

02-05 NEWS

- RSM forms German network
- PwC Russia cleared in tax evasion scandal
- Brazilian firms lay groundwork for IFRS
- Dutch market leader posts negligible growth

08-09 FEATURE: KPMG MALAYSIA

Advisory work is on the rise in Malaysia and could soon become the dominant fee earner for Big Four accounting firms. Managing partner Seow Yoo Lin speaks about this recent trend, Islamic finance and regulatory changes

1, 10-11 COUNTRY SURVEY: SPAIN

The economic slowdown and controversial new regulations are creating uncertainty for the future. Spanish firms enjoyed a strong year of growth but are unsure about what lies ahead

12-15 COUNTRY SURVEY: BRAZIL

New government regulations, an aggressive IFRS timetable and strong domestic growth powered Brazil's accounting firms to new heights. Gundi Jeffrey reports that current conditions are providing partners with plenty of optimism

COUNTRY SURVEY

Spanish firms report strong growth as regulation clouds loom

The economic slowdown and new regulations are creating uncertainty among Spanish firms. Partners speaking to this publication predict growth will slow down from buoyant levels in 2007 as the credit crisis changes the behaviour of clients.

This does not mean firms will not be profitable, they will just grow at more modest rates than in the past few years.

The introduction of a new General Accounting Plan (*Plan General Contable* – PGC) and proposed audit reforms are causing some concern as well as new opportunities for firms. Firms have been particularly critical of Spain's lack of movement in transposing elements of the EU's Eighth Company Law Directive. Spain is one of the few EU country where auditors have unlimited liability and partners are deeply concerned authorities are not planning to limit it.

The Spanish market grew revenues by 21 percent to nearly €1.4 billion (\$1.8 billion) in financial years ending in 2007 (see pages 10-11).

Deloitte was the highest fee earning firm, increasing revenue by 20 percent to €350 mil-

lion. Deloitte is also the largest firm in terms of partners (122) and staff (3,658), although rival PricewaterhouseCoopers (PwC) has the most professionals (3,045).

PwC is the second-highest earning firm in the country, reporting fee income of €310 million in the year ended June 2007.

PwC audit partner Manel Valls tells the *International Accounting Bulletin* that growth in the in the past year has been solid across all service lines but singles out advisory services for special mention.

"Auditing has been more stable, but advisory has a more significant growth," he explains. "Last year, we bought BearingPoint, a consultant in Spain. We continue to add profiles, it is what we call 'filling the gaps'."

Valls says PwC's 2007/2008 financial year statements will reveal double-digit growth when the results are made public, but growth in the current 2008/2009 financial year is difficult to predict. He says PwC is going to focus on consolidating its core services within audit, tax and advisory rather than looking for new services to add to the portfolio.

Core focus

This approach to concentrate on well established service lines is a theme being echoed by several partners interviewed for this report.

Audihispania Grant Thornton increased its fee income by 16 percent to €55 million in the year ended August 2007. Although the firm is expecting similar growth in its 2007/2008 financial year, managing partner José Fernández says the financial year-end 2009 is full of uncertainty.

"There are activities that are going to be affected, the whole issue of M&A, IPOs, etc. On the other hand, we are trying to seize the opportunities that arise," Fernández says.

"As a result of the crisis, I believe that audit and tax advisory are going to be less affected but, in contrast, certain parts of financial advisory are going to be seriously affected. We hope to balance it."

Fernández notes that Grant Thornton will also employ a strategy that focuses on its bread and butter service lines rather than fishing for new services.

(Continued on pages 10-11)

PEOPLE

Deloitte staff killed in light air tragedy

Deloitte's Johannesburg office has been overwhelmed by messages of support from South Africa's business community after four employees died in a light air crash late October.

The firm's chief operating officer Allen Swiegers said Deloitte has received more than 500 condolence messages from clients, non-clients and accountancy firms.

All four Deloitte fatalities were from the firm's Johannesburg audit office. They include audit partner Mahen Naidoo (43), audit manager Lesley Philpott (28), accountant in charge Mark Kriel (25) and audit trainee Gillian Brown (23). Gillian Brown was the daughter of Allan Brown, an audit partner at Deloitte since 1995.

"[The office] has been affected tremendously; we were all in shock and disbelief," Swiegers said.

"Because it was at all levels of staff, there was a partner, a manager, a [recently qualified] accountant and a trainee involved so everybody was affected. We lost four friends, four colleagues, so it is a very sad time.

"It is one thing from a business point of view to lose outstanding individuals but from a personal point of view losing friends and colleagues makes it so much more difficult."

All six passengers perished in the accident, which occurred shortly after take off at Germiston, east of Johannesburg. The flight was en-route to a client meeting in Lesotho.

The two other fatalities were senior employees of the client CBI, a division of South African electronics and electrical engineering company Reunert.

Swiegers said the 55-year-old pilot was the financial director of the client and regularly flew to Lesotho on business.

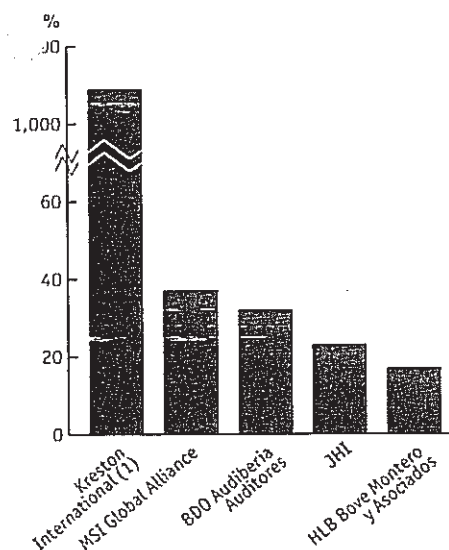
Deloitte held a memorial service last week that was attended by about 700 hundred people. The firm has not decided what to do to permanently honour its employees but Swiegers said a garden or plaque were two possible options.

The South African Civil Aviation Authority (SACAA) has launched an investigation into the crash, which is expected to take between six months to a year, a SACAA spokesperson said.

Nicholas Moody

■ SPAIN

Top five growth rates (%), 2007-2008



Notes: (1) Kreston International's growth is partly due to the admission of Iberaudit Auditores, a Spanish network of 13 independent firms.

Source: *International Accounting Bulletin*

► (Continued from page 1)

BDO Audiberia Auditores, the fifth-highest earning firm in Spain, grew 32 percent to €70.1 million in the year ended August 2007. President Alfonso Osorio predicts the firm will climb by more than 20 percent again in the 2008 financial year.

"The best performers were everything related to special advisory services and specific risk advisory services; everything related to the identification and implementation of processes of internal risk control, risk identification and collaboration with internal audit of major financial groups," he explains.

Another firm observing a rise in the demand for advisory services is new Kreston International member firm Iberaudit Auditores. Kreston reported fee income of €18 million.

Iberaudit Auditores president Alfonso Pérez Pretel says: "In auditing, we have grown about 8 or 10 percent, taxes have grown a bit more but where we have grown most is in strategic and financial consulting due to the crisis and its consequences. This relates to issues in court

and bankruptcy. Right now, in my office, 20 percent of our turnover is mainly judicial contests."

New regulation is providing firms with opportunities to offer more compliance-based advisory services to clients. On 1 January 2008, Spain's PGC came into force. Some of the key changes in the accounting plan include the adaptation of IFRS – but with certain nuances. Another major difference between the new rules and the old rules is the move towards fair-value accounting from what was previously historical cost.

Although most partners agree the reforms are necessary, several partners have criticised the manner in which the PGC has been introduced.

"We believe there has not been an adequate consensus and [the PGC] has been entered into force with some quite critical aspects unregulated," Fernández remarks.

He admits the new rules bring Spanish accounting standards a step closer to international standards but believes the laws are not

comprehensive.

"We are still finding many areas with gaps which authorities are now trying to regulate with some haste. This is causing problems for businesses to understand certain aspects of the new PGC," he says.

Osorio says the major impact of the PGC has been an increase in consulting services to clients and new training for professionals.

Pretel concurs, adding: "We've been affected at a training level by the implementation of the new PGC and a restatement of financial statements and accounting in the country. Therefore, we had to make an extra effort to train people, to adapt to auditing programmes and many more things."

PwC believes the new legislation has helped the firm's bottom line, particularly in assurance services.

"One of the drivers of growth for audit has been the new General Accounting Plan. It has been the first year of implementation of the PGC and many companies began to prepare for it," Valls comments.

■ SPAIN

Leading accounting firms and associations: fee data

	Most recent year's fee income (€m)	Growth rate (%)	Fee split (%)							Year-end
			Audit & Accounting	Tax	Management consulting	Corporate finance	Corporate Recovery / Insolvency	Litigation Support	Other	
INTERNATIONAL AFFILIATE/FIRM										
Deloitte (1)	350.0	20%	57	12	24	7	–	–	–	May-07
PricewaterhouseCoopers (2) (3)	310.0	14%	45	30	45	–	–	–	25	Jun-07
KPMG (1) (2)	252.0	18%	40	21	–	–	–	–	39	Sep-07
Ernst & Young	233.0	18%	63	22	15	–	–	–	–	Jun-07
BDO Audiberia Auditores	70.1	32%	52	27	7	14	–	–	–	Aug-07
Audihispana Grant Thornton	55.2	16%	33	13	–	5	–	–	49	Aug-07
RSM Gasso Auditores	11.9	13%	56	–	44	–	–	–	–	Aug-08
ASSOCIATION OF INDEPENDENT FIRMS										
Moore Stephens Hispania	21.6	5%	63	37	–	–	–	–	–	Dec-07
Kreston International (4)	18.0	1,100%	17	55	16	10	–	–	2	Oct-07
Baker Tilly Espana	8.4	1%	33	38	1	8	–	20	–	Dec-07
Seraudit/GMN International	7.1	8%	25	29	13	–	–	26	7	Dec-07
IGAF Worldwide	5.1	11%	26	25	35	7	–	–	7	Dec-07
BKR International	4.7	4%	64	17	11	–	–	–	8	Dec-07
PKF Spain	4.1	5%	65	20	15	–	–	–	–	Jun-07
HLB Bove Montero y Asociados	4.1	17%	65	25	10	–	–	–	–	Jul-07
JHI	3.8	23%	48	17	14	4	–	–	17	Dec-07
Pleta Auditores/DFK International	3.4	–	42	22	14	–	–	–	22	May-08
MSI Global Alliance	2.6	37%	42	42	6	–	–	–	10	Dec-07
Polaris International	1.7	6%	–	–	–	–	–	–	–	Jul-08
Total revenue/market growth	1,366.8	21%								

Notes: (1) Includes legal services; (2) Advisory services; (3) Includes management consulting and transactions; (4) Kreston International's high growth is due to the admission of Iberaudit Auditores, a network of 13 independent firms.
Source: International Accounting Bulletin

Valls says there are some elements of the PGC that need more work, such as ensuring information within annual reports is "more digestible" and relevant to users. He also believes financial information needs to be delivered much more efficiently and not months after it has been finalised.

While some partners suggest the PGC has been implemented with haste, there are grave concerns that the profession's other major regulatory issue is desperately lagging behind other European countries.

Spanish authorities have created a first draft on how it plans to implement rules contained within the EU's Eight Company Law Directive. The Eighth Directive includes minimum requirements for statutory audit, independence requirements and auditor liability laws, but partners believe Spanish authorities are not going forward with liability reform or improving independence. Spain has already missed the EU's transposition deadline leading Fernández to describe the authority's efforts as "regulation crawl". He also fears the spirit of the directive is not being adhered to.

"We are concerned because of the importance of this directive to regulate the profes-

sion and the public interest of the activity we do, especially at this time where market confidence and transparency is vital. I do not know if it is following the steps that it should follow," he says.

Osorio is particularly concerned that regulators will continue to impose harsher rules on Spanish auditors in comparison to European counterparts. Spain's unlimited liability rules have not been altered since 1988.

"The impression we have is that it is not going in the same direction as in other countries in the wake of the Eighth Directive. It may be even more rigorous. One issue that concerns us is that the liquidation or disposal of liability of auditors," he says. "Nobody is saying that the auditors have no liability at all, no auditor in the world does not accept their responsibilities, but some responsibilities should be reasonable, otherwise it can result in the disappearance of audit firms.

"This is an issue that concerns us because the year 2008-2009 will be a crucial year in this aspect and we'd like to get involved in the wave of European debate on what is an auditor's liability."

Valls agrees that auditors are unhappy

about what they understand of Spain's transposition blueprint. He believes Spain's auditor liability proposal will be far too onerous and put the audit profession at great risk.

"The directive has not been transposed properly," he says. "They propose in terms of liability to keep unlimited liability, as we have now, so there is no percentage and no limitation of liability." Valls also raises concerns about the independence of the profession's supervision, which is to be carried out by a professional body that is not entirely independent of the government.

Firms note that the credit crisis has already begun affecting clients and most partners are cautiously optimistic about the year ahead. Partners predict growth will vary between 10 to 20 percent.

Consolidation of core services remains the key focus, but regulation in Spain is a pressing issue that is likely to generate debate for some time. The true effects of the credit crisis will not likely hit the profession until financial year-end 2009-2010, however, if partners' fears about audit liability reform materialise, the damage could be far more long term. ■

Arvind Hickman and Jorge Alvarez

■ SPAIN

Leading accounting firms and associations: staff data

	Offices		Partners		Professional staff		Administrative staff		Total staff	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
FIRM/INTERNATIONAL AFFILIATE										
Audihispana Grant Thornton	–	10	–	32	–	510	–	18	–	560
BDO Audiberia Auditores	–	13	–	42	–	772	–	42	–	856
Deloitte (1)	20	20	122	118	2,935	2,710	601	456	3,658	3,284
Ernst & Young	–	14	–	96	–	1574	–	358	–	2028
KPMG	–	16	–	96	–	1,991	–	169	–	2,256
PricewaterhouseCoopers	21	21	93	72	3,045	2,255	501	434	3,639	2,761
RSM Gasso Auditores	17	13	24	19	142	127	36	28	202	174
ASSOCIATION OF INDEPENDENT FIRMS										
Baker Tilly Espana	7	6	13	13	98	94	22	21	133	128
BKR International	4	4	11	11	67	67	5	5	83	83
HLB Bove Montero y Asociados	3	3	5	5	50	39	10	9	65	53
IGAF Worldwide	5	5	10	8	48	40	18	15	76	63
JHI	4	5	14	14	48	52	6	6	68	72
Kreston International (2)	13	2	39	4	227	24	23	3	289	31
Moore Stephens Hispania (1)	11	13	58	56	229	214	50	53	337	323
MSI Global Alliance	2	2	3	3	40	36	5	5	48	44
PKF Spain	–	8	–	17	–	87	–	7	–	111
Pleta Auditores/DFK International	1	–	9	–	64	–	8	–	81	–
Polaris International	7	4	13	14	48	36	14	11	75	61
Seraudit/GMN International	7	7	10	10	98	96	7	7	115	113
Total	122	166	424	630	7,139	10,724	1,306	1,647	8,869	13,001

Notes: (1) Staff figures for 2006-2007; (2) Kreston acquired Iberaudit Auditores, a Spanish network of 13 independent firms.

Source: International Accounting Bulletin