

Audit Services in Canada

Braden Baseley
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What's in this Report

This report is intended to assist buyers of audit services. Auditors are accountants certified to review the accounting records of public and private organizations and attest to compliance with generally accepted accounting practices. Auditors, which are usually Chartered Professional Accountants (CPAs), primarily audit financial statements and provide advice on matters related to accounting. Auditors are expected to be entirely independent of the companies or organizations they audit. They should present an unbiased and skeptical evaluation of the audited company's financial condition and statements for shareholders and other interested parties. This report excludes tax accounting services. Values are displayed in Canadian dollars (CAD).

Related Reports

- Bookkeeping Services
- Tax Accounting Services
- Accounting Services
- Management Consulting Services
- Investor Relations Services
- Corporate Treasury Services
- Inventory Accounting Services
- Billing Services
- Payroll Services

Standard Coding

United Nations Standard Products and Services Code - 84111600 (Audit Services)

North American Industry Classification System - 541211 (Offices of Certified Public Accountants)

National Institute of Governmental Purchasing Code - 94631 (Certified Public Accountant (CPA) Services)

At a Glance

Recent Price Trend: 1.0% - The price of Audit Services in Canada increased marginally during the past three years, limiting the impact price growth has on buyer power.

Forecast Price Trend: 0.5% - The price of Audit Services in Canada is expected to increase marginally during the next three years, limiting the impact price growth will have on buyer power.

Market Characteristics

-  Availability of Substitutes: Low
-  Market Share Concentration: Medium
-  Product Specialization: Low
-  Switching Costs: Medium

Market Risk

-  Price Driver Volatility: Low
-  Recent Price Volatility: Low
-  Vendor Financial Risk: Low
-  Supply Chain Risk: Low

Benchmark Price

Average Price: \$725.00 per \$1 million in client revenue

WIDE Price Range: \$50.00 to \$2,000 per \$1 million in client revenue

Key Pricing Factors: Scope, Complexity, Qualifications, Location

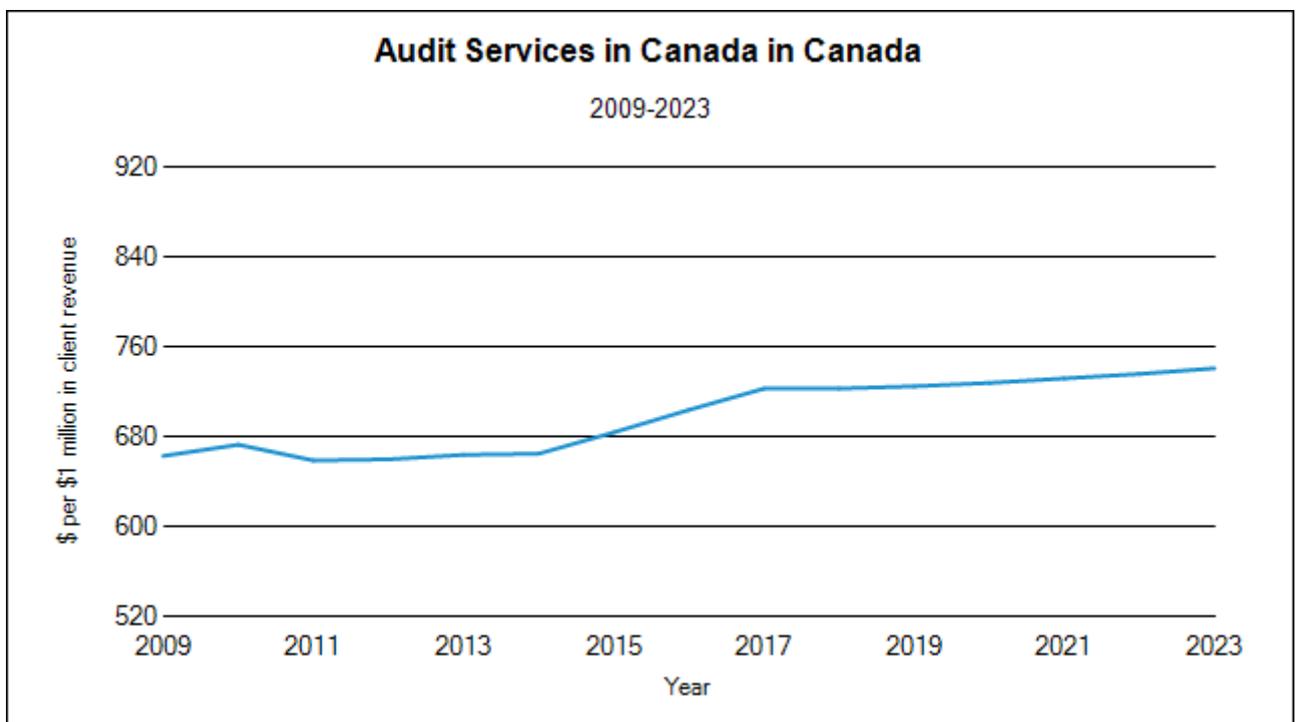
The average price of audit services in 2019 is about \$725 per \$1 million in client revenue. Numerous factors affect rates for audit services, including the scope of the audit, the complexity of the project, the qualifications of the auditor and the geographic location. As a result, rates for services vary widely from \$50.00 to \$2,000 per \$1 million in client revenue.

Rates for services expand in concert with the scope of the audit. Most audits include an assessment of an organization's key financial statements: income statement, balance sheet, statement of cash flows and statement of retained earnings. However, operators can also perform audits of supplementary information or other financial statements if necessary, usually at a higher price to compensate for the additional work. Moreover, operators can audit certain components of an organization, ranging from a single department to the organization as a whole. Operators spend more time auditing an entire entity than they do a single department or component unit, making company-wide audits more expensive to procure.

Generally, complex audits beget higher prices. Organizations may have to adhere to specific laws or regulations depending on their industry and type of organization (e.g. public or

private), and these specifications create certain audit requirements that necessitate specialized skills from auditors. For example, audit fees tend to be highest for financial services clients, whereas audit fees are the lowest for hospitality and consumer products clients. Additionally, auditors with CPA certifications charge a premium over auditors without certification. Certifications signal an auditor’s expertise and ability to perform complex tasks, thereby allowing them to charge higher prices.

Lastly, the location of the operators affects pricing. Metropolitan cities differ in terms of business activity, wages and taxes, thereby creating differences in the price of services across different provinces. Buyers can expect prices to be higher in metropolitan cities because audit firms must account for the higher cost of doing business in these areas.



Price Drivers

Input Cost Drivers: Average Wages - accounting services; Price of Commercial Rents Services in Canada

External Demand Drivers: Number of businesses; Government expenditure and investment; Corporate profit

Year	Average Wages - accounting services (\$)	Change (%)	Price of Commercial Rents Services in Canada (Index)	Change (%)	Corporate profit (\$ billion)	Change (%)	Number of businesses (Million)	Change (%)	Government expenditure and investment (\$ billion)	Change (%)
2009	89,220.8	8.0	97.1	2.4	88.6	-43.5	1.2	-0.4	445.1	3.8
2010	90,595.1	1.5	98.4	1.3	132.3	49.2	1.2	1.0	462.1	3.8
2011	90,313.5	-0.3	100.0	1.6	157.7	19.3	1.2	0.8	460.6	-0.3
2012	90,932.4	0.7	101.2	1.2	141.0	-10.6	1.2	0.1	460.9	0.1
2013	94,044.9	3.4	103.1	1.9	152.3	8.0	1.2	1.4	453.6	-1.6
2014	97,370.5	3.5	105.3	2.1	170.8	12.1	1.2	1.8	453.3	-0.1
2015	100,623.2	3.3	107.2	1.8	113.1	-33.8	1.3	0.5	459.6	1.4
2016	100,320.9	-0.3	108.6	1.3	104.8	-7.4	1.3	1.2	465.1	1.2
2017	102,291.6	2.0	109.3	0.6	138.4	32.1	1.3	0.4	477.8	2.7
2018	102,512.3	0.2	111.6	2.1	145.9	5.5	1.3	0.6	492.5	3.1
2019	102,832.4	0.3	111.4	-0.2	154.6	5.9	1.3	0.7	501.9	1.9
2020	103,093.2	0.3	112.5	1.0	160.4	3.7	1.3	0.7	511.0	1.8
2021	103,439.3	0.3	113.6	1.0	169.1	5.4	1.3	0.7	520.8	1.9
2022	103,692.4	0.2	114.6	0.9	177.7	5.1	1.3	0.7	530.8	1.9
2023	104,037.6	0.3	115.7	1.0	184.8	4.0	1.3	0.8	541.0	1.9

Buyer Power Analysis

-  The market for Audit Services in Canada has a buyer power score of 4.0 out of 5, indicating favorable negotiation conditions.
-  Buyers have limited opportunities to find alternate solutions when negotiating with vendors, hurting their negotiation power.
-  There is low risk that input costs or demand will shift suddenly, which helps buyers' negotiation leverage.
-  Buyers have ample opportunities to find a supplier that can sufficiently address their needs, which helps their negotiation leverage.
-  Buyers have a moderate ability to switch to competing providers, which has a neutral effect on their negotiation leverage.
-  This market has low supply chain risk, meaning supply shortages and price spikes are unlikely to occur, which benefits buyers during negotiations.

Major Vendors

ProcurementIQ estimates that there are 28,000 providers of audit services in Canada, which are categorized by size. **Small auditors**, which largely consist of nonemployers, account for

the largest share of enterprises. In fact, about 64.8% of all enterprises in the market are classified as nonemployers. Small auditors generally offer a narrow range of services, mainly focused on tax and audit work for small businesses in a limited number of regions. In many cases, small auditors offer favourable pricing or other contract terms to garner market share, which buyers can leverage to secure a better deal. Meanwhile, **large auditors** typically have global operations and service many large-scale, public companies. Large auditors include the Big Four (EY, KPMG, PwC and Deloitte), as well as firms like Grant Thornton and MNP. Unfortunately for buyers, large auditors benefit from significant brand recognition, thereby allowing them to add a premium to their rates. At the same time, large auditors usually offer numerous professional services aside from auditing, including consulting and tax services. Thus, buyers may be able to bundle multiple services from large auditors to secure a discount.

Company Name	Canada Market Share (%)	Market Share Performance (3-year trend)	Total Revenue (\$m)	Profit Margin (%)	Financial Risk Level
Deloitte Touche Tohmatsu Limited	15-20	Decreasing	>10,000	N/A	N/A
KPMG International	10-15	Increasing	>10,000	N/A	N/A
PricewaterhouseCoopers LLP	10-15	Steady	>10,000	N/A	N/A
EY	5-10	Increasing	>10,000	N/A	N/A
BDO International Ltd.	<5	Steady	>10,000	N/A	N/A
Grant Thornton International Ltd.	<5	Steady	5,000-10,000	N/A	N/A
MNP LLP	<5	Steady	1,000-2,000	N/A	N/A
RSM Canada LLP	<5	Increasing	100-250	N/A	N/A
Davidson & Company LLP	<5	Steady	<100	N/A	N/A
DMCL Inc.	<5	Steady	<100	N/A	N/A

Key RFP Elements

<p>Organizational Overview</p>	<ul style="list-style-type: none"> • Buyers should give an overview of their organizations (e.g. location, products and services offered, corporate governance, revenue mix, funding, etc.). • Buyers should include a description of their existing accounting department, including key personnel and current accounting standards (e.g. International Financial Reporting Standards). • Buyers should communicate the level of assistance to be offered to the auditor, such as support staff.
<p>Statement of Need</p>	<ul style="list-style-type: none"> • Buyers should outline their service requirements (i.e. breadth of services, length of the contract period and fiscal year(s) to be audited). • Buyers should define the entity to be audited (e.g. entire organization or specific department). • Buyers should delineate any specific laws or regulations relevant to their organization that imposes certain audit requirements. • Buyers should describe the desired qualifications of the auditor (i.e. number of years of experience, number of personnel, location, etc.). • Buyers should outline any requirements for the retention of audit documents. • Buyers should list any other ancillary services to be performed by the auditor.
<p>Proposal Format</p>	<ul style="list-style-type: none"> • Vendors should give a description of their organizations. • Vendors should outline their work plans, including their audit methodologies. • Vendors should list the abilities and backgrounds of key personnel. • Vendors should include details about any inspections by the Canadian Public Accountability Board. • Vendors should describe their process of communication with the buyer.

	<ul style="list-style-type: none"> • Vendors should provide references from prior clients that are similar to the buyer. • Vendors should include a proposed fee structure. • Vendors should disclose any pending litigation or conflicts of interest that could affect their ability to provide services.
Project Budget	<ul style="list-style-type: none"> • Buyers should include the budget for the contract. • Buyers should include a list of other expenses they will cover.
Selection Criteria	<ul style="list-style-type: none"> • Buyers should evaluate auditors on the qualifications of the firm and the staff assigned to the project. • Buyers should evaluate the auditor's experience with projects of similar complexity and scope. • Buyers should evaluate auditors based on their projected costs. • Buyers should evaluate references from auditors' previous clients.
Project Schedule	<ul style="list-style-type: none"> • Buyers should include the date when proposals are due and any other relevant dates (e.g. presentations or final interviews) prior to the contract award. • Buyers should include the date when the contract begins and ends. • Buyers should outline dates for any other audit milestones.

Negotiation Questions

<p>Experience: Suppliers should be able to recommend the appropriate services. Additionally, the supplier should have experience and a proven record with servicing clients similar to the buyer.</p>	<ul style="list-style-type: none"> • How well do you know the industry in which we operate? What are your previous engagements in this sector, if any? • What third-party sources do you use to keep abreast of changes, business models and risks in my industry? • What benchmarks are you using to judge my company in your enterprise risk model? • What is your repeat business rate for businesses in my industry and how does that compare with your overall rates? • How long have you provided audit services to your longest tenured client? Who are your five largest clients?
<p>Timeliness: Auditors should complete projects within expected timeframes to avoid any cost overruns.</p>	<ul style="list-style-type: none"> • What are your primary metrics for internal quality measurement regarding timeliness? Are data available to clients? • What checks and balances are in place to assure that the work is done on time without sacrificing quality? • What is your average turnaround time for audits of this size? • How have your systems and processes changed to improve delivery times?
<p>Quality Control: It can be unclear what represents a good or bad audit until it is too late. Therefore, it is imperative that auditors have a long history of providing high-quality audits.</p>	<ul style="list-style-type: none"> • Have you ever been inspected by the Canadian Public Accountability Board? Can you provide more details? • What quality-control procedures do you implement? • How do you track customer satisfaction? • When was the last time you had to restate an audit? • Have you had any major complaints from customers in the past? How have you dealt with these issues?
<p>Regulation: Regulation in the audit services market is moderate, with possible increases in depth and</p>	<ul style="list-style-type: none"> • How do you manage regulatory change? • How has increased regulation changed your pricing and how will it do so over the life of our

<p>complexity expected to improve audit quality.</p>	<p>proposed agreement?</p> <ul style="list-style-type: none"> • What ongoing training procedures do you provide for staff? • By what methods do you stay informed about ongoing regulatory changes?
<p>Competition: Auditors, especially smaller employers and nonemployers, often compete in terms of price and service offerings. Buyers should leverage this competition to achieve more favourable contracts.</p>	<ul style="list-style-type: none"> • How do you win and retain business? • What is your reputation like among clients and how have you developed that reputation? • Do you offer any incentives to customers that refer businesses or individuals to your company? • What differentiates you from other firms? How does your firm add value to your audit services? • What do you consider market best practices in terms of switching auditors?
<p>Employee Turnover: Retaining qualified personnel is key for a supplier to operate smoothly and ensure continuity of service for the buyer.</p>	<ul style="list-style-type: none"> • What is your staff turnover rate? What is the average tenure of your partners? • Do you have trouble with turnover? How does that affect service delivery? • How do you hire and maintain qualified staff? • Do you anticipate your staff turnover will affect this audit? How? • How deep is your industry knowledge, and do you have partner specialists in this area?