

TREND FOR MERGERS AND ACQUISITIONS SET TO CONTINUE

By PERRY GOURLEY

WITH many of their clients in growth mode against a backdrop of evidence of an improving business environment, Scotland's accountants appear in generally positive mood about prospects ahead.

According to Insider's 2016 audit of Scotland's accountancy sector, all of Scotland's top ten largest firms by staff numbers have increased their headcount over the past year.

EY retained its top spot with 931 employees in Scotland but KPMG moved into second place ahead of PwC following a near eight per cent rise.

Together the 'Big Four' now employ 3,460 staff in Scotland, more than 12 per cent more than they did in 2014.

While EY, KPMG, PwC and Deloitte continue their long-running

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domination of the top four placings, further down the table of Scotland's largest practices, consolidation is leading to significant movements.

Scott-Moncrieff surged into the top 10 as it benefitted from both organic growth and the acquisitions

Firms operating within buoyant niche markets where they have significant market share will continue to thrive

David Walker, Thomson Cooper (below)

of Callander Colgan in Inverness, and tax and trust specialists Ogilvie & Company in Edinburgh.

Campbell Dallas, which recently announced it was taking on 15 apprentice accountants this year, also moved into a top 10 place.

The fact that all of Scotland's seven largest accountancy employers have increased staff numbers over

the last year highlights how the sector is benefiting from a gradual improvement in business optimism.

Martin Gill, head of BDO in Scotland, says that many of the firm's clients are reporting "greatly increased profitability and increased investment for the future" and the firm is recruiting to reflect the needs of an expanding market.

"However, it is worth noting that many remain cautious due to factors such as uncertainty over the EU referendum, the slowdown in the Chinese economy, the fluctuations in the oil price and an overall feeling that we are still only slowly coming out of the recession."

Sandy Manson of Aberdeen-based **Johnston Carmichael** also points out that business confidence is still fragile in places, particularly in the North East.

"In a time of low business confidence there is pricing pressure but the profession is being sensible



► – ensuring pricing strategies are focused on the value in and need for doing a job properly,” he says.

“The key opportunities for the accountancy profession lie in offering ‘value add’ services, such as consultancy and business solutions, as well as supporting clients with change management and profit planning.”

Manson says there has been “ongoing uncertainty among firms in the lead up to the European Referendum as clients across industry sectors consider what each potential outcome might mean for them”.

Jeremy Chittleburgh, head of corporate at Edinburgh-based **Chiene & Tait**, has also seen clients keen to get advice on the European referendum.

“While we’ve heard support for both sides of the argument, most want to get more clarity on the potential risks that might lie ahead.”

Craig Anderson, senior partner for **KPMG** in Scotland, says that outwith Aberdeen, buoyant deal activity meant it was a “relatively hot market” for professional services firms.

While there were a number of uncertainties including a potential Brexit and the oil price situation he points out that such an environment “can also breed opportunities for a range of advisory services”.

PwC also highlight deals activity as a strong market having concluded £250m-worth of transactions in the industrial sector alone in recent months and M&A team director Campbell Cummings says there is also strong appetite for transactions in the power, food and drink, life sciences and technology sectors.

Steve Williams, senior partner for Scotland and Northern Ireland at **Deloitte**, also highlights a strong entrepreneurial sector in Scotland currently for creating a healthy pipeline of opportunities for firms.

“The capital’s TMT sector, in particular, is producing an incredible crop of new businesses of real scale, underpinned by genuine innovation and the ability to make seismic shifts in a range of markets.”

While the same seven practices as last year dominate the top of this year’s table, **EY**’s Scottish head Mark Harvey said the reform of the audit market had contributed towards “sustained and healthy competition between firms” north of the Border.

“The mandatory audit firm rotation as stipulated by the EU audit

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With change comes opportunity and we have seen increased innovation as firms vie for the competitive edge

Mark Harvey, EY (above)

reform has led to a recalibration for the professional services sector. With change comes opportunity and we have seen increased innovation as firms vie for the competitive edge.”

Johnston Carmichael’s Manson notes that the Big Four are “making real sorties into the SME market” with an increasing use of cloud-based technology.

“This is not unusual in the economic cycle, but larger independent firms are providing healthy competition because of their strong roots in this market.”

According to Robert Fergusson, head of Ayr-based **William Duncan + Co**, which this year opened a new office in Kilmarnock and launched a corporate advisory division in Glasgow, while technology was helping the big players target new business among smaller clients it is also providing new opportunities for smaller firms to compete.

“There are some very small practices who can competitively and effectively operate in this

space. Technology makes this work available to all and the question is how many of us have the appetite to keep moving with this ever-increasing pace of change. I suspect that we will see some of the older more traditional practices suffer as the speed of change outpaces them,” he argues.

Consolidation continues to be a trend across the sector with the latest move in the Scottish accountancy sector announced in May seeing Borders-based **Douglas Home & Co** expand its footprint. The Kelso-based firm, which also has offices in Haddington, Hawick and Alnwick in Northumberland, is merging with **Dickson & Co** in East Linton.

Although **Chiene & Tait**’s Chittleburgh believes that there is potential for more consolidation, he points out that overall the sector is relatively lean at present.

Robert Ross, **RSM**’s regional managing partner for Scotland, argues that as “scale, breadth of service offering and international capability are becoming increasingly important” further consolidation in the years ahead is inevitable.

Stewart MacDonald, managing partner of **Scott-Moncrieff** which has been among the most active, believes that consolidation in the sector won’t always be for the right reasons.

“Deals based on well thought out strategies, as opposed to those that are driven by less convincing reasons - to react to greater competition or to shelter from increasing regulatory burdens for example - are more likely to succeed,” he argues.

According to **Anderson Anderson Brown**’s (AAB) managing partner Graeme Allan, a lack of good succession planning in many firms means consolidation becomes the only option.

“The saying ‘do as I say, not as I do’ might be a good way of describing the profession’s attitude to succession planning, the most significant factor driving consolidation in the sector,” he says. “We are great at advising our clients just exactly what they need to do with their business but less so with our own.”

Allan said some firms create barriers to new partner entry by recognising goodwill on the balance sheet or acquiring property, all of which means that the entry level capital for new partners increases.

“It’s important to bring younger

► talent through into the partnership and to do that you need to be able to have partners exit at the right time.

“The sharing of the rewards is also important to ensure that younger partners are incentivised to drive the business forward, taking more responsibility for its future success. All too often the largest share of the profits sit with the longest serving partners which doesn't always reflect performance.”

David Walker, managing partner at **Thomson Cooper Accountants** believes that the trend for mergers and acquisitions will continue as firms look to extend their regional geographical reach.

“As well as tackling succession and retirement issues, this type of growth strategy can address gaps in technical expertise. With an enhanced breadth of experience, firms are diversifying their service provision to satisfy the changing demands of clients.”

While a number of smaller firms are likely to be swallowed up by larger players Walker argues that those firms operating “within buoyant niche markets where they have significant market share will continue to thrive”.

The relentless march of technology is also creating both risks and opportunities for the accountancy sector. An Oxford University study on the Future of Work predicted that the accountancy and auditing profession is one of the professions most likely to be significantly disrupted by technology.

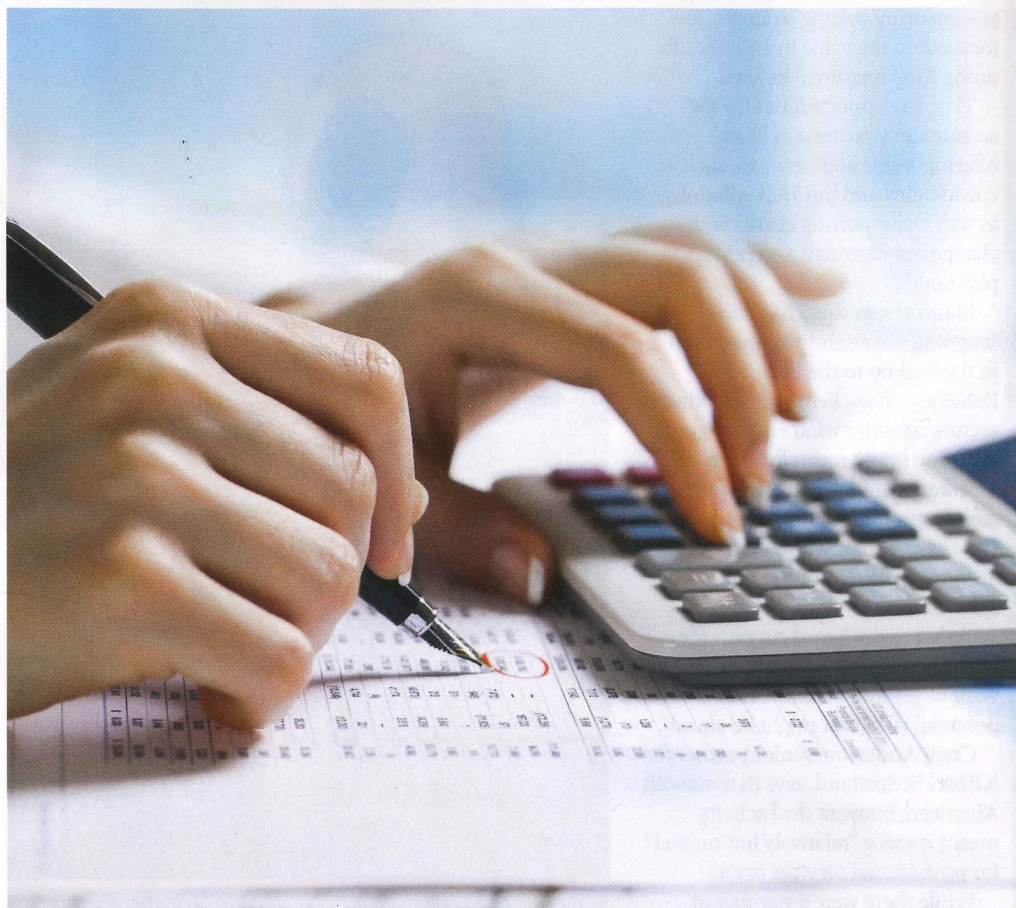
KPMG's Anderson believes technology developments provide more opportunities for firms to provide advice as businesses continue to integrate more technology into their operations, particularly in areas such as business resilience and helping ensure clients are protected from cyber threats.

Johnston Carmichael's Manson argues that it is vital firms take a proactive approach.

“The main threat posed by technology is that firms need to be at the forefront of using it – both for the success of our own businesses and for our clients.

“There is a growing need for intelligent data to run businesses effectively. Now more than ever, finding new solutions and ways to interact effectively with clients is a fundamental requirement.”

Grant Thornton's managing partner for Scotland Kevin Engel



Five or ten years ago, you may have found resistance among some accountants to cloud technology, who would have treated it with suspicion or considered it to be a passing fad

Ed Molyneux, FreeAgent (below)

says digital disruption is “no longer a future prediction”.

“Professional services firms are now at the centre of a radical technological shift. While new technology has created new entrants and competitors in our field, it's also enabled us to explore more innovative service offerings and provide greater expertise for our clients.”

While cloud accounting is seen by some as a threat to traditional accountancy services, **Henderson Loggie's** managing partner David Smith says it can significantly enhance the service provided.

“Software allows accountants to interact with clients in an instant which means we can provide timely advice, a huge advantage from a tax planning and business planning

perspective. The traditional work of preparing accounts is set to reduce and the winners will be those firms that have geared up to offer added value service to their clients. Whilst firms might lose fees over time for preparing accounts and filing tax returns, this will be offset by fees charged for a much more valuable service that makes much better use of the skills and time of the talent employed.”

Ed Molyneux, co-founder of Edinburgh-based cloud accounting firm **FreeAgent**, says technology was having a huge impact on the accountancy profession, particularly those dealing with smaller clients.

“Five or ten years ago, you may have found resistance among some accountants to cloud technology, who would have treated it with suspicion or considered it to be a passing fad,” he says.

Molyneux said accountants were now increasingly seeing benefits from embracing cloud technology.

“Modern micro-business owners are generally pretty savvy when it comes to technology. They're already using apps and cloud software to manage many aspects of their business lives, so it stands to reason that they'd want to be equally



engaged with the financial side of things too.

“By collaborating with their accountant through cloud accounting software, these clients get to take control of the basic, daily admin and data entry themselves - safe in the knowledge that their accountant is on-hand to assure the accuracy of this data and give them proactive advice about their tax liabilities and compliance, as well as their wider business finances.”

According to EY’s Mark Harvey the digital revolution poses significant challenges for many businesses.

“What we’re finding - from a tax perspective in particular - is that the real difficulty for companies is where going digital is not necessarily at the core of the business model, but it’s something the company is doing anyway because they need to, in order to keep up. From a tax perspective, that’s difficult; it adds yet another layer of change that has to be managed at a time when the tax department has more on their plate than ever before.”

Some of the larger practices are strengthening their technology expertise amid growing demand for services from clients. PwC recently acquired Praxism, an Edinburgh-based consultancy specialising in identity and access management and hired Douglas Shand to a new role to help clients find ways to fund innovation.

With many of Scotland’s accountancy practices in growth mode, there is significant competition for staff particularly in skill areas such as tax.

KPMG’s Anderson said the firm was having to fight harder to both recruit and retain talented people.

“This is particularly true for professionals who may be two or three-years qualified.

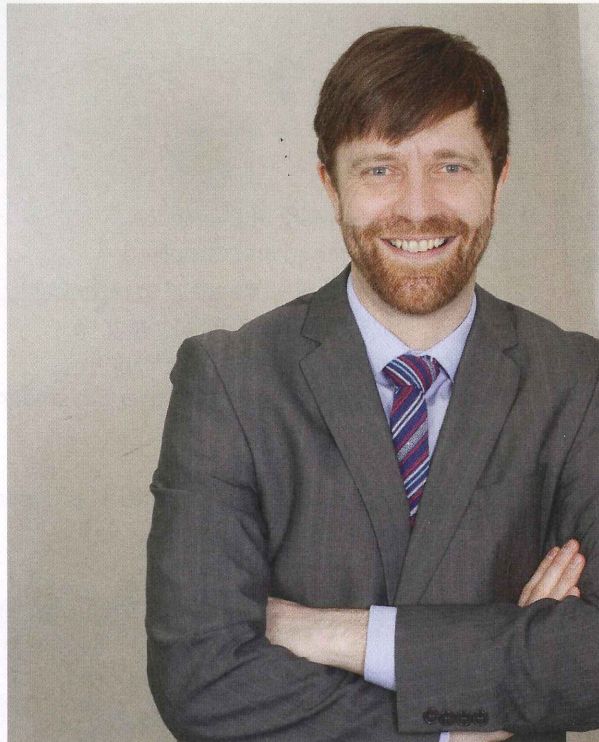
“These are the people who would have started their careers at the height of the downturn, when graduate intake was trimmed across the UK.”

But he said factors such as the quality of local universities meant there was a strong calibre of graduate candidates.

Growing demand for staff has also led to firms increasingly looking to attract recruits direct from school.

“The accountancy profession is struggling to attract, develop and retain young people, and is losing

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David Smith, Henderson Loggie (above)

IN FOCUS: Digital Tax

The UK Government’s plans for Making Tax Digital represent a seismic shift for accountants and their clients. By this summer, the UK’s five million small businesses will have access to a digital tax account with full roll-out expected to happen over the next four years.

By December 2018 businesses will have to report their income tax and NI to HMRC quarterly and, in the two years following, VAT and Corporate Tax are expected to be digitalised too with quarterly reporting.

According to Sandy Manson of Johnston Carmichael, the impact on accountancy firms will be “enormous”.

“It will involve making significant adjustments but this isn’t bad news as our view is that it will be more efficient and cost effective in the longer term.

“Tax advisers will be able to add value to businesses and individuals through sound advice rather than basic compliance guidance.”

AAB’s Graeme Allan agrees that digital tax accounts have the potential to be transformative and deliver huge benefits for taxpayers and their advisers.

“The current self-assessment process is built around an outdated model when filing by paper was the standard but today the standard is electronic filing and electronic payment.

“With the right investment and influence a new online platform will allow us to enjoy far more efficient and effective interactions with HMRC than we do at the moment.”

too many to competing sectors offering graduate programmes, such as financial services,” points out Chris Horne, managing partner of **Campbell Dallas**, which is investing £250,000 on the recruitment and development of apprenticeship accountants this year, adding to the 50 staff currently under training contracts with the firm.

David Smith at Henderson Loggie stresses it isn’t necessary to have a university degree to be a good accountant. “We have been growing our workforce through apprenticeships for many years and are reaping the benefits of that approach as former trainees move up through the ranks.”

This year EY has removed academic qualifications from the entry criteria for its 2016 graduate, undergraduate and school leaver programmes to open up access to the profession.

“Academic qualifications remain an important consideration when assessing candidates and will still be taken into account, but will no longer act as a barrier to getting a foot in the door,” says EY’s Harvey.

“Screening students based on academic performance alone is too blunt an approach.

“The skills required to be successful in a professional services firm are changing as digital disruption is changing the way we and our clients do business.”

According to David Walker at Thomson Cooper Accountants, the approach being taken by new recruits to their career is also changing, particularly at smaller firms.

“There appears to be a shift away from the traditional ‘partnership’ career path to following a career with greater diversity and multiple appointments,” he says.

Firms are also having to respond to changing client demands.

RSM’s Robert Ross says on top of technical audit and tax support clients are looking for business advice that helps them “improve performance, mitigate risk and drive productivity in their businesses”.

Johnston Carmichael’s Manson says that firms are increasingly investing in services to enhance their offer to clients.

“Ultimately, clients are looking for joined up services and solutions – they expect a real understanding of their business and the markets in which they operate.” ■