

# Another outstanding year

Accounting networks worldwide reported a stellar year in 2007 – double-digit growth percentages were the norm. **Carolyn Canham** looks at how developing markets, an increasingly global economy, regulatory challenges and international standards were among the topics of debate and discussion

The global accounting market generated revenues of \$130 billion – an increase of 20 percent – in the past 12 months. “It was a good year,” PricewaterhouseCoopers Global (PwC) chief executive Sam DiPiazza tells IAB. “It was a good year for us and a good year for the profession.”

PwC remains the largest of the networks, growing 14 percent to \$25.2 billion, a result DiPiazza is happy with. “Most people would say if you’re growing at those kind of rates you’re not a very mature business, you’re a growth business, and so I think the profession continues to show that it is relevant and there is enormous need,” DiPiazza says. “I think given the fact that we are at the scale we are at now, which is reporting a little over \$25 billion in revenue, continuing to grow at those numbers has been encouraging.”

DiPiazza says emerging markets have been “particularly impressive”. “The big emerging markets like China, India, Middle East, Russia, South America, almost every one of those for us would have been exceeding 20 percent, some exceeding 30 percent in growth,” he says. Eastern Europe is the network’s fastest-growing region. “That shows the strength we have across that entire landscape, from Poland all the way into the Balkans and our Russia business, even with some of the challenges that we have faced in Russia,” he says.

In June this year, PwC Russia withdrew

ten years of audit reports for bankrupt oil company Yukos. The firm said at the time that the reports for 1995 to 2004 should “no longer be relied upon” due to information that had recently come to its attention. Despite these challenges, DiPiazza says: “I think what is encouraging is that the Russian market understood the quality of the firm and remained very loyal, so we’ve had robust growth in Russia pretty much across the board.”

**“We’re organised as networks of firms, not because we want to, but because regulatory issues plus the absence of liability reform, make that essential”**

David McDonnell, Grant Thornton

Deloitte Global remains in second place, growing 16 percent to record fee income of \$23.1 billion. Ernst & Young comes in next, growing 15 percent to \$21.1 billion. KPMG achieved the highest growth rate among the Big Four, up 17 percent to \$19.8 billion.

KPMG International chairman Tim Flynn describes the past year as challenging but fulfilling. He adds: “The globalisation of the world’s economy, the dynamic regulatory environment and the market pressure on companies to transform themselves all contributed to increased demand for KPMG’s services.” Flynn says KPMG’s record results reflect a strong global business environment and validate the direction the network set in its global strategy.

The network has enjoyed strongest growth in Brazil, Russia, India and China, with aggregate revenues increasing by 41 percent in the past year. Flynn explains: “In China and Hong Kong combined, KPMG recruited nearly 2,000 professionals in the past year, growing headcount by 32 percent, and also opened five new offices. The KPMG member firm in Japan experienced rapid growth in fiscal year 2007, added a significant number

■ WORLD  
 Leading global accounting networks – full member fee data: 2007

	Most recent year's fee income (\$bn)
PricewaterhouseCoopers	25.2
Deloitte	23.1
Ernst & Young	21.1
KPMG	19.8
BDO International (1)	4.7
Grant Thornton International	3.5
RSM International	3.0
Praxity (2)	2.8
Horwath International	2.5
Baker Tilly International	2.5
Nexia International	2.3
Moore Stephens International	1.9
HLB International	1.7
PKF International	1.7
Kreston International	1.7

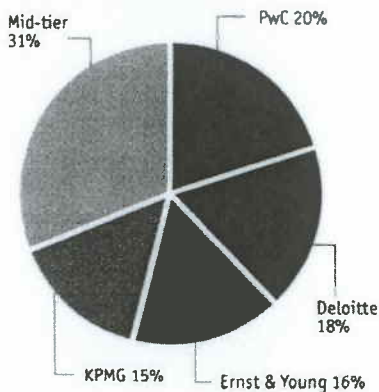
Notes: (1) Fee income includes revenue from member firms and exclusive members of member firms’ alliance programmes; (2) Fee income includes \$874 million from Mazars Group.  
 Source: IAB

of new clients and increased headcount 20 percent this year.”

KPMG has established programmes designed to give younger managers rotational international assignments to round out their development. Flynn says nearly 2,500 professionals from 90 countries were on international assignments this year, and global rotations are up 40 percent since 2004.

The fifth- and sixth-largest global networks, BDO International and Grant Thornton International (GTI), extended their lead over the rest of the mid-tier. Of the six largest networks, Grant Thornton International (GTI) achieved the highest level of growth, climbing 25 percent to record fee income of \$3.5 billion. GTI chief executive David McDonnell says the growth was the result of the member firms continuing to be the “main beneficiaries of the change in the competitive landscape over the last few years”, coupled with a more cohesive global

■ WORLD  
 Overall market share: 2007



Source: IAB

## ■ WORLD

## Leading accounting firms and associations in the World 2007 - fee data

	Most recent year's fee income (\$m)	Growth rate (%)	Basis of consolidation	Fee split (%)						Year-end
				Audit & Accounting	Tax services	Management consulting	Corporate finance	Corporate Recovery / Insolvency	Other	
PricewaterhouseCoopers	25,150.0	14	a	52	25	-	-	-	23	Jun-07
Deloitte	23,100.0	16	a	-	-	-	-	-	-	May-07
Ernst & Young (2)	21,104.0	15	a	69	26	12 (1)	-	-	-7	Jun-07
KPMG	19,810.0	17	a	47	20	-	-	-	33	Sep-07
BDO International (14)	4,703.8	20	a	59	19	5	6	4	7	Sep-07
Grant Thornton International (6)	3,500.0	25	a	52	22	9	7	6	4	Sep-07
RSM International (11)	2,997.8	11	b	47	29	16	-	-	8	Dec-07
Praxity (10) (15)	2,839.2	-	b	61	22	9	2	1	5	n/a
Horwath International (7)	2,526.9	16	b	54	21	10	1	1	13	Dec-07
Baker Tilly International	2,500.6	9	a	50	25	6	4	3	12	Jun-07
<b>Nexia International (4)</b>	<b>2,310.2</b>	<b>54</b>	<b>a</b>	<b>41</b>	<b>19</b>	<b>5</b>	<b>2</b>	<b>2</b>	<b>31</b>	<b>Sep-07</b>
Moore Stephens International	1,884.0	22	b	53	26	6	2	2	11	Dec-07
HLB International	1,729.0	14	a	49	24	12	6	9	-	Nov-07
PKF International	1,722.9	17	a	48	22	18	-	10	7	Jun-07
Kreston International (8) (9)	1,707.8	30	b	52	19	10	5	3	11	Oct-07
Leading Edge Alliance	1,612.6	21	a	44	27	20	3	1	5	Dec-07
Fiducial International (5)	1,357.0	4	b	60	15	10	-	-	15	Sep-07
AGN International	1,317.0	14	a	55	23	-	-	-	22	Oct-07
BKR International	894.0	8	a	52	28	2	-	-	18	Nov-07
DFK International	877.0	22	a	46	27	8	4	3	12	Sep-07
Mazars	874.0	19	a	88	11	-	-	-	1	Aug-07
Morison International	821.8	48	a	42	15	6	6	6	25	Dec-07
CPA Associates International	761.0	10	a	47	32	12	-	-	9	Oct-07
UHY International	610.0	15	a	58	19	9	2	3	9	Dec-07
Polaris International	568.5	22	a	-	-	-	-	-	-	Nov-07
JHI International (12)	552.3	3	a	39	31	8	3	1	18	Dec-07
EuraAudit (13)	439.1	-	a	67	18	15	-	-	-	Dec-07
MSI Global Alliance	435.7	22	a	52	25	5	10	5	3	Nov-07
MGI	342.8	3	a	-	-	-	-	-	-	Jun-07
Russell Bedford International	327.0	15	a	-	-	-	-	-	-	Jun-07
KS International	293.4	15	a	49	19	10	4	3	16	Sep-07
INPACT International (3)	291.6	-	a	56	28	-	-	-	16	Dec-06
Ecovis	198.0	33	a	40	32	9	9	4	6	Dec-07
Parker Randall International	40.6	97	a	-	-	-	-	-	-	Dec-07
<b>Total revenue/average growth (16)</b>	<b>130,184.1</b>	<b>20</b>								

a = Full members only; b = Full members, correspondent firms and non-exclusive members; (1) Figures include transaction advisory services; (2) Other includes elimination; (3) Figures are for fiscal year 2006; (4) Nexia figures represent combined merged body of SC International and Nexia International firms; (5) Fee income includes \$560 million from correspondent and non-exclusive member firms; (6) Fee income includes \$267 million from correspondent and non-exclusive members; (7) Fee income includes \$102 million from correspondent and non-exclusive members; (8) Kreston's figures include new member group Exco France; (9) Fee income includes \$337 million from correspondent and non-exclusive members; (10) Fee income includes \$55 million from correspondent and non-exclusive members; (11) Fee income includes \$65 million from correspondent and non-exclusive members; (12) (13) Figures are for fiscal year 2006; (14) Fee income includes revenue from member firms and exclusive members of member firms' alliance programmes. (15) Figure includes \$374 million from member firm Mazars. (16) Mazars portion of Praxity revenue removed from total revenue. Source: IAB

strategy, including substantial investment in international capability, which the network has rolled out in recent years. "I think the benefits have been coming through," McDonnell says, adding that the highlight of

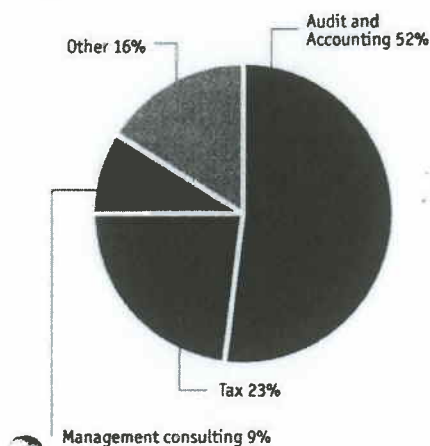
the year was Grant Thornton UK's acquisition of RSM Robson Rhodes.

GTT's strong growth was not enough to knock BDO International off fifth position. BDO's combined fee income grew 20 percent

to \$4.7 billion during fiscal year 2007. This figure includes revenues from full member firms and exclusive members of member firms' alliance programmes, such as the BDO Seidman Alliance. BDO reported \$1.2 billion

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Leading networks and associations fee split: 2007



Source: IAB

more in revenues than GTI's combined member firm fee income. The network's chief executive, Frans Samyn, says BDO firms have achieved growth in every part of the world. He says that eliminating the effect of mergers and currency, the network achieved 8 percent growth in the mature economies of Europe and North America, 13 percent growth in Central and Eastern Europe, 23 percent growth in Latin America, 22 percent growth in Asia-Pacific, 27 percent growth in the Middle East and 18 percent in Africa.

The strong BDO and GTI results follow recent comments from BDO Stoy Hayward chief executive Jeremy Newman (see IAB 419), who said the two networks should be grouped in a separate category above other mid-tier firms. Both Samyn and McDonnell contend the networks now present a strong alternative to the Big Four.

**Changing perception**

Samyn suggests the main driver behind BDO's growth is a realisation in the market that there are other providers outside of the Big Four that can offer "seamless quality services to international clients". He says BDO still has to fight the perception that size equals quality, although that is changing.

"On quality you have to be even, of course, you have to be at par with your competitors. If you are not on par with your competitors, you may as well forget it," Samyn says. He adds that the main challenge for BDO for the year ahead will be to continue to gain market share, particularly from the Big Four and Grant Thornton.

McDonnell says GTI's strong results are an indication "the strategy we are pursuing is the right one and that we truly are the alternative, if you want to look at it that way, to

the Big Four. I don't actually like to see us that way. I like to see us as the first choice, not as the alternative."

RSM International remains the seventh-largest organisation following a tumultuous year in which it lost its UK member firm, RSM Robson Rhodes, and then gained Bentley Jennison. "I think when you have long-term members that change, such as Robson Rhodes, it creates a period of uncertainty and I'm proud to say we not only made the transition quite quickly but we made it to a firm that really fits with us very well. That turned into a positive for us," RSM chief executive Jean Stephens says.

Stephens says the membership change has "brought quite a bit of excitement to us in terms of the energy, fresh views, access to clients and growth in international business".

**A new alliance**

It was also the first year of operation for new association Praxity, which was launched at the end of March. After less than a year of operation, Praxity has 95 participating firms, the majority of which came from Moores Rowland International, although the largest, and one of the founding members, is Mazars. The combined fee income of Praxity's participants amounts to \$2.8 billion, which places it in eighth position.

The association's secretary general, Paul Hancock, says Praxity has received about 120 enquiries from other firms. "We've got a very good core base, we're now looking to strengthen the alliance where we need to strengthen it," he says. Hancock explains that Praxity is seeking to grow both in terms of geographic reach and niche specialisations. "We're actually looking to see how firms can work together," Hancock says.

Eleven organisations achieved growth in excess of 20 percent during the past year. The most rapidly growing was Parker Randall International, which grew 97 percent to \$40.6 million. Morison International also grew rapidly – up 48 percent to \$821.8 million.

Kreston International recorded growth of 30 percent, half of which comes from the addition of the 23-firm French group Exon France. Kreston executive director Jon Lisby says recent years have been an outstanding period of sustained growth for all firms. "The world of accountancy has been the place to be for the last five years, with all groups achieving average annualised growth rates north of 10 percent over the period," he says.

Moore Stephens International also recorded strong growth – up 22 percent to \$1.9 billion. The organisation's chairman, Richard Moore, says the 22 percent growth, combined with previous good results, has helped the firm double in size during the past three

years. "I think there's been an all-round performance. If you look right across the network, it's not any one particular area. The US market is very strong at the moment, Europe has performed well and Australasia has done well. There is a strong market at the moment and also our brand is becoming better known. We have quite a strong brand which is recognised for quality, which is what we're aiming to achieve. I'd say it was a pretty good all-round performance," Moore says.

**Movers and shakers**

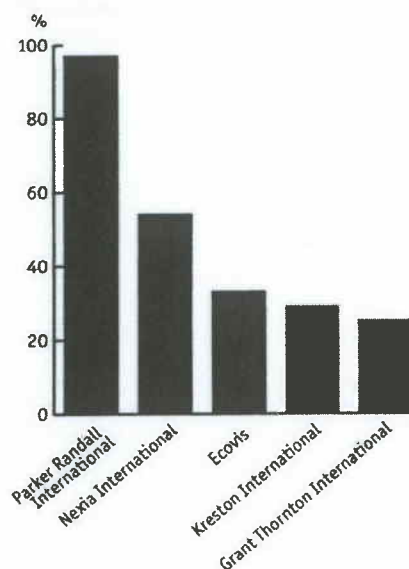
Nexia International recently completed a major merger, joining forces with SC International. The network reported growth of 54 percent and a fee income of \$2.3 billion, propelling it higher in the league table. Nexia chairman Gareth Pearce tells IAB the merger gives the organisation "a stronger platform from which to move forward next year".

Baker Tilly International reported 9 percent growth to \$2.5 billion for fiscal year 2007. The result was below the survey average, but still one that the network's chief executive and president, Geoff Barnes, is happy with. "It has been solid," Barnes says of the past year. "That's been a highlight – there have been no curve balls in there, no surprises and it has been solid growth."

Barnes says the level of international referrals increased enormously during the past year, a sentiment that was echoed throughout the profession. International referrals within Baker Tilly firms increased 40 percent during the past 12 months, and nearly 600 percent during the past five years. "Globalisation is the word," Barnes says. Nexia, too,

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Top five mid-tier growth rates: 2007



Source: IAB

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## Leading accounting firms and associations in the World 2007 - staff data

	Offices		Partners		Professional staff		Administrative staff		Total staff	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
AGN International	492	482	1,165	1,168	6,998	6,910	1,915	1,812	10,078	9,890
Baker Tilly International	505	584	2,629	2,498	16,336	14,255	5,291	5,197	24,256	21,950
BDO International	626	621	2,520	2,348	23,728	22,361	5,328	5,009	31,576	29,718
BKR International	354	328	1,013	986	7,090	6,064	1,212	1,066	9,315	8,116
CPA Associates International	297	292	845	840	5,070	5,040	1,520	1,510	7,435	7,390
Deloitte	-	-	-	8,000	-	99,900	-	24,500	150,000	132,400
DFK International	332	307	1,063	969	5,297	5,220	1,975	1,390	8,335	7,579
Ecovis	177	159	212	193	1,890	1,581	247	229	2,349	2,003
Ernst & Young	-	-	7,604	7,217	89,680	80,941	27,051	26,121	124,335	114,279
EuraAudit (1)	257	-	654	-	3,413	-	2,217	-	6,489	-
Fiducial International	1,321	1,467	-	-	-	-	-	-	14,225	15,006
Grant Thornton International	480	487	2,423	2,207	19,418	17,678	5,436	4,627	27,277	24,512
HLB International	446	440	1,753	1,756	10,187	9,320	3,231	2,746	15,171	13,822
Horwath International	465	433	2,452	2,040	12,847	11,664	3,828	4,202	19,127	17,906
INPACT International (1)	-	204	-	448	-	2,541	-	499	-	3,488
JHI International (1)	226	222	698	676	3,424	3,147	1,060	982	5,290	4,871
KPMG	696	-	7,160	6,894	92,924	84,041	23,239	21,860	123,323	112,795
Kreston International	665	543	1,167	1,031	14,183	11,273	2,998	2,645	18,348	14,949
KS International	108	118	338	347	1,805	2,067	648	684	2,791	3,098
Leading Edge Alliance	390	350	1,100	1,000	8,750	7,500	3,000	3,900	12,850	12,400
Mazars	43	41	402	335	5,902	4,365	1,191	944	7,495	5,644
MGI	273	271	588	588	2,794	2,747	1,607	1,578	4,989	4,913
Moore Stephens International	621	593	2,069	1,871	13,593	12,227	3,617	3,401	19,279	17,499
Morison International	261	256	663	649	5,562	5,498	1,432	1,405	7,657	7,552
MSI Global Alliance	160	169	664	705	3,551	1,951	1,151	1,375	5,366	4,031
Nexia International (2)	620	-	2,195	-	17,872	-	3,125	-	23,192	-
Parker Randall International	59	42	114	80	-	-	-	-	665	504
PKF International	257	256	1,882	1,859	10,670	10,435	2,389	2,378	14,941	14,617
Polaris International	302	300	965	917	5,531	4,995	2,639	2,295	9,135	8,207
Praxity (3)	348	-	2,135	-	16,834	-	4,559	-	23,528	-
PricewaterhouseCoopers	766	771	8,578	8,280	108,926	104,414	29,263	29,468	146,767	142,162
RSM International	662	633	2,411	2,478	17,013	16,594	5,469	5,106	24,893	24,178
Russell Bedford International	173	166	492	461	3,738	3,643	583	690	4,813	4,794
UHY International	198	185	541	583	4,775	3,786	1,069	1,116	6,385	5,485
<b>Totals</b>	<b>12,580</b>	<b>10,720</b>	<b>58,495</b>	<b>59,424</b>	<b>539,801</b>	<b>562,158</b>	<b>148,290</b>	<b>158,735</b>	<b>911,675</b>	<b>796,356</b>

Notes: (1) Figures are for fiscal year 2006; (2) Nexia figures represent combined merged body of Nexia International and SC International firms; (3) Praxity figures include Mazars.

Source: IAB

has experienced a rise in international transactions. "I think it's just a long-term trend," Pearce says.

Moore says international business is flowing from all directions. "Generally, businesses are very much more global in their outlook than they have been. There is more business that moves around, I think the world is becoming a smaller place, which is really the truth in a business sense at the moment," he says.

Changes to the regulatory environment,

continuing uptake of IFRS, auditor liability, concentration in the audit market and 'network' definition were all topical issues for the networks and associations during the past year. DiPiazza observes the regulatory landscape is changing worldwide, which is affecting the profession. He explains that for several years the accounting profession was riding a wave of demand fuelled by the regulatory environment. "I think 2007 was a year where that began to turn. It needed to turn, in fact we applaud the regulator for bring-

ing more reason to how some of these things were being applied," he says.

DiPiazza says one issue PwC has been "particularly visible around" is corporate reporting. "As IFRS has taken hold around the world we have been out front in understanding the investor reaction to IFRS, to the challenges that convergence has brought to the preparer of financial statements, and I think we've helped the [International Accounting Standards Board] and we've helped the [US Financial Accounting Standards Board]

understand how their stakeholders are viewing the landscape, so I'm very pleased with our work there," he says.

Flynn adds: "Clearly, KPMG and the profession will have to manage the challenges around IFRS. Similar to what happened with [Sarbanes-Oxley section] 404 in the US, IFRS is a new standard whose implications will have to be understood by all our people, regardless of practice."

All the organisations that spoke to IAB support the US Security and Exchange Commission's recent decision to drop reconciliation with US GAAP for preparers using IFRS. Lisby calls the decision an "absolute thrill and delight", adding: "If the US would now also move toward the adoption of international auditing standards, the world would be a much easier place."

#### Liability debate

Auditor liability has been another topical subject for networks during the past year. McDonnell says the important point from his perspective is the absence of reform of auditor liability, particularly in the US, preventing the largest accounting organisations from organising themselves in the most effective way. "We're all organised as networks of firms, not because we want to, but because regulatory issues plus the absence of liability reform make that essential. I think we certainly would be much happier to be a more conventional business model globally if we could get that reform," McDonnell says. "I think that would actually be good for the general public, because I think a more sensible conventional business model would make the delivery of audits more effective and efficient and consistent globally."

KPMG's Flynn agrees: "While the industry is focused on quality like never before and investor confidence is up, we do have concerns, and liability exposure is one of them. Globalisation is having a growing impact on the US economy, though the more expansive liability system in the US discourages the integration of firms from around the world."

However, Lisby is concerned an end result that would be acceptable to the Big Four may produce some "serious issues for the mid-tier groups". "I'm pretty sure the Big Four might be happy to accept a cap on audit liability that would still be significant enough to wipe out many of the mid-tier groups," he says.

Samyn suggests there is movement on the topic and that the EU is expected to come up with a recommendation on limitation of auditor liability in the near future.

Transparency in terms of the organisation of audit firms has been another topical issue. The International Federation of Accountants ethics code and the EU 8th Directive

both stipulate the need for transparency. As a result of this, several global accounting organisations are facing choices in terms of whether they should be classified as a 'network' or an 'association'.

For some organisations, there was no choice to be made. Praxity is clearly an association and individual members are not allowed to use Praxity as part of their practice names, Hancock explains. "We are attracting firms that have a strong brand name and are known for that name but want to key into, or gain access to, like-minded firms and similar firms throughout the world," he says.

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Jon Lisby, Kreston International

Lisby says the biggest challenge for accounting groups such as Kreston in the mid-tier comes from legislation around the definition of 'network'. "We believe that at this stage we are an association as far as the definition is concerned but this is quite a complex issue for many of our members globally," he explains, adding that the group's culture stems from a firm belief "in the value that independent firms bring the delivery of quality international services for their clients without the need for interference from an international office in terms of enforced adoption of global systems or branding".

Lisby says that Kreston has to "tread a very careful line in our structure and our systems for collaboration if we are to remain an association". However, he concedes, in years to come the group may re-evaluate. "We have recently lost some trans-national tenders where we clearly had the strongest offering," he explains. "The problem we continue to face is that without shared branding our proposals will always appear less cohesive and we recognise that to succeed over time we may need to move to branded service line provision. This will have an impact on whether Kreston remains as an association or falls under the definition of a network. Whilst the reality is that the relationship between our member firms is as strong as the branded groups, the perception of the market is often that only those firms sharing the same name can work seamlessly together on international assignments. We are working to sustain our success in competing on international assignments and to overcome the

extra challenge we face in convincing audit committees that quality does not stem solely from the adoption of a shared brand."

Samyn says transparency among audit firms, in terms of how they are organised, how their quality systems work and how their risk management systems work, will be one of the challenges for the year ahead too. "That is more of a North American issue than it is for our firms in Europe, as most of our audit firms in Europe now are corporations," he says.

Transparency is also on the cards for Grant Thornton. McDonnell explains: "We are looking closely at our governance arrangements and transparency in the global organisation because we do not want to be dragged kicking and screaming to have up-to-date governance arrangements and [we want] to be as transparent as we can. We want to be up there leading the pack."

Another area Grant Thornton is looking to be a leader in is what McDonnell calls "speaking out". He says the network has always been involved in speaking out about technical issues to do with the profession, but he now wants to focus on broader social issues. "I don't mean tree hugging," McDonnell says. "But I do mean broader issues that have a financial relationship, maybe to do with poverty."

#### Social agenda

The issue Grant Thornton has tackled recently that McDonnell is most proud of arose from the South Africa part of the network's annual survey, the 'International Business Review'. "Within South Africa... we identified something that perhaps is apparent – the enormous impact of crime in South Africa on business and on individuals. Although it gets publicity, the business world does not speak out against it," McDonnell says. "We did – the head of our firm in South Africa wrote an open letter to the people of South Africa about the effect of crime, low-level crime and more serious crime, on everyone's life and on business and the economy. In so doing we displeased the president of South Africa but received enormous publicity and support for our comments. That was taking a position on something that wasn't in our self interest but was a broader social issue that of course has its impact on business."

McDonnell says he would like to use the South Africa experience as a model for future projects.

Another item on the agenda for the network

#### IAB SURVEY SCHEDULE: 2007

For a complete list of all surveys in IAB for 2007, please turn to the back page.