

THE BIG FOUR: A STUDY OF THE COMPATIBILITY OF ACCOUNTING AND CONSULTING PRACTICES WITHIN A PROFESSIONAL SERVICES FIRM IN THE UNITED STATES

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ABSTRACT

The Big Four audits approximately 99% of the market capitalization of companies traded on the New York Stock Exchange (NYSE) and the National Association of Securities Dealers Automated Quotations (NASDAQ) that are included in the Fortune 500. The purpose of our study is to provide data driven analysis about 1) the relationship between audit quality and permissible non-audit consulting/advisory providers to audit clients by the auditor and 2) the impact on audit quality of providing consulting/advisory services to non-audit clients of the Big Four. Evidence will be presented to demonstrate that as consulting/ advisory service revenue has increased, audit quality has also increased. Audit independence has been safeguarded.

Keywords: *Big Four, Independence, Audit Quality, Consulting Services*

1. INTRODUCTION

There is currently considerable coverage in the business press of the influence from rapidly growing consulting/advisory practices within a multidisciplinary professional services firm. The issue raised concerns of the impact of audit quality when the firm increases growth from consulting/advisory within the Big Four firms. The Big Four firms include: Deloitte & Touche LLP (Deloitte) Ernst & Young LLP (EY), KPMG LLP (KPMG) and PricewaterhouseCoopers LLP (PwC). Much of the business media coverage is based on recent events and often is considered in isolation.

Audit quality of the Big Four is the cornerstone of investor confidence for the United States publicly traded companies. Currently, Audit Analytics states that the Big Four audits approximately 99% of the market capitalization of companies traded on the New York Stock Exchange (NYSE) and the National Association of Securities Dealers Automated Quotations (NASDAQ) that are included in the Fortune 500.

There is no single way to measure audit quality. Many might contend the ultimate measure to be the number of restatements of previously issued financial statements. Others would look to the trend in Part I comments issued annually by the Public Company Accounting Oversight Board (PCAOB), the United States governmental regulator of auditing firms registered to perform audits of Securities and Exchange Commission (SEC) Issuers. Some would look to enforcement actions levied by the SEC on the Big Four as the ultimate measurement.

There are many factors that potentially impact audit quality. Two of the most common factors noted in the business media are 1) The potential impact of auditor independence when performing permissible non-audit services and 2) the diversion of management time and attention combined with the allocation of financial resources to the more rapidly growing non-audit businesses.

The objective of this study is not to draw ultimate conclusions with respect to audit quality, but rather to provide data driven analysis that can be used to draw conclusions about 1) the relationship between audit quality and permissible non-audit consulting/advisory providers to audit clients by the auditor and 2) the impact on audit quality of providing consulting/advisory services to non-audit clients of the Big Four.

Before addressing the data, some history of the current Big Four firms is needed.