



## A numbers game

A resurgence in non-audit related services has seen firms battle to win clients in a market where growth is hard to achieve. *International Accounting Bulletin* reports on a year of intense competition where the wrong strategy has led to partners paying the ultimate price

Russia continues to be a testing environment for professional services firms. That said, a healthy level of M&A activity and an increased appetite for consultancy services have given firms a boost during the past 12 months.

KPMG has certainly been on the front foot as the firm saw its revenue grow by 16% to RUB9.1bn (\$292.4m). Andrew Cranston, senior partner of Russia and CIS at KPMG, says: "If you look at the end of 2010 and the first half of 2011, there were a whole raft of transactions and a lot of companies acting on the desire to improve the performance of their businesses.

"There has been plenty going on in the consulting market."

David Gray, managing partner at PwC Russia, which saw its revenue increase by 6% to RUB7.3bn, comments: "Russia's consulting services market has strengthened significantly following several challenging years, during which clients were engaged mainly in cutting costs and reorganising their finances and business operations.

"Today, more clients are actively seeking out strategic avenues for growth and therefore face the need to develop efficient operational,

financial, accounting and IT structures that can drive expansion."

It's a market where firms can win if they have the right breadth of services and possess the capacity to meet the needs of clients who are increasingly eager for international expansion, with a particular emphasis towards China and the East.

"We are seeing a lot of interest in Russia from Asia," confirms Cranston.

In general, firms have been able to take advantage of clients seeking to streamline operations.

Olga Goryacheva, a partner at Nexia Pacioli, which saw its revenue remain static at RUB771.1m, comments: "It was the economic crisis which pushed clients to improve their businesses. For this reason, management consulting and corporate finance services have grown by 23% and 21% respectively. Tax services, litigation support and due diligence also demonstrate growth of about 13%."

A similar point is made by Irina Sager, president of DFK Femida-Audit, which also saw revenue unmoved for the year at RUB177.9m.

"During the economic crisis, companies probably tightened their belts more than the

### RUSSIA

#### Accountancy market at a glance

##### Revenue

**Largest by revenue:** KPMG, RUB9.14bn

**Smallest by revenue:** Jukis/Enterprise Worldwide, RUB21.7m

**Highest growth rate:** ICG 2K Audit/Morison International, 87%

**Lowest growth rate:** Praxity, -66%

##### Staff

**Largest workforce:** KPMG, 2,922

**Smallest workforce:** Jukis/Enterprise Worldwide, 15

**Most professionals:** KPMG, 2,170

**Most partners:** PwC Russia, 98

**Most admin staff:** KPMG, 679

**Most offices:** RSM Top Audit, 51

Source: *International Accounting Bulletin*

situation actually warranted. During the past 12 months, there was pent-up demand which manifested itself through consulting and IT services."

The steady adoption of IFRS is another area where firms are assisting clients.

“Russia is going to more widely introduce IFRS due to the legislation which forces public companies to prepare consolidated financial statements,” observes Alexander Verenkov, deputy general director and international liaison partner for BDO Russia.

### Long haul

The overall revenues of firms surveyed during the past year increased 6% to RUB33.7bn. It's indicative of a general picture where non-

audit services have compensated for what can only be seen as a bleak market for audit for the vast majority of firms. Although this is positive news, there is still loss-leading mentality that continues to be a serious and systemic problem.

Verenkov states it's an issue which is undermining the whole audit profession in Russia.

“Our position is that a low-cost service cannot be delivered without a significant drop in quality and this creates unacceptable risks for the auditor,” Verenkov says.

As ever in these situations, pressure mounts

as companies seek to cut costs and some firms opt for a short-term view.

“Before the financial crisis, the choice of a reputable auditor was seen by companies as enhancing their reputation. Now, in my opinion, there are some companies which refer to economic difficulties, reduced budgets [and even try to evade] an audit,” Sager says.

There is real frustration among partners that this is allowed to exist. Alexander Sirous, chairman of Baker Tilly Russaudit, insists the current downward pressure on fees is unsustainable and can only change if statutory audit

## RUSSIA

### Leading accounting firms, networks and associations: fee data

Rank	Name	Fee income (RUBm)	Growth rate (%)	Fee split (%)							Year-end	
				Audit & Accounting	Tax services	Management consulting	Corporate finance	Corporate recovery/insolvency	Litigation support	Other		
<b>FIRM/INTERNATIONAL AFFILIATE</b>												
1	KPMG*†(1)	9,139.0	16	60	–	–	–	–	–	–	40	Sep 11
2	PwC Russia*†	7,397.5	6	–	–	–	–	–	–	–	–	Jun 11
3	BDO Russia*†	4,113.0	-4	36	1	57	3	–	–	–	3	Dec 10
4	ICG 2K Audit/Morison International*	2,002.2	87	26	5	3	18	6	14	–	28	Dec 10
5	RSM Top Audit*†	845.0	4	32	4	26	–	–	–	–	38	Jun 11
6	Rödl & Partner*†	333.3	-26	62	7	–	–	–	–	–	31	Dec 10
7	Baker Tilly Russaudit*†	293.5	4	63	8	4	10	–	–	–	15	Jun 11
8	Mazars*†	240.0	19	90	5	–	–	–	–	5	–	Aug 11
9	ACG Interexpertiza/AGN International*	93.8	-16	71	19	–	–	–	–	1	9	Aug 11
10	Jukis/Enterprise Worldwide*	21.7	1	98	2	–	–	–	–	–	–	Sep 11
<b>Total revenue/growth</b>		<b>24,479.0</b>	<b>11</b>									
<b>NETWORK/ASSOCIATION OF INDEPENDENT FIRMS</b>												
1	BKR International*(e)	3,233.3	–	–	–	–	–	–	–	–	–	Dec 10
2	PKF International*†	1,034.7	12	77	12	7	0	0	0	0	4	Dec 10
3	Kreston International*†(2)	823.0	-38	31	11	25	1	6	–	–	26	Oct 11
4	MSI Global Alliance*	783.4	10	2	98	–	–	–	–	–	–	Dec 10
5	Nexia International*†	777.1	0	39	14	11	5	–	–	4	27	Jun 11
6	Crowe Horwath International*†	535.9	8	27	–	56	13	–	–	–	4	Dec 10
7	HLB Russia*†	403.8	-20	72	5	5	8	–	–	1	9	Dec 10
8	Praxity(3)	368.1	-66	84	8	–	2	1	–	4	1	n/a
9	Moore Stephens Russia*†	334.4	-7	65	6	4	19	–	–	–	6	Dec 10
10	Eura Audit International*	255.6	-16	44	12	8	6	1	2	–	27	Aug 11
11	DFK International*	177.9	0	45	22	13	–	–	–	8	12	Sep 09
12	UHY Yans–Audit*†	137.9	7	34	17	–	3	17	20	–	9	Aug 11
13	MGI*	124.6	-37	–	–	–	–	–	–	–	–	Jun 10
14	IGAF Polaris*	122.4	–	36	5	32	–	–	–	–	27	May 11
15	Integra International*	96.9	14	10	70	10	–	–	–	10	–	Jul 11
<b>Total revenue/growth</b>		<b>9,069.5</b>	<b>11</b>									

Notes: (e) *International Accounting Bulletin* estimate \*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. †These organisations come under the IFAC definition of a network or network firm. (1) 'Other' includes all advisory services; (2) Kreston data does not include correspondent firms and non-exclusive members' data. If it were to include them revenue will be RUB823m; (3) Fee income includes RUB128.1m from correspondent firms and non-exclusive members.

Source: *International Accounting Bulletin*

in the country is “policed and regulated differently”.

Sirous is supported by Goryacheva and Sager, both of whom suggest that current legislation is too lax and a soft approach by regulators only serves to exacerbate the situation. One partner said it was “interesting” how, in some cases, relatively small local firms can be allowed to regularly conduct statutory audits on large Russian businesses which will have one of the Big Four firms auditing the consolidated accounts produced under IFRS.

The rising of the audit threshold on 1 January 2011 to RUB400m appears to have had minimal impact, aside from the inevitable shedding of clients by smaller and medium firms. Going forward, the Amendment to the Federal Law on Auditing may, speculates Goryacheva, create greater demand as all listing and public companies are now subject to statutory audit.

**Pole position**

Given the stakes are high and competition is intense, it’s no surprise the largest international firms are also vying to be altogether smarter and more switched on when trying to win business and serve existing clients.

“It’s still a very competitive market,” says Cranston. “It’s not just pressure on fees but also companies are getting more sophisticated and efficient themselves in how they organise the finance function. They are able to quickly turn around their financial reporting so part of it, I think, is a maturing of our clients and that makes the audit more straightforward.”

A way to try and stand out, according to Cranston, is to provide an all-round service.

“You have to make sure you are provid-

ing value so that, in the case of an audit, the information is really useful,” he says. “For example, clients are very keen to understand how their business compares with their peers. We’re in a great position to give them a good and practical understanding of how and where they rank, qualitatively and quantitatively.”

Of course, there are limitations to this and it shouldn’t be mistaken for disclosing private information but, for Cranston, it’s where a global organisation has an advantage over other firms as “there is an awful lot of insights that we can give to clients that they will find useful”.

Gray says the international spread of PwC is attractive to companies eager to expand.

“Businesses are no longer focused exclusively on Russia,” he says. “They’re moving rapidly to tap into world markets and do business on a global scale to take advantage of commercial opportunities beyond Russia’s border.”

Verenkov agrees that the ambitions of Russian business owners and entrepreneurs have started to extend beyond traditional horizons.

“We see growing opportunities in the Eurasia market and in certain industries where private business is developing fast and looking to expand abroad, and therefore they require high-quality and tailor-made services,” he says.

**People power**

The war for recruiting and retaining talent in the economic elite that constitutes Brazil, Russia, India and China is notoriously fierce. Staff data in this year’s survey shows that there are two very different stories for firms in Russia at present, with an alarmingly high number reducing staff while others are evidently on a recruitment drive.

Gray says PwC Russia is continuing to enjoy strong forward momentum.

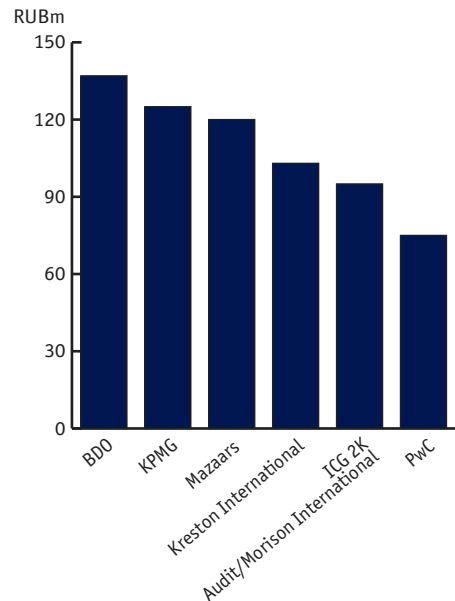
“The recent appointment of ten new partners is evidence of the firm’s active efforts to strengthen its position,” he says. “Our initiatives to expand our geographic footprint by actively opening new regional offices, which are closely linked to the new increasingly sophisticated appointments, are of vital importance... as they reflect our confidence in economic development opportunities across Russia’s regions and the growing demand for our services throughout the country.”

Cranston states that the labour market for finance professionals has been relatively buoyant and that KPMG Russia and CIS has invested significantly in talent for the various energy and natural resource sectors.

“We are bringing in a lot more consulting expertise,” he says. “If I take the oil and gas sector for example, our revenue in that area has grown by 31% as a direct consequence of

**RUSSIA**

Top-six revenue per partner



Source: International Accounting Bulletin

that approach. We have also invested in the financial services sector especially in the areas of strategy and financial risk management and in the area of consumer markets.”

Creating such teams demands careful planning.

“It is not something that just happens by itself,” admits Cranston. “It takes tremendous effort to find the right people and to develop and retain them – I think it is critical to have a strategy team which makes you a leading-edge employer and we have had a pretty good year in terms of getting the people in that we wanted.”

It can be tough to compete for the best and brightest minds.

“It is not a challenge to recruit high-skilled specialists now but it is difficult to retain them because of the difference in the earnings between the finance departments in the ‘real economy’ and audit firms,” says Goryacheva.

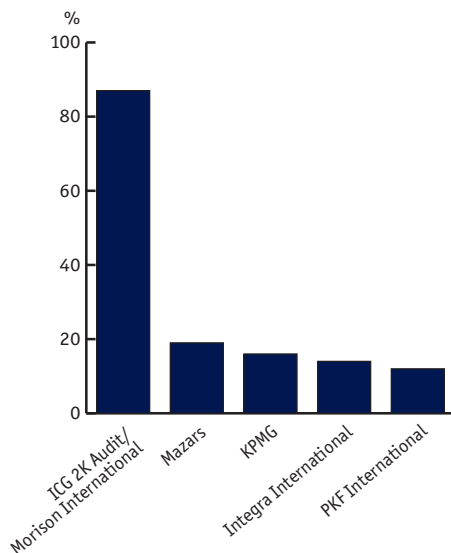
**Boom or bust?**

The persisting macro-economic volatility is causing uncertainty among Russia’s businesses. Cranston argues that although anxiety has crept back into the market, especially during the past three months, the strategy of the firm is to position itself for growth when stability returns.

“We’re very confident about the potential that Russia has,” he says. “We do believe the market is under-penetrated in terms of professional services and we do think that over the next five years or so that will continue to offer great opportunities for growth. When you

**RUSSIA**

Top-five growth rates



Source: International Accounting Bulletin

look specifically at FY12, it's much harder to predict exactly what will happen. We have to be prepared for every scenario as I honestly don't know how it will pan out. Strategically, our approach is to keep very firmly focused on the longer-term view strategically."

The country's dependency on commodity prices can clearly have a severe impact on the domestic economy and that is undermining confidence. However, some partners refer to additional concerns, suggesting that small- and medium-sized enterprises (SMEs) were being hit by what can only be described as a lack of competency and transparency at a municipal level.

"Traditionally, the Russian economy [has not served SMEs well]," says Goryacheva.

"Recent increases in taxes have had a negative impact and the challenges caused by bureaucracy and the corruption in the business environment continues."

It's a point taken up by Verenkov.

"The increasing role and interference of the State and the growing dependence on political influence does not create a good atmosphere for businesses, especially SMEs," Verenkov says. "We hope that after the turmoil caused by the forthcoming elections, the State will turn its [attention] on the entrepreneurs."

#### Diplomatic relations

The perceived lack of support for the audit profession from the Russian Government is a source of discontent among firms which con-

sider SMEs an important source of revenue. Sager suggests this may improve, as earlier this year the profession entered into a dialogue, along with other organisations and institutes, to create a body called the Council of Auditing which operates in conjunction with the Russian Federation's Ministry of Finance.

"I represent the Russian Collegium of Auditors in that body and, in my opinion, it can work to bring significant results in improving the regulation of audit activities in Russia, including efforts to improve audit standards and the ultimate goal of convergence [with IFRS]."

For the meantime, the expectation is that firms concentrating primarily on audit are in for another gruelling 12 months.

## RUSSIA

### Leading accounting firms, networks and associations: staff data

Rank	Name	Total staff		Partners		Professional staff		Administrative staff		Offices	
		2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
<b>FIRM/INTERNATIONAL AFFILIATE</b>											
1	KPMG*†	2,922	2,507	73	67	2,170	1,853	679	587	8	8
2	PwC Russia*†	2,436	2,245	98	94	-	-	-	-	8	6
3	BDO Russia*†	1,338	1,662	30	54	1,055	1,250	253	358	18	18
4	RSM Top Audit*†	542	543	11	11	390	391	141	141	51	52
5	ICG 2K Audit/Morison International*	297	265	21	20	226	197	50	48	10	9
6	Baker Tilly Russaudit*†	194	171	8	8	149	128	37	35	3	3
7	Rödl & Partner*†	191	190	5	5	146	142	40	43	2	2
8	Mazars*†	142	112	2	3	119	94	21	15	2	1
9	ACG Interexpertiza/AGN International*	103	113	6	6	69	78	28	29	1	1
10	Jukis/Enterprise Worldwide*	15	15	2	2	10	10	3	3	1	1
<b>Totals</b>		<b>8,180</b>	<b>7,823</b>	<b>256</b>	<b>270</b>	<b>4,334</b>	<b>4,143</b>	<b>1,252</b>	<b>1,259</b>	<b>104</b>	<b>101</b>
<b>NETWORKS &amp; ASSOCIATIONS OF INDEPENDENT FIRMS</b>											
1	BKR International*(e)	1,912	1,840	380	366	1,187	1,142	345	332	339	326
2	Nexia International*†	989	989	26	26	832	832	131	131	11	11
3	PKF International*†	643	642	34	35	517	515	92	92	3	3
4	Kreston International*†	455	604	8	12	343	435	104	157	5	6
5	Euraudit International*	422	434	36	39	373	376	13	19	43	1
6	MSI Global Alliance*	389	230	13	8	204	152	172	70	9	4
7	HLB Russia*†	288	287	14	16	218	222	56	49	11	13
8	Moore Stephens Russia*†	278	296	20	17	210	217	48	62	15	15
9	Crowe Horwath International*†	271	406	23	21	183	300	65	85	9	9
10	Grant Thornton International*†	266	223	15	13	206	168	45	42	3	4
11	Praxity	250	616	5	34	212	490	33	92	5	11
12	IGAF Polaris*	177	-	37	-	110	-	30	-	6	-
13	Integra International*	110	104	7	4	82	97	21	3	4	3
14	DFK International*	103	107	7	7	80	84	16	16	4	4
15	MGI*	75	83	5	8	61	64	9	11	2	2
16	UHY Yans-Audit†	65	58	5	5	40	34	20	19	1	1
<b>Totals</b>		<b>6,693</b>	<b>6,919</b>	<b>635</b>	<b>611</b>	<b>4,858</b>	<b>5,128</b>	<b>1,200</b>	<b>1,180</b>	<b>470</b>	<b>413</b>

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▶ “For many firms it has been quite bad,” says Sirous. “They lost businesses and frequently were not profitable. I can see that increasing.”

In order to react and negotiate these challenges, it's about being cleverer when it comes to differentiation and targeting growth sectors. Sirous explains the firm is beginning to benefit by adopting a more specialised approach to marketing, such as aiming for organisations involved in agricultural production.

“This has to be combined with sharper and better client services,” he says.

It's a case of not standing still, as can be seen by the fastest growing firms in this year's survey.

ICG 2K Audit defied wider market conditions by seeing its revenue for the past 12 months almost double to RUB2bn. This was driven by audit and IFRS services, increased

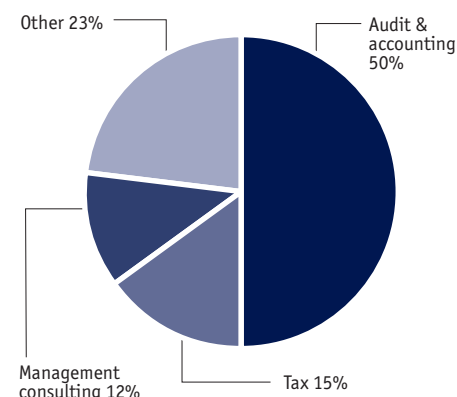
corporate finance services and greater collaboration with firms through its international affiliate, Morison International.

Mazars grew by 19% to RUB240m, which derived in large part from due diligence and transaction services. Gray argues that assurance services are by no means a dead end.

“Despite the moderate overall pace of economic growth, the demand for audit services has been on the upswing,” he says, adding that PwC Russia has grown at a “somewhat faster pace than the CEE region as a whole”.

Despite the bright spots, the overall picture in Russia for firms remains complex and aggressively competitive. Over the coming year, expect consultancy services to be the core revenue driver again and for the larger firms to keep investing so they are in the perfect position to profit when the Russian economic bear finally roars again. ■

■ RUSSIA  
Average fee split of firms



Source: International Accounting Bulletin

## ■ RUSSIA

### Leading accounting firms, networks and associations: who's who

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Source: International Accounting Bulletin