio of Audit to NAS %
2013	203	882	310	810	389	724	353	1,086	**35.8**
2014	225	949	318	815	392	728	354	1,219	**34.7**
2015	236	1,119	338	948	411	799	364	1,367	**31.9**
2016	251	1,290	353	1,134	438	932	369	1,551	**28.7**
2017	261	1,510	353	1,272	315	1,185	396	1,724	**23.3**
2018	278	1,752	375	1,410	328	1,312	409	1,941	**21.7**
Note 1: Includes other related assurance services; 2: Includes other assurance									

Table 14 analyses the non-audit service revenues to audit clients compared to revenues generated from non-audit services delivered to other clients. This data is available for three of the Big 4, with EY not separately disclosing this information. Whilst there are concerns raised that audit firms receive a large proportion of their non-audit services revenues from their audit clients, this is not borne out by the data. In 2013, the average proportion of total non-audit services provided to audit clients relative to non-audit clients was 15.6% and this has further declined to 10.3%, suggesting that non-audit services to audit clients are becoming a smaller part of the business of the large audit firms.

Table 14: Analysis of Non-Audit Service Revenue to Audit Clients Versus Non-Audit Clients for Big 4 Audit Firms Based on Transparency Report Disclosures (Not Disclosed by Ernst and Young)

Year	DT NAS to Audit Clients (mill.)	DT NAS to Others (mill.)	KPMG NAS to Audit Clients (mill.)	KPMG NAS to Others (mill.)	PwC NAS to Audit Clients (mill.)	PwC NAS to Others (mill.)	Average Ratio of NAS to Audit Clients/ NAS to Others %
2013	88	794	122	712	168	918	**15.6**
2014	91	858	134	717	189	1,030	**15.9**
2015	105	1,014	133	799	194	1,173	**14.5**
2016	116	1,174	151	918	200	1,351	**13.6**
2017	122	1,388	135	1,050	208	1,516	**11.8**
2018	117	1,635	131	1,181	218	1,723	**10.3**

Conclusions

Whilst regulators have publicised their concerns regarding the provision of other services by auditors to their clients, there has been little recent consideration of the underlying data in the Australian setting. In this research paper, I provide a detailed analysis of the Australian market over the period 2012–2018 for listed companies. This analysis demonstrates that the market for non-audit services provided by auditors to their audit clients has declined from $183 million in 2012 to $172 million by 2018. The Big 4 have the largest share of the auditor provided other services market, and this has also declined from over 92% to around 88% over this period. Over 60% of non-audit services are purchased by the largest 200 listed companies. The average purchase by these firms has decreased from over $700,000 to around $590,000 over the period. It is notable that the number of very large clients not purchasing services from their audit firms has decreased over the period, with only 12 very large clients reporting zero purchases of other services from their audit firm. The dominant type of non-audit services provided are taxation, audit and assurance related, consulting and advisory, with a significant proportion of these services not separately identified. Further guidance on these disclosures, including a requirement to detail each of the services provided and the amount paid for each of these, appears to be warranted given this.

The ratio of non-audit service fees to audit fees has often been seen as an area of concern for regulators. The evidence provided here is that the proportion of non-audit services as a percentage of the audit fee is declining on average. Clients of the Big 4 purchase the highest proportion of non-audit services relative to their audit fees, declining from around 40% to 33% over the period. Clients of the large non-Big 4 average 30%, clients of the medium and small firms are around 20%. Whilst the very largest clients purchase the highest amount of non-audit services in dollar terms, as a percentage of the audit fee, it is the next largest group of clients that purchase the highest ratio of non-audit services at around 50% (compared to around 30% for other groups of clients). This suggests that this group of clients would be most impacted by any further regulation restricting the amount of non-audit services able to be purchased from incumbent auditors.

I also analyse audit firm tenure for listed companies and find that the highest proportion of clients have audit firm tenure of less than five years. Median audit firm tenure is unchanged at five years across the period investigated.

The audit firm revenue data from auditors' transparency reports provides some additional insights into the overall delivery of non-audit services by large audit firms. This data reveals the growth of the non-audit segment of the Big 4's business with the audit declining from 35% of consulting and other services revenues in 2012 to 21.7% by 2018. In further analysis, it is clear that this growth is not in non-audit services provided to audit clients but to non-audit clients. By 2018, only 10% of the consulting services provided relate to their audit clients.

One limitation of my analysis is that due to the availability of data I am necessarily confined to the disclosures provided by listed companies for which audit and non-audit services data is publicly available. Accordingly, my conclusions can only be generalised to the listed company market as a whole. Whilst it would be useful to examine the private company market, as it represents a significant amount of the fee revenues for audit firms of all sizes, the data to do so is lodged in annual filings with the Australian Securities and Investments Commission, but the cost of accessing this data is prohibitive to researchers.

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