

# Ready for a fresh start

Italian accountancy firms are generally positive about their prospects in spite of concerns over the economy and changing political landscape. **Paul Golden** discovers new regulation and M&A work is helping revive the fortunes of firms, who largely had a difficult 2010

Italy is a mass of contradictions. Low levels of private debt and restrained public spending have protected it from the worst effects of the eurozone debt crisis, yet the International Monetary Fund (IMF) says it was the fourth slowest growing economy in the world in the past decade.

While forecasting a "gradual" economic recovery, the Organisation for Economic Co-operation and Development (OECD) warned in its latest country report that "it would be wise to plan for no more than sluggish growth".

A poor performing economy has affected the accounting market as most firms reported a decrease or flat revenues for 2010.

Severe fee pressure and competition is hampering growing but firms have seen a rise in M&A and IPO work.

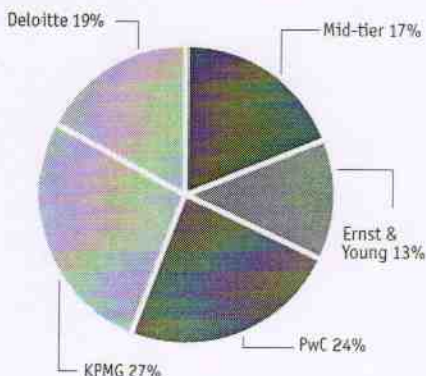
On average, accounting networks and associations have had a slight dip in combined revenue of 0.7 percent, with three Big Four firms reporting a decrease.

The market leader is KPMG with revenue of €402 million (\$569 million), down by 1 percent. KPMG is followed by PwC which has seen a 2 percent increase to €358 million. Ernst & Young is the smallest of the Big Four with estimated revenue of €196 million.

The larger mid-tier firms have performed well with Grant Thornton and Crowe Horwath reporting double-digit growth and BDO reporting a 6 percent rise.

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### Overall market share



Notes: estimation. Source: International Accounting Bulletin

The past fiscal year has been kinder to CONSOB registered firms whose core service line is audit. Firms in Italy must be licensed by the nation's securities regulator, Commissione Nazionale per le Società e la Borsa (CONSOB), in order to audit listed entities.

Firms, networks and associations that have one or more firms with a CONSOB licence have been marked CONSOB on the fee table (see page 12). Registration is notoriously tough and the CONSOB audit market is dominated by the Big Four. Italy has one of the most Big Four-concentrated audit markets in the world, with the Big Four auditing 97 percent of the large listed companies.

Non-CONSOB firms taking part in this year's survey have seen an 5 percent drop in revenues as non-audit services have been subject to great competition.

### Competitive times

Ernst & Young Mediterranean sub-area managing partner Donato Iacovone says the accountancy market has become increasingly competitive.

"M&A activity is recovering but is still below the pre-crisis level, although we are currently experiencing a quite significant number of IPOs," he says.

HLB Consultants Italia managing partner Andrea de Vecchi says the firm is mainly geared towards business and tax advice and corporate compliance, as well as corporate recovery.

"A significant and growing part of this activity is participation in audit committees. We have noticed an increase in tax and book-keeping due diligence activities but audit is not a dominant business line for us," he says.

Deloitte Italy chief executive Frank Tirelli says he expects continued low to moderate growth, 3 to 5 percent, over the next year.

"Much of this potential growth would be subject to continued stability of the sovereign debt situation. We also see a marketplace that will continue to focus on value oriented services and cost containment," Tirelli adds.

On average, 51 percent of a firm's revenue comes from audit and accounting services. INPACT Italy president Antonio Bragaglia

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### Market at a glance

#### Revenue

**Largest by revenue:** KPMG Italia, €401.8 million

**Smallest by revenue:** ACEE, €400,000

**Highest growth rate:** Crowe Horwath, 26%

**Lowest growth rate:** EuraAudit International, -44%

#### Staff

**Largest workforce:** KPMG Italia, 3,246

**Smallest workforce:** ACEE, 4

**Most professionals:** KPMG Italia, 260

**Most admin staff:** PwC, 515

**Most offices:** IGAF Polaris, 34

Source: International Accounting Bulletin

says that at least some audit work is being undertaken below cost.

"Competition is very high on audit activity and there are some firms offering very low prices. In a lot of cases it is hard to understand how they can carry out an audit with the fees proposed to clients," he adds.

At Deloitte, audit brings in more than 40 percent of the firm's revenue. Tirelli says audit has become increasingly complex due to the regulatory environment and an increase in international business for Italian clients.

PKF Italia partner Umberto Giacometti says audit fees have fallen by up to 30 percent since 2009 and are unlikely to return to pre-crisis levels any time soon.

Iacovone says that over the next 12 months he expects market opportunities to improve despite ongoing pressure on fees.

### Tough on tax cheats

Italy's Department of Treasury will look to increase tax revenues by fighting tax evasion. It is estimated that activities to reduce tax evasion led to the recovery of approximately €25.4 billion in taxes last year compared to €9.1 billion in 2009. In May 2010, Prime Minister Silvio Berlusconi said nearly a quarter of Italy's economy was untaxed, which amounts to €120 billion in lost revenue.

Tirelli expects changes to the tax regime

over the next year, which could include tax reform to increase capital spending by the corporate community and encourage business to relocate to certain jurisdictions.

Giorgio De Giorgi, founder of IGAF Polaris member Studio De Giorgi, also expects changes to taxation policy, although it is too early to say if these changes and the government's efforts to reduce tax evasion will create new business for accountancy firms.

Bragaglia says the government's efforts to reduce tax evasion have led to an increase in services provided to help companies in

tax litigation with government tax auditors. The most active clients over the past year at his firm have been those who operate in the green economy and especially renewable energy producers.

#### Transfer pricing in demand

Regulation in transfer pricing documentation has helped generate much needed additional work for firms in the past few months.

Tirelli says Italian tax authorities have always been among the most knowledgeable globally on transfer pricing.

"With the most recent additions and clarifications in the Italian transfer pricing regulations, we have seen a significant increase in related activity. We have dedicated teams for transfer pricing that are not limited just to tax professionals," he adds.

In accordance with legislation on transfer pricing documentation introduced in the second half of 2010, the Italian tax authorities issued a detailed regulation covering the form that transfer pricing documentation should take for companies and permanent establishments last September.

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

Rank	Name	CONSOB/ Non-CONSOB	Fee income (€m)	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 Italia* †	CONSOB	401.8	-1	40	12	40	4	-	1	4	Sep 10
2	PwC* †	CONSOB	358.0	2	66	12	22	-	-	-	-	Jun 10
3	Deloitte Italy* †	CONSOB	293.9	-5	51	16	27	3	-	1	4	n/a
4	Ernst & Young* †(e)	CONSOB	196.1	-1	-	-	-	-	-	-	-	n/a
5	Mazars* †	CONSOB	34.4	8	80	6	2	3	-	5	4	Aug 10
6	Grant Thornton Italy* †	CONSOB	21.9	15	47	25	-	4	2	2	20	Dec 10
7	BDO †*	CONSOB	19.1	6	87	13	-	-	-	-	-	Aug 10
8	Crowe Horwath* †	Non-CONSOB	15.2	26	23	41	-	1	-	-	-	Dec 10
9	PKF Italia* †	CONSOB	15.1	4	52	14	26	-	-	-	34	Dec 10
10	Baker Tilly International* †	CONSOB	9.9	0	79	4	6	6	-	-	8	Dec 09
11	DITRAG SRL/BKR International*	Non-CONSOB	7.5	6	20	47	-	-	-	-	33	Dec 10
12	RSM Italy* †	CONSOB	3.8	6	100	-	-	-	-	-	-	Dec 10
13	FiderConsult/ UHY international* †	Non-CONSOB	2.3	5	22	69	9	-	-	-	-	Dec 10
<b>Total revenue/growth</b>			<b>1,379.0</b>	<b>0</b>								
<b>NETWORKS &amp; ASSOCIATIONS OF INDEPENDENT FIRMS</b>												
1	Praxity*(1)	CONSOB	34.4	8	80	6	2	3	-	5	4	n/a
2	IGAF Polaris*	Non-CONSOB	18.2	-	-	-	-	-	-	-	-	May 10
3	INPACT International*	Non-CONSOB	9.3	-15	29	10	20	8	15	7	11	Dec 10
4	DFK Italia*	Non-CONSOB	8.4	-15	31	44	4	13	4	4	-	Sep 10
5	Moore Stephens* †	CONSOB	8.3	-3	33	28	14	12	3	3	7	Dec 10
6	Kreston International* †(2)	CONSOB	7.9	-2	51	29	12	6	-	-	2	Oct 10
7	Nexia international* †	CONSOB	6.7	-2	45	35	1	8	1	7	3	Jun 10
8	MST Global Alliance*	Non-CONSOB	4.4	-25	40	20	-	-	5	15	20	Dec 10
9	Integra International*	Non-CONSOB	3.8	-28	50	20	20	10	-	-	-	Dec 10
10	MGI*	Non-CONSOB	2.6	24	-	-	-	-	-	-	-	Jun 10
11	Morison International*	Non-CONSOB	2.5	3	32	19	12	4	9	22	2	Dec 10
12	EuraAudit International*	Non-CONSOB	1.0	-44	42	23	28	-	-	2	5	Dec 10
13	ACEE*	Non-CONSOB	0.4	-24	81	-	-	-	-	-	19	Dec 10
<b>Total revenue/growth(6)</b>			<b>107.9</b>	<b>-5</b>								

Notes: CONSOB denotes an individual firm or a network/association with at least one member firm that is licensed to audit CONSOB-listed companies. \*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. (e) *International Accounting Bulletin* estimate; (1) Praxity year-end is the latest available year-end of its independent firms; (2) Kreston international revenue information does not include non-exclusive and correspondent members. If it were to the revenue would be €10.2 million.

Source: *International Accounting Bulletin*

Although documentation is not mandatory, the regulation indicates that tax authorities will consider whether a company has communicated the existence of such documentation in making its risk assessment.

Iacovone says this change has generated additional business in the small- to medium-sized entity segment of the market.

"The widespread lack of formal procedures, including documentation, in small-sized entities gives us the opportunity to provide services focused on transfer pricing issues," he explains.

Giacometti says regulation on transfer pricing documentation has had less impact on their business, "because many large and small tax firms are competing for this type of activity so the revenue has been shared among many firms".

Italy has seen an increase in M&A activity welcomed by firms that are trying to grow their business to pre-recession levels. Tirelli says Deloitte Italy has seen a significant increase in M&A transactions compared to last year, but it is still below pre-2008 levels.

"The typical M&A transaction is much more value oriented and with the recovery in the markets sellers see this as an opportunity to perhaps generate higher prices for the assets they have an interest in selling. We have also seen an increase in IPO activity," he adds.

Giacometti also refers to a notable increase in M&A activity over the past six months, attributing this activity to reductions in multiples that have made transactions more interesting.

Italy, like some other EU countries, has adopted the Eighth Company Law Directive, which like the US Sarbanes-Oxley aims to restore investor confidence by independent audit oversight and measures such as auditor independence and partner rotation.

Iacovone says the main impact of the EU Eighth Company Law Directive has been stricter rules on auditor independence.

Italy has had strict auditor independence rules in place since 1975, when auditors were first prohibited to carry out any non-audit services to the companies they audit. This has resulted in many international networks and associations setting up two separate firms in the country in order to comply with the regulation.

Giacometti says that opportunities for audit firms from the EU Eighth Company

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

Rank	Name	Total staff		Partners		Professional staff		Administrative staff		Offices	
		2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
<b>FIRM/INTERNATIONAL AFFILIATE</b>											
1	KPMG Italia* †	3,246	3,356	160	159	2,624	2,740	462	457	28	28
2	PwC* †	2,927	2,921	132	131	2,280	2,284	515	506	17	17
3	Deloitte Italy* †	2,606	2,665	144	144	2,072	2,125	390	396	18	18
4	Mazars* †	368	350	17	16	311	289	40	45	10	8
5	Grant Thornton Italy* †	239	230	19	19	188	181	32	30	11	10
6	BDO* †	206	183	19	19	166	143	21	21	15	15
7	PKF Italia* †	183	167	23	20	138	127	22	20	12	10
8	Crowe Horwath* †	131	119	19	17	108	100	4	2	4	4
9	Baker Tilly International* †	106	105	17	17	71	70	18	18	9	9
10	RSM Italy* †	50	50	4	4	41	41	5	5	5	5
11	DITRAG SRL/BKR International*	50	48	4	4	36	40	10	4	1	1
12	FiderConsult/ UHY international* †	24	24	5	2	17	20	2	2	3	3
<b>Totals</b>		<b>10,136</b>	<b>10,218</b>	<b>563</b>	<b>552</b>	<b>8,052</b>	<b>8,160</b>	<b>1,521</b>	<b>1,506</b>	<b>133</b>	<b>128</b>
<b>NETWORKS &amp; ASSOCIATIONS OF INDEPENDENT FIRMS</b>											
1	Praxity*	368	350	17	16	311	289	40	45	10	8
2	IGAF Polaris*	270	-	68	-	106	-	96	-	34	-
3	Kreston International* †	161	175	24	23	110	122	27	30	15	15
4	INPACT International*	155	168	62	70	50	66	43	32	7	13
5	MSI Global Alliance*	113	100	10	11	43	29	60	60	4	4
6	Moore Stephens* †	107	108	34	33	53	50	20	25	11	11
7	DFK Italia*	90	104	27	28	35	51	28	25	12	13
8	Nexia international* †	86	107	16	18	56	72	14	17	7	-
9	Morison International*	55	58	12	12	31	35	12	11	4	6
10	MGI*	48	43	12	10	20	22	16	11	7	6
11	Integra International*	40	58	7	9	21	32	12	17	3	6
12	EuraAudit International*	17	14	6	8	7	4	4	2	5	2
13	ACEE*	4	4	1	2	1	-	2	2	1	1
<b>Totals</b>		<b>1,514</b>	<b>1,289</b>	<b>296</b>	<b>240</b>	<b>844</b>	<b>772</b>	<b>374</b>	<b>277</b>	<b>120</b>	<b>85</b>

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. †These organisations come under the IFAC definition of a network or network firm.

Source: International Accounting Bulletin

Law Directive are tremendous, "as the law has opened up a new market".

Despite the troubles facing professional services firms in Italy, most firms are looking to increase their head count and invest in staff training.

Crowe Horwath Italy chairman Gabriele Boleso says the requirement for common auditing standards, training and more stringent independence rules will have a significant impact on the profession.

"We are investing more in professional development. As in the past there is the need to train new graduates in accounting because of the limited exposure to the subject they have at university," Boleso adds.

De Vecchi describes the quality, knowledge and training level of chartered accountants in

Italy as "good" but also acknowledges that there is lack of organisational skills within many firms, limited capability for dealing with cross border issues, and that the scale of the average firm is too small.

Accountancy firms whose staff are skilled in international tax, audit and law and have international links are finding it much easier to increase their business.

"The market is demanding more specialised services for clients operating at an international level with connections to foreign clients and subsidiaries, Bragaglia says.

Tirelli says that because Italy has limited opportunities to recruit students from overseas due to the language barrier, Deloitte Italy is committed to continuing its focus on Italian universities to find new talent.

E&Y has a similar thought. Iacovone says the firm has developed its relationships with a number of universities across Italy as part of its recruitment strategy, either by supporting their activities or providing students with appropriate work experience.

As Berlusconi's 17-year political dominance appears to be drawing to a close and Italy battles the eurozone crisis, there seems to be a level of optimism that could see Italy return to growth.

M&A activity is a welcome return and will provide firms with advisory opportunities while tax and transfer pricing work remains healthy.

It is also likely Italy's fragmented market will continue to consolidate in order for firms to survive and grow. ■

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

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Source: International Accounting Bulletin