

METHODOLOGY

The conference “Audit, Taxes and Accounting”, organized by Riga Managers School (RMS) is being held already for the eighth 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 previous years: 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.

Increasing number of the companies (now we have main group about 30 auditing 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 27 filled-in questionnaires. Information on 25 companies was obtained from the *Lursoft* database. The review is based on the data of 52 companies with the turnover exceeding 10,000 LVL.

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.

To avoid any misunderstandings, it should be mentioned, that the allocation of places in 2003 is left the same that was handed in 2004 and information is taken from questionnaires provided by firms previous year.

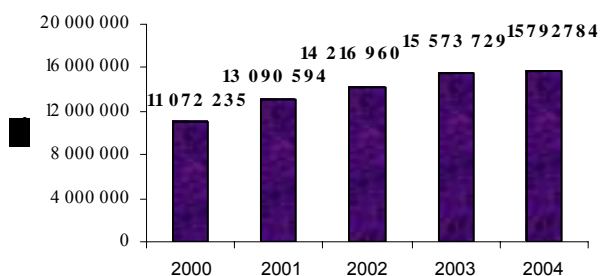
Organisers do hope that the review will become an opportunity for your clients and partners to acquaint with your achievements and for you – to see your place among the other audit companies.

GENERAL MARKET OVERVIEW

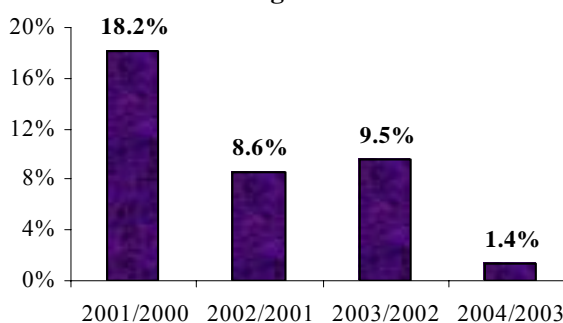
There were about 55 auditing companies in 1988. This year number has grown up to 120 it is twice more. In 1999 there were 118 certified auditors in Latvia. By the end of 2005 this number has changed to 150 specialists that is not considered as big growth.

The turnover in total of all the auditing firms is growing in Latvia. In 2004 the total turnover of all the auditing companies included in our overview was roughly equal to 15,8 million LVL. In comparison with 2003, the market has expanded by 1.4 % in 2004.

Audit and business consulting companies market turnover dynamics



Audit and business consulting market changes in %



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. For comparison:

In 1998 foreign companies controlled 72% of the market, but local companies 28%.

In 1999 foreign companies controlled 75% of the market, but local companies 25%.

In 2000 foreign companies controlled 73% of the market, but local companies 27%.

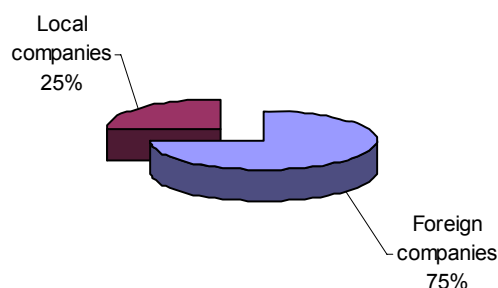
In 2001/2002 foreign companies controlled 78% of the market, but local companies 22%.

In 2003 foreign companies controlled 77% of the market, but local companies 23%.

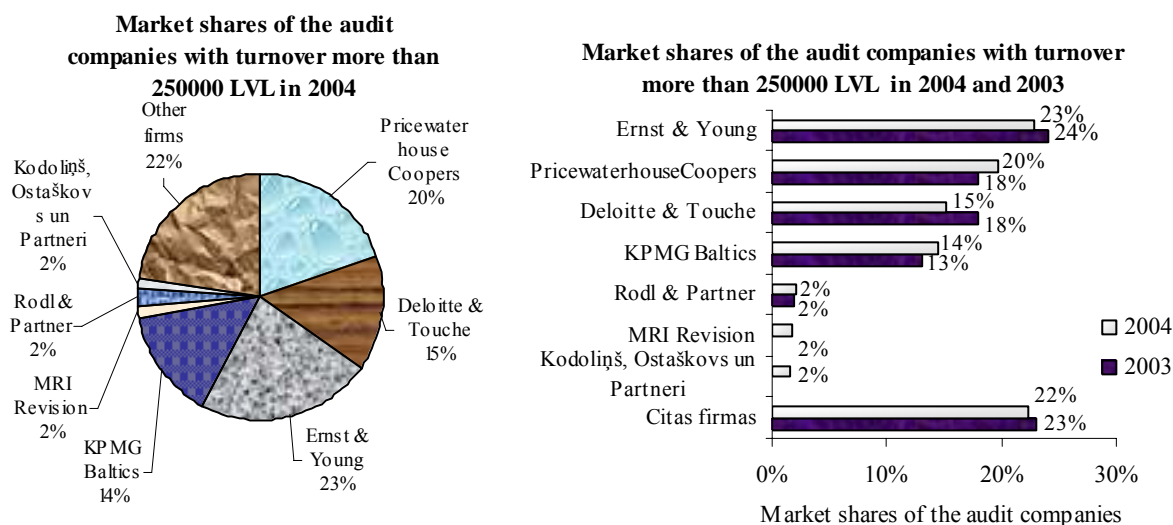
In 2004 foreign companies controlled 75% of the market, but local companies 25%.

From this you may see that proportion of local companies' market share has increased by 2%. In total changes are insignificant.

Market distribution between foreign and local audit companies in 2004



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



In 2004 the essential changes took place among list of companies whose turnover is more than 250 000LVL. If in 2003 the number of such companies was 6 and all companies were foreign than this year 7 companies has reached such data (more than 250 000 LVL turnover) and 2 of them are local ones: MRI Revision and Kodoliņš, Ostaškova un partneri. It is very positive tendency that local companies are in this list. It is for the first time since we make this overview. However, BDO Invest Riga has left the list. The data of the rest auditing companies grow together with market development and market share has slightly increased or decreased or stayed almost invariable.

THE MOST EFFECTIVE AUDIT COMPANIES

Ten the most effective audit companies in 2004

Place in 2004	Place in 2003	Place in the overall table	Name of the company	Turnover per one specialist (LVL)
1	1	1	Ernst & Young SIA	43082.5
2	3	7	SIA "Kodoliņš, Ostaškova un Partneri	42111.2
3	-	2	PricewaterhouseCoopers SIA	41384.0
4	2	3	Deloitte & Touche, SIA	39841.8
5	4	4	KPMG Baltics SIA	38133.3
6	5	46	OIR Birojs SIA	32870.0
7	-	34	SIA Potapoviča un Andersone	30630.5
8	9	12	Merhels Revidenti Konsultanti SIA	27000.0
9	8	29	SIA "Aktīvs M Audits"	24917.3
10	10	10	Briede, Vīndedze un Meijubers, SIA	23672.3

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 Baltics. 2 new companies has appeared in the list.

It is necessary to note that 9 of the monitored companies are not included in the list, as they have not indicated the number of specialists working in the company. Therefore it was impossible to calculate the actual turnover per one specialist.

THE MOST PROFITABLE AUDIT COMPANIES

The most profitable audit companies in 2004

Place in 2004	Place in 2003	Place in the overall table	Name of the company	Profit
1	1	1	Ernst & Young SIA	50 4119
2	-	2	PricewaterhouseCoopers SIA	16 3504
3	3	10	Briede, Vīdzedze un Meijubers, SIA	86 366
4	2	6	MRI Revision A/S	79 283
5	7	7	SIA "Kodoliņš, Ostaškova un Partneri"	64 263
6	-	14	Dzilve SIA	53 421
7	6	11	Revidents un grāmatvedis SIA	49 883
8	8	29	SIA "Aktīvs M Audits"	48 151
9	-	17	SIA "Inspekcija AMJ"	42 000
10	-	5	Rodl & Partner SIA	36 000

Valuating companies by profit increase the sound leader already for the second year is the audit company Ernst & Young. Its profit results exceed the 2nd position (PricewaterhouseCoopers that returned after a one year break in the list) of the list for 3.1 times. The qualitative structure has not changed essentially for the last year. 3 new companies has joined the list and 2 has left: Deloitte Latvia and BDO Invest Riga. It is noticeable that ten the most profitable companies' results have increased for 16% in 2004. To compare: the total profit in 2004 was 1 126 990 LVL, in 2003 – 942 330 LVL and in 2002 – 345,460 LVL.

THE FASTEST GROWING AUDIT COMPANIES

The fastest growing audit companies in 2004

Place in 2004	Place in 2003	Place in the overall table	Name of the company	Turnover growth
1	-	44	Aktīvs Talsi	43.2%
2	-	25	SIA "Elgos"	42.6%
3	-	41	SIA "Kvests"	37.7%
4	-	7	SIA "Kodoliņš, Ostaškova un Partneri"	32.0%
5	-	35	D. Daņēvičas rev. birojs SIA	31.4%
6	1	6	MRI Revision A/S	29.9%
7	-	36	Revuss, SIA	29.8%
8	7	49	Pokora, SIA	28.5%
9	8	8	Auditorsabiedrība "Visa Vērtē"	27.3%
10	-	32	SIA "Pagrabnieces Auditoru Birojs"	21.6%

A number of new companies (6) appear among the fastest growing ones in 2004. We have to admit that there is no big or foreign auditing company in the list this year. The common tendency shows that companies being situated in the middle or at the end of the list have greater growth potential. The reason for that could be the beginners and small companies having relatively bigger growth potency. This tendency consistently stays for several years.

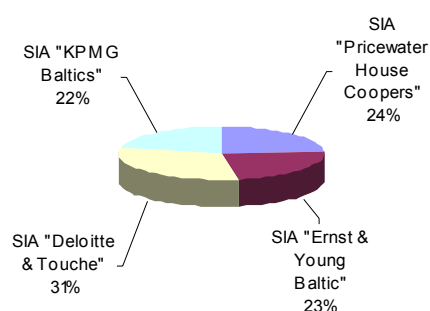
AUDIT IN THE BANKING SPHERE

Nr.	Commercial bank	Assets in 2004(thsd. Ls)	Auditing company	
			2004	2003
1	Parekss banka	1 362 656	SIA "Ernst & Young Baltic"	SIA "Ernst & Young Baltic"
2	Hansabanka	1 289 957	SIA "Deloitte & Touche"	SIA "Deloitte & Touche"
3	Latvijas Unibanka	1 150 981	SIA "PricewaterhouseCoopers"	SIA "PricewaterhouseCoopers"
4	Rietumu banka	592 182	SIA "KPMG Baltics"	SIA "KPMG Baltics"
5	Aizkraukles banka	444 498	SIA "Ernst & Young Baltic"	SIA "Ernst & Young Baltic"
6	Nordea Bank Finland Latvijas pārstāvniecība	396 526	SIA "KPMG Baltics"	SIA "KPMG Baltics"
7	NORD/LB Latvija	384 334	SIA "PricewaterhouseCoopers"	SIA "PricewaterhouseCoopers"
8	LATEKO banka	314 047	SIA "Deloitte & Touche"	SIA "Deloitte & Touche"
9	Latvijas Hipotēku un zemes banka	312 279	SIA "PricewaterhouseCoopers"	SIA "PricewaterhouseCoopers"
10	Latvijas Krājbanka	213 125	SIA "KPMG Baltics"	SIA "KPMG Baltics"
11	HVB Bank Latvia	211 136	SIA "KPMG Baltics"	SIA "KPMG Baltics"
12	Baltijas Tranzītu banka	192 990	SIA "Deloitte & Touche"	SIA "Deloitte & Touche"
13	Ogres komercbanka	190 292	SIA "Deloitte & Touche"	SIA "Deloitte & Touche"
14	Latvijas Tirdzniecības banka	175 788	SIA "KPMG Baltics"	SIA "KPMG Baltics"
15	Multibanka	146 470	SIA "Deloitte & Touche"	SIA "Deloitte & Touche"
16	Latvijas Biznesa banka	88 226	SIA "Deloitte & Touche"	SIA "Deloitte & Touche"
17	Trasta komercbanka	81 523	SIA "Deloitte & Touche"	SIA "Deloitte & Touche"
18	Banka Paritāte	55 305	SIA "KPMG Baltics"	SIA "KPMG Baltics"
19	Baltijas Starptautiskā banka	44 674	SIA "Deloitte & Touche"	SIA "Deloitte & Touche"
20	Komercbanka Baltikums	38 198	SIA "KPMG Baltics"	SIA "KPMG Baltics"
21	VEF banka	34 704	SIA "Deloitte & Touche"	SIA "Deloitte & Touche"
22	Māras banka	33 944	SIA "Deloitte & Touche"	SIA "Deloitte & Touche"
23	Reģionālā Investīciju banka	15 179	SIA "PricewaterhouseCoopers"	SIA "PricewaterhouseCoopers"

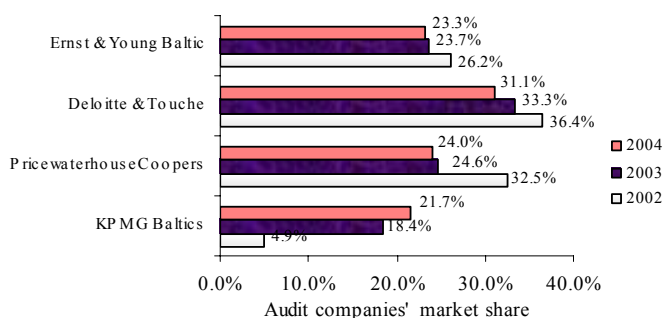
Avots: Latvijas Komercbanku asociācijas sniegtā informācija

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 runs the audit for it.*

Division of the banking sector between the audit companies in 2004



Market shares of the audit companies in banking sector in 2004, 2003 and 2002



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. In the leader position remains the same as previously *Deloitte & Touche* in 2004, however, the proportion of the company has decreased by 3%. KPMG Baltics has decreased the number of its clients by 1, so market share has decreased by 3% as the market share of these banks is also big. The data of the rest auditing companies grow together with market development and market share has slightly increased or decreased or stayed almost invariable.

AUDIT IN THE INSURANCE SPHERE

Nr.	Insurance company	Gross premiums in 2004	Auditing company	
			2004	2003
1	AAS "Balta"	27 566 843	SIA "PricewaterhouseCoopers"	SIA "PricewaterhouseCoopers"
2	AAS "BTA"	21 957 996	SIA "Rodl & Partner"	SIA "Rodl & Partner"
3	AAS "Ergo Latvija"	14 899 417	SIA "KPMG Baltics"	SIA "KPMG Baltics"
4	AAS "Balva"	13 191 299	SIA "Rodl & Partner"	SIA "Rodl & Partner"
5	AAS "Parekss Apdrošināšanas kompānija"	9 712 658	SIA "PricewaterhouseCoopers"	SIA "PricewaterhouseCoopers"
6	AAS If Latvia	9 180 873	SIA "PricewaterhouseCoopers"	SIA "PricewaterhouseCoopers"
7	AAS "Baltikums"	7 497 131	"BDO Invest-Riga"	"BDO Invest-Riga"
8	AAS "Rīgas Slimokase"	6 330 183	SIA "BDO Invest-Riga"	SIA "BDO Invest-Riga"
9	AAS "Baltijas Apdrošināšanas nams"	3 877 809	SIA "Ernst & Young"	SIA "Ernst & Young"
10	AAS "Seesam Latvia"	3 140 711	SIA "PricewaterhouseCoopers"	SIA "PricewaterhouseCoopers"
11	AAS "Sampo Dzīvība"	1 425 528	SIA "Ernst & Young"	SIA "Ernst & Young"
12	AAS "Lauto klubs"	136 260	SIA "Rodl & Partner"	IU „Firma A.G.”

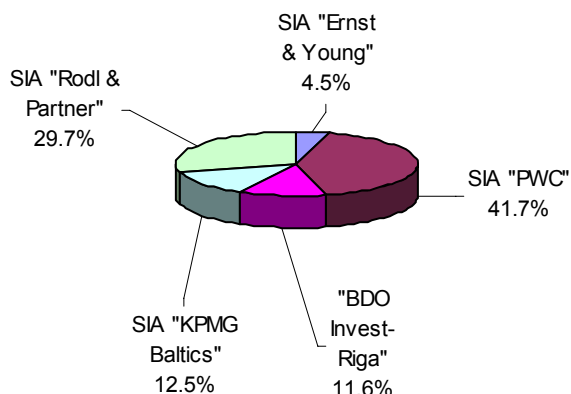
Auditing in the insurance industry is more differentiated in comparison with the banking sector.

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.*

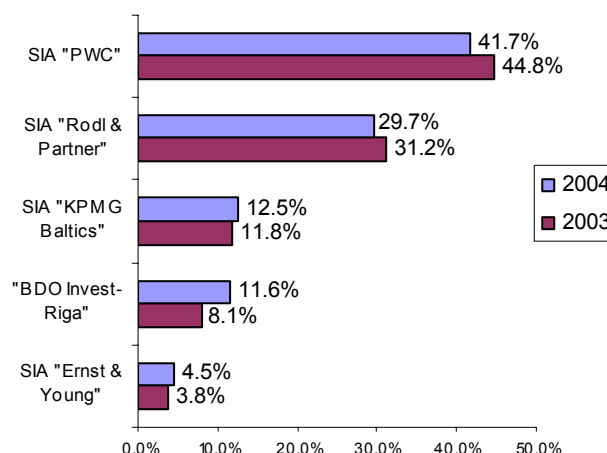
It should be noted, that since no regulatory requirements are imposed upon the insurance companies in their choice of the auditor, no significant changes in the market shares are recognized. All other changes in the market shares can be attributed to the variations in the gross premiums of the insurance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

The market share of insurance companies auditing is quite steady and unusual activity in changing of auditing companies' has not taken place. The leader of this market segment is PricewaterhouseCoppers for several years. Rodl & Partner, for its part, can keep its 2nd place position. It has to be noted that Deloitte & Touche does not take part in auditing of insurance companies since 2001.

Division of the insurance sector between the audit companies in 2004



Market shares of the audit companies in insurance sector in 2004 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 2004 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. 55% of the respondents have admitted, that they co-operate with more than 50% of their clients for more than three years. Another 40% of the respondents have noted that they sustain the long-term relationships with 30-50% of their clientele. The rest 10% relates to the new clients.

In 2004 the respondents have noted that the number of clients has increased. 70% of the respondents responded that the number of clients has grown, for 25% of the respondents this number has not changed and for 5% the number of clients has decreased.

OFFERED SERVICES

This time a question “Do you provide any new different form other companies services to your clients?” has been asked.

This year 20% of the responded audit companies (basically the ones that keeps first 10 positions by financial data; schedule 4) have started to provide wider range of services to their clients. Auditors now offer new and/or different services such as:

- consultations on ABC expenses management system implementation;
- 20 keys – manufacturing company activity process improvement process;
- MindLink – internet news on Latvian legislation;
- VAT agents services to non-residents;
- Balanced Scorecard model implementation;
- Examination services, examination of prevention procedures of proceeds from crime legalization;
- SOX (Sarbanes Oxley Act) helpdesk;
- tax audit – tax risk evaluation;
- consultancy in EU projects, different special researches and specific consulting projects;
- business processes modeling and quantitative risk analysis;
- business evaluation;
- etc.

CO-OPERATION

Our survey shows that 20% of companies look positively at co-operation with other audit companies. Other 80% of the respondents were negative about the co-operation as well as about merger. For comparison data from the previous years:

- in 2001 23% of the respondents were positive about co-operation but other 77% were negative;
- in 2002 55% of the respondents were positive about co-operation but other 45% were negative;
- in 2003 25% of the respondents were positive about co-operation but other 75% 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. 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*.

In conclusion it should be admitted that the auditing sector is stable and changes take place in quality of provided services. Already 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.