

BDO SWEEPS 2014 AUDIT CLIENTS

Firm leads in new engagements for the second year

By Daniel Hood

For the second year running, national firm BDO USA has racked up the most new Securities and Exchange Commission audit clients, with a net of 40 on a total of 54 new engagements.

In a switch from last year, though, the preponderance of the firm's client growth came organically, as opposed to through its ongoing and high-profile campaign of mergers and acquisitions. "Organically, we added 39, and by expansions we added 15," said chief executive officer Wayne Berson. "So even if you back out the expansion-related additions, we would have comfortably maintained our position." Last year, the firm gained 30 clients organically, and 34 through M&A.

The two approaches are actually complementary, Berson explained: "The expansion growth fuels organic growth. We bring in clients through some of these expansions, even if the firms don't do this kind of work." He cited a merger with a firm that didn't do public company audits, but had a contact at a large public company and was able to introduce BDO and help land the client: "I like to say $1+1=3$."

Overall, the firm's growth in the area has had two main drivers, Berson said: "No. 1 is our dedicated industry and public company program — our investment in industry sector knowledge, as well as our public company programs in terms of the outreach and the training we provide in the industry, and our reputation, have all contributed to the organic growth of our practice. And the second driver would be the firm's strong growth overall over the past two years, which has certainly increased our profile nationally and in some new markets, and that in and of itself translates into an increase in the number of invitations to propose on work. Plain and simple, you could say we're being asked to the table more often."

That sector focus explains why a significant number of the firm's new clients cluster in a few industries, including health care and pharmaceuticals, banking, insurance, and energy — with the latter getting a particular boost from BDO's acquisition of the Texas practice of UHY LLP.

"The more businesses that know you in a particular sector — when you develop a name for yourself in a sector — the more likely they are to consider you when they're contemplating a change in auditor," said Berson. "Public companies are very aware of what knowledge the accounting firm has in their

particular industry, and I think that's played a major role in the clients we've picked up."

CLIENTS AND STAFF

Sector expertise is much sought-after, but it's only one of the things that clients are concerned about, Berson noted. "The biggest thing that we are seeing new clients citing as one of the reasons for their transition to a new firm is the slow responses to technical issues," he said. "They also talk about accelerated fees beyond the original estimate. So firms come in and say, 'We'll charge you x' and all of a sudden it's x+y, so we're hearing about surprise billings. We're also hearing about poor staff continuity, and inexperience in the industry. These are the main factors that we encounter in talking to these issuers."

The staffing issue ties into a major concern for the accounting profession as a whole over the past few years — recruiting and retaining qualified employees — but BDO has made a number of cultural changes to improve its position there. "In terms of staff continuity, our staff turnover rate has decreased from about 30 percent to the low teens, which is well below than the industry standard," according to Berson. "We have a new culture over the past few years to make this a place where people want to come to. Getting turnover so low has been a huge boost for us, and our clients are the beneficiaries."

SMALL FIRMS, BIG FIRMS

While BDO was out front among big firms, its closest competition came from a small one: Minnesota's KLJ & Associates, which brought in 47 new clients overall, and a net of 40, largely through its combination with Detroit-area firm Silberstein Ungar PLLC. The acquired firm focused on small and midsized clients, and franchising companies, and founder Ronald Silberstein joined KLJ as a partner.

Similarly, BDO led the way in net new audit fees, with just over \$36 million (with one client, fire, marine and casualty insurer Tower Group International, accounting for over \$17 million of that), but two other large firms led in other areas. KPMG's addition of American Airlines as a client helped it top the list of new assets added, contributing well over half of its \$83 billion. And Deloitte took the lead in net new market cap audited, with Honeywell International accounting for a whopping \$77 billion of its \$82.5 billion.

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