SMPs as Trusted Advisors for SMEs

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CFRR Audit Training of Trainers
Vienna, 15th - 16th March 2017
Agenda

(1) Research Insights
(2) Implications / Opportunities
(3) New Services – What?
(4) New Services – How?
(5) Making the Change
(6) Concluding Remarks
(7) Further Reading
(1) Research Insights - IFAC

★ IFAC Research Report - *The Role of SMPs Providing Business Support to SMEs* (Update from 2010—Over 90 research papers)

☆ Factors driving SME demand for business advice includes size, debt, age, growth, available resources, regulation, personal characteristics

☆ Majority of SMP revenue from traditional services but increase and diversification of advisory services

☆ SMPs preferred advisers – depends on type of advice and personality, integrity, competence
(1) Research Insights - ACCA

★ ACCA SMP Business Model Survey
   ★ 60% of SMPs were specialists
   ★ 43% of SMPs had partners with qualifications or formal training other than accounting
   ★ 28% of SMPs formal referral agreements in place
   ★ SMPs at least 3 years old 15% had experienced M&A activity in last 3 years
   ★ Out of 55 potential service areas the typical SMP offered just 10
(1) Research Insights – AICPA

2016 AICPA-PCPS MAP survey findings

- US SMPs highly profitable and growing at robust pace
- Client accounting services (CAS) (outsourced finance & accounting services including virtual CFO and other back office support for clients) driving revenue growth, especially for larger SMPs
- CAS climbed from 4% to 10% of total fees for SMPs, over 10% for smallest SMPs
- Tax is primary revenue stream for SMPs, especially smaller ones with 60% of total fees from tax
- Assurance services are more important the larger the SMP: from less than 3% of total revenues to over 30%
- Compilation and review make up around 10% of revenues, less for larger SMPs
- 56% use fixed price billing / 28% use value pricing
(1) Research Insights - Other

★ AICPA White Paper, "The CPA of the Future"
☆ 82 percent need to better understand innovation
☆ 80 percent have concerns about recruitment to meet future needs
☆ 90 percent believe digital future is rapidly approaching
☆ 8 percent believe accountancy profession is future ready

★ McKinsey Global Institute, "Harnessing automation for a future that works"
☆ Large proportion of accountant’s core work can be automated
☆ Other factors may work to realize this potential

★ Daniel and Richard Susskind, "Future of the Professions"
☆ High risk traditional role / tasks of accountant will be automated
(2) Implications / Opportunities

★ SMPs need to carefully re-examine
☆ **What** services they offer?
☆ **How** to offer these services?
(3) New Services - What?

★ Non-audit services (supported by IAASB standards)
★ Advisory
★ Client accounting services
(3) New Services – Supported by IAASB Standards

- IFAC Brochure – *Choosing the Right Service: Comparing Audit, Review, Compilation and AUP Services*
- Targeted at SMEs
- Explains when each service may be appropriate and benefits
- Published Summer 2016
(3) New Services – SME Benefits of Other Engagements

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<thead>
<tr>
<th>SME Benefits</th>
<th>Commentary</th>
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<tbody>
<tr>
<td>Alternative to Audit</td>
<td>Audit exemptions for SMEs are becoming more prevalent. Less time consuming for client.</td>
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<tr>
<td>Lower Cost</td>
<td>A review, compilation or AUP engagement is normally a lower cost for an entity than an audit.</td>
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<td>Assurance</td>
<td>Limited assurance for review engagements obtained on the F/S as opposed to no assurance with a compilation and AUP.</td>
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(3) New Services – SME Benefits of Other Engagements

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<td><strong>Bespoke Advice</strong></td>
<td>Adds value to the client, provides basis for bespoke advice</td>
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<td><strong>Opportunities—Additional Service</strong></td>
<td>Ensure the client is aware of how and when different engagements can be used</td>
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<td>Deepens relationship with the client</td>
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<td>Opportunities for cross-selling</td>
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<td><strong>Flexibility</strong></td>
<td>Allows practitioners to tailor procedures based on their professional judgment and experience</td>
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(4) New Services - How?

★ **Technology** (cloud, data analytics, remote, etc.)
  ✫ Threat – commoditization, automation, migration, security
  ✫ Opportunity – both enabler (new, improved, 24-7, geographical) and aid to efficiency (quicker, cheaper)
  ✫ Challenge - how to adapt to and leverage

★ **Talent** - technical (e.g., IT) and soft skills (e.g., branding, marketing, selling, negotiating, etc.)

★ **Pricing / positioning** - value / fixed pricing vs. time-based

★ **Collaboration / networking** - expand expertise through networks and partnerships

★ **Communication / promotion** - social media (e.g., Twitter, LinkedIn), in-house experts, 24-7 pro-active client interaction
(5) Making the Change

5 Key Steps to Transition

1. Find a Champion
2. Identify Suitable Staff
3. Promote New Service
4. Encourage Participation
5. Seek Outside Help
(6) Concluding Remarks

★ SMEs look to SMPs as preferred business advisors
★ Future of practice prosperity rests on tech and talent
★ Website: www.efaa.com
★ Follow us on Twitter: @EFAAforSMEs
(7) Further Reading


