Accepting new audit clients comes with a cost. It requires a significant investment in time initially to establish those vital client-auditor relationships, not to mention the time invested in file set-up. That is why keeping clients is so important and, conversely, why losing quality clients is always so painful.

Reducing audit fees is the most frequent reason given by clients to auditors when the decision is made to switch firms. The explanation is impersonal and easy to deliver, but 2013 Canadian research by Richard Fontaine, Soumaya Ben Letaifa and David Herda, entitled “An Interview Study to Understand the Reasons Clients Change Audit Firms and the Client’s Perceived Value of the Audit Service,” brings into question whether fee reduction is the primary reason why clients switch auditors. In fact, an unsatisfactory client-auditor relationship may more likely be the cause of clients switching auditors; fees being the presenting issue only.

Looking for reasons why clients switch auditors, the researchers conducted in-depth interviews with 20 financial managers (e.g., CFOs and Finance Directors) who participate in audit firm appointment decisions. Firms in which the managers worked included 11 companies audited by the Big 4 firms and 9 by non-Big 4 firms; of those companies 10 were private, 8 were public and 2 were not-for-profit. The goal was to explore why companies switch auditors and, as importantly, what managers perceive as value received from an audit engagement. The researchers conducted face-to-face interviews with open-ended questions as opposed to sending out questionnaires. In all 20 cases, the financial managers interviewed were heavily involved in the audit firm selection process for their firm – even in public companies where an audit committee is ultimately responsible for the decision. Management’s opinion does matter.

Primary reasons given by financial managers initiating auditor switches were not excessive fees, but rather:

- unsatisfactory relationships (8/20)
- interviewees initially stating that fees were the reason for change, but also stating that a less-than-desirable relationship with their auditor accelerated the decision to switch (4/20);
- lack of business knowledge by the audit team (5/20), and
- interestingly, annoying extra-billing practices (3/20).

A clear picture begins to emerge that fee reduction would not appear to be the primary reason for switching audit firms.

The quality of client-auditor relationships is as, or more, important in retaining quality clients. The good news is auditors can learn valuable lessons in reducing client turnover from this research study.

**The audit is not just a commodity: add value to your client**

The audit report accompanying annual financial statements is the same for almost all companies, especially for those listed publicly where a qualified report is taboo. If the standard audit report was the only output of an audit, then the service would be a necessary evil to be endured. As a commodity, price competition would be paramount with a race to the bottom and likely many more turnovers would occur than currently is the case. The primary factor identified in the research that differentiates one auditor from another is the relationship between management and the audit team. People matter.

**Steps auditors can take to promote a healthy and dynamic client-auditor relationship include:**

- **Maintain an effective professional relationship with your client.** Senior client personnel need to interact with the client more than just at the closing meeting. Interaction can be as simple as a phone call now and then by the engagement partner or a manager to appropriate client personnel to see how operations are
going. Performing fieldwork and reviewing working papers on site is another excellent way to increase interaction and the opportunity to add value.

- **Avoid boilerplate communication.** Make sure the audit strategy letter and report to the audit committee is tailored specifically to the client. Few things speak “commodity” more than a cookie-cutter letter with few points relevant to either management or those charged with governance. Every audit should have a letter to the board, preferably with suggestions for improvement specific to a client’s systems and also a point or two about changes specific to the client’s industry. Change in our current reporting environment is so endemic that writing a meaningful letter every year should not be difficult.

- **Avoid surprises.** Call your client as soon as you are aware of either an issue arising from the audit or an issue external to the client that will affect financial reporting. Let the client know that calls between visits to discuss emerging issues or anything else are always welcome. The importance of avoiding surprises works both ways and goes a long way to instilling trust in a relationship.

- **Be available to your client.** Few things are as indicative of an uncaring attitude as not responding to inquiries. When a client calls or emails, respond quickly, if only to say when you will get back to them.

- **Be honest in your opinions.** Quality clients typically expect an independent professional to give a forthright response. Reasoned independent opinions and advice, even if unpopular, build trust in any relationship.

The study summarizes the importance of communication as follows:

...auditors should focus on developing personal relationships with individuals at various levels within client organizations, from junior employees to managing officers. Auditors need to ensure that their clients perceive them as “available.” Auditors can enhance perceptions of availability, and establish an attentive relationship, by the simple gesture of an informal telephone call to see how things are going with the client, or being more present at the client location throughout the year, not only at a year-end meeting. This applies not only to audit partners, but also to seniors and managers.

**Understand the client’s industry**

Five of the study’s participants cited the lack of the audit team’s business knowledge of the industry and the company as primary reasons for switching auditors. Being able to better add value through knowledge of the industry and the company seems self-evident.

**How can auditors accomplish this?**

- **Specialize in an industry where possible.** Having 20 clients in the same industry as opposed to 20 clients in 20 different industries will result in both more effective and efficient audits. Knowledge of the industry will help auditors identify significant risks and tailor audit programs more effectively. In many instances, being seen as an industry specialist will allow a firm to bill a premium for their knowledge and expertise.

- **Staff the job appropriately at all levels and be sensitive to staff turnover.** Not only does the partner need to understand the client and the industry, but clients often feel resentment at having to train new auditors and audit students (interims) on an annual basis. On the smallest of engagements, sending out a raw junior to a client where management lack financial reporting expertise is a sure formula for disaster. A firm should staff engagements in the same way they would want their practice inspections to be staffed. “What is good for the goose is good for the gander!”

- **Have the entire audit team do as much of the audit field work on site as possible.** That includes planning, file review and drafting the letter to those charged with governance as the engagement progresses. This allows for direct communication with client personnel, as well as the opportunity to learn firsthand about the client and its industry. This will result in efficient use of not only of staff, but also of client time – something that will be perceived as an added value.

**Bill your client for extras with sensitivity**

An interesting finding of the research is that extra billing practices can be a major irritant for clients. In addition to seeming petty, separately billing for short one-off conversations or disbursements that are trivial in relation to the audit
as a whole can be a barrier to maintaining an effective professional relationship with your client. To minimize billing irritations, consider the following:

- **Encourage clients to talk with you if they have fee issues.** Better to know about fee issues before they become a serious problem.
- **Give the client a firm quote for the audit itself.** If you are more efficient than you expect, you get a premium. Include a margin for extra services such as phone calls during the year if they are expected.
- **Minimize billing surprises.** Provide a quote before you provide any service for which you expect to bill over and above the audit itself.
- **Increase the audit quote itself up front.** Few clients liked to be nickel-and-dimed, so include estimated costs for charges like faxes, copies and travel.

**Summary**

The study concludes:

…the quality of the auditor-client relationship is the key determinant of auditor switching and audit value. Interestingly, price becomes an important factor only when the auditor-client relationship is mismanaged (e.g., when clients perceive that their auditor is not available to them).

To add value to every audit and reduce client turnover, auditors should carefully nurture their client relationships through effective communication, improving industry and business knowledge and ensuring billing practices are appropriate. Research demonstrates this is important and that everyone will benefit.

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