

Boom at the top

Hikes in fees earned in audit and assurance work, particularly for the larger firms, is the big story from this year's international accountancy networks survey. **Liz Fisher**

Increased demand for assurance services in the wake of Sarbanes-Oxley and other regulatory requirements are creating a boom in accounting work for accountancy firms across the globe.

Our latest survey of the top 25 international accountancy networks shows a strong increase in fees earned from audit and assurance work, particularly among the larger firms. All acknowledge that the new regulatory requirements placed on

multinational companies were behind the strong growth in revenues.

PricewaterhouseCoopers, the largest network in the survey, reported a 17% increase in revenues for the year ended 30 June 2005 (12% in local currency). Assurance revenues rose by 14.6% over the year. Revenue from tax and human resources services, by contrast, rose by 5.5%.

In the firm's annual review, Global CEO Sam DiPiazza argues that the new regulatory requirements had increased the firm's workload in some areas but had had a negative effect on revenue in others. 'For many PwC firms, the new rules and regulations prohibited the provision of certain services to companies they audited, required compulsory auditor rotation or mandated pre-approval of non-audit services,' he said.

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The network myth

32

International networks

International network	UK affiliate	Fee income \$m	Previous year \$m	Countries	Offices	Member firms	Partners	Total staff	Year end
PwC	PwC	20,300	17,600		769	148	8,019	94,877	30.06.05
Deloitte	Deloitte	18,200	16,400	71	670+	148	668	121,283	31.05.05
Ernst & Young	Ernst & Young	16,900	14,500	140	700	140	7,000	82,700	30.06.05
KPMG International	KPMG	15,690	13,440	144	731	144	6,667	76,073	30.09.05
BDO International	BDO Stoy Hayward	3,329	3,017	93	601	105	2,220	22,603	30.09.05
RSM International	RSM Robson Rhodes LLP	2,502	2,088	72	621	75	2,320	15,642	30.09.05
Grant Thornton International ¹	Grant Thornton	2,454	2,092	92	484	112	2,090	22,066	30.09.05
Geneva Group ²	Citroen Wells, Lawrence Grant	2,185	1,992	212	316	55	1,174	9,694	31.12.05
Baker Tilly International	Baker Tilly	2,120	1,820	128	559	85	552	20,100	31.10.05
MRI ³	MRI Moores Rowland, Menzies, Lovewell Blake, Hazlewoods and others	2,120	1,825	142	600	88	605	18,895	see note
Horwath International	Horwath Clark Whitehill	2,005	1,789	105	413	88	2,248	13,186	31.12.05
Nexia	Smith & Williamson, Solomon Hare	1,569	1,608	142	349	92	1,510	15,073	30.09.05
PKF International	PKF	1,386	1,200	160	417	119	1,778	10,339	30.06.05
Moore Stephens International	Moore Stephens	1,351	915	316	539	93	1,700	12,220	31.12.05
Fiducial	None	1,300	1,240	1,600+	1,800	77	n/a	15,000	30.09.05
HLB International	Vantis plc, HLB Vantis Audit	1,300	1,149	125+	450+	116	1,800	11,600	30.11.05
Kreston International	Reeves & Neylan, James Cowper, Bishop Fleming & others	1,140	1,128	180	509	70	1,031	10,140	31.10.05
AGN International ⁴	AGN Shipleys, Dixon Wilson	1,012	1,007	201	483	84	1,133	9,680	31.12.05
Leading Edge Alliance	Johnston Carmichael, HW Fisher	1,100	n/a	114	280	46	915	5,000	31.12.05
MSI ⁴	Haysmacintyre	904	968	236	275	93	1,402	6,052	31.12.05
IGAF	Buzzacott, Cooper Parry and others	789	601	140+	250	61	945	8,500	31.12.05
IAPA	FW Stephens, Wilkins Kennedy and others	764	711	232	318	45	1,113	7,449	31.03.06
DFK International	Chantrey Vellacott DFK	651	564	176	305	78	925	4,622	30.09.05
BKR International	Cassons, Blick Rothenberg	624	606	136	325	64	948	5,785	30.06.05
Mazars ⁵	Mazars	605	555	n/a	128+	58	330	3,948	31.08.05

International accountancy networks survey **Special Reports**

Emerging markets: Strong growth for firms in South America



Income from advisory services rose by 16.6% over the year in local currency terms and has risen by 37% since 2003. PwC stressed that the growth 'stemmed from services provided to non-audit clients and private companies, and does not reflect a return to broad-based consulting practice.'

KPMG's composite revenues rose by 16.7% over the year (an increase of 13.1% in local currency terms). Its worldwide audit revenues increased by almost 22% to \$7.8bn (£4.13bn), outstripping advisory services at 20%, while tax revenues rose by just 2%. Deloitte also reported slow growth in its tax services (1.3%) but strong growth in audit

and risk services (17%).

KPMG International chairman Mike Rake said it had been an exceptional year for the network but acknowledged that other firms were all benefiting from the same environment.

'We benefited from increased economic activity and increased regulatory requirements placed on clients, as did the profession as a whole.' He added that KPMG had also benefited from investments in improved technology and processes and in key emerging markets made in the past three years.

Ernst & Young's worldwide revenues increased by 16% (12% in local currency), driven again by strong demand for audit and assurance services, which rose by 23% during the year. E&Y's tax revenue showed the best performance among the Big Four, rising by 5% over the year.

Notes to table

1. Income from 18 correspondent firms excluded
2. Multidisciplinary
3. Latest year end of independent firms. Income includes 29 correspondent firms
4. Association, not a network
5. Fee income converted from euros at a rate of 1.26. International partnership. Includes 20 correspondent firms

Web addresses

1. www.pwcglobal.com
2. www.deloitte.com
3. www.ey.com
4. www.kpmg.com
5. www.bdointernational.com
6. www.rsmi.com
7. www.gti.org
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24. www.bkr.com
25. www.mazars.com

How we compile the survey

Information is gathered from annual reports, press releases, website and the firms directly. We have included multidisciplinary networks (most significantly, Geneva Group and MSI) in our survey on the basis that the increased separation of audit and advisory work is naturally moving the profession towards a multidisciplinary approach.

Some networks do not distinguish between revenues earned by full member firms and contributions made by correspondent or associated firms. We have noted where the networks have identified the source of revenues.

PwC is the only network to distinguish between net and gross revenues (including expenses reimbursed to clients). We have included gross revenues for PwC on the assumption that it is the basis used for other networks. The exception is Mazars, which excludes re-billable costs and the change in work-in-progress from its turnover figure in accordance with IFRS.

The highest growth rate for KPMG was recorded in its Europe, Middle East and Africa region at 18.4%, although the Americas and Asia Pacific regions also recorded strong growth at 15%

Emerging markets

Emerging markets remain a focus for many of the largest firms. PwC reports that over the past 12 years it has invested more than US\$200m in China, with the result that PwC China now employs 6,500 people and expects this number to reach 10,000 within five years. The area showing the strongest growth for PwC was South America at 22%.

The highest growth rate for KPMG was recorded in its Europe, Middle East and Africa region at 18.4%, although the Americas and Asia Pacific regions also recorded strong growth at 15%. Deloitte reported 11% growth in the Americas, driven by a strong demand for audit-based services, which grew by



PwC: Holding on to international pole position with fee income over £20bn

Special Reports International accountancy networks survey

If any network is blazing a trail for transparency, it has to be Mazars

The move towards multidisciplinaries: Geneva Group



As one of the multidisciplinary networks in our survey, Geneva Group's appearance for the first time in the list of the top 25 international networks is perhaps open to debate. The network includes pure law firms, management and tax consultants, accountancy and audit firms and corporate financiers. In the UK, the group's two accountancy member firms, Citroen Wells and Lawrence Grant, are joined by three law firms – Denison Till, Quijano & Associates and Roiter Zucker, and a management consultancy, Open Company Ltd.

Michael Reiss von Filski, secretary of the group, said that Geneva's growth over the past year was due to an expansion of the network as well as 'a general increase' in turnover by member firms. 'Several firms with an average turnover of between \$8m and \$20m have joined Geneva Group over the past year,' he said. 'It's our intention in 2006 to develop the markets in Asia and North America, where we estimate the potential of adding an additional 50 member firms within the next two years.'

Mazars

If any network is blazing a trail for transparency, it has to be Mazars. For the first time, this year the international partnership produced an IFRS-compliant annual report, an impressive 82-page document containing detailed and audited



consolidated accounts. The report, says the partnership, is 'a public statement of our belief that transparency and accountability are particularly relevant to our roles as auditors and advisers.'

As the only network in our survey to retain an international partnership structure, Mazars does not pull its punches when it comes to assessing the complex organisational structures of its rivals. 'We don't believe that associations of independent national firms are likely to be able to

guarantee a seamless international service or to deliver financial market security in the long term,' says the report. It adds that while it 'understands the impact' of a highly litigious environment on the structure of its competitors, it adds that it believes that 'both the market and regulators are

looking for global players with a truly integrated structure and service delivery.'

'The threat of litigation is real and potentially devastating,' concedes the report. 'We are convinced that the best protection lies in careful client selection, rigorous procedures and robust quality control.' Not even Mazars, though, is sufficiently brave to employ a worldwide partnership that encompasses the highly litigious US market – it currently runs five joint venture arrangements with US firms.

20% over the year. The best performing member firm for Deloitte was in the former Soviet Union, which saw its revenues increase by 50%, followed by the Chinese firm at 30%.

E&Y's CEO Paul Ostling said that the firm had achieved double digit growth in each of its geographic areas, with the Americas and central Europe both performing strongly at 16%.

'It was also satisfying to see the impressive performance of some of the future growth markets in which we have made strategic investments, including China, India, the

Commonwealth of Independent States, Latin America, South Africa and Korea, a number of which achieved growth ranging between 20% and nearly 40%,' he said.

In the mid tier, BDO International showed a growth rate of 13% in US dollars, partly due to its signing of three new member firms during the year (two in China and one in Cyprus). Once again, the Americas region showed one of the best performances with growth of almost 30%, although the network's expansion in central and eastern Europe saw growth in that region rise by 40%.

The Leading Edge Alliance

One of the newcomers to this year's table is the Leading Edge Alliance, a relatively new US-based network that launched new organisations in Europe and Asia Pacific earlier this year. The network, which was formed in 1999, claims to be one of the fastest growing in the world, with a current growth rate of 46% (Moore Stephens International is the fastest-growing network in our survey, reporting 48% growth over the last financial year).

The LEA is well-established in the US, where its member firms have an average revenue of \$19m a year and 40% rank among the top 100 accounting firms in the country. LEA formed a strategic alliance with Kreston International in April 2000 but the arrangement broke down five years later. As a result, a number of firms are members of both networks, so there is an element of double counting in the table that is impossible to avoid. Kreston subsequently signed up Mayer Hoffman McCann and its associated consultancy firm, CBiz, to reinforce its representation in the US.

