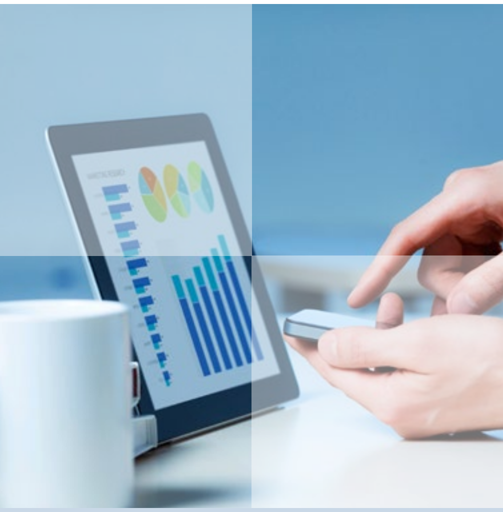
Wolters Kluwer



Public Accounting Report

THE INDEPENDENT NEWSLETTER OF THE ACCOUNTING PROFESSION SINCE 1978

JANUARY 2018 | VOLUME XLII, NO. 1

IN THIS ISSUE

1 Big Four Networks Post Solid FY17 Results in Challenging, Uncertain Global Atmosphere

4 Executive Forum: Happy New Year! Now, Everything Changes!

COMING NEXT MONTH

EXTRA!

PAR's 2018 Directory of CPA Associations and Networks!

Big Four Networks Post Solid FY17 Results in Challenging, Uncertain Global Atmosphere

PwC leads Big Four in audit and tax;
EY reports largest growth percentage.

Editor's Note: This is Part 1 of a two-part report on the Big Four global networks' FY17 results. Look for Part 2 in the March issue of PAR, which will focus on the performance of the respective networks by region.

These are demanding times for the global Big Four networks. Read their respective 2017 global reports, and you'll hear a chorus that echoes with concerns about uncertainty, risk and the need to create trust among clients and within markets. Practically in unison, leaders of the global Big Four stress the need to embrace technology and innovation, both internally and as an essential tool for clients. You'll also hear about the need to create disruption and to survive it.

In his opening message in **EY**'s *Global review 2017*, EY Global Chairman and CEO Mark Weinberger cited the uncertainty engendered by "the developing impact of Brexit in the U.K. and Europe, the elections of new global leaders around the world, and ongoing conflicts in the Middle East and Northeast Asia.

"Add to that an increase in nationalist policies and attitudes in many countries, and the result is a level of uncertainty that acts as a tax on business and slows decision making. It also takes a personal toll on our clients and ourselves: these are undoubtedly challenging times. Yet this uncertainty also places a premium on our value as trusted advisors. Many of our clients are looking to us for insights and advice as they navigate disruption and search for growth."

KPMG International Chairman Bill Thomas, who succeeded John Veihmeyer in October, wrote in KPMG's *2017 International Annual Review* that "[e]very industry and client

Public Accounting Report

Big Four FY17 Global Revenue

Rank	Firm	Period	Global Rev. ($M)	Revenue Growth ($M)	Revenue Growth %	Partners	NPPs	Total Staff	Audit %[1]	Tax %[2]	Consulting %	Other %
1	Deloitte[3]	FYE May 31	**38,800**	**2,000**	5.5	**11,378**	**209,234**	**263,924**	24.2	18.8	36.9	**20.1**
2	PwC	FYE June 30	37,680	1,784	5.0	11,181	188,090	236,235	**42.4**	25.1	32.5	0
3	EY[4]	FYE June 30	31,404	1,478	**6.0**	DNP	DNP	247,570	37.0	**26.0**	27.1	9.8
4	KPMG International	FYE Sept. 30	26,400	980	3.9	10,147	153,472	197,263	39.4	22.1	**38.6**	0
		Totals	**134,284**	**6,242**	**5.1**	**NA**	**NA**	**944,992**	**35.3**	**22.9**	**33.7**	**8.2**

Editor's Note: Big Four firms report gross revenue. Revenue figures are rounded. NPPs = nonpartner professionals, DNP = did not provide, NA = not available. *PAR* calculated revenue mix percentages from reported revenue figures. Totals do not equal 100 due to rounding. [1]Deloitte and KPMG labeled this category "Audit," while PwC and EY labeled it "Assurance." [2]Deloitte labeled this category "Tax and Legal." [3]In Deloitte's global revenue mix, "Other" included Risk Advisory revenue of $4.5 billion and Financial Advisory revenue of $3.4 billion. [4]In EY's global revenue mix, "Other" included Transaction Advisory Services revenue of $3.067 billion. EY does not report number of global partners or nonpartner professionals.
Source: Deloitte survey reply; PwC, EY and KPMG International annual global reports; *PAR* research and analysis

KPMG serves is transforming, responding to new technologies and disruptive forces that are reshaping their businesses. These same disruptive forces are impacting our business as well …"

KPMG's response, Thomas wrote, included a $1 billion investment over the past 12 months, focusing on technology. Specifically, he referenced "digital transformation, data and analytics, cyber security, intelligent automation and blockchain."

In **PwC**'s *Global Annual Review 2017*, PwC Global Chairman Bob Moritz pointed to "megatrends like shifting economic power, demographic changes, or technological breakthroughs, which are shaping our world in new and different ways. These trends not only affect *what* we do, but *why* and *how* we do it."

Despite the global geopolitical and economic environment of 2017, the revenue performance of the Big Four networks was consistently solid. Collectively, the Big Four grew revenue to $134.284 billion, up 5.1% ($6.242 billion). **Deloitte** maintained its position as the top revenue-producing network of the Big Four, growing 2017 revenue by $2 billion (a 5.5% increase) to $38.8 billion for the fiscal year ending May 31. PwC, which lost the top revenue spot to Deloitte in FY16, fell a bit farther behind in FY17, increasing revenue 5% ($1.784 billion) to $37.68 billion. EY posted the largest revenue growth by percentage (6%), increasing revenue $1.478 billion to $31.404 billion. PwC and EY each have fiscal years ending June 30. KPMG increased revenue $980 million (3.9%) to $26.4 billion for the fiscal year ending Sept. 30. (*See table, Big Four FY17 Global Revenue, above.*)

Data and analysis in this article are based on *PAR's* analysis of the Big Four networks' annual global reports for FY17

PUBLIC ACCOUNTING REPORT

THE INDEPENDENT NEWSLETTER OF THE ACCOUNTING PROFESSION SINCE 1978

VOLUME XLII, NO. 1

Editor
Julie Lindy
julie.lindy@wolterskluwer.com

Senior Contributing Editor
Bryan Powell
bryanpowell.par@gmail.com

Contributing Editors
Carrie Kostelec
carrie.kostelec@wolterskluwer.com
Sandra Lim
sandra.lim@wolterskluwer.com

Editorial Assistant
Raghavendra Kaup

Production Editor
Don Torres

PUBLIC ACCOUNTING REPORT (ISSN 0161-309X) is published monthly by Wolters Kluwer, 2700 Lake Cook Road, Riverwoods, Illinois 60015. Subscription inquiries should be directed to 2700 Lake Cook Road, Riverwoods, IL 60015.

Phone: 800.449.8114 | Fax: 773.866.3895 | Email: *cust_serv@cch.com*

Public Accounting Report

Big Four FY17 Global Revenue Growth by Practice Area

Firm	Period	Audit ($M)[1]	% Chg.	Tax ($M)[2]	% Chg.	Consulting ($M)	% Chg.	Other ($M)	% Chg.
Deloitte[3]	FYE May 31	9,400	0.0	7,300	**5.8**	**14,300**	**9.2**	**7,900**	6.8
PwC	FYE June 30	**15,965**	**4.5**	**9,462**	4.2	12,253	6.3	0	0
EY[4]	FYE June 30	11,632	2.9	8,179	5.5	8,526	8.7	3,067	**12.4**
KPMG International	FYE Sept. 30	10,390	**2.7**	5,830	4.9	10,180	4.5	0	0
	Totals	**47,387**	**2.8**	**30,771**	**5.0**	**45,259**	**7.2**	**10,967**	**8.3**

Editor's Note: Big Four firms report gross revenue. Revenue figures are rounded. [1]Deloitte and KPMG labeled this category "Audit," while PwC and EY labeled it "Assurance." [2]Deloitte labeled this category "Tax and Legal." [3]In Deloitte's global revenue mix, "Other" included Risk Advisory revenue of $4.5 billion and Financial Advisory revenue of $3.4 billion. [4]In EY's global revenue mix, "Other" included Transaction Advisory Services revenue of $3.067 billion. **Source:** Deloitte survey reply; PwC, EY and KPMG International annual global reports; *PAR* research and analysis

Public Accounting Report

Big Four FY17 Global Revenue Ratios ($000)

Rank	Firm	Period	Rev./Partner	Rev./NPP	Rev./TS
1	Deloitte	FYE May 31	**3,410**	185	147
2	PwC	FYE June 30	3,370	**200**	**160**
3	KPMG International	FYE Sept. 30	2,602	173	134
4	EY[1]	FYE June 30	DNP	DNP	127
		Totals	**NA**	**NA**	**142**

Editor's Note: Based on rounded revenue figures. NPP = nonpartner professional, TS = total staff, DNP = did not provide, NA = not available. [1]EY does not report number of global partners or nonpartner professionals. **Source:** Deloitte survey reply; PwC, EY and KPMG International annual global reports; *PAR* research and analysis

Public Accounting Report

Big Four FY17 Global Staffing Ratios

Rank	Firm	Period	NPP/Partner	TS/Partner
1	Deloitte	FYE May 31	**18.4**	**22.2**
2	PwC	FYE June 30	16.8	20.1
3	KPMG International	FYE Sept. 30	15.1	18.4
4	EY[1]	FYE June 30	DNP	DNP
		Totals	**NA**	**NA**

Editor's Note: NPP = nonpartner professional, TS = total staff, DNP = did not provide, NA = not available. [1]EY does not report number of global partners or nonpartner professionals. **Source:** Deloitte survey reply; PwC, EY and KPMG International annual global reports; *PAR* research and analysis

and prior years, as well as additional reporting from the Big Four and additional *PAR* research and analysis. At press time, Deloitte had not released its 2017 global report—a Deloitte press representative told *PAR* to expect its release in January. In the absence of a global report, Deloitte completed a *PAR* survey in order to provide the information necessary for our reporting.

Note that in their global reporting, generally the Big Four networks defer to the more favorable "local currency" or (for PwC) "constant exchange rate" expressions of their respective performances: As such, EY reported FY17 revenue growth of 7.8%; Deloitte, 7.1%; PwC, 6.5%; and KPMG, 4.8%. *PAR*'s weighted average calculation of the Big Four's collective FY17 growth by these measures is 6.6%.

PAR is reporting performance both in U.S. dollars, year to year, and in local currency or constant exchange rates, where reported by the firms.

In terms of service lines, Deloitte's consulting practice posted revenue of $14.3 billion, up 9.2% (10.2% in local currency), outpacing PwC by more than $2 billion. Deloitte also reported Risk Advisory revenue of $4.5 billion (up 9.8%, 12.9% in local currency) and Financial Advisory revenue of $3.4 billion (up 3%, 5.8% in local currency). Deloitte's tax practice (which it calls "Tax & Legal") grew at the fastest rate of the Big Four (5.8%, 6.6% in local currency). *(See table, Big Four FY17 Global Revenue Growth by Practice Area, above.)*

Deloitte also led in revenue per partner ($3.41 million), nonpartner professionals (NPPs) per partner (18.4) and staff members per partner (22.2). *(See tables, Big Four FY17 Global Revenue Ratios ($000)* and *Big Four FY17 Global Staffing Ratios, above.)*

In FY17, PwC led the global Big Four in audit (PwC: "assurance") revenue, with $15.965 billion, up 4.5%, 6% at constant exchange rates; in tax practice revenue, with $9.462 billion, up 4.2%, 5.8% at constant exchange rates; in revenue per NPP ($200,000) and in revenue per staff member ($160,000).

PwC also provides global ***net*** revenue each year—the only Big Four organization to do so—with "expenses and disbursements on client assignments" of $2,415 billion in FY17, for net revenue of $35.265 billion, up 4.8% (6.4% at constant exchange rates).

EY's Transaction Advisory Services practice grew 12.4% in FY17, to $3.067 billion. EY's tax practice ($8.179 billion) was second to PwC in revenue. At 26%, it generated the largest contribution to its network's overall revenue of any Big Four tax practice.

Similarly, KPMG's consulting practice ($5.83 billion) generated the largest contribution (38.6%) to its network's overall revenue of any Big Four consulting practice.

One closing note regarding the Big Four global networks: They are hiring. Since FY12, the Big Four have added 251,489 staffers, a 36.3% increase. EY alone has increased its ranks by 80,345 in that time, an increase of more than 48%. Collectively, Big Four's total staffing rose 57,297 in FY17 to 944,992. A repeat of that hiring performance in FY18 would push Big Four global network staffing beyond the 1 billion mark. Big, indeed. ■

EXECUTIVE FORUM

Happy New Year! Now, Everything Changes!

Firm leaders discuss the accounting profession's future.

It's no longer true that the more things change, the more they stay the same. Now, disruption comes at lightning speed, seemingly out of nowhere—and more likely than not, technology is behind the changes. This month, accounting firm leaders reveal technology-related factors they believe are most likely to affect their firms in the near future.

Lee Ann Collins

Lee Ann Collins, *managing partner,* **Lane Gorman Trubitt**/*Dallas (FY17 net revenue: $20 million; 18 partners; 120 total staff)*:

The changes in technology in recent years have made it possible for us to perform in-depth analysis of our client's data, which previously was not possible. As technology continues to develop, we envision increasing gains in efficiency that will allow more time to prepare in-depth analyses of our clients' operations. Ultimately, this improved clarity will lead us to being able to better partner with our clients to help them achieve their long-term growth plans. From a staffing perspective, while we require our employees to have an understanding of accounting, greater emphasis will be placed on developing our employees' ability to analyze and understand large volumes of data. Critical thinking skills will step to the fore in terms of key characteristics in new hires, and we'll be looking for a broader skill set with regard to technical aptitude.

Jim Stelten

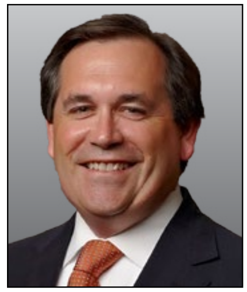
Jim Stelten, *growth and innovation partner,* **BerganKDV**/*Bloomington, Minn. (FY17 net revenue: $48 million; 41 partners; 325 total staff; seven offices)*:

I could not think of a more exciting time in our profession than the next five-plus years! This is the result of the disruptive effect of artificial intelligence (AI) and big data converging. Many of our current compliance activities will soon be performed by AI-based programs. Additionally, we will pivot and become even more relevant to clients by providing enhanced risk assessment, risk monitoring and data analytic solutions. These solutions are not tied to a busy season and have the potential to flatten out our revenue stream—something that has been an issue for our profession for some time. Lastly, blockchain technology is another disruptor that could have a significant impact on our attest services. At BerganKDV, we have created a business model where we strive to be a quarterback for our clients—solving problems and helping create opportunity. We are doing that through the 15-plus solutions we provide and through numerous hand-picked strategic partners. Our goal is to save clients' time, reduce risk and impact their bottom lines. With the advent of AI and big data, we will have more time and tools available to do that! We are also building our BerganKDV University. Our ability to execute our future business plan is dependent on enhancing our problem-solving skills and increasing our business acumen. We also expect that we will need to simulate learning experiences for our younger staff to ready them for advanced positions in our firm. AI will replace some of our on-the-job training that exists today.

Anthony J. Caleca

Anthony J. Caleca, *managing partner*, **Brown Smith Wallace LLP**/*St. Louis (FY17 net revenue: $46 million; 31 partners; 315 total staff; three offices)*:

Brown Smith Wallace believes that communication is essential when working with clients and meeting their needs. Because of this, we consistently seek out new and better ways to provide our clients with the knowledge they need. I see the interpretation, delivery and communication of data as crucial to our success in the future. The advances of AI will provide greater technology resources to our professionals, and the data created will need to be analyzed by professionals who have an expectation of outcomes and can clearly identify exceptions. We, therefore, see the need for more complex thinkers and those with negotiation skills on the rise. Our professionals will need to use their critical thinking skills to interpret data effectively and then engage clients in clear, comprehensible conversations about the information they need to make important decisions. We will continue to best serve our clients when we maximize the benefits new technology and up-to-date data can provide.



Scott Moss

Scott Moss, *managing partner, transactions & advisory services*, **Cherry Bekaert**/*Charlotte, N.C. (FY17 net revenue: $175 million; 125 partners; 1,000 total staff; 12 offices)*:

Advancements in AI, machine learning (ML) and data analytics are profoundly impacting the business world. These tools empower leaders to make better-informed decisions and solve complex business challenges. Many CPA firms recognize the benefits these tools can provide, and they are making technological investments in order to improve internal performance measures. AI enables computers to simulate human processes related to organizing and analyzing data. Computers can process significantly larger amounts of data at a faster pace and with a higher degree of accuracy than could otherwise be accomplished by traditional human means. Critical information is frequently hidden inside of large datasets and AI provides the keys to efficiently unlock this information. In its most basic format, ML leverages computers to produce pattern recognition outputs designed to develop future predictions based on underlying historical data and trends. When combined with AI, organizations can capitalize on these often-subtle changes in trends by modifying behaviors and business processes. Improvements in tools, such as AI and ML, have created the need for data scientists. These individuals possess analytical skills, problem-solving capabilities and knowledge of business processes. Data scientists use these skills to interpret results, corroborate predictions and refine processes that improve business performance. Greater reliance on technology is requiring all organizations to have higher levels of assurance on the accuracy of the data being processed and to ensure safeguards are in place to protect valuable information from cyberthreats. Technological advancements are serving as a catalyst for change, which is reshaping the accounting profession. As CPA firms become more skilled in data analytics, they are uniquely positioned to repurpose this internally developed expertise into new consulting services. These services would assist clients in adapting to changes that are redefining many historically accepted business practices.

Rob Dutkiewicz

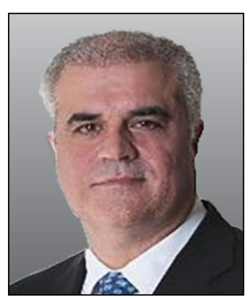
Rob Dutkiewicz, *president,* **Clayton & McKervey**/*Southfield, Mich. (FY17 net revenue: $12 million; nine partners; 75 total staff)*:

Industry experts suggest that within the span of 10 years, the nature of compliance services, such as tax preparation and audits, will completely change. Services that take days or even weeks may soon be performed with the push of a button. In addition, the level of quality will not be compromised and will likely be improved due to the power of automation. We'll see if these predictions bear out, but the IRS and other authorities will certainly have access to an increasing amount of financial information at their command. With these trends on the horizon, the level of firm specialization is certain to increase, with well-prepared firms having the discipline to invest resources only in areas where they can excel and provide outstanding value to clients. Developing practice areas, which are key to our own firm, including transaction services, transfer pricing and industry-focused consulting, are just a few examples. This reality presents a bigger challenge for mid-size firms with limited resources relative to the Big Four, which have the capacity to invest more broadly. What won't change, however, is the role of the CPA as a most trusted advisor. More and more, we expect the value of that role to be highly consultative. CPA-directed academic programs will need to adapt to a profession that requires candidates to be fully tech savvy and sophisticated about using technology solutions to solve business problems. A tech-driven move from compliance to consultant, regardless of one's actual title or role in the firm, is expected and already happening to varying degrees within our profession.

Randall S. Myeroff

Randall S. Myeroff, *CEO,* **Cohen & Co.**/*Cleveland (FY17 net revenue: $54,852,742; 60 partners; 600 total staff, 10 offices)*:

Technology will continue to significantly impact the accounting industry over the coming years, both internally and client facing. Appropriate operational tools and data drive quality and efficiency, and clients demand electronic data sharing delivered in an ultra-secure environment. Today, both employees and clients will consider technology as an important factor in their decision to join, and remain with, an organization. We are also, of course, closely monitoring the role of AI in the profession. The key question is not "if" AI will disrupt attest services, but "when." National firms are using some elements of AI to reduce staff hours and increase quality on some of their larger, multinational engagements. The implications to the "staffing leverage pyramid" will be quite interesting to follow. It's a great time to be in this profession, and the structure and pace of technology adoption will add to the riddle of driving long-term success.



Raimundo Lopez Levi

Raimundo Lopez Levi, *founder and managing partner,* **Lopez Levi Lowenstein Glinsky**/*Coral Gables, Fla. (projected FY17 net revenue*: $5,851,178*; two partners; 38 total staff, two offices)*:

The accounting profession has suffered dramatic changes in the last 10 years, posing some interesting challenges for our firm. Ten years ago, we used magnetic storage devices and a centralized server to keep accounting records of audits, income tax and business valuation engagements. In addition, we were required to have physical copies of those records in warehouses. In recent years, the advancement of cloud computing is enabling CPA firms to store massive amounts of documents in a flexible manner, since it can be accessed from any part of the world. The development of cloud computing and applications poses two relevant challenges for CPAs nowadays: (1) cybersecurity and (2) big data analytics. From my perspective, cybersecurity is a major issue, since without the proper internal control systems and processes, an unauthorized user could access data. We have seen that many large public companies have been subject to attacks by hackers who are becoming more sophisticated by using state-of-the-art software programs. This requires CPA firms to train employees, as well as have updated software. For the future, our opinion is that AI is becoming a relevant disruptor in the CPA industry. Currently, AI is utilized to analyze large amounts of data and documents to identify sources of risk for audit purposes. In the future, it can be utilized for other engagements, such as income tax preparation and elaboration of financial statements. We do not see this factor as a threat to our firm, since we are preparing our CPAs to have that "scientific mind," as well as to take measures for data security.

Peter Scavuzzo

Peter Scavuzzo, *partner and chief information officer,* **Marcum LLP/** *New York (FY16 net revenue: $449 million; 204 partners; 14,762 total staff; 22 offices)*:

With the underpinning of cloud technology and an on-demand infrastructure providing unlimited computational processing power; smarter, leaner and better software tools; more readily available application programming interface; and automation, software has become the focal point of one of the most disruptive eras in the accounting industry. Couple all of this with AI and blockchain technology, and it's clear that our industry is headed toward a very exciting and intriguing future. Ironically, technology is at the heart of enabling accounting firms to stay true to our traditional client service mission. For example, one large firmwide initiative that Marcum has been developing for some time is the Marcum Pulse system. Pulse is a unified enterprise platform that brings together multiple firm service lines into a single pane of glass. It allows for streamlined productivity, quicker access to pertinent data, and advanced analytical dashboards, providing real-time views of not only the status of all active client work but also real-time metrics on employee performance and goals. It is becoming the single-click, one-stop shop that will drive efficiency for both Marcum and its clients. On the practice side, Marcum has been investing a great deal of resources in innovation and the firm's ongoing digital transformation. This has included a complete bottom-up review of all processes and services and custom solutions to further bring Marcum forward in better client service delivery. Included among these projects is an investment in advanced data analytics, with the goal of providing greater insights to our clients based on a deeper dive into their data profile and business objectives. Marcum also has put technologies in place that leverage AI and ML concepts to ingest and analyze higher volumes of data with quicker and better results. Another initiative that focuses on the transactional relationship with our clients is Marcum's new document signing workflow and software. Our vision is to enable clients to transact and sign documents from anywhere, at any time, on any device. These are just a few of the many technology-driven initiatives that Marcum is pursuing, and with a long-term commitment to investing in technology and innovation, our goal is to continue being a leader and a go-to for our clients for many years to come.

Heidi LaMarca

Heidi LaMarca, *president and CEO*, **Windham Brannon**/*Atlanta (FY17 net revenue: $25 million; 13 partners; 160 total staff)*:

Technology innovation has been alive and well these past 10 to 15 years, impacting essentially all phases of our daily lives. And while the accounting industry as whole has historically been more conservative in embracing technology in favor of sticking with more traditional, tried-and-true processes, the digitization of the business marketplace has forced increasingly more firms to replace what have now become outdated practices. Daily reliance on email and the internet, not to mention the proliferation of electronic spreadsheets and paperless audits, are now being augmented by even more technologically advanced industry applications in the form of data analytics (which will be a huge change for audit and advisory services) and cloud accounting (probably the biggest growth area for our firm). We see both of these advancements as viable technology tools that will streamline the way we work and, in turn, help Windham Brannon deliver better client results. ■