

With an overheated property market, Spain was one of the earliest nations to be affected by the global economic downturn. However, it was not until the end of last year that the economy took a dive. The *International Accounting Bulletin* finds that while 2008 results look rosy, the current year is a different matter.

In the current economic climate, auditors have needed to emphasise that signing off an audit report, or indicating a company is a ‘going concern’, is a judgement valid only for the date the accounts were issued and not predictive of the year ahead.

The same is true for the results in this year’s survey of the Spanish profession. The figures look strong with a robust average growth rate of 15 percent for firms and a steady 9 percent for networks or associations of independent firms – yet speaking to partners and a different picture emerges.

In the words of Audihispana Grant Thornton audit managing partner David Bradley-Searle, the Spanish market was “trundling along fairly well” until September last year when “everything just fell out of bed”.



The flailing economy is affecting almost every aspect of firms’ operations. It has tempered fee increases that should have accompanied changes to accounting standards and drastically altered the recruitment scene.

Despite the doom and gloom, firms remain optimistic they will weather the storm and perhaps even use it as an opportunity to increase reputation and market share.

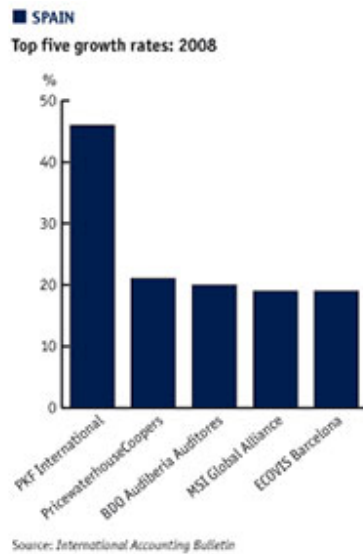
Deloitte remains the largest Spanish firm. With a headcount of 4,270, it has 36 percent more staff than nearest rival PricewaterhouseCoopers (PwC). However, PwC is closing the fee income gap. While Deloitte grew 14 percent to €398 million (\$525 million) for the year to May 2008, PwC was the fastest growing firm in this year’s survey, up 21 percent to €373 million in the year to June 2008.

The firm with the slowest growing fee income was Audihispana Grant Thornton, up 1 percent to €55.8 million for the year ended August 2008.

Among the networks and associations of independent firms, PKF International had the fastest growing fee income, up 46 percent to €6 million for the year ended June 2008. GMN International recorded the only drop in fee income, down 3 percent to €6.9 million for the year to December 2008.

BDO Audiberia Auditores had both the highest and fastest growing fee income among the mid-tier firms, up 20 percent to €84.4 million in the year ended September 2008.

Consulting focus shifts



New services lines in risk advisory services, forensics, internal control and IT audit contributed to BDO's growth. The firm's president, Alfonso Osorio Iturmendi, expects forensic and risk advisory services in particular to continue flourishing.

BDO's audit and corporate finance businesses were strong through 2008 but Iturmendi expects economic conditions to dampen growth. Corporate finance has already slowed dramatically.

"There are very few operations, very few mergers and acquisitions, and not so many due diligences jobs as in the past. This is not a very good time for corporate finance," Iturmendi says.

Other advisory services are also likely to tail off, although tax will remain steady, he predicts.

All consulting lines performed well for Grant Thornton, Bradley-Searle says. This includes financial advice, corporate finance and transaction support.

"Audit and tax have continued growing, as has company legal advice, but possibly not at the rates as we had in past years," he adds. "Our financial consulting [service line] is busy, but it is not through deals or brokering or classic corporate finance. It has now, as with the rest of Europe, turned to restructuring."

Changing the focus to business lines that suit the current economy also propelled Deloitte's growth. The Big Four firm says it quickly responded to the changing climate.

Business lines earmarked for increased opportunity include corporate restructuring, business strategy and process reviews. Other opportunities are in cost reduction plans, updating companies' risk management systems, legislative compliance advisory services, advisory for sales of doubtful debt portfolios and advisory on integrating engagement teams after company concentration transactions.

Tax and legal were the two strongest service lines for UHY Fay & Co, while corporate finance also grew. The firm's fee income growth of 2 percent to €9.7 million in the year to December 2008 was well below average. Managing partner Bernard Fay says the firm faced several concerns during the past year, all relating to the weakening Spanish economy.

Main worries include added vigilance about debtors and new concentration on going concern assumptions.

"You have got to be watching out in terms of debtors. You have got to put a lot more control on who you are working for and how you are accumulating work in progress," Fay says.

"The average collection time has increased... companies are taking longer times to pay their bills. You have got to be vigilant about who you are giving credit to."

Spain's real estate and automotive sectors have been hit particularly hard by the economic slowdown.

Many companies in those sectors are receiving going concern qualifications and market conditions are making auditors more cautious, Fay says.

“The real problem right now is the lack of liquidity,” he says. “Many financial institutions are not in the position to renew or grant new financial transactions to some of the real estate sector companies.

“At the end of the day, if you are signing off and you know your client is due to renew their financial needs within the next three or four months, you have a going concern issue if those financial entities don’t renew... Sales have dropped tremendously and in the real estate sector sales have just almost vanished.”

New transfer pricing regulations have driven tax growth at both UHY and Grant Thornton. Bradley-Searle says the changes have been fairly sweeping.

“Being a Latin country, the documentary requirements are probably a lot more extensive than you would find in the US or the UK,” he says. “These new regulations have kept our tax people fairly busy.”

The level of work this has created for UHY has varied.

“Some companies have very well-organised internal departments, tax advice, etcetera, so those companies will try to drive it themselves and all they would ask us for is to review what they are doing themselves,” Fay says.

“Other companies are asking us to help them with establishing their transfer pricing policies and their master files, basically the whole structure that is required now under the new regulations in Spain.”

UHY’s audit and consulting business either remained static or decreased slightly. Fay says these service lines should have grown as the firm has increased work following the introduction of the new General Accounting Plan in January last year. But clients are resisting fee hikes (see *Fee pressure strikes firms in Spain*).

Staff stay put

Another effect of the financial downturn has been a sudden lull in the battle to engage talent. BDO will recruit less new talent this year than in recent times, although Iturmendi says the graduate intake will remain the same.

“We still are recruiting people because we are growing but not as much as I would have liked,” he says.

Iturmendi notes that one reason recruitment pressure has dropped is staff turnover has also fallen. Fewer people are leaving the firm, which is unusual in the traditionally mobile sector.

Fay agrees, adding UHY will recruit less people this year than it has



recently.

“While two or three years ago firms were pinching staff from each other all the time, this has reduced,” Fay says. “You don’t have the same level of rotation that you would have had two or three years ago and unemployment is increasing in Spain, which is very considerable.

“We will probably recruit highly qualified people because there will be more out there looking for jobs. In fact it is very noticeable.”

Fay says the firm’s graduate intake will also be affected.

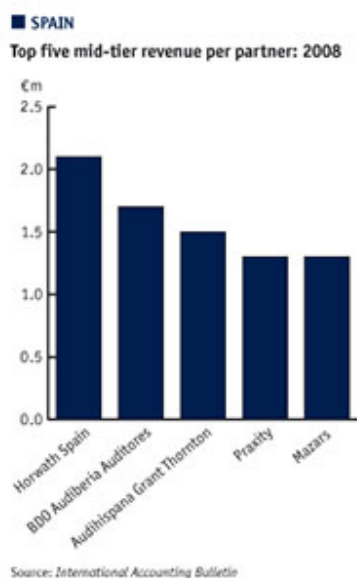
“Although most firms are saying they are more or less keeping the same levels, I have got doubts this is actually happening,” he says.

But Grant Thornton does not expect its graduate intake to drop.

“We believe our graduate intake will at worst remain stable. However, it may go into different disciplines,” Bradley-Searle explains.

Moore Stephen’s recruitment plans will remain largely unaffected by the financial crisis as new regulation leads to an increase in working hours rather than a decrease.

Lagging behind Europe



While the recruitment scene has witnessed an abrupt shift, the issue of auditor liability is moving more slowly.

The Spanish government is currently preparing draft legislation on auditor liability and Iturmendi says the profession is fighting for it to accept European recommendations.

“We only want to be equal responsibility to the rest of the European countries,” he explains.

But Iturmendi is concerned the current economic situation, with the more acute risk of bankruptcies, could damage the push for limitation.

“My personal view is that the government don’t want to limit the audit liability because they need something to blame if something is wrong,” he suggests.

Bradley-Searle agrees in a perfect world the new legislation would follow EC directions.

“In Spain, at the moment we have a fairly restrictive situation, probably more so than other countries,” he explains.

“We also have a supervisory control model that depends directly on the Ministry of Finance and

always has done since it was set up in the early 1990s. I think auditors are looking for a more modern system.

“I would personally like to see the whole of Europe on the same footing in terms of auditor responsibility because it just makes more sense to put in place the common market.”

Moore Stephens Hispania international liaison partner Jorge Blanquer says audit firms are under pressure to supply the same quality of service that is provided in the rest of Europe but do not have a level playing field in terms of fee levels or liability limitations.

He says firms are feeling squeezed between clients who remain unwilling to pay European rates for services and increased costs because of regulation, competition for staff and a need to maintain audit quality.

“We only see pressure on the quality in Spain, on the rules which have to be approached... but no one speaks about how this will be financed,” he says.

“It is logical if we are approaching the same levels in quality and in rules to international markets that we have the same liability rules. No one says we don’t have to have some liability but not [unlimited liability].”

Blanquer claims Spanish firms have fees 30-50 percent below the normal continental rates despite having unlimited liability.

Blanquer would like to see a profession-wide marketing campaign by the professional bodies and regulators to explain to the market the value auditors add to businesses.

“The profession has to make a marketing campaign to explain to the market that the profession is not only a guy who comes and checks that your figures are okay but he can help you, he can improve your business, which can really add value to the company,” Blanquer says.

He welcomed a joint commission established to represent the challenges faced by the audit profession. It will be headed up by presidents of the three accounting bodies in Spain.

It’s not all bad

Although the economic outlook remains grim, Iturmendi remains optimistic about BDO’s prospects.

“I think it is very good opportunity for a firm like BDO, which, with Grant Thornton, is probably the only alternative to the large groups,” he says. “We are in a wonderful position to get more clients from the market, mainly from quoted companies and large groups with international projections.

“We have taken several clients from the market in the past year because they recognised that BDO is a very good alternative with the same level of services, probably with a more competitive situation and we are quite encouraged.”

Bradley-Searle is a little more cautious and says Grant Thornton hopes to grow its audit and assurance

services.

“It may not be spectacular but it will be solid,” he predicts. “We are also on course for fairly decent growth in tax this year and we are really ahead by at least 10 percent in reoccurring work.”

Grant Thornton’s long-term strategic plans are to start scaling down non-financial consulting, Bradley-Searle adds.

Moore Stephens firms specialise in the mid-market and their clients are very sensitive to the crisis, Blanquer says. Despite this he is confident business will remain steady.

“I don’t expect we will go down very much but we will not increase as in the last years. Even if we expect some clients to fail, or there will be a hike pressure on the fees, there is opportunity because of the introduction of this new accounting framework rules,” he says.

Blanquer says the financial crisis means Moore Stephens Hispania will look to reinforce its core business of audit, assurance, tax and consulting advice to mid-sized companies.

“We are all facing a challenging period and we would like to have clear rules in Spain. The market has to understand what this profession is like in order to be able to deliver this,” he says.

Fay agrees there are many challenges ahead for the profession in Spain and he wants accountants to work closely with regulators to improve financial systems and controls.

“I think there needs to be a certain element of back to basics. The accounting profession is going to be a major player, as it always has been, in changes in regulatory frameworks and in the general financial framework,” Fay says.

“I have a lot of faith in Spain’s capacity to overcome difficulties; it is a country that has proven its capacity to overcome difficult situations.”

SPAIN											
Leading accounting firms, networks and associations: fee data											
Rank 2007	Rank 2008		Fee income (€m)	Growth rate (%)	Fee split (%)						Year-end
					Audit & Accounting	Management consulting	Corporate finance	Corporate Recovery / Insolvency	Litigation Support	Other	
FIRM/INTERNATIONAL AFFILIATE											
1	1	Deloitte†	398.0	14%	54	25	8	—	—	—	May 08
2	2	PricewaterhouseCoo	373.	21%	44	—	—	—	—	25	Jun

		pers*†(1)	3								08
3	3	KPMG*†	289.2	15%	40	–	–	–	–	37	Sep 08
4	4	Ernst & Young*†(2)	264.3	14%	63	–	–	–	–	15	Jun 08
5	5	BDO Audiberia Auditores*†	84.4	20%	51	6	16	–	–	–	Sep 08
6	6	Audihispana Grant Thornton†	55.8	1%	34	48	4	–	–	–	Aug 08
n/a	7	Mazars(3)*†	30.2	14%	44	4	10	–	3	27	Aug 08
7	8	RSM Gasso Auditores*†	11.9	13%	56	44	–	–	–	–	Aug 08
n/a	9	UHY Fay & Co*†	9.7	2%	37	25	8	–	–	–	Dec 08
6	10	Faura–Casas Auditors Consultors/BKR International*(4)	4.5	18%	47	17	–	–	–	16	Aug 08
n/a	11	ECOVIS Barcelona*	2.5	19%	5	–	–	–	–	10	Dec 08
Total revenue/growth			1,523.8	15%							

NETWORK/ASSOCIATIONS OF INDEPENDENT FIRMS

n/a	1	Praxity*(5)(6)	30.2	14%	44	4	10	–	3	27	n/a
n/a	2	Horwath Spain*	25.6	8%	30	31	3	–	–	–	Dec 08
1	3	Moore Stephens Hispania	23.5	9%	35	–	–	–	–	37	Dec 08
2	4	Kreston International*	18.1	1%	17	16	10	–	–	2	Oct 08
n/a	5	Nexia International*†	15.6	–	33	6	2	1	6	6	Jun 08
3	6	Baker Tilly International*	8.4	1%	33	1	8	–	20	–	Dec 08
4	7	GMN International	6.9	–3%	23	18	–	–	31	7	Dec 08

7	8	PKF International*†	6.0	46%	61	11	–	–	–	17	Jun 08
n/a	9	Integra International	5.8	–	50	20	10	–	–	–	Dec 08
5	10	IGAF Worldwide*	5.1	11%	26	35	7	–	–	7	Dec 07
n/a	11	INPACT International*	5.0	6%	52	5	–	–	–	–	Dec 08
8	12	HLB Spain*†(7)	4.7	15%	58	–	–	–	–	26	Jul 08
n/a	13	Morison International	3.6	16%	48	36	16	–	–	–	Dec 08
11	14	MSI Global Alliance*	3.1	19%	36	27	–	–	–	–	Dec 08
9	15	JHI International	3.0	7%	25	20	5	–	–	25	Dec 08
10	16	DFK International*	2.5	–	68	–	–	–	–	–	Sep 08
n/a	17	EuraAudit International*	2.3	–	50	50	–	–	–	–	Dec 08
12	18	Polaris International	1.9	12%	–	–	–	–	–	–	Mar –09
n/a	19	MGI*	1.6	0%	–	–	–	–	–	–	Jun 08
Total revenue/growth			172.9	9%							

Notes: Disclaimer: *Only data from the named member firm or the exclusive member firms within a network/association is included. Data relating to non-exclusive associate or affiliate firms is not included. †These organisations come under the IFAC definition of a network or network firm. (1) Other includes advisory, management consulting, corporate finance, corporate recovery/insolvency and litigation support services; (2) Other includes financial advisory and transaction services; (3) Other includes outsourcing and legal services; (4) Other includes human resources and data protection law services; (5) Praxity year-end is the latest available year-end of its independent firms; (6) Other includes outsourcing and legal services; (7) Other includes accounting/compilation and business advisory services. Source: *International Accounting Bulletin*

SPAIN

Leading accounting firms, networks and associations: staff data

	Offices	Partners	Professional staff	Administrative staff	Total staff
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	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
FIRM/INTERNATIONAL AFFILIATE										
Audihispana Grant Thornton†	10	10	35	32	508	510	25	18	568	560
BDO Audiberia Auditores*†	14	13	48	42	906	772	49	42	1,003	856
Deloitte†	20	20	145	122	3,467	2,935	658	601	4,270	3,658
ECOVIS Barcelona*	2	1	3	2	13	12	30	26	46	40
Ernst & Young*†	14	14	104	96	1,743	1,574	400	358	2,247	2,028
Faura–Casas Auditors Consultors/ BKR International*	3	3	7	7	62	58	4	4	73	69
KPMG*†	16	16	113	96	2,121	1,961	201	199	2,435	2,256
Mazars*†	7	7	22	23	286	272	31	31	339	326
PricewaterhouseCoopers*†	21	21	79	72	2,566	2,255	493	434	3,138	2,761
RSM Gasso Auditores*†	17	13	24	19	142	126	36	30	202	175
UHY Fay & Co*†	7	7	10	10	90	93	14	15	114	118
Totals	131	125	590	521	11,904	10,568	1,941	1,758	14,435	12,847
NETWORK/ASSOCIATION OF INDEPENDENT FIRMS										
Baker Tilly International*	7	6	13	13	98	94	22	21	133	128
DFK International*	3	–	6	–	32	–	3	–	41	–
EuraAudit International*	2	–	6	–	21	–	3	–	30	–
GMN International	7	7	12	10	87	91	7	7	106	108
HLB Spain*†	3	3	5	5	57	50	11	10	73	65
Horwath Spain*	13	12	33	24	254	242	11	20	298	286
IGAF Worldwide*	5	5	10	8	48	40	18	15	76	63
INPACT International*	12	–	27	–	42	–	12	–	81	–
Integra International	7	–	18	–	69	–	12	–	99	–
JHI International	2	2	9	7	52	42	4	4	65	53
Kreston International*	14	13	39	39	227	227	0	23	266	289
MGI*	4	4	5	5	22	22	3	3	30	30
Moore Stephens Hispania	13	11	63	58	229	229	51	50	343	337
Morison international	3	3	16	16	40	36	6	5	62	57
MSI Global Alliance*	2	2	2	2	46	39	5	5	53	46
Nexia International*†	9	–	34	–	149	–	33	–	216	–
PKF International*†	8	8	18	–	52	–	12	–	82	–

Polaris International	14	7	17	13	50	48	10	14	77	75
Praxity	7	7	22	23	286	272	31	31	339	326
Totals	135	90	355	223	1,861	1,432	254	208	2,470	1,863

Notes: *Only data from the named member firm or the exclusive member firms within a network/association is included. Data relating to non-exclusive associate or affiliate firms is not included. †These organisations come under the IFAC definition of a network or network firm.

Source: *International Accounting Bulletin*

SPAIN

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

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Source: <i>International Accounting Bulletin</i>		

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