

METHODOLOGY

The conference “Audit, Taxes and Accounting”, organized by Riga Managers School (RMS) is being held already for the seventh time. Along the preparation for the conference RMS works out the review of Latvian audit and business consulting companies.

The approach to the data collection this year was similar to the one, used last year: information was obtained from the primary sources (i.e. directly from audit companies). For that purpose about 100 letters were sent out to the Latvian audit and business consulting companies, asking the recipients to fill-in two attached questionnaires (one about their financial indicators and the other about the activities of the company). It should be noted, that in comparison with the previous years, the attitude towards the letters with questionnaires has become more favorable and more companies were open to the co-operation proposal.

The increase in the number of the companies, willing to co-operate with us, as compared to the previous years, reveals the pleasant tendency: audit companies acknowledge, that seeking the transparency among their own clients, they should start being transparent themselves.

As a result of our research, we received 28 filled-in questionnaires. Information on 38 companies was obtained from the Lursoft database. The review is based on the data of 55 companies with the turnover exceeding 10,000 Ls.

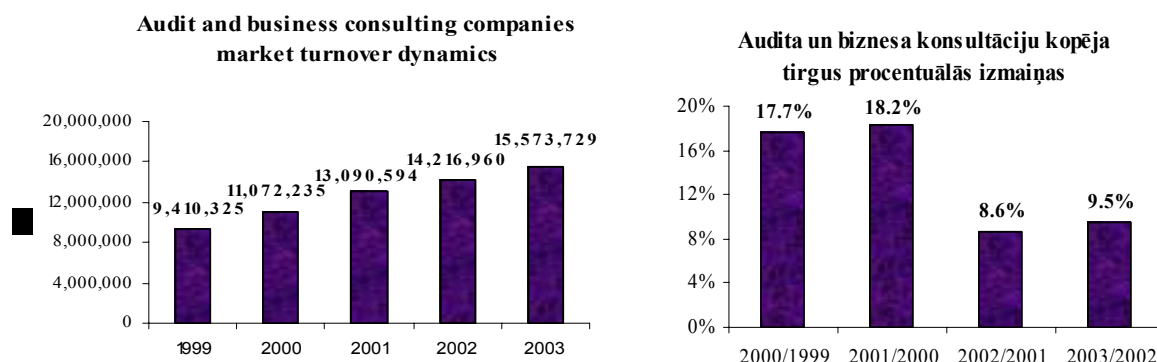
To avoid any misunderstandings, it should be mentioned, that the allocation of places in 2002 is calculated on the basis of information provided by firms this year.

All the information, received directly from the companies is confirmed by the signature of the responsible person and the seal of the company. What concerns the data, obtained from Lursoft database, we cannot be sure about the correctness of that information taking into account the previous mistake precedents.

Organisers do hope that the review will become an opportunity for your clients and partners to acquaint with your achievements and for you – to see your place among the other audit companies.

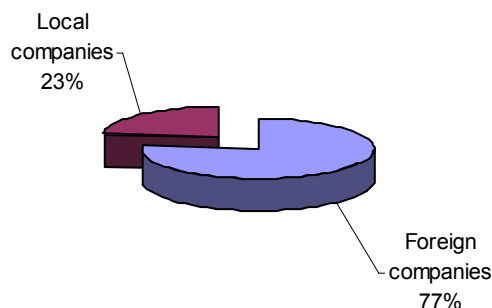
GENERAL MARKET OVERVIEW

The turnover in total of all the auditing firms is growing in Latvia. In 2003 the total turnover of all the auditing companies included in our overview was roughly equal to 15,6 million LVL, which, as we assume, comprises 90-95% of the actual total audit and business consulting market. In comparison with 2002, the market has expanded by 9.5 % in 2003.

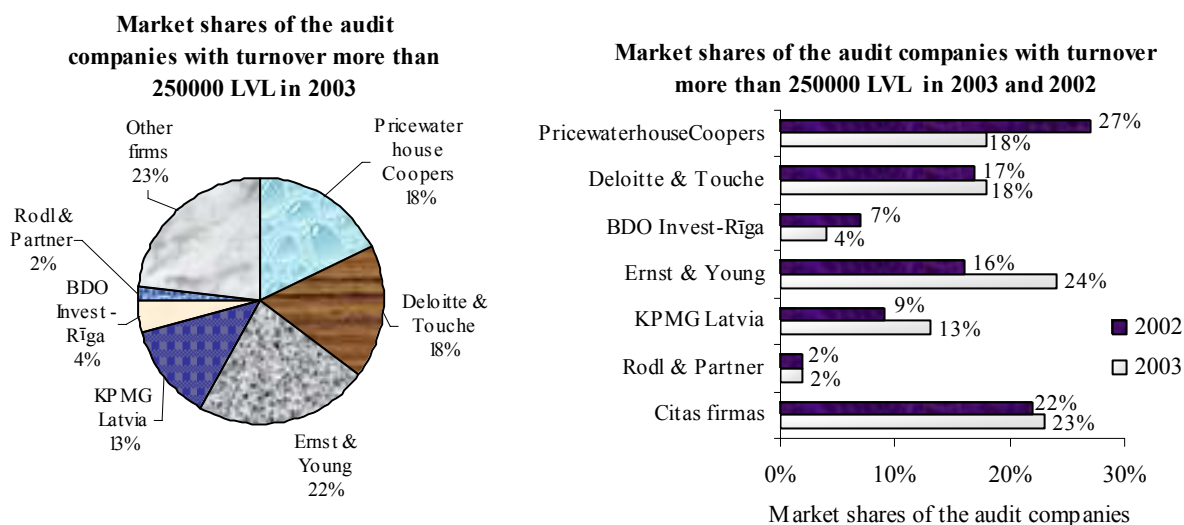


Looking from the perspective of absolute market shares, it could be noted that foreign companies are still making the greater proportion in the total audit and business consulting market. In 2001/2002 foreign companies control 78% of the market. In 2002 local companies had the same share as in 2002 – 22%. In 2003 local companies' share increased by 1% making 23% in total.

Market distribution between foreign and local audit companies in 2003



MARKET SHARES OF THE AUDIT FIRMS WITH TURNOVER MORE THAN 250 000 LVL



In 2003 the essential changes took place in two companies. PricewaterhouseCoopers market share has decreased by 9%, but Ernst & Young market share increased by 8%. All the other audit companies have been growing along with the market development; therefore their market shares have remained quite unchanged.

THE MOST EFFECTIVE AUDIT COMPANIES

Ten the most effective audit companies in 2003

Place in 2003	Place in 2002	Place in the overall table	Name of the company	Turnover per one specialist (LVL)
1	8	1	Ernst & Young SIA	46,348.2
2	1	2	Deloitte & Touche, SIA	43,701.8
3	3	9	SIA "Kodoliņš, Ostaškova un Partneri	42,948.0
4	6	4	KPMG Latvia SIA	36,000.0
5	-	45	OIR Birojs SIA	30,252.0
6	10	14	SIA "Doma Audits"	24,265.0
7	-	7	MRI Revision A/S	24,000.0
8	9	30	SIA "Aktīvs M Audits"	22,048.7
9	-	18	Merhels Revidenti Konsultanti SIA	21,400.0
10	-	12	Briede, Vidzedze un Meijubers, SIA	19,171.7

Evaluation is based on the turnover per one specialist; the first places in this table are still shared among the big companies: Deloitte & Touche, Ernst & Young and KPMG Latvia. It is necessary to note that 12 of the monitored companies are not included in the list, as they have not indicated the number of specialists in a company. Therefore it was impossible to calculate the turnover per one specialist.

THE MOST PROFITABLE AUDIT COMPANIES

The most profitable audit companies in 2003

Place in 2003	Place in 2002	Place in the overall table	Name of the company	Profit
1	-	1	<i>Ernst & Young SIA</i>	451,162
2	1	7	MRI Revision A/S	96,000
3	3	12	<i>Briede, Vīdzedze un Meijubers, SIA</i>	65,444
4	-	2	Deloitte & Touche, SIA	65,142
5	4	5	<i>BDO Invest - Rīga, SIA</i>	60,407
6	-	11	Revidents un grāmatvedis SIA	48,725
7	-	9	<i>SIA "Kodoliņš, Ostaškova un Partneri"</i>	44,877
8	2	30	SIA "Aktīvs M Audits"	41,220
9	5	8	<i>SIA "Revidentu Firma NM"</i>	38,097
10	-	36	Zvēr. rev. S. Koļesņikovas birojs	31,256

Valuating companies by profit increase the overall leader in 2003 is the audit company Ernst & Young. Its profit results exceeds the 2nd position of the list 4,6 times. It is remarkable that the leader of 2002 – MRI Revision company (43,554LVL) has doubled its result to 96,000 LVL in 2003, however it takes only the 2nd position in the list. The qualitative structure of the list is also essentially changed since the previous year – five new companies have

appeared. It is noticeable that ten the most profitable companies' results have increased for 63%. To compare with 2002 total profit when it was 345,460 LVL, in 2003 it is 942,330 LVL.

THE FASTEST GROWING AUDIT COMPANIES

The fastest growing audit companies in 2003

Place in 2003	Place in 2002	Place in the overall table	Name of the company	Turnover growth
1	3	7	MRI Revision A/S	49.00%
2	-	32	SIA "Algora"	48.00%
3	-	23	Rīgas Revidentu Birojs, SIA	37.90%
4	-	1	<i>Ernst & Young SIA</i>	35.90%
5	-	4	KPMG Latvia SIA	33.40%
6	9	45	<i>OIR Birojs SIA</i>	30.00%
7	-	50	Pokora, SIA	27.50%
8	7	13	<i>Auditorsabiedrība "Visa Vērtē"</i>	26.50%
9	-	10	Auditoru firma "Finansists"	25.30%
10	10	12	<i>Briede, Vīdzedze un Meijubers, SIA</i>	25.10%

The leader of the fastest growing audit companies for the 2nd year in succession is MRI Revision (49.00%). A number of new companies (6) appear among the fastest growing ones. We have to admit that after a one-year pause the international companies Ernst & Young and KPMG Latvia have returned to the list. The common tendency shows that companies that are situated in the middle or at the end of the list have greater growth potency. The reason for that

could be the beginners and small companies having relatively bigger growth potency.

AUDIT IN THE BANKING SPHERE

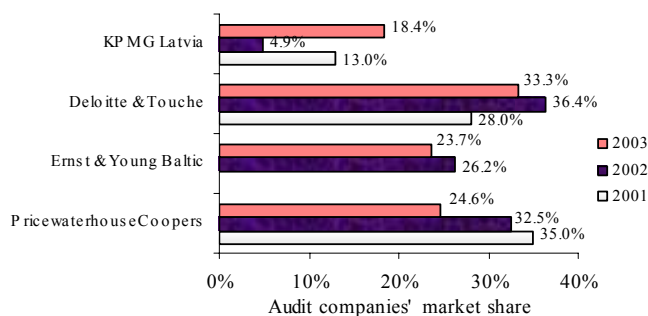
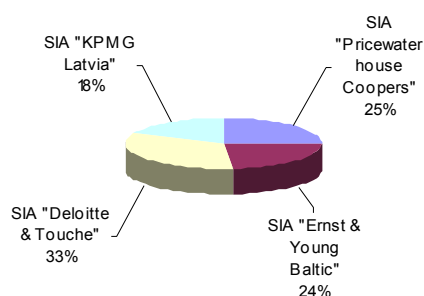
Nr.	Commercial bank	Assets in 2003 (thsd. Ls)	Auditing company	
			2003	2002
1	Parekss banka	1 023 415	SIA "Ernst & Young Baltic"	SIA "Ernst & Young Baltic"
2	Latvijas Unibanka	868 475	SIA "PricewaterhouseCoopers"	SIA "PricewaterhouseCoopers"
3	Hansabanka	941 851	SIA "Deloitte & Touche"	SIA "Deloitte & Touche"
4	Rietumu banka	455 183	SIA "KPMG Latvia"	SIA "PricewaterhouseCoopers"
5	LATEKO banka	267 461	SIA "Deloitte & Touche"	SIA "Deloitte & Touche"
6	Aizkraukles banka	252 337	SIA "Ernst & Young Baltic"	SIA "Ernst & Young Baltic"
7	Latvijas Hipotēku un zemes banka	232 182	SIA "PricewaterhouseCoopers"	SIA "KPMG Latvia"
8	Latvijas Krājbanka	187 742	SIA "KPMG Latvia"	SIA "Deloitte & Touche"
9	Baltijas Tranzītu banka	160 785	SIA "Deloitte & Touche"	SIA "Deloitte & Touche"
10	NORD/LB Latvija	217 514	SIA "PricewaterhouseCoopers"	SIA "PricewaterhouseCoopers"
11	Ogres komercbanka	139 140	SIA "Deloitte & Touche"	SIA "Deloitte & Touche"
12	Vereinsbank Rīga	147 950	SIA "KPMG Latvia"	SIA "PricewaterhouseCoopers"
13	Multibanka	119 196	SIA "Deloitte & Touche"	SIA "Deloitte & Touche"
14	Latvijas Tirdzniecības banka	134 360	SIA "KPMG Latvia"	SIA "PricewaterhouseCoopers"
15	Baltijas Starptautiskā banka	35 080	SIA "Deloitte & Touche"	SIA "Deloitte & Touche"
16	VEF banka	33 782	SIA "Deloitte & Touche"	SIA "Deloitte & Touche"
17	Trasta komercbanka	53 334	SIA "Deloitte & Touche"	SIA "Deloitte & Touche"
18	Māras banka	24 725	SIA "Deloitte & Touche"	SIA "Deloitte & Touche"
19	Latvijas Biznesa banka	21 071	SIA "Deloitte & Touche"	SIA "Deloitte & Touche"
20	Komercbanka Baltikums	30 576	SIA "KPMG Latvia"	SIA "KPMG Latvia"
21	Banka Paritāte	33 710	SIA "KPMG Latvia"	SIA "KPMG Latvia"
22	Reģionālā Investīciju banka	9 720	SIA "PricewaterhouseCoopers"	SIA "PricewaterhouseCoopers"

Avots: Latvijas Komercbanku asociācijas sniegtā informācija

The nominal amount of institutions served by a single audit company gives insufficient information, and it is much more relevant to look at the market share served by the particular audit company. Therefore, we use the assets of the banks as a proxy for an audit company's market share: *the higher assets of the bank presuppose the higher market share for the company, which audits it.*

Market shares of the audit companies in banking sector in 2003, 2002 and 2001

Division of the banking sector between the audit companies in 2003



AUDITS, NODOKĻI UN GRĀMATVEDĪBA 2004

The distribution of the banking sector among the auditing companies has a rather unstable nature, since the banks are required by law to change their auditors every two years. However, in the longer run, banks tend to establish relationships with two audit firms and switch between them, as the legislation requires. This year's leader Deloitte & Touche has decreased the number of its clients by 1 so market share has decreased by 3%. KPMG Latvia proportion has grown for 13%.

AUDIT IN THE INSURANCE SPHERE

Nr.	Insurance company	Gross premiums in 2003	Auditing company	
			2003	2002
1	AAS "Balta"	26 152 199	SIA "PricewaterhouseCoopers"	SIA "PricewaterhouseCoopers"
2	AAS "Ergo"	12 477 946	SIA "KPMG Latvia"	SIA "BDO Invest-Riga"
3	AAS "BTA"	18 382 421	SIA "Rodl & Partner"	SIA "Rodl & Partner"
4	AAS "Parekss Apdrošināšanas kompānija"	11 526 511	SIA "PricewaterhouseCoopers"	SIA "PricewaterhouseCoopers"
5	AAS "Balva"	14 641 894	SIA "Rodl & Partner"	SIA "Rodl & Partner"
6	AAS "Rīgas Slimokase"	6 705 222	SIA "BDO Invest-Riga"	SIA "BDO Invest-Riga"
7	AAS "Seesam Latvia"	2 869 779	SIA "PricewaterhouseCoopers"	SIA "PricewaterhouseCoopers"
8	AAS "Sampo Latvija Dzīvība"	773 214	SIA "Ernst & Young"	SIA "KPMG Latvia"
9	AAS "Baltijas Apdrošināšanas nams"	3 298 336	SIA "Ernst & Young"	SIA "Ernst & Young"
10	Salamandra Baltic	88 651	O.L. Oliva Auditoru kompānija	O.L. Oliva Auditoru kompānija
11	AAS "Baltikums Dzīvība"	1887 655	"BDO Invest-Riga"	"BDO Invest-Riga"
12	AAS If Latvia	6 910 808	SIA "PricewaterhouseCoopers"	SIA "KPMG Latvia"
13	AAS "Lauto klubs"	206 959	IU "Firma A.G."	IU "Firma A.G."

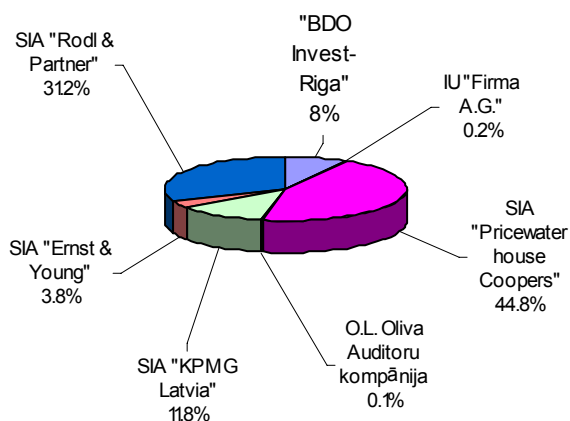
Auditing in the insurance industry is more differentiated as compared with the banking sector. All big international companies with the exception of Deloitte & Touche operate in this sector as well as local companies.

The distribution of the market shares between the auditors in this sector is based on the following principle: *the larger the gross premiums of an insurance company, the greater weight is assigned to the auditor, serving given insurance company.*

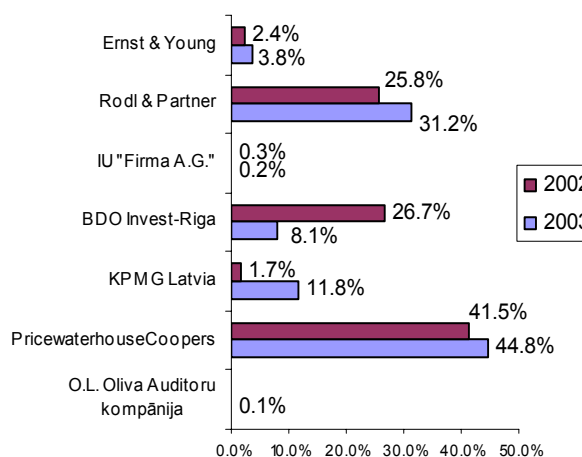
It should be noted, that since no regulatory requirements are imposed upon the insurance companies in their choice of the auditor, no significant changes in the market shares are recognized. All other changes in the market shares can be attributed to the variations in the gross premiums of the insurance companies rather than to the shifts of the clients' preferences towards one or another auditor.

AUDITS, NODOKĻI UN GRĀMATVEDĪBA 2004

Division of the insurance sector between the audit companies in 2003



Market shares of the audit companies in insurance sector in 2002 and 2003



LATEST TRENDS – SURVEY RESULTS

For the composition of this part the answers of the audit companies on one of the questionnaires sent by RMS have been used. In the questionnaire the information about the audit companies' clients, offered services as well as their considerations about the possible co-operation (or merger) with the other audit firms have been requested.

CLIENTS

It is already more than ten years since the audit and business consulting services have started developing in Latvia. These nine years have brought both opportunities and problems. The auditors have lately emphasized the difficulties with following the law about the mandatory audit. They note, that nobody monitors whether the law is being obeyed, and as a result, many companies in fact avoid their duty to be annually audited. However, almost all auditors evidenced, that the number of clients has increased in 2003 in comparison with the previous year.

Long-term relationships have lately become the characteristic feature of the contracts between an audit company and its clients. 75% of the respondents have admitted, that they co-operate with more than 50% of their clients for more than three years. Another 20% of the respondents have noted that they sustain the long-term relationships with 30-50% of their clientele.

In 2003 the respondents have noted that the number of clients has increased. 60% of the respondents responded that the number of clients has grown, for 25% of the respondents this number has not changed and for 15% the number of clients has decreased.

OFFERED SERVICES

This year 25% of the responded audit companies have started to provide wider range of services to their clients. Auditors now offer new and/or different services such as:

- MindLink – internet news on Latvian legislation;
- VAT agents services to non-residents;
- Balanced Scorecard model implementation;
- IRM (information risk management);
- insolvent companies administration;
- SOX (Sarbanes Oxley Act) helpdesk;
- tax audit – tax risk evaluation;
- consultancy in EU projects, different special researches and specific consulting projects;
- business evaluation;
- etc.

CO-OPERATION

Our survey show that 25% of companies look positively at co-operation with other audit companies. Other 75% of the respondents were negative about the co-operation as well as about merger. In comparison with 2001 23% of the respondents were positive about co-operation but other 77% were negative. The survey also shows that companies that are ready to co-operate or merge has turnover less than or near 30 000 LVL. 30% of the respondents noted that the reason for co-operation could be *conquering the bigger share of the market*. 60% would like *to increase the number of services offered*. These results show that audit companies have acknowledged the necessity of experience exchange, and now admit that the other companies are not only their competitors, but also partners who can help in many areas, the most important one being the improvement of the services offered to the clients.

In conclusion it should be admitted that the auditing sector is developing. Already now the number of clients has increased substantially, the quality and range of the services has also improved, and one can expect that the growing competition will extend the competence of audit companies.