



# FIRMS RAISE THEIR GAME

Gill Booles and Kevin Reed report on how accountancy firms have fared in 2017's challenging climate

**A**T A GLANCE, it could be suggested that 2017 was a year much the same as many others in recent times for the UK's biggest accountancy firms.

Revenues have continued to climb, staff numbers have swelled, while the top 10 firms remain in situ. As you were, perhaps.

In reality, the firms are working furiously to effectively future-proof themselves. Brexit, global political and economic uncertainty, digital disruption and their impact on what services will be required and by whom, as well as finding and training the right people to deliver them, affects all. They are all having to strategise, invest and manage change.

The last few years have seen the biggest practices build more digitally focused offerings, and the last year has seen that accelerated. As an example, Deloitte Digital acquired Stockholm-based Acne, a digital marketing and creative agency that focuses on "storytelling".

The Big Four dominate the global "digital transformation" market, with Source Global Research revealing earlier this year that they hold

21% of this \$23bn (£17.4bn) market. As Catherine Burnet CA, KPMG Senior Partner, Scotland, says: "As revealed in our 2017 Global CEO Survey, we're seeing a change in mindset from the business community, which is embracing new technology and modernisation as a means for growth and disruption. Our management consulting arm remains busy advising clients on how best to plan and implement technology within their organisations."

Robert Ross CA, RSM's Regional Managing Partner in Scotland, concurs, seeing

"significant growth" in his firm's technology and management consulting practice as clients transition to cloud-based ERP systems. "In addition, the growing threat to cybersecurity has increased the demand for our technology risk assurance expertise," he says.

This has impacted on business models, with the firms considering how technology changes what they can deliver. Moreover, in the ultra-competitive market for new talent, practices have broadened their approach to recruitment.

**"We believe that new technologies provide a fantastic opportunity to adapt to the new ways of doing business"**

Gareth Magee



» PwC has said it is looking to hire 1,200 graduates and 140 apprentices in the next year. RSM hired 288 trainees, of which 50 were school leavers. David Gwilliam CA, Chief Operating Officer at RSM, said at the time: "Our future growth ambitions rely on attracting and developing new talent across all areas of our business."

In Scotland, KPMG's Burnet flags up new country heads of audit and management consulting as significant. Like PwC and RSM, she highlighted her firm's 40% increase in UK apprentice hires in the year to 181, of which two-thirds are based in regional offices.

Enticing the right people nowadays requires that firms are not only attractive in terms of benefits, but in the way they act and behave. This includes transparency. PwC became one of the first organisations to reveal black, Asian and minority ethnic (BAME) pay and bonus gaps, at 12.8% and 35.4% respectively driven by more non-BAME staff in higher-paid roles.

"Our priority is to do all we can to retain our junior BAME talent and improve rates of progression to senior management levels," said Kevin Ellis, Chairman and Senior Partner at PwC.

Some things remain familiar. For all the talk of automation and AI revolutionising the way audit is undertaken, old stories were rehashed, such as the Financial Reporting Council suggesting a slight improvement in overall audit quality among the top firms, while concurrently dishing out its biggest ever fines: £5.1m and £5m, both to PwC over its work at RSM Tenon and Connaught respectively.

Several new investigations were opened, including Grant Thornton/Sports Direct and PwC/BT. Eyebrows were raised, though, at the end of the investigation into KPMG's work at HBOS with no further action. Unsurprisingly, this has drawn the attention of the Treasury Select Committee, which wants to understand the FRC's reasoning.

Despite a second financial year of stuttering revenues and falling profits, Grant Thornton's charismatic CEO, Sacha Romanovitch, can appear to do no wrong. She received an 88% staff endorsement rating on recruitment site Glassdoor and was selected to co-chair the Inclusive Economy Partnership Initiative.

The firm has had a quiet year as far as headlines were concerned. It faced some friction in its role as auditor of Sports Direct from the shareholder community, while Insolvency Partner David Ingram was recently detained in the United Arab Emirates as a result of a complaint made there by a defendant in UK criminal proceedings.

New leadership teams were put in place at both KPMG and Mazars, although the latter saw Phil Verity chosen to serve for a second successive four-year term as UK Senior Partner. Things didn't really pan out for KPMG Chairman Simon Collins following his unexpected resignation from the role. Collins

## TOP 30 UK ACCOUNTANCY FIRMS RANKED BY REVENUE

	FIRM NAME	UK REVENUE (£M)	YEAR END	PARTNERS (OR PARTNER EQUIVALENT)
1.	PwC	3,598	30/06/17	926
2.	Deloitte	3,380	31/05/17	1,115
3.	EY	2,150	01/07/16	717
4.	KPMG	2,068	30/09/16	595
5.	Grant Thornton UK	533.8	30/06/16	185
6.	BDO	456	30/06/17	259
7.	RSM	319	31/03/17	341
8.	Smith & Williamson	242	30/06/17	135
9.	Moore Stephens UK	181.38	31/12/16	178
10.	Mazars	160	31/08/17	134
11.	PKF	150.18	31/05/17	198
12.	Saffery Champness	78	31/03/17	73
13.	Haines Watts Group	74.5	31/03/17	100
14.	Crowe Clark Whitehill	67.2	31/03/17	73
15.	UHY Hacker Young	58.2	30/04/17	110
16.	MHA Macintyre Hudson	56.1	31/03/17	42
17.	Begbies Traynor	49.7	30/04/17	49
18.	Wilkins Kennedy	47.7	30/04/17	74
19.	Kingston Smith	46.12	30/04/17	62
20.	Menzies	40.34	30/06/17	41
21.	FRP Advisory	40.15	30/04/17	41
22.	TaxAssist Accountants	37.26	31/12/16	206
23.	Buzzacott	34.5	30/09/16	32
24.	Kreston Reeves	33.11	31/05/17	52
25.	HW Fisher & Co	29.6	30/04/17	31
26.	Price Bailey	26.5	31/03/17	29
27.	Haysmacintyre	26.1	31/03/17	32
28.	Hazlewoods	23.66	30/04/17	29
29.	SJD Accountancy	22.86	31/10/16	3
30.	Bishop Fleming	22.32	28/05/17	29

has been succeeded by Bill Michaels, who has a background in audit and has recently headed up banking and capital markets.

While it has been quiet as far as major mergers are concerned, bolt-on acquisitions have taken place.

Grant Hotson, Group Finance Director at Smith & Williamson, expects further consolidation in the market, but strategic hires would be just as important “where firms can, in a more targeted way, broaden their services mix and increase the value and service they can provide to clients”.

Despite the firm’s merger with Rathbones falling through, its potential IPO requires Smith & Williamson to push on with plans to invest in building its services and talent base.

Hotson highlights the appointment of Rupert Phelps to lead its family office service group as a key plank in driving stronger links between their investment arm and tax/accounting teams.

“Our competitive advantage lies in our distinct ability to provide investment, tax and accounting advice to clients – individuals and companies – under one roof,” says Hotson.

“By defining and steering a joined-up approach to clients and markets, including holistic relationship management, and concentrating on core services, we expect clients and prospects to better understand, value and engage with the breadth of our services.”

Brexit might seem like the elephant in the room, but add that to the rapid pace of change of digitalisation, hiring, training and retention strategy, plus “new cold wars”, cyber crime, MiFID II and the General Data Protection Regulation (GDPR), and the effect is more akin to a herd trampling through the boardroom. Indicators are, however, that helping clients plan and manage risk has been a boon for practices. That doesn’t mean it’s “easy money”, particularly when these issues affect the practices themselves.

“It is too early to predict the outcome of these discussions and what sort of negotiated settlement may emerge,” Hotson says on Brexit.

“However, some time ago we established a group to consider likely scenarios and how we can prepare. In the event that changes are required, we are in a position to implement these with little or no impact on the continuity or level of service we provide to our clients.”

Burnet says KPMG knows its 800 EU nationals “are deeply concerned” about Brexit,

and the firm is in regular dialogue with them.

Client-side has seen “an uptick” in business due to Brexit, Burnet adds. “Recent weeks have been particularly busy and we expect this trend to continue as UK/EU negotiations enter critical stages.”

### MERGERS

Campbell Dallas and Springfords were acquired by Baldwins Accountants, part of CogitalGroup.

Campbell Dallas, which had offices in Glasgow, Stirling, Kilmarnock, Perth and Aberdeen, employed 260 staff and partners. Edinburgh-based Springfords had 40 staff and partners across offices in Edinburgh, Livingston and Falkirk.

The Campbell Dallas and Springfords trading names are to be retained in an acquisition that increases Baldwins’ tally of offices to 53 across the UK, employing over 1,500 staff.

Last year, Baldwins joined CogitalGroup, the international business advisory services business launched in August 2016 by accounting services investor HgCapital and former Deloitte Global Chairman and UK Chief Executive John Connolly.

Those to whom *The CA* spoke expect to see more consolidation in the sector, driven by the failure of smaller firms to offer complementary services to a larger and more diverse client base.

An increasing number of firms are preparing for HMRC’s Making Tax Digital initiative and the GDPR, which becomes enforceable in May 2018, as well as the wider impact of cloud accounting.

### ADVISORY SERVICES

Scott Moncrieff has brought in experts in GDPR, cybersecurity and data analytics to add to its list of client offerings. Gareth Magee, Partner and member of the firm’s board, says: “Accountancy practices need to ensure that they remain relevant and proactive for their clients. Some will struggle with technological developments in areas such as cloud computing and Making Tax Digital, but we believe that new technologies provide a fantastic opportunity to adapt to the new ways of doing business. We’ve been adapting for 225 years and will continue to do so.”

Moving with the times and indeed staying ahead of the market is also important to EQ Accountants. Partner David Morrison CA says: “We are investing heavily in our outsourcing division, Amber Accounting, as we recognise

**“We are seeing an indication that stability is returning to the energy sector. The model that is emerging is leaner and more efficient”**

Sandy Manson CA



## GLOBAL ACCOUNTANCY TOP 10 IN 2017

FIRMS	REVENUE (\$BN)
1. Deloitte (1)	38.8
2. PwC (2)	37.7
3. EY (3)	31.4
4. KPMG (4)	25.4
5. BDO (5)	7.6
6. Grant Thornton (7)	4.8
7. RSM (6)	4.64
8. Crowe Horwath International (9)	3.7
9. Baker Tilly International (8)	3.23
10. Nexia (10)	3.2

Previous year's position in brackets

that services such as payroll, cloud accounting and management accounting will become highly prized services. Finding great people is perhaps our biggest challenge, but our existing team and excellent HR function mean that we are well placed to meet this challenge.” The firm continues to grow, with a headcount of 110 including the recruitment of a marketing coordinator and finance and operations manager. Morrison says: “Both have been superb additions, allowing our client-facing staff to concentrate on servicing our clients well. As a result of these things coming together, EQ’s turnover now exceeds £6.8m annually.”

Many firms reported an increase in deal activity in the North East of Scotland, and improvements in the oil and gas sector.

Sandy Manson CA, Chief Executive of Johnston Carmichael and Deputy President of ICAS, says: “We are seeing an indication that stability is returning to the energy sector. The model that is emerging is of a leaner, more streamlined and efficient sector. In corporate finance, we are seeing a healthy pipeline of deals and transaction activity has certainly picked up in the North East.”

Johnston Carmichael has embarked on significant expansion in Glasgow, where it has increased its office space by 50%. The number of permanent staff it employs has gone up by more than a fifth over the past year, with 12 new appointments to establish a Business Solutions team in the city and strengthen its audit, tax and restructuring services.

The firm, which has 11 offices across Scotland, has doubled its turnover in the last 10 years, breaking the £40m barrier in 2016.



**“** It has been a year of consolidation for Aberdeen-based Anderson, Anderson & Brown, with a move to a purpose-built office at Prime Four Business Park providing the platform for the next stage of the firm's development. AAB's Managing Partner, Graeme Allen, says: “Our global mobility, payroll and employment taxes teams have experienced significant growth, and, as a result, our global reach has expanded into new countries across Europe, North and South America, Asia, Africa and Australia. In addition, our wealth management offering has experienced strong growth with £100m of new business completed and an increase in client numbers of 25% in the last year. Generally, across the firm, we have expanded into new sectors and have seen particular growth within food and drink, healthcare and E&P.”

#### EXPANSION

Carol Flockhart CA, Managing Partner with Chiene + Tait, says: “2017 has exceeded expectations. In the last 12 months, we have doubled the number of offices, significantly increased headcount and increased turnover by 14% compared with the previous year.”

The Edinburgh-headquartered firm, which expanded into the Highlands last year with the opening of an Inverness office, also opened a Glasgow office in June 2017. The decision to expand into Glasgow followed significant growth across Chiene + Tait, including the launch last year of a new corporate finance department, headed by Partner Paul Mason.

Chiene + Tate now has 10 partners across four offices, including an established office in London. The firm has become a member of AGN International.

As for the ongoing economic uncertainty, the views of many, are best expressed by Johnston Carmichael's Sandy Manson: “Our clients are now, more than ever, looking for trusted advisers to help them navigate through the ever-changing economic and political landscape. The fallout of the Brexit result continues as many of our clients seek to understand exactly what it will mean for them come April 2019.” **CA**

**GILL BOOLES IS A FREELANCE JOURNALIST. KEVIN REED IS A FREELANCE JOURNALIST AND FORMER EDITOR OF ACCOUNTANCY AGE**

“Turnover has increased by 14% compared with the previous year”

Carol Flockhart CA



## TOP 30 ACCOUNTANCY FIRMS (SCOTLAND) RANKED BY FEE EARNERS

	FIRM NAME	PARTNERS (OR PARTNER EQUIVALENT)	FEES EARNERS	STAFF IN TOTAL	SCOTLAND REVENUE (£M)
1.	KPMG	56	831	948	n/d
2.	EY	35	771	914	n/d
3.	PwC	27	723	769	n/d
4.	Deloitte	35	671	699	n/d
5.	Johnston Carmichael	57	501	620	43.6
6.	Campbell Dallas <sup>1</sup>	22	219	239	14
7.	Scott-Moncrieff	19	210	230	13.49
8.	Anderson Anderson & Brown	13	205	248	19.5
9.	French Duncan	16	172	198	11
10.	RSM	24	171	186	n/d
11.	Grant Thornton	6	164	195	n/d
12.	BDO	10	148	165	14
13.	Mazars	9	130	142	10.3
14.	Henderson Loggie	20	129	168	10.5
15.	Chiene & Tait	10	117	130	6.5
16.	EQ Accountants	15	101	107	6.8
17.	Wylie & Bisset	11	97	115	6.9
18.	Saffery Champness	10	80	78	6.5
19.	Condies	8	71	75	6
20.	Ritsons	7	67	63	n/d
21.	Milne Craig <sup>2</sup>	7	65	72	205.5
22.	Thomson Cooper	9	61	63	19
23.	Geoghegans	7	56	53	3.6
24.	Whitelaw Wells	7	56	56	3.1
25.	Martin Aitken & Co	8	52	63	4.6
26.	William Duncan & Co	9	50	59	4.7
27.	Alexander Sloan	9	44	37	n/d
28.	Hall Morrice	5	42	46	3.4
29.	Hardie Caldwell	5	38	40	n/d
30.	Springfords <sup>1</sup>	5	35	35	2-3

#### NOTES

(1) Springfords and Campbell Dallas are now part of the Baldwins group, but continue to trade separately. The combined firm would have 27 partners, 254 fee earners, 274 staff, 16 trainees taken on 2017. It would stand in sixth place in this table.

(2) Milne Craig: Revenue is 2016; this year's figures still to come.