BRAZIL: REGULATION AND TECHNOLOGY FORM BASIS FOR RECOVERY

Opportunities in the capital markets and the ever-growing influence of technology are expected to have a significant impact on the Brazilian accounting profession over the next 12 months, writes *Paul Golden*

The main challenges facing accounting firms in Brazil are investing in technology – which requires significant financial and human resources, and may represent a considerable challenge for smaller accounting firms – and dealing with regulators' demands, considering the continuing monitoring of accounting firms' activities in the form of inspections and peer review.

That is the view of Silvio Takahashi, partner for assurance professional practice at EY Brazil, who also notes that new IFRS standards have required significant training and extensive implementation discussions.

"In addition, there is a strong expectation in the market for several debt and shares offering processes to be launched in Brazil due to the optimism in the capital markets generated by the pension and tax reform expected to be approved by the government in 2019-/2020, as well as several state-owned companies are being privatised, which will demand multiple accounting services," he says.

Parallel to corporate accounting, the Brazilian government has advanced electronic fiscal control with greater emphasis on corporate accounting operations, forcing them to be more transparent and thus preventing tax evasion and illegal operations.

"With the convergence of accounting and greater fiscal transparency, the greatest potential for growth in the Brazilian market is to attract investors through the capital market through companies listed on the stock exchange," says Sebastião Borotta, partner at MSI Global Alliance member firm Simionate Independent Auditors.

Brazil's accounting market has been strongly impacted by firms that have received significant investment to develop and implement technological tools, with the purpose of expanding the range of services provided and decreasing personnel needs in work teams, says Luís Antônio Villanova, partner at HLB International member firm Rokembach+Lahm, Villanova & Cia.

"Firms that are able to keep up with this trend will greatly expand their client and service portfolios, optimising costs and increasing profitability," he adds. "Challenges include retaining talent (especially those with technical skills) and the regulatory framework, with many risks of significant penalties in case of errors in the information and data submitted to government authorities and regulators."

OUTSOURCING POTENTIAL

Given that Brazilian companies have to implement new regulations and receive accurate accounting information, there is a high potential for the business process outsourcing market and specialised deployment services, says Cesar Ramos, partner and founder at Partnership Kreston.

"On the taxation side, new court decisions banning certain tax-over-tax incidences promise to result in significant credits on back taxes," notes Karin Monchak, partner at MGI Assurance Auditores Independentes.

"As many of these decisions are immediately enforceable but still subject to change by government appeals, companies will be challenged to properly reflect results of operations in their financial statements."

According to Marcelo Lico, managing partner at Crowe Macro Brazil, regulators and the Federal Accounting Council have done an excellent job in ensuring that Brazil is one of the countries that has adapted and aligned to IFRS most quickly.

"However, we still have a very large number of small and medium enterprises – notably family businesses – who need to improve the management of their finances," he adds. "I therefore believe that we have a large market for accounting and consulting services for these types of company."

Brazil is establishing new partnerships with countries around the world, and this means the profession needs to ensure it can adhere to international rules as well as developing a stronger understanding of the dynamics of the international business market. That is the view of Adriana Brodbeck, partner with Moore Stephens Brazil, who reckons this will push the profession to a new level of international communication and knowledge, and allow working beyond national frontiers.

In July, *IAB* reported that the OECD and Brazil's Receita Federal (RFB) had presented the outcomes of a joint 15-month work programme on transfer pricing. The programme was launched in February 2018 to undertake an in-depth analysis of Brazil's transfer pricing legal and administrative framework.

Brazilian transfer pricing legislation, although diverging from some principles established by the OECD, is supported by the United Nation Practical Manual on Transfer Pricing for Developing Countries, explains Danilo Ogassawara of KSI Brasil.

"In comparison to the OECD methodology, from five methods the Brazilian legislation adopts three," he says. "Although this legislation has important virtues, we understand that the alignment to the arm's length criteria will be positive in supporting international business as well as some of the current trade challenges."

While the changes are deemed appropriate for the Brazilian transfer pricing system to conform to OECD rules, Leandro Scalquette, transfer pricing partner at AR HLB Deals Advisory reckons it is important to mention that over the past 20 years, the Brazilian

Sebastião Borotta, Simionate Independent Auditors

internal revenue service and taxpayers have formed a conviction that current rules can be attractive, due to their simplicity, practicality and predictability, providing tax certainty in the domestic market.

"Taxpayers are 'certain' that their tax planning agreements based on Brazilian transfer pricing rules will not be challenged and accept double taxation as an inherent cost of doing business in Brazil," he says.

Cleverson Lacerda, managing partner at PKF Brazil, accepts that some flaws are notable in Brazilian transfer pricing legislation, most notably the fact that the legislation ignores the particularity of each business and adopts generic criteria, which may lead to use of distorted methods in determining income or, in other cases, even double-taxation scenarios.

"There is an expectation from the Brazilian private market that this project will bring objective results and that it will harmonise Brazilian rules with international rules, improving internal transfer pricing structures, protecting organisations from the double taxation scenario and expanding the Brazilian regulatory environment for its adaptation to global best practices," he says.

Current rules are complex, and many entities have difficulties in calculating the proper transfer pricing adjustment by either not having appropriate internal controls or not having access to full information from the affiliates and the parent company, suggests Takahashi. This has resulted in transfer pricing consulting services becoming a major line for Brazilian accounting firms.

Borotta observes that, in practice, companies perform transfer pricing calculations in accordance with the regulatory rules issued by the Brazilian government and declare any adjustments to the IRS by means of an annual electronic declaration.

"After the declaration, the RFB has a period of five years to carry out an inspection of these transfer price calculations through specialised teams," he says. "In addition, it has an electronic audit system through information matching in the tax database. Brazilian tax simplification – coupled with a convergence of transfer price rules to the OECD – will increase legal certainty as well as reduce Brazil's costs in the operations of multinational companies."

The intention of authorities in Brazil to align transfer pricing rules to OECD standards will be welcomed by companies established in the country, says Brodbeck. "This will hopefully support Brazil in becoming a full member of the OECD in due course. Most importantly, transfer pricing alignment will provide foreign investors with increased confidence and transparency on the tax rules in Brazil, which should support investment."

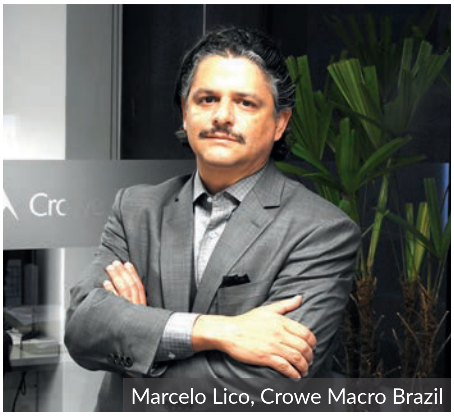
REBUILDING CONFIDENCE

Asked how the profession has rebuilt confidence following the audit scandals of recent years, Ramos refers to reduced concentration of contracts in large accounting and auditing companies, the publication of a new accounting code of ethics, and legislation that provides for civil and criminal liability of the accountant – including the independent auditor and their related companies.

"Compliance programmes, reformulation of corporate governance practices, and security policies have been paramount," he adds. "Also, the use of technology in financial, accounting and auditing processes in line with electronic fiscal system and accounting control mechanisms such as the public digital bookkeeping system and the obligation of accounting and auditing companies to provide information on suspicious and unusual transactions to the Financial Intelligence Unit."

Lico agrees that scrutiny has increased, especially when balance sheet items are relevant, or reports or evaluation by

Leandro Scalquette, AR HLB Deals Advisory



Marcelo Lico, Crowe Macro Brazil

third parties – such as asset valuation for impairment tests – are required.

"Often the accountant has had to 'anticipate' the auditor in safeguarding the disclosed information for shareholders and stakeholders," he notes. "We have noticed a substantial improvement in the professionalism of accounting and auditing professionals in Brazil."

It seems that disciplinary action by the professional bodies and regulators has had a positive effect on the auditors' mindset, suggests Monchak. "They show themselves to be more thorough, more challenging and more guided by the book. Along with the new audit report format, this has had a positive effect on their relationship with their clients' management."

Lacerda says hard lessons resulting from these scandals have had an effect, and adds that the auditors' response has been to invest. "Recent studies show a significant increase in organisations' investments in training and qualifications, which ensures not only the best technical but also ethical preparation of audit professionals," he adds.

Rebuilding trust has become a permanent topic in discussions and work activities at audit firms, according to Villanova. "Companies have invested in reviews, internal quality controls and training, while regulators have increased inspections and penalties, and both have invested in maintaining forums for discussions and indications regarding improvement needs," he explains.

Ogassawara reckons the profession has a moment of opportunity following the corruption scandals that forced the authorities to create new laws and ways of control, and with companies naturally adopting higher corporate governance and practices towards ethics and transparency in management.

"Accountants are not only forced to adapt in this new context, but we have been supporting and – through our associations – leading the initiative," he concludes. ■

BRAZIL

NETWORKS & ASSOCIATIONS: FEE DATA

	Rank	Name	Fee income (BRLm)	Fee income last year (BRLm)	Growth (%)	Fee split (%)					Year end
						Audit & assurance	Accounting services	Tax	Advisory	Other	
NETWORKS	1	EY* (e)	1,425.2	1,370.4	4%	n.d	n.d	n.d	n.d	n.d	n.d
	2	KPMG* (e)	1,211.6	1,165.0	4%	n.d	n.d	n.d	n.d	n.d	n.d
	3	BDO*	232.1	222.6	4%	57	11	15	17	-	Dec-18
	4	Grant Thornton* (e)	199.2	191.5	4%	n.d	n.d	n.d	n.d	n.d	n.d
	5	Mazars*	92.1	89.1	3%	20	67	-	13	-	Aug-18
	6	RSM* (1)	88.8	56.2	58%	20	62	11	7	-	Dec-18
	7	Baker Tilly International*	64.1	56.4	14%	45	39	7	9	-	Dec-18
	8	Crowe*	62.8	58.4	8%	24	27	17	12	20	Dec-18
	9	Moore Stephens Int'l* (2)	40.8	38.6	6%	37	27	16	16	4	Dec-18
	10	HLB International* (3)	32.7	42.1	-22%	12	52	8	20	8	Dec-18
	11	Nexia International*	30.4	28.6	6%	56	9	14	15	6	Jun-18
	12	Ecovis International*	24.4	22.1	10%	30	43	24	3	-	Dec-18
	13	PKF International*	19.7	19.7	0%	25	52	9	14	-	Jun-19
	14	Kreston International*	12.6	11.4	10%	25	66	6	3	-	Oct-18
	15	Russell Bedford Int'l*	11.3	n.d	n.d	77	3	1	13	6	Dec-18
	16	UC&CS America* (4) (5)	10.8	9.6	12%	93	-	7	-	-	Dec-18
	17	MGI Worldwide*	10.3	11.7	-12%	47	5	11	1	36	Jun-18
	18	TGS Global* (6)	3.9	3.1	26%	5	65	10	15	5	Sep-18
	19	SMS Latinoamérica* (e)	3.3	3.2	4%	n.d	n.d	n.d	n.d	n.d	n.d
	-	PwC*	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d
	-	Deloitte*	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d
Total fee income/growth			**3,576.0**	**3,399.7**	**5%**						
ASSOCIATIONS	1	Praxity* (5)	106.6	94.0	13%	19	62	3	13	3	n.ap
	2	Abacus Worldwide* (5)	22.5	13.1	72%	15	5	5	40	35	Dec-18
	3	Morison KSi* (6)	20.8	16.6	26%	14	35	20	14	17	Dec-17
	4	Allinial Global* (6)	15.6	9.7	61%	54	16	15	15	-	Dec-18
	5	CPA Associates Int'l*	14.2	14.3	-1%	58	37	1	1	3	Dec-18
	6	PrimeGlobal* (1)	11.2	9.1	22%	47	21	13	17	2	May-19
	7	UC&CS Global* (4) (5)	10.8	9.6	12%	93	-	7	-	-	Dec-18
	8	BKR International* (4) (7)	9.6	11.6	-17%	75	-	5	18	2	Dec-18
	9	Antea*	9.2	10.0	-9%	7	49	3	2	39	Dec-18
	10	GMN International*	3.6	3.4	6%	35	35	20	-	10	Sep-18
	11	Euraaudit International* (8)	1.2	4.1	-71%	25	75	-	-	-	Dec-18
	12	IAPA*	1.1	1.6	-30%	60	18	3	15	4	Dec-18
Total fee income/growth			**226.4**	**197.2**	**15%**						

Notes: (e) = *IAB* estimate, **n.d** = not disclosed, **n.c** = not collected, **n.ap** = not applicable, **n.av** = not available.
(1) Increase in fee income was attributed to organic growth and acquiring a new member firm. (2) Restated its figures for last year as they were *IAB* estimates. (3) Lost two small member firms. (4) Accounting services are included in audit and assurance. (5) Increase in fee income was attributed to addition of a new member firm. (6) Increase in fee income was attributed to gaining more clients. (7) Restated fee data for last year as there were errors in its submission. (8) Decrease in fee income was attributed to loss of business.

***Disclaimer**: Only data from a named member firm or exclusive member firms within a network/association is included. Data relating to correspondent and non-exclusive member firms is not included.

Source: *International Accounting Bulletin*

NETWORKS & ASSOCIATIONS: STAFF DATA

Rank	Name	Total staff		Growth (%)	Female		Partners		Professionals		Admin		Offices	
		2018	2017		Staff	Partners	2018	2017	2018	2017	2018	2017	2018	2017
NETWORKS														
1	Deloitte* (e)	5,720	5,500	4%	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d	14
2	EY* (e)	5,007	4,814	4%	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d
3	KPMG* (e)	4,159	3,999	4%	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d
4	BDO*	1,437	1,479	-3%	671	4	51	52	1,250	1,294	136	133	24	24
5	Grant Thornton* (e)	1,254	1,206	4%	n.d	n.d	n.d	44	n.d	1,081	n.d	81	n.d	13
6	Mazars* (1)	764	655	17%	n.d	n.d	3	4	650	556	111	95	7	5
7	Crowe*	459	415	11%	204	20	77	52	336	342	46	21	9	7
8	RSM*	409	339	21%	226	2	31	16	355	290	23	33	7	8
9	HLB International*	381	397	-4%	9	3	22	24	285	297	74	76	10	10
10	Baker Tilly Int'l*	363	400	-9%	143	10	48	36	287	344	28	20	11	9
11	Moore Stephens Int'l*	363	358	1%	178	8	47	49	274	270	42	39	10	11
12	Nexia Int'l* (2)	160	104	54%	76	-	8	6	133	78	19	20	6	5
13	Ecovis International*	154	139	11%	73	1	13	13	131	115	10	11	4	4
14	PKF International*	144	140	3%	50	3	12	17	128	119	4	4	6	6
15	Kreston Int'l* (3)	105	100	5%	-	-	9	12	88	191	8	7	4	8
16	UC&CS America*	98	84	17%	31	1	6	4	80	70	12	10	4	2
17	Russell Bedford Int'l*	94	n.d	n.d	n.d	n.d	7	n.d	67	n.d	20	n.d	7	n.d
18	MGI Worldwide*	53	52	2%	n.d	5	8	8	45	44	-	-	4	4
19	TGS Global*	35	32	9%	30	1	5	4	15	25	15	3	4	2
20	SMS Latinoamérica* (e)	26	25	4%	n.d	n.d	n.d	1	n.d	18	n.d	6	n.d	2
-	PwC*	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d
Total staff/growth		**21,185**	**20,238**	**5%**	**1,691**	**58**	**347**	**342**	**4,124**	**5,134**	**548**	**559**	**117**	**134**
ASSOCIATIONS														
1	Praxity*	886	693	28%	n.d	n.d	21	6	748	590	117	97	11	6
2	Morison KSi*	184	156	18%	95	4	17	17	155	124	12	15	6	6
3	Allinial Global*	109	72	51%	-	-	13	12	88	54	8	6	7	7
4	Abacus Worldwide*	99	82	21%	n.d	n.d	8	6	78	70	13	6	6	2
5	UC&CS Global*	98	84	17%	31	1	6	4	80	70	12	10	4	2
6	CPA Associates Int'l*	96	89	8%	29	3	16	16	69	46	11	25	4	4
7	Antea*	86	91	-5%	27	1	7	4	68	77	11	11	6	6
8	PrimeGlobal*	67	74	-9%	n.d	n.d	15	15	41	46	11	13	7	7
9	BKR International*	65	64	2%	45	2	15	14	35	35	15	15	5	8
10	GMN International*	59	63	-6%	34	3	6	6	36	39	17	18	5	5
11	Euraudit Int'l*	13	18	-28%	6	-	2	3	8	13	3	2	2	2
12	IAPA*	9	10	-10%	n.d	n.d	2	2	4	5	3	3	1	1
Total staff/growth		**1,771**	**1,496**	**18%**	**267**	**14**	**128**	**105**	**1,410**	**1,169**	**233**	**221**	**64**	**56**

Notes: (e) = *IAB estimate*, **n.d** = not disclosed, **n.c** = not collected, **n.ap** = not applicable, **n.av** = not available.
(1) Increase in staff number was attributed to opening of new offices. (2) Increase in staff members was attributed to acquision of two new offices. (3) Restated its staff figure for last year as it mistakenly included data for an entity that was not part of Kreston.

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Source: *International Accounting Bulletin*