Gazing into the future

State of the profession in 2020

- PwC retains global top spot with 8% growth
- Grant Thornton UK and US revenues up
- Russia survey: difficult times persist as audit market shrinks
- Japan survey: Another difficult year marked by the aftermath of Olympus scandal
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Predicting the future

This month, *International Accounting Bulletin* and sister title *The Accountant* embarked on a mission to discover what the accounting market and the profession at large might look like in 2020. As part of this investigation we conducted an online survey drawing responses from more than 100 networks, associations and institutes, supplemented by interviews with professional body and firm leaders, as well as recruitment and legal experts. While you can read the comprehensive analysis of the results in this issue (see pages 4-9), I think some of the most interesting predictions were those regarding fee pressure.

Since I started reporting on the accounting market three years ago, fee pressure has rarely been far from the surface of industry discussion, but recently it has become a major concern for the industry with regard to audit quality. More than 48% of survey respondents said fee pressure would continue to increase in the years leading up to 2020, posing a significant danger to audit quality. That almost half the industry expects this seems an alarming reality. However much clients are struggling under adverse economic conditions, decreasing audit quality carries a higher risk of fraud and bad financial management being overlooked. The result, inevitably, will be an increase in liability suits brought against accounting firms.

Needless to say, most firms around the world assure me that fee pressure is not yet impacting on audit quality. But while it’s clear that measures have been taken to make audit teams more cost effective, one has to wonder how far software improvements and headcount reductions can shrink overheads before human attention is stretched enough to put attention to detail in danger. Further movement in this direction surely cannot be in the best interests of clients – especially not at a time when those clients, not to mention shareholders, expect auditors to take adopt a more forward-looking view. Personally, I hope formal changes to the role of the auditor might help stop fee increases, and the trend of asking for ‘more for less’. Redefining the role of the auditor could potentially close, or at least decrease, the expectation gap that currently exists.

If one needs a cautionary tale regarding the effects of endemic high fee pressure, the well-publicised story of Olympus (see pages 15-20) should be called to mind.

The Olympus scandal was one of the biggest corporate frauds in the past 12 months, and analysts involved were quick to point to decreasing audit fees as an issue. Despite the company’s executive team taking most of the heat for the fraud, auditors were also put under the microscope and new compliance and professional guidelines are being considered by regulators and domestic professional bodies.

Nevertheless, despite Japan’s history of large-scale fraud (the profession there is still reeling from scandal brought about by cosmetic giant Kanebo in 2006), the market is notorious for its intense fee pressure, and auditors are still not working together to arrest the downward trend in pricing.

And it’s not only Japan. Russian firms, too, have been under severe pressure for years (see pages 10-14). For firms in these markets, and globally, acquiescing to fee pressure is a dangerous gamble.

By 2020, however, the expectation is that other market changes will change the current rules of play – perhaps via mandatory firm rotation or retendering, or even the merger of large mid-tier players to change the competitive landscape. The return of more positive financial circumstances for clients too shouldn’t yet be ruled out. Regardless of what may come in the long term, fee pressure is one of the defining issues of the day and a solid definition of the role of an auditor can only help mitigate the risks involved.

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**NEWS ROUND-UP**

**ACQUISITION**

**EY Africa acquires Johannesburg consultancy**

Ernst & Young has acquired the consulting operations of Johannesburg-based The Resolve Group. The acquired business consists of resolve, encounter and converse consulting activities, ranging from integrating human resource solutions to training and assessment planning.

**RESULTS**

A challenging year ends with 8.8% revenue slump at RSM Tenon

Following a year of restructuring and several executive changes, RSM Tenon has reported an 8.8% drop in revenues to £208.2m (£256.6m) in the year to 30 June 2012.

The UK firm’s underlying operating losses were £8.9m, despite it cutting headcount by 11% over the year in order to reduce costs. The first sign of trouble at RSM Tenon, the only firm to be listed on the London Stock Exchange, came with a profit warning in February along with a restating of accounts for the previous fiscal year.

Chairman Tim Ingram said: “To say that the year ended 30 June 2012 was a disappointment would be an understatement. This year has been totally unsatisfactory for shareholders and other stakeholders.”

“A very high priority has been given to effective cost management. Over the longer term, actions are being taken to improve revenue and therefore lead to efficient profitability growth.”

**REGULATION**

**CC delays preliminary findings report**

The UK Competition Commission (CC), currently investigating concentration in the statutory audit market, has pushed back publication of its preliminary findings report to January 2013.

The CC was supposed to publish the preliminary report in November, as well as, potentially, a list of recommended actions based on its findings. According to the new timetable, a final report by the watchdog is expected in August 2013, two months prior to the statutory deadline.

The deadline for all party responses and submissions required before it can release provisional findings has also been extended to the end of November. The CC launched its investigation in 2011 following a recommendation by the UK Office of Fair Trading.

**MERGER**

**BDO Turkey merges with Asset LTD and EVC**

BDO Turkey has merged with accountancy firms Asset Limited and EVC.

The accountancy network’s latest mergers increase its Turkish capacity to 13 partners and more than 120 personnel based in Istanbul and Ankara.

BDO Turkey said it anticipates a TRY4.7m (£2m) increase in revenue during 2013. The increase is expected to widen the current small difference in revenue between the firm and Grant Thornton Turkey.

**RESULTS**

Grant Thornton UK and US revenues up

Grant Thornton UK revenues were up 10.6% to £417m (£513.8m) in the year to 30 June 2012. Despite two-digit growth, the firm’s assurance revenues were flat at £120m. Tax services grew by 3% to £91.9m and the bulk of the growth came from advisory services, up 22% to £205.2m.

Grant Thornton International’s US firm revenues were also up 9.3% to $1.21bn (£923.8m) for the year ending 31 July 2012. The firm’s growth was driven by M&A as well as organic growth. Grant Thornton US acquired accounting and advisory firm CCR.

**ACQUISITION**

**Kreston International adds Kolkata firm**

Kreston International has added G.P. Agrawal & Co of Kolkata to its network in India.

The acquired company has 102 staff and 10 partners.

This latest addition follows Kreston’s admission of Polish firm HMPD Partnership earlier this month, and Qatar based MB & Partners at the end of September.

**MOVES & SHAKE**

KPMG UK has announced a new board of six non-executive partners to support the ten executive board members and ensure a “diverse leadership” representing the partner group.

The board, which the company says signals “the firm’s commitment to improving corporate governance”, is made up of five non-executives voted for by the partnership, with a sixth, Richard Reid, appointed by recently elected chairman Simon Collins.

The board is comprised of: Kru Desai, Jonathan Hurst, Richard Reid, Melanie Richards, David Sayer and Ian Starkey.

Chris Ratten has been appointed as head of corporate recovery at RSM Tenon.

Ratten, who has been charged with driving growth and development of the team, has been with the firm’s recovery and restructuring arm for 14 years. He has advised SMEs, asset-based lenders and banks, and specialises in recruitment, manufacturing, retail transport and travel.

Richard Rekhy (pictured left) has been appointed chief executive of KPMG India, succeeding Russell Parera who led the firm for six years.

Rekhy has been with KPMG in India for more than eight years and has held many leadership positions in the firm. Richard previously worked as head of advisory at KPMG in India.
PwC retains global top spot with 8% growth

When Deloitte announced an 8.6% rise in annual revenues this month, the possibility was raised that this year, as in 2010, the firm might take the spot of the largest professional services firm from PwC.

However PwC dashed the possibility, reporting 8% growth to $31.5bn (£24bn) in the year to 30 June and increasing its lead on Deloitte by around $200m. PwC increased its assurance revenues by 3% to $14.9bn, tax revenues by 8% to $7.9bn and advisory services revenues by 17% to $8.7bn.

Regionally, the firm had a 13% increase in North and South America. PwC US increased its revenues by 18%. Income for the Middle East and Africa region was up 15% and Asia 8%, with the firms in India and China growing 16% and 14% respectively.

PwC had 4% growth in Western Europe, with the UK firm increasing fee income by 6%. Central and Eastern Europe revenues were up 8%.

“PwC’s ability to increase revenues in all key markets in a challenging economic climate is testament to the trust that clients have in the quality of PwC work, the talent of our people and the strength of the PwC network,” said PwC chairman Dennis Nally.

“We are in the midst of a global economic rebalancing. Economic growth in the developing markets will continue to outpace expansion in the more established economies. That shift heightens the ongoing need to attract talented, skilled people and make sure they are located where our clients require them,” Nally added. The firm expanded its workforce by 7% increasing the total headcount to over 180,000.

While the market waited for PwC to announce its results, Ernst & Young, the third-largest firm globally, also reported improved growth of 7.6% to $24.4bn in the year to 30 June.

E&Y saw growth across all service lines, and reached an all-time maximum staff total, with approximately 167,000 employed at the end of the period.

E&Y saw strong growth in emerging markets, where fees were up 15.5% year-on-year, and in advisory services, where the network brought in 16.2% more business.

Assurance revenues for E&Y were up 4.1%, tax revenues 7%, and transactions revenues 9.4%. The firm said growth in all areas was organic, with acquisitions accounting for less than one-half of a percentage point in overall growth.

“FY12 remained a dynamic and volatile period in the world economy, said E&Y global chairman and chief executive Jim Turley. “The ongoing sovereign debt crisis in Europe, the impending ’fiscal cliff’ in the US, and signs that the emerging-market economies are slowing all point toward a challenging business climate in the months ahead. “We will also continue to face regulatory uncertainty in many jurisdictions around the globe. That said, we are pleased that our business showed good results, the best since 2008, in the midst of what has been several years of uncertainty.”

KPMG will publish results in December.
Professor in 2020: working together

Ana Gyorkos and Nicola Maher take out their crystal ball and ask the profession to predict what 2020 will bring for the global professional services industry and the accounting profession.

A joint online survey, filled out by more than 100 professional bodies, accounting firms, networks and associations conducted by the International Accounting Bulletin and sister publication The Accountant reveals firms hold not only optimistic growth projections, but also the will and power to adapt strategies to meet the less clement changes lying in store for the market.

Most firms believe their business will grow by 2020, both in revenue and by geographical reach.

More than half (56%) of respondents to the profession in the 2020 survey foresee their firm revenues increasing by more than 11% in the next eight years. Additionally, 24% of respondents believe revenue growth will be between 25% and 50%, while 12% believe it will be higher than 50%.

Individuals are more cautious about making hard predictions. Grant Thornton International chief executive Ed Nusbaum says it’s hard to predict numbers, but anticipates substantial growth between now and 2020 for his company.

“I like to think we could get up over $10bn, but it’s really tough to predict – it could be more, it could be less,” he says.

“I’m optimistic about our ability to capture market share on an ongoing basis, because we have been capturing and it continues to grow. How quickly it will grow, I don’t know,” he adds.

In terms of regions, Nusbaum says China and India will continue to increase in importance.

“There are massive numbers of people that can move into the middle class in China; you’ve got a billion people, hundreds of millions of people moving from essentially lower class or poor economic conditions to middle class economic conditions and that drives business. I think as long as that can continue – that drives an opportunity.”

Mazars’s president and co-chief executive Philippe Castagnac is equally hesitant to make financial predictions, saying the past few years have shown that it’s incredibly difficult to make such predictions.

“For example, when we were forecasting the next five years in 2006 we were unable to anticipate the challenges that arose from the crisis throughout 2007 and 2008,” he says.

By 2020, Castagnac says, he’d like to see Mazars have a consistent presence in
Europe, the US and emerging markets.

“In emerging market such as China, India, Indonesia and Latin America we should, by 2020, grow and have a more important market position. We look to grow mainly by mergers of our existing members or other market players,” he adds.

Castagnac says that as Mazars moves and expands across the globe its global integrated partnership structure might be challenged due to domestic regulation and different market characteristics.

“Due to the different culture in some parts of the world such as India and China, even the US, we might have to consider an alternative market structure,” Castagnac says.

“Perhaps a specific partnership which would work as a partnership within a partnership. So, integrated globally, but with a certain level of independence in some economies, such as China and India, which are highly complex.”

“When you have different cultures we could think of allowing a certain level of independence in our partnerships. This could be a bit of an evolution of our business model as we go forward.”

Morison International chief executive Liza Robbins says her focus is on the BRIC economies by 2020.

“There is no question that there’s growth coming from there. We can see that now because of client interest. But having said that, I think it would be foolish for us to say our established economies are not important to us. Europe and the US will still bring in growth, but I think the new client work will come out of the BRIC economies.”

According to survey respondents, North America is still expected to be the top accounting market in terms of revenue, the number of qualified accountants and numbers of trainee/student accountants in 2020. Asia-Pacific comes in second, followed by Europe, Central and South Asia, South and Central America and, lastly, Africa and the Middle East.

However, according to Association of Chartered Certified Accountants (ACCA) chief executive Helen Brand, sub-Saharan Africa could be the land of opportunity in the future because “there are lots of natural resources being discovered there, it is a well-educated population and there is a huge demand for the type of financial skills that accountants bring, so I’m very excited in terms of new opportunities from here”.

“Of course China is still continuing to grow and it is the centre of the financial path, so Shanghai, Mumbai and Seoul will continue to provide opportunities for the profession, because currently there isn’t enough capacity there to deal with the demand and that is obviously where the opportunities arise,” Brand adds.

Institute of Chartered Accountants in England and Wales (ICAEW) chief executive Michael Izza agrees that, despite worries its economy is slowing down, China is still currently one of the most “important global regions for both the world economy and financial services”, although he adds Brazil, which is currently adapting to using IFRS, is also an area of opportunity – “it has more than half a million accountants and growing,” he says.

Although the [Chinese] profession is relatively young – the Chinese Institute of Certified Public Accountants was set up just 23 years ago – the radical growth of the Chinese economy over the past three decades, and the increasing liberalisation and global outlook of Chinese trade and investment, have meant that it has become extremely important,” Izza explains.

**Liability and legal concerns**

Since the start of the global economic downturn there had been a slight increase in liability suits and the uncovering of fraud globally. The survey found 54% of respondents believe the number of liability suits will increase by 2020.

Wragge & Co partner and leader of the professional liability group Jane Howard says that increase in suits and fraud detection during a recession is not unusual.

“This happens usually because there is a change of auditor. That auditor reviews what the previous auditor has done – and wants to impress the client and express his or her own independent judgment, coming to it afresh. The new auditor will express different views and carry out different work and discover things. They might get their forensic accounting team involved if they find something that doesn’t seem right,” she says.

Nevertheless, Howard says this recession hasn’t been too bad for accountancy in comparison to the recession in the early 90s.

“We’re in a relatively benign environment due to the soft insurance market and people are paying lower premiums as there aren’t as many claims,” she says.

Howard foresees an increase in liability risk as mid-tier networks are growing – wanting to look more like the Big Four – and are looking to adopt a global brand.

“If you adopt an image of a global brand you run the risk of having more people come after you on precarious liability and agency type arguments,” she says.

In terms of regions and where the hotspots for suits may be, Howard says more litigation might occur in emerging markets by 2020.

“Historically [the source of most litigation] has been the US,” she says, “and that may remain the most popular jurisdiction for some time. On the other hand, in terms of growth I’d probably look to the emerging markets as the Big Four have been very
active there – particularly in China and India – for some time now.”

“And as many credible law firms have opened offices in those jurisdictions, jumping on the bandwagon, their exposure will increase.”

Howard also anticipates an increase in conflict of interest and friction between international network members.

“In the current climate, people want to be bigger and pick up some of these transnational audits. The general commercial pressure to enjoy economies of scale is hard and I can only see it increasing,” she adds.

As 35% respondents say that they anticipate their firm will merge with a player of a similar size by 2020, this also indicates a possible legal minefield that would occur if two of the mid-tier international networks were looking to join forces, or two of the largest firms within international networks. Additionally, almost a third (31%) of respondents said they believe their organisation will be involved in merger discussions by 2020 with an organisation of a similar size, but that the chance of a deal is unlikely in that time frame.

Grant Thornton’s Nusbaum says it’s highly unlikely that two of the Big Four players will join forces by 2020 as that would sound alarm bells with competition authorities.

However, among the non-Big Four players he believes anything is possible and could happen.

“I don’t think you’ll see one of the four largest firms merge with Grant Thornton,” he says. “That would be impossible because of the mindset of our partners and they wouldn’t be interested. But that doesn’t mean that we might not lose an individual firm to a Big Four firm in a certain country, but in the bigger countries I don’t see that happening,” he says.

“In terms of other firms merging we have, for example, just recently acquired BDO’s offices in Australia and anything is possible. But at the moment our firm is not involved in any merger discussions.”

Castagnac says that looking at current trends a lot of players would have disappeared by 2020.

“If the European audit reform will not do what it was meant to do – to reduce concentration – we know that a lot of players in audit are to be subject to M&A, as the Big Four are very aggressive in their approach to market share,” he says.
“In the current market structure we do have a lot of examples where the Big Four are still acquiring and buying mid- and small-size audit players. They attract mergers with money and client base.

“If nothing comes out of the reform we will see an even more concentrated market by 2020.”

Robbins says that undoubtedly competition will increase in attracting new member firms to the associations by 2020.

“In some countries competition will, for sure, increase. At Morision International we’re very clear. We have policies with member firms as to what is an ideal member firm and what criteria you have to have to continue your membership. So if a market changed dramatically and we found ourselves not represented in the right way, we have the tools to deal with that,” she says.

Nearly half of survey respondents (48%) believe fee pressure is going to increase by 2020 and consequently pose a serious danger to audit quality.

Castagnac says the major threats for the profession and Mazars are an increase in fee pressure, compliance requirements and the lack of harmonisation in legislation to start combining the evolution of audit standards with the cost of top talent,” Castagnac says.

There also needs to be a greater harmonisation of different rules and practices around the world, adds Castagnac.

Globalisation of accounting standards and practices is expected to continue in the coming eight years. The survey found that 76% of respondents believe accounting standards and practices will be more globalised by 2020.

“Whilst there is a degree of frustration around the pace of IFRS adoption, which was a G20 commitment, I think it is inevitable that, as the economy becomes ever-more globalised, accounting standards and practices will have to follow suit,” Izza says.

“Cross-border audit quality, comparability and transparency will all become paramount the more trading there is across different countries and regions. More and more countries are adopting IFRSs, and we are forging relationships and alliances around the world with other national bodies, sharing knowledge and resources and supporting the development of the profession worldwide.”

The current situation of the US, China, Japan and India having yet to make a decision on whether or not to adopt IFRS is expected to be solved by 2020, with half of respondents believing all four nations will have adopted the global accounting standards by then.

Role of the auditor and public perception

More than half (59%) of respondents think the main threat to public perception of the profession in 2020 will be economic instability, followed closely by fraud (56%) and liability lawsuits (50%).

Brand is confident things are not at a point of “disaster” yet.

“There is a gap between what accountants think of themselves and what the public thinks of accountants. I think being aware of that and then working to close this gap will have a positive impact. It is also about doing the kind of things we are doing, such as engaging in discussions with stakeholders. There has been more focus on audit lately then normal, but to talk...
about what an audit does and doesn’t do more clearly and having the tough conversations is important with key stakeholders,” she explains.

Izza adds another big reputational threat is the “lack of trust in financial information”.

“Following on from the financial crisis, there have even been suggestions auditors bear some responsibility for it. Whilst I don’t agree with this analysis, the audit profession – like other market participants – must continue to learn the lessons from the crisis. What is true is that trust needs to be rebuilt in financial services. The work that accountants do every day in helping deliver high-quality, transparent and assured financial information is rebuilding this, but it will take time,” he says.

Building trust

Brand argues the profession should be building trust “continually” and not doing so as an afterthought after events, such as major frauds or a financial crises.

Nusbaum says the role of the auditor needs to evolve by 2020. “The reality is that the role of the auditor has not changed much in the past 30 years, but we do more, and offer services which provide more.”

Castagnac says the profession has been talking about the expectation gap for the past 15 years and will probably still be discussing it by 2020. “It is essential to have confidence in the financial information and the role of the auditors is key, because if we don’t demonstrate that we can meet the expectations of the market in the future we might have to go through another reform before 2020,” he says.

New routes to the profession

As emerging economies continue to boom the shortage of accounting talent on a global scale is increasing. Western economies have long been trying to counter this through a melting pot of initiatives such as the introduction of new routes into the profession that includes school-leaver programmes and apprenticeships.

Taking heed, emerging economies have begun to adopt their own strategic initiatives suggesting things will improve by 2020. For example, the Chinese government is planning to set up 10 large and 200 medium accountancy firms and intends to persuade more young people to go into accounting, particularly due to recent legal requirements around how many partners can be non-Chinese.

“There is similar demand for CAs in India. Elsewhere, as countries seek to become financial hubs for their regions, such as Russia or the United Arab Emir-

### 2020 SURVEY

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ates, they will need to grow their talent pool of highly-qualified finance professionals. Countries like Malaysia, which is seeking to become a high-income nation by 2020, will need to make sure they have the business leaders to achieve this and the financial capability to maintain it,” Izza explains.

“For all of this to become a reality, it will be necessary for employers, education providers and professional bodies to work together to ensure that bright young people are given the opportunities to become finance professionals and encouraged to do so.”

Clive Davis, a director at the international recruitment specialists Robert Half, says a trend for countries to deal with the lack of qualified accountant talent is to relax right-to-work laws so that expatriates can work there, which, for example, is the initiative the UAE adopted.

Employment laws
However, Davis says some emerging economies have yet to act. If they do not relax existing employment laws so that “more finance professionals from more economically developed countries can come in and play their part in the growth of companies that are investing in those countries” this could mean a slowdown in economic growth.

Robbins says the biggest issue ahead for 2020 is attracting and retaining key people. “We’ll see staff that will go and work in Brazil, or China, or back in the UK. This is a challenge and an opportunity at the same time. At Morison International, for example, we’re looking at how we’re going to handle more staff secondments between our firms in order to ensure we capture the best talent.” The global economic downturn of the past few years has left a stamp on the profession and though the market is not as bad for accountants many are cautious of making projections that are too optimistic.

One could argue it has made the profession better and more resilient to challenges that might emerge by 2020.

Timetric’s global outlook for 2020

The pace of global economic expansion will slow to 3.3% in 2012, from 3.8% in 2011, according to the latest analysis from Timetric. The euro area will exert a strong drag on growth as it enters recession owing to the unresolved sovereign debt crisis in its periphery and the implementation of austerity measures. The US economy will also perform weakly this year amid sluggish consumer spending and reduced business investment.

Growth in emerging markets will slow in tandem with that in advanced economies in 2012 as capital inflows moderate and world trade shrinks. Developing Asia will remain the fastest growing region, supported by China, where the authorities are expected to keep the economy expanding at an annual rate slightly below 8%. However, there remain downside risks to growth in China. In 2013, there will be a modest improvement in the global economy, with growth rising to 3.7%. This is predicated on a return to growth in the euro area and sufficient policy action by authorities in emerging markets.

By 2017, Timetric sees the global economy strengthening, although the pace of annual expansion will not return to the annual growth rates of over 5% seen before the global financial crisis. Rather, we see global growth rising to just over 4% a year, which is contingent on a rebound in world trade and an improvement in investor sentiment. The forecast assumes that a disorderly breakup of the eurozone is avoided and that China averts a hard landing. The US economy, in turn, is expected to return gradually to its long-term potential growth rate, estimated at 2.5%, over the forecast period. Emerging markets will continue to drive global growth. Policy-makers in most of these countries have scope to lower interest rates in response to weak external demand.

Long-term BRIC issues
Brazil's long-term sustainable growth rate is around 4% a year, in line with its growth pattern over the past decade. Investment lags behind that in other emerging markets and an increase would raise potential growth. In 2011, Brazil’s investment-to-GDP ratio reached 21%, well below the 48% in China, 34% in India and 25% in Mexico. The high cost of doing business in Brazil – from its complex tax system to its inadequate infrastructure – is the main impediment to higher investment.

Increased investment is required in order for Russia to grow sustainably at above 4% in the future. There are reasons to believe this will occur. One is that the country is hosting a number of events over the coming years, including the 2018 FIFA World Cup, which will drive investment in the country’s physical infrastructure. Another is accession to the World Trade Organisation. However, improving the business environment remains a challenge, given the endemic nature of corruption.

An ageing workforce is also a constraint on long-run growth – the working age population is set to decline markedly, from 72% of the population in 2010 to around 67% in 2020. Although India’s economy is set to remain sluggish in the short and medium term, we believe that the longer-term outlook, beyond 2015, is generally positive, with annual GDP growth returning close to 8%. This reflects the country’s favourable demographic profile. In the coming decade, India will have the opportunity to reap the benefits from its rapidly expanding labour force. However, there will still be major challenges in creating sufficient employment opportunities to avoid a surge in unemployment. Policy-makers will also need to address the demands for major improvements in the country’s regulatory environment as well as provide sufficient resources to develop the country’s physical infrastructure.

China’s economic growth in the latter part of this decade is expected to remain robust, with urbanisation and industrial upgrading remaining key drivers. Although growth is forecast to be at a slower pace than previously deemed necessary for ensuring social stability, economic activity is expected to be more ‘quality driven’ as economic rebalancing takes effect. The services industry is expected to play a more prominent role in the economy at the expense of low value-added manufacturing.

Timetric is a provider of online data, analysis and advisory services.
A cold front in Russia

Times have undoubtedly got tougher in Russia. Firms have struggled in a market where there is a complete lack of confidence among SMEs, a weakened economy and increased political uncertainty. IAB takes a closer look at what’s gone wrong.

These are worrying times for the profession in Russia. A number of firms are battling hard to win new business due to a ‘loss leading’ approach to audit services which has reached a stage where partners are genuinely concerned about both the compromises being made on quality, and the reputational damage to the country’s audit profession as a whole.

David Gray, managing partner at PwC Russia, tells IAB: “The audit market remains very competitive and fee pressures continue to be significant. In my view, there is a risk that the profession is creating problems for the medium- and long-term by offering unsustainably low fee levels that put pressure on quality...[We do] remain committed to quality even if, in the short term, this means that our growth is lower than we would like.”

Up to a point, there is logic – albeit questionable – to firms offering lower fees to win business in straitened times. But the short-termism of such a tactic manifests itself when the market for clients keeps declining, and then the lower charges simply become accepted as the norm by clients, thereby exacerbating the challenges faced by firms. Irina Sager, president of DFK Femida-Audit, describes the pressure on fees “as the prolonged disease of Russian audit”.

According to Sager, the rising of the audit threshold in January 2011 to RUB400m (£7.9m), released a lot of businesses from the need for a statutory audit. That, in effect, ramped up the competition as firms battled for a smaller pool of potential clients, intensifying the use of predatory pricing. “The goal is to get a contract at any price; it’s determined by the necessity to survive amid a shrinking customer base,” Sager says.

Alexander Sirous, chairman of Baker Tilly Russaudit, argues that the questions around how clients are won might be improved by better regulatory oversight. Although, for him, there is a deeper issue in Russia, as the liabilities and duties of directors do not make the audit a priority for them, as compared to, say, the Companies Act in the UK, where the legal responsibilities are clearly defined.

He says: “It is a problem and it is enhanced by very little policing of audit firms so there is a real need for good quality. The key issue is that regulators are not chasing poor quality. A lot is missing from the existing laws; the government is policing this only if the government interests are put into danger. There is nothing in terms of policing what’s in the public interest.”

At the beginning of 2013, there will be a new framework for the federal standards of Russian accounting. This means private small and medium-sized companies – those eligible for audit – will have to produce a set of consolidated accounts, like publically-listed ones currently do, with the goal of aligning companies in the country more closely to IFRS. Optimistically, Sager suggests that this switch could address some of the current problems so
that those audit firms “that fail to provide a high level of quality and compliance with international standards will be forced out of the market”.

Others lack her faith, mainly because the mindset of executive directors has to change fundamentally. Sirous explains: “Basically, as a general tendency, Russian standards are moving towards IFRS, but in many cases it is more of a burden than an opportunity as the clients don’t want that. “Those who want to present accounts to the public at large for analysis already produce audited IFRS financial statements anyway. So for them to have to do their Russian accounts as well now in a similar way, it strikes them as duplication and an unnecessary cost. They don’t want to do it.”

**Pockets of growth**

As can be seen from this year’s fee table, there are pockets of good growth for firms. Inbound investment is beginning to pick up and consultancy services are in demand as businesses look to manage risk and examine ways to improve performance.

Revenue at PwC Russia rose by 15% to RUB8.4bn. Gray says: “2012 saw our business continue to recover from the impact of the global financial crisis and our pace of growth accelerated. We have seen growth across all of our business lines and indeed across Russia in our regional offices. Nevertheless, the markets remain challenging, not least because capital market activity continues to be subdued.

“Our growth reflects both the continued demand for services from mid-sized enterprises and the increasing sophistication of advisory services that our larger clients are buying – many are investing in improving the performance of their businesses, whatever the market conditions.”

Rödl & Partner Russia also saw double-digit growth, with revenue rising by 28% to RUB428m. André Scholz, managing partner for Russia and the CIS at the firm, says: “We are out of the crisis, but then I’d say the downturn hit us a little later than most firms, but things do seem to be improving. Whereas before we had losses, we now have significant growth, benefiting from our focus on foreign investors rather than just local Russian businesses.”

The firm’s clients are primarily (around 80%) based in Germany, Austria and Switzerland, and so the upturn is due to businesses in those countries looking to expand internationally or invest in overseas subsidiaries. “Inflow is back and stable and this is presenting us with the opportunity to grow again,” he tells IAB, noting that compliance and internal controls are proving to be a strong area as well.

Sager of DFK Femida-Audit confirms that consultancy services around ‘management efficiencies’ are being called for by clients, combined with the need for legal services. “Foreign companies that come to the Russian market are interested in legal support,” she comments.

“Among Russian businesses, there is also growing interest in creating a company in the European Union, as they wish to know what is required of directors and wish to talk to potential business partners and government agencies.”

Likewise, at Baker Tilly Russia, which saw its revenue increase by 10% to RUB322.5m, the most profitable service lines have come from compliance projects, such as assisting companies in dealing with changes to regulations around foreign exchange controls. “If there is growth, it comes from specialised niches,” says Sirous.

Eugene Shokhor, audit partner at RSM Top Audit, which increased revenue by 3% to RUB871m, takes a similar view on market conditions, revealing that the core
focus for the firm has been on assisting clients as they seek better control of capital, and tightening up of internal controls and risk management systems.

“Companies want to reduce costs and improve efficiency as they emerge from the financial crisis,” he says. For 2K Audit, part of Morison International’s association of independent firms, revenue streams have performed well, rising by 25% to RUB2.5bn. Tamara Kasyanova, a manager at the firm, describes the performance during the past 12 months as good, although she bullishly notes it could have been better.

“The most important factors for growth came from audit and advisory services,” she says, pointing out that the firm has expanded its team in order to target clients in the energy sector.

Uncertain future
Few expect corporate finance activity to pick up in the near future. The uncertain economic situation in Russia, combined with the ongoing crisis in the eurozone, makes IPOs risky and planning for acquisitions is thin on the ground, although the latter may change according to Scholz.

“There will be some M&A, but mainly companies from abroad coming here and looking for targets,” he predicts.

“What might create more activity is the wish of Russian entrepreneurs to sell their businesses and to funnel the proceeds into safe havens. What we are beginning to see is that they are selling their businesses, then buying, say, a German company to operate abroad, knowing there is a lower yield, but a more stable business environment.”

A similar point is made by Sirous, as the implication is that entrepreneurs are developing exit strategies due to an ever increasing sense of uncertainty.

“My impression, on the M&A side of things, is that there are more sell side deals than companies are buying,” he says, adding that he is “not expecting anything serious in terms of an increase in corporate finance work”.

Olga Goryacheva, partner at Nexia Paciol, which saw revenue contract by 15% to RUB667.2m, argues that the pipeline is definitely there for M&A deals, especially in the telecoms sector. If this is to happen, she says, the market needs greater levels of stability and, crucially, banks will have to revise their financing terms, as the cost of debt and lending generally is too prohibitive.

A similar point is made by Gray: “Transactions are still taking place, not least because market valuations for targets are far from stretched, but the volumes are limited. I do think that there is a significant backlog of potential transactions that are building up in the Russian market and that any improvement in global trends will trigger a renewed interest in the markets, whether that is M&A, debt offerings or IPOs.”

During the past couple of years, as firms downsized, the salaries commanded in the market became more reasonable (at least for the mid-tier firms). As firms anticipate a possible improvement in conditions, it appears as if the issue of inflating salaries, to attract the right people, is back.

“It is difficult,” confirms Scholz. “There was an ease on personnel during and shortly after the crisis but we are back on an upward trend of salaries increasing faster than actual productivity. And the output of people from universities is still bad.”

Kasyanova at 2K Audit states that it is always difficult to get good employees. The preference at the firm is to try and bring people through internally as opposed to getting embroiled in a bidding war for talent.

“It can also be difficult for highly qualified people to adapt to the company culture and environment, which is why we do our best to train and develop our existing staff,” she says.

There are numerous challenges for firms. Some of these, such as the pressure on audit fees, or the battle for talent, are typical fea-

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**RUSSIA**

**ASSOCIATIONS - FEE DATA**

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<th>Rank</th>
<th>Name</th>
<th>Fee income (RUBm)</th>
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Total revenue/growth  **6,161.6**  **44%**

Notes: *Disclaimer = Only data from the named member firm or the exclusive member firms within a network/association is included. Data relating to correspondent and non-exclusive member firms is not included. (a) Morison International estimate. Year-end for its firm is Dec 2012; (b) Morison International is represented by CSJC 2K Audit-Business Consulting in Russia; (c) Praxity is the lastest available year-end of participating firms; (d) AGN International is represented by AGN Interexpertiza in Russia.

Source: International Accounting Bulletin. To export and view data online visit the IAB website under IAB.
tures of a tough market and have been happening in Russia for a long time. However, from speaking to partners for this year’s survey, what is significantly different is the frustration about the lack of support from government and the authorities in general and the negative impact this is having on clients in the SME sector.

Indeed, a sense of despondency appears to be creeping in. One partner describes how a growing number of SMEs are going out of business, whereas larger companies are either falling under direct government control or are influenced by ‘other means’ (not by share ownership). This lack of transparency – at best – perhaps gives some context to entrepreneurs wishing to sell their businesses and look to start again elsewhere in a more ‘stable’ environment.

When it comes to corruption and bribery, Scholz argues that, for foreign businesses, it is not such a problem as it’s pretty straightforward to make a stand. He claims: “It is different for Russian businesses as they cannot go to the authorities and say they need a license but will not pay extra for it. As a foreigner, you have more leeway and don’t have to pay the bribes.”

The behaviour of the government and authorities, combined with fears over corruption, are seriously damaging the country’s reputation and ultimately this is slowing down the recovery.

“The image of Russia is getting worse,” continues Scholz, although he does insist that the politics ought to be divorced from

### NETWORKS - STAFF DATA

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<th>Name</th>
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Source: International Accounting Bulletin. To export and view data online visit the IAB website under IAI.

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Source: International Accounting Bulletin. To export and view data online visit the IAB website under IAI.
the reality of doing business for foreign companies. For him, it is a market which should be a key feature in any strategic plan for international expansion.

That may be open to debate. Whatever the truth may be, it does seem that the political situation creates another source of volatility in Russia and this, when added to the air of uncertainty at the moment in Europe as a whole, further diminishes the confidence of the business community.

Scholz says: “We have a lot of clients where we develop ambitious local business plans, but they are mostly on hold because head office is unwilling to give them the green light. What is definitely on everybody’s mind is this bad image Russia has – normally this is not a problem for businesses wanting to invest, but in this market people are now very hesitant.”

The outlook for the coming 12 months is mixed. Gray comments: “The Russian economy is still seeing reasonable growth, despite the global challenges and flat commodity prices and volumes, and that growth is supporting many Russian companies. That said, everyone does remain cautious as there is still far too much uncertainty to allow people to invest with confidence.”

“After the US elections and the Chinese transfer of power are out of the way, we may see greater clarity in the direction that the world is heading, and this could produce a stronger recovery in 2013, but the fundamental challenges that face the world’s leading economies remain and are likely to restrict the pace of any recovery for at least the immediate future.”

Sergey Moderov, head of the international financial reporting department for the Institute for Enterprise Issues, a member of Kreston International, predicts an upsurge in audit and legal work in the year ahead, largely driven by a wider use of IFRS and the IT needed to accommodate such financial systems, although he too concedes that “SMEs have a lot of doubts about whether they will be successful in future”.

The recent acceptance of Russia into the World Trade Organisation is seen by Sager as a potential boost for firms, allowing for changes which could open up certain markets and allow for healthier levels of competition. Again though, there are concerns about the need for better support for SMEs in order to promote and encourage entrepreneurs.

“On the whole, Russia is always waiting for better days,” she says.

There will be a boost for firms as regulatory changes come in at the beginning of next year on transfer pricing, and partners are expecting additional work from the accounting standards legislation. Inbound investment and then activity from international businesses with operations in Russia will be crucial revenue streams for firms. But there can be no mistaking that there are serious, systemic problems for the profession at the moment, which do not appear like they are being addressed. The best firms are coping by performing a delicate balancing act as they seek to replace the clients they lose, and specialise in niche services to try and be different in a crowded, aggressive marketplace.

Sirous says: “The revenue for us will come from international work and with larger companies. If we continue with that, we will achieve some growth but otherwise it will be very difficult. Even with the same client portfolio, it’s getting tougher.”

The next 12 months should be really quite interesting.
Firms attempt to surmount Olympus

With past accounting fraud scandals and business shock waves following last year’s earthquake starting to fade, Japan’s auditors are again being scrutinised and corporate laws being revised following yet another major corporate fraud case. Nevertheless, David Hayes and Carlos Martin Tornero find firms are staying afloat and battling market challenges.

More than half a decade after the Kanebo cosmetic company accounting scandal broke, bringing down PwC’s Japanese operations, the country is again embroiled in a scandal prompting serious concerns about domestic corporate governance rules and auditors’ ability to detect fraud.

Audit firms’ responsibility for ensuring accurate financial reporting has been under the spotlight for the past year following the Olympus scandal that broke in October 2011 involving large undisclosed previous losses spanning more than 10 years. The camera-maker’s revised earnings statement, issued in mid-December 2011, showed net assets JPY116bn ($1.5bn) lower than originally stated and stood at a meagre JPY51bn, while net profit for the financial year ending 31 March 2011, was halved to JPY3.9bn.

As the scandal broke and the full scale of the fraud was unveiled, separate investigations were launched by the Japanese Financial Services Agency (FSA), the Japanese Securities and Exchange Surveillance Commission, and the Japanese Institute of Certified Public Accountants.

In July, the FSA announced sanctions against the two audit firms involved, imposing a business practice improvement order on KPMG AZSA, the former Olympus auditor, and the current auditor, E&Y Shinnihon, which took over in 2009.

The firms have remained tight-lipped about the scandal and their role in failing to detect the fraud. In its statement, the FSA indicates no serious defects in performing audit procedures, but blames insufficient procedures for enhancing audit effectiveness being followed at the auditor changeover stage. The sanctions against KPMG AZSA and E&Y Shinnihon are intended to encourage professionalism in audit firms as gatekeepers, the FSA’s statement said.

To avoid any reoccurrence, the FSA instructed the Japanese head offices of KPMG AZSA and E&Y Shinnihon to adopt a more organisational approach, that identifies audit risk and other issues to be communicated to successor audit firms during the course of auditor changeovers, rather than simply taking an audit team approach.

The Japanese head offices of the audit firms should manage the audit risks, rather than rely solely on the audit team, the FSA instruction says.

Japanese accounting firms have followed the Olympus case with interest. Following the FSA’s July statement and the announcement of sanctions against the two Big Four firms, the Japanese government is considering various reforms to prevent a recurrence of the scandal. Several revisions to the Companies Act have been proposed, including creating a duty to have at least one outside director.

Toshio Kinoshita, chief executive of the Japanese Institute of Certified Public Accountants, the self-regulating statutory organisation that regulates the accounting profession and reviews audit practice and quality in Japan, says changes have been suggested, but creation of an outside director has been deferred.

“JICPA’s opinion is that to improve corporate governance, companies should have at least one outside director,” he says. “Other organisations agree, but the government decided not to make it mandatory to have an outside director.”

Another draft proposal is to set up audit supervision committees within companies. Currently, two types of corporate governance exist in Japan – audit committee corporate governance and statutory auditor corporate governance where the chief executive appoints a statutory auditor.

Kinoshita says the issue is how a statutory auditor can be independent. “The proposed new optional governance form of a ‘company with an audit supervision committee’ is somewhere between audit committee and statutory auditor corporate governance,” he explains. “The proposed new governance form is a little more independent. Audit supervisory committees must have more responsibility – this is a compromise idea to show foreign investors who have independent auditors themselves. We are not sure if it will work. Let’s see how many Japanese companies go for it.”

Other areas considered by the FSA as a result of the Olympus scandal include strengthening the function of audit firms and the regulation of outside financial
advisors. Additional issues include the strengthening of information disclosure and government supervision, and information disclosure for mergers and acquisition transactions.

Some of issues arising from the Olympus case apply not only to Japan, but to the audit profession worldwide. Kinoshita says a number of potential issues have arisen from this case. “Audit standards apply not only in Japan, but elsewhere as well,” he says. “So, how to detect fraud? Is it the auditor’s responsibility to detect company fraud? It’s a key issue and relates to the Olympus case, but it is also a classical issue for the audit profession.”

BDO Japan international division partner Soichiro Kitano expects additional compliance requirements and increased auditor oversight to emerge post-Olympus. “For our firm, audit quality has been a high priority and, because of that, we haven’t really felt the impact of the scandal on our operations. Previously, four or five years ago, we were stressed with the adjustments and reduction of clients, but we are now pretty well balanced, therefore we can do strong high-quality audit.”

Sluggish growth
Japanese firms surveyed by the IAB had another year of slow growth, due to the global economic slowdown, continued appreciation of the yen, and a shrinking domestic market. The average growth among surveyed firms is 3%, with networks bringing in most of the growth, whereas associations saw a dip of 5% in overall revenues. Among networks, the growth was mainly driven by a few players, which have grown as a result of M&A or adding new member firms.

Among the Big Three, average growth was 2%, with only market leader Deloitte reporting in the black with 11% organic growth to JPY119.8bn in the year to 31 May 2012. Deloitte told the IAB that most of the firm’s growth came from advisory services; however there was growth across all service lines.

Unlike most other countries, Japan has three large firms instead of four – KPMG ASZA, E&Y Shinnihon and Deloitte Anjin. This is due to the collapse of Chuo Aoyama PwC, which was suspended and subsequently wound down after the 2006 Kanebo fraud scandal.

Second-largest firm KPMG ASZA reported a 3% decrease in its annual revenues to JPY105.3bn. The firm’s drop mainly came from assurance services that were down 6%, bringing in JPY82.8bn in fees. The fifth largest firm, BDO Japan, had a significant increase in fees due to the addition of new tax firm Hongo Tsuji Tax in January. BDO increased its revenues by 84% to JPY12.3bn.

Kitano says BDO Japan has had a pretty small presence in Japan over the past five or ten years. “Over the past two years we have really grown by adding new firms. A firm became a member last year and, combined with the addition this year, our revenue doubled,” he says. “However, organic growth was flat for our network in Japan.”

Among the associations, the situation was a little bleaker. Morison International Japanese liaison partner Naoshige Shindo says the 3% decrease in revenues came mostly from assurance services, because of tough competition among firms and a bad economy.

Audit services under pressure
Audit services amount for just under 60% of all fees earned among surveyed firms.

Fee pressure continues to be the leitmotif within the audit market. Japan’s economy struggles to get back onto the path of growth as Japanese exports have been hit by the economic downturn in the US and the eurozone, two of its natural markets. On top of that the appreciation of its currency makes Japanese exports more expensive abroad while the domestic demand is not yet picking up.

“The challenging economic scenario results in companies applying pressure to get lower fees. The overall decrease ranges from 5% to 10% for audit services in general,” Kitano says.

Shindo says a decrease in revenue from assurance services is due to the intense competition and augurs a tougher future as the Big Four are joining the fee competition.

Deloitte acknowledges fee pressure continues to be a challenge for the Big Four. Its company spokesperson said: “Audit remains a challenging market due to continuing fee pressures and companies in Japan are looking more overseas. Our audit and enterprise risk services (ERS) business line has experienced modest growth, largely due to increasing need for ERS advisory services in a challenging corporate and economic environment.”

However, the firm is confident fee pressure is not affecting audit quality.

Deloitte’s spokesperson continued: “Audit quality is always our first priority and will not be compromised. We are committed more than ever to continued investment in our audit business line to enhance the quality of our audit work.”

Baker Tilly Japan managing partner Shigeuyuki Moriuchi admits fee pressure is hard for all players in the audit market, including the Big Four, but he also suggests that real opportunities are arising for mid-tier firms.

“Most of the listed companies are now reducing their costs including audit and consulting fees, even the number of listed companies is reducing in Japan. Many businesses are now considering changing their auditors from the Big Four to mid-tier firms for the purpose of reducing their cost.”

Accounting scandals such as Olympus, or previously the case of former PwC’s member Misuzu Audit Corporation, have not passed unnoticed among clients and, according to Moriuchi, represent “a good chance for mid-tier firms to gain new clients.”

The Japanese accounting profession is also awaiting further news from the government on the proposed adoption of IFRS. Accountants and listed companies have been left guessing on the likely IFRS adoption timetable following last
year’s announcement by former minister for financial services, Shozaburo Jimi, that mandatory application of IFRS will not take place from fiscal year ending 31 March 2015, as originally proposed.

In his surprise announcement, Jimi also said a period of five to seven years would be permitted for preparation should mandatory application of IFRS be decided. This means that the earliest date when the use of IFRS could become mandatory is some time between 2017 and 2020.

The Japanese government and the FSA are watching movements by the US to see whether the US decides to adopt IFRS before making a final decision for Japan.

However, with the US Securities and Exchange Commission further delaying its decision on IFRS, which was expected this year, the situation with Japan’s adoption is even more uncertain.

Some large Japanese public companies have a negative opinion about IFRS, even though they are preparing to adopt it.

**JAPAN**

**NETWORKS - FEE DATA**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Name</th>
<th>Revenue (JPYm)</th>
<th>Growth rate</th>
<th>Audit &amp; accounting</th>
<th>Tax services</th>
<th>Management consulting</th>
<th>Corporate finance</th>
<th>Corporate recovery/insolvency</th>
<th>Litigation support</th>
<th>Other</th>
<th>Year-end</th>
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<td>-</td>
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</tr>
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<td>17</td>
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<td>-</td>
<td>-</td>
<td>2</td>
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</tr>
</tbody>
</table>

**Total revenue/growth** 420,305.0 3%

Notes: *Disclaimer = Only data from the named member firm or the exclusive member firms within a network/association is included. Data relating to correspondent and non-exclusive member firms is not included. (1) Moore Stephens International is represented by Seishin & Co in Japan.

Source: International Accounting Bulletin. To export and view data online visit the IAB website under IAI.

**ASSOCIATIONS- FEE DATA**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Name</th>
<th>Revenue (JPYm)</th>
<th>Growth rate</th>
<th>Audit &amp; accounting</th>
<th>Tax services</th>
<th>Management consulting</th>
<th>Corporate finance</th>
<th>Corporate recovery/insolvency</th>
<th>Litigation support</th>
<th>Other</th>
<th>Year-end</th>
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<td>75</td>
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<tr>
<td>2</td>
<td>INPACT Asia Pacific*</td>
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<td>28</td>
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<td>Dec-11</td>
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<td>Praxity</td>
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<tr>
<td>7</td>
<td>MGI*</td>
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<td>-</td>
<td>-</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Jun-12</td>
</tr>
</tbody>
</table>

**Total revenue/growth** 5,234.8 -1%

Notes: *Disclaimer = Only data from the named member firm or the exclusive member firms within a network/association is included. Data relating to correspondent and non-exclusive member firms is not included. (e) Morison International estimate. Year-end for one of its two firms is December 2012.

Source: International Accounting Bulletin. To export and view data online visit the IAB website under IAI.
Japanese companies have been permitted to apply IFRS, if certain criteria are met, from financial year ending 31 March 2010. More than 60% of Japanese public companies were believed to have started making preparations for the introduction of IFRS when Jimi made his announcement last year.

According to a recent report in The Nikkei, Japan’s leading financial newspaper, the number of companies adopting IFRS is increasing, particularly those with international business connections. However, a number of manufacturing companies are continuing to resist IFRS, the report noted. Investor pressure appears to be one reason that the number of Japanese companies adopting IFRS is increasing. Already eight companies have adopted it and more than 30 are planning to adopt, including Asahi Glass, Takeda Pharmaceutical and Daiichi-Sankyo. Although Japanese companies are studying IFRS and making preparations, very few say they support it.

“Recently there has not been any new noteworthy announcement on IFRS from the Japanese authorities,” says Takahashi. “However, some Japanese companies with global activities, such as trading companies and auto manufacturers have decided to adopt IFRS voluntarily. We think such a movement will continue for the time being and our professional staff will support these clients, not only in terms of IFRS adoption, but also on the unification of a global accounting system for them.”

### NETWORKS - STAFF DATA

<table>
<thead>
<tr>
<th>Rank</th>
<th>Name</th>
<th>Total staff</th>
<th>Growth rate (%)</th>
<th>Partners</th>
<th>Professional staff</th>
<th>Admin staff</th>
<th>Offices</th>
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<tr>
<td>1</td>
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<td>215</td>
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<td>11</td>
<td>24</td>
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<tr>
<td>17</td>
<td>Mazars*</td>
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<td>22%</td>
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<td><strong>Totals</strong></td>
<td>26,950</td>
<td>27,841</td>
<td>-3%</td>
<td>2,811</td>
<td>2,680</td>
<td>19,811</td>
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</table>

Notes:* Disclaimer = Only data from the named member firm or the exclusive member firms within a network/association is included. Data relating to correspondent and non-exclusive member firms is not included. (1) As of May 2012 and May 2011; (2) Total staff of Ernst & Young Japan but headcount split applies only to Ernst & Young Shinnihon (3) Partners include associate partners and directors.

Source: International Accounting Bulletin. To export and view data online visit the IAB website under IAI.
For Morison, Shindo says the delay has meant postponing business opportunities. “Many entities we have contacted regarding IFRS consulting service tend to wait and see what will happen next. But it is just a delay. They will have to prepare for IFRS and that will be our opportunity,” he says.

Kitano says the Big Four players have put a lot of effort into IFRS preparation and the mid-tier firms have also made a jump-start, but since the adoption was postponed those activities have been put back. “For BDO Japan we have pushed back on the resource until more clear guidelines are ready,” he says. “We will be organising seminars just if something does come up.”

The need for Japanese companies to invest abroad has shaped non-audit services rendered by accounting firms during the past 12 months. As Japanese businesses are eying new markets overseas, different services such as international tax advice are now required to support this expansion.

KPMG AZSA executive board member and Tokyo office managing partner Tatsuo Takahashi says Japanese companies have been accelerating their efforts to move their businesses overseas.

“Many Japanese manufacturing companies are shifting their manufacturing base to Asian countries to take advantage of labour costs, raising fears that the nation’s industries may be hollowed out,” Takahashi comments.

This trend, points Takahashi, is driving a growing demand for cross-border and cross-function services related to M&A activities both in Japan and overseas. Moriiuchi says many Japanese companies are trying to expand, not only in China, but especially to other countries in the Asia-Pacific region.

“We render, for instance, consulting services for electronics manufactures in countries such as Myanmar or Vietnam, in cooperation with other firms of the network.”

Due to an increased regulatory environment, Japanese companies have also started to delist from domestic stock exchanges. “[Executives and partners] don’t see value in being a listed company,” Kitano explains. “What they are saying is ‘I don’t want to be a public company anymore. I don’t want to deal with the headaches. I don’t want to deal with regulation. I want to get away with all that’. So I going to buyout my company.”

“Other companies are shifting to more

<table>
<thead>
<tr>
<th>Firm</th>
<th>Contact Details</th>
<th>Region Head/ Contact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baker Tilly Japan</td>
<td>Tel: +81 3 6820 8000; Fax: +81 3 5532 1181; Email: <a href="mailto:shigeyuki.moriiuchi@bakertillyjapan.jp">shigeyuki.moriiuchi@bakertillyjapan.jp</a>; Website: <a href="http://www.bakertillyjapan.jp">www.bakertillyjapan.jp</a></td>
<td>Shigeyuki Moriiuchi</td>
</tr>
<tr>
<td>BDO Japan</td>
<td>Tel: +81 3 5322 3531; Fax: +81 3 5322 3593; Email: <a href="mailto:jsugita@bdo.or.jp">jsugita@bdo.or.jp</a>; Website: <a href="http://www.bdo.or.jp">www.bdo.or.jp</a></td>
<td>Jun Sugita</td>
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<tr>
<td>Crowe Horwath Japan</td>
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favourable listings overseas such as Shanghai, Hong Kong, Singapore or even the US,” Kitano says.

In the face of this burgeoning capital flight, Kitano hopes regulators will ease up to encourage more IPO listings in Japan.

Morison’s Shindo believes the local transaction market is not in good condition. “Domestically the market in the coming year will not be active reflecting instability of politics and recession,” he says. Japanese entities will keep investing in foreign companies, such as those in south-east Asia.” On the back of the severe earthquake in 2011, which critically damaged Fukushima nuclear power plant, KPMG set up a new service line to provide energy-related advice.

“The energy industry group provides consulting services relating to business transitions associated with reconstruction of electric power companies, and market-entry strategy for renewable energy power generation,” Takahashi explains.

Recruitment market Slowdown of the economy, the global downturn, and a decrease in demand for accountants, has led to a big gap between supply and demand. There are a lot of young newly qualified CPAs looking for their first job.

Takahashi says that due to the CPA examination system changes in 2006, the number of successful candidates for the CPA examination has substantially increased. “For a few years after the change, junior CPAs had been welcomed by the accounting firms to fill the workforce responding to Japanese SOX,” he says.

“However, after Japanese SOX was introduced, demand for junior CPAs has decreased and this has led to the gap between supply and demand in the recruitment market.”

KPMG is still expected to increase its intake of staff in the coming year; however Takahashi is not yet certain of exact number.

Shindo says unemployment within the profession is becoming an increasing problem. “Accounting firms are reducing new employment due to the bad economy,” he says. “In these circumstances, many accountants who passed CPA examination are unable to find jobs in accounting firms. This situation is a serious problem in the accounting industry.”

“After Japanese SOX was introduced, demand for junior CPAs has decreased and this has led to the gap between supply and demand in the recruitment market”

Tsutomu Takahashi, KPMG AZSA

Despite shedding 6% of its workforce in the past fiscal year Deloitte says it will continue to be focused on “hiring, developing, and retaining top talent as a key driver of the expansion of our business capabilities and activities”.

By no account have the past few years been easy for Japanese firms and some might even argue things haven’t been easy for as long as almost two decades. Firms are treading carefully and looking for ways to adapt to ever-changing market conditions. With the appeal of emerging markets just a stone’s throw away, Japanese professional services firms need to form strong ties within their networks and associations in order to keep serving and gaining new clients. With the Olympus scandal iron still hot, auditors have the opportunities to pass on their views on how to improve the role of the auditor and flag up the issue of falling fees, which can only lead to a decrease in audit quality. ■
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