The International Federation of Accountants

Guide to Practice Management for Small- and Medium-Sized Practices

4th Edition

International Federation of Accountants

International Federation of Accountants
529 Fifth Avenue
New York, NY 10017 USA

This *Guide to Practice Management for Small- and Medium-sized Practices* was prepared by the International Federation of Accountants (IFAC) with support from its Small and Medium Practices Committee. The committee represents the interests of professional accountants operating in small- and medium-sized practices and other professional accountants who provide services to small- and medium-sized entities.

This publication is available on the IFAC website. The approved text is published in the English language.

IFAC serves the public interest and strengthens the accountancy profession by:

- Supporting the development of high-quality international standards;
- Promoting the adoption and implementation of these standards;
- Building the capacity of professional accountancy organizations; and
- Speaking out on public interest issues.

IFAC is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. For further information, please email christopherarnold@ifac.org

ISBN: 978-1-60815-350-3

Contents

Preface

Welcome to the fourth edition of the IFAC *Guide to Practice Management for Small- and Medium-Sized Practices*.

First released in 2010, the Guide provides comprehensive guidance to help SMPs operate more efficiently in the increasingly complex and competitive global marketplace for professional services.

In this edition, the main changes relate to a revised section on Leveraging Technology (Module 5), which recognizes the importance of how SMPs operate and service their clients. IFAC has also taken the opportunity to reference the Global Knowledge Gateway, as well as make minor edits and general updates. Mindful, however, that many users may have already translated the Guide, we have endeavored to keep the revisions to a minimum.

Organized into eight stand-alone modules, the Guide provides SMPs practice management principles and best practice guidance on topics, including: strategic planning, managing staff, client relationship management, and succession planning.

In order to help member organizations and practices maximize the use of this Guide, the IFAC has developed a companion manual, *Guide to Practice Management for Small- and Medium-Sized Practices: User Guide*, which provides suggestions on how to make best use of the Guide.

Monica Foerster
Chair, IFAC SMP Committee
January 2018

Request for Comments

This is the fourth edition of the Guide. IFAC is committed to updating the Guide on a regular basis to ensure best practice and that it is as useful as possible.

We welcome comments from IFAC member bodies, practitioners, and others. In particular, IFAC welcomes views on the following questions:

1. How do you use the Guide? For example, do you use it as a basis for training and/or as a practical reference guide, or in some other way?
2. Do you believe that the Guide has appropriately included all of the relevant aspects of practice management? If not, which elements would you suggest be added to or deleted from the Guide?
3. Do you consider the Guide's contents to be sufficiently tailored to the key practice management issues faced by SMPs?
4. Do you find the Guide easy to navigate? If not, can you suggest how navigation can be improved?
5. In what other ways do you think the Guide can be made more useful?
6. Are you aware of any derivative products - such as training materials, forms, checklists, and programs — that have been developed based on the Guide? If so, please provide details.

Please submit your comments to:

Christopher Arnold
Head of SME/SMP and Research
christopherarnold@ifac.org

Disclaimer

Practitioners should utilize the Guide in light of their professional judgment and the facts and circumstances involved in their firm and each particular engagement. IFAC disclaims any responsibility or liability that may occur, directly or indirectly, as a consequence of the use and application of the Guide.

Introduction

Purpose

The Guide aims to assist practices in operating in a safe, profitable and professional manner. The Guide seeks to do this by providing practical guidance across a whole range of practice management topics.

The Guide is intended to improve the management and operational efficiency of SMPs, ultimately making them more sustainable and successful. As such, the Guide is intended to: address the opportunities and challenges faced by SMPs; improve the competitiveness, profitability, and sustainability of practices; enhance the expertise, competence, and efficiency of those managing practices; provide practical assistance to those engaged in managing practices so as to provide an environment conducive to the provision of high quality services; showcase global best practices and latest practice management techniques.

Intended Users

This Guide is primarily directed at professional accountants working for or as SMPs. While the primary user is likely to be those managing the practice and senior professional staff, certain parts will be useful to more junior staff and as an introduction to the practices for new staff. It is also considered suitable as a reference guide meant for everyday use. In addition, SMPs may find the Guide helpful when it comes to providing general business advice to SMEs, likewise professional accountants working in SMEs may find it useful. Finally, students, educators, training providers, researchers, and international development agencies may find the Guide useful.

Topics Covered

The Guide covers a diverse range of topics, both strategic and operational, the depth and nature of coverage varies according to the topic. Where there is a high degree of homogeneity of practice and custom across jurisdictions a topic is covered in depth. But for topics that are especially jurisdiction sensitive, for example, practice structure, employment law, etc., – coverage is more generic and principle based, making it suitable for local adaptation.

A brief outline of each module follows, with a detailed index which includes hyperlinks found in the contents section.

Module 1 Planning for Your Firm

The essential ingredient for success is for every firm to know its own strategy—the path that the partners and employees wish to travel.

There is not necessarily a single right or wrong direction for a public accounting firm. Successful firms can be highly specialized or general, focusing on transaction or traditional accounting services or high-end advisory services.

Module 1 examines the business and strategic planning processes and the more detailed policies that govern the development and implementation of the strategic plan within your firm.

Module 2 Practice Models, Associations and Networks

If an accounting firm is built on a solid foundation of good decision-making, ethical and efficient processes, and a balanced team of committed leaders, it can be confident about its long-term future.

Module 2 looks at the structural considerations inherent in owning or running an accounting firm, and the various models available. It includes examination of profit-sharing and decision-making within a firm and the use of networks to add value and grow profitability.

Module 3 Building and Growing Your Firm

Module 3 expands on the themes covered in Modules 1 and 2 by exploring in more depth the issues of developing a growth strategy, building a business advisory practice, coping with increased regulation and competition, pricing, marketing and developing a firm culture.

Module 4 People Power: Developing a People Strategy

The degree to which your firm can provide good service and be successful is determined by the calibre of your staff and your leadership.

Module 4 examines key elements that will play a pivotal role in achieving your firm's objectives—people. This module explores your role as a leader as well as the staffing issues that have to be addressed as your firm grows, including your firm's ability to attract, retain, motivate, and train their employees.

Module 5 Leveraging Technology

In a climate of ongoing change, technological disruption, increased regulation and the emergence of various global reporting systems, it is even more critical for firms to adopt best practice in respect to emerging technologies such as social media, smartphones and Cloud Computing.

Module 5 examines the increasing role technology plays in the success of an accounting firm. Effective selection, implementation and management of technologies, as well as training employees to use these tools, are fundamental to the success of any firm.

Module 6 Client Relationship Management

Strong and effective client relationships are the backbone of a successful accounting firm. The relationships accountants have with their clients is fundamental to the value of the accountancy firm. Increased competition demands that firms maintain and enhance client relationships. Increased regulation places more importance than ever on knowing your clients.

Module 6 examines the development and ongoing maintenance of client relationships, and strategies to improve and cement your client relations including networks, referrals and other alliances.

Module 7 Risk Management

The concept of risk is familiar to practitioners. However, the issues of risk and risk management have increased in importance as the number and size of legal claims have increased over the years.

Module 7 explores risk management and the specific impact it has on practice life. It provides a framework for identifying, evaluating, and acting on risks within a firm. It discusses ethical issues and safeguards which can be used to deal with ethical threats, the role of quality control systems, and additional risk mitigation such as insurance.

Module 8 Succession Planning

As professional accountants age, their thoughts inevitably turn to the value of their assets within a firm, and their exit strategies from their firm and ultimately from the accountancy profession.

Module 8 examines the importance of a succession plan that allows for the orderly exit of the practitioners, and the strategies that can be implemented to become succession ready. It includes discussion on valuation and pricing, and options for consolidations, mergers and internal and external buyouts.

Modular Format

Each module has been designed to be a stand-alone entity. The modular format makes it suitable for either printed or electronic form.

Each module has been organized in the following format:

Title

Contents

This sets out the table of contents for the module

Introduction and Guidance

The introduction provides an overview of the module. The overview is followed by practical guidance on how to implement the practices.

While designed to cater for practices at various phases of the life cycle of a practice it is suggested that the order in which one reads the Guide may differ. For example, those in the start-up phase may find it better to start with Modules 1 and 2, the well-established practices may find it more useful to start with Module 3, and those preparing for succession may be best advised to go straight to Module 8.

Case studies, Checklists, and Global Knowledge Gateway

Each module has been constructed on the assumption that the reader has core knowledge of practice management principles. The content is designed to illustrate how to apply the theoretical concepts, implement change and monitor progress. To assist this process, some modules include case studies and checklists. Furthermore, each module ends with a link to the Practice Management section of the IFAC Global Knowledge Gateway to allow practitioners to further examine topic areas of interest.

Cross-reference to Other IFAC Publications

The Guide is designed to complement existing publications of IFAC and the independent standard setting boards that IFAC supports, such as the *International Code of Ethics for Professional Accountants* (including International Independence Standards) (the IESBA Code) and *Guide to Quality Control for Small- and Medium-Sized Practices*, and where appropriate the text includes cross-references to these publications.

Use by IFAC Member Organizations

IFAC's primary target audience is its member organizations and this Guide is intended to help those organizations help their SMPs. The Guide is likely to be particularly useful to member bodies in those countries where the profession is emerging and/or neither IFAC member organizations nor commercial providers have published similar guides. The Guide may also be used by member bodies to enhance or supplement their own material.

IFAC encourages and facilitates the reproduction, translation and adaptation of its publications. Interested parties wishing to reproduce, translate, or adapt this guide should contact permissions@ifac.org. Visit the Translations Database (http://www.ifac.org/Translations/database.php) for a current list of translations of IFAC publications: a number of translations of the Guide's previous editions are already available.

To facilitate translation, the Guide uses terminology of IFAC and the independent standard setting boards that IFAC supports, such as per the Glossary in the Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements, to the maximum extent possible. Where this terminology was not available, every effort has been made to use terms that can be easily translated. All relevant terms are contained within the "Glossary of terms" at the start of the Guide. In addition, the Guide is written in clear and concise language so that it may be readily understood and translated into other languages commonly used by IFAC member bodies.

The Guide is structured and written in a way that lends itself to easy adaptation to the local/national requirements, culture, and business practices of the many countries in which IFAC member organizations operate. For example, topics that are jurisdiction-sensitive are drafted in a generic fashion so that the text can be easily extended and adapted to best suit local circumstances.

Further guidance on how IFAC member bodies can make best use of the Guide is contained in the companion manual, *Guide to Practice Management for Small- and Medium-Sized Practices: User Guide* (http://www.ifac.org/publications-resources/companion-manual).This supplementary user guide, in most cases, applies to any organization that uses the Guide.

Glossary of terms

Some of these terms are used in the modules. Their definitions appear below.

Accrual accounting

Attempts to answer questions about performance by considering all the assets and liabilities of the business after the period of operation.

Advertising

Communication to the public of information about the services or skills provided by accountancy firms with a view to procuring professional business.

Annual report

A document issued by an entity, ordinarily on an annual basis, which includes its financial statements together with the auditor's report.

Auditing/assurance

Auditing/assurance refers to the examination, verification and evaluation of financial or managerial processes, systems or outcomes in organizations. It includes an independent report on their credibility and operational effectiveness. Auditing also refers to the management of the auditing function.

Bad debt

A debt that will not be paid and is written off (removed from the books).

Big Four

Traditionally, the four largest firms in the world. They are: PricewaterhouseCoopers; Deloitte & Touche; Ernst & Young; and KPMG.

Business valuation

Refers to the process by which a supportable opinion is derived about the worth of a business or individual assets or liabilities.

Cash accounting

Recognizes transactions only when a cash payment or cash receipt is made.

Certified Public Accountant (CPA)

A credential conferred by a state or similar governmental jurisdiction that authorized the holder to practice as a certified public accountant in that jurisdiction.

Chargeable hours

Chargeable hours are public accountant-supervised hours normally chargeable to clients, excluding time spent on work of a routine clerical nature.

Charge-out rate

The rate, daily or hourly, at which the client is charged for services provided by the accountancy firm; rate is calculated for each member of staff within the accounting firm based upon a number of factors, including the firm's cost of wages, benefits, and other overheads.

Chart of accounts

Structure of the ledger system—basically, a map of the locations available for storage of transaction details.

Clawback provisions

Provisions in contracts that limit or reverse payments made when specific criteria are not met. They are calculated against a predetermined formula, and typically relate to the purchase of fees, or a practice.

Clients

Those individuals, firms, entities or organizations to whom services are provided by an accountant with respect to engagements of either a recurring or demand nature.

Close family

A parent, child, or sibling, who is not an immediate family member.

Corporate governance

System by which the directors and officers of an organization are required to carry out their accountabilities and responsibilities for ensuring that effective management systems, including financial monitoring and control systems, have been put in place to protect assets, earning and capacity and the reputation of the organization.

Customer Relationship Management (CRM)

A business management system that involves all aspects of interaction an organization has with its customer, client or member, including all marketing, communications, sales and service-related activities.

Database

A collection of data that is shared and used by a number of different users for different purposes.

Depreciation

Depreciation is the expense resulting from spreading the cost of an asset across its useful life.

The "cost" of a long-life asset used during the period of operation.

Direct financial interest

A financial interest:

- Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or
- Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control.

Directors

Those charged with the governance of an entity, regardless of their title, which may vary from jurisdiction to jurisdiction.

Disclosure

The material matters relating to the form, arrangement, and content of financial statements that are "disclosed" during the presentation of financial statements in accordance with generally accepted accounting principles.

Double entry bookkeeping

Reflects the double impact of any transaction on the accounting equation, such that the equation always balances.

Doubtful debt

A debt that is expected to become a bad debt, but might still be collected.

Engagement

An agreement, whether written or otherwise, between an accountant and a client relating to the provision of services. Consultations with a prospective client prior to such agreement are not part of an engagement.

Environmental matters

- Initiatives to prevent, abate, or remedy damage to the environment, or to deal with conservation of renewable and non-renewable resources (such initiatives may be required by environmental laws and regulations or by contract, or they may be undertaken voluntarily);
- Consequences of violating environmental laws and regulations;
- Consequences of environmental damage done to others or to natural resources; and
- Consequences of vicarious liability imposed by law (for example, liability for damages caused by previous owners).

Equity

The residual of assets less liabilities available to owners.

Expenses

Expenditures of money in order to earn revenues.

External audit

An audit performed by an external auditor.

External auditor

Distinguishes an external auditor from an internal auditor.

Fair value

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

Financial interest

An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.

Financial planning

Financial planning is the process of providing comprehensive assistance and support to meet a client's financial needs and goals in rapidly changing regulatory environments.

Financial statements

The presentation of financial data, including accompanying notes derived from accounting records and intended to communicate an entity's economic resources or obligations at a point in time, or the changes therein for a period of time, in accordance with a comprehensive basis of accounting.

Firewall

A combination of hardware and software that protects a WAN, LAN or PC from unauthorized access through the internet and from the introduction of unauthorized or harmful software, data or other material in electronic form.

Firm

- A sole practitioner, partnership, corporation or other entity of professional accountants;
- An entity that controls such parties through ownership, management or other means; or
- An entity controlled by such parties through ownership, management or other means.

Forecast

Prospective financial information prepared on the basis of assumptions as to future events that management expects to take place and the actions management expects to take as of the date the information is prepared (best-estimate assumptions).

Fraud

An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage. Two types of intentional misstatement are relevant to the auditor: those resulting from fraudulent financial reporting and from misappropriation of assets (See also Fraudulent financial reporting and Misappropriation of assets).

Fraudulent financial reporting

Intentional preparation of misleading financial statements—such as distorted records, falsified transactions or misused accounting principles.

General IT controls

Policies and procedures that relate to many applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. Include controls over data center and network operations; system software acquisition, change and maintenance; access security; and application system acquisition, development, and maintenance.

Governance

The role of persons entrusted with the supervision, control and direction of an entity. They ordinarily are accountable for ensuring that the entity achieves its objectives, financial reporting, and reporting to interested parties. Includes management only when it performs such functions.

Government business enterprises

Businesses that operate within the public sector ordinarily to meet a political or social interest objective. They are ordinarily required to operate commercially, that is, to make profits or to recoup, through user charges, a substantial proportion of their operating costs.

Immediate family

A spouse or domestic partner, child, child of a domestic partner, sibling, sibling of a domestic partner, brother in law, sister in law, parent, parent of a spouse or a domestic partner.

Indirect financial interest

A financial interest beneficially owned through a collective investment vehicle, estate, trust, or other intermediary over which the individual or entity has no control.

Industry standards

Benchmarks for financial or non-financial information that provide important contextual data for any financial analysis.

Internal control

The process designed and effected by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. Internal control consists of the following components:

- The control environment;
- The entity's risk assessment process;
- The information system, including the related business processes, relevant to financial reporting, and communication;
- Control activities; and
- Monitoring of controls.

IT

IT (information technology) encompasses the needs of professional accounting users for efficient and effective systems. It involves hardware and software to support operations, information systems and management processes. It includes the skills required to apply those products and processes to the tasks of information production and information system development, design, management, control and evaluation. This area also encompasses project management activities.

IT environment

Policies and procedures that the entity implements and the IT infrastructure (hardware, operating systems, etc.) and application software that it uses to support business operations and achieve business strategies.

Journal

Traditionally the first part of the accounting system at which a transaction is entered (either manually or electronically) into the accounting system.

Key performance indicator (KPI)

Benchmark measurement based on objectives, targets and defined industry standards.

Knowledge management

The process of connecting people to people and people to information to create competitive advantage.

Ledger

The storage device that separates the transactions into their different categories and stores them in locations called accounts.

Liabilities

The debts of the business, representing a present obligation to dispose of economic benefits to another entity or person.

Liquidity

A measure of the ability to generate cash to meet financial obligations as they fall due.

Listed entity

An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.

Local area network (LAN)

A communications network that serves users within a confined geographical area. LANs were developed to facilitate the exchange and sharing of resources within an organization, including data, software, storage, printers and telecommunications equipment. They allow for decentralized computing. The basic components of a LAN are transmission media and software, user terminals and shared peripherals.

Management

Comprises officers and others who also perform senior managerial functions. Management includes those charged with governance only in those instances when they perform such functions.

Managerial employee

An employee who acts in a managerial capacity within the structure of the firm, including providing oversight, in the provision of services to clients.

Member

A member of a professional body that has adopted the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by IESBA as applicable to their membership, as defined by that professional body.

Misappropriation of assets

Intentional, illegal use of the property or funds of another person for one's own use, particularly by a public official or a person who has a fiduciary duty.

Mission

A formal document that states the aims of a company or organization.

Noncompliance

Refers to acts of omission or commission by the entity being audited, either intentional or unintentional that are contrary to the prevailing laws or regulations.

Operational risk

Risk that deficiencies in information systems or internal controls will result in unexpected loss. This risk is associated with human error, system failures and inadequate procedures and controls.

Partner

Any individual with authority to bind the firm with respect to the performance of an engagement.

Personnel

Partners and staff.

Portlet

Integrative component embedded into a portal page, delivering information from other business systems.

Practice sale

The sale of the entire practice to a new purchaser.

Practitioner

A professional accountant.

Profession

A profession is an occupation that typically requires a bachelor's degree from a university, and in most cases a period of postgraduate study. Professions are normally self-regulating, with members adhering to a code of ethics and discipline.

Professional accountant

An individual who has met the academic, professional and practical experience criteria established by a recognized professional accounting body for the awarding of that body's professional credential. Further, this person continues to meet all the criteria for remaining a member in good standing in that body.

Professional conduct

Professional conduct is anchored in ethics, the explicit reflection on moral beliefs and practices. All professionals are guided by codes of conduct embodying the ethical principles that govern their performance and behavior.

Professional services

Services requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services.

Professional standards

IAASB engagement standards, as defined in the IAASB's "Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services," and relevant ethical requirements, which ordinarily comprise Parts 1 to 4 (including the glossary) of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by IESBA, and relevant national ethical requirements.

Progressive sell down

The practitioner progressively sells off percentages of their equity in their firm over time.

Public entity

An entity whose securities are publicly traded, either on a stock exchange or on the over-the-counter market.

Public sector

Includes national governments, regional governments (for example, state, provincial, territorial), local governments (for example, city or town) and related governmental entities (for example, agencies, boards, commissions and enterprises).

Quality control

Quality control refers to the organization's systems and processes employed to ensure that its output or product consistently meets specifications.

Reciprocal agreement

Two-way arrangement by which organizations agree to use each other's resources.

Related entity

a. An entity that has direct or indirect control over the client provided the client is material to such entity;

b. An entity with a direct financial interest in the client, provided that such entity has significant influence over the client and the interest in the client is material to such entity;

c. An entity over which the client has direct or indirect control;

d. An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and

e. An entity which is under common control with the client (hereinafter a "sister entity"), provided the sister entity and the client are both material to the entity that controls both the client and sister entity.

Restrictive covenant

A specific type of covenant in which one party agrees to be restricted by a contract. The most common type involves a former partner or employee restricted from working in his or her field for a specific time and within a specified area after leaving the practice.

Risk

Chance of something happening, measured in terms of impact and probability.

Risk management

Establishment of culture, processes and structures to manage potential opportunities and adverse effects.

Sale agreement

The legal agreement between the purchaser and vendor outlining the terms and arrangements of the sale.

Sale of fee parcel

The sale of specific and separately identified fees of a firm which are grouped or "parcelled" together, creating a separate asset which can be sold to a new purchaser.

Small- and medium-sized accounting practice (SMP)

An accounting practice/firm that exhibits the following characteristics: its clients are mostly small- and medium-sized entities (SMEs); external sources are used to supplement limited in-house technical resources; and it employs a limited number of professional staff. What constitutes an SMP will vary from one jurisdiction to another.

Strategy

Vision and direction for an organization, involving setting of mission statements and identifying markets and objectives so that the mission of the organization can be achieved.

Values

The accepted principles or standards of a person or a group.

Vision

A formal statement that expresses the aspirations and goals of a company or organization.

Wide area network (WAN)

A communications network that transmits information across an expanded area such as between plant sites, cities and nations. WANs allow for online access to applications from remote terminals. Several LANs can be interconnected in a WAN.

Planning for Your Firm

Module 1

CONTENTS

1.1 Introduction

Just as every accountant is different, so too will every accounting practice be different. The good news is there is not necessarily a single right or wrong direction for a public accounting firm to take. Firms can be highly specialized, or general. They can focus on transactional or compliance services, or on high-end advisory work. They can comprise large numbers of employees with few partners, or they can have a high proportion of partners with few employees.

The essential ingredient for success is for every firm to know its own strategy and stick to the plan to achieve it. This is the path that principals and employees travel so that the firm meets the needs of its owners. It starts with your strategic plan. This describes where the firm is headed and the way you and your partners want to see the firm develop. Good management will keep the firm commercially viable and professionally competent. Only in this way can your business satisfy your needs and the needs of your employees, clients and stakeholders.

Strategic thinking is an essential attitude to manage a firm. As the environment changes, it is important to review your strategy on a regular basis to ensure it is still appropriate, or consider if there are some elements that need to be refined. Regular review of the strategic plan is a good way to engage with partner and key staff on the future direction of the practice.

This module describes business and strategic planning processes, and the more detailed policies that govern the implementation of these plans.

1.2 To Specialize or To Generalize? Your Competitive Strategy

A successful accounting firm—indeed, any successful business—is one which delivers a service its customers want, at a price customers consider to be "fair value." The services may differ and the "value" perceived by your clients will depend on the benefits that you deliver. This is based on accuracy, competence, the feeling of confidence and dependability that your people engender, and of course the actual cost to your client, when they compare it with the value perceived.

Some marketing specialists argue that firms can choose from three possible positions in presenting their services. Sometimes a combination of two is possible. This is an important concept to understand early in the life of an accounting firm. It is also an approach you can bring to the attention of your clients during consulting assignments for them. The publication titled *How You Can Market Your Business to Success* provides background on the concept of market positioning. Other textbooks on marketing will also deal with this concept.

The three possible "market strategies" are:

- Overall cost leadership
- Differentiation
- Focus.

The key achievement is for the market to recognize that your firm is as unique as possible, offering something more valuable for clients than its competitors.

Overall cost leadership

The "**Overall cost leadership**" strategy is based on delivering your services with a low cost-base. This allows you to sell your service at a lower price yet still be profitable. A strong focus on cost reduction is required. This can be achieved, for example, by reducing your costs of production, by eliminating loss-making services/products or clients, or by adopting a "no frills" approach to all of your procedures and actions.

The benefit of "low cost" is that you can undercut the prices which competitors charge, and in doing so gain market share from them. But cutting your prices is the easy part to achieve. Doing it at "low cost" within your own firm represents the tough and ongoing challenge.

Differentiation

A "**Differentiation**" strategy requires you to take a different path in delivering your service from most of your competitors. Success with this strategy requires you to know your competitors well. This can be difficult in a typical "market" for accounting services which has many competitors, and whose strategies are not easily visible from the outside. "Differentiation" is easier to adopt if you have few competitors, and if their own position is clearly marketed to the target demographic. The challenge is to look at the services you deliver and decide how to offer them differently to others in the market.

For example, you may choose to "bring your service to your client" by sending your people directly to the client's premises to gather data, process some information and interact with their key personnel. If your firm is the only one taking this approach, then "differentiation" is at work. However, once other firms start to copy your approach, your marketing advantage is gone.

A "differentiation strategy" must be continually reinforced through promotion, and through continual focus on your differentiating factor. All the other actions and procedures within your firm should continually contribute to or reinforce the differentiating factor.

Focus

The third possible market strategy revolves around "**focus.**" For example, your firm might focus on one industry or a very small number of industries. By doing this, your people can legitimately claim expertise in dealing with those industries. For example, professional practices, or doctors, or the mining industry, or the arts community. Your people would come to learn the specific needs and activities of a few sectors and be able to ensure that all clients benefit from that knowledge. This means they do not need a "learning curve" or extensive research, or by understanding industry-specific taxation or legal issues faced. If your strategy is based on "focus," word-of-mouth referrals or highly targeted promotional strategies become especially powerful. At the same time client confidentiality becomes paramount in order to prevent inadvertently revealing information. A focus strategy is a good way to achieve recognition for a small- and medium-sized practice (SMP).

If "focus" is your key marketing strategy, you will become known in the market as experts in that area. This typically means you can charge higher rates for your work. Be careful not to overprice your work however, as the market segment must still be able to afford your services

As you approach the topic of "strategic planning," you should review the current market for accounting services and the actions of the firms already in that market. By doing this, you will come to identify any gap in the way your competitors are supporting their clients, and start to define which of the three key strategies is the best one to follow.

More detail is given below to help you identify the best approach for your own firm. As you read through the remainder of this section, bear in mind that not all the matters raised are relevant in each country. Examine the list of services to see which ones your team is qualified to deliver, those likely to be required by your target clients, and any restrictions imposed by your professional association. The *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the IESBA Code) issued by the International Ethics Standards Board of Accountants (IESBA) can guide your decisions about services you offer, and the clients for whom you choose to act. The Code is available at www.ethicsboard.org.

A small number of firms have a specialist niche position for their service offering: they deliver only a narrow range of services. This is a good strategy where a principal or partners have some unique expertise (for example, in a particular tax) or a unique analytical skill. However, most firms provide a range of accounting services, such as processing transactions, lodging tax, and corporate forms, giving broad-based business advice, and possibly some audit/assurance work.

Increasingly, the bulk of these general practice firms are coming under pressure from clients to cover the full range of commercial issues. So, if your current or proposed firm is positioned as a broad-based service, be prepared to respond to client demand by progressively increasing your range of services in future years.

If you are joining an existing firm, many of the decisions will already have been made. If so, use this material to identify gaps in your current service offering. Then you and your partners can bridge those gaps with new services, new clients, or new approaches to delivering existing services.

1.2.1 Market Strategy and Technology

As you consider and develop your services strategy, remember that technology can enable great flexibility in the way services are delivered. Module 3 explores the benefits of developing a market competitive strategy and the use of a SWOT analysis as part of your business planning process. See Module 5 for details about leveraging technology in your firm.

Mobile technology—especially mobile phones and Internet-based wireless communications—enables a “virtual office” to be operated. This in turn allows accounting personnel to move seamlessly between the offices, a client’s premises, and even the accountant’s home, all the while being connected, or at least accessible to accounting applications. The “cloud” allows the accountant and client to operate on the business records at the same time enabling real-time interaction with the client. This opens up the opportunity for the client to outsource much of their finance function to the external accountant, who effectively becomes the internal accountant.

When using these technologies, firms must adopt best-practice data security standards. If your applications enable clients to access their information as it is being processed, you will not want clients changing that data or, even worse, accidentally accessing another client’s data. Other technical challenges revolve around data synchronization (feeding information to and from the mobile device to the central, master data location), back-ups to minimize the risk of loss of data, and the creation of secure barriers to prevent identity theft or malware. Those applications are increasingly being software-controlled to remove the “human factor” from the control process. Passwords are crucial to data security: they need to be regularly changed, sufficiently strong, and their access restricted.

Using a specialist IT consultant is a good idea, since they (and not you) will remain totally current in their knowledge about ever-changing risks and potential applications. The consultant can act as high-level adviser to the partnership as a whole or to the management team; the firm then ensures it has internal employees capable of implementing the recommendations and managing the system day to day.

Increasingly the accountant is accessing the client’s data rather than the client accessing the accountant’s data. This trend is likely to continue as cloud-based applications become more fully adopted. Accordingly, clients also need to be alert to data security and synchronization issues.

Do not underestimate the risk that the loss of the physical equipment poses: theft of a laptop or smartphone or a memory stick may be as big a risk to the firm’s computer security as any hacker. For that reason, all aspects of technology security must be addressed in assessing the implications of IT use in delivering your services.

Like any aspect of the firm’s operations, a plan and a budget must be prepared for its technology. The IT plan should also have a disaster-recovery process that is tested regularly.

1.2.2 Specializing

If you choose to specialize in a niche accounting service or client base, be aware that you are consciously choosing to focus on a narrow range of services. This means you are turning your back on the other services provided by competitors. It means your revenue will come from services that few competitors can provide and provides you with the opportunity to be regarded as a specialist, or expert in your area. As you will be competing with other firms offering more services than your firm, to more clients, it is very important that the market recognizes you are offering greater value for it than competitors.

To make this strategy work financially:

- You must have highly skilled team members. They might have intellectual knowledge (for example, a deep and detailed knowledge of a specific type of tax or financial planning or knowledge about a process, such as a quick, accurate and reliable process for handling income tax returns).
- You must promote your service within a sufficiently large market to generate enough clients. This does not mean that your office must be located in a big city, but you must promote your service to a large number of potential clients. In this way, the firm can generate enough revenue to support its costs and deliver profit to the firm owners.
- You must select a suitable pricing policy. The approach here can vary, depending on the particular niche you are servicing. To illustrate, if your service is based on an unusual knowledge base, if there is a high risk in delivering the advice, or if there is a high payoff for your clients from using your advice, then a premium pricing approach is likely to be the right one. The high price compensates you for scarcity and risk, and rewards you for your specialized skills. If, on the other hand, your niche is providing fast turnaround and accurate personal income tax returns, then a low price approach may be the most suitable strategy. In this case, the efficiency of your service must enable you to perform the service at a lower cost than your competitors, thus making it possible for you to charge a lower fee.

1.2.3 Generalizing

In this situation, your firm offers a broad range of accounting services (not necessarily *all* the available services, but a reasonable spread) to clients in your marketplace. Once again, skill and knowledge are important, but a key challenge is to keep up to date with changes across all the areas of service.

One tactic is to appoint a number of internal specialists, each of whom keeps current in an aspect of your service. In this way, a firm can promote, say, an expert on direct tax such as personal income tax or corporation taxes, an expert in financial planning or wealth management services, an expert in business management issues, and so on. Each person can back up the other personnel in the firm and create more points of contact with each client. This approach works very well in medium-sized and larger firms, but in smaller firms there are not enough people to support the load. Very small firms can find it very difficult to keep fully up to date with the many changes to legislation, making the general firm approach harder to implement.

The generalist firm model requires considerable amounts of study and professional development; practitioners may need to subscribe to many publications or technical resources to access the full range of detailed information.

It is impossible, in a marketing sense, to be both “specialist” and “generalist.” Nevertheless you can be a specialist in a particular sector of industry and at the same time be a generalist by still offering them the services they need, or vice versa.

Also be wary of trying *simultaneously* to be “low-cost” and “differentiated” and “focused,” as these three approaches can contradict. For example, a “focused” strategy might require substantial investment in learning about a particular industry segment; some of this can be learned from your interactions with clients, but some knowledge will need to be generated from (for example) research, training and other "investments." These are contradictory to the notion of being "low cost" at the same time.

Making your firm "client-centric"

It is very important that you consider your main strength is to offer real value to your clients and potential clients. You may consider what services and what client mix will let your excel. Then develop a strategy that can expand your service offer, allowing you to offer more services to existing clients. This strategy recognizes that it is much easier to retain existing clients than attract new clients.

Making your firm and your marketing "client-centric" is the fundamental mind-set to adopt. When deciding on the best possible approach for your own firm, put yourself in the position of a client, and ask yourself questions such as:

- **What will be the primary focus of the firm?** This may be tax and compliance work, business advisory services, or perhaps a particular specialty, such as insolvency.
- **What services will your target market want or need?** This shouldn't be limited to a review of what you currently know or what you currently do. For example, you might be professionally capable of offering audit services, but that might be an area that you particularly dislike and have avoided at every opportunity. Simply because you don't like it is no reason to deny your market that service, but there are several ways of providing it.
- **How many of those services can you provide at present, with the current personnel?**
- **Will you deliver services in client's premises?** How much of your service can best be delivered directly at the client's premises, and how much is best delivered at your office? If, for example, your firm is heavily involved in transaction processing, or regular monthly management activities for a client, or other business advisory work then it makes sense for your team to spend time at the client's premises. This ensures ready access to key people and documents, minimizing delays for you and client alike. If, however, your service demands a lot of research or complex calculations, your own office will give better access to the necessary resources.
- **How will you price your services?** Will you adopt a time-based billing or a value pricing model? The traditional time for service-pricing model looks at service, cost, price, and client (in terms of their type, size, complexity, risk, etc.) and excludes any judgement of value delivered. Traditional time-based pricing may devalue the services you are providing. While the time-based model helps ensure you recover the costs of providing the service, it may leave the client unsatisfied and not able to appreciate the true value from the engagement. Clients sometimes believe the accountant has been inefficient and/or that they have little or no incentive to provide a quick answer. This can undermine trust between the accountant and client. Value pricing may be the answer. This is where prices are set primarily, but not exclusively, on the value, perceived or estimated, to the client. Value pricing, however, is not without its problems. Value is from the clients' perspective and this is often difficult to determine. In addition, value-based fees with an element of contingent fee may need to be avoided where there are potential independence or conflict of interest issues with the engagement.
- **What is the most suitable location for your office?** Does one need an office? The choice of location is in itself a statement about your firm, the image you want to create and your client base, for example:
  - If you target high-net-worth individuals, then your premises will need to make that type of client feel at home by virtue of its location and fit-out (the standard of fit-out also impacts employee morale);

  - If your client base largely comprises small business clients, contractors, and small service providers, you might be best served by an office located close to those clients, such as a business park or a nearby suburban area. The fit-out should be of good quality without being ostentatious; and
  - The location and standard of fit-out will impact your cost structure, which in turn will flow into your fee structure, so they should suit the type of client you predominantly attract. Having said that, your firm should also be seen as a special place to visit, which can be achieved through the type of reception that you provide, the care that your team takes of each client (such as offering refreshments while they are waiting), and so on.
  - Establishing a virtual practice by conducting all business over the Internet is a completely alternate model and may suit some SMPs. A virtual firm is a practice that does not have a physical office but operates from the homes or satellite offices of its practitioners usually delivering services to clients at a distance using technology. Typically only a small percentage of clients ever visit a practice office, the majority of client interaction being via mail, email, fax, and telephone. Lower overheads mean you can reduce costs, have greater flexibility in determining fees, and invest in services that benefit your practice like training and research. By not having to run an office, you may be able to visit your clients more regularly and have more billable time. However, if your firm has several partners and staff you may need some place to meet and focus on team collaboration.
- **How will you bridge any gaps in the range of services over the next twelve months as well as in the longer term?** For example, will you refer clients to a recommended list of other firms? Will you leave clients to find their own provider of that service? Or will you employ or train employees or partners to provide that service in your own firm? If you can refer the client to a trusted, competent firm that specializes in that service, the client's trust in you is reinforced. Then, in the future, when you recommend another specialist or when you tell the client that the equivalent service is now available in-house, the client should be predisposed to accept your recommendation.

Offering new services

Each new or additional service offered by your firm will demand a certain minimum commitment to it, for example:

- A senior person who will gain and maintain the required skills;
- An in-house training system that allows employees working in that area (whether on a full-time or a part-time basis) to also access relevant technical knowledge and understanding;
- Some level of technical resource such as subscriptions or access to a specialist provider outside your firm (refer to the material dealing with the various types of networks that can support a firm, or a practitioner);
- Possibly some specialized piece of computer software to assist you in the service delivery and detailed calculations. The use of relevant computer systems can speed up the process; can ensure that a particular process is followed, or prompt you to ask the critical questions along the way; and can increase your confidence in the ultimate outcome; and
- Regular reminders sent to all other employees concerning new services. This could include, for example, telling the firm's receptionist a few key facts about the service, so that he or she is aware of it and knows how to direct clients asking about such a service; and telling other professional personnel about the service, so that they can identify and refer any on-selling possibilities that they might come across in the course of their other work.

Adding a new service requires an investment of time and other outlays that will not be fully productive in the short term.

> "Developing a niche [service] means resolving a lot of issues such as what and how to invest in employees, how to service clients and what risks to take to make money tomorrow vs. making money today."
>
> *Hayes 2006*[1]

The partners must commit wholeheartedly to each new service. They should determine performance targets (such as fee levels to be achieved within particular time frames) to ensure that the investment delivers the expected payoff for the entire firm. As a practical guideline, any new service added by a firm should be able to deliver around double the wages cost of people involved in it, by the eighth quarter after its initial commencement (that is, in Quarter 8, fee income should be around twice that quarter's salary cost for partners' and other employees' time devoted to it). This is by no means a stunning or a rapid return, but it would give comfort that the service is establishing itself and being accepted by clients. Clearly, a faster increase in revenue would be desirable.

After identifying your range of services, consider how you will tell clients and potential clients about it. It is possible to do this in several low-cost ways; for example,

- you can print the service list on the inside cover, or some other prominent position on your accounts covers, or inside a bound set of accounts;
- use anonymous case studies to demonstrate the practical benefit from each service;
- use newsletters or other media as an attachment to your engagement letters on any information checklists given to clients at the commencement of your work with them each year,
- brought up in the course of discussions with clients as you conclude each piece of work; and so on.

These are low-cost yet direct methods for communicating your full range of services. Good promotion does not need to be expensive, just clear and focused on the benefits that you can deliver.

Typical accounting services can include audit, reviews, agreed on procedures, and compilations. To assist you in explaining these services to your clients the IFAC SMP Committee has developed a customizable brochure, *Choosing the Right Service: Comparing Audit, Review, Compilation, and Agreed-Upon Procedures Services.*

Your list of services might contain some of these (check whether there are any professional guidelines from your professional association which might prevent you from providing some services):

- **Accounts processing and reporting**: For statutory or management purposes, lodgment of essential information to comply with corporations law or similar requirements;
- **Audit**: Statutory/external audit, internal audit or management review;
- **Business advisory**: Including providing business management and profit improvement strategies to clients and merger and acquisition advice, in addition to many other services, which are described in more detail in Module 3 (some define business advisory in the broadest possible terms so as to include many of the services listed below);

[1] Hayes, Michael, "Be an HR resource for your clients." *Journal of Accountancy*, November 2006. www.journalofaccountancy.com/Issues/2006/Nov/BeAnHrResourceForYourClients.htm.

- **Insolvency and reconstruction**: Liquidations, receivership, bankruptcy, restructure, sale or closure of businesses;
- **Financial planning**: Creating savings or investment plans, reviewing investment performance, retirement planning, advice on pension and related entitlements, use of pension plan funds, advice on retirement issues and timing of retirement from employment, ongoing operation and reporting for pension plan funds or other investment entities, portfolio management, sourcing finance for a client or assisting in the preparation of applications for finance;
- **Taxation**: Income taxes, a range of business taxes (value-added tax [VAT] or similar), land taxes, inheritance taxes, wealth taxes, representing your client during a taxation audit, tax planning and choice of structures;
- **Public Sector and Not for Profit**: Increasing your understanding of public sector and not for profit can allow you to tailor your services to their specific needs; and
- **Other services**: These emerging services are centered on business coaching and mentoring; business planning and external chairmanship; forensic accounting or appointment as expert witness in cases of financial loss; human resources consulting: job descriptions, pay structures, design of incentive schemes, advice concerning termination of employment; mediation and/or arbitration; technology consulting: choice of (especially) accounting software packages or cloud-based solutions used by clients; implementation of IT systems within client firms, implementing e-commerce applications or principles within the client firm (and your own).

Recent IFAC Global SMP Surveys acknowledge that the IFAC SMP Committee has long recognized the growth potential of this [advisory and consulting] service line and actively encouraged the global SMP constituency to seriously consider stepping up their business advisory activities. Furthermore, there is mounting evidence that SMP revenues sourced from advisory and consulting services are rising faster than revenues from practice areas centered on compliance services such as audit and accounting. Increasingly SMPs, like their larger counterparts, are establishing or expanding their existing advisory and consulting services.

Ensuring the firm has adequate resources

Having identified the type of firm you are going to have and its range of services, you need to identify your target clients and put in place all of the resources necessary to deliver those services professionally and efficiently:

- The type and number of employees;
- The skill levels of those employees;
- Ongoing professional development and training required;
- Information resources, manuals, publications, subscriptions;
- Software programs;
- Skill support networks that should be developed;
- Infrastructure requirements; and
- Importantly, the amount of capital you will require to achieve your goals.

These resources will need to be included in your overall budget for the firm, so be conscious of the financial impact of adding each new service. A key principle is to deliver all of your firm's core services with resources available within the firm. This lets you keep good control over client management and satisfaction as well as quality of work and, if necessary, you can adapt your plan as to consider accessing other services which are explored in more depth in Module 5. It also maximizes your return on investments in firm infrastructure and other resources. Then, if a client requires a service that you consider as "non-core," you have the option of using a specialist provider from outside your firm, either by subcontracting that provider or by referring your client on to that specialist provider.

> "Ask questions. Get them to talk. Listen for what is said as well as what is not. Our best resources have been good communication and our clients' trust. Do a good job, and growth will take care of itself."
>
> *Hayes 2006*
>
> "Make intelligent, clear-cut decisions about which services they wish to offer to a clearly-defined client base and then set out to make them 'easy to buy.'"
>
> *Monks 2007*[2]

1.3 The Need for Business Planning

A business plan is one of the ingredients that make a business successful. Too many professionals see their firms as something other than a business, perhaps as an extension of their professional development or calling. Often the business can become no more than a job, and instead of creating freedom for the partners, they end up losing their lives to the business. Where they neglect the business issues of their firm, it shows quickly. The results can include:

- Low profitability and/or poor liquidity;
- Poor efficiency;
- Lack of risk management;
- The absence of necessary quality control;
- High employee turnover;
- Loss of clients;
- Loss of professional reputation; or
- Not achieving work–lifestyle balance.

Developing a business plan encourages a firm to consider different options, to act and control evolution, and share points among partner and staff. A sound plan will identify the critical issues for the business and identify the indicators that will demonstrate its success. It will also highlight if the firm is straying from its intended path, so you can redirect it once again.

There is a second benefit derived from a business plan. The fact that you are a good accountant does not automatically mean that you are good at running an accounting business. Running a business requires its own set of skills and disciplines that are quite separate from the skills of the profession itself.

Once your firm is operating, much of your time each day will be spent delivering accounting services. You will most likely be under time pressures, at least some of the time. So a key challenge throughout your professional life will be to balance your *professional* work and the *management* needs of your business. A business plan is the roadmap that shows whether you are on course.

[2] Monks, John and Tovey, David. "In search of greatness." *Accountancy*, March and April 2007.

Think strategically

Besides the preparation of a strategic plan, it is important to maintain an attitude of strategic thinking. Economies and societal needs evolve, so to embrace opportunity it is necessary to pay attention to these changes. Changes in regulations, market place competition, globalization, technology, and client demographics deliver both challenges and opportunities.

The key elements of strategic planning normally include:

- Developing a competitive strategy;
- A brief statement of the mission, vision and values that underpin the firm's reason for existence and its broad aims (in other words, the firm's culture);
- A statement that outlines the technical services the firm will deliver to achieve its mission and vision (its products and markets);
- Human relations—the people and skills required;
- A series of more detailed business plans, which govern the way that each unit or function of the firm will contribute to the overall strategic plan (its operations and delivery);
- Budgets, which support the components mentioned above; and
- Policies and procedures that guide the actions of individuals in achieving budgets and in acting consistently with the organization's values (its management and control).

The plan should set the overall tone of the firm, and confirm that your practice has the resources to achieve the goals of your firm. Planning is an ongoing process that moves through a cycle of activities; this applies to the creation of the strategic plan itself and the budgets that are created later. The plan that you devise today will need to be refined and adjusted in response to changing circumstances.

The strategic plan should have defined milestones and action plans describing target results. This will allow you to follow the results achieved and to compare them against your plan. Module 3 explores in more depth strategies to build and grow your firm.

Remember that the vision and mission that form the foundation of your strategic plan should stay reasonably stable over many years. The "values" of a firm are the cultural or behavioral philosophies that set the tone for the firm's behavior and that of its personnel. The "vision" is an aspirational statement of what the firm should look like. The "mission" outlines the broad strategic goal of the firm and gives a strong and concise statement about the way that the vision is to be achieved.

There are many texts that look at these fundamental components of the planning process; refer to those if you wish to gain greater understanding than this module can cover. Your strategic plan is built on essential aspects of who you are and what you are trying to achieve. These are embedded in the mission, the vision and the values of the firm. The same applies to your personal goals, which you might express along the following lines:

"I want to have a substantial business that dominates its market area due to a reputation for providing proactive, practical accounting services," or

"I want to be able to afford to retire by my fiftieth birthday."

As you can see, not all personal goals will have an accounting focus.

1.3.1 The Strategic Planning Process

Your strategic plan is based on the assumption that you really do want to be in business and that your range of services is suitable for your client base. Your strategic plan should demonstrate that the firm can provide the income needed to support your family and give you the work–life balance that you desire. Otherwise, your plan will not be achievable. The key principles at the base of your plan should not change much over a ten-year time frame.

You will see many commercial and professional changes over that same ten-year period. So your strategic plan must incorporate some shorter-term action plans for each part of your firm. Some plans (such as the budget) might look twelve months ahead; other plans, such as your staffing or marketing plan, might look ahead two to three years. Each unit would normally develop its own plan, which in turn would show how that unit contributes to the overall strategic plan.

While Figure 1.1 suggests a sequential process, some steps may occur simultaneously. Decisions made later in the process might cause earlier work to be re-adjusted. Changes in professional or commercial activity may lead to revisions of budgets and some of the lower-level plans. Occasionally, you might need to change a fundamental strategy: for example, you might decide that a new service line is needed, or that partnership might be a better way to achieve other aspects of your mission than remaining a sole practitioner. This is why your plan is called a "living document," which evolves to guide your future decisions. Having a documented plan puts a discipline behind every decision you make: that is, "Will this decision take us in the direction we want to go?"

Approach your plan in a structured way. Too many small business operators do not have a clear plan. The simple discipline of writing down a goal can often make it easier to achieve. It also makes it a more prominent focus for your energy and action.

1.3.2 Steps in the Process

Figure 1.1 The eight strategic business planning steps

Step 1: Formulate your own personal and business strategic plans

↓

Step 2: Decide on the business operating structure

↓

Step 3: Outline your mission, vision and values

↓

Step 4: Define your strategic objectives

↓

Step 5: Define strategies for achieving those objectives

↓

Step 6: Determine some systems, policies, and actions needed to implement your strategic plan

↓

Step 7: Implementation

↓

Step 8: Monitor and adjust plan as required

As you read through the eight-step process described here, keep developing and recording your own strategic plan. Your strategic plan provides a framework that helps you evaluate any new ideas or opportunities. Ask, "Does this idea or opportunity complement the firm's mission statement and objectives?" A good idea that does not fit the mission and objectives of your firm could still be pursued by some or all the partners, but outside the firm. For example, a client might come to your firm looking for funding to get a new product ready for commercial production. You might be asked to help source funding from banks or private investors. Should you decide to contribute directly to that venture, do it outside the firm, and trade on normal commercial terms with the venture once it is established. This discipline makes it easier to run both ventures and know how each is performing.

Step 1: Formulate your own personal and business strategic plans

Are you going through this process on your own, or will you involve other people? A sole practitioner with no family can base their strategic plan on their own preferences, beliefs and desires. However, a sole practitioner who is in a relationship and/or has children will more than likely set personal goals in conjunction with their partner.

Where there are several business partners with different views about important challenges facing the firm, the planning process must create a single direction that reconciles and coordinates these attitudes.

If a firm has a second or third office location, then each one might have its own partner in charge and possibly its own culture, in which case the process becomes more complicated.

Generally, small numbers of people in the establishment phase of a new firm are likely to share common views and backgrounds; agreement about firm direction should be relatively easy to achieve. In this situation, a structured, do-it-yourself approach should deliver a good result. Where there are more partners, a wider range of ages, and perhaps several offices in different locations, there might be merit in using a skilled facilitator or consultant. The consultant can guide the partners through the planning process and achieve wide-ranging support for the eventual plan so that it can be acceptable to all.

Planning exercise: Are you ready?

Write down your responses to the following questions:

- What do you want?
- What are your personal goals?
- What do you want to achieve in ten and twenty years' time?
- What do you want to achieve in your personal life and in your professional life?

The checklist at Appendix 1.1 will help you to evaluate your personality and objectives.

Your answers are important in shaping your own strategic plan and to share it as appropriate. This in turn shapes your approach to professional life. For example, if you believe that you are a business builder and want to do things on a large scale, will you be happy owning a firm that runs with yourself as principal, plus an assistant and a receptionist/secretary? Your plan should have a strong growth focus, possibly involving mergers, purchases of fees, geographic spread of clients and cross-selling services to your client base.

You might use work and income to fund other activities outside the work environment. Your firm should focus on training, delegation and ways of operating during the times you are away pursuing these activities. Transparency on other activities outside the work environment will assist to avoid uncomfortable circumstances or potential conflicts of interest.

Use this exercise to summarize the things that you want to achieve in life. Your goals might fall into the following categories:

- **Personal**: A lifelong partnership, children, strong group of friends, etc.

- **Professional**: How important is work in your life? What career choices have you made so far, and what new choices or directions might you pursue? How will you maintain and/or upgrade your qualifications? What experience do you need?

Know and understand your personal objectives. If your firm stops you from achieving your personal goals, you will start to experience personal dissatisfaction with your work. You may start to resent the time or effort that you need to contribute to the practice. This might lead to stress and have you feel less able to cope in your work life. Your work goals and personal goals must complement each other.

The aim of this exercise is to show how your firm will support your personal, professional, and financial objectives. Ensure that, as the plan emerges through the rest of this module (and the rest of your career), it keeps contributing toward your goals. For example, if you have a significant deficiency in some aspect of your professional skills, you can seek training in that area. This could be through a formal course of study, or perhaps some on-the-job experience in your current employment. Perhaps you need to find a suitably skilled colleague as either a partner or an employee. In most cases, a weakness in a professional skill can be compensated for in one of many ways.

If you remain confident in your abilities, keep working on your plans to grow and develop. If you have revealed some major weaknesses, the next step is to identify a clear plan to address them.

Step 2: Decide on the business operating structure

If you plan to form a partnership, whatever the legal entity chosen as the operational vehicle, you'll need to determine whether the potential partners are compatible ethically and professionally. If you have a firm already and are considering a merger, similar considerations apply.

Partnerships have often been compared to marriage. Both involve more than just "me." Both thrive when effective communication occurs. Both involve sharing resources, sometimes with one partner agreeing to forgo something for the sake of the other partner's goals; there needs to be some give and take. Both should be seen as long-term commitments. Both are messy, time-consuming, and often costly to unwind (and sometimes acrimonious). But by combining the strengths and skill sets of different people, more challenging goals can be achieved and shared risks reduced.

Because unwinding a partnership can be difficult and messy, both parties should make sure that its right from the outset. If you feel that you cannot raise an issue with potential partners beforehand, it is unlikely you will feel any better placed to raise it after becoming partners. If you disagree over an issue that underpins the workings of the whole firm (for example, the range of services provided, professional standards or the approach to profit retention in the firm), friction will emerge in the longer term.

Take your time picking your partners. Once you have decided to work with a group of partners, work hard, and communicate often and directly. Always base your decisions and actions on one criterion: the best interests of the firm and its clients. If a merger with another firm is under consideration, it is critical to agree on shared values and culture before moving ahead.

Step 3: Outline your mission, vision, and values

This is where many texts start their strategic planning process. However, a firm's strategic plan must be built on the foundations in Steps 1 and 2.

This section is especially important to those about to start a new firm, either on your own or in partnership. There is no better time to set or influence the type of firm than at its commencement.

Firms start with a vision statement: a concise statement about the overall benefit they expect to deliver to the clients and other stakeholders who interact with the firm. The vision statement touches on the impact of the firm, rather than on its services or potential markets.

Once the overall vision is outlined, it can be turned into a more practical outline of the way that the firm will go about making its impact. A mission statement is the next document to prepare.

If, on the other hand, you are buying into a firm, you should examine the firm's mission statement, vision and values and ensure the partners live these as part of your due diligence process. One of the main reasons partnerships and mergers fail is because of a lack of shared culture and values.

> "An organization's mission is the purpose or reason for the organization's existence. It tells what the company is providing to society. A well-conceived mission statement defines the fundamental, unique purpose that sets a company apart from other firms of its type and identifies the scope of the company's operations in terms of products (including services) offered and markets served."
>
> *Wheelen & Hunger 2000*[3]

The mission statement for your firm might make reference to:

- The benefit that you deliver to your clients;
- A brief list of services to be offered by your firm;
- A brief description of the clients that you plan to target; or
- A brief description of your prime market area. This could be limited to some physical boundary, such as a suburb, town, or region; or it could be a vertical market, such as a particular sector or type of client.

The mission statement should be short and simple enough that it can be easily remembered by both you and your employees.

Once the vision and mission are described, the practice can focus on outlining the key behaviors or attitudes it believes are necessary in achieving those standards. This is the function of a values statement. Values go beyond the technical factors (such as "independence," "integrity," and/or "professionalism") expected as part of the accounting service. Instead, they describe the underlying attitudes and beliefs that the owners and employees of the firm will use to govern their approach to issues as they arise in the future.

If the people working in the firm share similar values, then resolving conflicts or ethical dilemmas becomes not only easier but also more predictable. Typical words used in a values statement for a public accounting firm might include:

- Respect
- Courtesy
- Equality
- Responsiveness
- Client-focus
- Innovation.

---

[3] Wheelen, Thomas L. and Hunger, David J. *Strategic Management and Business Policy*, Englewood Cliffs, New Jersey: Prentice Hall, 2000.

Step 4: Define your strategic objectives

Clearly state several “big picture” targets that flow from your mission statement. These targets are used to evaluate your success in achieving the mission statement; they are generally internal targets, not for disclosure outside the firm.

> “Objectives are the end results of planned activity. They state what is to be achieved by when and should be quantified if possible. The achievement of corporate objectives should result in the fulfillment of a corporation’s mission.”
>
> *Wheelen & Hunger 2000*

In an accounting firm context, your objectives might look like these:

- To achieve an internally generated fee growth of (XX)% per year for the next five years;
- To increase net earnings per partner by $(XXXX) per year;
- To reinvest (XX)% of annual profits into capital enhancement of the firm (for example, equipment for enhanced productivity, system development or major personal development projects).

Your objectives should not all be financial. A profitable and growing business results from supplying a service that is in demand, and providing it at a value-for-money price from the perspective of the client. A “balanced scorecard” evaluates a business not purely on its financial performance, but on other indicators as well; for example, client satisfaction, development of the skills base of the firm’s team, and expenditure on development of new products or services.

Your objectives will most likely need to address:

- The training and development of your people;
- The reputation of your firm within its prime market area;
- The quality and relevance of your services; and
- Client satisfaction.

You might need to develop some tools or indicators to track trends in your performance for each of the aspects listed above. You might focus some of those on your key clients or conduct a regular satisfaction poll among your employees.

Step 5: Define strategies for achieving those objectives

Having set some specific, measurable objectives, the next step is to look at ways of achieving them. Refer to the checklist at Appendix 1.2 for help with this step.

This element focuses on the way that each service—such as bookkeeping, tax advice and lodgments, audit, financial planning, and business development advice, etc.—will deliver profits, achieve its share of the targeted fee growth, or contribute toward the strategic objectives.

This is where the work starts to expand almost exponentially. In this way, you can easily communicate with key people—such as current and potential employees, and external financiers—about the overall direction of the firm. You can also start thinking about how to resource your strategic plan as it emerges. Extravagant ambitions can be held in check by a healthy dose of (financial) reality along the way. Accountants know financial feasibility.

The aim of the detailed operational objectives is to give each person in each unit guidance and reassurance that they are genuinely contributing to achieving the overall target of the firm.

Step 6: Determine some systems, policies, and actions necessary to implement your strategic plan

> "A policy is a broad guideline for decision-making that links the formulation of strategy with its implementation. Companies use policies to make sure that employees throughout the firm make decisions and take actions that support the corporation's mission, objectives and strategy."
>
> *Wheelen & Hunger 2000*

Policies are prescriptive statements that simultaneously enable yet constrain the actions of employees. As an example, consider a range of finance policies that might apply in a start-up firm:

- To use a mix of outright purchase and lease/hire-purchase/rental products when purchasing capital equipment. This aims to keep approximately a 50% gearing in the acquisition of fixed assets.
- To pay a monthly salary of $(XXXX) to the principal/partners in the initial twelve months, then apply the remaining profits toward funding the growing levels of work in progress and debtors of the firm. The balance of cash requirement is to be funded via bank sources.
- To grow, via internally generated, organic means of adding clients through the firm's own efforts and referrals from current clients.

If a firm adopted all three of the sample policies above, it would neither contemplate nor be in a position to buy a parcel of fees, if that opportunity arose. If the firm had a different set of policies (for example, if the third point targeted rapid growth in client numbers and fee levels), then a merger with another firm would certainly be an option in addition to self-generated growth.

Step 7: Implementation

The next step is to think about the implementation of your policies. This also generates a rapid increase in the size of your lists and notes. Wheelen and Hunger (2000) identify three aspects:

- Programs: the activities and steps needed;
- Budget: a financial summary of costs, and expected income, associated with each program; and
- Procedures: the specific actions to be completed.

Step 8: Monitor and adjust plan as required

A critical element of the planning process is to set up some key performance indicators (KPIs) to summarize the actions taken within the firm and measure the outcomes from those actions. You would need KPIs for strategic objectives as well as other yearly plans. Some KPIs might be actual versus budgets; others might be your own standards, such as, "We always want to have a minimum cash buffer of $10,000 in the firm's checking account." Other KPIs might come from external sources, such as the financial benchmarking provided by specialist research groups, or from firm support networks. Later in this module is a list of the important KPIs that a firm can use to control and measure its performance.

If actual performance does not meet the budget or the benchmark, you need to examine the reasons, then go back into the planning process to identify the cause of the problem. Once you have considered the reasons, make any necessary changes to the plan.

Where to now?

By thinking through the issues in this way, you will achieve three things:

- First, you will be more committed to your plan if it is in writing. The mere presence of this type of document can often encourage you to achieve more goals than you might otherwise have achieved.
- Second, by thinking through some of the potential problems and having undertaken some scenario planning, you can often sidestep problems in the first place. One of the benefits listed in the risk management section (discussed fully in Module 7) is that knowing in advance about a potential problem can often help you sidestep it altogether.
- Third, by sharing and reviewing your plan with partner(s) or team members you will create shared goals and encourage collaboration and innovation.

Earlier in this module, the point was made that the planning process often requires you to revisit earlier decisions in the light of subsequent information. You should keep going through the process and the series of steps, refining and updating as you go.

This does *not* mean that you never actually get any real work done! It means that in about six to twelve months' time, you will need to go through the plan again and update it to reflect your new starting point. Hopefully that starting point will be six months closer to achieving your objectives! And hopefully you will not need to rethink all your personal ambitions and goals, or rewrite the mission statement or the firm's policies. Instead, you will spend time improving systems and refining the budgets that govern your actions over the next six to twelve months. All the time, you will know that every action moves you closer to achieving your objectives and your mission. That's what is meant by the term "living document" in relation to a strategic plan or a business plan.

1.4 Planning for Effective Relations with Clients and Employees

Firms deliver a largely intangible product by harnessing skills and time and then communicating the outcomes and benefits to clients. Clearly, dealing effectively with other people is a core skill in an accounting firm. This section looks at factors that combine to build quality relationships with those you encounter in your professional life.

1.4.1 The Challenges of Generational Diversity

Social commentators note that certain groups of people have vastly different aspirations and motivators. For that reason, effective communication demands that you learn how to tailor a particular message to address the key motivating factors for each generation. It is important for public practitioners to be aware of these differences: your clients and your personnel are drawn from several generations. Using a single communication or management style will not deliver a truly contented workforce, nor will it guarantee effective communication with all clients. Generational diversity among employees is addressed more fully in Module 4.

How your employees think differently from you

As individuals, everyone is shaped by their upbringing and the times in which they live. Consider how major stages in a nation's history might shape the views of people at different times: the danger or austerity which might be linked to wartime; the confidence and carefree attitudes resulting from prolonged upswings in economic activity; or possibly the uncertainty which many countries faced during periods of economic downturn, such as that of 2008–2009. Likewise, staff that have grown up in a technology-enabled society with access to global knowledge will think differently. People who live through such times will adopt a particular mind-set consistent with the needs or the opportunities of those times; those mind-sets can last a lifetime and will underpin daily decisions and actions.

> "Their top reasons for joining a firm are career growth opportunities, paid personal/vacation time and salary—in that order...A multi-faceted generation."
>
> *Dennis 2006*[4]
>
> "The firm has a low attrition rate compared with many of the UK's top 60 accountancy firms, at around 10%."
>
> *Perry 2008*[5]
>
> "New hires generally last less than two years, and small firms lose about a tenth of their workforce annually...Other recruiters acknowledge they no longer even try to get accountants for small CPA firms."
>
> *Tarasco & Damato 2006*[6]

One important element for the sustainability and progress of your firm is to think about a human resources strategy. You need to attract and retain the people you need now and in the future. Talented people having the competencies you need may be essential for the future, and if your firm is not attractive enough, you may not be able to recruit who you need, and you could lose those you would like to retain. Depending on your global strategy, and the people you need, your offer of a career plan, training facilities, work–life balance, technology access, etc., will be essential to capture and retain talent. To offer the right quality services to your clients, you need the right people, and if you are not attractive enough for them, they will choose another alternative or they will leave. Your policy needs to include plans for them, taking into account their values.

Employee turnover is a significant issue for accounting firms; this subject, and understanding the employee mind-set, is covered in Module 4.

Core values

A "best practice" approach revolves around utilizing the skills offered by all personnel in the firm and fostering working relationships built on mutual respect.

Some motivators will be important to all employees and partners, whatever generation they represent—factors such as leaders' integrity and consistency, recognition and praise for good work, skill development, and variety of work. When the leaders of a firm demonstrate these core values, other partners, employees, clients, and suppliers will develop a deep respect for those who are guiding them.

As an example, consider the following questions as they apply to the integrity of strategies for recruitment, retention or motivation of its people.

- What is the value of performance appraisal discussions or career planning if a principal does not raise or identify a key negative factor in an employee's performance? Open communication is essential, even though it may be uncomfortable for one party or the other on occasion. Naturally, negative comments should be handled sensitively, in order to keep the working relationship intact.

---

[4] Dennis, Anita. "Understanding the best and brightest." *Journal of Accountancy*, November 2006. www.journalofaccountancy.com/Issues/2006/Nov/UnderstandingTheBestAndBrightest.htm.

[5] Perry, Michelle. "Making hay even when it rains." *Accountancy*, May 2008, 48–49.

[6] Tarasco, Joseph A. and Damato, Nancy. "Build a better career path." *Journal of Accountancy*, May 2006. www.journalofaccountancy.com/Issues/2006/May/BuildABetterCareerPath.htm.

- Are you consistent in the application of the core values? If all people are not treated equitably your team will not respect any reference to those core values.
- Is it ethical to describe a position or job role inaccurately to a prospective employee? The outcome could well be that the new employee finds the position less interesting than he or she was led to expect and becomes disenchanted, weakening the trust between employer and employee. It is likely to cause a resignation and rehiring process, at considerable cost to the firm in time and money. The employee might also bear a cost, either by having a very short-term period of employment in his or her history or by becoming more cynical toward all employers.

A few core values, built on respect, will underpin all dealings with the people involved with your firm. With this foundation in place, you can use a variety of incentives or communication methods with employees from different generations. In this way, you can effectively harness the talent and commitment of all the people working in your firm to deliver high quality client services.

1.4.2 Clients' Perceptions

Social and technological changes will simultaneously lead to *and* reflect changes in client attitudes. You will no doubt see the impact of this in many aspects of your firm. Module 5 examines how technology has affected every aspect of accountancy today.

Clients expect rapid service and quick turnaround of work. The introduction of fax machines represented a major change in the speed of commerce. Documents, especially those destined internationally, did not require days or weeks to be delivered to recipients. This factor alone caused a radical rethink in the communication process: it created an expectation that a particular matter can be dealt with *now*.

- The rapid adoption of email, particularly when combined with PDF and/or zip technology for locking and compressing files or documents, accelerated that trend. Now, substantial documents or files can be delivered in seconds to virtually anywhere in the world. Laptop computers, wireless Internet and mobile telephones make people directly accessible at any location, either inside an office or outside it, at work or not. The rapid expansion in the reach of technology creates expectations among clients that any problem can be addressed to the "right person" ("my" accountant, "my" auditor or "my" business coach) within a matter of hours, if not minutes. Answers can be sought, and delivered. Problems can be solved. Advisers are expected to be available whenever they are needed.
- People are less patient in waiting for answers. The computer and software sales industries have created an expectation that information can be provided "at the press of a button": never mind the need to enter some data, or the need to screen the input for quality or reasonableness or even accuracy.

These factors lead clients to expect that work can be done quickly, and at lower cost. Not only that, but clients are less likely to excuse errors or miscalculation. Clients expect rapid turnaround, achieved error-free and at minimal cost.

Therefore, firms need to adopt relevant technology, and learn its features and limitations. Firms require well-trained employees who can run the programs, as well as understand potential problem areas that would cause an inaccurate result. They must deliver prompt and accurate information and service to clients. At the same time, firms must train clients to understand that there are many clients, all of whom are important, and all of whom expect top priority. Like many aspects of your professional life, it is a balancing act.

1.4.3 The "Devaluing" of Information by the Internet

More and more organizations, including government departments or agencies, are putting substantial amounts of raw information onto websites. Much of this information is free, especially if there is considered to be a "community interest" in conveying that information. It is the responsibility of users to seek quality information from reputable and credible sites.

This easy access means some clients will seek information for themselves and self-diagnose problems within their own businesses and/or to suit their taxation or other needs. This carries a risk that clients might misdiagnose the underlying problem, or act on incomplete information, and therefore take an unsuitable course of action.

Accountants charge a fee to provide advice to clients: the advice is based on information (which some clients might find free of charge via the Internet) *and* it is applied to the client's specific situation. Accountants must consequently focus on value-adding for the client (delivering benefits, not just information) and continually resell the savings, security or the confidence that their services represent.

1.4.4 The Challenges of Greater Client Mobility

The combination of access to information coupled with a demand for quick response is helping to create better-educated clients (or at least to make clients believe that they are better educated). Such clients do not tolerate errors or poor service from their accountants. These clients, therefore, might be more likely to complain or even to allege professional incompetence or neglect.

At the very least, clients are less willing to stay with an accounting firm if they are not satisfied with some aspect of the service. Retaining clients for the long term requires more attention now than ever before.

1.5 Developing Plans for Your Firm's Various Functions

Once you have defined your strategic goals, you need to develop specific plans for the different functions, having both a short- and long-term perspective.

As part of your overall strategic planning, this section details how to develop more detailed plans for the following functions:

- Service delivery;
- Risk management and mitigation;
- Personnel;
- Marketing and selling;
- Technology;
- Administration; and
- Finance, or budget, to integrate the financial implications and resources required to achieve the various plans.

1.5.1 Service Delivery Plan

This plan must clearly state the range of services provided by your firm. Just as importantly, it also should describe how the firm will handle services it does not offer: whether clients will be referred to another organization, or whether clients will simply be told to find another provider of the required service.

The service delivery plan should include the amount of professional development required and whether this will be largely provided in-house or by attending courses outside the firm.

The plan should describe the firm's approach to its systems and procedures. Well-documented and current systems and procedures are essential to the effective delivery of services. Systems and procedures also specify minimum (and ideally best practice) technical steps needed to deliver a sound and competent service. Clear, well-documented systems help to establish the amount of time and labor required to perform a task; they minimize the professional exposure from "getting it wrong"; and they enable partners to influence the overall professional work within the firm without having to directly perform or personally review every action taken by employees.

Every firm should have a "champion" to oversee the updates and any expansion of the documents and procedures used within the firm. This person must have the authority, supported by the proprietor or the full partnership, to confidently update or amend documents, and then ensure that partners and employees use them. This might require some technology assistance as well: for example, the master documents might need to be stored in a protected folder on a computer system so that all documents can be accessed and read but not changed (see Module 5).

From time to time, a major workflow process within the firm might need to be changed: a new accounting standard might demand an extensive redesign of the current process. Sometimes, implementing a new piece of software might require a new process to be defined. Whenever these major changes are required, take the opportunity to redesign the particular process entirely. Doing this should keep the process simple and direct without compromising professional quality. Naturally, once a procedure is amended, all personnel should be advised of the change in an appropriate manner (for example, through training or via an explanatory memo).

Remember that the service delivery plan can impact the entire organizational structure. Sometimes a division or team within a firm can become so big that it affects the whole structure of the organization. In such a case, the service delivery plan will need to be reviewed and, if necessary, amended to reflect the change.

1.5.2 Risk Management and Mitigation Plan

Refer to Section 1.6 "Building a risk management mind-set into your firm" for information about developing a risk management plan. Module 7 contains specific guidance on risk management strategies within the firm (Section 7.3) and business continuity planning (Section 5.7.1 and Section 7.6).

1.5.3 Human Resources Plan

The human resources plan should dovetail into the service delivery plan; after all, it is people who deliver the services offered by the firm. Accordingly, this plan should forecast the likely number of people and the skills base required by the firm over about an 18-month period. If the firm looks beyond 18 months, too much guesswork is required. Which services are expected to grow strongly, and which might decline? Can personnel be moved from one part of the firm to another? If so, is any retraining needed? What ongoing training is needed to keep the skills of our people current and efficient? How can the firm retain the key people who will be most critical to its future success? All those questions can help to integrate the two plans.

The plan should address issues outlined in Appendix 1.4. See also Module 4 for more information.

A firm will almost certainly need to add other items to this list, according to its needs and the culture of the firm.

1.5.4 Marketing and Selling Plan

Your marketing plan should identify the steps needed to move from your current position (for example, no clients, insufficient number of clients, or possibly the wrong clients), to the goal position identified in your strategic plan. The key components of your marketing plan should include:

- Your mission statement and the vision for your firm;
- A brief restatement of your marketing objectives and how they complement your mission statement;
- The timelines for your marketing program and any milestone events;
- Marketing strategies to be employed both internally and externally; and
- The resources (physical resources plus the cost) required to achieve your marketing plan.

Your marketing activities will normally be focused on one of several objectives. Even though you might have a primary objective (for example, a particular rate of growth in fees, or to target new clients from a particular industry segment), the other objectives are not necessarily mutually exclusive. Your marketing objectives could be to:

- Build market awareness of your firm;
- Build your brand identity;
- Refine your client base;
- Acquire new clients; and/or
- Grow your fee base by offering new services to existing clients.

For many firms the focus will be on the last two objectives, with the areas of market awareness and brand identity seen as residual or secondary benefit. They are clear and measurable outcomes from a series of promotions. Marketing designed to gain new clients and increase your fee base will use some internal and some external marketing strategies. External strategies are those that bring new clients to the firm. Typical examples of external strategies include:

- Client referrals;
- Memberships in professional or community organizations;
- Professional network referrals;
- Speaking engagements;
- Holding functions for clients, members of referral networks, and prospective clients;
- Advertising and other media;
- Seminars;
- Advertising on websites, electronic search engines, or directories;
- Articles and editorials in newsletters;
- Website and social media promotion; and
- Referrals through your professional association.

Internal strategies refer to increasing your fee base from your existing clients. There are three main ways to achieve this:

- Increased utilization of your current services by your existing clients;
- Introduction of new services to your existing client base; and
- Increased charge rates.

Decide where your emphasis should lie, and reflect this in your marketing plan. As with all plans, however, the focus must be on the action that each person will take to implement the plan. For example, your marketing plan might state: “We will contact all existing business clients to discuss their estate planning and retirement strategies.” This statement is of no value unless every partner and manager discusses this topic with the applicable clients during the annual accounting review.

Marketing is sometimes seen as remote from the activities of an accountant. On the contrary, marketing is an integral part of every accountant’s work: do good professional work, then tell clients about the benefits you have achieved for them or for other clients. This should be a simple process with current clients; it can be as simple as asking a question or two as part of a larger discussion. In the example above, the issue could be raised like this: “The business is going well at the moment, but do you have enough savings to do the things you want to do once you’ve retired? We can help you prepare the business for sale and look at the adequacy of your pension plan and savings.”

Use the template in Appendix 1.3 to develop your marketing plan. Make sure it includes objectives and strategies to achieve your strategic goals. A couple of examples are already included in the template for your benefit. (You can remove and photocopy the template for your use.)

The Ansoff Matrix is an excellent tool to assist the strategic planning process by providing a framework to firms to examine market penetration, market development, service offer, and diversification.

Marketing methods

You may need to spend substantial time thinking about planning each promotion, and more time drafting the material. Keep the objective in mind: what are you asking the client or prospective client to do?

Here are some ideas.

- Institute a system or a checklist that ensures that clients are made aware of other services relevant to their situation. This might take the form of a key question (“What are you doing to prepare for your retirement?” or “How often does cash get tight in your business during the year?”), or it could be a more formal outline of a range of possible services. These services may include an array of non-financial but complementary client services. Make sure that all partners do this as part of their regular work with clients.
- Talk to each client as the new service is being delivered, to ensure that they see the benefits that the firm is delivering and that the service delivery is smooth. Often, a visit by a partner to a client’s premises will identify the need for additional accounting services.
- Plenty of money can be wasted in running “feel good” promotions that make the partners think they’re being proactive. A far better approach is to promote a specific service and generate feedback directly.
- Ensure that in any case study, the client’s identity and details are disguised and remain confidential.
- Is it clear that you’re asking the client to take action? A well-created letter or brochure can be wasted if it leaves the client or prospective client uncertain regarding the next steps they should take.

A good promotional piece should create interest and then stimulate action. Use clear language in your promotional material.

- Measure the cost and the response. Identify the approaches that don't work and avoid them in the future. Focus on the ones that have worked. You may have lots of good ideas for promotions, so feel free to test some of them. Look at the cost per response, the cost per new client, and the conversion rate from inquiry to sale.

Beware of too much client concentration

While it is generally a good thing to be selling more work to your clients, there is a potential risk if a single client predominates your firm's work. The firm has a significant commercial exposure if the client leaves for another firm. You could end up with too many employees, too much office space and too high an overhead structure. These can quickly bite into profitability, since some of these costs are difficult to reduce.

1.5.5 Technology Plan

Refer to Module 5 for information to consider when developing a technology strategy for your firm.

1.5.6 Administration Plan

Good administration is essential for any firm—allocate roles that suit the abilities and interests of your people. A partner with a strong bent toward organization, order and process will be ideally placed to take on a role in the administration area. Allocation of management or administration roles among the partners or senior employees is a suitable model for smaller firms, which are unlikely to be large enough to afford a dedicated "general manager" or equivalent position.

The administration plan needs to address issues which help the firm to run smoothly. For example, by ensuring that relevant supplies are in place, that purchasing of minor office supplies happens in an efficient and controlled way, that employees and suppliers are paid in a predictable and accurate way, that all the personnel, equipment and other resources are available as required for the fee-earners to be able to perform their roles, and that clients are sent bills and pay within the firm's trading terms.

As firms change, the administration demands will also change. Each additional person will need resources such as a desk, computer, some software licenses, and so on. Someone will need to think about the way that office space is allocated and used. The firm might start to create specialist teams of fee-earners. More partners might be added.

More invoices will be raised for clients, and more receipts will be processed. Changed billing arrangements, such as the introduction of a monthly payment plan for clients, will change the processing volumes handled by the administration team.

Each such change places a different pressure on a firm's administration, so periodically review the allocation of roles among senior personnel. From time to time, the underlying policies (for example, limits on who can purchase items for the firm, or delegated levels of spending) will need to be reviewed. If a small firm eventually becomes so large that the administration partner is losing too many billable hours, employing an administrator or general manager will be a worthwhile investment.

1.5.7 Finance Plan, or Budget

Virtually every decision made within a firm will have a financial consequence. These need to be reflected in the budget or financial plan.

Each of the individual plans described above should have its own budget, otherwise be sure that the budgetary implications are covered in the overall firm-wide budget. A budget allows a firm to prioritize its actions and plan for any problems realistically, in advance. The budget will help you keep these types of pressures under control:

- It may make the partners feel good to see a quarter-page advertisement in a key regional newspaper every day, but the return on investment must be assessed.
- It may impress clients that your firm operates from luxurious offices in a prestigious location, but the required charge-out rates might price your firm out of its market.
- Employees might all wish for a pay raise or promotion, but it is essential that they also understand the impact on charge-out rates or fee targets.
- Employees might appreciate using the latest electronic gadgets in their daily work, but each application needs to contribute to the firm's efficiency and revenue base.

A budget or financial plan imposes commercial discipline around each decision and imposes controls on day-to-day activities. It also sets targets which can be used to motivate your team, such as billable hours per person, or a revenue target per person or per team. Many firms are moving toward using team budgets instead of individual budgets for revenue, but even within a team budget all personnel must contribute fairly toward the overall figure. Achievement of the "production" or "revenue" target might then see some incentives being paid to some or all personnel.

Budget processes may evolve over time as the firm expands and diversifies. In a small firm, one partner might take responsibility for preparing a realistic budget before validating with partners and key staff. Larger firms will need to involve key employees (for example, technology and human resources specialists) and additional partners from major service areas while framing the budget because the larger firms must ensure that all users of a budget feel involved in developing realistic targets. This extra level of consultation takes more time and might require some diplomacy, but it encourages shared goals and priorities.

1.5.8 Assessing When Plans Need to Change

Partners, especially those who accept management roles, should continually monitor the effectiveness of internal systems and look for warning signs that something is amiss. These indicators might be measurable or technical (for example, the load on telephone lines or a telephone system), or losing some clients because of a lack of international connections, or they might be more subjective (for example, sensing more complaints about a policy or procedure). These warning signs should prompt some action. If a genuine problem exists, then the partners need to lead the way to a newer, better solution as quickly as possible.

Several tools can be used when assessing the need for change: the yearly or half-yearly partners' retreat, traffic counts on key transactions, the use of benchmarks or targets such as turnaround time, or a sense of the mood of the organization. Each is valid, depending on the type of problem being examined. Select the right indicator or tool, initiate a thorough review of the problem and then implement the best solution. Your role as partner demands that you lead in management as well as in professional aspects of your firm.

Use the skills of individuals effectively. Partners and senior accounting employees are best used in fee-earning roles, wherever possible, but need to play a role in client engagement and marketing activities to support a future pipeline of fees. This generates the revenue that can pay the wages of suitably qualified specialists to manage the firm. In comparatively small firms, partners may be involved in management functions, along with assistants who perform routine transaction processing. So a managing partner in a small firm may well have an administrative assistant or an IT officer, rather than an administration manager or an IT manager.

1.6 Building a Risk Management Mind-Set into Your Firm

When developing a plan it is important to consider risk. Some risks, should they eventuate, might only be an annoyance; others could threaten the viability of your firm, or cause you to lose all your personal assets. Effective risk management helps you to control, and hopefully eliminate, each risk or its impact. The most obvious precaution any firm can take is to carefully vet any new client before agreeing to do business with them.

Risk management is fully discussed in Module 7. Here, you and your employees are shown how you can adopt a risk management mind-set to shape day-to-day actions within the firm.

1.6.1 Ten Steps to Successful Risk Management

1. Start with a quality recruitment process

Your recruitment process should attract high-caliber employees who have the technical abilities you require, and who are trustworthy and honest. Pay attention as well to soft skills including the need for good communication skills and the capability to work in a team which supports high-performing practices. Screen and check the references of the short-listed applicants. Any job offer should be conditional upon satisfactory validation of academic, professional, and reference records.

2. Ensure that employees are properly trained

Good training programs give employees adequate technical skills, develop soft and other skills, show them how to deliver good-quality work, describe essential communication skills, and reinforce the need for a professional approach in their dealings with clients and team members.

3. Do not delegate tasks beyond capability levels

Delegation is essential to allow for the continued growth of a firm. Good delegation will see that tasks are only delegated to employees capable of handling them. Good delegation will stretch each employee's professional skills slightly; the partner or manager must guide the employee through the new or unfamiliar aspects of that work.

4. Ensure that employees are aware of systems and standard procedures

Without proper systems in place, your team might not have clear and concise guidelines to work within. In turn, this could lead to you risking your professional reputation and losing the confidence of your clients. Your systems are your quality control.

5. Have a procedure to identify weaknesses or problems with systems

Each member of your team should look for any deficiencies in systems. Once a deficiency, weakness, or problem is identified, it should be reported to the firm manager or the relevant partner to be addressed and resolved.

6. Employ proper review processes

Decide to review all completed tasks. This is just as essential for senior employees and partners as it is for intermediate and graduate employees. Everyone makes mistakes, and the best way of avoiding any problems which may arise is to have a review system in place. This allows for a second pair of eyes to go over all the work, identify mistakes, and correct them prior to incorrect material leaving the office.

7. Maintain an adequate spread in your fee base

Identify your "ideal client." They might be one who uses a broad range of the firm's services, is not fee resistant, and is enjoyable to work for. Your firm should be built around these clients.

Every firm will have its larger clients. You should be careful, however, to resist letting a single client or a small group of clients dominate your fee base. The risk is that you are building the resource base of your firm around a small number of clients; if they should leave for any reason, your firm may be exposed. Obviously, where a single client dominates your client base, there is also the risk that you or your employees might be unreasonably influenced by the demands of that client.

8. Have adequate insurance

The principles outlined above are all forms of insurance against accidents. However, you also need to have formal commercial insurance policies in place for protection. The risks are many, for example, a fire sweeping through your office or a professional indemnity claim against your firm. The premiums offer some protection, but they do not cover you against all possible losses: of time, sleep, reputation, and so on. While it is simple to say that the best form of protection is to avoid the problem in the first place, it is still prudent to have insurance policies in place.

9. Back up your technology and records

As technology becomes more ingrained into public accounting services, the need for proper back-up procedures becomes all the more important. For example, consider a complete back-up server for your main files, or cloud back-up options. Frequent back-ups of data must be made and a copy kept off-site. Periodically, run a recovery test to see what happens and check what would happen if you needed to restore or replace a file server or key piece of equipment.

10. Be fully aware of privacy and client confidentiality guidelines

Finally, professional training puts great store in the need to maintain confidentiality about business information. Complying with both the spirit and the letter of the various requirements (ethical and/or legal) for client confidentiality and security of private information is now a fact of business life. Make sure your team is aware of the high duty of care that accountants adopt and is required.

1.6.2 Minimizing Exposure to Loss of Key Personnel

A firm depends on several key personnel and key roles. Since the commercial future of your firm depends on avoiding errors or adverse circumstances in these areas, adopting or adapting the following policies and guidelines is strongly suggested. (Module 4 is based entirely on effective management of the personnel side of the accounting business.) When developing your strategic plan keep in mind the career path for your key people to mitigate the risk that a lack of expectations may result in them leaving and ensure they have opportunities to progress.

This model assumes that there is more than one partner managing the firm.

1.6.2a Partners and Owners

The partners provide leadership at many levels: technical leadership, leadership in the production and commercial aspects of the firm's operation, and shaping the culture and atmosphere within the office. The sudden loss of a partner could cause significant disruption to the firm in each of those areas.

To control any potential risks:

- Pay for a "key person" life insurance policy on each owner, to provide short-term cash injections to cover increased operating costs and potential loss of profit, and to fund the purchase of the deceased partner's share of the firm. Re-assess the level of coverage each year to ensure it is adequate.
- Ensure that all work-related files and client engagements are sufficiently well documented to permit any other senior person to use those files and to complete client work with minimal disruption.

- Commit to support the use of standardized work papers, template documents and filing systems (physical and electronic). This enables all related documentation pertaining to clients to be stored and retrieved quickly and efficiently.
- Develop the skills and knowledge of senior personnel, to develop potential future partners.
- Provide partners with room to develop their capabilities.
- Aim to create an effective firm culture (see Module 3).

1.6.2b Internal Accountant/Manager (If Employed)

This role handles much of the financial resources and record-keeping, potentially exposing partners to:

- Losses or damage due to inadequate skills and/or poor performance;
- Fraud; or
- The impact of delays in reporting or analyzing the firm's ongoing profitability and/or liquidity.

To control any potential risks:

- Decide who will supervise the accountant/manager. Write a detailed job description for this role, which delegates certain responsibilities to the manager and other specific responsibilities to the supervising partner. This ensures that all tasks are allocated to one individual or the other within the management team.
- Acquire a suitable practice management software package, to ensure that transactions are treated securely and that reliable reports can be provided quickly. Where necessary, engage an external consultant to help define special or regular reports.
- One of the partners should counter-sign with the manager all payments on behalf of the firm (with the exception of minor purchases paid for via a credit card); another partner should counter-sign payments if the first partner is away from the firm for an extended or inconvenient period of time. Where an electronic funds transfer (EFT) is used, ensure the most secure and up-to-date system is in place. Determine whether purchases over a certain cost must be approved in advance.
- From time to time, review aspects of the manager's work, especially in matters relating to cash handling and other receipts from clients of the firm. Perform other reviews on a random basis, at the discretion of the supervising partner.
- In the early days of the firm, review all incoming mail. This ensures that monies received from clients can be audited and verified against their debtor records occasionally. Reviewing mail also allows the supervising partner to monitor any negative feedback (received in writing) about the firm's services.

The manager should:

- Recommend a realistic reporting schedule, covering profit reporting (and the basis on which profit is determined), liquidity reporting, and review of work in progress and debtor ledgers. This ensures prompt reporting, and if there is an unexpected or unjustified delay in reporting, the supervising partner can step in to identify the cause and any impact of that delay.
- Keep up to date professionally via in-house training and any further external professional development activities as required.

1.6.2c Senior Accounting Employees

Involving senior fee-earning employees with each client directly and at a high level gives the most efficient standard of service, and also ensures that the firm is continually building the broader skills base of its people. However, this approach could leave the firm exposed to loss should the employee leave and take the client with them, or exposed to professional risk arising from inaccurate or poor-quality advice given by the employee.

To control any potential risks:

- Devise screening tests for use in the pre-employment phase. These tests should examine the technical knowledge of each prospective employee, as well as other important competencies such as communication skills, dealing with an ethical dilemma, and team work. Competency-based interviews are a great way to assess how well applicants will fit within your firm culture.
- Adopt best practice employment processes to check references and qualifications as part of the pre-employment screening of applicants.
- Require each employee, as a condition of employment, to sign a restraint agreement to restrict some of their actions should they leave the firm, such as approaching any of the firm's clients or staff to lure them to another firm, or making disparaging comments about the firm, partners, staff, or clients. The agreement should be professionally drafted and based on reasonable restrictions supported by the appropriate laws and professional regulations.
- Provide a range of support resources for clients, such as visiting their premises, writing newsletters or other technical briefing materials, encouraging networking opportunities among clients where applicable and ethical, and so on. These initiatives enhance the client's loyalty to the firm rather than to any individual within it.
- Provide suitable professional development or other skills training, to ensure high technical standards of service delivery.
- Review advice prior to its communication to a client.

1.6.3 Managing Service Risk

Restricting the range of services to the partners' specialties permits the firm to give sound professional advice with minimal professional risk. Senior specialist work should be reviewed by a partner, regardless of the degree of technical knowledge of the partner.

To control any potential risks:

- Run internal professional development activities at least monthly to discuss changes in legislation or other matters impacting on client work.
- Allocate a specialist from the team to monitor developments in key areas such as income tax, company tax, indirect taxes, capital gains/inheritance taxes, and so on. Each specialist can use the training meetings to familiarize the rest of the team with the changes.
- Conduct an annual firm review to identify (among other things) any new services the firm wishes to add; for example, "The next anticipated addition is likely to be wealth management/financial planning services in approximately two years' time."
- Form alliances with other specialist firms to ensure that clients have their full accounting needs met. For example, have at least two reputable and competent firms you can introduce to a client, to give the client some control over their choice of adviser. Monitor the advice and service at least annually to ensure high standards are maintained.

- Conduct regular quality control reviews of files to ensure systems are being followed.
- Establish a complaints register and follow up any complaint from a client, even those that were not significant, and make appropriate changes, if necessary.

1.6.4 Minimizing Potential Problems in Service Delivery

Start-up firms may have limited access to existing procedure documents and workflow templates. This could leave the firm exposed to providing incomplete professional advice, especially in its less common services; such exposure would be detrimental to clients as well as the firm. Similar situations can occur when introducing a new service. It is very important to ensure from the start that quality services are provided and a continuous improvement plan is implemented.

To control any potential risks:

- Provide services through separate legal structures, in order to comply with local regulations concerning limits on professional liability.
- In light of the extensive time required to develop workflows and procedures in-house, source a commercially available suite of work papers and process documentation. Use appropriate software applications to standardize and streamline complex calculations. This enables partners to focus their time and energy on locating and working with new clients, and expanding services to existing clients.
- A partner should authorize any changes to the template documents to maintain control over the quality and consistency of the firm's work.
- Provide a regular training program to keep the team up to date professionally.
- Source convenient and relevant subscriptions to alert the firm to changes in legislation and/or regulations.
- Use and regularly update engagement letters for clients.
- Perform internal peer reviews of a small sample of client files during the year and welcome similar peer reviews sponsored and/or arranged though the firm's professional association.
- Hold professional indemnity/malpractice insurance to a minimum value of $(XXXX) (to be determined by the firm or requirements of your Professional Accounting Organization). Review this amount annually, prior to renewal of the policy.

Module 7 considers risk management strategies in other aspects of firm management and Module 5 examines the risks associated with technology in more depth.

1.7 Implementing a Practice Manual and Systems

A well-run firm will need and want to document its policies and procedures. A current practice manual is also required under international quality assurance guidelines. The IFAC *Guide to Quality Control for Small- and Medium- Sized Practices* can be downloaded from: www.ifac.org/publications-resources.

Your professional association may have also created such a document for its members.

Module 7 provides more guidance on the implementation of quality control systems within an accounting firm.

A practice manual ensures that all personnel can quickly access details about the way the firm operates and its professional standards. New personnel can be made aware of the full extent of a particular policy.

Documenting these processes will improve the quality and effectiveness of the training process. For example, even an experienced person who is training a new employee might cover the substance of each process, but miss one or two steps, leaving the trainee with an understanding of perhaps 80% or

90% of the full process. If that new employee subsequently trains another staff member sometime later, then perhaps another 10% or 20% of the process will not be conveyed accurately, or at all. Therefore, it is conceivable that within two “trainings,” only about two-thirds of the full process might be conveyed to the third person. This could expose the firm and create an opportunity for systems to eventually fall apart.

Several manuals will be required within a firm, each with a separate and distinct focus:

- A practice manual or quality control manual, which guides the way that professional work is performed within the firm;
- A staff manual or office manual, covering the various administrative matters and processes which all personnel need to know;
- The partners might even require a manual to govern some of their dealings with each other: this is especially important if the partnership agreement is not very detailed or prescriptive.

See Appendix 1.4 for suggested content of an office manual.

If you are buying an existing firm and plan to run it as a sole principal, or if you are buying into an established partnership, then these manuals should already exist in some form. You will need to assure yourself that they incorporate or adopt best practice approaches to professional work and to the running of the firm. If they do not, then you or senior personnel will need to spend some time upgrading and updating the individual policies and procedures.

If you are starting a firm from scratch, you will need to document each policy as it emerges. Some of these can be pre-empted (for example, a range of staff- or employment-related policies can be drawn up based on your own experience as an employee), while other situations will arise in an unplanned way. Each first case can be used to establish the firm’s policy.

You may find that a publishing firm or even another accounting firm will sell ready-made manuals. This outlay can save you considerable time. Even though this type of manual is complete, you might still find that some policies do not suit your own style or preferences, and will require changes.

1.8 Using Benchmarks to Drive Performance and Improvement

Some benchmarks or key performance indicators (KPIs) are commonly and widely adopted throughout the profession; others might challenge you to develop specific indicators relevant to your own situation and performance.

Benchmarks can be obtained from several different sources.

1.8.1 External Benchmarks

An obvious place to find benchmarks is from accounting firms broadly similar to your own. These are known as external benchmarks. In many countries there are specialist benchmarking projects (some are run by consultancy firms, while others are run by or sponsored by the national or state-based professional association). A good example is the PCPS/TSCPA National MAP Survey published by the American Institute of Certified Public Accountants (AICPA). These studies collect information from firms, then group them according to specific features (possibly the size of firm, its geographic location, its predominant source of fees, and so on). Once this grouping is achieved, an average or a median result can be obtained to indicate what those firms typically achieve for each indicator. The partners or managers in each firm can then evaluate their firm’s result relative to the typical result, and decide whether the difference represents a strength, a weakness, or simply a difference of approach.

The IFAC Global SMP Survey is a helpful tool to assist firms in examining regional and global challenges and opportunities for SMPs and their small- and medium-sized entity (SME) clients.

Sometimes a small group of firms exchanges this type of data among themselves. This approach demands that all the representatives of all the firms have a great degree of trust in each other: the firms will reveal sensitive and confidential information about their own performance, and it is essential that no one breaches that trust. Small groups of this type are often based on tightly defined criteria for similarity: they might all be, for example, insolvency firms, or they might all be firms with three to five partners, located in inner-city offices.

The strength of external benchmarks is that one firm might be challenged by the achievements of the others. For example, a firm might have adopted a particular approach to debtor collections and, despite regular follow-ups with slow payers, may have an average collection period of seventy-five days. That firm might come to believe that seventy-five days is as good a result as is possible. However, other firms might use different techniques or different billing arrangements and achieve a thirty-day collection cycle. This type of difference should rightfully challenge the “seventy-five-day firm” to review its processes so that it moves closer to the “thirty-day” result. External benchmarking reports often give generalized tips about improving performance, and the small-group approach allows partners or senior personnel to ask more detailed questions about the processes or policies that deliver better results.

1.8.2 Internal Benchmarks

Benchmarks also come from within the firm. By regularly measuring and calculating certain indicators, for instance a specific service offering, a firm can monitor trends in its own performance. Such an approach allows the firm to focus on special aspects of its own performance and take account of certain unique attributes. While this is beneficial, it can lull a firm into a false sense of security, as the “debtors” example above suggests. The use of internal benchmarks is most powerful when it tracks firm-specific facts that are not easily or reliably compared with other firms.

1.8.3 Other Industry Benchmarks

The third type of benchmarking involves using techniques, such as cross-selling or on-selling, adopted in other industries; these techniques obviously need to be adapted to the accounting business. For example:

- Franchised fast-food outlets have excellent procedures for on-selling their products to customers (“Would you like fries with that?”) and also at bundling “meal deals.” Both tactics are designed to offer a wider range of products to clients, and in so doing to increase the average sales size. It is also conceivable that the add-on components might be the higher margin lines, which will enhance overall profitability too. An accountant would never ask, “Would you like an audit with these accounts?” but the concept of offering a wider range of relevant services applies as much to accounting services as to fast food.
- Firms with high fixed-cost components need to continually build occupancy or usage levels as one technique for boosting profitability. Airlines and accommodation providers are good examples where yield management and occupancy rates are KPIs. These providers know their marginal cost of delivery, and use differential pricing and/or special offers to lift utilization at a time of otherwise low demand. Labor cost is a major fixed-cost item in accounting firms, so a similar concept might be applied. The firm might promote a first-time systems audit for a mid-sized commercial client at lower charge rates during a traditionally slow time of year. This would see more billable hours being sold than usual, yet the firm would still be making a profit on those additional hours. If the client wishes to undertake a similar project the following year, then your firm has the scope to lift the hourly charge-out rate toward your normal level.

- The key principle here is to look at what other firms are doing, then analyze why they are doing it. Once you understand the underlying commercial concept, you can see if and how that concept might be applied profitably in your firm.

There are many examples of this type of cross-industry benchmarking. Remember that benchmarking can occur at different levels. Many benchmarks will be expressed numerically: profit margins, cost structures, write-downs or staffing structures can be expressed with numbers. Provided the definitions are clear, comparing numbers can give a similarly clear perspective on business performance. It is also possible to benchmark processes or policies.

The benchmarks themselves are not the solution to a firm's problems, but they may indicate where a problem exists and the size of the problem. It requires further work from key personnel to identify possible solutions and implement the best ones. A subsequent re-measurement of the indicator should show some progress toward "better firm" and possibly even to "best firm." The sooner corrective action can be taken, the sooner will profits and liquidity increase.

Keep in mind that the process of improving performance takes time and might require several steps or decisions. Use tools like graphs or trend lines to monitor improvements over a period of time. Those tools make it easier to see an unfavorable trend as it emerges, or to monitor real progress.

Here is a list of some of the most common benchmark indicators you might use to measure improvements in firm efficiency or profitability. They are categorized according to whether they can be accessed and compared effectively from external benchmarks, or whether they are more suitable as internal benchmarks.

1.8.3a Firm-Wide KPIs Suitable for External Benchmarking

Profitability

- Wages cost as percentage of total revenue;
- Other overheads as percentage of total revenue;
- Net profit per partner/director;
- Write-downs as percentage of total production, or per person.

Personnel productivity

- Revenue per dollar of salaries (including notional salary of partners/directors);
- Fee to wage ratio;
- Revenue yield per productive hour (that is, hours excluding all leave, professional development time, non-chargeable time, etc.);
- Revenue per person working in the firm;
- Revenue per fee-earner (that is, excluding employees primarily in support or non-fee-earning roles);
- Revenue per partner;
- Productive hours worked per person per annum;
- Productive hours worked as percentage of available time (that is, excluding holidays, sick and professional development leave, etc.).

Liquidity

- Days of work in progress unbilled;
- Days of debtors outstanding;
- Asset turnover;
- Structure and supervision:
  - Employees per principal/director;
  - Support personnel as percentage of total;
  - Clients per person;
  - Clients per professional ("fee-earner");
- Fees per client.

Other

- Growth in firm revenue per annum;
- Fees generated from ten largest clients, as percentage of total revenue;
- Average fee per client;
- Growth in average fee per client.

1.8.3b Firm-Wide KPIs Suitable for Internal Trend Reporting

Internal trend reporting might cover a wider range of indicators; some of those might be unique to your firm due to a desire to measure the impact of specific objectives adopted within the firm.

Internal measurement should cover all of the above indicators, plus:

- Assets per person;
- Turnaround time for work;
- Partners' equity as percentage of total assets;
- Distributed profit as percentage of total profit earned;
- Growth in firm profit per annum;
- Current ratio;
- Debtors aging;
- Work in progress aging;
- Detailed expenses as percentage of revenue, and/or per person: focus on controllable variable costs, since the fixed-cost percentages will vary according to the revenue base;
- Goodwill (or change in value of goodwill) based on the firm's internal valuation formula;
- Revenue mix as percentage of total revenue (sources of revenue by service);
- Revenue from first-year (new) clients as percentage of total revenue;
- Number of clients gained and lost during the year, as percentage of number of clients at the start of the year.

1.8.3c Operational KPIs Suitable for Internal Comparison

Finally, you might wish to benchmark within the individual departments or workgroups within the firm. It then may be possible to compare, for example, the performance of one workgroup with another. This of course is based on the assumption that the departments are reasonably similar in work methods or client mix and so on. At this point, your choice of indicators can be highly focused and directly relevant to the work of each particular team.

When constructing these indicators, make sure that they highlight efficiency and not just activity. For example, it would normally be considered more efficient if each person in the accounts department can raise more invoices and process more payments per employee or per labor-hour. However, encouraging more invoices to be created (for example, by mailing invoices to clients semi-monthly rather than monthly, or by encouraging partial payments rather than full payments by clients) might do nothing more than increase the level of activity, for no net gain to the firm. A cynical manager might then use benchmarks to argue for *additional* employees to help process the higher volume of activity. That would clearly not be a good result for the firm overall, because it increases the cost of running the firm while still meeting the benchmark.

For each fee-earning division or team

- Revenue per person;
- Write-downs per person per annum;
- Revenue less direct costs and controllable costs (that is, exclude arbitrary cost allocations or apportionments) equates to contribution to firm's unallocated overheads;
- Direct salary cost (including employee-related on-costs) as percentage of revenue;
- Controllable cost as percentage of revenue;
- Fee growth per annum, total;
- Increase in average fee per client;
- Growth in contribution (that is, the department-related profit measure) per annum;
- New clients gained and clients lost during the year;
- Percentage attainment of division's objectives. This indicator(s) will vary depending on the nature of the objective. The aim is to quantify the extent of compliance with objectives (for example, percentage of clients who were offered additional services during discussions with the client, or number and percentage of clients who were migrated to lump-sum, monthly billing);
- Total work in progress and debtors.

For marketing activity

- Marketing outlay per inquiry;
- Marketing outlay per new client gained;
- Marketing hours (by all personnel) as percentage of total available hours, firm-wide;
- Revenue per marketing hour;
- Improvement in the client satisfaction index based on client surveys.

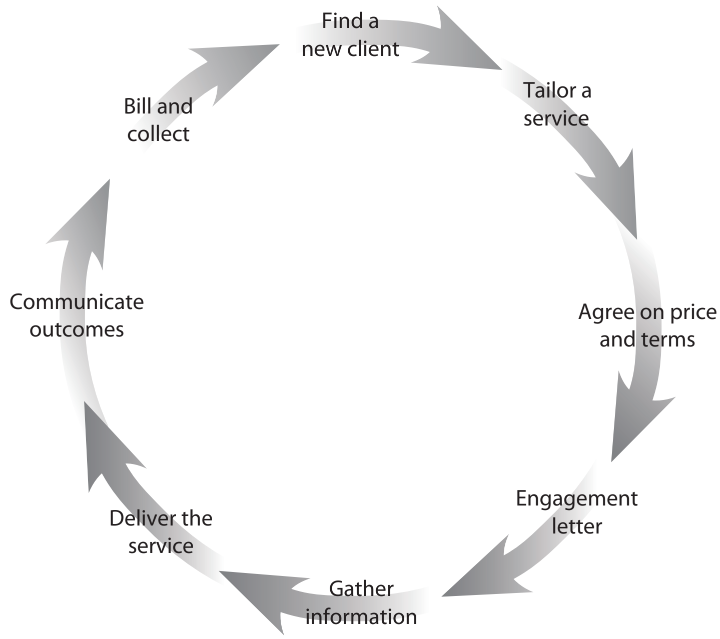
For administration or finance unit

- Administration employees' hours as percentage of total available hours, firm-wide;
- Revenue per administration hour;
- Other efficiency indicators, such as percentage payments to creditors that were paid late.

1.9 The Business of Running Your Firm

1.9.1 The Key Stages in Running an Effective Firm

Figure 1.2 The "virtuous circle" of an efficient accounting firm



The key stages in this process are:

1.9.1a Find a Client (Later, On-Sell to Existing Clients)

In a start-up firm, this is especially challenging. You might have brought some clients from your previous employer's firm (take care to act ethically in this regard, by complying with any agreements or undertakings you gave while an employee), or you might be building a client base from nothing.

If you bought a firm or parcel of fees from another practitioner, you will want to focus on retaining those key clients.

If you are joining an existing firm, the immediate pressure to find new clients will be less, since there will be some handover of clients from existing partners to you. No matter which situation applies to you, there is always the imperative to add more clients who fit your ideal client profile. There are many marketing and sales tools available to you; you may want to refer to the earlier section on developing a marketing plan. Remember, though, that a firm continually needs new clients in order to grow, or simply to replace the natural attrition of clients.

1. Tailor a service

This is where supply (your capacity to deliver services which benefit clients) meets demand (the specific need which your client describes to you). The basic accounting service revolves around recording and summarizing transactions, then reporting to a range of users. Then your own skills, complemented by the skills of colleagues in the firm, enable you to deliver further services to benefit your clients.

You might need to look beyond your own skills to create the right package of services to completely satisfy a client's needs (whether stated or unstated). Be willing to introduce your client to other high-quality specialists inside or outside your firm who possess the knowledge you do not have. The ways networks can help you meet clients' needs fully is addressed in Module 2.

2. Agree on price and terms

While your primary motivation is probably to deliver good service and outcomes to clients, basic business principles must also be applied to guarantee a long and viable future for your firm.

Set a price that reflects your cost structure and delivers a suitable profit for the time and investment you devote to the firm. Tell clients how and when you will invoice them. Tell clients that you expect them to pay your accounts promptly.

Help clients minimize the amount of low-level processing work that you must perform for them (for example, install record-keeping systems or software in the client business, and train their employees in its use). This helps clients to control the total accounting fee by providing you with quality source information. For your part, estimate a realistic date for completion of the client's work and deliver on that promised turnaround time.

Charge-out rate describes the hourly fee for each fee-earner that ensures the firm remains commercially viable. Whether the firm actually charges by the hour for work performed, or whether the firm adopts a "package price" for an agreed bundle of services, achieving this charge-out rate is essential to the economic success of the firm. The rate must be high enough to cover all costs, to provide a return on equity invested in the firm, and to reward the partners' time properly.

3. Engagement letter

Most professional associations require a firm to produce a current and accurate engagement letter that describes in reasonable detail:

- The nature and scope of work to be performed, including limitations;
- The way in which work outside that scope will be handled and priced;
- The client's role in assisting you with source documents or other information;
- Your obligations in terms of professionalism, confidentiality, and completion; and
- The commercial terms of the engagement.

In this way, both parties know what is expected and how each contributes to the relationship. Sometimes a new engagement letter might be prepared for new or unexpected work that arises in the course of the year. Be guided by your professional association about the requirements of a valid engagement letter. Engagement letters should be reviewed annually, and separate letters issued where additional assignments have been agreed, or the scope of an existing assignment has been substantively changed. The client engagement process is examined in detail in Module 7.

4. Gather information

When you are negotiating the terms of the engagement, you will identify certain records or other information that the client must provide. Once the engagement commences, the firm might use some checklists to gather specific information from the client. This streamlines the process and ensures that all relevant information is collected at the earliest opportunity. It should prevent or at least minimize the need to ask the client for further detail; as a result, it speeds up the completion of work and ensures its quality.

There are many ways to gather this information: face-to-face meetings, telephone discussions, email, letters, and so on. Use the method which best suits each client's personality and preferences. This makes the communication process as smooth, client-friendly, and efficient as possible. Web-based tools can allow clients to view the progress of their work.

5. Deliver the service

This covers all the stages and processes used to convert your skills into an outcome for the client: the application of your professional knowledge; easy access by accounting employees to subscriptions or research services; the deadlines adopted and progress toward meeting them; the level of in-firm review of work by, for example, a manager or partner; the use of the firm's quality control systems; effective approaches within the firm to the management of the assignment, including setting priorities; and having a focus on completing work. There are administrative and process aspects of this phase, in addition to technical or professional aspects.

6. Communicate outcomes

Clients rarely see or know the full extent of the work you do. Therefore, the presentation of the final outcome assumes great importance in ensuring that clients are satisfied with your work or advice.

The method of communication should be tailored to each client: a letter or written report, face-to-face meeting and discussion, telephone discussion, online meeting, or some other method. Decide based upon your client's availability and preferences, as well as your own.

Similarly, consider the type and amount of information to be communicated. How much will the client comprehend? Should you incorporate diagrams or graphs to communicate effectively? How should you phrase the message? Some clients will just want the answer, while others will want to understand the underlying process as well. Some will prefer to deal in numbers, while many others find graphs easier to comprehend. Include and explain any qualifications to the advice. Also consider any professional guidelines related to the information you must cover.

Make sure that the client understands not only the cost of your service, but also the net benefit they have gained: in this way, you continually resell the importance of your work.

7. Bill and collect

This should be simple, as the billing arrangements should have been addressed while the engagement was being outlined. Reaching specific milestones should trigger the automatic creation of an invoice for the client. The client should expect this. A firm might opt for a single invoice on completion, or a progress invoice determined by time (for example, on the first day of the month during May, June, and July, with the final figure invoiced at completion of the job) or milestone, for example, at the commencement of the interim audit work and at the start of the final audit review). Both could lead to a significant build-up of work in progress and/or debtor balances and tie up considerable working capital as a result.

Many firms are moving toward fixed-scope, fixed-price engagements that are paid monthly, then charging separately for any additional work. This model has been shown to smooth the cash flow for both client and firm; it also sees less money tied up in work in progress and debtors.

Some work lends itself to value-billing: your firm's fee is governed by the benefit to the client rather than the actual time spent on the work. This approach can yield an above-target return per productive or chargeable hour and contains an element of benefit sharing.

If you feel that it is necessary to write-down an invoice before it is raised, try to understand the reason behind it. Was the excess time due to a staff member who needed training? Or was it due to a large amount of rework on a part of the work? Does one person in the firm cause most of the write-downs? Seek to understand the root cause behind this and implement strategies to deal with the issues found. This will help you control the level of write-downs and minimize them in the future. Remember, every dollar of write-down represents a dollar of profit given away, so these are important adjustments you are sometimes asked or required to make.

> "Additionally too many firms are extremely lax when it comes to financial control: lockup is far too high, invoicing is not done on a timely basis, nobody is specifically tasked with chasing up outstanding invoices and there is no system in place to monitor the entire billing and collection process."
>
> *Shohet & Jenner 2007*[7]

As for collection, clients should come to know that you will actively pursue any invoice that remains unpaid beyond your agreed trading terms. Follow up on these outstanding amounts in a professional and commercially sensible manner. Again, this should be outlined in the engagement letter which your client has signed off, prior to commencing work. If necessary, you and your key employees may need to have the so-called "hard conversations" with clients, so they know that you expect your invoices to be paid within your agreed trading terms.

8. On-selling other services

Public accountants provide a wide range of services, wider than many clients realize. This is done within the ethical framework outlined by legislation and/or your professional association. The most effective selling of additional services happens when you and your professional employees listen to comments from clients, then assess whether an opportunity exists for your firm to resolve that particular problem by utilizing some of your other services.

The client might volunteer this information (for example, "I'm not looking forward to the next discussion with my bank manager, because I'm always using all my overdraft"), or you might identify some operational problems in a business client's financial statements ("You seem to have problems collecting money from clients, and this is causing a high level of bad debts"). Alternatively, you might develop a formal checklist that you review annually with each client, to unearth opportunities for additional services which the client needs and would appreciate. For example, for wealth management services or estate planning structures.

It is important to understand the differences between a regular, ongoing service and a one-time, "once-off" assignment. The former will deliver sustained revenue: one sale generates benefits to the firm for many years and enhances the lifetime value of that client. It also adds to the value of the practice. The latter will only benefit revenue in the short term; such assignments, however, can be highly interesting and/or professionally challenging, so they should not be ignored. A quality firm will (among other things) have a high level of recurring work that underpins each year's budgeting and workflow planning.

On-selling services require the wise practitioner to know the firm's skill set and its limitations. On-selling services must always be grounded in a strong desire to look after your clients properly, and not simply to boost revenue. This approach can and should see you providing excellent, proactive service to clients and increasing revenue and profits for both.

---

[7] Shohet, Phil and Jenner, Andrew. "The importance of being profitable." *Accountancy*, July 2007, 40–41.

In Figure 1.2 the effective selling of additional relevant services puts us back at the start: finding a client and tailoring a service.

> "In order to listen and learn more about the current client's situation, its plans for the future and challenges on the horizon, they use activities such as: inviting clients to talk to fee-earners; attending clients' industry conferences; attending clients' own meetings or conferences; reading clients' trade press; investing non-chargeable time in building the relationship and adding value."
>
> "To be able to offer more valuable solutions to clients, a client partner and team needs to be fully up-to-date with the current capabilities and expertise their own firm has to offer. This is often more difficult than it sounds. As firms become more successful and bigger in size, communication between departments fragments."
>
> *Matthews & Telfer 2007*[8]

The following steps, included in the article "The Good, The Bad and The Ugly"(Pipe 2008), provide suggested steps for taking a proactive approach to identifying and satisfying clients' needs.

> - Research and produce a master list of high-impact ideas to share with clients, and continually update it.
> - Add a step to your accounts completion program requiring the accountant in charge to review the list to identify relevant ideas for the client.
> - Write the ideas up in the form of a "Key Improvement Possibilities Report"—quantifying their impact where possible and making a preliminary recommendation around each idea.
> - Present and discuss the report and recommendations at the accounts finalization meeting.
> - Draw up an action plan containing the recommendations the client may want to implement.
> - Ask the client if they want any help implementing the things on their action plan—you will sell additional services.
> - Use value pricing wherever possible to link the fee to the benefits you have quantified—you will earn higher fees.
> - Repeat the process for every client, every year—since that way every client benefits, not just the favored few—and it embeds proactivity into the culture of the firm.
> - Win new clients by putting the offer of a free "Key Improvement Possibility Report" at the heart of your sales and marketing.
> - Give your clients and contacts a reason to refer their contacts to you by inviting them to offer a free "Key Improvement Possibility Report," delivered by you, to the people they know.
>
> Being "proactive" is the simplest, least-salesy and most effective way to increase your cross-sales of additional services to existing clients.
>
> *Pipe 2008*[9]

[8] Matthews, Paul and Telfer, Paul. "Jekyll or Hyde?" *Accountancy*, August 2007, 58–59.

[9] Pipe, Steve A. "The good, the bad and the ugly." *Accountancy*, July 2008, 34–35.

Not all partners and practitioners will be expert in all these aspects of the practice cycle. There could well be merit in introducing others into the process at those critical points in the cycle. There is certainly benefit from adopting firm-wide systems or standard approaches (for example, using a standard checklist to identify future needs, or the information required from a client). Partners and employees should also recognize that occasionally they will need to perform tasks that they'd simply prefer not to do, such as talking to clients about billing and collection matters. All the steps in the cycle are important to running a viable firm, so they must all be performed regularly, systematically and professionally. Allocate your team to roles that suit their skills and natural personality styles: this gives the best overall outcome for the entire firm.

Set up your firm as an efficient and well-oiled machine from the outset. This is likely to make it a more attractive place to potential new partners or when trying to sell the firm in the future. Implement a systematized approach to everything the firm does. A firm whose people can work methodically and consistently through the cycle of services, and then ensure that the firm controls its profitability and liquidity along the way, becomes a valuable business. This makes it easier to sell and typically more valuable than many other firms. It might be premature to mention this now, but one day this will be very important to you!

1.10 Monitoring External Forces

There are some significant trends in society that should be considered when planning and managing your firm. Globalization, technology, and demographic changes can have a serious impact on professional activities. Clients have more complex problems, have access to better information, and are more focused on the value of services provided. Firms need to be aware of changing society needs. These changes create opportunities for firms to evolve.

This section looks at some of the big-picture issues that impact on professional accounting services, and for which planning may be required.

1.10.1 Environmental Sustainability

Any firm can make a serious attempt to act in an environmentally responsible manner. One natural by-product of minimizing a firm's carbon footprint often leads to running a less costly business.

A simple approach is to focus on "redesign," "reduce," and then if required, "offset."

- Redesigning processes can often reduce the amount of resources used, saving money for the firm. Eliminate unnecessary or unproductive steps from your processes; this reduces the amount of labor time on a range of inputs, and cost falls as a result.
- Reduce the volume of resources used in the business. This could involve an energy audit to identify high-power devices that can be replaced, or a decision to use electronic communications rather than paper-based ones. Some of these changes might be quick and simple (installing low-energy lights), while others (such as progressively buying low-energy computers, printers and other appliances) might take a little longer to achieve. Major projects such as retrofitting your office building to reduce energy usage might be warranted if it can meet a cost-benefit or payback hurdle. Many of these changes will reduce costs without compromising the quality or effectiveness of your service.
- Once you have minimized the firm's footprint, you can consider whether you wish to purchase carbon offsets (sometimes referred to as "CO_2 compensation") to counteract or offset the remaining carbon emissions from your firm.

There may well be a number of quick, easy decisions that can make a significant impact in a short space of time. Take those decisions first, to demonstrate to partners and employees the benefits from this strategy.

Reducing your carbon footprint can also be a selling point to some clients, and attract employees to work in your firm.

The next few years will see environmental responsibility becoming more central in decision-making and the implementation of a firm's plans. This phase will challenge firms to question assumptions about work and the way they deliver services. In due course, firms may have changed their approach to the point where being environmentally conscious is just part of the way that everyone works. Therefore, in the short term, adopting this mind-set should save some money for the firm, and can also be used as a promotional factor to make your firm more desirable. Take advantage of this situation, and consider how introducing new services such as sustainability or integrated reporting, carbon footprint or waste control analysis could position your firm to meet new market needs.

1.10.2 International Standards for Accountants

The trend toward globalization has brought with it the development of international standards of financial reporting, audit and assurance, and ethics, which impacts both practices and their clients. Many clients are becoming more global in their aspirations and business activities; this demands that their accountants should respond, possibly through international alliances or links with other practices overseas.

International Financial Reporting Standards (IFRS) are now widely adopted around the world for use by listed entities. In 2009 the International Accounting Standards Board (IASB) published an IFRS for small- and medium-sized entities (IFRS for SMEs), and many countries have already adopted it.

Meanwhile, international standards issued by the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) continue to be adopted by an ever-larger number of jurisdictions.

Recognizing the globalization of accounting services and growth in cross-border transactions, your personnel may need to develop cultural sensitivity, and possibly skills in foreign languages, in order to cater to a broader and more diverse client base. Strategies to deal with these challenges could include the recruitment of multi-lingual staff and professional development in international accounting and business practice.

1.10.3 Rising Levels of Regulation and Professional Knowledge

The accounting profession has increased its professional scope significantly over the last thirty years. There is a need for professional development across a range of accounting-based disciplines, simply to maintain a current and adequate level of professional expertise. It is doubtful that this trend will slow, given the rapid change in technology and the nature of business.

The increasing emphasis on corporate social responsibility reporting, perhaps best evidenced by the emergence of integrated reporting as advocated by the International Integrated Reporting Council (IIRC), coupled with the likelihood of audits of client firms' environmental responsibility statements, will add further complexity to the preparation, review, and audit of financial statements. Accountants will come to play a significant role in these extensions of the boundaries of accounting and reporting.

One likely continued outcome from economic uncertainty is the extensive level of re-regulation in many nations around the world. The accounting profession will play a public and vocal role as the re-regulation is debated and implemented.

The combination of re-regulation plus higher professional standards will place enormous demands on accountants and their employees. Heavy investment will be required in ongoing training and on subscriptions to a wider array of information services, just to maintain current knowledge. In turn, this level of training and investment will also place substantial pressure, both financial and emotional, on the principal or partners of small firms.

Give this issue special consideration if you are planning to start or operate a sole principal firm, as the professional and technical leadership will have to come from you.

One response could be to aim for a firm development path that focuses on rapid growth so that you can add at least one partner within a fairly short space of time; in this way, you can plan to spread the professional workload and leadership pressure early in your firm's development.

A second possible response is for you to give serious consideration to start your practice with other partners or join an existing partnership, so that you can immediately surround yourself with a number of partners, enabling some specialization of effort or interest.

1.10.4 Mobility of Talent and Clients

Technology is helping to internationalize business: it enables and encourages the amalgamation of data and even businesses across national borders.

The local subsidiary of a multinational company might require your firm to perform audits, or give tax advice that carries international implications for the parent company.

At the other end of the scale, specialized small businesses located in rural areas are using the Internet to trade their goods or services around the world. Such a business might approach your firm for guidance with secure-payment products (ranging from the likes of PayPal or equivalents, to trade finance arranged through a local bank).

These clients, large and small, require accounting skills, communication protocols, risk management, knowledge of foreign exchange issues, and so on. It matters little whether the client business and its accountant are based in a remote regional area or in the middle of a major city.

As well, nations respond to accounting issues at different times and in different ways. The experience gained in one country dealing with a particular issue can be transplanted into another, reasonably similar nation by moving some highly skilled people. The experience gained by accounting personnel has been accessed via international transfers or international contract-based employment, as those other countries seek to avoid any difficulties experienced in the earlier adopting nations.

The accounting bodies, in turn, are continually looking for ways of enabling (or at least not restricting) the international flow of skills and qualified people. They do this via reciprocal recognition of the qualifications issued in other countries.

In short, both professional and cultural factors are making for a more mobile accounting profession.

1.10.5 Technology

Technology will continue to be integrated within the accounting role. More and more applications will become integrated, with more information being exchanged across different organizations (for example, exchanging information between an accounting firm and a client's bank is now a commonplace arrangement). Perhaps the biggest technological advances to impact the work of firms in the coming few years are social media, smartphones and cloud computing.

Many accountants will not be experts in establishing computer networks or in the technicalities of communication linkages between different organizations. However, accountants will need to learn and implement those applications that can deliver benefits to clients. Equally, accountants will need to screen and review the quality of data that they process on behalf of clients. To do this effectively requires a level of comfort with technology, rather than a high level of technical understanding of the programming or the communications links.

1.10.6 Anti-Money-Laundering and Other Legislation

Money laundering is the process by which criminal proceeds become legitimized, by passing those funds through a range of transactions and/or entities to disguise the original source of the underlying cash. It generally involves placing cash funds in some type of transaction, diverting that cash via one or more entities or transactions, then demonstrating a “normal” commercial basis which explains the existence of the cash.

The Financial Action Task Force (FATF), based in the headquarters of the Organisation for Economic Co-operation and Development (OECD), establishes anti-money-laundering principles internationally. It has published a number of recommendations which national governments are moving toward adopting. These guidelines require certain types of organizations (for example, banks, bullion dealers, jewelry dealers, gambling venues, etc.) to satisfy themselves as to the authenticity of the clients and products or services they deal with.

Spend some time understanding the specific requirements and regulations adopted within your own country, and also be aware of any special requirements or exemptions that apply to members of the accountancy profession. For example, the definition or threshold for a “large transaction” will differ, as will the extent of disclosure required for a “large transaction.”

In some countries, anti-money-laundering controls have also been accompanied by parallel controls to monitor possible terrorism funding. The aims may be the same, and the issues might be approached as a combined package, but money laundering and terrorism funding are separate matters.

Key steps in your firm’s compliance process involve:

- Client due diligence, where you are expected to take reasonable steps to verify the identity of the client. This might extend to screening your key personnel or frontline employees involved directly in dealings with the public;
- Transaction monitoring, which requires you to review any underlying transactions that involve large volumes of cash;
- Reporting, either based on monetary thresholds or suspicious transactions;
- Record-keeping, to demonstrate compliance with local regulations and laws;
- Performing risk assessments within the firm, to identify high-risk products or activities or potential clients; and
- Developing specific policies for use within the firm to codify all the above steps.

You should be sensitive to transactions that involve some or all of the following: new, unknown clients; large cash volumes without a supporting business activity; the use of complex webs of trusts and/or company structures that move money for no or little apparent value or purpose, especially where part of the web comprises international entities.

These processes or “high-risk activities” can be added to your standard client-screening activity, even if the anti- money-laundering or counter-terrorism funding procedures do not specifically apply to your firm.

Increasingly, there are laws related to privacy and personal data protection, equal opportunity, sexual harassment, and workplace bullying. These are areas of risk which must be actively managed within the practice. By adopting a best practice approach and by developing expertise your firm may choose to provide value-added advisory services to your clients.

1.11 Business Continuity: The Short-Term and Long-Term Imperative

The issue of business planning cannot be complete without some consideration of business continuity.

As a professional accountant, you take responsibility for providing high-quality services to clients, acting at all times in an ethical manner. You are responsible for providing your partners and staff with a stable working environment and taking measures to support the continuity of your business. Circumstances occasionally arise in which continuity of service cannot be taken for granted. These scenarios need to be addressed in your planning process.

1.11.1 Interruption to Business

On occasion, natural events may prevent your firm from operating for a period of time, due for example to:

- Fires, floods, earthquakes and other natural disasters;
- Unexpected interruptions to power or computing infrastructure; or
- The severe illness or death of the owner, or a key person in the firm.

These types of catastrophic events are well outside the control of a firm, yet they impact on your ability to service your clients. A well-run firm requires a plan to cope with this type of disruption. It is essential to imagine any of these occurrences, so that you and your partners can document the steps that must be taken to minimize the impact on clients. Those steps could cover issues such as:

- **Can you prevent the occurrence?** The (limited) answer to this might include regular health checks for key personnel in the firm and fostering a healthy approach to diet and exercise. Many of the most severe shocks simply cannot be avoided, however, so instead, we look to the next stage.
- **How can you minimize its impact?** Minimization might force the principal/partners to either locate the firm in a more stable region (that is, away from a flood-prone or earthquake-prone region), or at least have spare resources such as computers and/or back-up data files stored elsewhere. Perhaps the firm needs to locate itself in a more robust building.
- **What is the cost of the minimization?** Budget the cost of the minimization strategy, and try to estimate the cost and the impact of the event you are trying to protect against.
- **Can you form links with other firms?** You might identify and create formal links with some non-competing firms elsewhere in your country, so that each of you could provide back-up to the other in the event of a major catastrophe. This would allow a quick re-establishment of services; naturally, confidential information relating to each client base would need to be secured appropriately.

For a sole practitioner, sudden death or severe illness is a particular concern. You might deal with this issue by locating a firm that is willing to take over the servicing of your client base in the event of death or severe illness. The arrangement would need to address, for example, the length of time that this support is provided, the circumstances under which it starts and stops, and (most likely) an approach to the valuation of the firm so that a bereaved spouse would receive a fair price for the value of the firm.

1.11.2 Continuity of Business: The Second Generation

If the firm's fee base grows over a number of years, the firm may see a new partner admitted. This could be a suitably qualified and experienced employee, or it might be a member of the founding practitioner's family.

Often to retain the most talented people in the firm, some kind of career path needs to be identified, otherwise there is a potential that key staff may leave the practice and establish their own in pursuit of their professional ambitions.

The admission of a new partner will typically involve some payment for the share in the firm, either (in the case of a family member) by a reduced level of income from the firm for a period of time, or (in the case of a former employee) by payment of a figure to buy a share in the tangible assets plus the goodwill built up in the firm by its founder.

The admission of a partner represents a major shift in the way the firm operates. Suddenly, decisions must be made jointly. Agreement is necessary between the two (or more) partners. Different personalities must be accommodated. Policies may need to be documented, and more formal records might be required in relation to the management of the firm (for example, to record the discussions among the partners). Roles should be outlined, so that the partners know which decisions to make. A common view of the firm's direction is needed.

Module 2 examines the sole practitioner and partnership models in more detail.

1.12 Conclusion

This module has examined strategic planning processes, especially in relation to services, clients and personnel, and marketing, and has touched on other aspects of business planning, including understanding the environments within which your firm operates. Every firm requires its own strategic plan, to govern the direction and speed at which it moves. Every individual section of the firm needs its own plan to guarantee that it contributes to the overall result.

A firm without a plan will simply meander along, responding to opportunities in an ad hoc manner. It may well develop in directions and in ways that do not suit the needs of its owners. The end result could be disagreement among the partners, leading to low job satisfaction and low commitment to the firm.

Like any roadmap, some indicators are needed to keep the firm on track. Benchmarks will keep the firm travelling at the right speed and help partners make the right choices at major crossroads.

Every interaction your team has with clients is a marketing opportunity. Marketing is too important to be left solely to the marketing partner or team.

At all times during the planning and implementation stages, remember that the firm is built on its people. Employing the right people with the right approach will be the single most important decision you can make. The wrong employees will have an impact far beyond their own personal performance: the wrong employees have the power to disrupt other personnel; they take more of the partners' time to counsel or discipline them; they drag down morale in their own team or across the entire firm; and dismissing them can be a long, time-consuming and potentially expensive process.

Developing processes and tools to screen out potentially poor employees and hire better-suited ones will repay the investment many times over. Use your team to help find better colleagues: they won't want to work with negative, incompetent or difficult people, either.

The strategic planning process never ends. It moves seamlessly from planning for the next period, then monitoring actual performance against that plan, to planning for the subsequent period. Enjoy the process, because you will spend considerable time dealing with plans—and enjoying the results when the plan comes to fruition.

1.13 Further Reading and IFAC Resources

The IFAC Global Knowledge Gateway is a digital hub where professional accountants can easily access thought leadership and resources from IFAC, member organizations, and other notable groups and individuals.

The Gateway Practice Management section includes additional articles, videos, and resources to complement this module. We encourage you to review the content, provide feedback, engage with contributors, and share your own insights on contemporary practice issues.

Appendix 1.1 A Realistic Self-Assessment Checklist

Think about your technical skills.

- ☐ Do you have a solid grounding in the key service areas that your firm will deliver? Are there any major gaps in your professional knowledge?
- ☐ Can you draw on practical experience in delivering these services?
- ☐ Are your skills and experience sufficiently flexible to let you solve new problems in these key skill and service areas?
- ☐ Have you been diligent in maintaining your skills, via regular and well-directed continuing professional development?

Think about your managerial or people skills.

- ☐ Do you like dealing with other people (supervising, motivating, coaching, and sometimes providing constructive criticism)?
- ☐ Do you consider yourself to be a leader, or a follower?
- ☐ Do you know your management style? Are you autocratic? Firm in your opinions and hard to sway? A seeker of compromise or consensus? Flexible? Uncommitted? There is not necessarily a “right” or “wrong” style, but it is essential that you understand your own management style, so that you can know its strengths and its limitations. Make a list of some of the words that fairly describe your management style.
- ☐ Can you be fair-minded and open to a well-thought-out line of reasoning?
- ☐ Do you ensure your opinions and decisions are based on sufficient facts?
- ☐ Do you prefer to work solo, or be part of a team?

Think about your financial resources.

- ☐ Do you have access to some funds to set up or buy into a firm possibly without drawing a wage or equivalent for several months?
- ☐ Are you aware of the major elements involved in running and funding a public firm: the build-up of work in progress and debtors; the ongoing cash outlays you should expect to make each week or each month; the capital items or other initial outlays you need to make, even before the firm generates any revenue?
- ☐ Would a financial institution lend you money for your firm, on reasonable terms?
- ☐ Do you know how to set hourly charge-out rates for your time or the time of your employees?

Think about your marketing skills.

- ☐ Do you consider yourself to be an effective marketer or seller of your current employer’s services?
- ☐ Are you comfortable when describing and quantifying the value or benefits that your services can deliver to a client or prospective client?
- ☐ Do you believe that your charge-out rate or billable rate fairly represents your value to your clients? One way or another, running a profitable firm requires you to generate a certain amount of revenue from each hour that you spend working for each client. You can’t afford the luxury of self-doubt. It is essential that you believe you deliver value and benefit to your client base; Otherwise your marketing will have a hollow feeling about it.

Think about your personality.

- Are you a confident person?
- Are you willing to work hard to achieve your objectives? At some times, you will need to work long hours to complete specific deadline-driven work; if this will frustrate you, then you might need to take a generous and more costly approach to staffing the firm.
- Are you willing to make sacrifices at some times to achieve your objectives?
- Do you enjoy working with and for other people? Clients, partners and employees are all people, and each person will have their own needs and wants from you and your firm. Each will have their own style, and you will need to utilize the strengths that each person brings to the firm.
- How do you cope with work pressure? Or pressure from, for example, tight liquidity, either personally or in the business?

Think about the support networks around you.

- Will family and/or friends support your decision to go into a public firm? Will they permit you the time and flexibility to work long hours should the need arise?
- How will you support yourself and/or your family financially, especially in the early days of a start-up firm?
- (Especially for an intending sole practitioner) Do you have a trusted adviser (or a mentor or a coach) with whom you can discuss a difficult issue?

Financial: Everyone has a view about the importance (or otherwise) of material wealth and a different definition of a comfortable lifestyle. What is yours?

Specific things you want to do: What are they, and what is a realistic time frame in which they could be achieved?

Appendix 1.2 Matters to be Covered or Addressed in the Planning Process Checklist

Legal structure

- Sole practitioner or partnership? and
- Choice of the particular legal entity: use of specific legal structures, with their related implications and benefits for limitation of legal liability.

Services

- The range of services to be offered;
- Whether they will all be offered in-house, or some handled via referrals; and
- The approach toward the referring of a client elsewhere (for example, do you expect referrals in return?).

Staffing

- The long-term mix of principal/partners versus employees;
- Some mention of career path options and criteria for advancement;
- Approaches (both the stated policies and hopefully a consistent culture) toward working hours, holidays, other leave, and flexibility to accommodate short-term family situations that might affect a employee;
- Flexibility in permitting work-from-home arrangements;
- Reward programs you might wish to implement;
- Approaches to permitting periods of extended leave without pay or study leave, etc.; and
- Methods to be used to attract and retain new personnel.

Systems and procedures

- The specific processes which your team will use to deliver services to clients, and the amount of flexibility to be given to different employees;
- The sanctions that are applied when a system is ignored or not followed; and
- Precedents, work papers, and the quality review requirements of your professional association.

Technology

- Will this be developed and implemented by internal personnel (that is, principal/partners and/or employees), or will it be driven via consultants and contractors? and
- Set a target cost level that will ensure that the minimum range of technology is available from day one, which keeps pace with the growth of the firm into the future.

Marketing and growth

- Some consideration of the methods to be used to achieve organic growth in client numbers;
- The approaches to be adopted to make clients aware of the full range of services offered by the firm;
- The importance of marketing within each person's job description;
- Whether marketing is considered the responsibility of all client-facing employees, or whether it is primarily addressed by a small number of capable partners or senior personnel; and

- Whether growth is a key focus of the firm's efforts, or a by-product of getting everything else right; whether growth will be sought solely through organic development of the client and service bases, or through merger/acquisition.

Finance

- An overall approach to the funding needs of the firm:
  - Contributed capital;
  - Retained earnings; and
  - Dividend/drawings levels;
- A broad approach to the lease versus buy options for purchase of capital equipment;
- The extent to which the firm will accept a "loss leader" service or is prepared to incur short-term losses in a new service area as part of the development of a broader range of services in the longer term; and
- Allocation of responsibilities for financial management, administration, and management of the firm.

Appendix 1.3 Marketing Program Template

Marketing Program						
Year						
	Marketing objective	Strategy	Responsibility	Time frames	Cost	Results anticipated
Internal						
Example 1	**To increase fees by 5%**	**Introduce financial planning into practice**	**Carol Taylor**	**by 31 December**	**$28 000**	**20 clients at $2500 per client**
External						
Example 2	**To acquire 5 new business clients**	**Quarterly seminar programs**	**John Smith**	**by 30 September**	**$14 000**	**Acquisition of 1-2 clients per seminar held**
				Total		

Appendix 1.4 Staff Office Manual: Suggested Content and Sample

A sample office manual follows as an example.

The manual should cover issues such as:

The mission statement and/or objectives

- List of services provided;
- List of specific target client-types or the principal market segment in which the firm operates;
- Key operating targets or aspirations for the current financial year.

Organizational structure

- Major teams or functional areas within the firm, both fee-earning and administrative;
- Senior personnel (at a minimum);
- (Ideally) allocation of all personnel into their work groups or teams;
- Key contact details for the firm: office location(s), mailing address, phone number, fax number, generic email address, and so on.

Employment conditions

- Reporting lines and organization structure;
- Fair employment processes covering advertising a vacancy, screening applications, interviewing short-listed candidates, checking references, creating letters to offer employment, and so on;
- Induction programs for new employees;
- Job descriptions;
- Ongoing professional development: in-practice activities, external courses and events, firm subsidy for training or professional development, clawbacks of subsidies in event of early departure from the firm;
- Work hours and performance targets: minimum standards and expectations, overtime, flexi-time, and so on;
- Dress standards;
- Smoking, alcohol and drug policies;
- Performance management: staff performance reviews and target-setting for the coming year;
- Salary-setting and review: salary scales if applicable, criteria used in salary reviews, frequency of reviews, bonuses or incentives;
- Frequency and method of pay;
- Non-salary benefits provided by the firm (possibly non-cash benefits, salary-sacrifice arrangements, retirement scheme, etc.);
- Leave allowances and conditions: holidays, sick leave, long-term leave, bereavement leave, special leave, unpaid leave, study leave, maternity and paternity leave, and so on;
- Grievance or appeal process;
- Termination of employment: notice required from either the employee or the firm.

Purchasing of minor requirements

- Delegation limits for proposed spending;
- Authorization of purchases and payments;
- Booking of travel or reimbursement of travel costs: standard of travel to be used, lowest practical cost to determine, for example, choice of car versus air travel for long-distance trips, use of taxis;
- Charge-backs to clients for costs incurred during professional work.

Use of the firm's equipment

- Resources provided within the office: computers, software, subscriptions, telephones, Internet access, storage, and so on;
- Resources provided for use outside the office: portable computers, mobile phones, vehicles;
- Reporting and reimbursement by employees for private use of office resources.

Performance standards

- The default or standard form and style to be used with correspondence; special greetings to be used when answering the phone; quality or performance standards governing, for example, telephone-answering or response times for email or other incoming contacts;
- Management of incoming and outgoing communications: phone, postage, email, fax;
- Document retention;
- Grievance process for clients;
- Guarantees for professional work;
- Privacy and confidentiality regarding client information;
- Authorization or limits on authorizing write-downs, amending fee invoices, or writing off invoiced amounts.

Fair work practices

Some or all of these might be governed by legislation, or by codes of conduct.

- Equal employment opportunity;
- Occupational health and safety or safe workplace: emergency contacts, fire drills;
- Anti-discrimination: for example, on the basis of age, race, religion, sex, sexual preferences;
- Harassment, whether in the form of bullying, sexual harassment, or other

Sample Staff Office Manual

This is a sample manual only. The content of this manual should be customized to reflect your individual practice requirements.

CONTENTS

1. Introduction

1.1 General Introduction

It is not possible for the Staff Office Manual (Office Manual) to cover all aspects of the operation and administration of [INSERT NAME OF PRACTICE] (Practice). However, in respect to those issues dealt with in it, the Office Manual sets out the broad philosophy of the practice and specific policies that staff members are to follow. Staff members should familiarize themselves with the policies and procedures contained in this Office Manual.

Employees must comply with the Office Manual as amended from time to time.

This Manual also forms part of the Practice's Quality Assurance System and should be read in conjunction with ISQC1 (Quality Control of the Firm) [OR INSERT LOCAL EQUIVALENT STANDARD] as amended from time to time.

The specific benefits that adherence to the Office Manual will bring include:

[CUSTOMIZE THE FOLLOWING TEXT TO REFLECT PRACTICE'S PHILOSOPHY]

For our Practice:

- Defining the service levels our clients expect our practice to provide
- Enhancing the communication structure
- Providing training for staff members in performing their roles
- Ensuring consistency in the format and substance of working papers
- Reducing lost time due to re-work or ineffective and/or inefficient practices
- Reducing the risk of litigation
- Highlighting procedural or conflicting policies
- Resolving problems effectively
- Increasing profitability

For our Clients:

- Clear benchmarks of the standard of service they receive
- Understanding of the value of the services they receive for our fees
- Consistency in service

To meet the changing environment in which the Practice operates, it will be necessary to amend the Office Manual from time to time. The Practice will give staff notice of any substantial changes to the Office Manual, and staff will be required to follow the changed policies and procedures.

The contents of the Office Manual are confidential and should not be disclosed or discussed outside the Practice without the Practice's prior consent.

1.2 The Practice's History

[INSERT DETAILS]

1.3 The Practice's Mission & Vision Statements

[INSERT DETAILS]

1.4 The Practice's Objectives

[INSERT DETAILS]

1.5 Administrative Structure

The Practice's administration systems and the people responsible are set out in the table below. Staff should raise any concerns about areas of administration with initially, the employee's supervisor; or if the employee's supervisor cannot resolve the matter, with the person specified in the table below:

	Area of Administration	Person Responsible
1.	Finance: A. Debtors B. Creditors and Payment of Accounts C. Customer Evaluation D. Internal Financial Data: • Budgets • Monthly reports E. Insurances F. Financial Computer Systems	[SPECIFY POSITIONS HERE RATHER THAN PARTICULAR EMPLOYEES. e.g. 'The Staff Partner', 'The Office Manager']
2.	Office A. Technology: • Computer System • Telephone System • Office Equipment B. Consumables: • Stationery • Amenities C. Motor Vehicles	
3.	Business Development A. Marketing: • Advertising • Public Relations • Functions • Circulars B. Training and Development	

	Area of Administration	Person Responsible
4.	People A. Recruitment and Selection B. Salaries C. Discrimination and Sexual Harassment	Please refer to the complaints processes set out in the Practice’s equal opportunity policy in this Office Manual.
5.	Quality Assurance A. Quality Manager	

2. Employment

2.1 Performance of Duties

Employees' duties are set out in their letters of appointment or employment agreements and include any other duties advised by the Practice from time to time.

Whenever employees experience difficulty in understanding or performing any aspect of their duties they should seek assistance from:

- their direct supervisor;
- if the direct supervisor is not available, another employee with a similar level of authority to the supervisor; or
- if neither the supervisor nor an employee with a similar level of authority is available, another employee more experienced than him or herself.

All employees should perform their duties and represent the Practice in a professional and courteous manner.

Employees must at all times act in the best interests of, and promote the interests of, the Practice.

Employees should behave professionally towards clients at all times. Behaving professionally towards clients is matter of common sense. It includes being polite when dealing with clients, whether in person, on the phone, or via written communications, including email. It also includes refraining from speaking critically about, or defaming the Practice's clients.

Employees should maintain an awareness of the services offered by the Practice. Employees should be alert to opportunities to "add value" to the Practice's clients by providing additional services.

Employees should reply promptly to any client enquiries. Employees are to address clients formally (for example, "Mr," "Ms," "Mrs," "Sir" or "Madam") unless invited to do otherwise by the client.

All employees represent the Practice, both during and outside working hours. Employees should not at any time engage in conduct that could damage or discredit the Practice's reputation. If any employee's out-of-work conduct has a relevant connection with their employment, or is contrary to the Practice's interests, the Practice may take disciplinary action to address an employee's out-of-work conduct.

If an employee knows or suspects that a client:

- is dissatisfied with the Practice's services; or
- is reluctant to provide information necessary for the Practice to supply services, the employee should report the matter as soon as possible to their supervisor.

2.2 Reimbursement of Expenses

The Practice will reimburse employees for pre-approved expenses properly incurred by employees in the proper performance of their duties. Reimbursement will be subject to employees providing the Practice with receipts or other evidence of payment and of the purpose of each expense, in a form reasonably required by the Practice. Employees will also be required to complete the Expense Reimbursement Form which is included in the Office Forms section of this Manual.

2.3 Travel

Reasonable travelling expenses, where incurred in the performance of an employee's duties, will be reimbursed, provided that all claims are made on the appropriate form, signed by the appropriate supervisor and supported with the necessary documentation. The payment of expenses is at all times subject to the prior authorization of, and at the discretion of, the Practice.

Employees should arrange travel and accommodation through the Practice's preferred travel supplier prior to departure.

Generally air travel will be by economy class, with a carrier chosen by the Practice.

2.4 Dress and Conduct

Employees are expected to observe a standard of dress, personal appearance and grooming befitting for employees of a professional organization, subject to the necessary requirements of the duties of each employee's position.

The Practice may, on occasion, provide alcoholic beverages for consumption in the workplace or elsewhere during work-related social functions, for example, at a Christmas party or client lunch. Employees remain at all times responsible for their decision to drink alcoholic beverages on such occasions, and undertake to act responsibly at all times during these occasions.

Employees represent the Practice, both during and outside working hours. Employees should not at any time engage in conduct that could damage or discredit the Practice's reputation, including during work-related social functions. The conduct of an employee during a work-related social function or after hours may result in the Practice taking disciplinary action against an employee where the conduct of the employee reflects badly on the business or reputation of the Practice.

2.5 Payroll Processing

Payroll processing is conducted by the accounts department or such other authorised representative of the Practice. For those employees who may be entitled to overtime, penalty rates or other allowances, work outside normal rostered hours is only to be performed if authorised in advance by the employee's supervisor.

2.6 Personal Details

Each employee's current address is required for the purpose of complying with employment legislation. In addition, it may be necessary for the Practice to contact an employee or their next of kin, for example, in the event of an unexplained absence or emergency. For this reason all employees are required to keep the Practice updated in relation to changes to their addresses or personal telephone numbers, as well as the contact details of their next of kin.

2.7 Practice Motor Vehicles

The Practice may make available to Practice employees, contractors and work experience staff (Persons) company motor vehicles for use on work-related business (Practice Motor Vehicles).

The use of Practice Motor Vehicles is, where possible, to be booked in advance through the Practice's vehicle booking system. [INSERT DETAILS OF ANY PARTICULAR PRACTICE SYSTEM HERE]

Practice Motor Vehicles remain at all times the property of the Practice.

All Persons driving a Practice Motor Vehicle must:

- be in possession of a current, valid driver's license, and must not drive a Practice Motor Vehicle if not licensed or authorized to drive it;
- observe all relevant traffic regulations;

- drive in a manner which is safe and responsible in respect to themselves, any passengers and the general public;
- not drive or permit the driving of a Practice Motor Vehicle by a person under the influence of alcohol or drugs. This means having a zero breath and blood alcohol level (notwithstanding that there are legal limits for breath and blood alcohol), and not being under the influence of prescription or recreational drugs;
- show courtesy and consideration to all other road users;
- not authorize or allow any other person to drive the Practice Motor Vehicle without the written authorization of the Practice;
- not drive or permit the driving of a Practice Motor Vehicle in a careless, reckless or dangerous manner;
- comply with the provisions of all statutes, rules and regulations in respect of the use or driving of a Practice Motor Vehicle. Persons are responsible for the consequences of any breaches of those statutes, rules and regulations during the period employees have the use of a Practice Motor Vehicle, including any speeding fines, penalties or claims.

In the event a Person's driver's license is suspended or cancelled, a Person must not drive a Practice Motor Vehicle under any circumstances.

It is the responsibility of any Person driving a Practice Motor Vehicle to ensure before use that:

- a current registration sticker is in place;
- tire pressures are correct;
- water, oil, battery, and fuel levels are correct; and
- all items in the vehicle are secure.

If any Person using a Practice Motor Vehicle detects or suspects any problem or defect in relation to a Practice Motor Vehicle, the problem or defect must be reported immediately to that Person's supervisor. If requested, the Person must complete any requested documentation in respect of the suspected problem or defect. If any Practice Motor Vehicle appears un-roadworthy, it should not be used.

The Person driving a Practice Motor Vehicle at the time that the fuel tank becomes less than a quarter full is required to refill the fuel tank with the appropriate fuel at a service station approved by the Practice or at which the Practice has a fuel account.

Whenever a Person leaves a Practice Motor Vehicle unattended, the Person must ensure that the vehicle has been properly locked and secured and, if possible, protected from the weather.

If Persons are involved in an accident or incident and a Practice Motor Vehicle requires towing, the police must be advised immediately. Similarly, if Persons are injured in an accident or incident, the police must be called immediately.

Persons must report any accident/incident to transport services as soon as practicable. An accident/incident report form must also be completed and forwarded to the Person's supervisor at the earliest possible opportunity.

The Practice takes no responsibility whatsoever for any fines, infringements or penalties incurred by Persons driving Practice Motor Vehicles. The payment of fines and penalties incurred by Persons will be the responsibility of the Persons driving the Practice Motor Vehicle at the time the fine or penalty is incurred. Unless otherwise notified, the fine or penalty will be the responsibility of the Person who originally booked the Practice Motor Vehicle. If this cannot be determined, the custodian of the Practice Motor Vehicle will be responsible until such time as the Person driving the Practice Motor Vehicle at the time the fine or penalty was incurred is identified.

2.8 Practice Motor Vehicle Insurance and Liability

If insurance is provided for loss or damage to the Practice Motor Vehicle the Practice's insurer may bring, defend or settle any legal proceedings in its sole discretion. The Practice's insurer shall have the sole conduct of any proceedings. Any such proceedings shall be brought or defended in the driver's name.

In the event that a Person is involved in and is deemed to have caused an accident by the Practice's insurer, the Practice will bear the cost of the insurance excess unless the accident results from the Reckless or Illegal Actions of a Person. "Reckless or Illegal Actions" that may invalidate the insurance policy include:

- driving a vehicle when the driver has a blood alcohol content in excess of the legal limit;
- driving a vehicle while not licensed or authorized to drive it;
- driving a vehicle in an unsafe condition;
- using the vehicle in a trial, race, test, or contest; or
- driving a vehicle in breach of traffic laws or regulations.

If a Person is using a Practice Motor Vehicle for work-related purposes and due to Reckless or Illegal Actions of the Person, the Practice is exposed to liability, directly or indirectly due to the use of the motor vehicle, the Person agrees to indemnify the Practice for any liability for which the Practice is not covered by insurance.

Persons must ensure that if they are involved in a motor vehicle accident in a Practice Motor Vehicle, or if a Practice Motor Vehicle is stolen or otherwise damaged, that they do not breach or invalidate any insurance cover and, in addition, must:

- report the accident or theft immediately to the Practice so that the insurer (and in the case of theft, the police) can be notified;
- not admit liability for any accident, or make any attempt to settle or compromise any claims;
- not make any statements to the Practice or its insurer which are not truthful and frank;
- provide any assistance to the Practice or its insurer as requested to enable the Practice and its insurer to defend or bring any claim in relation to the accident or theft; and
- deliver to the Practice immediately upon receipt every summons, complaint or paper in relation to an accident or theft.

Practice Motor Vehicles are not to be used for personal use without the Practice's prior consent. If a Person is using a Practice Motor Vehicle for personal use (whether the motor vehicle is part of their remuneration package or not), the Person agrees to indemnify the Practice for any liability incurred directly or indirectly due to the Person's personal use of the motor vehicle for which the Practice is not otherwise covered by insurance.

2.9 Mobile Telephones

If an employee is provided with a mobile telephone:

- the mobile telephone is provided so that the employee can properly perform their work-related duties. During any period in which the employee is unable, or not required to perform their duties, the employee may be required to return the mobile telephone to the Practice;
- the employee will use the mobile telephone for business purposes only;

- the Practice will pay for reasonable work-related costs associated with the mobile telephone. Employees will reimburse the Practice for the costs of all personal phone calls, text messages and other messages associated with the mobile telephone;
- it is the employee's responsibility to ensure the mobile telephone is fitted with a charged battery in working condition;
- it is the employee's responsibility to advise the Practice of any problems or defects which the employee detects or suspects in relation to the mobile telephone; and
- the employee will maintain and take care of the mobile telephone and return it immediately (in good working condition) to the Practice upon request.

The mobile phone remains at all times the property of the Practice.

2.10 Charge Accounts

No employees are to make private purchases on Practice accounts, unless, on each occasion:

- prior authorization has been granted to the employee by the Practice;
- an official order form has been completed by the employee and approved by the Practice; and
- a written authorization or other agreement in the terms of the following clause, has been agreed to between the employee and the Practice.

On each occasion that employees are permitted to make private purchases on Practice accounts, those purchases must be paid for by employees by the end of the next pay period. Unless alternative arrangements are discussed and agreed to in writing between the employee and the Practice, employees will be required to authorize the Practice in writing to deduct from their pay, the amount attributable to the particular private purchase.

2.11 Personal Telephone Calls

Employees are urged to limit personal telephone calls during work hours. Making or receiving personal calls during work breaks is acceptable.

The Practice discourages the receipt of personal telephone calls at work other than in cases of genuine emergency. Employees are to discourage their friends or family from contacting them at work, other than during breaks or in cases of emergency.

2.12 Appropriate Internet and Email Usage

The Practice provides employees with access to computer systems, email and the internet to assist with the performance of their duties. All computer systems and data belong to the Practice and may only be used for authorized purposes.

Because of the opportunity for misuse of these resources, the Practice's rules for the proper use of its computer systems, internet and email resources are set out in the email and internet policy in section 4 of this Office Manual.

It is every employee's responsibility to ensure that computer systems and internet and email facilities are used responsibly and in accordance with this policy.

2.13 Lateness for Work

Any absence or late arrival due to illness, injury, or any other reason, and the expected duration of leave must be personally reported to your supervisor as soon as is practicable (and prior to your normal starting time wherever possible). If you are unable to do this personally, you are requested to ask someone to telephone on your behalf.

Subsequent to this, you must keep the Practice informed of your progress.

Wherever possible you should make dental, medical, business or other appointments outside your normal working hours.

It is essential that you are ready to commence work at your normal commencement time as other employees and the Practice depend upon you and your contribution.

2.14 Medical Examination

If the Practice reasonably suspects that you are unable to perform your duties because of illness or injury, whether or not you are absent from work or on paid leave:

- we may direct you, and you consent to us, to instruct a medical practitioner to examine you and report to us on your condition and capacity for work; and
- you will attend the examination.

We will not disclose the information provided to us by the medical practitioner to any person, other than to you, for the purpose of managing your employment, or to our legal and other professional advisors.

If you fail to comply with a direction to attend a medical examination without reasonable excuse, this may result in disciplinary action, including termination of employment.

2.15 Property of the Practice

It is the responsibility of employees to ensure that any Practice property in their custody or possession is kept secure and maintained.

Practice property must not under any circumstances be abused, damaged or destroyed by employees, and employees must not permit others to abuse, damage or destroy Practice property.

Any employee found abusing, damaging or destroying Practice property, or permitting someone else to do so, may be subject to disciplinary procedures, up to and including termination of employment.

It is the responsibility of each employee to ensure that any Practice property in their possession is used only according to product specifications or instructions. Employees agree to indemnify the Practice for any loss or damage occurring to Practice property in employees' possession if the loss or damage occurs otherwise than in accordance with product specifications or instructions.

As provided for in individual letters of appointment or employment agreements, employees also authorize the Practice to deduct from any sum payable to employees on termination of employment, any amount attributable to damaged or destroyed Practice property.

2.16 Security

Entry to the Practice's premises [during and / or outside of normal business hours] will be by way of [security access card / keys].

It is the responsibility of every Practice employee to ensure that this [access card / key] is kept in safe custody. It must be returned on demand.

If building access [cards / keys] are lost or misplaced, you must notify your supervisor immediately so that the [card / key] can be cancelled.

2.17 Car Parking

Due to the limited availability of car parking spaces, it is not possible to allocate a car parking space to all Practice employees. For this reason, only a certain number of employees will be allocated car parking spaces. Employees who are required to use their vehicles in the course of performing their work duties may be given preference for parking spaces.

Any employee who has an allocated parking space must advise their supervisor if they are going to be absent from the office for one or several days so that the parking space may be utilized by another employee on a temporary basis.

Under no circumstances should an employee who does not have an allocated car parking space park a vehicle in the Practice's parking lot, unless prior authorization has been granted.

2.18 Annual Review

The Practice will endeavour to formally review each employee's conduct, capacity and performance annually. However, the Practice encourages employees to raise any query or concern regarding their employment soon after the query or concern arises, and not await an annual review.

The Practice will also endeavour to formally review employees' terms and conditions of employment at least annually. Any increases in remuneration or benefits will be at the Practice's discretion.

There is an Employee Appraisal Sheet included in the Office Forms section of this Manual.

2.19 Termination of Employment

General

Except in cases involving summary termination for serious misconduct, if an employee (other than casual labor) is dismissed, the Practice will provide the employee with notice of termination (or payment in lieu of) in accordance with the employee's letter of appointment.

Counselling and Disciplinary Processes

It will be sometimes necessary for employees to be counselled, warned or disciplined with regard to their conduct, capacity, or performance.

Counselling and disciplinary processes need not be formal or in writing.

A failure to improve in accordance with counselling or disciplinary processes may result in a warning or dismissal.

Counselling and disciplinary processes may be combined with other meetings such as an employee's annual review.

References

Written references are not provided by the Practice.

Following termination of employment and upon request, all employees will be issued with a simple statement of service setting out:

- the name and address of the employee;
- the duration and periods of the employee's employment with the Practice;
- the position held by the employee at the time of termination, and any other positions held during the employee's employment with the Practice;
- the location at which the employee performed their duties;
- a general statement of the tasks and duties performed by the employee for the Practice, and any specific responsibilities held; and
- the contact person at the Practice who is available to confirm the content of the simple statement of service.

Employees may choose to issue personal references for other employees. However, employees must not do so on Practice letterhead, nor in any capacity as a representative of the Practice. The Practice takes no responsibility for any personal references that its employees may choose to provide with respect of other employees. The Practice recommends that employees treat references, especially written references, with a degree of caution in the current climate of litigation.

2.20 Smoke Free Environment

For health and safety reasons, the Practice operates a smoke-free work environment. Employees are prohibited from smoking in or about the Practice's premises.

Smoking is also prohibited in any of the Practice's Motor Vehicles, and in or around any of the Practice's client's premises.

2.21 Quality Assurance System

All employees are to comply with the Practice's Quality Assurance System. If for any reason an employee does not think that it is appropriate or possible to comply with the Quality Assurance System in the particular circumstances, the employee should consult their supervisor in the first instance.

A hard copy of the Quality Assurance System documentation is located [specify]. The Quality Assurance System documentation can also be accessed on the Practice's computer network.

2.22 Work for Employees and Family

The Practice may accept instructions to perform work for employees and their families. Depending on the type and the complexity of work required in each particular case, the Practice may be willing to reduce the costs for employees and members of their immediate family.

In all cases in which instructions are received from other employees or their immediate family members, the professional employee/s who will be performing the services must consult with their supervisor prior to accepting any instructions, to determine the terms and conditions under which the services will be performed, as well as the estimated fee.

2.23 Practice Code of Conduct

[INSERT YOUR PRACTICE'S CODE OF CONDUCT FOR EMPLOYEES HERE]

A Code of Conduct is a commitment to promote the highest ethical standards throughout a practice.

A code of conduct should reflect the core values that underpin the way your practice works. These values normally are a reflection of the integrity and ethical considerations of the profession and commit employees to complying with practice policies and procedures.

2.24 Special Leave Arrangements

[CUSTOMIZE TEXT BELOW TO SUIT LOCAL JURISDICTION]

The employment standards provides an entitlement for employees to be absent for periods of 'eligible special leave activities that support the community or required by law'. An eligible special leave service activity may include:

a. Jury service (including attendance for the purpose of jury selection);

If an employee receives notification of prospective jury service, they should notify their supervisor as soon as possible after receiving the notice. Unless otherwise agreed, the employee must provide their supervisor with a copy of the notice, as well as any indication the employee has received from the court about the possible length of the jury service.

The employee must discuss the matter with their supervisor before completing any court documentation and before attending court as requested in the notification. For the avoidance of doubt, this obligation applies to all employees, including casual employees. If the absence of the employee would be inconvenient to the Practice, the employee may be provided with a letter to attach to the court documentation setting out the reasons why the employee's absence would be inconvenient to the Practice.

Employees (other than casual employees) who participate in jury service are required to provide the Practice with proof of any payments made to them in respect of jury service. If this requirement is met, the Practice will pay the difference between the employee's ordinary pay (excluding overtime and other allowances) and the payment from the court for the first ten days of the employee's absence on jury duty. If the employee fails to provide the requested evidence, the employee will not be entitled to payment from the Practice. No payment will be made to casual employees.

b. Carrying out a voluntary emergency management activity; or

A voluntary emergency management activity is a voluntary activity that involves dealing with an emergency or natural disaster.

c. An activity prescribed by the regulations.

The period of leave will consist of time when the employee engages in the activity, the reasonable travelling time associated with the activity and reasonable rest time immediately following the activity.

Unless the activity is jury service, the employee's absence must be reasonable in all the circumstances.

Notice must be given to the Practice as soon as reasonably practicable and the employee must advise the Practice of the period, or expected period, of the absence.

If the Practice requires, the worker must provide evidence that would satisfy a 'reasonable person' that the absence is because of the employee's engagement in an eligible community service activity.

2.25 Gifts and Entertainment Policy

Employees should not offer nor accept any gift or entertainments that might influence (or appear to influence) any work undertaken by the Practice.

It is acknowledged that from time to time employees will be offered gifts or benefits as part of their employment. The Practice maintains a record of gifts, hospitality or entertainment received in connection with employment, and employees must advise the Managing Partner through their manager of any gift or entertainment received [INSERT VALUE LIMIT].

The Managing Partner will decide what should happen with the gift on a case by case basis.

3. Workplace Health & Safety

3.1 General Duty of Care

The Practice has general duty of care to ensure the health and safety of its employees and visitors in connection with the Practice's operations, in accordance with relevant government legislation, codes, regulations and standards.

Employees also have obligations to ensure their own health and safety and that of their co-workers. Each employee is personally responsible for working in a safe manner and cooperating with each other to ensure workplace health and safety. The cooperation of all employees in adhering to safe work practices and observe safety rules and regulations at all times is vital for the success of the Practice's commitment to health and safety.

All employees agree to abide by government legislation, codes, regulations, rules and the Practice's workplace health and safety policy, which is set out below. All employees must read this policy and raise any concerns they have with their supervisor immediately upon commencing employment.

Any breach of this policy, or an employee's obligations of health and safety towards themselves or others may result in disciplinary action being taken against employees, up to and including dismissal.

If any employees have any concern or query regarding workplace health and safety, they should notify the Practice's designated health safety officer or their supervisors as soon as possible so that the issue can be considered without delay.

3.2 Safety Rules and Regulations

Employees must report all accidents and near misses immediately to the designated health and safety officer or their supervisors. An accident report (in the Incident Report Form below) must be completed as soon as possible following the accident or near miss.

Employees must keep their immediate work areas and amenities clean and tidy. Clean up anything that could cause a person to trip or fall. Check stability of tables and chairs.

Running and horseplay within the workplace is strictly forbidden.

Any protective clothing provided or required by the Practice must be worn.

Appearing at the workplace in an intoxicated state is strictly forbidden.

Employees must follow directions from the designated health and safety officer and their supervisors in relation to health and safety matters.

Any employee with a suggestion or comment regarding health and safety should raise the issue with the designated health and safety officer or their supervisors as soon as possible so that the matter can be considered and addressed as appropriate.

3.3 Incident Report Form

INCIDENT REPORT FORM

Date: ____

Time of incident: ____

Employee's name: ____

Description of incident: ____

____

____

____

Witnesses to incident:

Name: ____

Name: ____

Name: ____

Name: ____

Action taken by employee to treat injury:

____

____

____

____

Was additional medical aid required / sought by the injured employee? (i.e.: doctor's visits, hospital treatment, etc). Please indicate the dates and description of additional treatment given as a result of this injury.

____

____

____

____

Please specify or describe the bodily location of the injury:

____

____

____

____

3.4 Security and Fire Safety Procedures

[INSERT DETAILS OR REFER TO LOCATION OF INSTRUCTION CARD WITH THE RELEVANT PROCEDURES FOR THE PRACTICE'S PREMISES]

3.5 Visitors to the Practice's Offices

All visitors are expected to report to reception and the employees they wish to see will be advised of their arrival. Visitors arriving at reception are required to sign in and receive a visitor's pass.

Receptionists should ensure that visitors are not permitted beyond reception and should report the presence of any suspicious or unauthorized visitors to their building security representative. This is also a responsibility for all employees.

All meetings are to be held in designated meeting areas. At no time are visitors allowed to enter the general office working area. This is to ensure privacy of other employees and the confidentiality of client files.

3.6 First Aid

The four main aspects of first aid are:

- Emergency treatment
- Records maintenance
- Dressing of minor injuries
- Recognition and reporting of hazards

3.7 First Aid Kits

First aid kits are in [insert location] and accompanied by a list of trained first aid staff. Trained first aid staff responsibilities include:

- Dispense and control items from the first aid kit
- Ensure kit supplies are adequate
- Treat minor wounds and injuries
- Deal with fits, fainting
- Resuscitation
- Recording accident/injury details in accident book provided as part of the first aid kit
- Arranging further assistance if required
- Advising Human Resources immediately of any serious or potentially serious accident for which treatment has been required.

First Aid Training

The Managing Partner / Human Resources will be responsible for ensuring that first aid staff maintain currency in their qualifications and will arrange for additional staff to receive formal first aid training.

4. Equal Opportunity, Discrimination and Harassment Policy

4.1 Introduction

All employees are required to familiarize themselves with the following policy and ensure that they conduct themselves in compliance with its terms. The reasoning for this is two-fold:

- the Practice wishes to ensure that all persons have an opportunity to fully participate in the Practice's workforce, including by giving prospective and current employees the opportunity to make choices regarding their careers and by making fair and reasonable decisions based on merit; and
- by acting contrary to the principles set out in this policy and anti-discrimination legislation, both the Practice and individual employees can be liable for acts of discrimination and harassment against prospective and fellow employees, and clients.

The Practice is an equal opportunity employer. The underlying principle of equal opportunity employment is the notion of merit. It is on this basis that the Practice undertakes to make appointments and promotions. This means that the Practice aims to ensure that prospective and current employees are not subject to detrimental treatment on the basis of irrelevant attributes or characteristics.

The Practice is also committed to fostering a work environment which is free from sexual harassment and workplace harassment.

The prevention of discrimination and harassment is important because, aside from the obvious risk of litigation:

- work performance can suffer as a result of these behaviors creating an intimidating and hostile work environment;
- the detrimental effects on work output are seldom limited to one person and are often spread across a section or work unit;
- service delivery to clients may subsequently be negatively affected;
- the health of people subjected to discriminatory behaviors, harassment and sexual harassment may suffer, resulting in increased sick leave or compensation claims as well as personal duress to the individuals concerned; and
- such behaviors may result in employees resigning. This incurs a loss of the investment made in those people and it may lead to increased recruitment and retraining costs.

The Practice requires its employees to comply with the terms of this policy in order for the Practice to achieve its goal that:

a. employees treat each other with respect and trust;

b. employees are able to work in an environment free from discrimination and harassment;

c. the Practice is protected against vicarious liability for the actions of its employees; and

d. the Practice's policy of equal opportunity employment is practiced as well as preached.

4.2 Discrimination

Various types of anti-discrimination legislation exist that prohibit discrimination and harassment in the pre-work and work areas. [CUSTOMIZE TO SUIT LOCAL JURISDICTION]

Such legislation also applies to the provisions of goods and services. To this extent, this policy applies equally to the Practice and its employees' dealings with clients. In other words, both the Practice and individual employees can be liable for acts of discrimination against clients that the Practice and its employees may deal with in the course of employment.

Generally speaking, discrimination occurs when a person with an "attribute" is treated less favourably than another person without the attribute is or would be treated in the same or similar circumstances.

Examples of forms of discrimination may include:

- Gender
- Age
- Race, color, national extraction, social origin, nationality
- Impairment
- Physical disability
- Mental, intellectual or psychiatric disability
- Medical record
- Criminal record
- Marital status
- Pregnancy
- Religion, religious belief or religious activity
- Political opinion, belief or activity
- Trade union activity
- Sexual preference

4.3 What is Discrimination?

Direct discrimination occurs when someone with one of the above attributes is treated less favourably than another person without the attribute would be treated in the same or similar circumstances. For example:

> *Two employees perform the same job and have similar qualifications and experience. One is a male with no family responsibilities. The other is a female with family responsibilities. A development opportunity arises and is given to the male on the basis that, as a male with no family responsibilities, he is presumed to be more reliable and able to work longer hours.*

Other examples of treating someone less favourably on the basis of an attribute they possess or by an act involving a distinction, exclusion, or preference, include:

- judging someone on their political or religious beliefs rather than their work performance;
- using stereotypes or assumptions to guide decision-making about a person's career;
- undermining a person's authority because of their race, gender or sexual preference;
- making offensive jokes or comments about another worker's racial or ethnic background, gender, sexual preference, age, disability, or physical appearance; or
- denying further training to employees on the basis of impairment.

Indirect discrimination occurs when a requirement is imposed:

a. with which a person with the attribute does not or is not able to comply; and

b. with which a higher proportion of people without the attribute comply or are able to comply; and

c. that is not reasonable.

It may initially appear that the requirement is fair because the same rules are applied to everyone, but a closer look at the effect of the requirement being imposed will show that some people are disproportionately affected by the requirement.

> *An employer requires all employees to wear a uniform that includes a cap. This is not a requirement for any safety or hygiene reason, but is done for appearance only. While the requirement appears not to be discriminatory, because everyone must comply, the requirement may be indirectly discriminatory against persons who are required by religious or cultural beliefs to wear particular headdresses.*

If an employee believes that they have been treated less favourably because of a personal attribute that is not a requirement of their position, the employee should raise their concerns in accordance with the complaints mechanisms set out in this policy.

Do not ignore discrimination thinking that it will just go away.

4.4 Workplace Rights

In addition to the categories of discrimination under local law there may be additional rights in the workplace for employees. These rights include the entitlement to, and the freedom to exercise entitlements to:

- the benefit of a workplace instrument or order;
- the ability to make complaints or enquiries in relation to their employment; and
- the ability to participate in proceedings that are permitted by law, including permitted industrial action.

Neither employers nor any other persons may take any adverse action against an employee because the employee has or exercises workplace rights. Nor may any adverse action be taken in order to prevent the exercise of a workplace right. These protections apply to all employees.

"Adverse action" is defined in broad terms to include:

a. injury to employment;

b. dismissal;

c. discrimination among the employees;

d. alteration of an employee's position to his or her prejudice;

e. refusal to employ an employee; and

f. discrimination in the terms and conditions of employment offered to a prospective employee and includes threatening to take action, or organizing action.

4.5 Sexual Harassment

[CUSTOMIZE TEXT BELOW TO SUIT LOCAL JURISDICTION]

Sexual harassment is unlawful.

Sexual harassment is essentially defined as unwelcome sexual attention or unwelcome conduct of a sexual nature. It encompasses situations in which a person is subjected to unsolicited and unwelcome sexual conduct by another person.

It may take the form of unwelcome touching or physical contact, remarks with sexual connotations, requests for sexual favors, leering, or display of offensive material.

Sexual harassment will not be tolerated by the Practice under any circumstances.

More specifically, sexual harassment occurs when a person:

a. subjects another to an unsolicited act of physical intimacy (e.g., patting, pinching or touching in a sexual way or unnecessary familiarity such as deliberately brushing against a person);

b. makes an unsolicited demand or request (whether directly or by implication) for sexual favors from the other person (e.g., sexual propositions);

c. makes a remark with sexual connotations relating to the other person (e.g., unwelcome and uncalled for remarks or insinuations about a person's sex or private life or suggestive comments about a person's appearance or body); or

d. engages in any other unwelcome conduct of a sexual nature in relation to the other person (e.g. offensive telephone calls or indecent exposure),

and the person engaging in the conduct does so:

a. with the intention of offending, humiliating or intimidating the other person; or

b. in circumstances in which a reasonable person would have anticipated the possibility that the other person would be offended, humiliated or intimidated by the conduct.

Examples of conduct that could amount to sexual harassment include:

- kissing, attempts at sexual intercourse or overt sexual conduct;
- sexually explicit conversations or references to sexual contact;
- gender based insults, teasing or taunting;
- intrusive questions of a sexual nature;
- proposals of marriage or declarations of love; or
- innuendos and crude jokes.

Sexual harassment is not behavior based on mutual attraction, friendship or respect. If the interaction is consensual, welcome and reciprocated, and does not create a problem for fellow employees, it is not sexual harassment.

Sexual harassment does not need to be repeated. A single act of sexual harassment is sufficient to give rise to a complaint. If you are unsure whether particular conduct or actions would amount to sexual harassment, a good rule of thumb is that it is best to refrain from such conduct or actions.

4.6 Harassment

Employers have obligations to ensure the health and safety of employees under relevant workplace health and safety legislation.

Workplace harassment (also known as bullying) has the potential to harm the health and safety of employees. Consequently, the Practice is serious about minimizing the risk of bullying occurring in the workplace.

All employees are expected to abide by state and federal legislation, codes, regulations, rules and standards of the workplace relating to harassment.

Generally, a person is subjected to workplace harassment or bullying if they are subjected to **repeated behavior** (other than behavior amounting to sexual harassment) by a person, including the person's employer or a co-worker or a group of co-workers of the person that:

- is unwelcome and unsolicited;
- the person considers to be offensive, humiliating or threatening; and
- a reasonable person would consider to be offensive, humiliating, intimidating or threatening.

Some examples of behavior which, if they occur repeatedly, may amount to workplace harassment include:

a. abusing a person loudly, usually when others are present;

b. repeated threats of dismissal or other severe punishment for no reason;

c. constant ridicule and being put down;

d. leaving offensive messages on email or the telephone;

e. sabotaging a person's work, for example, by deliberately withholding or supplying incorrect information, hiding documents or equipment, not passing on messages and getting a person into trouble in other ways;

f. maliciously excluding and isolating a person from workplace activities;

g. persistent and unjustified criticisms, often about petty, irrelevant or insignificant matters;

h. humiliating a person through gestures, sarcasm, criticism and insults, often in front of other people;

i. racial sledging; and

j. spreading gossip or false, malicious rumours about a person with an intent to cause the person harm.

Some bullying is in reality criminal behavior and could also be the subject of criminal prosecution.

Workplace harassment does not include:

a. reasonable management action taken in a reasonable way by a person's employer in connection with the person's employment, for example, conducting disciplinary action or managing unsatisfactory performance; or

b. a single incident of harassing type behavior. However, while a single incident will not amount to workplace harassment, it is still unacceptable.

4.7 Consequences of Breaching this Policy

If an employee engages in unlawfully discriminatory or harassing behavior, a court or tribunal can hold that person personally liable for their behavior and they may be liable for damages to a complainant. The Practice, as an employer, is also at risk of being held vicariously responsible for the employee's conduct.

If you are not the direct perpetrator of the behavior, you can still be held liable for causing, instructing, inducing, aiding or permitting another person to engage in the behavior.

If an employee engages in discrimination, sexual harassment or workplace harassment, there will also be serious consequences for that employee's ongoing employment. The Practice will not tolerate behavior of this kind. If it occurs, it may result in disciplinary action against the relevant employee or employees. Such action will depend upon the circumstances but may involve a warning, transfer, counselling, demotion or dismissal.

4.8 What can I Do if I Believe I have been Harassed or Discriminated Against?

Allegations of discrimination or harassment will be treated seriously and investigated promptly, confidentially and impartially by the Practice. A written complaint is not required.

If you believe that you have been the subject of unlawful discrimination, sexual harassment or workplace harassment, the Practice encourages you to take steps immediately to address the matter in accordance with the paths set out below. The situation is unlikely to improve if you do nothing about it. If you do not object to the conduct, the person responsible may continue the harassment or behavior, not knowing how it makes you feel. The Practice will use its best endeavours to ensure that no parties to a complaint are victimized.

There are a number of ways that you can take action to deal with a complaint.

Internal complaints procedure:

- You may choose to approach the person who is perpetrating the behavior with a view to discussing your concerns with them and asking them to cease their behavior.
- Alternatively, you may approach your supervisor to report the matter and to ask for assistance. If you do not feel comfortable approaching your supervisor, then you may choose to approach another senior employee to report the matter.
- Every complaint will be treated seriously and investigated promptly, confidentially, and impartially.
- Disciplinary action may be taken against employees who are found to have unlawfully discriminated against, or harassed, other employees.

External complaints procedure:

a. If you believe that you have been the subject of unlawful discrimination, harassment or sexual harassment, you may at any time lodge a complaint with one of the organizations set out below.

b. While the Practice encourages employees to use the in-house complaints procedure before taking this action, an employee may seek recourse at any time.

c. The organizations set out below are statutory bodies and, if your complaint is accepted, they will notify the alleged perpetrators of the discrimination or harassment. You and the alleged perpetrators will usually be required to attend a conciliation conference conducted by the organization to attempt to resolve the complaint. If the complaint is not resolved, it may be dealt with through more formal legal processes.

Organizations

You are able to lodge a complaint through various Federal and State agencies. The contact details are set out in the following table.

[INSERT RELEVANT DETAILS HERE]

5. Professional Standards

5.1 Code of Professional Conduct

Employees are required to be familiar with the IESBA International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) [OR INSERT YOUR LOCAL EQUIVALENT CODE]. This code is the primary professional standard that establishes ethical requirements for professional accountants.

The code includes guidance on the following fundamental principles:

- Integrity
- Objectivity
- Professional Competence and Due Care
- Confidentiality
- Professional Behavior

5.2 Other Professional Standards

[INSERT APPLICABLE FINANCIAL REPORTING STANDARDS]

[INSERT APPLICABLE QUALITY CONTROL, AUDITING, REVIEW, OTHER ASSURANCE AND RELATED SERVICES STANDARDS]

[INSERT OTHER PROFESSIONAL STANDARDS ISSUED BY YOUR PROFESSIONAL BODY]

[INSERT OTHER PROFESSIONAL STANDARDS ISSUED BY REGULATORS]

Where standards issued by the international standard setters apply then refer to following:

Financial Reporting Standards: The International Accounting Standards Board (IASB)

Ethical Standards: The International Ethics Standards Board for Accountants (IESBA)

Quality Control, Auditing, Review, Other Assurance, and Related Services: The International Auditing and Assurance Standards Board (IAASB)

6. Quality Control

6.1 Practice Quality Control Procedures

[INSERT NAME OF PRACTICE] (Practice) quality control manual documents the established policies and procedures within their practice to ensure compliance with professional standards.

It provides a framework for a quality control system that incorporates the impact of mandatory standards on practices providing public accounting and other professional services.

[INSERT DETAILS OF WHERE YOUR PRACTICES DOCUMENT QUALITY CONTROL PROCEDURES CAN BE ACCESSED. THIS SHOULD BE IN BOTH ELECTRONIC AND PRINT FORMAT]

This manual is regularly reviewed.

[INSERT DETAILS OF RESPONSIBLE PARTNER]

IFAC's *Guide to Quality Control for Small- and Medium-Sized Practices* provides non-authoritative guidance on applying the redrafted ISQC 1, which requires firms to establish systems of quality control in compliance with the standard. It is not to be used as a substitute for reading ISQC 1, but as a supplement to help practitioners understand and consistently implement this standard within their firms when developing a system of quality control for audits and reviews of financial information, and other assurance and related service engagements.

7. Email and Internet Policy

The Practice sets out the rules for the proper use of its computer systems, internet and email resources as follows. Because of the opportunity for misuse of these resources, the Practice believes that it is necessary to set down some basic rules.

It is every employee's responsibility to ensure that computer systems and internet and email facilities are used responsibly and in accordance with this policy.

7.1 Introduction

All users of the Practice's computer systems, email and internet facilities (including employees), consultants, contractors, work experience students and other authorized users (Practice Users) are responsible for using computer systems, email and internet facilities in a professional, ethical and lawful manner. Practice Users are provided with access to computer systems, email and the Internet to assist with the performance of their duties. All computer systems and data belong to the Practice and may only be used for authorised purposes.

All of the Practice Users are required to comply with this policy.

The objectives of this policy are:

- to set out the responsibilities associated with the use of Internet and email via the Practice's systems, for the benefit of all who use it; and
- to minimize the risks associated with improper use of the Internet and email.

7.2 What does this Policy Cover?

This policy covers access and use of the following:

a. searching the web;

b. internal email (sent or received); and

c. external email (sent or received).

Breaches of this policy may lead to disciplinary action, up to and including termination of employment.

7.3 Email Protocol and Guidelines for Email Use

Practice Users will be allocated a password to access the Practice's network and email facilities. This password is not to be disclosed to any other person/s. The system administrator will be the only other party with knowledge of user login information. Treat your login and password details with the same care that you would your bank account PIN.

All communications sent via external email must contain the standard disclaimer provided by the Practice in relation to the content of the email message or attachments.

Practice Users may send 'personal email', that is, non-work related emails provided that:

a. only minimal email access (that is read, sent, or forwarded), during office hours and only during designated breaks or rest periods or after hours; and

b. all guidelines set out in this policy are complied with.

Email at the Practice:

a. is not private, it belongs to the Practice;

b. can be monitored and read at anytime by the Practice;

c. uses the Practice's name and address and therefore may give the impression that the sender is speaking with the authority of the Practice (even though this may not be the case and the Practice may not have authorized this); and

d. can in certain circumstances be inspected by parties outside of the Practice, for example, in the event of litigation.

The following activities are strictly prohibited:

a. sending, receiving, displaying, printing or otherwise disseminating material that is fraudulent, illegal, embarrassing, sexually explicit, obscene, intimidating, defamatory, or that would amount to harassment;

b. using the Practice's internet resources for unauthorised commercial or personal advertisements, solicitations, promotions, political material or any other similar use unless it is expressly authorized by your supervisor or partner;

c. accessing the Internet other than through the Practice's security system, for example, accessing the Internet directly by modem;

d. allowing external access to your computer via modem;

e. subscribing to mailing lists, sending unsolicited email messages and participating in chain letters;

f. sending email using somebody else's email address unless such use is expressly authorized; and

g. violating the intellectual property rights of others such as breaching copyrights by copying graphics or text material, or using other licensed software without proper authorization.

Breaches of any of the above guidelines may result in disciplinary action being taken against Practice Users ranging from the withdrawal of system access to dismissal.

All external email (other than 'personal email') must be conducted in accordance with the following protocol:

a. client-related emails should only be sent after supervisor/partner authorization or sign off has been obtained (as appropriate);

b. a hard copy of all outgoing email messages containing accounting advice or substantial accounting commentary must be signed by the appropriate partner or other person with authority prior to the email being sent;

c. a hard copy of all outgoing email messages must be placed on the client's file; and

d. all email received must be printed and stored on the relevant file.

7.4 Internet Protocol

Accessing web sites which contain material that is illegal, embarrassing, sexually explicit, obscene, intimidating, defamatory, racist, sexist or generally inappropriate is strictly prohibited.

Accessing Internet chat rooms is strictly prohibited.

Internet 'surfing' must only be conducted outside ordinary working hours, unless it is for a specific work-related purpose.

Access to the Internet is restricted to Practice Users who have been given express authority and permission by management for the use of the Internet for research purposes. Practice Users with access to the Internet acknowledge that the system administrator may from time to time check the cache folders on their computers to ensure that pornographic materials are not being viewed.

7.5 System Protocol

No Practice User shall introduce any external data to the Practice's computer network in any media form whatsoever unless the media has been checked and approved by the system administrator for use on the network. All media is to be virus scanned by the system administrator or a person appointed by the system administrator to carry out such checks.

No Practice Users shall make any changes whatsoever to the structure or setup of their computer's operating system or associated applications. Such changes include the alteration of screensavers, background images/wallpapers, sound schemes, desktop folders or shortcuts or physical operating characteristics of their workstation. If any Practice User has difficulty working with certain colors or screen resolutions they should speak to the system administrator to arrange the necessary changes. The Practice's system has been designed and configured for optimal efficiency: any changes to this configuration may adversely affect the operation of the system.

No Practice User is to carry out any form of maintenance or repair to their workstation, software or hardware related, without the consent of the system administrator.

7.6 Software

Any computer software the Practice uses on its computer network is available through agreement with the owners of the software. As such, it is imperative that Practice Users use the software strictly in accordance with the Practice's directions to ensure that the agreements with the software owners are not breached.

Unauthorized copying of software used on the Practice's computer network is illegal and no duplicate should be taken.

No Practice User is to use the Practice's computer network to access or use other software in breach of the rights of the software owners.

No Practice Users should introduce any software, computer discs, computer programs or CD-Rom's to the Practice's computer network if they are unsure of the source of that material or whether it is contaminated in any way. Before any software, computer discs, computer programmes or CD Rom's are introduced to the Practice's computer network, the Practice's computer virus protection program should be applied.

7.7 Practice's Surveillance Policy

The Practice may, upon provision of notice required by law, monitor Practice Users' use of email or internet facilities, in accordance with such notice.

Where there is no requirement at law to provide notice of intended email or internet surveillance, the Practice may monitor Practice Users' use of these facilities without the provision of notice.

Email surveillance undertaken by the Practice may include, but is not limited to, monitoring and reading email traffic both sent from and received by any email address owned by the Practice or an email address that is accessed from a Practice computer.

Internet surveillance undertaken by the Practice may include, but is not limited to:

a. monitoring the internet sites that are accessed by Practice Users;

b. monitoring the type of information downloaded from the internet to any Practice computers or data drives;

c. monitoring the importing and exporting of any data to or from any Practice computers by any portable media storage device, for example, floppy disks, CDs, USB memory sticks or zip drives.

For any issues not covered by this policy, use common sense as the guiding principle. If you have any queries about Internet or email use, please contact your supervisor.

8. Privacy Policy

[CUSTOMIZE TEXT FOR THIS SECTION TO SUIT LOCAL JURISDICTION]

This policy should relate to personal information held about employees, contractors, work experience staff, volunteers and candidates for employment only. It does not relate to personal information held with respect to clients.

Many countries have privacy laws which are based on "Principles." In some countries there also may be monetary thresholds in place which exempt small businesses or providers of designated services.

8.1 Purpose

Privacy laws govern the way in which we must manage personal information relating to both employees and clients. Privacy Policies are often developed in accordance with those International Privacy Principles and explain how we collect, use, disclose and handle your Personal Information.

Personal Information is defined to mean information or an opinion (including information or an opinion forming part of a database) whether true or not and whether recorded in a material form or not about an individual whose identity is apparent or who can reasonably be ascertained from the information or opinion. During the course of your business, you may collect personal information from both employees and clients.

8.2 Collection of Personal Information

Personal information about individuals should be collected only if it is necessary for practice business functions or activities and generally, every endeavour should be made to collect this information directly from an individual through the use of our standard forms, over the internet, by telephone, or on submission of an application. There may however be some instances where personal information about individuals will be collected indirectly because it is unreasonable or impractical to collect it directly. An individual should be usually notified about these instances in advance, or in case that is not possible, as soon as is reasonably practical after the information has been collected.

8.3 Privacy Principles

Privacy principles must provide:

- **Notice** Individuals must be informed that their data is being collected and, about how it will be used.
- **Choice** Individuals must have the ability to opt out of the collection and, forward transfer of the data to third parties.
- **Onward Transfer** Transfers of data to third parties may only occur to other organizations that follow adequate data protection principles.
- **Security** Reasonable efforts must be made to prevent loss of collected information.
- **Data Integrity** Data must be relevant to and reliable for the purpose it was collected for.
- **Access** Individuals must be able to access information held about them, and correct or delete it if it is inaccurate.
- **Enforcement** There must be effective means of enforcing these rules.

9. General Office Procedures

[CUSTOMIZE TEXT FOR THIS SECTION TO SUIT LOCAL JURISDICTION]

9.1 Telephone

[CUSTOMIZE TEXT BELOW BASED ON PRACTICE'S POLICIES AND EQUIPMENT]

Calls answered by a dedicated receptionist / telephonist

It is essential that all inquiries should be dealt with as quickly, efficiently and courteously as possible.

The Practice telephone is to be answered with the name of the firm and "good morning" or "good afternoon, this is …speaking."

Where calls are answered by a dedicated receptionist or telephonist, the staff member will ascertain the identity of the caller and the person they wish to speak to, place the call to the relevant person as required by the caller, and announce the caller to that person. If that person is not at his or her desk, then the receptionist should redirect the call to whomever is delegated to take the calls, or the caller should be given the option of voicemail.

If the caller needs to speak to a staff member who is not in the Practice the caller will be advised that the person is "out of the office" or "in a meeting." The receptionist should indicate when the employee is expected back before asking the caller if they wish to leave a message.

Calls answered by an individual or direct extension

Any staff member answering a telephone, whether the call is internal or external, is to answer with his or her individual name. It may be appropriate on external calls to explain role, e.g. "personal assistant to Mr ABC" as well.

Any staff member who leaves his or her desk for longer than a few minutes is required to divert his or her telephone to a secretary, or another member of the firm, for message-taking purposes. It is not necessary to notify the switchboard, only the person to whom the telephone has been diverted. [INSERT DETAILS OF PRACTICE'S PHONE SYSTEMS AUTOMATIC DIVERT PROCEDURES]

Group "pick-up" systems apply to teams of secretaries. Answer another phone in the group by picking up your own phone and pressing [specify].

[INSERT FEATURES OF PRACTICE'S TELEPHONE SYSTEM IF SUCH DETAILS ARE NOT CONTAINED IN TELEPHONE USER GUIDE]

Staff members should notify the receptionist or other team member of the period in the day when they will return any calls which come in when the staff member is unavailable. This provides professional and efficient business to the client.

Voicemail

[CUSTOMIZE TEXT BELOW IF VOICEMAIL FACILITIES ARE IN USE]

All staff members are responsible for checking and respond to voicemail messages in a timely manner. If you are out of the office for longer periods of time, a specific voicemail message should be recorded or your telephone system programmed to reflect your absence. It is important that any voicemail messages be reviewed regularly and be reset upon your return to the office. Where possible the caller should also be provided with a menu alternative to return to reception for an individual message to be left.

Personal calls

Short, local personal telephone calls are permitted. Staff may also receive incoming personal calls, but these calls must be minimized and kept to a reasonable period of time. Any other calls should be made with supervisors consent.

Mobile phones

[INSERT GUIDELINES ON USE OF MOBILE PHONES IN THE WORKPLACE, INCLUDING DIRECTIONS ON THE GIVING OUT OF INDIVIDUAL MOBILE NUMBERS, DISTINGUISHING WHEN THE NUMBER IS RESTRICTED AND WHETHER IT CAN BE USED BY SUPERVISORS AND TEAM MEMBERS AND BUSINESS VERSUS PRIVATE USE.]

A landline phone is the preferred method of telephone communication.

The use of mobile phones within the practice should be kept to a minimum. Staff members using mobile phones should be aware that this may be a distraction to other staff.

Where staff members are provided with a mobile work phone, the phone may not be used while driving unless they have a legally approved hands-free option.

See also section 2.9 for mobile phones provided as part of an employment arrangement.

9.2 Email Correspondence

[CUSTOMIZE TEXT BELOW BASED ON PRACTICE'S POLICIES]

Electronic mail forms an important component of a practice's corporate memory and like records in other formats, may be subject to legislation and to legal processes such as discovery and subpoena. Electronic mail should be integrated into a practice's paper-based records by placing a hard copy on file or storing via an electronic document management system.

All staff members have responsibility to create, keep and retain records in accordance with the Practice's policy. When electronic mail is received or sent the individual staff member should determine whether the message and any responses should be placed on central file. As a general principle, hard copies of all email messages concerned with the practice should be filed. Messages of a momentary nature, which are for information only, e.g. notification of changes in the time/venue of a meeting, may generally be deleted.

For internal electronic records, printing and filing is the responsibility of the message originator. For messages received from external sources, printing and filing is the responsibility of the recipient.

9.3 Correspondence

[CUSTOMIZE TEXT BELOW BASED ON PRACTICE'S POLICIES AND AD IN DETAILS OF ANY DOCUMENT MANAGEMENT SYSTEMS OR PROCEDURES]

Incoming Mail

Mail is collected / delivered first thing in the morning and all documents are opened at the discretion of the receptionist or nominated staff member. The nominated staff member is a professional who will act with the utmost discretion and will not use any information in an inappropriate manner.

Any correspondence that is of a personal or confidential nature should be marked "Private and Confidential" to ensure it is not opened.

As the mail is opened it is sorted into individual piles:

- Invoices are given to Accounts Payable.
- Cheques are given to Accounts Receivable.
- “Junk” Mail (non-records mail, which will be distributed) is distributed to the appropriate officer.
- The rest of the mail is determined to be “real” mail (the Records). Each document in the “real” mail is stamped with a document number (a different number for each document) and the date, and is assigned to the designated employee.

Other Mail

If a letter is received over the front counter, the receptionist will note on the document any information given by the person handing it in. It should then be stamped with the date stamp found at the front counter and placed in the Incoming Mail tray for distribution.

Other letters may arrive by various means, but should all be dealt with in a similar method to the above. Attach a note to the document noting the sender and any information they may give you about suggested or past actions on the document. Also note actions you take or suggest, date the document, put your name to these notes, and place it in the Incoming Mail tray (which is currently the Receptionist’s in-tray).

That may sound complicated but it’s simply a matter of passing on any information that may be helpful or necessary to provide the best client experience.

Faxes

Faxes should be distributed whenever received and the copy given to the appropriate staff member. Before distributing it, stamp with the Document Stamp, Doc Number stamp, and date stamp, and in the Officer field, write, “Copy given to …..”

All faxes should be treated as urgent and this process completed as quickly as possible.

9.4 Filing

[CUSTOMIZE BY INSERTING PRACTICE’S POLICIES AND PROCEDURES SUFICIENT FOR INDUCTION OF NEW STAFF MEMBER]

9.5 Storage and Disposal of Documentation

[CUSTOMIZE BY INSERTING PRACTICE’S POLICIES AND PROCEDURES SUFICIENT FOR INDUCTION OF NEW STAFF MEMBER. POLICIES MUST MET LOCAL REGULATORY REQUIREMENTS]

9.6 Petty-Cash Reimbursements

[CUSTOMIZE BY INSERTING PRACTICE’S POLICIES AND PROCEDURES]

A sample reimbursement form is included in section 13.6.

9.7 Staff Facilities

[CUSTOMIZE BY INSERTING PRACTICE’S POLICIES AND PROCEDURES FOR USING STAFF FACILITIES WHICH SHOULD IDENTIFY THEIR LOCATION AND MAINTENANCE]

9.8 Photocopiers

[CUSTOMIZE BY INSERTING PRACTICE'S POLICIES AND PROCEDURES FOR USING PHOTOCOPIERS WHICH SHOULD IDENTIFY THEIR LOCATION AND MAINTENANCE]

9.9 Fax Machines & Other Equipment

[CUSTOMIZE BY INSERTING PRACTICE'S POLICIES AND PROCEDURES FOR USING FAX MACHINES AND OTHER EQUIPMENT WHICH SHOULD IDENTIFY THEIR LOCATION AND MAINTENANCE]

10. Staff Appraisal, Training & Development

[CUSTOMIZE THIS SECTION TO SUIT LOCAL JURISDICTION AND PRACTICE'S CULTURE AND OBJECTIVES]

10.1 Objectives of Performance Appraisals

It is the Practice's policy that work is undertaken in the most efficient and productive manner possible. Giving regular, contemporaneous feedback to our employees in a positive manner plays an important part in ensuring that this occurs.

To facilitate this, constructive, open communication is essential. Regular verbal and written feedback will help staff to gauge their standard, of performance. The idea is not to make an employee feel threatened or insecure but to reinforce the notion that our Practice has high standards and will always strive to provide of high quality service to our clients. Regular performance appraisals assist in achieving this objective.

Very generally, performance appraisal is a formal system of planning and reviewing employee performance. It provides employers with an opportunity for a comprehensive review of key aspects of their employees' performance, including employees' skills and knowledge, their behaviors and achievements, and their working environment and supervisory requirements. It also provides employees with the opportunity to voice their concerns and aspirations in relation to their employment.

10.2 How Often should Performance Appraisals be Conducted?

There is no legal obligation to conduct performance appraisals. However, they play an essential part in the good management of our Practice.

The performance appraisal process provides an opportunity for employees and their supervisors to document and develop goals.

This practice conducts performance appraisals [insert details; it is up to you to decide how often you conduct performance appraisals].

Guidelines for the use of performance appraisals

Broadly speaking, the performance appraisal involves:

- determining how well employees are doing their jobs;
- communicating this information to employees;
- establishing a plan for performance improvement or development;
- assisting employees to implement this plan, including providing access to training and development tools as required.

Before the performance appraisal meeting

- A performance appraisal requires preparation before the meeting can occur.
- Before any performance appraisal, the employee will be made aware of the metrics by which their performance will be assessed. This gives the employee a clear indication of the goals and objectives of the Practice and what is expected of them.
- Prior to conducting a performance appraisal, employers need to consider the purpose of the appraisal and have sufficient and correct information on hand, for example, copies of previous performance appraisals, specific performance criteria, performance against budget statistics, and training and development undertaken since the last appraisal.

Both employer and employee should also fill out an appraisal form, with a view to comparing and discussing these forms with the employee during the appraisal. This will help maximize the benefits obtained from the appraisal process and provide honest feedback about how employees gauge their own conduct and ability.

10.3 During the Performance Appraisal Meeting

The performance appraisal should be conducted in a private confidential area.

A performance appraisal is a mutual communication process that should seek to adopt a balanced approach towards both positive aspects of performance, and those where there is room for improvement. A two way conversation between employer and employee is essential to make the appraisal procedure effective. *The performance appraisal will include probing questions, for example, "Are there any parts of your job which you feel you could perform better?," "Are there any areas for training and development that you think would help you to perform more effectively?*" etc.

Both appraiser and employee should focus on discussing areas for improvement in such a way that shows that it is the employee's performance and not their personality which is under scrutiny. You should assist employees with strategies to assist with continued development and performance in those areas and agree on timeframes within which this will occur. In raising concerns over an employee's performance, it is best to do so as objectively as possible, to avoid the appearance of a personal attack on the employee.

At all times both the appraiser and employee should show respect for each other's position and approach the performance review as a personal development opportunity. The overall objective of the review is to encourage continued learning and recommend initiatives for further improvement, while showing appreciation and recognition for the efforts that have been made.

Appraisal forms should be signed and dated by both the employer and the employee as a record of the points discussed and agreed upon. Completion of performance appraisal documentation is sometimes considered a nuisance. However, in seeking to retain talented employees and improve the performance of the Practice, it is vital for all employees to participate fully in the process and to ensure that matters discussed, including agreed upon outcomes and training and development needs highlighted, are properly recorded and acted on.

10.4 After the Performance Appraisal Meeting

It is necessary for employers to ensure that the feedback and outcomes from the performance appraisal are put into practice. This may include implementing training and development for an employee, or reviewing an employee's technical skills on a regular basis.

A sample Staff Appraisal Sheet is included in the Office Manual. It is a basic document that provides an example of the kinds of questions employers and employees can consider prior to the performance appraisal meeting. However, it is only intended as an example, and you should make appropriate adjustments to the sheet if there are other matters particularly relevant to your Practice or to the employee whose performance is under consideration.

11. Finance Policies

[CUSTOMIZE THIS SECTION BY INSERTING PRACTICE'S POLICIES AND PROCEDURES]

12. General Employee Grievances

[CUSTOMIZE THIS SECTION TO SUIT LOCAL JURISDICTION'S LEGISLATION]

12.1 Introduction to Grievances

For the purposes of this policy, a grievance should be treated broadly as any concern or complaint an employee may have relating to work or the work environment. A grievance may be about any act, omission, situation, or decision by the Practice or a co-worker/ co-workers that the aggrieved employee considers to be unfair, inappropriate, or unreasonable.

Note: In the case of complaints of discrimination, workplace harassment or sexual harassment, employees should refer to the complaints mechanisms in section 4 of this Office Manual.

12.2 Procedures for Dealing with Employee Conflict

In all cases, until the grievance is resolved, the employee with the grievance should continue in normal work.

Direct resolution

If the behavior of an employee is causing conflict with another employee it is recommended that the employee with the grievance approach that person directly and try to work out a mutual resolution. The employee with the grievance should tell the person who is allegedly acting in an unfair or inappropriate way why his or her behavior is unfair or unacceptable, and request that they alter or refrain from that behavior.

If the employee with the grievance is unwilling to approach the person directly, then they can refer their concern to their supervisor or another senior member of the Practice in accordance with the following paragraphs.

Referral to supervisor or another senior member of the Practice

If the problem remains unresolved, the employee with the grievance should approach their supervisor to seek to resolve the issue.

There are some situations in which an employee with a grievance may not want to take a complaint to a supervisor, for example, if concern specifically relates to the supervisor, or if there is a personality conflict. In this case, the employee with the grievance can refer the complaint to another senior member of the Practice.

If a supervisor is approached to deal with a complaint, but considers that it would be improper for them to consider the grievance (because, for example, they have a particular relationship with the employee with the grievance, or with the person the complaint is concerning), the complaint should be referred to another senior member of the Practice.

The supervisor or senior member of the Practice (as the case may be referred to in the remainder of this policy as "supervisor") should fully discuss the aggrieved employee's concerns, to get a full understanding of the issues. The supervisor has the responsibility to listen, investigate, evaluate and respond to the aggrieved employee.

It may be necessary for the supervisor to talk to other people involved, and to impartially hear their side of the story, before taking any steps to seek to resolve the matter.

Following a full consideration of the matter, the supervisor should offer suggestions as to how the dispute can be resolved. For example, a conflict may be resolved by:

- compromise; or
- seeking an apology from the party complained about; or
- offering a change of working arrangements, if practicable.

However, no action should be taken without first talking to the aggrieved employee and getting their agreement.

All stages of the grievance process should be documented and file notes provided to the parties involved as appropriate.

Grievance paths beyond the Practice

If the employee with the grievance is not satisfied with the Practice's response, then the Practice may need to consider other forms of dispute resolution, for example, the use of mediation through a third party.

12.3 Procedure for Dealing with Employee/Client Conflict

Employees should never involve themselves in an argument with a client. At all times, employees must be courteous and professional towards clients.

If an employee is involved in a discussion with a client that becomes heated, or if an employee receives a complaint from a client, they should refer the issue to the supervisor. Becoming involved in an altercation with a client is not acceptable and may result in disciplinary action if the incident is serious enough or if certain behavior re-occurs.

The Practice may seek to engage an employee and a client in a discussion in an attempt to resolve the matter.

13. Office Forms

[CUSTOMIZE THIS SECTION TO SUIT LOCAL JURISDICTION]

13.1 Application for Leave

13.2 Bank Account Details

13.3 Employee Appraisal Sheet

13.4 Travelling Expenses Claim Form

13.5 Overtime Sheet

13.6 Reimbursement Expense Form

13.1 Application for Leave

APPLICATION FOR LEAVE

EMPLOYEE NAME:		______________________
DATES	From:	______________________
	To:	______________________
TOTAL NO. OF DAYS:		______________________
REASON FOR LEAVE	☐ Annual Leave	
	☐ Compassionate / Bereavement Leave	
	☐ Personal / Caregiver's Leave	
	☐ Study Leave	
	☐ Personal / Sick Leave	
	☐ Other:	______________________
EMPLOYEE'S SIGNATURE		______________________
DATE OF APPLICATION		______________________
AUTHORIZATION:		______________________
DATE OF AUTHORIZATION:		______________________

13.2 Bank Account Details

BANK ACCOUNT DETAILS

SURNAME: ______________________________

GIVEN NAMES: ______________________________

ACCOUNT 1: ______________________________

BANK: ______________________________

BRANCH: ______________________________

ADDRESS:
____
____
____
____
____
____

BSB - NO: ______________________________

A/C NO: ______________________________

AMOUNT: $ ______________________________

ACCOUNT 2: ______________________________

BANK: ______________________________

BRANCH: ______________________________

ADDRESS:
____
____
____
____
____
____

BSB - NO: ______________________________

A/C NO: ______________________________

AMOUNT: $ ______________________________

13.3 Employee Appraisal Sheet

EMPLOYEE APPRAISAL SHEET

	Unsatisfactory Performance	Occasionally Performing Below Job Requirements	Meeting Job Requirements	Occasionally Exceeding Job Requirements	Consistently Exceeding Job Requirements
	1	2	3	4	5
PERSONAL CHARACTERISTICS					
Dress					
Punctuality					
Willing to undertake professional development					
Communication skills					
Responsible with confidential information					
RELATIONSHIPS					
Relationships with supervisors and managerial employees					
Relationships with co-workers					
Relationships with persons under their control					
Relationships with clients					
SKILLS					
Ability to supervise					
Ability to deal with problems					
Time management					
Able to market themselves					

	Unsatisfactory Performance	Occasionally Performing Below Job Requirements	Meeting Job Requirements	Occasionally Exceeding Job Requirements	Consistently Exceeding Job Requirements
Able to market the Practice					
Use of initiative					
Able to follow instructions					
Able to give instructions to co-workers					
Able to handle client concerns					
Able to make and write reports					
Awareness of current policies and procedures					
TECHNICAL SKILLS					
Word processing					
Email					
Typing speed / accuracy					
Filing					
Listening comprehension					
Phone manner					
PROFESSIONALISM					
Loyalty to employer					
Loyalty to other employees					
Willingness to promote the Practice					
TOTAL					

* Delete any items that are not applicable to a particular employee's position.

13.4 Travelling Expenses Claim Form

TRAVELLING EXPENSES CLAIM FORM

NAME: ______________________________

DATE: ______________________________

PURPOSE: ______________________________

CLIENT NAME: ______________________________

FILE NUMBER: ______________________________

TRAVEL BY VEHICLE

VEHICLE ENGINE CAPACITY: ______________________________

TRAVELLING FROM: ______________________________

TRAVELLING TO: ______________________________

TOTAL KMS/MILES: ____________

CALCULATION OF ALLOWANCE:

Number of miles/kilometers x $X.XX per mile/km = $XXX.XX

AIR TRAVEL

FLIGHTS FROM: ______________________________

FLIGHTS TO: ______________________________

ACCOMMODATION: ______________________________

SIGNATURE OF EMPLOYEE: ______________________________

COPIES TO BE RETAINED BY EMPLOYEE: ______________________________

13.5 Overtime Sheet

OVERTIME SHEET

Employee's Name: ____

DAY	DATE	START	FINISH	TOTAL HOURS	AUTHORIZED
Monday					
Tuesday					
Wednesday					
Thursday					
Friday					
Saturday					
Sunday					
TOTAL NUMBER OF HOURS					

Authorized: ____

13.6 Reimbursement Expense Form

REIMBURSEMENT EXPENSE FORM

NAME: ______________________________

DATE: ______________________________

TYPE OF EXPENSE:

(Please tick appropriate box)

☐ Taxi ☐ Entertainment/Marketing ☐ Other (please specify)

____

____

PURPOSE OF EXPENDITURE: ______________________________

____

CLIENT NAME: ______________________________

____

FILE NUMBER: ______________________________

____

DATE EXPENSE INCURRED: ______________________________

____

AMOUNT SPENT: $ ______________________________

PARTNER AUTHORIZATION: ______________________________

DATE: ______________________________

Practice Models, Associations and Networks

Module 2

CONTENTS

2.1 Introduction

This module looks at a number of structural considerations inherent in owning or running an accounting firm:

- The various models available: sole practitioner, partnership, and corporate structures;
- The major approaches to profit-sharing and to decision-making within a firm; and
- The use of networks and associations to multiply the power of your own advice.

If your firm is built on a solid foundation of good decision-making, ethical and efficient processes, with a balanced team of committed visionary leaders, it can be confident about its long-term future.

> "Launching your own [accountancy] firm is one of the greatest professional challenges you'll ever undertake—and potentially one of the most rewarding. Fraught with hard work and long hours, it's nevertheless a chance to build a business, provide real value to clients who depend on you and, ultimately, shape your own destiny.... Most of the must- do start-up activities are the same as for any small business."
>
> *Myers 2006*[1]

2.2 Which Practice Model is Right for You?

This section examines the key types of firm. One of these will be right for you, in a legal sense and also from a business management perspective.

When considering the different models for accounting firms, contact your local professional association to identify any special conditions or requirements that you must comply with. For professional, ethical, regulatory or legal reasons, not all legal structures will prove usable in every country or region, so this module refers to a range of options and sometimes uses country-specific examples. However, the bulk of the discussion will relate to functional aspects of each firm model, rather than local legal issues.

For example, even a sole practitioner might be able to operate through several alternative legal structures such as:

- An individual with no separate legal entity;
- A sole director company to afford some degree of asset protection;
- A service entity that employs some employees and owns some operating assets and that also permits some profit-sharing to a non-accounting person (for example, a spouse, or key personnel);
- A cost-sharing arrangement with similar practitioner(s); or
- Some combination of the above.

A medium-sized or larger firm might create separate legal entities for specific parts of their service range, for example:

- An information technology services entity;
- A financial planning, or wealth management entity; and
- Audit services provided through a traditional partnership of individual partners.

[1] Myers, Randy. "Start Your Own Practice. Shape your own destiny and provide value to clients," *Journal of Accountancy*, April 2006. www.journalofaccountancy.com/Issues/2006/Apr/StartYourOwnPractice.htm.

These options can be used to reward key employees with specialist skills who are not eligible or desirable for partnership, or they might be adopted to comply with ethical rulings from your professional association. With increasing focus on family concerns in accountancy, as elsewhere, practice models need to allow for easy entry to/exit from partnership, and this is often facilitated by structures that differentiate between equity and non-equity principals.

As you read through this module, you may wish to prepare an evaluation table to help you determine the most suitable structure for your needs and those of your partners.

2.2.1 Sole Practitioner

Many firms start life with a single principal. Perhaps this accountant has been employed by another firm and has decided to go it alone. Perhaps he or she is dissatisfied with life as a partner in a larger firm and seeks a more immediate or more direct say over key decisions. Or perhaps this person is leaving a corporate or government role, looking for a new career direction. The backgrounds are many and varied, but the issues remain the same.

A sole practitioner is responsible for the whole firm: fee-generation; development and maintenance of professional standards and work processes within the firm; marketing, promotion and selling of services to current and prospective clients; management of the firm; and providing funds for its operations.

The sole practitioner doesn't need to be the only person working in the firm, and doesn't need to be the only fee-earner. It will be up to you to decide how much you involve the other people within your firm. This aspect of your management style should be discussed with potential employees when you are doing pre-employment interviews. For instance, their expectations and style will need to fit very closely with your own, especially in the vital first few positions that you fill. If, for example, you plan to grow the firm's revenue but hold the ownership of the firm very tightly, then an employee looking for early admission as a partner should be aware of that. When the principal and the senior employees know each other's ambitions, this gives the best chance of ensuring a compatible fit.

A sole principal might also use a combination of their own equity plus some external debt to fund the firm. Yet even in this situation, it is the sole principal who is entirely responsible for repaying any debts that the firm might incur.

Potential benefits of this model include:

- Single point of final decision-making. The principal makes the decision alone and bears the responsibility of the decision. They may well take advice from suitably qualified or trusted experts, consultants, or employees but they alone must stand by their decisions. The process can be relatively quick and straightforward and is certainly free of political considerations;
- No profit-sharing;
- Flexibility to change the internal rules quickly and adapt to market demands; and
- The sense of direct involvement and control appeals to many people.

Potential drawbacks include:

- The principal might not have the range of skills or experience to run the entire firm. There might be a critical weakness in a management discipline such as marketing, systems development or quality control. Such weaknesses can be overcome by subcontracting part of the workload to a trusted specialist. If the weakness relates to an entire range of accountancy services, the practitioner should refer that work to a suitably qualified firm or employee;

- Sole practitioners can find it very difficult to keep abreast of changes in legislation or accounting standards due to the increasingly complex commercial environment in which accountants work. The broader the range of services offered by the sole practitioner, the bigger this problem and the higher the professional risk;
- If there is only limited professional support within the firm (for example, a very senior and/or experienced person who can make many decisions unsupervised), the principal can be "on call" much of the time, even on holidays. If a principal is continually under this type of pressure, it can lead to significant health problems;
- Professional loneliness can reduce the quality of work or possibly the personal satisfaction of the practitioner. It can be overcome by using professional networks (possibly available through your professional association, discussion groups, and so on) to bridge the gap to some extent;
- The principal might not have enough money to fund the firm at a suitable level. Inadequate funding, or excessive debt, might leave the firm starved of cash or the necessary level of investment required to keep the firm operating at a sustainable level. This might lead to under-investing in training or technology, for example; and
- The firm might spend too much of its fees on fixed-cost items (for example, rent, subscriptions, fixed assets, software licenses, and possibly some employees). This happens because all firms need a minimum set of resources, even though those resources might not be fully utilized during the year.

2.2.2 Cost-Sharing Arrangement

Cost-sharing helps overcome some of the drawbacks within the sole practitioner model. In essence, several firms share the use and cost of a common set of resources. The individual firms earn their own fees and pay other discretionary costs individually, plus their share of the common costs.

Potential benefits of this model include:

- Each firm retains much of its own flexibility and independence. If a single member of the group needs a specialist item, that member can purchase it alone; and
- Sometimes firms who share costs in this way can also complement each other's skills. One firm might be a tax specialist; one might offer audit services; another might have a specialty in wealth-management services. Those firms can then cross-refer clients within the group to ensure a well-rounded and relevant service offering, without fearing loss of control over the client.

Potential drawbacks include:

- Each firm might remain relatively small, only offering a narrow range of services. The firms might even have to agree among themselves not to compete directly in each other's area of specialty; if so, that would restrict their options for growth of their own firm;
- Some time is required to manage the central ordering and payments and to arrange the cost-sharing invoices for each firm. If this role is not shared equally, or if the time is not incorporated in payment made by the other firms, then it represents a cost for the firm doing the group work; and
- Customers may lack confidence in "one person shows" in this era of knowledge.

2.2.3 Partnership of Equals

> "Partnerships can be collegiate, flexible and professionally liberating. While they can also be haphazard, inefficient and desperately political, they are some of the most successful business models that the world has ever seen."
>
> "As a result, leaders—really successful leaders—solicit the views of their partners much more extensively than, say, those of a list company would."
>
> "Different leaders tackle this in different ways. One, for example, parceled out parts of his job to ambitious partners. Another by contrast, took inordinate care to ensure that leading voices of the various small networks in his large firm were represented on governance groups."
>
> *Young 2008*[2]

Laurie Young's article, quoted above, is a suggested text. It highlights the strengths and potential weaknesses of a partnership model.

Within various countries, there are different legal options for trading as a partnership, so refer to your local professional association to identify the range of options open to your firm in a legal sense. Different legal options carry different implications, for example:

- The extent of personal liability assumed by each partner, especially for the actions of fellow-partners;
- Asset protection; and
- The range of services that can, or in some cases must, be delivered through limited liability versus unlimited liability structures.

If you start a new partnership, the firm must be established from the ground up. This means you will initially have no policies, procedures, systems, or resources, other than the collective knowledge of the partners. It will be important to document those policies as they emerge, so that all people in the firm come to know "the way we do things here." Considerable time is needed to develop and refine your approaches. See Appendix 2.4, Case study 2.1 for an illustration of how a partnership can be organized.

If you join an existing partnership then, you also inherit the existing systems, processes, policies, and philosophies of the current partner base. This is certainly easier than setting up from scratch and will save you time re-inventing the wheel with some of the preliminary documentation. However, you still may feel some processes could be improved. This might mean you still spend some time trying to change various things in the partnership. This will give you an opportunity to develop your diplomacy skills!

Buying into an existing firm may require you to pay a sizeable amount to the existing partners to compensate them for any dilution of their interest in the profits of the firm. Alternatively, your payment might go into the firm as working capital. Even though the size of the outlay will vary from one potential firm to another, it does have the advantage of ensuring a reasonably predictable level of profit and/or drawings.

Starting a partnership, on the other hand, might involve a smaller outlay up front, but the firm will take longer to deliver a viable level of profit (or drawings, salary, etc.). Early profits might be consumed in the growing level of work in progress and debtors. There might also be a need to invest further in key assets for the practice.

In the simplest partnership models, all partners contribute equally to the funding of the firm, all share equally in profits, and all are involved in decision-making. This approach is often used at the commencement of a partnership, where shared goals and mutual respect give all partners a very similar view of the business.

---

[2] Young, Laurie. "All For One." *Accountancy*, August 2008, 55–56.

In larger partnerships (for example, with five partners or more), complexities arise because of the variety of professional skills and interpersonal relationships. Decision-making might become the province of a subset of the partners; profits might be shared unequally depending on factors such as the length of time a partner has been in the firm or the relative performance of each partner; ownership levels can also vary. These issues will be addressed in more detail below.

Potential benefits of this model include:

- Two (or more) heads are often better than one. A partner is a colleague who can swap technical information, discuss strategic options, or provide back-up. One of the partners can stay within the firm while you have the chance to take appropriate leave, and vice versa. A partner allows for the responsibilities of running the firm to be shared;
- Simplicity in contributions and profit sharing;
- The capacity for individuals to specialize in specific services, thereby expanding the scope to fully service a client's needs; and
- Access to funds from more than one partner, to provide working capital to the firm.

Potential drawbacks include:

- As the number of partners grows, it becomes harder to achieve the common purpose that was present in the earliest days. This is because the age of the partners will start to vary; their financial resources and requirements will place different demands on the firm's cash flows. Such factors will start to play a part in the way partners relate to each other;
- A wider range of interests and abilities within the principal base, while a strength of the model, can also be a weakness. Some might gravitate toward certain roles while others avoid those roles; the workloads of individual partners may differ markedly; the contribution of some individuals to revenue or profit generation may vary; even the attitudes toward the amount and intensity of work time might vary. These differences have the potential to cause tension among individual partners;
- Decision-making can be slowed by the need to have all partners consulted (and possibly agree) before a decision is made;
- All partners are generally bound by the actions of a single principal; and
- Legal liability for errors or malpractice can be borne by all partners, depending on the nature of the specific legal entity being used.

Appendix 2.1 provides a checklist for evaluating potential partners. In Appendix 2.4, Case studies 2.2 and 2.3 illustrate how a partnership can be organized to recognize partners' abilities and strengths.

2.2.4 Unequal Partnership

In this section, we assume that all of the "partnership of equals" material above is understood. This section highlights the differences that flow from having inequalities in either the ownership, workload, and/or profit-sharing arrangements.

An unequal partnership can be a result of many reasons. An older or established principal might take a different approach to a particular issue from a newer or younger partner, or selling partners might have a different approach to the cost of entry and the drawings policy than a buying or incoming partner. In some cases, the firm value is so high that an incoming partner cannot afford to buy a full-parity share, so they buy a smaller proportion initially, or build up their equity over time by trading off profits.

Buying into a firm may require a large financial outlay to acquire a share of firm assets, in particular for goodwill. This single transaction may well require the incoming partner to borrow much or all of the investment. Fortunately, a realistic repayment schedule can often be negotiated with the financier (or the partner who is selling down their interest), based on the firm's demonstrated cash flows. In this way, the debt can be reduced in a predictable way over several years.

However, if the sale and purchase of the share in the partnership is handled badly by one or both parties, there is potential for long-term difficulty. This single transaction might cause resentment in the selling partner because "the price was too low," yet the incoming partner may feel that "an outrageous price was demanded." This difference of opinion could influence each partner's dealings with the other, long into the future. It will certainly create a demand for more drawings: the selling partner might want to compensate in some way for the low price, while the incoming partner requires more cash to service the loan. That may turn out to be one of the very few things that the two partners have in common! While these situations can occur, there will certainly be many exceptions too.

Before joining a partnership (either in a new firm, or by joining an existing one), you must spend some time discussing the way that partners will deal with each other. Many interesting court cases involve disputes over partnership arrangements simply because no agreement was ever recorded or agreed on. See Appendix 2.2 for the major issues that should be discussed, agreed on and documented by the partners.

One final point to consider, for partnerships in particular, is the need for a succession plan and having someone to sell out to. For many years, the partnership model was seen as a "carrot." A bright accountant would work for several years for slightly below average pay, a trade-off for the chance to buy into the firm later. Today, young accountants have many career options, and some are less inclined to wait patiently for their career to progress within a partnership. This represents a challenge to the traditional partnership model.

So accountancy firms today are facing challenges to their very structure. A firm needs to be interesting enough to compete as a career choice with the other, newer options available to accountants. It also needs to be profitable enough to meet the earnings requirements of a new breed of professionals.

Partnership as a structure presents some challenges in interpersonal relationships. But it has served the profession well for many years and will continue to do so. However, if a partnership is not structured properly, or if the fundamental relationships between partners break down, partnerships have a number of inherent challenges. Since accountants become involved in helping to structure, and sometimes resolve problems in, partnerships for clients, it is important to have your own house in order first.

2.2.5 The Consolidator Model

Consolidators amalgamate a series of small businesses into a single, larger one to extract operating efficiencies and cost savings. Consolidators claim to be able to transfer best practice from within any part of the large group, leading to cost savings and/or revenue gains. This of course requires strong and pragmatic decision-making by the acquirer and acceptance by the acquired firm, in order to deliver the savings as quickly as possible.

A listed consolidator firm has a set of shareholders, which will generally include the partners of the formerly independent firm(s) as well as other private and/or institutional investors; shares in the business are traded on a stock exchange.

In the UK, Australia and the US, this listed consolidator model has been attempted with mixed results. For this reason, "consolidators" are not a key proportion of the market now; their appeal tended to be greater for firms facing a significant retirement of partners. By comparison, a newly established or strongly growing firm will most likely value its own independence and not be interested in selling to a "consolidator" practice.

Listed consolidators offer several opportunities to the principal in a public firm:

- A way out for retirement purposes: swapping a firm for either cash or shares;
- Access to capital: this is especially important to help fund the technology costs faced by firms today;
- Access to improved systems of management;
- Access to a larger pool of talented people and specialist knowledge (for example, precedents, training and industry specific knowledge); and
- A career path for high-quality personnel and a financial incentive to participate in the firm's success through shares and/or stock options.

On the other hand, they are culturally different from an independent accounting firm:

- Joint decision-making by the partners is often removed;
- Central corporate management needs to be strong enough, strategically focused, and well communicated to deal with newly acquired businesses that were previously independent in thinking and decision-making.
- A more corporate flavor is introduced into the office;
- Staff mobility may be seen as a benefit to employees, but clients might not see it the same way;
- Often, restrictions are placed on partners of the acquired firms to prevent them from selling their shares for a period of time after their firm is purchased;
- The business will then need to make sufficient profit to service the needs of the senior practitioners and the shareholders;
- The demands of the stock market, if listed, can give an undue focus on quarterly results and short-termism; and
- The ultimate value of a firm also depends on the behavior of the stock market.

The lure of partnership is not necessarily as strong a motivator for some bright young people in these firms. In turn, this is changing some of the culture of accounting firms.

As a result, the extent and manner in which an individual can make an impact on an office is different: some would argue that an individual would have less impact in the office of a consolidated firm.

In the past few years, listed consolidators have experienced vastly differing performances. Several have ceased to exist, and, in large part, the component firms or offices were bought back by their previous partners.

The most successful current "consolidator" firms tend to be privately owned but acquisitive accountancy firms. Larger firms buy out, or merge with smaller practices; sometimes the principals from the "acquired" firm remain working in the larger firms, and sometimes they do not. The targeted firms might have special expertise that is considered valuable to the larger group, or they may broaden the geographic reach of the acquiring firm. Whether the "consolidator" is a listed company or an unlisted firm, the principles and justification remain the same: a focus on transferring "best practice procedures" through the larger group and at the same time eliminating wasted or duplicated expenditures.

2.2.6 Multidisciplinary Firms

In some countries, a professional association or regulatory body might restrict the sharing of profits between its members and people who are not members of the association. Government legislation or regulation might also prevent non-qualified persons sharing in the profits of an accounting firm.

This section outlines how some countries have approached this issue, which permits the accounting firm to offer a broad range of services to clients, while also providing suitable incentives for the non-accounting specialists.

The most common approach is to create a series of special purpose entities, such that part of the equity is contributed and owned by the accountants and part is contributed by the non-accounting specialist. For example, the accounting partners could take a 50% interest in an information technology consulting company, and have the information technology specialists own the other 50% of the company. Similar approaches have been taken to include finance specialists or wealth management specialists in some firms.

Potential benefits of this model include:

- A clear focus for each separate entity;
- Separate legal liability for each entity;
- Separate regulatory scope for each entity, if applicable;
- Each entity can develop in its own style;
- There is no dispute as to who "owns" each client relationship, since the accounting owners are the common link in the entire chain of service delivery. In effect, the accounting practitioners at the core of the multi-disciplinary group will have a major influence on the level of service provided to each client. The ownership of clients is clearly understood by virtue of the common ownership links among the service providers;
- Considerable opportunity exists to cross-sell services from one entity to another within the same group; and
- Equity or other funding can come from a wider group of non-accountants.

Potential drawbacks include:

- This structure does not necessarily ensure that the best businesses are guaranteed access to internal funds (that is, the equity or cash flow from across the group), owing to the different ownerships of each entity; and
- There will be some additional management, accounting and reporting required to maintain the web of separate entities.

If this arrangement may suit or be of interest to your firm, contact your professional association for guidance.

2.3 Practice Management

2.3.1 Family Members Working in the Firm

From time to time, members of a sole practitioner or partner's family might be employed in the accounting firm and may eventually come to own the firm entirely. The idea that an accounting firm should be handed down from one generation is common in some countries; in others, it is an unusual event. The approach taken to engaging family members in a practice may vary widely between countries, cultures and economic regions.

This issue of family member employment in a firm raises special considerations, over and above the normal commercial issues.

- First, it is important for the family member who is employed within the firm to have a clearly defined role, in the same way that any other employee would have. The role should be consistent with the family member's abilities at that stage of his or her career. The family member should have employment experience similar to their equally skilled fellow-employee(s). Expecting the family member to perform at a level beyond their skills and experience is unrealistic and professionally dangerous.

- Second, if the family member is subjected to an accelerated learning program, then their on-the-job experience should be supported by a mentor. In some cases, or for some parts of the professional work, this may well be the related partner; in other cases it might be another partner in the firm, or a senior and highly skilled staff member. Once again, the scope of the accelerated learning program should be described clearly: the expected length of time to be spent in each professional area, the learning objectives to be achieved in each phase, and the performance and skill targets that must be met.

The steps described above should result in creating a well-trained and disciplined professional, capable of running the entire firm in due time. Retaining the respect of employees is a key objective of the entire process. They must have confidence in the leadership offered by the relative of the partner.

When the time comes for the “trainee” family member to be elevated to the status of sole practitioner partner or part owner of the firm, another set of issues arises. At this stage, the firm faces a number of “second generation issues.”

The newly promoted family member must be given areas of responsibility within the firm. This applies to both professional roles, dealing with clients and delivering high-quality professional services, and to a role in “non-professional” work such as administration, management or possibly business development. One common approach sees the senior family member perform much of the relationship-building with existing or potential clients, with the “junior” equity owner performing much of the professional work, possibly under the guidance of the senior family member.

When the junior family member becomes part of the ownership of the firm, it may be necessary for him or her to make some payment into it. On occasion, in lieu of this, the junior family member might accept a lesser amount of total remuneration than the senior family member. In this way the junior family member is seen to pay for the privilege of becoming an equity owner, and to contribute financially to the firm.

Promoting a junior family member to partial ownership of a firm may impact on the future prospects for a capable employee, especially if that employee wants to become a part-owner of the firm one day. Such employees are an important part of the firm’s success, and so the owners should consider ways of retaining their services. This might involve some form of loyalty bonus, or the salary of the senior employee might be linked to the fees they generate.

In time, when the senior family member starts to reduce working hours or ceases working in the firm altogether, a smooth handover of clients becomes necessary. Even at this stage, the senior partner may find it difficult to hand over clients and/or responsibilities; both parties must remain focused on the reasons for it. The aim is to ensure continuity of service and the preservation of the firm itself. Both the senior and the junior family members should exercise considerable tact and discretion in their dealings with the other during this handover.

While this is occurring, the junior family member may well continue paying the senior one a regular amount by way of a pension or gratuity, even though the senior family member performs no work for the firm.

The family relationship should not be destroyed or weakened as a result of the involvement of other family members within an accounting firm. The guidelines above should help achieve this, but it will require substantial amounts of goodwill and effort by all parties involved in the transition from employee to owner to retirement.

Module 8 examines succession planning options in more depth.

2.3.2 Decision-Making Approaches

In any firm with more than one principal, decision-making must be considered. The approach to decision-making will reflect the philosophies of the partners/owners; getting this wrong can cause considerable friction.

In smaller firms (up to four or five partners), it is important to hold regular partners' meetings. This is where operational as well as strategic decisions are made. Usually, all partners are present, and a decision needs the support of most (if not all) of them in order to carry weight. The partners' meeting might spend a considerable amount of time—sometimes all the meeting time—debating minor operational decisions, and overlook strategic issues. When this occurs, the development of the firm can slow dramatically because it becomes too hard to reach any kind of agreement.

When firms reach around five and more partners, it becomes harder to gain 100% or a high proportion of support for many decisions. At some point, the partners will see that too much time is spent trying to achieve consensus or an absolute majority of votes.

- One response is to deem a particular level of agreement as a valid and binding decision on operational issues (75% of votes, for example). Other, more strategic matters (for example, admission or expulsion of a partner, decision to offer a new service, merger with or purchase of another firm, or possibly the dividend/drawing policy of the firm) might require 100% support. Differentiating the type of decision in this way represents a clear admission that not everyone must support every decision, but all must abide by the decision. It also reduces the time required to achieve a decision, because fewer partners will need to be convinced.
- A second response is to delegate some decisions to a management group or other subset of the partners. Members might be elected from within the full partnership, or might volunteer for this role because of their interest in management. In this way, the operational-level decisions can be made more quickly and efficiently while still binding all partners. Other major decisions may be determined through a meeting of all partners. This approach might work for up to around twelve to fifteen partners, possibly working across one or two office locations.

It is important to understand the politics within a partnership. If a small number of partners continually disagree with decisions or feel that their views are not being heard, they might become progressively more remote and, at worst, form a splinter group, which might directly disrupt meetings or the progress of the firm, or their actions might signal that employees need not comply with decisions that they do not like.

When a firm reaches around twelve to fifteen partners, and especially if it operates from several offices, it might reach a point where they employ a general manager, chief executive officer, or managing partner to guide the firm. This person might be one of the equity partners (who will then generally take a lighter fee-generating role, or perhaps be relieved completely from any fee-generation responsibility at all) or it could be a specialist employed for this role. Once again, it is likely that the chief executive officer/general manager would report regularly to a subset of the partners and less frequently to the full group of partners. The chief executive officer/general manager must be supported by a sizeable majority of partners.

Whatever management structure is chosen, it must be fully supported by the partners in order to function effectively. Once a noticeable segment of the partner base fails to support it, a new structure must be tried.

2.3.3 Issues to Consider when Structuring or Restructuring a Firm

Some of these issues have legal or financial ramifications (which may point to a better or preferred option, based on an objective review of the facts). In some cases, from a management perspective, the right answer is the one that suits the current group of partners.

2.3.3a Your Strategic Plan

The strategic plan adopted within a firm is likely to shape the legal and organizational structure. For example, if you invite non-accounting specialists (such as information technology employees or financial planners) to own a portion of their part of the firm, local ethical rulings might see you create a separate legal entity to deliver that service, and have a different ownership pattern from that of the rest of the (traditional) accounting services.

More on strategic plans is included in Module 1.

2.3.3b Legislation or Rulings by Your Professional Association

Professional regulations might place restrictions on the type of entity that can offer accounting services. Those restrictions maintain some commercial and professional integrity, and might include:

- **Separation of some work for professional indemnity purposes**: In some countries, audit services might have to be provided via a partnership entity, while other advice covering tax, management consulting, or wealth management could be provided through a limited liability company or partnership. In other countries, tax-based and advisory work can be delivered through a company, while other services can be offered through limited-liability partnerships.
- **Profit sharing arrangements**: Can profits from an accounting firm be shared with non-accounting-qualified personnel? In some countries this can be achieved by using a separate entity to provide “administration,” leaving the responsibility for accountancy services to be provided through an entity owned by the professionally qualified partners.
- **Non-regulated services provided through a specialist entity**: This allows the partners of the accounting firm to profit from providing non-accounting services (for example, technology or human resources advice), without all equity owners being members of the professional (accounting) association. This structure also allows the accounting firm to provide incentives and equity involvement to the non-accounting specialists who are critical to that wider service range.

Arrangements will be subject to your country’s laws or professional regulations; refer to your professional association for details that apply in your region.

2.3.3c Legal Options

There are many types of business entity defined in the legal systems of various countries. These include corporations, cooperatives, partnerships, sole traders and other specialized types of organization.

The range of options available to you might include:

- Sole trader;
- Partnerships: either unlimited liability or, in some countries, limited liability partnerships;
- A company or corporate shell;
- A trust; or
- Some combination of the above.

Limited liability partnerships are used by many of the largest accounting firms in the world. A limited liability partnership (LLP) is a partnership in which some of all partners (depending on the jurisdiction) have limited liability. A limited liability partnership exhibits elements of partnerships and corporations. In an LLP one partner is not responsible or liable for another partner’s misconduct or negligence. Limited liability partnerships are distinct from limited partnerships in some countries, which may allow all LLP partners to have limited liability, while a limited partnership may require at least one unlimited partner and allow others to assume the role of a passive and limited liability investor. It should be noted that the regulations governing a particular type of entity, even those described as roughly equivalent, may differ to a greater or lesser extent between countries.

2.3.3d Tax Issues

Over the life of your firm, there may be admissions and/or departures of partners. Each legal structure has certain benefits and drawbacks in this scenario.

You might need to consider:

- Income tax payable on trading profits;
- Taxes on distributions drawings or dividends, or on profits retained within the entity;
- Taxes linked to share transfers or asset transfers (possibly stamp duty or transfer taxes or even inheritance taxes); and
- Capital gains taxes, should the value of the equities in the firm vary with the various changes in equity.

Tax regimes vary greatly around the world. Those variations will impact the ease or the cost to transfer assets, or the timing and amount of taxes. Your net return from the firm will be reduced if the wrong structure is selected.

For these reasons, select a structure that does not disadvantage the firm when partners inevitably move in or out of the ownership structure.

2.3.3e Asset Protection

In some countries, limited liability structures can be used as vehicles for accounting firms. Where this concession applies, professional associations generally require a firm to hold a minimum level of professional indemnity insurance. This protects clients as well as practitioners, if negligence or malpractice is proved against a firm.

The lawful and ethical use of a limited liability structure is a reasonable and prudent commercial strategy. You will need to consider the risks for your firm and your own ethical standpoint in determining how far to take advantage of the benefits offered by limited liability.

2.3.3f Other Insurance

Every firm will require a basic level of insurance for professional indemnity, to protect clients and partners; for physical assets, against theft, fire and so on; and public liability, to safeguard employees and visitors who might be injured while at the firm’s premises.

Other types of insurance coverage can contribute toward the firm’s overall risk management strategy. They include:

- **Income replacement insurance**: Especially in smaller firms, the sole practitioner is a significant fee-earner. If he or she becomes ill for an extended period of time, this insurance replaces the income that he or she would have generated. It might enable a locum practitioner to be employed to keep the work flowing, or it could replace the drawings or salary that the sole practitioner would have taken.
- **Private health insurance**: This will fund all or part of the health-related costs incurred during an illness.
- **A life insurance policy or key person policy, taken on the life of each partner**: This pays a lump sum benefit if a partner dies. The benefit might be paid to the firm, for additional employees or a locum partner, or to cover other increased costs incurred. It can be a powerful and flexible approach

to succession planning, especially in a smaller firm. In many small partnerships, each principal cross-insures the other partner(s); if a partner dies, the insurance policy provides the funds needed to buy the deceased partner's share of the firm. The value of each policy is linked to the value of a share of the firm. It is a good idea to have an agreed practice-valuation formula in place which can be referred to at such times. It also means the insurance policy needs to be updated and reviewed regularly to ensure that adequate amounts of coverage are in place.

- **Business expenses or continuity insurance**. This pays additional costs that flow from a severe disruption of business (possibly data loss, or fire, flood, or storm damage to the firm's premises).

Insurance policies are a core part of risk management. They involve small and regular outlays now in return for a large payout if the event actually occurs. Every firm must perform its own assessment of the various risks, and decide whether an insurance policy is a good-value risk-mitigation strategy.

The benefits include peace of mind as well as a greater capacity to cope with the financial impact, should some disruption affect the firm.

Liability and insurance within a firm is examined in depth in Module 7.

2.3.3g Access to Finance/Bank (Third-Party) Borrowing

If a firm operates as a sole trader, or small partnership, any borrowings by the partner(s) may need to be secured over their personal assets, by mortgages, or other guarantees, for example. If the partner has aggressively sheltered their assets (for example, all their assets are owned by a spouse, or a separate trust), then they will have no assets to use as security, and so have very limited capacity to secure borrowings for the firm unless that other party provides a guarantee for security.

However, where a firm is conducted through a large partnership or corporate entity, borrowings can also be secured by means of the entity itself pledging a guarantee or giving security over its own assets. By contrast, a small partnership might not be permitted to use its work in progress and/or debtors to secure a loan facility.

In larger firms especially, it becomes easier to raise financing through a company/corporate entity than through a partnership. The financier still may require personal guarantees from the partners, but the mechanics of, for example, signing loan documentation, become much more streamlined.

2.3.3h Flexibility to Handle Growth

Each legal structure has its own method for handling changes of ownership and/or entitlements. For example, it is common practice for corporate or company structures to have shareholders buy or sell an interest in the entity: these structures were designed with this purpose in mind. In contrast, changes of a partner within a partnership entity may require the old partnership to be wound up and a new one created. This becomes cumbersome, especially as the number of partners grows.

As outlined in the tax issues segment above, different structures might be more or less favorably treated each time a change of owners occurs, depending on the tax regime in your country or state.

2.3.3i Management Structure and Approach

This issue is dealt with earlier in this module. You and your fellow partners should establish a practical and workable management structure. This structure must ensure that all partners have sufficient input into relevant decisions, without unduly distracting them from their professional work.

As with many aspects of management, the chosen structure should be suitable for the size of firm and should be widely supported by the partners.

2.3.4 Partnership Agreements

Once you have at least one partner in your firm, it is essential that you agree upon and document fundamental aspects of the relationship as well as sharing similar values and principles. According to [3]Murray and Foster (2011), understanding partnerships is as crucial upon entry as it is upon exit. A partnership agreement outlines key philosophies and directions about the firm's operations. However, it can never seek to govern every decision, and it should always be seen as a "living document," which may change from time to time, as the mix and attitudes of the partners change.

The checklist at Appendix 2.2 highlights the issues covered by a partnership agreement. A formal contract drafted by a legal professional is preferred, as it is intended to be regarded as a binding document that governs the dealings among those partners.

Many disputes involving partners (and especially former partners!) could be avoided by having a clear, documented partnership agreement in place. The agreement also answers a lot of questions and provides a clear framework when a new partner is admitted to the firm.

2.3.5 Remuneration and Profit-Sharing Models

As it grows and develops, your firm will probably appoint more partners with a range of personalities, skills, interests and work ethics. The larger the partner base, the more significant these differences could become.

Growing your firm might also require partners to specialize in certain areas: some may be excellent marketers (sometimes referred to as "rainmakers"), others will focus on management and/or administration of the firm, others will develop technical specializations or support large amounts of fees, and still others will just go about the business of managing a suitable workload competently and efficiently. It will not always be easy to properly recognize the performance and provide a suitable reward for each person, but that is no excuse not to try!

2.3.5a Different Attitudes at Different Times

In a sole practitioner structure, profit-sharing is easy: it's all yours! You decide how much to draw out for personal requirements, and how much to reinvest within the firm for working capital and/or capital assets.

You might consider sharing some profit, if you have fee-earning employees who contribute substantially to the firm's success. This may verge on salary administration, but it would be aimed at providing incentives for key employees to stay at your firm and keep delivering high-impact results.

In a small partnership, and especially in a new partnership, the most common approach is for each partner to contribute equally to the firm, and share equally in the profits.

As the partnership base expands further (perhaps to around five to six partners), the differences in attitude and performance between partners can widen. This can occur when longstanding partners charge higher hourly rates or fees for their expertise. Sometimes younger partners, soon after promotion, charge lower hourly rates and deliver a smaller total fee base in a year. Sometimes the so-called "non-productive" roles such as management and marketing eat heavily into the time of a few partners. A point can be reached when some partners feel that their efforts are not adequately rewarded, or that "I'm doing more for the firm than some of my partners."

This is when profit-sharing becomes a hot topic within formal and informal partner meetings. Wise leaders will sense when to act. An unwise leader will have to deal with a group of de-motivated partners or even a possible split in the firm: either situation weakens the fabric of the partnership.

---

[3] Murray, Clare and Foster, Susanne, "When you say 'I do.'" Accountancy, January 2011, 79–80.

2.3.5b Some Factors to Consider

Planning and introducing a differential profit-sharing system represents a major change of mind-set. It acknowledges that not all roles or performances are equal. Each reward given to one partner is paid for by the other partners.

Also (and especially in the larger firms), there might be a few high-performing partners at one end of the scale, and possibly a few under-performers at the other end.

2.3.5c What are you Rewarding?

The profit-sharing system must fairly reward and motivate each partner, reinforcing that they are better off staying within the current partnership than striking out alone. In shaping an alternative system, the following questions arise.

- Are you rewarding presence at the office; a basic achievement such as generating a fair level of fees; or exceptional performance based on fees or another criterion? Does the system measure an individual's performance, or a team's performance? Has the individual's performance truly changed the firm or its operating results?
- Some monetary or measurable criteria might include: total fees billed, individually or by your work group; write-downs; level of premium billing performed (or value of write-ups); or number of chargeable or billable hours performed.
- Some of the less measurable factors include: management, marketing or employee-related roles played by the partner; other forms of non-billable work performed; gaining new clients or new work for other work groups; contributing to activities of the professional association; and performance beyond the basic expectation.

2.3.5d What does the Firm Need?

Many firms now avoid owning assets within the firm itself. For example, firms will lease equipment or rent their premises, rather than buying those assets outright. If a firm does own its premises, this might be done through a separate entity (possibly owned by only some of the partners), which deals at arm's length with the firm. Therefore, how much profit must you retain in the firm, and how much can be paid out?

2.3.5e How Frequently are the Profits Distributed?

Every firm must utilize its partners and employees to maximum effect, especially given that many firms are facing shortages of qualified accounting personnel. People will generally work more happily and productively when they are working in an area of special interest and/or expertise. This still permits those people to broaden or deepen their skills, or to have the option of working in different parts of the firm, while continuing to deliver genuine benefit to the individual as well as the firm.

Any incentive structure, whether for partners or employees, needs to encourage the right actions in the right directions, consistent with the firm's strategic plans.

2.3.5f Will the System be Driven only by Formula, or is there a Subjective Component Too?

Some partners will prefer a predictable, objective system, using targets, benchmarks or a formula to allocate the firmwide profit. This has the benefit of total transparency: each partner can work on specific aspects of their performance (the ones that are rewarded by the model) to increase their share of the available profit.

Alternatively, some partners may believe that fundamental differences justify a more subjective approach (for example, "Your department is more profitable/faster growing at the moment, and that disadvantages the important work and clients that I look after," or "I spend XX non-chargeable hours looking after this function and so can't achieve the fees that you generate"). If a subjective approach is used, then some fair method of allocation needs to be devised: a voting system involving all partners, or perhaps a remuneration committee with a small but representative number of partners. The aim is to generate a result that others will see as fair.

Are you allocating all the profit or just some part? The firm might allocate all its profit on the basis of performance criteria, or it might decide to divide its profit into several distinct pools, for example:

- A regular amount per person, to reward a solid performance (this might be an equal amount per person, or it could be a differential figure to reflect the role, the fee-load or the seniority); and/or
- A percentage return on investment in the firm; and/or
- A performance-based measure (using either an arbitrary or a discretionary set of rules, at the firm's choice).

As you can see, many features can be incorporated into a differential profit-sharing system. The challenge is to use an approach that is seen as fair, yet simple. Of course, the factors used in the formula must align with the firm's objectives.

Changing the profit-sharing model is one of the most sensitive decisions a firm can make. It should not be done hastily, nor should it be changed too often. A good idea is to bench-test the proposed new model (for example, using last year's figures, or perhaps the last two years' results) before finally accepting it. This lets all partners see the practical impact of the new approach: "Who are the winners or losers?" "How will I personally be affected?" Each person can judge its suitability.

If a firm has an under-performing partner(s), a differential profit-sharing system can help highlight the size of the problem. It shows all partners how much profit the under-performer earns compared to others. However, the profit-sharing system itself should not be used to discipline that partner. Instead, an under-performing partner should be treated in much the same way as an under-performing staff member:

- They should be formally advised that aspects of their performance are currently not suitable;
- They should be given guidelines and/or targets and time frames for improvement;
- They should be given technical and/or mentoring support during the rehabilitation phase; and
- If this process does not improve performance to a suitable standard within a reasonable and agreed time frame, there is a strong argument that the poor performer should be dismissed.

The ultimate test of any proposed differential profit-sharing model is that it must be seen to give fair rewards to the best performers in the firm, while also delivering a suitable remuneration for the important efforts of the solid performers within the partnership.

The legal structure utilized by your firm will determine how profits are allocated (for example, is it a drawing from a partnership or a dividend from a corporation) but should not affect the basis of arriving at the various profit shares.

In Appendix 2.4, Case study 2.4 illustrates how a small firm can arrange their profit-sharing to begin with, then alter profit allocation as the firm takes on more partners.

2.4 Using Networks and Associations to Add Value

Networks, alliances, or the generic term associations are often used to describe associations in which a firm may enter for branding purposes, to gain clients via referral, and to share in training or development initiatives, including practice tools and quality review processes.

This section examines several types of networks that a firm might want, or be permitted, to use. The essence of any network, whether formal or informal, is to utilize the skills or contacts of the other party, for mutual benefit. Networks can prove especially useful when trying to accommodate the needs of an increasingly international client base. Here we will look at four different types of network that an accounting firm could use:

- A referral network;
- A network to assist in delivery of professional services;
- A network to benefit the management of the firm; and
- A network that shares knowledge.

It also provides clients with the comfort that the firm can draw on resources internationally as required.

According to respondents to the 2015 IFAC Global SMP Survey, the top three benefits of membership in a network, association, or alliance are: attracting new clients, broadening client service offerings, and branding and marketing. These benefits address many of the main challenges they are facing. Membership can also expand small- and medium-sized practices (SMPs) capabilities to serve clients operating internationally.

However, only slightly more than one-quarter of SMPs reported that they currently belong to a network (11%), association (10%), or alliance (7%); this is more common among larger SMPs, with 65% of respondents from practices with 21 or more partners and staff indicating they belonged to a network, association, or alliance. An additional 24% of SMPs indicated they were considering joining one.

2.4.1 Advantages and Disadvantages of Network Alliances

Advantages

- You can concentrate on your core services and leave others to focus on the technical requirements of their service.
- Networks are flexible, as you don’t incur the fixed costs of setting up that equivalent service. You don’t have commitments to additional employees in your firm.
- The other owner is responsible for having the resources to cope with the volume of transactions; they fund their business, and you fund yours.
- Networks can be changed relatively quickly: if a better provider arrives on the scene, you can quickly start to refer work to that new provider.
- You can offer a greater level of client services, which provides greater value to the client.

Disadvantages

- A network rarely guarantees the same degree of control as offering a service yourself: you rely on other people to implement that particular service.
- If arrangements are made between the owners of two or more organizations, the delivery often happens through their employees, who might not always have the same degree of commitment as the partners. There is a cost involved in creating and nurturing an alliance: meetings to scope the “rules” and the service standards to negotiate preferred bases of operation between the firms, and so on. The trade-off may well be that it is quicker and easier to negotiate an alliance than it is to study the feasibility of, and subsequently to implement, the new service directly through your own firm.

2.4.2 Referral Network

A referral network exists when several firms agree to refer or introduce potential clients to the other(s) if the referring firm cannot provide a particular service required by a client. For example:

- Legal;
- Marketing;
- Insurance;
- Wealth management or financial planning;
- Computer consulting;
- Bookkeeping;
- Real estate agencies;
- Valuations of land and/or businesses;
- Architects, engineers or surveyors; or
- Finance providers.

A referral network is generally built on a series of one-to-one arrangements, for example:

- A local legal firm referring clients who have recently purchased or started a business and who need a public accounting firm;
- A real estate agent referring the purchaser of a business to the accounting firm; or
- Senior employees in a financial institution referring clients who need more help than their current firm can deliver. This might come about when a business owner seeks finance for a loan and the financier requires more detailed cash flow or profit forecasts.

You might prefer to offer a full range of services through your firm, or you might use networks to confidently refer clients to specialists. Either approach requires an investment of time and possibly money. To illustrate:

- Your firm can invest time and money to develop a service. You will need to employ or re-allocate a senior employee or partner while they learn the skills and gain the required qualifications and registrations. While this happens, they cannot be a fully functioning fee-earner. Once the new service is offered, it will take some time for the new service to become self-sustaining.
- Your firm may buy or merge with a qualified provider. This takes considerable time and investment to locate, screen, purchase, then integrate the new business into your own. This is more difficult to achieve if you are a sole practitioner or in a two partner firm.
- Even when you refer a client to a separate firm, best practice demands that you keep in contact with your mutual client and with the other firm.
- The final alternative is less palatable: Watch your full-service competitors take away your clients! This too has a cost. Whichever option you take has financial consequences. Be guided at all times by the best interests of your client:
- Would the client be better off if I offered the service in-house?
- Would the service be better?
- Would the cost to the client be lower?

- Would the return to your firm be higher?
- Would there be enough activity to make a viable business within your own firm from this service?
- Are the training requirement(s) and/or professional risk too high for this to be offered in-house?

Decide whether your relationship is with another practitioner, such as a trusted representative from each business, or with the organization itself. This affects the way you evaluate each relationship, and whether you need to review the choice each time there are personnel changes. While the culture or receptiveness of an organization might only change over several years, the personnel can change very quickly, and this can have a serious impact if a highly skilled operator leaves the other firm.

Key points to consider

- Do you expect that there will be referrals by both organizations? If so, you need to think about measuring and monitoring the value to each party. If not, you can simply approach the other organization from the perspective of enhancing client service.
- Which criteria will be used to add or to remove an organization from your panel or list? Do you need to formally advise a firm or a key contact from time to time that it is on your panel, or will you presume that the firm or contact is aware?
- Are there legislative or ethical considerations—such as privacy or confidentiality—that must be addressed before clients can be referred?
- Will special conditions or benefits (such as special pricing or free initial consultations) be offered by either organization to clients introduced by the other?

Any referral arrangement must be built around a healthy respect for the professional skills and service levels offered by the other organization. If you refer a client to another firm and the client receives incorrect advice or poor service, that reflects poorly on your own firm. Keep in regular contact with a key contact from the other organization to monitor progress with your mutual client. This tells your client and the other adviser that you are committed to gaining the best result for the client. There should be a joint session where service-level agreements are documented and a new joint culture developed.

Consider the organizations you will use in this way. Will you refer to only one provider, or will you refer to one of several different firms? In an “earned exclusivity” arrangement, a firm offers such a good service, deal or level of expertise that you wouldn’t want to refer anywhere else. This kind of approach can mean that the client gets high-quality service, and that the referrer is confident that a better-than-average deal has been negotiated for high service standards. The firm obtaining the referral will clearly know how many referrals are obtained and the overall value of those referrals to the business.

When you establish a referral arrangement, don’t let it be too restrictive. If you tie yourself in a formal way to another organization for referral or cross-selling, this might restrict your flexibility if a firm merger or sale comes up. By keeping the arrangement flexible, you can move quickly if a major structural change in your own firm is about to be made.

Module 6 examines the advantages and disadvantages of referrals as part of the client relationship management.

In some businesses, sectors or geographical locations, the payment of referral fees or commissions may be common practice, while in others it may be strictly prohibited. Receipt of referral fees or commissions may give rise to self-interest threats to objectivity, professional competence and due care. You should consult the IESBA Code or your professional bodies for further guidance. It is recommended that where referral fees or commissions are allowed, appropriate disclosure is be made to the client. Ethical threats and safeguards are examined in more depth in Module 7.

See Case study 2.5 in Appendix 2.4, which illustrates what needs to be taken into account when a firm decides how it will manage referrals.

2.4.3 Professional Network

A referral network (as described above) can also operate among accounting firms. A specialized part of the client's needs (for example, audit or wealth planning) might be performed by a suitably skilled firm. Or a service might be required in a location you cannot service.

Examples might include referring a specialist tax problem to a firm skilled in that area. The client's problem is resolved with the considerable expertise by the specialist, while the referring firm keeps full control over the client relationship.

The network might operate geographically, which allows a client to be referred after changing location if they require a firm nearby. This can be especially important where national boundaries are crossed.

There is international debate about the ethical issues involved in large-scale outsourcing of some accounting roles to independent firms located in other countries. The practice raises questions of client confidentiality and the extent of disclosure. The same questions also apply with any referral of confidential client information outside the home firm. For these reasons, partners should have a well-considered and well-documented set of criteria and procedures when they subcontract professional work to other firms.

With any referral, a high-quality service is important to all three parties:

- The referring firm can have its relationship with the client tarnished if the other firm fails to provide good advice or good service;
- The receiving firm might not gain a long-term client if they do not provide good service; and, most importantly,
- The client loses out if the advice is not good in a professional or technical sense.

Mid-tier or large firms might offer a fee-for-service arrangement to other firms. This could include access to the mid-tier firm's professional employees, possibly at concessional charge-out rates. Or it could gain access to employee training programs, avoiding the need for the smaller firm to develop its own training packages. It could even offer firm management services. The support service will probably extend to making professional work papers and other template documents available. Investigate the availability of such a service, then see whether it represents a good value option to support your firm.

Any such support service must be of high quality; it must also provide a quick response when you need it. The cost might be based on a minimum annual or monthly fee to access the core services, plus an additional fee based on use of other services (for example, to allow the smaller firm to send multiple employees to a training course).

Increasingly, too, professional associations are forming networks. Such alliances can make it easier for individual members of any association to arrange international transfers or work experience assignments; it might help make the transfer of people and skills easier via mutual recognition of the qualifications of individual members.

Look at the benefits that a professional network may deliver. Especially if you are a sole practitioner, it could provide an important and cost-effective level of protection.

The glossary section of the IESBA Code provides a definition of network firms. A firm is deemed to be part of a network if it is part of a larger structure aimed at cooperation and profit or cost sharing, or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name or a significant part of professional resources.

2.4.4 Management Support Network

The third type of network deals in firm management information. At its simplest, it could involve bulk-buying some services, to gain savings that would not otherwise be available to individual firms.

Your firm might join a network of accounting firms. The members of these affiliations often share management insights, so that all firms in the group can benefit from best practice developed by any one member. Or perhaps the cost-sharing allows highly renowned speakers or consultants to address specific management issues of common interest.

Some of those groups run their own inter-firm or benchmarking comparisons; others run discussion groups among managing partners and so on. They might even share the cost of developing specialist items (such as performance appraisal forms or document templates).

There will be a cost for this type of information-sharing, but it can be less than each firm would spend individually. So what is the best practice standard for forming network or alliances?

- Strike up flexible arrangements with high-quality providers.
- Negotiate some favorable basis of dealing with your client. This may include an initial free consultation, or a bonus piece of related work undertaken by the service provider.
- Keep in contact with the clients you introduce to these other organizations, to make sure that each client is happy with the service. In the event of problems, discuss these as early as possible with a senior member of the other service provider. Tell your client that you have followed up on their problem. If no improvement is noticed, consider referring your clients to another provider.
- Be prepared to offer reciprocal arrangements to firms that refer new clients or potential clients to your firm. See Appendix 2.3 for a checklist on establishing network alliances.

2.4.5 Knowledge Networks

Networks are not always formal, and technology is changing the way we interact, access and share knowledge. Knowledge networks, virtual or otherwise, enable you to use peers to help solve challenges and problems or gain access to expert advice. Knowledge networks empower accountants by providing users with the ability to network, collaborate, share good practices, answer questions and resolve problems, research and more, all with other professionals, peers, associations and societies, vendors, university accounting students and professors, consultants and thought leaders to the profession. With virtual networks, there are no geographical limitations: there is the potential to network with anyone from anywhere at any time.

Social networking sites are great places to find knowledge, and those in need of knowledge. Online conversation across all social networks can be as authentic as any other networking channel but offers the advantages of low cost, ease of access, and no formality. However, both online and offline conversations can add value.

Knowledge networks may include:

- **Discussion groups** provide an opportunity for individuals to discuss various topics amongst each other. Discussion groups may be online or offline.

- **Collaborative hubs** provide online convergence for individuals and organizations with shared interests. They provide interactive space for sharing knowledge and experiences.
- **LinkedIn** is a social networking website for professionals. The gated access approach has been designed to build trust and allow professionals to expand networks through existing relationships. It is an online space for professional networking, allowing professionals to share information, insights and views, as well as ask business-oriented questions of the community.
- **Twitter** is an online social networking and micro-blogging platform that enables users to send and receive text-based messages of up to 140 characters, known as tweets. By posting updates, news, and other information, Twitter can be used to promote your practice. It can be used for market research, allowing you to spot and track current trends. It provides an opportunity to collaborate with like-minded professionals and can also be used to engage with clients.
- **Facebook** is the world's largest social networking platform. Users create a personal profile, add other users as "friends," and exchange messages. Depending on account settings, users receive automatic notifications on friends' activity. Additionally, users may join groups, for example, by employer, hometown, or other characteristic(s), and categorize their friends into lists. Facebook can serve as a powerful form of word-of-mouth marketing. It can help you reach the right audience and turn them into clients.

Increasingly professional accountancy organizations are using Twitter, LinkedIn, and Facebook. Members of these organizations, both individuals and firms, may find it useful to join them. Module 3 will cover in more depth the use of social media for marketing.

Knowledge networks help to create brand awareness, build credibility, create a professional network with peers, and market your firm and its services. However, you also need to consider the issue of reputational risk or risk by association, and how it may impact your brand if something were to go wrong with a network member. These areas of risks should be included in your risk management strategies.

2.5 The Evolving Firm and the Need for Regular Review

In time, your firm will hopefully grow and develop in accordance with your plans. More employees, more clients and perhaps more partners will change the shape and possibly the culture of your firm. This will usually be a gradual change, unless there is a major event such as merging with, or buying another firm.

It is important to take periodic snapshots of your firm to reveal the nature and extent of changes. This is the purpose of an annual retreat meeting for partners: to look at the firm's services, skills, strengths and weaknesses. Only a realistic review of the firm as it is today will enable you to keep it headed in the strategic direction. If certain decisions have taken the firm away from its strategic path, then either the firm can be steered back onto the right path, or the strategy must be amended to reflect the new direction.

Sometimes the key personnel of the firm can perform this review more than capably. They know the firm intimately, they are competent business analysts, and they know the challenges currently facing the profession. On other occasions (such as in a larger firm, or one where there are significant factions), an external facilitator is helpful to chair the meeting and discussion. A facilitator is independent from the regular decision-makers, and can ensure that the discussion remains at a high level or policy level.

To be successful, change management must occur by design and in a specific, agreed-upon direction. Case study 2.6 in Appendix 2.4 illustrates how a firm can manage its direction, through organizing or reorganizing the way it is structured.

2.6 Conclusion

This module has discussed:

- The various types of firm you can create or join: sole practice, alliance, partnership of some type, or a corporate firm structure.
- The alternative approaches to decision-making within a firm, so that decisions can be made in a transparent, efficient and businesslike manner.
- The need for structure or decision-making styles to evolve as the firm grows and develops.
- Some practical checklists and tools.

Keep considering your own suitability to the life of a partner in an accountancy firm: your ability to lead, advise, motivate yourself and others, and your capacity to take on the responsibility and workload for the professional and the commercial success of your business.

It can be an exhilarating journey, which requires hard work, focus, and commitment.

2.7 Further Reading and IFAC Resources

The IFAC Global Knowledge Gateway is a digital hub where professional accountants can easily access thought leadership and resources from IFAC, member organizations, and other notable groups and individuals.

The Gateway Practice Management section includes additional articles, videos, and resources to complement this module. We encourage you to review the content, provide feedback, engage with contributors, and share your own insights on contemporary practice issues.

Appendix 2.1 Evaluating Your Potential Partners Checklist

If you plan to form a new partnership, you will need to ask:

- ☐ Who will my partner(s) be? Do they also have the necessary qualifications to be my partner(s)? If not, when will they be ready? *Are we compatible?*
- ☐ Have we fully discussed our aims and objectives, so that we understand each other’s needs and expectations? *Are we compatible?*
- ☐ Have we recognized and reconciled significant differences of opinion, either to prepare for inevitable disagreements, or to determine a way of handling those issues? *Are we compatible?*
- ☐ Will we share profits equally, or on some differential basis?
- ☐ Will we start completely from scratch and build our own client base?
- ☐ Do we expect to have a client base come with us from our current employer(s)?
- ☐ Will we buy a parcel of fees to start our firm’s work and cash flow?
- ☐ Where will we practice?
- ☐ Can we find suitable offices at a suitable price?
- ☐ What employees will we need initially?
- ☐ What licenses and approvals will we need to have: professional qualifications and memberships, local council regulations, etc.?
- ☐ What physical resources and equipment do we need: phones, fax, email, website, listings in phone books, initial promotion of the opening of the firm, stationery and letterhead, office equipment, working capital?
- ☐ Professional indemnity insurance must be arranged. Get more than you think you need!
- ☐ What capital does each of us need to commit to the firm? What will finance our living costs in the early months? Do we both have the resources or the reserves to equally fund our commitments?
- ☐ Can I/we afford it?

If you plan to join an existing partnership, you’ll need to ask:

- ☐ Who will my partner(s) be? *Are we compatible?*
- ☐ Have we all fully outlined and discussed our aims and objectives, so that we understand each other’s needs and expectations? *Are we compatible?*
- ☐ Have we recognized and reconciled significant differences of opinion, to either prepare for the inevitable disagreements, or to determine a way of handling those issues? *Are we compatible?*
- ☐ Will we share profits equally, or on some differential basis?
- ☐ What is the age profile of the partners? What are the other partners’ retirement plans? What are the buyout arrangements when a partner decides to leave? Can I fund my initial purchase, plus a potential departure of another partner? What contingencies do I need to cover to meet my commitments?
- ☐ What due diligence process should I embark on before committing to buy into the firm? What assurances do I need? What protections or “letters of comfort” do I need to obtain from the existing partners?

- ☐ Check the firm's professional indemnity insurance policy and terms, and any claims history that the firm may have.
- ☐ Is the firm's current client profile of good enough quality?
- ☐ What role will each partner play in the new firm?
- ☐ What price is being asked for a share of the firm? What am I buying? What return can I expect from the firm? Can I live comfortably and still service the buy-in arrangement?
- ☐ Can I/we afford this?

Appendix 2.2 Items to be Included in a Partnership Agreement or Shareholder Agreement Checklist

Aim of the firm

- ☐ The range of services to be delivered;
- ☐ Target client types;
- ☐ Geographic location of the firm; and
- ☐ Number of offices.

Ownership and profit sharing

- ☐ Clear statement about the percentage of net assets to which each partner is entitled on dissolution or wind-up.
- ☐ Profit-sharing arrangements (these could be equal or based on differential percentages, or based on an equal draw of $[XXXX] per month per partner with the balance to be divided in some predetermined fashion).
- ☐ Ownership and profit share are not necessarily identical in all partnerships.

A decision-making policy

- ☐ Will decisions be based on the proportion of equity held by each partner, or one partner, one vote?
- ☐ Will proxy votes be allowed if a partner is absent from the meeting?
- ☐ How many partners must be present to represent a valid quorum?
- ☐ Will the chairman have a casting vote if required?
- ☐ What decisions must be made at a partners' meeting?
- ☐ What delegated authorities are given to each partner?
- ☐ What proportions of the partners must agree, for a decision to be valid?
- ☐ How often will partners meet?

A drawings policy

This should be a general statement as to whether profits will be, for example, paid out as soon as the cash balance permits, or whether profit retention will be the preference. It could specify that a certain percentage of accounting profit should be retained to fund working capital (for example, similar to the payout policy that can be specified by a corporation listed on a stock exchange). It is largely a statement of intent but should set the tone for the firm's approach to drawings.

A debt policy

Is interest payable on partners' loan accounts? This could outline the types of debt finance likely to be used, or could put some limit on the maximum debt tolerable by the partners (for example, "Total interest-bearing debt is not to exceed the value of debtors fees outstanding at any month-end").

Leave policies

- ☐ The amount of each type of leave that will be accrued by the partners, and the means by which leave can be scheduled or taken, especially in regard to the following:
    - Holidays or recreation leave;

- Sick leave;
- Professional development leave;
- Compassionate leave;
- Unpaid leave;
- Time-in-lieu leave if some partners work substantially more hours per year than most others; and
- Sabbatical leave or long-term leave.

Insurance

- Presume that the firm will have insurance for such things as office equipment and professional indemnity. This provision needs to deal with, for example, sickness insurance/income replacement policies and key person or life insurance type policies.
- Will these be taken out by the firm automatically for all partners, or taken by individuals at their option?
- Will the cost be borne as a normal firm operating cost, or will it be charged as a drawing to each partner?

Motor vehicles policy

- Will the firm own and operate partners' cars?
- Is the cost to be charged as a drawing to the individual concerned? Or should all partners make their own arrangement totally outside the firm?
- What rate is payable for genuine, firm-related vehicle usage?

A performance policy

- This outlines the reasonable expectations that all partners should have of each other: for example, the number of working hours, chargeable hours or fee budget expected over a year.
- Related to this is the way that any alleged under-performance will be handled by the partnership.
- Acceptable forms of community support (*pro bono* work) that can be performed on firm time might need to be listed. For example, time spent in professional bodies or regional development organizations might be acceptable during normal working hours, but time spent networking with clients at the local golf course might not be considered acceptable. This may prove a difficult issue to handle in a large partnership where many different roles may need to be covered. In that case, a clear job description for each partner can be used to recognize different roles and the related performance expectations.

An entry and exit policy

- How are new partners admitted?
- What amount of notice is required if a partner wants to exit the partnership?
- How is a new partner to be admitted?
- Who determines the percentage of the firm that will be offered to the incoming partner?
- Will new partners enjoy full profit share immediately, or some form of lock-step entry over several years?
- How is goodwill of the entire firm to be valued? It's best to set a formula or other model, then let the variables at the time of admission or departure determine the final price of a share.

- Is there a compulsory retirement age?
- What payment terms are offered on the way in or out? Will existing partners provide vendor finance and, if so, how are the terms structured?
- What happens if a partner has to exit for unsatisfactory performance? Is a different basis used from the normal formula? What if the exit is due to poor health?
- How do the above issues change if the departing partner leaves (with clients) to set up a new firm? How will the valuation be affected?
- Will the firm own cross-insurance policies on each partner's life? How will the proceeds be used?
- What restraint of trade is suitable and enforceable when a partner leaves the firm?

Handling matters not covered in the agreement

- From time to time, matters will arise which have not been pre-agreed and recorded within the partnership agreement. The agreement should specify the normal way to resolve these issues (for example, discussion over perhaps several weeks, to guarantee that issues can be raised, debated, considered, then finalized; guidelines as to the proportion of partners who must agree to a particular resolution). A methodology for handling disputes or stalemates (possibly involving an independent chairman at some stage in the deliberations, to ensure that procedural fairness and a balanced debate are achieved before the decision is finalized).

Other matters as required

- For example, a policy about hiring partner family members.

Appendix 2.3 Establishing Network Alliances Checklist

What type of assistance do you want?

- ☐ Technical: for example, details of recent tax changes, or changed accounting standards.
- ☐ Referral: for example, someone who can deal with a specific, specialist piece of advice for a client but not end up poaching the client.
- ☐ Management: for example, tips or advice about the organization and management of your firm.
- ☐ Knowledge: marketing insights, competitor analysis, industry trends.
- ☐ Buying group: for example, discounts on commonly used items such as stationery.
- ☐ Specialist service: for example, a financial planning research service, or provision of fully licensed support.

How much might these benefits be worth to your firm in a year?

- ☐ In direct cost savings;
- ☐ In time savings;
- ☐ In comfort, confidence and security; and
- ☐ In study time.

What fee is sought for the package?

- ☐ Initial.
- ☐ Ongoing.
- ☐ Is the benefit greater than the cost?
- ☐ Is the service provider sufficiently focused on providing support to you and other firms like yours, or is it a sideline activity for them?
- ☐ Is there any benefit available in being seen as part of that brand? Will it assist your marketing? Which brands do your clients know? Which brand is the most valuable? Or the least?
- ☐ Does your involvement with the group prevent or restrict you from any of the following?
  - Doing certain work;
  - Taking on certain clients; or
  - Promoting your firm or your services.
- ☐ Can you talk to existing members about their degree of satisfaction with the following?
  - The service;
  - The value for money; and
  - The people who create, or deliver, the service.

Appendix 2.4 Case Studies

Case study 2.1

This case study relates to Module 2 ("Practice models, associations, and networks").

In their discussions about the legal structure of their new firm, Indira and William recognize that they are likely to add partners in the future; accordingly, they select a structure that makes admission of new owners relatively simple and cost-effective.

Because they are not "buying fees" or another firm, they do not need qualified accounting employees initially. William and Indira will each have sufficient time available to promote the firm as well as perform the work they generate. This situation is likely to grow more difficult to juggle by the end of the first year of trading, but it is manageable until then. The implication is that they will require some administrative assistance for the first year, but no professional employees yet.

In their planning, William and Indira are keen to set the ground rules now for the way they wish the firm to evolve. By doing this, they are setting in place a long-term culture that they can explain to clients and to potential employees. They can then hire people who understand and accept that ethos.

William and Indira summarize their major employee-related policies as follows:

- Our firm sees all our people as an important part of our success. We all contribute to the benefits that clients will derive from our services. We will involve our people in the full operation of our firm, and provide regular updates as to our plans, our progress and our financial performance. (William and Indira took some time to reconcile their personal views about that statement. William was keen to have full disclosure of the firm's financial results to all employees, but Indira was a little less willing. They discussed this difference in approach and finally adopted a "middle-ground" approach, which discloses some actual results as numbers, and other results as trend lines rather than specific numbers.)
- We respect our people. Our workplace will be free from any form of harassment or discrimination, and we will be ever alert to ensuring our workplace is safe and secure.
- We expect our team to behave in an honest, ethical and professional manner. Where an employee has concerns about a particular situation, it is to be discussed immediately with one of the partners of the firm. All personnel will be expected to commit to maintaining confidentiality over information and to respecting our firm's right to continue serving our clients. All personnel will be asked to guarantee those performance standards, using a legally enforceable and reasonable contract.
- We will cooperate with our team to provide a work environment that responds simultaneously to clients' needs (in the timely delivery of high-quality advice) and to the needs of our people. We are willing to tailor working conditions to suit the unique requirements of each employee: in this way we can respond in a fair and balanced way toward family commitments, career development and day-to-day workloads.
- We value the development of skills. We contribute to this via our in-house training events and external courses. We are willing to contribute part or all of the investment in short courses and formal qualifications, in a way that reflects the impact of that training on our firm.
- Our remuneration policies will include incentive schemes relevant to the roles individuals play.

Indira and William anticipate that this statement will make their firm seem like a desirable place to work, thereby giving them the best possible choice of applicants. They intend to send this statement to all applicants for work in their firm.

Case study 2.2

This case study relates to Modules 1 and 2 and touches on issues about self-assessment, partnership agreements and funding arrangements for new partners.

When the firm began, Indira agreed with the way that the firm was expected to be funded, and was willing to leave more undrawn profit in the firm initially. This approach would ensure that both partners had equal investment in the firm within a reasonably short period.

As a result of their early review of their personal and professional situation, the partners went a long way toward settling their services plan, addressing elements of funding the firm too. They documented these agreements as the starting point of their partnership agreement.

Some years later, the firm has grown considerably. Each time a new partner was added to the firm, William and Indira put the proposed partner through the same self-assessment exercise they had done. By doing this, the existing partners hoped to ensure that the partners shared enough of the most important attitudes, and this has made for a harmonious partner base in the firm.

For the first few new partners, they used the same checklist (Appendix 1.1 in Module 1) and invited the intending partner to discuss the results with some of the existing partners. This approach worked well initially but became more and more daunting (and therefore less useful) as the number of partners increased. Eventually the firm decided to use an independent consultant to talk to the incoming partner as well as to the existing partners.

Because the firm was becoming progressively larger, there was slightly less flexibility about the financial arrangements for the admission of a new partner. Instead of allowing differential levels of equity or lower drawings to equalize the equity, the “existing” partners agreed to provide vendor-finance to the incoming partner on favorable terms.

Case study 2.3

This case study relates to Section 2.2 (“Which practice model is right for you?”) in Module 2.

William and Indira have decided on the following approaches to allocation of responsibilities and decision-making.

William will take primary responsibility for the professional matters relating to the firm’s tax advice; Indira will focus 60% of her time on audit, with the remaining part spent on general accounting for a small group of clients. Each will be available to take on some management advisory work, and each assignment will be allocated to one of them according to the nature of the assignment rather than who “owns” the client.

Indira has accepted a role attending to administration and quality control issues; William will spend some of his time in promoting the firm’s services across a range of current and prospective clients.

They have determined that both need to agree on decisions; this particularly applies to decisions regarding accepting new clients, or adopting new internal processes. They expect that this will be a workable and collaborative arrangement in the early days of the firm; however, each has also agreed to consider deferring to the other’s recommendations if one of them feels strongly about an issue and the other is ambivalent about it. As a result, the less significant decisions should not cause undue delays or friction between the partners. They are in complete agreement, however, that once a decision is made, it will be adopted and embraced strongly by both.

These undertakings have been added to the partnership agreement.

Case study 2.4

This example relates to Section 2.3.5 in Module 2.

William and Indira each respect the work and commitment that the other gives to the firm. They see some merit in initially sharing profits equally, but are also keen to structure a longer-term arrangement that will reward a larger group of partners for visible contribution to the firm. In short, they want to start today with an approach that they believe will suit a larger group of partners in the future. At the beginning of the firm's life they decide to allocate profits as follows:

- The key accounting policies are listed and agreed, so that both partners know how profit will be calculated.
- The interest paid to William (on his higher capital contribution to the firm) over the first two years will be treated as an expense of the firm and will be paid before profit is struck.
- The first 80% of available profit will be shared equally between William and Indira.
- Of the remaining available profit, 10% will be split in proportion to the total number of hours that each spends working on direct client-related work plus the hours spent in their agreed management roles. In this way, the management roles are rewarded on an equal basis with the fee-earning hours.
- The final 10% of profit will be shared in proportion to the dollar value of fees (net of write-downs and bad debts), which each partner generates personally.
- The dividend/drawings policy will see a fixed amount paid to each partner each month (expected to represent about half the targeted net profit for the year). Other lump sum distributions will be paid quarterly, subject to availability of cash within the firm.

This arrangement will exist on a trial basis for the initial two years of the firm's life, then reviewed. It has been written into the partnership agreement.

Note: This approach is provided solely to let you see one of the many ways that profit-sharing could be approached in a new, tightly owned firm. It is NOT to be interpreted as best practice in profit-sharing arrangements. The partners of each firm must tailor the profit-sharing and drawings policies to suit the unique circumstances of their own firm.

Several years later, William and Indira are part of a much larger partnership. Their initial approach to profit allocation worked well for a long period. The firm now has a full-time managing partner who earns no professional fees at all. There is also a general manager who runs the firm on a day-to-day basis. As a result, most partners spend almost all their time in fee-earning work.

One particular partner has developed a reputation for winning new clients. They are generally large clients, capable of paying an above-average level of fees per hour and per year. This partner has increasingly come to believe that he is not being rewarded properly for his impact on the firm's growth and profits. There has been talk of a partnership split. The other partners all accept that the particular partner has contributed substantially to the larger size and profitability of the firm over the last five years.

During the course of several partners' meetings, the partnership decides to change the profit-sharing formula:

- From the start of the current financial year, 60% (previously 80%) of available profit will be shared equally among all partners.
- Twenty percent of profit will be shared in proportion to the value of first-year fees generated by new clients introduced by each partner.
- All other allocations will remain as they are.

These changes have been put on paper as part of the decision-making process. The partners who are not good at winning new clients will earn a smaller share of total profit. They accept this because they benefit from the total profit pool rising faster due to the new clients introduced. The partner who felt underpaid still feels he could earn more by splitting from the firm. However, he sees the benefit of having a large group of trained accountants on hand to perform the work requested by the new clients.

Indira and William are happy with this outcome: they know that partners must look beyond their immediate interests to consider the benefit to the firm overall. They were impressed that the expanded group of partners dealt with this issue in a positive manner, and that all partners were prepared to cooperate to achieve a sound solution.

Case study 2.5

This case study relates to Section 2.4.2 ("Referral network") in Module 2.

For the first two years, William and Indira initially decide to restrict their service offering to traditional accounting and write-up services, taxation advice and lodgements for clients, plus audits of small to medium-sized clients. They will also offer management advisory services such as in-house financial controller support. This package of services allows them to keep in regular and close contact with key clients, in turn allowing them to identify additional services required by those larger clients.

They have examined their audit independence and have decided to develop a specialized audit niche in local government bodies and not-for-profit firms. This minimizes the amount of other accounting work that they will have to decline, since these organizations generally require only an assurance review. They are aware that this approach may well limit the size of their audit firm and possibly require more travel out of their local region, should they be appointed to audit far-flung organizations.

They decide to handle other work by forming strong links with one or two specialist providers of additional services such as audit work that the firm chooses not to take on, wealth management, insolvency and reconstruction, and finance broking.

For each referred service, William and Indira develop a list of approved providers, so that they can offer clients a choice from among top-quality firms. Related to this, William and Indira have at least half-yearly meetings with the other firms, to keep track of changes in personnel and to maintain a good working knowledge of each client's situation. They will ensure that clients give both firms the authority to discuss confidential information pertinent to the client's affairs. William and Indira anticipate that such strong links among the network member firms will encourage the other firms to refer accounting clients to the firm; however, this is not a key requirement for continuation of the referral arrangement.

Appropriate notes are to be taken and placed in the respective client's file, following each of these review meetings among the network members.

Several years later, the firm decides to add a new service, involving corporate rescue, insolvency and reconstruction. The partners believe that the skills required for this work flow naturally from the extensive business advisory services and the in-house financial controller service that they deliver.

A partner is selected to gain the necessary licenses and registrations. This is expected to take a year, during which time that partner's fee-target will be halved and some clients reallocated to other accountants within the firm.

The partnership as a whole has developed a business plan for the new service. The plan estimates the impact on both profitability and cash flow over the next three years. The short-term loss of profit is expected to be repaid within two years of the commencement of the new service. The firm has already made key referrers aware of its plans, especially the local banks.

Launching this new service in-house requires that the firm stop referring this type of work to their previous referral-partner. The two firms worked well together so they remain on good professional terms with each other.

Case study 2.6

This case study relates to Section 2.5 ("The evolving firm and the need for regular review") in Module 2.

As firms grow in size and complexity, they generally need to adapt the way they are organized to deliver professional services. Since professional personnel are likely to constitute around 80% of all personnel in the firm, reorganizing the professional teams will necessarily lead to a different organizational structure to support them.

Indira and William regularly examine the way that their firm is structured. Over time, it has changed.

When the firm started, the structure consisted of just two teams: one headed by William, providing general accounting and advisory services; and one headed by Indira, focusing on audit services. This simple arrangement suited their relatively narrow client base initially.

New employees were added to each team as needed: audit employees were added to Indira's team, and all other accounting personnel were added to William's team. When Indira required staff for non-audit work, she arranged this through William.

After a few years, Indira and William each acquired more clients for accounting and tax work, and Indira also acquired new audit clients. As the number of employees increased, it became more and more awkward for Indira to book access to employees through William's team the number of requests became so high that it reduced William's productive time considerably. The two partners agreed that each would have a team of people sufficient to handle the work that each principal supervised. Both also agreed to manage any excess workload in one team by sharing with the other team's personnel.

A few more years later, William and Indira added a new partner. This required handing over some clients (mainly from Indira to the new partner) so that Indira could focus on running her audit team, while William and the new partner looked after general tax and advisory work. The personnel in each team were realigned so that each team had enough employees to handle the expected workload for "their" partner.

When the firm added a financial planning (wealth management) service, this required a further rethink of structure and personnel. The service was very popular, and profitable, and it saw a rapid increase in employees. The financial planning team was built up as a stand-alone team and could not assist the other teams with overload work; nor could they use personnel from the accounting or audit teams when their own workload became high.

The partners found that they needed to review the organization about every second year. Sometimes a major reorganization was needed, and at other times only minor fine-tuning was required.

Building and Growing your Firm

Module 3

CONTENTS

3.1 Introduction

This module looks at planning and developing your firm, recalling some of the themes covered in Modules 1 and 2. It goes deeper into issues such as developing a growth strategy, building a business advisory practice, coping with increased regulation and competition, marketing, pricing, managing your client portfolio, and how to enhance the "culture" of your firm. The module concludes by considering aspects of financial management.

3.2 Developing a Business Plan for Your Firm

The importance of having a business plan was covered in Module 1. This section recaps the main points. The philosophy behind a business plan is simple. At its heart, there are three key elements:

a. Where is the firm now?

b. Where should the firm be going?

c. How will it get there?

The most important is (b). The answer to this question identifies the key objectives of the firm. Its significance cannot be overemphasized. Unless you know where you are going, you won't know if you are on the right track. If there is one thing about the business planning process that you must do, it is this: clearly define where your firm is going and what it will look like when you get there.

You then need to set about answering (c), which identifies the strategies you will employ to achieve your objectives.

Your business plan must answer these three questions. If it doesn't, it's not really a plan and will most likely not be effective.

3.2.1 A Simple Business Plan Outline

Your business plan identifies the objectives, key strategies and indicators of success aimed at consolidating and growing your firm and its services.

- **Executive summary**: Write this last. It's just a page or two of highlights.
- **Company description**: This includes legal establishment, history, start-up plans, and a summary of "where the firm is now."
- **Key objectives**: Describe the key objectives of the business: a clear statement of "where the firm is going."
- **Service description**: Describe what services you're offering. Focus on client benefits, and how you can satisfy their needs.
- **Market analysis**: You need to know your market, client needs, where they are and how to reach them.
- **Strategy and implementation**: Be specific. Include management responsibilities with dates and budgets. Identify the results you can track.
- **Management team**: Describe the organization and the key management team members. Include an organization chart with key areas of operation.
- **Financial analysis**: Make sure to include, at the very least, your projected profit or loss and cash flow tables.

3.2.2 SWOT Analysis

One of the most effective tools to use when you undertake your business planning is a SWOT analysis. SWOT stands for "Strengths, Weaknesses, Opportunities, and Threats." Opportunities and threats are external to the firm, that is, having to do with the environment within which it operates, while strengths and weaknesses are internal. When applied to your firm, these words prompt thoughts and discussion. The analysis enables firms to identify strategies to match their resources and capabilities to the demands of the environment in which they operate.

The firm regularly needs to consider the opportunities before it and develop strategies to take advantage of these. It is also essential to regularly identify any threats and put in place strategies to minimize the impact of these threats, or to position the business outside their effect.

Strengths

A thorough understanding of strengths is vital as it allows you to become aware of, and build on, these attributes. The strengths typically highlight what is positive about the firm as a workplace and what it is good at doing.

Continually monitor your firm's strengths, to ensure they remain that way.

Weaknesses (or areas to improve)

These are the areas where you do not perform so well and that you need to work on. If left untreated, these weaknesses can develop into major concerns. It is vital to identify and understand these issues, and put in place plans to turn them around and improve. An open discussion with your team is a useful way to identify these areas; they will often suggest ways to improve or overcome the weaknesses.

Opportunities

This is where it gets exciting! Opportunities represent the vast untapped potential sitting right there in front of you. Opportunities represent what "can be." In order to move forward, you need to understand what the opportunities are, then determine the most appropriate strategies and actions that allow you best to capitalize on them.

Opportunities bring with them an energy source of their own. They also create enthusiasm and excitement as the firm moves into new areas.

Threats

It is critical to understand the threats facing your firm. These are the issues that could destroy it. It may not be possible to completely overcome the threats, but it may be possible to identify alternative strategies and set contingency plans in place now.

3.2.3 The Organization Chart

The organization chart provides the structure and framework for the firm to run effectively. It has two key benefits. First, it identifies the key areas the firm will operate in. Second, it will lead to a clear allocation of responsibilities once it is properly implemented. Knowing which person is responsible for which area leads to accountability. This has a major influence on whether or not the firm will achieve its objectives. Ideally, the organizational chart should address the structure of the operational teams, for example, Do teams operate in silos? Or, do team members belong to more than one team? This will become obvious with a well-defined organization chart.

Key functional areas of the organization chart

The key functional areas of an organization chart may be broken down into smaller components. This allows for responsibilities to be allocated to each level and for specific strategies to be identified for each. These areas are as follows:

- Marketing;
- Operations/administration;
- Finance;
- Human resources;
- Technology; and
- Future planning.

Marketing

- External
- Advertising, promotion, and sponsorship
- Networking and events
- Website, social media, and referrals
- Marketing collateral
- Internal
- Increase services utilized by existing clients
- Offer new services to existing clients
- Increase charge-out rates

Operations

- Compliance
- Audit
- Taxation
- Financial reporting
- Pension planning
- Wealth creation/financial planning
- Specialized services
- Business valuations
- Due diligence
- Management reporting
- Business advisory and consulting
- Succession planning
- Office administration

Finance

- Monthly financial statements
- Budget and cash flow forecast
- Revenue per full-time equivalent
- Capacity calculation
- Compliance requirements
- Accounts receivable
- Accounts payable
- Payroll
- Bank facilities and funding arrangements
- Insurance requirements
- Facilities and resources

Human resources

- Competency and training
- Culture
- Staffing requirements and recruitment, current and future
- Occupational health and safety
- Anti-discrimination
- Sexual harassment and workplace bullying
- Safety and emergency procedures

Technology

- Technology strategy of firm
- Technology requirements, current and future
- Technology implementation and training

Future planning

- Business plan
- Marketing plan
- Operations plan
- Financial plan
- SWOT analysis

These are the key areas of the organization chart. The size of your firm will determine how many of these can be dealt with and what resources can be allocated to them. Larger firms will be able to address all areas, while smaller firms should deal with the areas they deem most important to their situations.

When the key areas of the firm are identified, roles and responsibilities can be allocated. Once this has been done, those responsible can be held accountable for the achievement of their goals. They can put systems and procedures in place for the areas over which they have responsibility.

The organization chart is one of the most important structures in the firm. A fully functioning organization chart with clear reporting lines, and clear goals, will assist your firm to grow and achieve its business plan objectives. In Appendix 3.2, Case study 3.1 illustrates how a firm can develop its organization chart.

3.3 Assessing Growth Requirements and Developing a Growth Strategy

In order to assess your growth requirements, you need to review the business plan and reflect on your firm's objectives. The plan should make clear what the growth objectives are for the firm, and should clearly identify fee and profit targets.

It is important to note that the focus must be on *profitable* growth, not just growth for growth's sake. Many firms fall into the trap of chasing new fees in order to reach growth targets, yet the new fees are not profitable! This will actually damage the firm and its financial sustainability. It is difficult to support any argument that encourages unprofitable fee growth for small to medium firms.

There may be certain occasions where a "loss leader" strategy is appropriate, but this needs to fit within an overall marketing and pricing strategy. This is covered in more detail in Section 3.7.

3.3.1 Benefits of Growth, and Sustainability

There are a number of reasons you may be aiming to grow as a firm, such as to:

- Improve your ability to attract and service clients;
- Replace clients lost due to natural attrition or retirement;
- Attract and retain staff as the firm provides a greater variety of work;
- Maximize return on investment on fixed overheads, such as rent and technology;
- Provide a more varied workplace; and
- Hit critical mass, to meet fixed overheads and profit targets.

Growth provides a level of natural regeneration in your fee base and smooths out events over which you may have no control. It helps you in your resource management and in managing the capacity issues which impact on firm profitability.

Fee growth can come from a range of areas including:

- Acquisition of new clients;
- Greater level of utilization of your services by existing clients;
- Introduction of new services; and
- Increase in your fee rates.

Table 3.1 Levels of fee growth

Annual Rate of Fee Growth	Impact
Up to 5%	Should manage inflation and provide a small level of natural growth.
5% to 10%	A steady, meaningful level of growth.
10% to 15%	Likely to cause resourcing pressures. Your firm will need to be very organized. This rate of growth is also likely to cause liquidity pressures.
15% plus	A high level of growth is likely to cause a wide range of issues and pressures. It is unlikely to be sustainable in the long term.

Table 3.1 should be taken as a guide and an indicator of likely impacts. The observations made apply to the longer-term view where the firm strategy is to seek a sustained growth rate. The rates of growth need to be considered in the context of the current economic situation of your local environment and will vary among economic regions and developing economies.

The key message: the higher the rate of sustained growth you are seeking, the greater the pressures in the areas of resourcing, liquidity and firm management. The secret is to work toward growth rates that are both manageable and sustainable for your firm.

One useful metric is a firm's sustainable growth rate (SGR). In basic terms, the growth of any business, accounting firms included, is often limited by the amount of equity in the business. The more equity the firm has, the more potential the firm has for growth. However, if a firm grows too fast, then there might not be enough equity to sustain the growth. If a firm grows too slowly, then it may stagnate. The SGR shows how fast a firm can grow using internally generated assets without issuing additional debt or equity. The SGR provides a useful benchmark for judging a firm's appropriate rate of growth. A firm with a low sustainable growth rate but lots of opportunities for expansion will have to fund that growth via outside sources, which could lower profits and put a strain on the firm's finances. Growth in itself can present a dilemma since with growth comes an increased need for increased working capital.

The SGR, applied to an accounting firm, is the rate at which the firm may grow its equity (net assets) using only increases in retained earnings to fund the growth. Growth beyond this amount will force the firm to obtain additional financing from external sources to finance growth.

The steps and formula for its calculation are as follows:

Step 1 – Calculate the return on equity (ROE)

- Calculate the ROE by dividing the firm's net income by its equity. For example, if the equity is $1,000,000 and the net income is $200,000 then the ROE would be 20% ($1,000,000/$200,000 x 100) or 0.2.

Step 2 – Calculate the dividend payout ratio (DPR)

- Determine the proportion of the firm's net income paid out as dividends. Using the example above, if $80,000 of the $200,000 were paid out, leaving $120,000 reinvested, then the DPR would be 40% ($80,000/$200,000 x 100) or 0.4.

Step 3 – Calculate the sustainable growth rate (SGR)

- The formula would be: ROE x (1 – DPR). Therefore, with the example above, the calculation would be as follows: 0.2 x (1−0.4) = 0.12. The SGR is 12%.

3.3.2 Should the Firm Grow, and, if so, by How Much?

The discussion so far has been on the importance of growth to your business plan. However, your firm needs to take into account practical factors such as:

- Physical constraints of current premises, such as floor space, staff parking, etc.;
- Infrastructure requirements, such as technology, office requirements, etc.;
- Budget requirements to fund marketing, advertising and promotional activities;
- Funding costs for new staff until they are billing and productive; and
- Impact on break-even position.

It is also important for you to consider your position relative to the economic and environmental factors at the time, or in the foreseeable future. Growth may be inappropriate at a particular time.

Other reasons you may not wish to grow include:

- You are operating at full capacity now;
- Growth is not in line with your business objectives;
- Growth may cause conflict with work–life balance objectives;
- There is no desire for the increased stress associated with growth;
- Current fees and profitability are sustainable and comfortable;
- The practitioner is not concerned with the future of the firm, or its future value;
- There is concern that increased growth will mean the practitioner spends less time with longer-term clients who have been loyal to the firm;
- There are physical limitations and practical constraints on the ability of the firm to handle and manage growth, such as size of office premises, with no alternatives available;
- The firm may have recently gone through a period of strong growth and is now seeking to consolidate and settle; and
- The age, or health of the practitioner.

Very few firms manage their growth on a consistent and sustainable basis. It is more likely to come in fits and starts, followed by some settling, then resurgence. It is also a reality that some firms experience a reduction in fees at times. You need to be aware of this possibility and its consequences.

Some questions you should consider when thinking about growth issues include:

- What does the firm's business plan say?
- What is the current resource capacity position?
- Can the firm grow without any loss in quality?
- Does the firm have adequate staffing to manage growth?
- Will growth improve the firm and add to its value?
- If the firm is planning to grow, by how much?

In answering these questions you are reflecting on three critical issues:

- Is growth part of the firm's overall strategy?
- Is the firm well positioned to grow?
- What is the optimal growth objective?

Consider each of these issues in setting your growth plans. Growth for the sake of growth simply does not make sense. You need to understand why you are growing, whether your firm can manage the growth, and whether growth will add value to your firm.

Once you have identified that growth is indeed part of your strategy, make sure that your firm has the capacity to do so.

Carefully consider the following statement: *Resources should be put in place in anticipation of growth, not as a reaction to it*. Too often, firms grow, then rush around trying to put resources in place. The best way to grow effectively is to identify your resource requirements and then put them in place to support your growth. Obviously this will require budget considerations to financially support such a move. However, this approach reduces the risk of falling quality control, and gives you the greatest opportunity for success.

Once you have decided on expansion, the next question becomes, how?

Broadly speaking, there are two types of growth. One is organic growth, which is the process of expansion due to an increase in fees within the current structure. The other is growth by acquisition, which, as the name suggests, means expansion due to mergers, acquisitions or some other activity separate from the firm.

There are a number of options within these two types of growth, which are discussed below.

3.3.3 Internal Growth Strategies

The first type of organic growth is internal growth. Essentially, internal growth is about increasing your fee base from your existing clients. Indeed, recent IFAC Global SMP Surveys found that one of the most important drivers of practice growth for small- and medium-sized practices (SMPs) is additional revenue from existing clients.

There are three main ways to achieve this:

- Increase the use of your existing services by your existing clients;
- Introduce a new service to your existing clients; or
- Increase your firm's charge-out rates or introduce a value pricing model.

3.3.3a Increase Existing Services to Existing Clients

This is a fundamental yet often overlooked method of increasing growth. The key question is, "Are all of our clients using all of our services?" If not, there is an opportunity to increase the "take up" of your services by your existing clients. The fact you already have a relationship with them, and they have experienced the service and quality of your firm, will mean they are more amenable to your suggestions to take up further services.

Preparation work

In order to provide more of your existing services to your existing clients, you first need to know which clients are using which services at this current point in time. Refer to Table 3.2.

Table 3.2 Identifying which clients use which services

Step	Action	Completed
1	List all of your existing services across the top of the worksheet.	
2	List all of your existing clients down the side of the worksheet.	
3	For each service, mark on the worksheet which client is utilizing that service.	
4	Complete this for all clients (or client segment).	
5	Once complete, review the worksheet.	
6	The “unmarked” clients represent opportunities to whom you can market additional existing services.	
7	Determine an appropriate marketing strategy for these clients, with actions and time frames allocated.	
8	Implement the plan.	

Your clients already know you, like you and trust you. If they have been happy with the service they have received in the past, they will be open to your suggestions for additional services.

Only suggest services that are of benefit to the client. If you select wisely, present the additional service in a context that will benefit the client, and, as you have provided your current services in an accurate, timely and professional manner, it’s likely that they will take up more of your services.

By focusing on your existing clients, you are broadening the relationship you have with them. This in turn increases the likelihood of referrals from these clients, who have now become advocates for you and your firm.

3.3.3b Introduce a New Service to Existing Clients

This is another successful method for increasing growth. The key question is, “What other services could the firm provide to its clients?”

Once again, the main reason this is successful is that you already have an established relationship with your client. If the past experiences with your firm have been positive, then they are highly likely to take up new services you offer them.

In fact, not only are they likely candidates, but your existing clients should be your first target segment for introducing new services. This is because of the existing relationship you have with them. They are more likely to provide you with honest feedback on the new service, and make suggestions for improvements if required. They will then be curious to see whether you have incorporated their suggestions into your final offering.

Preparation work

Some firms struggle with the idea of introducing new services, as they feel uncomfortable learning and implementing new ideas. But it doesn’t have to be hard. One of the best ways to identify a new service is to do an “information and knowledge audit” on yourself and your team. Most practitioners and staff have a wealth of knowledge and experience tucked away, which they only bring out when prompted. Now is the time to draw it out.

Complete the following steps:

- Sit down with each team member and gain a full understanding of their knowledge and experience in business and in life; together assess how this might be converted into a new service offering.
- Discuss other service areas that might be of interest to you and your team. Examples might include bookkeeping services, budgets and cash flow (if not already consistently provided), succession planning, business consulting, business valuations, franchise specialization, due diligence, business coaching, payroll service, debtors follow-up and collection, financial planning or finance broking.
- Once you have identified the areas of interest, identify any knowledge gaps between your current level of knowledge and the level of knowledge you expect would be required to provide the new service.
- Undertake additional training as required.
- Decide on the new service offering.
- Decide on the price or pricing model to be used.
- Determine what marketing collateral will be required to promote the service.
- Prepare supporting materials, work papers and any required information.
- Discuss the new service offering with one or two clients with whom you have a close relationship and who are supportive of your efforts to introduce new services.
- Meet with these clients and run through the new service on a trial basis.
- Take on any feedback, and implement any changes that may be required.
- Review the listing of all your existing clients.
- Identify which clients, or client segment, to target for the new service offering.
- Determine the appropriate marketing strategy for these clients, with actions and time frames allocated.
- Implement the plan.

3.3.3c Increase Your Firm's Charge-Out Rates or Introduce a Value Pricing Model

The most straightforward way to grow your fee base is to increase your charge-out rates. While this may be a simple process to calculate, it may prove difficult to implement. Care needs to be taken that clients' expectations are managed and that they perceive an increase in value with the increase in rate.

Increase fees

The common increase to fee rates is at least the annual rate of inflation. Those firms seeking to increase rates over and above the inflation rate need to be prepared to handle inquiries from their clients as to the reasons for the increase.

A simple increase in charge-out rates in tougher economic times can often become a difficult exercise, particularly if the client perceives no corresponding increase in the value they receive.

Accordingly, discuss with your team what value-added services you could include along with your usual services, to increase your clients' perception that they are continuing to enjoy good value for their money.

It may also be useful to consider charging differential charge-out rates for different types of services and perceived value. If you do not already do so, identify the different types of work you and your staff do. Consider whether it is appropriate to charge differential rates for these different types of work. When you work through this issue, it usually becomes clear which areas of work can be charged at differential rates.

Airlines worked this out long ago. They have first class, business class and economy sections. Each section provides different levels of service, and the prices for each section differ markedly. Yet the passengers all get to the same destination. It's the level of service they receive on the journey that makes the difference.

The same thinking can be applied to your practice. Some of your clients will appreciate, and pay for, first class service. Others will prefer the economy rate. The point is, you have the opportunity to be flexible in your thinking and creative in your delivery. You can provide the level of service your clients want and appreciate. Differential charge-out rates may be quite appropriate for these levels of service your firm provides.

Consider introducing a value pricing model

Accounting firms who wish to increase revenue and productivity must establish pricing strategies that support these goals. Traditional time-based charge-out rates do not necessarily capture value. Introducing a value pricing strategy may allow you to increase revenue and client engagement.

Clients like to know what a service is going to cost and what value they will receive upfront; no one likes surprises. Professional relationships can be devalued when the client knows their accountant is charging in time-based increments and that the clock starts as soon as they pick up the phone. This is often not conducive to building trusted adviser relationships. Professional accountants need to avoid pricing models that impede and devalue the services they are providing.

Many firms use some form of time and billing software to track time and expenses. For many firms, this has also been used for billing purposes, allowing the practice to price the services based on time plus a margin. The challenge of the traditional back office systems is that they fail to capture upfront knowledge and price for client management and engagement systems.

The traditional time-for-service pricing model looks at service, cost, price and client, and rarely does it consider value. The value pricing method looks at client, value, price, cost and service.

Value pricing has proven to be most successful when products or services are sold based on emotions (fashion), in niche markets, in shortages, for indispensable add-ons, and customized or bespoke solutions. It is becoming standard pricing practice for many US CPA's (Baker, 2009)[1]

A value pricing model is based on the perceived worth of services to the client, not the accountant. It is put in place before the engagement commences. It establishes a selling price on the perceived value to the client, rather than the actual cost of the service, the market price or competitor price. Value pricing recognizes the client is the ultimate arbiter of value.

A firm should already have an understanding of the cost of providing core services dealing with clients, overhead costs and profit margin. An understanding of upfront costs is the first step.

The second step, which presents a challenge, is determining how value is expressed in monetary terms. A good starting point may be asking a client some simple questions, which require the client to think of the value of the solution. Subtle but powerful questioning will allow the client to understand how the service will help them. Issues that may be of concern to the client become more clearly defined and understood, a shared understanding forms on matters of urgency to the client and the discussion becomes more focused on the solution not the cost.

It is important to recognize that the value metrics will be different for each engagement. Sometimes it will be speed and efficiency of delivery of the service, sometimes it may be the quality of the service level, and other times it may be an innovative solution. Each engagement needs to be priced for the individual

[1] Baker, Ronald J. "Pricing on Purpose: How to Implement Value Pricing In Your Firm." *Journal of Accountancy*, June 2009. www.journalofaccountancy.com/Issues/2009/Jun/20091530.html.

value drivers of the client for that particular engagement. Only by discussing with the client will the firm be able to ascertain what these value drivers might be. By having a shared understanding of the purpose of the engagement, challenges and client's vision, you can price based on the value of the solution to the client rather than the mechanics of the billable hours. As part of the conversation, you may also identify additional services the client may need.

As the objective is to increase revenue, you also want to maximize your productivity and fees. Think about your core offer, the advice and the solution. How can you reuse the advice or solution for other clients?

- **Identify a client** whose business has grown but your relationship has remained unchanged.
- **Arrange a meeting** and hold a conversation. If you have not been in contact with the client regularly, call it a "business health check"; the objectives of the first meeting are simply to listen and ask questions; you are not there to sell.
- **Inquire as to client satisfaction**. Seek feedback on the services your firm has provided. Ask questions that demonstrate a desire to understand the business, long-term goals and challenges. Be prepared and share benchmarking data on the client's industry.
- **Close the meeting**. At the end of the meeting, help the client understand how solving the problem or answering the question will help their business. Remember the value pricing model is based on the client's perception of the value of the service you have provided.

You then explore the opportunity to price and tailor your services based on the client's perceived value.

Alternative fee models include offering a yearly engagement fee, like a retainer agreement. The proposal, in addition to setting out the scope of the task to be undertaken, may include software accounting support services, unlimited phone calls and email, improved access, quarterly or half-year business planning meetings, and monthly invoicing. The focus is on offering client-focused accounting and business solutions.

Bundle services

Another way to increase your firm's effective charge-out rate is to bundle services together. This way the individual fee for each service is not separately identified on the client invoice, which allows you to increase the fees for the entire bundle of services. This may be an easier way to market the increased fees to your client and allows you to offer a broader range of services for a larger fee.

Increase recovery rates

While not strictly an increase in charge-out rates, another way to increase profits, and therefore achieve growth, is to work deliberately on increasing the firm's recovery rate. Essentially this means a reduction in write-offs.

The best way to do this is to improve the productivity management of the firm, and it is outside the scope of this module. However, in brief, the key is to hold weekly productivity meetings with staff to check on the workflow through the office, and clarify outstanding issues as they arise. Any issues with client matters can be raised in a regular and timely manner. This allows them to be addressed and resolved promptly, with less time lost on each job. This then leads to improved workflow through the office, meaning more efficient completion and invoicing of jobs. This then leads to improved profitability per job, and increased profitability for the firm overall.

3.3.4 External Growth Strategies

External growth is all about acquiring new clients for the firm. Recent IFAC Global SMP Surveys have stated the most pressing challenges facing SMPs included attracting new clients, keeping up with new standards and regulations, and differentiating from the competition. The need to attract new clients suggests

SMPs ought to consider more intensive marketing and promotion, and expanding their service offerings. A number of strategies can be implemented to acquire new clients. The most popular are outlined below. Each represents a tried and tested strategy, and some of the key strategies are examined in detail. In Appendix 3.2, Case study 3.2 illustrates how a firm can develop a growth plan.

The real power comes when a number of strategies are used simultaneously. This harnesses the momentum of your marketing efforts and is more likely to bring attention to your firm.

Most businesses in the market already have an accountant. In the majority of cases that means that in order to grow your firm, you will need to win clients away from other firms. And in order to do that, you must offer them a *compelling reason to change*.

External growth strategies for professional services firms include:

- Advertising;
- Seminars;
- Sponsorship;
- Newsletters (email/printed);
- Public relations, writing articles and editorials;
- Events, client functions, cocktail parties;
- Telephone directories and prospect database lists;
- Telemarketing;
- Firm promotion through marketing materials;
- Mail-out of promotional brochure;
- Leaflet letterbox drop;
- Websites, links and search-engine optimization; and
- Team members: encourage to refer. Other strategies for growth include:
- Networking;
- Referrals; and
- Acquisitions and consolidation

Each of the above should be considered in light of your country's laws or professional regulations.

Guidance on networking and referrals are included in Module 2. Options for consolidations, mergers and acquisitions are examined in Module 8.

3.3.4a Advertising

Advertising is one of the most powerful ways of getting your name and message out in the market. But beware: it is crowded out there!

In order to get the best value from your advertising spending, there are some fundamental rules:

- **Target group**: You must identify the target group or market segment at which you will be aiming your advertisement. The shotgun approach doesn't work; you must be specific.
- **Client need**: You must identify the client want or need that your service will satisfy.

- **Client benefit**: You must make it abundantly clear how your service will benefit the client. You must appeal to their self-interest—what's in it for them?
- **A unique benefit**: It is better to focus on one particular benefit than to use a broad-brush approach, which dilutes the impact and confuses the message.
- **Credibility and sincerity**: The advertisement must ring true and convey professional credibility and sincerity. You must avoid wild, exaggerated or unsubstantiated claims.
- **The headline**: It must capture the attention of the reader and encourage them to read on.
- **Call to action**: There must be a "call to action," where the reader is told to take action, to call, visit or check your website.
- **"You" and"Your"**: These words give your advertisement a personal impact, particularly when used in the headline.
- **Clarity of purpose**: You must be clear in your mind as to the purpose of the advertisement. Is it to inform, persuade, remind or make the sale?
- **Choice of media**: You must research, and then use, the most appropriate media for your target audience. Advertising is expensive, so it is important to get good value for the money you spend.

3.3.4b Seminars

Seminars can be an effective form of marketing. A number of formats can be used:

- **Run your own seminars, and be the keynote speaker**. This gives you a reason to advertise and promote yourself and the firm. Taking the role of keynote speaker allows you to be seen as the "expert" on your chosen topic.
- **Run your own seminar, but use a guest speaker**. This gives you a reason to advertise and promote yourself and the firm. It allows you to run a seminar even though you may not enjoy public speaking. It allows you to be seen as proactive by associating yourself with the guest speaker.
- **Speak at seminars hosted by others**. This is where you speak at someone else's seminar. The first step is to get yourself on the speakers' list. It gives you the chance to promote yourself and firm, and also your technical expertise. Being the speaker allows you to be seen as the "expert" on your chosen topic.

In each case, you can follow up the seminar with an article for the local paper, or social media, with key points from your presentation. Clients can be invited and encouraged to bring a business associate (non-client). You can also use the key points from your presentation in your firm's newsletter, post it on the website, and use it in social media.

3.3.4c Networking

"Word of mouth" is often regarded as one of the best forms of marketing and is effectively achieved through networking.

Networking is not about trying to make a "sale" to the person you meet; instead, you want them to refer others to you. Don't feel you have to impress the people you meet with your charm, wit or technical know-how. Be yourself. This gives them the chance to get to know you and see if they are comfortable dealing with you. If they are, they are more likely to refer others to you.

Have a plan for your networking and an objective for the time you're investing. This allows you to check that you are getting a return on your investment.

Try to meet two or three people you haven't met before, and get to know them. Understand them and what they are looking for. It's easier to stay in contact with them afterward if you feel a connection.

But how do you have a conversation with a total stranger? When you meet someone for the first time there are at least three things you can talk about:

- **The venue or occasion**: There is some common reason why you have both attended this particular event. That's an easy place to start. Ask open-ended questions, and listen to their answers. This will give you a clue as to how to respond.
- **Themselves**: Given a choice between talking about themselves or someone else, most people are more comfortable talking about themselves. Ask open-ended questions, in a light, gentle manner—don't make it an interrogation! They will answer your questions and will most likely ask you a question about yourself and what you do.
- **You**: This is the chance to let people know about you, and what you do. It's important to have a brief answer in mind, which succinctly explains what you do and the areas you like to work in. Often called the "elevator pitch" (because it takes about the same amount of time as a chat in an elevator), it's important because it also lets people know the benefits they can get from dealing with you.

Don't expect the person you meet to become your client. It might not be them, but it could well be someone they know. This takes the pressure off, and you can just relax and chat normally. You don't have to try to impress or sell to these people. Get to know them, let them get to know you and see if you can help.

3.3.4d Referrals

Word-of-mouth referral is the best form of advertising for the professional accounting firm—referrals from existing, happy clients are about as good as it can get. These should be actively sought and cultivated. The best time to ask a client for a referral is when you have just completed a job or project for them. As they are basking in the glow of another job well done, it's easy for you to say, "If you know of anyone else who may appreciate our work, we're always happy to take on referrals." This lets the client know that you are open for referrals, and that you are looking for new clients.

Another way to obtain referrals is to work through a structured program of meetings with potential referrers. Often referred to as "People of Influence," these contacts include bank managers, lawyers and people in complementary businesses such as financial planning or finance broking.

Firms that successfully follow a structured, formal approach set aside a regular time to meet with potential referrers. For example, they arrange lunch meetings with a different bank manager every Wednesday in a month; the next month they may meet with a different lawyer each Wednesday. The following month it might be financial planners or finance brokers. Then the cycle starts all over again with the bank managers.

This allows for a systematic approach to working through a contact list and also allows relationships to be built. It is from these relationships that referrals will come.

You have the flexibility to mix up the routine of whom you meet and when. You may also wish to build deeper relationships with contacts you may have met through networking, or other professional contacts you have.

There are a few points to note with this type of marketing:

- Be prepared to talk about your business. This is your chance to let people know about what you do, so be prepared with some useful information about your firm. It helps if it's something that makes you a bit different, to stand out from the crowd.

- Remember to listen, too. It's vital that you also understand what your contact is looking for. You might be paying for lunch, but referrals are a two-way street. Look to give, as well as receive. Find out about them, and what would help them with their businesses.
- It's more than just a social catch-up. There needs to be a purpose for the meeting, more than just the social component. Yes, the purpose is to build the relationship so they are comfortable in referring people to you, but you need to remember you are there for a reason, to build your firm.
- Limit alcohol consumption. It's important to stay focused on the task at hand, which is to present yourself professionally and be worthy of referrals. Over-indulgence may make this impression difficult to convey and reflect poorly on your image and reputation. Indeed, some religions and cultures do not allow or accept alcohol consumption.

The table in Appendix 3.1 is an example template that provides a useful structure for setting your appointments and for contact planning.

3.3.4e Acquisition Growth Strategies

There are a number of reasons firm may consider a merger and acquisition strategy over organic growth as a way of growing the firm. These reasons include:

- **Synergies**: The combined firm can often reduce its fixed costs by removing duplicate departments or operations, thereby increasing profit margins;
- **Cross-selling**: The ability to cross-sell specialized services from each firm to clients of the other; and
- **Economies of scale**: The combined larger firm may benefit from purchasing economies due to increased order size and associated bulk-buying discounts. Also, where large volumes of specific services are processed, it's possible to maximize the investment in staff training and technology.

The typical forms of merger and acquisition activity will be discussed briefly below.

3.3.4f Purchasing a Parcel of Fees

This is where a separate and identifiable parcel of fees is purchased from a vendor. The purchaser should undertake some form of due diligence on the fees to be satisfied that the fee parcel represents good value.

The purchaser can usually reduce the risk associated with the purchase by paying the vendor in quarterly installments, with the final payment reduced for any loss of clients. They may also reduce their risk by having a "clawback" clause in the purchase contract. This allows the purchaser to "clawback" some of the purchase price if some of the clients in the fee parcel do not transfer across.

3.3.4g Merging with Another Firm

A merger is two firms combining to make one larger firm. It works best when the two firms are of similar size; otherwise it tends to be more of a takeover. The equity in the combined firm is typically based on the proportionate value of the fees going in. Key issues that typically arise tend to follow from the mix of firm cultures, workflow patterns, IT systems and leadership styles, etc.

3.3.4h Buying out Another Firm

One firm buys out the other firm, usually in the form of payments made to the principal or partners of the vendor firm. There is often a time requirement the vendor(s) are required to stay on to facilitate the handover of clients and settle staff into the new firm. The vendors typically agree to restraints of trade, where they agree not to start a new firm in competition with the purchaser within a certain distance and within a certain time frame, or join another firm.

3.3.4i Headhunting a Partner of Another Firm, Who Brings or Attracts Own Clients

Individual partners already working in firms are identified and approached to leave their firm and join another firm. There is usually some reason they are identified, such as specialist knowledge in certain areas, or existing client base. There needs to be a strong incentive for the partner to leave the current firm and join a new firm. This incentive is usually financial, however, there can be other considerations, such as culture, work–life balance, or location.

3.3.4j Headhunting a "Rainmaker"

Similar to the above strategy, an individual with unique abilities is identified and approached to join another firm. The key difference here, irrespective of whether or not they have a client base that will move with them, is this individual has the ability to create a new client base or generate fees well in excess of the norm.

3.3.4k Using the "Tuck-In" Model

This is a strategy used by some mid-tier firms. Smaller firms (typically sole practitioners) are targeted by larger firms to "tuck in" to the larger firm. The large firm offers to look after the back office administrative tasks of the smaller firm, which frees up the practitioner to focus on servicing his or her clients. The smaller firm accesses the infrastructure and support of the larger firm, and the larger firm gains a highly motivated new partner. The clients of the smaller firm become part of the client base of the larger firm, and the principal becomes a partner in the larger firm.

3.3.4l Affiliating

Independently owned firms join together under one banner and present themselves to the market as a single firm. There are a number of benefits for each firm, including:

- Appearing bigger than each individual firm is separate from the group;
- Developing and sharing knowledge, systems and intellectual property with other firms in the group;
- Servicing larger clients with a need for multiple office locations;
- Attracting and retaining staff due to increased opportunities;
- Benefiting from economies of scale in training, purchasing, conferences and so on; and
- Access to financial and other resources.

As you can see, there is a wide range of strategies with which to grow your firm. Decide on the strategy or mix of strategies you plan to implement, and put in place a workable plan that brings it all together. The key components of the plan are:

- Your marketing objective;
- Your marketing strategies;
- Your team members (who will be responsible for action); and
- The time frames within which they will be working.

Putting your plan into operation is discussed later in this module (Section 3.8).

3.4 Strategies for Coping with Increased Regulation and Competition

3.4.1 Increased Regulation

There has been an enormous increase in the amount of regulation under which the accounting profession operates. This has come from both government and non-government regulators and shows no sign of slowing down.

On one hand, this means there will be a continued strong demand for accountants and business advisers. On the other hand, many practitioners wonder how they can stay abreast of all the changes. In addition to the pressures that come from keeping up with new regulations and requirements, there will be ongoing pressure on how to attract and retain staff.

There are internal and external strategies for coping with increased regulation.

Internal strategies

The key internal strategy is regular training for your team. This training can be done in-house, or with a third-party training organization. Many of the professional accounting bodies provide training, and some provide the option of training on-site, or lecture style at another venue.

On-site training is becoming increasingly popular. It is also becoming popular for a number of smaller firms to join together for training sessions, thus sharing the costs of the trainer and facilities. It allows the training to focus more tightly on the needs of the group, rather than the broad-based style used in lecture-type situations. Another advantage of this type of training is that it can be highlighted in job interviews when recruiting new staff as one of the benefits provided by the firm to employees.

Other in-house training strategies include online learning, where the information is webcast or downloaded to the staff member's desktop where they can learn at their own pace and at a time that suits them.

External strategies

There are a number of external strategies for dealing with increased regulation:

- **Utilize your professional association**: Most professional associations have technical departments that write technical briefing papers on most regulations as they are issued. Ensure you maximize your membership and take advantage of the resources available to you as part of your membership.
- **Form alliances with specialists**: A firm can build close relationships with other professionals who have specialist technical knowledge in certain areas. These professionals can be called on to assist with specific client matters as they arise. Typically the specialist invoices the firm for work done. The firm then can choose either to pass the fee on to the client or to absorb it in the fee they eventually charge the client.
- **Join professional networks**: A number of external professional networks operate commercially. They are typically operated and resourced by accounting firms, which use them as marketing vehicles. The information these networks provide is usually of high standard and is internally generated. It is essentially a broader-based approach to the alliance with specialists model discussed above.
- **Build "buddy networks"**: Smaller firms can check with each other on issues before escalating client matters to the higher level (and costs) of specialist advisers. They tend to be based on relationships established through professional associations. They may meet regularly, or not at all, depending on the needs of the group. This is a highly effective strategy, but all participants need to contribute fairly equally; otherwise, those contributing can feel they are carrying the group.

- **Join business associations**: Business associations can provide information and support in other business-related areas, such as human resources or occupational health and safety. Examples include chambers of commerce and industry bodies. They also provide an opportunity to network and become known in another circle of business people.

3.4.2 Increased Competition

Not only are accounting firms under pressure from increasing regulations and requirements, but there is also pressure from increased competition. This competition comes from a number of sources, not just other accounting firms. More and more, firms see competition from:

- Overseas;
- Large public companies and institutions; and
- Non-professionals.

In a free marketplace you can't prevent competition. The key to your ongoing success is how well you retain your existing clients and grow your firm at the same time.

Your ability to retain clients is directly linked to your ability to serve their needs now and in the future. If your clients are growing, their requirements are also growing. This raises questions that may impact the strategic direction of your firm:

- How will you cope with your clients' increasing requirements?
- What if they outgrow you?
- What will that mean financially for your firm?

If you cannot continue to service your clients as their needs grow, you will lose them, because they will seek the assistance of others who can help them.

As for increased regulation, one way to deal with this is to become bigger. But unless you merge with another firm or take on specialist partners (in all disciplines of business), you will best be served by increasing your associations as outlined above.

Take advantage of those with specialist advice, join a professional network, or become a member of a business association. Let your clients know that you have these associations and additional resources, lest they think they have outgrown you and look elsewhere for professional advice.

3.4.3 Coping with Pricing Pressures

The recent uncertainties in global economies have increased the pressure, especially on SMPs, to reduce fees. The following eight tips can help SMPs cope with the pressure while preserving the quality of the professional services they render:

1. **Expect fee pressures to continue**. Technological advances, globalization and the benefits from outsourcing to cheaper offshore contractors may prompt clients to keep up the heightened fee pressure long after the global economy has recovered. Also, clients may be determined to keep their bills down and may feel that all professional services, including legal and accounting, may not warrant the fees they paid before the economic downturn.
2. **Adopt new approaches to pricing.** Instead of billing an hourly rate, set prices for services such as business advisory services based on their perceived or estimated value to the client. Also, packaging more desirable services with services that are essential but less desirable allows for a broader range of services for a larger fee.

3. **Stress the value of services offered**. Talk to clients regularly about the benefits of the services they receive. Communication is an important part of value pricing.

4. **Focus efforts on most valuable clients**. Evaluate clients, group them and offer different service levels to different groups, especially for non-audit services such as business advisory or tax. This technique, referred to as yield management, is used in the airline industry to price seats by the level of service in first class, business class or economy sections. Some clients will appreciate, and pay for, first class service. Others will prefer the economy rate.

5. **Leverage technology**. Maximize the use of technology to improve processes and lower costs in the face of stagnant or declining fees. Cloud computing solutions deliver the same services like payroll and bookkeeping for less cost, email costs less than regular postal services, and Skype is cheaper than telephone or in-person meetings.

6. **Re-examine service offerings**. Consider combining value with additional services for little extra cost, or provide the same for less cost. To set the practice apart in the marketplace, consider specializing in niche markets or services. For others, providing a broad range of advisory services and offering value pricing may prove profitable.

7. **Find cheaper sources of supply**. Review the practice's suppliers and look for competitors offering benefits to new clients that may warrant switching. Competitive pricing and choice of suppliers, from Internet service providers to computer hardware vendors, may have improved considerably since the practice first chose its suppliers.

8. **Tackle overhead**. Seek to minimize waste and make the most efficient use of human and environmental resources, including workspace, energy and consumables. To optimize utilization of expensive office space, practices may encourage staff to perform work at clients' premises or at home and pre-book a desk space when in the office. Similarly, practices could seek the most efficient use of staff through improved workload distribution, adequate planning and supervision of engagements and delegating work to the appropriate levels. Flexible working hours may avoid staff redundancies, which erode morale and make it difficult to recruit new staff. Shifting routine work to more junior staff can also help cut costs, but staff assignments need to be managed carefully to keep up the quality of the results and avoid damage to the practice's brand.

3.5 Creating a Culture for Your Firm

A good workplace culture means you and your team enjoy coming to work every morning. Most people overlook the fact that each firm already has a culture of its own. The question is, do you want to have some input into culture, or will you simply let it look after itself?

A supportive workplace culture has been associated with a number of benefits for the employees and the firm including:

- Higher levels of commitment;
- Lower intentions to leave;
- Higher levels of job satisfaction; and
- Lower levels of stress.

If the culture is right, you have the right platform to build the growth you are looking for.

3.5.1 Building a Productive Culture

There are many ways to build a productive culture in your firm. Look at your current situation and seek ways to improve the culture by changing people's attitudes to their environments, each other and themselves.

First, identify any deficiencies that cause negative attitudes. These could include favoritism, lack of recognition or different sets of standards for different employees.

Those who get the best from their teams inspire a positive workplace culture. Some positive influences include:

- Fair and equal treatment of all employees;
- Open and honest communication;
- Achievements recognized and rewarded;
- Clear goals set out;
- Regular training;
- Open management style;
- Regular feedback; and
- Equal opportunities for all employees.

So take the challenge and look to build a positive workplace culture in your firm. The results will support your initiative, and you will enjoy work so much more. (Case study 3.3 in Appendix 3.2 specifically illustrates workplace culture.)

3.5.2 Customer Relationship Management Systems

It is critical for firms to establish long-lasting relationships with their customers and to capture all interactions if they are to provide the best customer services and add value. Integrated customer relationship management (CRM) system functionality is becoming a standard feature of accounting systems. Nevertheless, it does seem that the adoption of CRM by the accountancy sector has been lagging other sectors and there is still some scepticism as to its value.

Integrated CRM systems can record all interactions with clients and set alerts for when a client needs to be contacted or an action for the client is required. A CRM system can provide greater transparency across a firm and reduce risk by ensuring key staff can access the required data and respond to customer requests in a timely, professional manner. For an accounting firm, this helps manage the risk of key staff leaving and losing the client knowledge and history. It also allows for managing client relationships during times of absence.

CRM software tools allow daily work processes to be standardized and workload to be reduced by avoiding the need for data re-entry and duplication by linking records. An integrated CRM solution can:

- Manage your customer data centrally and allow it to be accessed from anywhere, eliminating the need for email systems, accounting software or spreadsheets to manage business contacts. Cloud-based systems facilitate this;
- Manage documents and knowledge transfer efficiently, from engagement letters, contracts and quotes to documented advice;
- Increase efficiency with automated workflows;
- Manage customer relationship databases, including sending targeted emails to customers based on previous transactions;

- Save time by pushing invoices from your accounting system automatically, or establish monthly payment arrangements (this also improves cash flow);
- Enable e-business functionality by connecting your shopping cart to your software to create accounts and invoices and payments automatically;
- Reduce double entry and human keying errors; and
- Personalize emails to a group of selected contacts.

To gain the benefit of a CRM system, your firm needs to ensure that all interactions by partners and staff are captured. Many firms struggle to establish such a culture and reap the benefits. A firm needs to first consider whether it needs a CRM software tool and, if it does, then carefully analyze the different offerings.

Many will rightly argue that they do not need software since they keep track of client relationships as a matter of course. However, the real question is, are you really as client-centric as you could be? And if not, as is likely, how could technology help you? Sole practitioners and very small firms may find they can keep abreast of client relationships perfectly well without specialized software. But for larger practices, say with 30 clients or more, specialized software is likely to be the best way to help manage client relationships.

When choosing new CRM software, there are certain factors to consider, including:

- **Budget**: Money should not be the sole factor in the choice of a new system. The phrase *you get what you pay* for is completely true in many situations, and especially when considering new software.
- **Brands**: There are hundreds of applications in the market and some are more well-known than others. Avoid choosing software based on brand alone—a known brand may not be the right choice for your firm. Look for what it can do for you and your firm.
- **Advice**: If you seek advice from an adviser, be sure they have direct experience of software solutions.
- **Competitors and peers**: Ask what your peers or competitors use, especially those you most admire.
- **Assess needs**: Identify exactly what it is you need and do not restrict your search to accounts software. A slightly different solution may enable you to integrate your CRM with work in process management.
- **Scope**: Ask the software provider to show you how it will look once it is implemented. Establish a plan together so that you are both on the same page and they deliver on your expectations.

Firms that ignore one or more of these important factors risk making a costly mistake. Some firms have discarded software after less than two years because they did not evaluate properly and subsequently found it did not meet their needs.

3.6 Identifying Target Clients and New Service Opportunities

While growth is important, it is also important that you look to achieve targeted growth. This means targeting the sort of clients you wish to work with and becoming more selective with the clients you take on.

In the early stages of a firm's life, many firms take on nearly all clients. That's because the need for building the client base is most important. However, as your firm matures, you can be more selective about those you work with.

As you plan your growth strategies, you will be looking for growth that:

- Comes from a type of work you specialize in, or prefer doing;
- Produces a superior level of profitability;

- Comes from a preferred type of client; and
- Is suited to your firm and team mix.

Mature firms should be working toward refining their client base by increasing the number of clients of your preferred type. When this approach is successfully implemented, it typically produces higher levels of profitability, higher levels of work satisfaction, lower levels of stress and pressure, and the ability to increase your level of specialization.

Can you identify your firm's target client? Of course, there is no correct answer. Different firms will have target clients with different characteristics.

The questions in Table 3.3 are useful when deciding on whether to accept clients into the firm. Accountants typically assess clients by their profitability potential to their firm. However, there are other non-financial criteria that should also be applied.

Table 3.3 Assessing prospective clients

	Question	Answer/Comment
1.	Do we like working with them?	
2.	Do they respect us, our opinions, our work and our team?	
3.	Do they represent a risk to our business?	
4.	Can we relate to them?	
5.	Do they relate well to us and our team?	
6.	Will they utilize a number of our services?	
7.	Will they pay their bills on time?	
8.	Will they work co-operatively with us when required?	
9.	Do they cause us stress?	
10.	Will it be a cultural good fit?	
11.	Can we add value to their business?	
12.	Will they add value to our business?	
13.	Would we be proud to introduce them as clients of our firm?	
14.	Would they be proud to introduce us as their accountants?	
15.	Do they observe ethical business principles?	
16.	Will they ask us to compromise our ethical values?	
17.	Is it just about the money?	
18.	Consider in light of ISQC 1 and ISA 220.	

Here are some of the ways you might identify your target clients:

- **Business sector**: for example, public companies, small businesses, not-for-profit organizations, franchises, investors;

- **Industry sector**: for example, agriculture, construction, retail, real estate, health services;
- **Size of business**: for example, revenue of greater than $2 million, or staff levels of greater than ten employees, or subcontractors;
- **Minimum fee level**: for example, minimum fee level to the firm of $2,000 per annum; or
- **Services utilized**: for example, clients who utilize at least three of your services.

There is an almost unlimited range of possibilities. Your target client may be any business that suits your firm and adds value to it.

The key is to identify your target client and then plan your marketing around that client type. Always focus your marketing on or above your target client, never below.

You will attract clients to your firm who do not fit your target client profile. They will come because of referral, other advertising, or chance. You will need to choose whether to take them on, and that is a separate decision.

It is important that you invest your marketing dollars in areas that will attract your target client type. You don't want to invest your money, time and energy in attracting clients that are outside your area of focus.

While it is desirable to have a target client and to grow your fee base through these clients, you don't need to exclude all other clients. In fact, it is often a good idea to have a mix of clients in terms of size, complexity of work and fee levels. This spread can provide you with the scope for development of your team and newly qualified accountants.

This applies to both areas of work complexity and building client service experience.

Once you have identified your target client, your marketing should work toward building the profile of your firm within those target client communities.

3.6.1 Business Advisory Services

The IFAC SMP Committee has long recognized the growth potential of this service line and actively encouraged the global SMP constituency to seriously consider building their business advisory activities. Recent IFAC Global SMP Surveys have found that practice fee revenue from advisory and consulting services are growing faster than traditional compliance services like audit and accounting. Increasingly SMPs, like their larger counterparts, are establishing or expanding existing advisory and consulting services. Moreover, IFAC research (*The Role of SMPs in Providing Business Support to SMEs: New Evidence*) suggests that professional accountants are well placed to provide such services because of their reputation as being competent, trustworthy, and responsive. Trust is the key to success in building this service area. The client needs to believe that the accountant's advice will have positive consequences. In this context, trust has three dimensions: capability, which refers to the client's belief that the accountant has the required expertise, skills, and competences to perform the job effectively; honesty or integrity, or the client's belief that the accountant will keep his or her promises and adhere to a set of principles that the client finds acceptable; and benevolence, which pertains to the belief that the accountant is interested in the client's welfare.

Business advisory services can be used to expand the service offering of a firm beyond traditional accounting services such as tax and accounts preparation. These services are sometimes also referred to as consulting, management advisory or outsourced solutions. Business advice is considered to be significantly enhanced when provided by an accountant who has gained knowledge and insights into a client's finances and business environment, as a result of having provided traditional accounting services previously. Indeed, new advisory/consulting clients are often driven primarily by existing customer-client relationships. Recent IFAC Global SMP Survey findings identified the most frequently provided services were tax planning, corporate advisory (including advice on mergers and acquisitions), valuations, and management accounting (including planning, performance, and risk management).

Business advisory services are becoming a growth area for firms wishing to grow their revenue either from their existing clients and/or by attracting new clients.

Previous IFAC surveys have indicated that most of the growth in fee revenue was expected to come from new clients. However, the surveys revealed various impediments to expanding services in this area, most notably, insufficient partner time and marketing services to clients.

It makes sense to a business for an accountant to consolidate existing information and develop a business or personal financial plan or strategy that can enhance business performance.

Common business advisory service models include:

- Business management and profit improvement, including business analysis and strategy; management information and control systems; cost analysis and reduction; cash flow analysis and forecasting; identifying alternative revenue streams; financing advice; debt consolidation; mergers; negotiations to buy or sell a business; and inventory management;
- Corporate restructuring and/or company rescue;
- Outsourced finance department services, including bookkeeping services, payroll and software;
- Outsourced human resources, including remuneration packaging, share options, bonus schemes and non-cash benefits;
- Asset protection services, including structural advice (including trusts and tax), risk assessment, disaster planning and recovery, pension planning and insurance;
- Outsourced CFO services;
- Succession planning solutions; and
- Business mentoring or coaching.

There are numerous opportunities available to firms wishing to step outside their traditional service areas and expand their service offering into business advisory services. This demand is being driven not only by firms wishing to increase profitability, but also by clients who need to compete in a globalized business environment and communities demanding higher levels of business sustainability reporting. While the concept of providing consulting services presents a challenge to practitioners, many have come to realize that clients value advice on growing their business much more than traditional accounting services.

Technology is enabling SMPs to work in a global economy where borders are no longer relevant. Outsourced or off shored compliance services can often be accessed at much lower prices meaning that there is increased pressure on some firms to expand their service offering.

A relatively new but fast growing service area for accountants is that of sustainability reporting and advising businesses on how to be more sustainable. Many organizations are keen to know how to do more with less as this may improve the bottom line. Accountants can advise on the benefits of reducing energy costs and pollution, from simple behavioral changes aimed at eliminating waste, to investment in new equipment and alternate sources of energy, to developing an environmental management system. Accountants can also assist with the preparation of sustainability and integrated reports and the provision of assurance thereon. Environment management systems (EMS), meanwhile, allow businesses to identify and control the environmental impact of their activities, products and services; set and achieve environmental targets; and demonstrative that the targets have been achieved. The IFAC Sustainability Framework (2011) provides a starting point for firms wishing to explore these services further.

The following seven tips can help SMPs build or lay the groundwork for a business advisory practice.

1. **Modify your mission statement, vision and plan**: When expanding, or changing the direction of your practice, set out a clear vision for the future and a roadmap for how to get there. You should also revisit your mission statement and adjust it as needed to reflect your practice's modified or expanded service offerings, such as "We are dedicated to adding and sustaining value for families and their businesses."

2. **Educate and train your people**: Providing high-quality business advisory services demands a different skills base than that to provide traditional accountancy-based services. You can develop the capacity for business advisory by expanding both the technical and soft skills of existing staff. Some accountants can make the transition to business adviser through experience and self-development, while others may need training or coaching.

3. **Focus on a specific industry sector or specialization**: Few SMPs will be able to gain and maintain the knowledge and skills necessary to be competent in all areas of business advisory. Therefore, SMPs should consider carving out a niche and participating in a referral network of SMPs that can provide the other services. A common model is to focus on a specific industry sector, such as hospitality, or to develop a specialization, such as sustainable business practices, in order to differentiate your practice from the competition.

4. **Develop relationships with other firms**: Referral networks offer many potential advantages, such as helping your practice increase its client base. Participating in a network is an effective way to satisfy the increasing breadth of demands from SME clients and can help demonstrate to new clients that you have the capability of a larger practice. Referral networks can extend beyond accountancy to areas such as legal, HR and IT.

5. **Promote the practice to existing and new clients**: Promoting and marketing your practice, and the value of your services, will be crucial to success. There are a number of reasons why SMEs choose SMPs to provide business advisory services including their reputation for trust, competency and responsiveness. SMPs should leverage these qualities by promoting them to potential clients, who are often unaware that their professional accountant can provide these services. As accountants often have little or no expertise or experience in promotion or marketing, you may want to hire a marketing consultant or train an existing employee to do this. Your marketing expert can help you determine if you need to change the way your services are marketed and help you explore new channels, such as social media.

6. **Change your business model**: Business advisory services may require a different business model from that of traditional accountancy-based services. For example, business advisory services may be better suited to a business model based on selling intellectual capital rather than time. This lends itself to value pricing. To supplement this, you might wish to emulate the airline industry model, which divides their client base into premium and economy and offers a different value proposition to each—for the premium clients, a high-end service, at a correspondingly high price, and for the economy clients, a basic "no frills" service that frees up time to devote to the premium clients.

7. **Embrace technology**: Advances in technology present a significant opportunity for SMPs to operate more efficiently, reduce costs, and offer additional value-added services. Cloud computing, for example, allows SMPs to more actively engage with their SME clients in a "real-time" environment and offer services such as virtual CFO cost effectively.

IFAC's *Good Practice Checklist for Small Business* can be used by practitioners to help them determine what type of assistance a client may need. IFAC also has a series of video interviews of practitioners, hosted on the Global Knowledge Gateway, offering tips on building a business advisory practice. These short interviews provide an opportunity for accountants to compare and contrast different approaches and to inform their own thinking when contemplating expansion into the business advisory space.

3.6.2 Other Emerging Services

Given their fluency with financial matters, accountants are well placed to offer advice to high net worth individuals, who may themselves be business owners, on managing their wealth. Wealth management, or financial planning, can prove a natural extension to the services currently rendered to clients, for example, tax planning to owner-managed small businesses. Wealth management is not about sales, but rather being a trusted financial (or private client) adviser. Just as with business advisory, trust is the key to success in building this service area, arguably even more so as one is dealing with individuals rather than organizations.

Firms considering moving into wealth management will need to carefully examine any relevant regulations relating to financial services in their jurisdiction. In some jurisdictions, the most popular route chosen by accountants has been to form a joint venture with a regulated financial services company. One of the drawbacks of this approach is that the firm may lack the ability to exercise quality control over the financial services advisers put in front of its clients. An alternative, local regulations permitting, is for the regulated financial services business to be housed in a separate legal entity, which is fully owned and controlled by the firm's partners. However, this structure is not without its challenges, one being that of combining the different cultures of accountancy and financial services.

In addition, accountants may have a role to play in the provision of eldercare services, especially the financing aspect. Eldercare services meet the changing needs of an aging population and aims to help older citizens live independently. In many western countries, the elderly population as a percentage of the total population is growing fast and so the demand for these services will increase. The services aim to assure that the financial, medical and residential needs of the aging population are met.

3.7 Building a Brand, Marketing and Promotion

3.7.1 Building a Brand

Branding is an important area of marketing. To make your marketing as effective as possible, you need to be sending out clear messages. These messages need to encompass your brand. They should not only build on it, but leverage it as well.

You might think, "I'm only a small firm—is branding really that important to me? Isn't it only for big business?" Brand is important, particularly if you are planning to grow.

Many companies invest millions of dollars in brand development. If you look at some of their advertising, you will notice that they don't advertise a single product or service. They promote their brands as a whole. One reason is the cost of acquisition of business. This is a major issue for mature businesses, and the cost tends to be on the increase due to the level of competition. In building their brands, they try to establish a relationship with their client base and broader market that encourages people to deal with them. The brand and the feelings, emotions and connotations that come with it are powerful enough to influence consumer choice.

You can see this with major international companies like Coca-Cola, McDonald's, Kellogg's and Virgin. Each invests heavily in its brand. They realize that if they are successful in building their brand, it will translate into increased sales and an increase in the value of their goodwill.

Look at your own professional body. You may see that it has invested heavily in building its brand. Done well, branding can:

- Bring your market to you;
- Drive down the cost of acquisition of new clients;
- Open up business opportunities based on market perceptions;

- Reinforce the confidence and comfort levels of your existing client base; and
- Build the value of your goodwill.

Your brand is the message about your firm that you want to send to the market. It pervades all areas of your firm, and goes beyond your logo and letterhead. It covers the services you offer, the way you deal with clients, the image of the firm you want to convey. It becomes the banner that you market and sits over all the services you offer. Branding includes your communication, your presentations and your style.

Specifically, it means the way your website looks, the uniforms your team wears, the graphic design work and logos used in your communication and presentations. It also includes the way you interact with clients and staff, even down to the words used on the phone.

By building and promoting your brand, you are establishing expectations at a high level in the mind of the market. When you then deliver the actual service—for instance, the financial statements or tax returns—the accuracy, presentation, and look and feel of your material needs to be consistent with the expectations you have set. Your clients want the delivery to meet their expectations—expectations which you have set.

Once you have resolved your brand identity, you need to ensure you have absolute consistency in your brand message. Everything within your firm, and all the material that comes out of your firm, needs to have brand consistency.

The following checklist provides you with a guide to approaching the issue of brand identity.

Table 3.4 Branding checklist

	Brand Item	Answer/Comment
	Do we present our brand consistently with:	
1.	Our logo	
2.	Letterhead, business cards, “with compliments” slips, fonts	
3.	The reports we present to clients	
4.	The way we speak and engage with clients	
5.	The way we speak and engage with our team	
6.	Our office premises	
7.	Our answering machine/voicemail	
8.	Our emails and salutations	
9.	Our attire, dress standards and uniform	
10.	Our screensavers	
11.	All written communication with clients: letters, reports, proposals, quotations	
12.	All verbal communication with clients or prospects	
13.	Seminar programs and materials	
14.	Marketing and advertising material	
15.	Client functions and events	
16.	Team meetings and gatherings	

3.7.2 Marketing and Promotion

Marketing is a powerful tool that can transform businesses and significantly add to the growth of a firm. However, marketing is undergoing rapid change, with new technologies altering how firms connect with their clients. Furthermore, while the ultimate aim of marketing and promoting professional services may be to get new clients, growing a successful firm is a function of keeping a firm relevant to the changing needs of the clientele (Marcus, 2012).[2]

The aim of marketing is to acquire, retain, and satisfy clients. Without their clients, accounting firms don't exist! Companies that are most successful have seven key characteristics:

- A good understanding of their clients;
- Strongly defined markets;
- The ability to motivate employees to provide high-quality services for clients;
- An emphasis on the business to serve and satisfy clients;
- A strong brand focus;
- The ability to respond to client needs and drive new innovations; and
- The ability to attract and retain clients.

Marketing needs to cover all aspects of the firm. A firm with a marketing focus will concentrate on:

- **Client orientation**: attention to the needs of the client;
- **Sustainable competitive advantage**: differentiate the firm from the competition; and
- **Long-term profit**: a client-oriented company balancing the efforts to satisfy clients with the need to generate profit over the long term.

Traditionally, marketing activities were commonly referred to as the 4 Ps and were "firm-centric"/inward-looking:

- **P**roduct;
- **P**rice;
- **P**romotion; and
- **P**lace.

However, the emphasis is now changing toward a "client-centric"/outward-looking focus:

- **Client solution**: the "product" or service;
- **Client cost**: the price;
- **Convenience**: the place; and
- **Communication**: the promotion and ongoing engagement.

Differentiation

What is it that makes your firm different? Why should someone choose you?

These are two very good questions. If you don't have very good answers, then read on. This will be a very important section for you.

---

[2] Marcus, Bruce W. *Professional Services Marketing 3.0*, New York: Bay Street Group LLC, 2012).

Competition is increasing. Thousands of accountants provide similar services. Then there are all the other service providers who would like to work with your clients in the other areas where you may provide services. There are many businesses promoting themselves and competing for similar market segments.

Your clients and potential clients will need to decide whom they engage to act for them. In making this decision, they are more likely to be influenced by differences between your firm and your competitors than by similarities.

Why do you buy from the businesses you buy from? Are you influenced by price, quality, experience, relationship or novelty? It is likely to be one of these factors. Whatever the reason, it means your suppliers have managed to differentiate themselves in some way from their competitors.

So, if a potential client asks you the question, “Why should I engage you as my accountant?,” what will your answer be? What makes your firm different from the other firms in your area? If there is no difference, you may struggle to secure this client. You are merely one of many firms offering similar services with similar quality standards, price and delivery.

Having a point of difference helps you stand out from other accounting firms in your area, at least in the minds of your clients. But this is not necessarily an easy task. After all, firms deliver similar services and operate under a similar code of professional ethics. Firms often price their services in a similar way, and may even brand themselves in a similar way. Many firms also pride themselves on their professionalism, confidentiality, communication style and the personalities of the principals and their team. So how do you make your firm different?

Differentiation can be achieved in a number of ways, such as through:

- The way you communicate and engage with your client;
- The range of services you provide;
- The depth of specialization you have in a particular area;
- The way in which you provide services;
- Your accessibility;
- Your price and your pricing structure;
- The appearance and feel of your offices;
- The way in which you package your work; and
- The network that you can connect your clients into.

You can probably add to this list. Yet most firms spend very little time seeking to differentiate themselves. As a result, they ignore a powerful marketing tool, one that could give them a competitive advantage when they are seeking to attract a target client.

Consider the following differentiation messages:

- “Because you are busy, we come to you.”
- “Our breadth of services provides you with a one-stop shop for your accounting, taxation and financial needs.”
- “We are specialists in the medical profession.”
- “We are available to you twenty-four hours a day. Here are all our contact numbers. If you need us, we are only a phone call away.”

- "Through our business consulting work we add real value to your business. Our aim is to work with you to help your business grow profitably."
- "We package our fees into an agreed fixed fee, covering all of our work; you can spread the payments over the entire year."
- "Our contacts include high-quality legal, finance, insurance and real estate advisers. When you deal with us, you have access to our network—an advisory team that works together for you."
- "Your work will always be managed by a partner, and you will always have access to them."
- "We communicate in down-to-earth language that you can understand and relate to."

These messages clearly state a focus for the firm and identify its point of difference. Notice that they do not focus on the quality of the work or the price. In reality, it is very difficult for a client to recognize a difference in quality of work or advice, unless they have had a bad experience in the past.

Generally, clients expect their accountants to deliver a quality product, and price is not an area where you want to try to differentiate. Price competition requires a volume market to be profitable, and typically the delivery of professional services is not an area of high-volume transactions.

Differentiation is likely best achieved through the services you offer and the way you do it. There is ample scope to identify what you deliver that will be meaningful to your target market. Once you have done this, you can build a part of your marketing program and message around your point of differentiation.

3.7.3 Social Media Marketing

The growing popularity of social media is rapidly changing the way companies do business and how they interact and communicate with their target audiences. Businesses are leveraging social media as a successful marketing and commercial branding tool. Successful practices are embracing social media and using it to engage with clients, attract new clients, promote their services and attract staff. There are, however, reports that many firms have yet to come to embrace social media (Roxburgh, 2012).[3]

Social media is about building a community. Successful social media strategies reinforce that people like to deal with people to create relationships, rather than businesses. While successful strategies are often built around the individuals, it is the business that reaps the benefits. Engaging your partners and staff in your social media campaign is a great starting point.

Firms can use LinkedIn, Facebook and Twitter to invite their clients to receive updates, participate in discussions, share case studies and experiences, post testimonials, establish closed networks and allow clients to connect with other clients. Blogging is another way of sharing timely updates with clients; it can also drive new clients to your website to find out more about you and your business. Always try to include links back to something you have published on your own website: this way you drive traffic to your website.

Smart accountants are recognizing that the preferred method of getting trusted referrals is from their business networks, family and friends, and so are embedding social media into their website and business practices.

Starting a social media strategy can be fairly straightforward.

[3] Roxburgh, Helen. "How do accountancy firms fare in social media." *Economia*, July 2012. http://economia.icaew. com/Business/July12/How-do-accountancy-firms-fare-in-social-media?.

- Monitoring social media allows you to see what clients are saying about you. Use a Google search on your name and your accounting firm's name to see what your clients are saying. Then do a similar search on competitors' websites, blogs and online communities. This provides a starting point to develop your individual strategy.
- Remember satisfied clients help you attract new clients, so encourage your clients to post testimonials or provide positive feedback on a social media site.
- Make sure your social media profiles are up to date and include a photo. You need to be engaging and make sure your social media profiles are interconnected.
- Ensure your firm has consistent branding guidelines that are applied across your website and social media platforms.
- Establish yourself as a content expert and thought leader by writing blogs or posting a video on YouTube.
- Use tools like Social Mention track and measure what people are saying about you or your firm across social media sites.

Social media should complement but not totally replace traditional marketing techniques. Remember, before new clients contact you, they typically check you out on social media sites or search for your organization using Google or other search engines.

3.8 Putting Your Plans into Operation

3.8.1 The Importance of Implementation

Once you have created your marketing program, the most important step is that you implement it.

A lot of energy and effort go into the development of a marketing plan. A real sense of achievement comes from that development, but this will count for nothing unless the plan is implemented properly and completely.

Many firms undertake their planning sessions at the beginning of the year or financial year. They set plans and goals, full of good intentions. However, as the year gets underway, the partner's time is quickly consumed with client demands and the operational requirements of the firm. As momentum builds, the easiest things to let slip are the business and marketing plans set in place earlier in the year. This highlights one key point: the implementation process requires discipline and commitment.

3.8.2 How to Implement Your Plan

If you have completed the documentation of your marketing plan, you have identified what you are going to do, who will champion the projects, how much it will cost, when it needs to be completed, and the results you anticipate. This minimum level of documentation is critical. It will provide you with a necessary reference point. It will also serve as a constant reminder of the objectives that have been set for the firm. This is part of the discipline required. If you are not prepared to document your marketing plan, and commit to it, you are not really serious about it.

Table 3.5 shows how to successfully implement your marketing plan.

Table 3.5 Implementing a marketing plan

	Suggestion	Comment
1.	Don't attempt too many projects at once.	If you are using internal and external strategies, you should probably have no more than four to six running at any one time.
2.	Make sure your objectives are achievable.	Set them so they are reasonable and practical. If your expectations are unrealistic, your team is likely to lose interest before they get started.
3.	Allow time for tasks to be completed.	Allow employees time in their work program to achieve the marketing tasks you have assigned to them. If you don't allow the time, it becomes an easy excuse for non-completion.
4.	Spread strategies across the year.	When you are running multiple strategies, it works best to spread them across the year. This allows each to be focused on, and keeps the level of interest high.
5.	Allow an adequate budget.	An inadequate budget can frustrate the fulfillment process or lessen the enthusiasm of those involved.
6.	Measure the results.	You need to be able to assess the effectiveness of each program and strategy. You should also celebrate the wins you have, and learn from any mistakes. This will encourage and maintain the enthusiasm of the team.
7.	Review regularly.	Review your marketing program at every management meeting. Regular reviews will help to keep the program on track and keep the momentum moving.
8.	Set milestones.	Ensure you have milestone events within your program. This will allow you to monitor your progress as you go and check that you are on track.
9.	Allow for change.	If a program or strategy does not appear to be working, accept the fact, be prepared to adapt and change.
10.	Keep the momentum.	Once you have some momentum, keep it going, even if it means an ongoing marketing program where you add additional projects as others are completed. Momentum is the most critical factor, and will build on itself if promoted.

Someone must take the responsibility to ensure that the plan is implemented. However, this often becomes the task of the practitioner, which is difficult—especially for sole practitioners.

In some countries it is becoming popular to engage the services of a mentor or business coach to assist with the implementation process. The key word is "accountability": having to answer to someone else for your actions, or being accountable for your lack of action.

In all of your marketing activities it is important to consider the International Organization for Standardization (ISO) Standards, which cover quality, environment, ethics, and other issues.

3.9 Financial Management

Elements of financial management for a growing firm relate to three key areas: capacity budget, financial budget, and cash flow forecast. Each is briefly discussed below.

3.9.1 The Capacity Budget

This is an estimate of the potential income generated for the firm if all available hours were billed. There are a number of factors to consider, including:

- Additional staff joining the firm;
- Salary increases;
- Available hours;
- Time off for study leave and training; and
- Increase in charge-out rates.

For a typical professional accountant, the available hours would be calculated as in Table 3.6.

Table 3.6 Target billings calculator

Criteria	Weeks
Weeks in year	52
Annual leave	(4)
Public holidays	(2)
Sick leave	(1)
Training	(1)
Available weeks	44
Hours worked per week	37.5
Available hours per year	1,650
Expected productivity	80%
Target billable hours	1,320 hours
Charge-out rate per hour	$150 per hour
Target billings	**$198,000**

This target billings calculation should be applied across the firm for all productive staff. The total target of all billings is referred to as the capacity budget for the firm.

Please note this is only an example of a billings calculator tool. You should amend the figures to suit your local environment to be as relevant as possible.

3.9.2 The Financial Budget

The financial budget uses the capacity budget as expected income, and also incorporates the budgeted operating expenses of the firm. An example format is shown in Table 3.7.

Table 3.7 An example format for a financial budget

Budget 20XX/XY					
	Actual Position	Budget Forecast			
	20XW/XX	20XX/XY		20XX/XY	
		+5%	+10%	−5%	−10%
	$	$	$	$	$
Income					
Fees					
Audit					
Compliance					
Consulting					
Disbursement reconciliation					
Other income					
Total income					
Cost of sales					
Direct wages (chargeable staff)					
Disbursements					
Total cost of sales					
Gross profit					
Expenses					
Accounting fees					
Bank finance, fees & charges					
Commissions paid					
Consulting & professional fees					
Communication					
• Telephone					
• Courier costs					
• Print, postage & stationery					
General & administrative					

Budget 20XX/XY					
	Actual Position	Budget Forecast			
	20XW/XX	20XX/XY		20XX/XY	
		+5%	+10%	−5%	−10%
Insurance					
Information technology					
• Software license					
• Computer hardware & maintenance					
• Printers & photocopiers					
Marketing & promotion					
• Advertising					
• Entertainment					
Motor vehicle					
• Car maintenance					
• Parking & tolls					
Occupancy costs					
• Cleaning & trash removal					
• Electricity & utilities					
• Rent					
• Repairs & maintenance					
• Security					
Staff amenities					
Training & development					
Wages					
Total expenses					
Net profit					

3.9.3 *The Cash Flow Forecast*

The cash flow forecast utilizes the information in the financial budget to anticipate when the timing of the cash associated with the income and expenses will affect the bank account balance. An example format for a cash flow forecast is shown in Table 3.8.

Table 3.8 An example format for a cash flow forecast

Cash flow forecast for year 20XX/XY													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Trading income													
Cash inflows*													
Cash received from clients													
Other cash receipts													
Total cash received													
Cash outflows													
(details follow)													
Surplus/(deficit)													
Cumulative position													
(add to prior month)													
* Cash inflows when the cash is actually received from invoices raised previously													
Cash outflows													
Disbursements													
Accounting fees													
Advertising													
Bank charges													
Borrowing expenses													
Capital expenditure													
Cleaning & sanitation													
Commissions paid													
Consulting fees													
Courier costs													
General & administrative expenses													
Finance charges													

Cash flow forecast for year 20XX/XY													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Insurance													
Lease payments													
Motor vehicle expenses													
Parking & tolls													
Print, postage & stationery													
Rent & outgoings													
Repairs & maintenance													
Trash removal													
Security expenses													
Staff training & welfare													
Pensions													
Telephone													
Wages													
Total cash payments													

You should have a budgeted balance sheet so that you can attempt to reconcile the financial budget with that of a cash flow forecast. A sample of the budgeted balance sheet can be seen in Appendix 3.4.

3.10 Conclusion

As you can see from this module, the business of building and growing a firm is multi-faceted. Careful planning, particularly in relation to your overall business plan, and ensuring implementation are keys to your firm's success.

Overriding factors to consider in all of your marketing endeavors include consideration of the professional, ethical and quality position you are taking with your marketing and the messages you are sending about your firm. You need know your firm is capable of fulfilling the expectations you set in the market in regard to your offering.

3.11 Further Reading and IFAC Resources

The IFAC Global Knowledge Gateway is a digital hub where professional accountants can easily access thought leadership and resources from IFAC, member organizations, and other notable groups and individuals.

The Gateway Practice Management section includes additional articles, videos, and resources to complement this module. We encourage you to review the content, provide feedback, engage with contributors, and share your own insights on contemporary practice issues.

Appendix 3.1 Relationship Management Action Plan

Contact	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec

Note: For each referrer, include the activity you plan to undertake with them in the relevant month.

Appendix 3.2 Case Studies

Case study 3.1

This case study relates to Section 3.2.3 ("The organization chart") in Module 3.

William and Indira agree on the importance of using the Organization Chart to assist with the internal structure of the firm. After assessing their strengths and weaknesses, William agrees to take responsibility for Marketing; Indira agrees to take Finance. Even though they are both responsible for their separate areas of work within the firm, William takes responsibility for Operations, and even though it's currently a smaller role, Indira looks after Human Resources.

They agree that they will meet each month to discuss the firm as a business, and each of them agrees to present a report to the other at the monthly Partners Meeting for their area of responsibility.

As part of the Marketing responsibility, William drafts the marketing plan to cover the key approaches and areas he considers the firm should do business in. This plan details the important topics of target clients, key services to be offered by the firm, suggested pricing, as well as the specific methods by which the firm will market these services. At the Partners Meeting, William discusses the plan with Indira. After considering a number of changes in depth, they agree on the plan and set a specific timeline with specific actions which each of them agrees to.

As part of the Finance responsibility, Indira prepared a draft budget and cash flow forecast for the firm for the coming year. She presents this to William at the Partners Meeting and after discussion agrees to update the reports to incorporate the expected increase in fees from the marketing efforts identified in the marketing plan. She will also revise it for the new marketing expenses identified in the marketing plan.

Indira has also prepared a set of management financial statements, including Profit and Loss Statement and Balance Sheet and presents these at the Partners Meeting. She agrees to update the presentation of these reports now that she and William have agreed on the budget. Indira identifies that a cash shortfall will arise over the coming holiday period, and they discuss how best to deal with it. Their favored approach is to find new clients and raise the fees before the shortfall hits. However, they both agree to ensure there is sufficient bank financing available to help them through the short-term difficult period.

As William's responsibility also includes Operations, before the Partners Meeting he has already obtained a status report from Indira in regard to her team's workload. He incorporates this into his team's workflow so that he can present a total firm workload and capacity report. This allows them both to see what capacity the firm has for new work prior to the holiday period, which in turn gives them some confidence that they may be able to avoid the upcoming cash shortfall that Indira identified. However, it highlights the importance of the marketing initiatives producing results; otherwise, they may still find themselves in a difficult position.

Indira reports on the Human Resources issues currently facing the firm. The key point raised is the need for formal performance appraisals for the staff to give them feedback on their performance. William agrees with the approach, and they both agree that Indira will draft the performance appraisal they will use and bring it to the next Partners Meeting for final approval. They also agree to set the dates for the performance appraisals for staff at the next meeting.

William and Indira then confirm the time and date for their next Partners Meeting.

Case study 3.2

This case study relates to Section 3.3.4 ("External growth strategies") in Module 3.

As part of the marketing plan, William has identified seminars as one of the key marketing strategies for the firm.

He believes that seminars will allow the firm to raise its profile in the local business community and give them a reason to advertise and promote. He plans to invite existing clients and referral contacts but also considers it a good opportunity to invite prospective clients. In this way they can mingle with clients and staff in a non-threatening environment while at the same time hearing some information of interest and relevant to their business situation.

In the preparation phase for the seminar, William spoke to a number of clients to gauge their interest in attending and what topic they would like to hear about. Many clients were interested in the state of the economy and how it would affect their businesses. William decided to link a general discussion about the current economic environment to the specific effects it might have on the local business community. He discussed this with Indira, and she was supportive of the idea and the topic. William then set about preparing his presentation.

As for the logistics of the seminar, William prepared a checklist of key items that had to be addressed to ensure the seminar went well. It included:

- Compiling a list of full names and addresses of all invitees;
- Preparation of the invitation;
- Ensuring the invitations get sent to the invitees;
- Preparation of the advertisement for the local newspaper;
- Booking the room in the local function center for the time and date of the seminar;
- Paying any holding deposit required to secure the room booking;
- Sketching a layout of the seating arrangements for the room;
- Deciding on refreshments to be served before and after the seminar;
- Ensuring name tags are completed for attendees;
- Ensuring staff members are available to assist with registrations for attendees;
- Ensuring staff members are invited to the seminar
- Ensuring staff members are briefed on the importance of networking and provided with guidance on how to network appropriately with clients, potential clients, and referrers
- Providing handouts of the key points of the seminar to attendees; and
- Preparation of a follow-up letter to be sent after the seminar.
- Ensuring a follow-up letter is sent to attendees

William then set about allocating various tasks on this list to various team members within the firm to ensure the workload was spread among the team and did not rest on the shoulders of any one person.

As the day of the seminar drew closer, William was actively involved in promoting the seminar to as many clients and prospective clients as he could. He believed this would be a great way to lift the profile of the firm and also allow him to increase his personal profile in the local business community. Even though he was not that comfortable with public speaking, he was confident enough that he could get by. He practiced his presentation a number of times before the seminar as a way of building greater confidence in himself and in his material.

Two days after the seminar was held, William ensured that each attendee received a letter thanking them for attending and mentioning again the key points covered in the presentation. For those who were not existing clients of the firm, William made a special offer: they could meet with him at no charge to discuss any specific points that were relevant and which may require further discussion.

Case study 3.3

This case study relates to Section 3.5 ("Creating a culture for your firm") in Module 3.

Case study: Firm culture

Victory Accounting decided to change the culture of its firm and went through a transforming process to achieve this. The following is a snapshot of their new culture.

Victory Accounting fosters a high-performance, fun and rewarding environment through the following:

Central operating principle: sustainability

All staff are guided by our central operating principle: "To create value for Victory Accounting stakeholders by building a sustainable accounting firm through the integration of economic, social and environmental considerations into all Victory Accounting decision support systems."

Core values

We believe that the service we provide is of value to the community and society. This is underpinned by the following core values.

- **Making sense**: Helping people to understand their accounting and taxation through education, assistance and advice.
- **Always helping**: Understanding people's needs and helping them work through financial problems and issues.
- **Trust and integrity**: Being reliable, honest, and principled, and engendering confidence.
- **Respect and encouragement**: Valuing diversity, assisting each other and maintaining a positive outlook at all times.
- **Learning**: An ongoing search for knowledge and skills enables Victory Accounting to embrace change and continuously improve. This is vital in these times of constant change to regulations and requirements.
- **Quality**: Striving to do better as Victory Accounting benchmarks its performance against their highest standards, not against competitors'.

Commitment to learning and development

Staff members are encouraged to develop their skills and careers within Victory Accounting. The firm provides ongoing training and development, as well as financial assistance and study leave for relevant courses.

Involvement in our future direction

Each month, we hold a team meeting where the firm's performance and future direction is outlined, and teams are given the opportunity to present their current projects.

Community involvement

Victory Accounting is committed to helping our local community and allowing staff the opportunity to participate in volunteering activities. Alliances with various charities are currently being developed to enable staff to learn more about a range of community issues and volunteer their time to help those in need.

Appendix 3.3 Summary Income Statement Budget (by Months)

	Monthly Budgeted Amounts													
Description	**Prior Yr**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
Revenues														
Gross revenues														
Less: billing adjustments														
Net revenue received														
% of revenues														
Expenses														
Salaries														
Professional staff														
Support staff														
Personnel expenses														
Facilities expenses														
General expenses														
Other														
Total expenses														
% of revenues														
Operating profit														
% of revenues														
Interest income														
Interest (expenses)														
Other income (expense)														
Gain (loss) on sale of assets														
Net income (expense)														
% of revenues														
Income taxes (for corporations)														
Net earnings														
% of revenues														

Appendix 3.4 Balance Sheet Budget (by Months)

	Monthly Budgeted Amounts													
Description	**Prior Yr**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
Current assets														
Cash and cash equivalents														
Unbilled work in progress														
Billed accounts receivable														
Prepaid expenses														
Other current assets														
Total current assets														
Non-current assets														
Property and equipment														
Less: acc'd depreciation														
Net property and equipment														
Other non-current assets														
Total non-current assets														
TOTAL ASSETS														
Memo items (for Cash Flow Forecast):														
Capital additions														
Depreciation														
Asset disposal cost														
Sales proceeds														
Current liabilities														
Accounts payable														
Accrued expenses														
Short-term debt														

	Monthly Budgeted Amounts													
Description	**Prior Yr**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
Other current liabilities														
Total current liabilities														
Non-current liabilities														
Long-term debt														
Other non-current liabilities														
Total non-current liabilities														
TOTAL LIABILITIES														
Partnership equity														
Beginning balance														
Current earnings														
Total net assets/equity														
TOTAL LIABILITIES & NET ASSETS/ EQUITY														
Memo items (for Cash Flow Forecast):														
Debt proceeds														
Principal payments														
Partner drawings														
Gain (or loss) on disposal														

Appendix 3.5 Gross Revenue Analysis Worksheet

Instructions: It is useful to budget gross revenues (gross charges before billing adjustments) by work type based on comparison with prior years. The following schedule allows the firm to summarize prior year accounting and audit, tax and consulting revenues on a month-by-month basis. When preparing your budget, you should consider a number of factors in budgeting future gross revenues in addition to prior year revenue amounts. These factors include:

- Anticipated changes in charge-out rates;
- Work that will not be repeated during the upcoming year;
- New clients that will be served for the first time during the upcoming year;
- New services to be provided in the upcoming year; and
- The effect of any other known or reasonably expected differences from the prior year.

Once gross revenues for each work type are budgeted, the monthly amounts should be totaled and carried forward to the Summary income statement budget at Appendix 3.3.

Gross Revenue Analysis Worksheet

	Accounting and Audit				Tax				Consulting and Other				Total			
Month	Prior Year Reve-nues	% of Total	Current Year Budget	% of Total	Prior Year Reve-nues	% of Total	Current Year Budget	% of Total	Prior Year Reve-nues	% of Total	Current Year Budget	% of Total	Prior Year Reve-nues	% of Total	Current Year Budget	% of Total
1																
2																
3																
4																
5																
6																
7																
8																
9																
10																
11																
12																
Total																

People Power: Developing a People Strategy

Module 4

CONTENTS

4.1 Introduction

This module explores staffing issues you will have to address as your firm grows. During this process, your management team's ability to attract, retain, motivate and lead your employees will be pivotal to your success. There are many management strategies you can use to ensure this period of growth goes smoothly. Factors to consider include the people management strategy of the firm and how leadership is manifested. Appropriate management of individual staff issues is vital to a harmonious workplace. Such issues include training and developing staff skills, and rewarding and recognizing your staff's contribution to the firm. It also includes dealing with the exits and transitioning of employees, as well as attracting and retaining graduates and qualified accountants from other firms. Some of these will become the future leaders of your practice. Your staff are vitally important to the success of your firm, because the degree to which your firm can provide a high level of professional service is determined by the quality and caliber of your people.

4.2 Your Firm and its People

Setting goals to develop your practice, without first exploring the availability of people with the appropriate skill sets for your business model, may cause unnecessary frustration and hardship. Your business planning and staffing strategies need to be linked.

Each firm is different in its business strategy, service offerings, partner values, culture, skills mix, location and client base. There is no single "formula" providing a percentage mix of the variables that will determine your success.

4.3 Factors Impacting People Management

4.3.1 Community Expectations

You and your employees are products of your community. Community standards and expectations have changed in the last 10 or 20 years. Today, community members are:

- Generally well educated, with a sound grasp of their rights and entitlements;
- Willing to express and claim those entitlements;
- Keen to make someone (whether an individual or a commercial organization) accept responsibility for mistakes, wanting to see firms or individuals accountable for their performance; and
- Insisting that business (in particular) accept and adopt higher standards of ethics and behavior.

Many of these community expectations are legislated, imposing obligations and costs on the employer that will impact employment policies.

The community is also in a state of constant change:

- Amendments to industrial relations legislation in many countries continuously change the dynamics of employment, for example by creating more flexibility in working conditions, or providing for equal opportunity in the workplace;
- The demographics of the population in many countries indicate that the community is gradually aging; and
- Social commentators show that people from different generations within the workforce have different expectations and attitudes.

The accounting profession is affected by these changes and will need to adapt to reflect the community's new expectations. There is more emphasis now on communicating with, and protecting the rights of, clients and employees, and devising systems and procedures to prevent mistakes.

4.3.2 Economic Changes

Prior to 2008, most worldwide economies had experienced many years of consistent and strong economic growth. This led to strong business profitability and optimism about future business performance.

Many leading world economists expect that economic changes precipitated by the collapse of the US banking infrastructure will continue for a number of years. This will have a strong impact on the types of services offered by accountants, the pricing policies utilized, and the requirement for specific accounting knowledge.

In such economic circumstances it is likely that more clients will benefit from holistic business advice, rather than compliance accounting, while other services such as financial forensics and fraud control measures might come to the fore.

Other factors likely to create challenges for the accounting profession are described below.

Shortage of qualified accountants: The accounting profession competes with many alternative career paths, and the supply of qualified accountants has not met demand in many markets. Skill gaps are being met in part by employing graduates from disciplines other than accounting, then conducting short-term intensive training in accounting skills.

Increasing gender balance: As more women enter the accountancy profession, employers need to amend their employment policies to attract and retain women in their firm and not waste the training invested because they are inflexible on work conditions.

Skilled migration targeted in specific industry sectors: This has obvious implications for the portability of qualifications, the language skills possessed by the migrants, and other social factors such as the impact on infrastructure and social services. Accounting is one skill set targeted in many markets.

Accounting and processing work outsourced overseas: Firms increasingly choose to process transactions and information offshore at a lower cost than that offered by the local workforce.

Slowing wage growth: The changing dynamics of supply and demand for accounting skills has resulted in subdued wage growth for some accounting personnel, compared with other segments of the profession in earlier years.

Retirement expectations of older workers: Many employees look to retire at an earlier age. While this may be desirable for personal reasons, it might not be sustainable when taking into account their accumulated pension plans and other savings. It also restricts the supply of qualified personnel eligible for employment. Policies to retain the knowledge these older employees have amassed are important for the future.

Barriers to employing older workers: Often people find it harder to gain employment once they reach their late forties and early fifties. As the Baby Boomer generation ages in many economies, the number of people in this age group will increase, so the attitude toward employing older workers will need to change.

Some of the factors listed are positives for the profession, and some are negatives that will reduce the supply of potential employees. It is crucial that you monitor these trends because they will determine the supply of, and demand for, accounting personnel. While you cannot influence all of these factors, there are proactive measures you can take to position yourself as an employer of choice.

4.4 Your People Management Strategy

4.4.1 The Mix of Employees

So far this module has analyzed possible workplace expectations, but how do you assess which type of employees you actually require?

The dynamics within accounting firms are changing. Different ownership structures have emerged, and firms are moving to a structure with more employees per partner. There is a gradual decline in the proportion of support employees, with qualified accounting personnel forming a larger proportion of the total staffing base. Firms are also adding new services to cater to various client requirements. It is therefore important to clarify the skills required to optimize the performance of your practice.

Skills mix identification

You need a blend of people and skills. A balanced accounting team will usually have a partner, a qualified accountant, and some administrative support. In addition, some firms will have experienced, though not qualified, staff; graduates with little experience; and additional secretarial and administrative support. Clearly it will take a new firm a little while to get to the stage where all these people are fully productive, but using this mix will allow you to provide cost-effective services to your clients.

To identify the required skills mix:

- Compile an organizational chart identifying the roles and positions required to service client requirements;
- For each role (such as senior accountant, junior accountant, or secretarial support) create a role description (see Appendices 4.2–4.4);
- Break this role description into the required qualifications, skills, knowledge, and experience (competencies) required to carry out the duties adequately;
- Do an audit of the positions filled using these role descriptions and your knowledge of your existing (and projected) work. Where are the gaps? Can you redefine the allocation of tasks into a more streamlined process? Can some of the roles or tasks be eliminated altogether? Can the workflow be streamlined, or could it be handled more efficiently if you were to design it from scratch today? This is called "process re-engineering," and is more likely to be necessary in a large organization than in a small, growing firm.

As a general rule, aim for work to be done by the lowest-cost person capable of doing it competently, and in the most efficient manner possible.

4.4.2 Clarifying Expectations

Employers and employees may have different expectations of the working relationship. For example, employers may expect that:

- Employees will approach their work in a positive manner, showing enthusiasm for their tasks and courtesy toward others.
- The productive, or fee-earning employees will generate fees of around two to four times their annual salary cost, depending on their experience and seniority. (Please note that these are broad guides only: each firm must determine its own performance targets.) Non-fee-earning personnel are expected to work their agreed number of hours, productively and efficiently and for the benefit of the firm.
- Employees will accept instructions and comply with them. This extends to compliance with the firm's procedures, policies and workflows. The employee may question instructions on occasion, perhaps to suggest a better approach, or if there is a legal or ethical reason why the instruction should not be implemented. Once this discussion is complete and a clear course of action is agreed upon, the employee is expected to do as instructed within a suitable time frame.
- Employees will demonstrate initiative in, for example, enhancing efficiency, finding new ways of delivering client service, or developing their own skills. Where necessary, the employee should obtain

any necessary approvals for a particular action beforehand. Employees will not abuse the access they are granted to the Internet and email and will preserve the confidentiality of client and firm information.

Employees may have the following, different expectations:

- An employer will offer a role that suits the employee's skills and experience.
- Employees will be properly remunerated and rewarded for performing their work to an adequate standard.
- Above-expected levels of performance will be recognized and rewarded in a suitable way.
- Employees will receive training as required to assist them to perform their role, and the employer will provide equipment and support.
- Fundamental rights such as respect and a safe working environment will be provided.
- Good communication will exist between employer and employee, so that any problems perceived by one party can be clearly identified and the other party has the opportunity to correct any perceived problem. This communication will be achieved via a transparent and fair process.

Many employees also want good prospects for promotion, or increased levels of responsibility. However, not all employees seek promotion, so this aspect should reflect the personal needs of each employee. This means you should discuss mutual expectations openly with your staff.

Individual firms and employees are likely to have additional expectations.

These expectations will often be documented by means of a Code of Conduct and included in the employment agreement. If you do not have these documented, you will find it a worthwhile exercise to complete.

4.4.3 Considering Generational Diversity

Demographers and marketers have in recent years come to assign people to age-based "generations." They claim to have identified distinctive attitudes and expectations as being predominant in each group. These are believed to reflect the particular era in which people grew up, including key historical events, cultural developments, social changes, prevailing values and lifestyle influences.

Veterans: born 1929–1945

- Are disciplined and respect law and order; and
- Like consistency and a standardized approach.

Baby Boomers: born 1946–1964

- Are optimistic, ambitious, loyal, and believed employment was guaranteed;
- Consider job status and symbols important; and
- Focus in the workplace on process and output, not implications and outcomes.

Generation X: born 1965–1979

- Often had both parents working;
- Are more resourceful, individualistic, self-reliant and irreverent;
- Focus in the workplace on relationships, outcomes, their rights and skills;
- Are not interested in long-term careers, corporate loyalty, or status symbols; and
- Are easy to recruit but hard to retain.

Generation Y (Millennials): born 1980–1995

- Expect greater workplace flexibility;
- Think differently from any other members of the workforce;
- Are similar to veterans in that they are optimistic, confident, and sociable, with strong morals and sense of civic duty; and
- Are comfortable with "diversity" and very much into "connectivity" (networks, technology).

Although people are far more diverse as individuals than the particular age group to which they belong, there appear to be general attitudes, expectations and "motivators" that are reflected in different generational groups.

4.4.4 Attracting Generations X and Y

To attract and retain employees from Generations X and Y, you may want to consider the following:

- Develop and promote your firm as a "learning organization."
- Engage your team in goal setting.
- Implement personal development plans for your staff.
- Utilize subscriptions, such as those for professional development tools or web-based learning, and make these available to your staff.

Job redesign

- Adopt more fluid job descriptions. In accounting, this could mean involving an employee in a broader range of work for a particular client, and giving them a more holistic involvement and relationship with the client.

Coach the less-experienced employees

- Generation X prospers with frequent guidance and coaching.
- Generation Y appreciates being mentored by the veterans.

Educate leaders of your organization

- Leaders must be true to their word and follow through on their commitments. Generations X and Y will not tolerate inauthentic leadership. Integrity, consistency and genuineness are essential characteristics of leaders.
- Enable work–life balance.

4.4.5 Recruitment

Once you identify the gaps in your staffing requirements, you will need to consider whether the gaps are definable into full-time roles, or whether you need to outsource or utilize part-time services in specialized areas.

Once you have established you requirements, you need to attract and recruit the appropriate people. Attracting top-quality talent is one of the biggest challenges facing accounting practices today.

4.4.5a Employer of Choice

The term "employer of choice" has typically been associated with recruitment and retention strategies for employees. They include company reputation, family-friendly work policies, employment awards and conditions, and social and community responsibility. The combination of these factors adds (or takes away) impetus for a potential employee to associate him or herself with a particular company.

When the current employment market favors those seeking employment—say, because of an accounting skills shortage—the perception of an organization as an employer of choice becomes a strong distinguishing factor in which firm attracts qualified employees and which firm does not.

4.4.5b Your Employment Offering

Your challenge is to position your firm as an employer of choice in order to attract and retain the right people. Ideally, create a package valued by your current staff as well as those you want to employ. It should cover:

- The firm culture: honesty, integrity, consistency, respect and involvement;
- Employment conditions and remuneration: allow some flexibility so that the overall outcome represents a fair set of conditions for a fair day's pay;
- Skill and career development through job design and flexible and challenging work; and
- Responsiveness to the individual needs of employees and partners: this may require tailoring the employment arrangements in a way that lets the firm deliver quality, value and timeliness without rigidly following a single set of rules of employment.

The nature of the package will be shaped by the skills and knowledge you require. For example, if you need someone with a vast amount of experience, it is likely that staffer will be a Baby Boomer who will only join your firm if you offer security, stability and some assurance about their future, such as partnership or enhanced pension plan options. If, however, you want someone with specialized skills but do not have enough work to keep them fully occupied, you may be looking for Generation Y: someone who likes variety and flexibility in their work and has less need for security. They are likely to be enticed by a promise of leading-edge and exciting contract work where they will gain valuable skills, a high degree of autonomy, and a good salary package allowing time for hobbies.

4.4.5c Your Employment Agreement

An employment agreement sets out the terms of the employment arrangement between the firm and its staff. Typical areas the agreement covers include a description of the duties to be performed, the manner in which they are to be performed, the compensation to be paid, loyalty to the employer's interests, the confidentiality of client and firm information, the basis for discipline or termination, non-competitive activity, and the ownership of firm property and information. The agreement should also cover the basis of performance assessment, whether performance appraisals will be conducted and their timing. An employment agreement is an important document for the firm and establishes expectations between both parties right from the start.

4.4.5d Your Promotional Plan

Your promotional plan is the approach you choose to use to attract potentially suitable employees to your organization.

How will you brand yourself in the market? Is your firm seen as a good place to work (as an "employer of choice"), or a place where people do not stay very long? This perception will impact the caliber of person who applies for a position in your office, and may limit your choices. Branding can be improved by being proactive in your local community, having your people consistently describe your firm as a genuinely good place to work, encouraging a free flow of information and offering opportunities for your people to develop their skills and do varied work.

What promotional method(s) will you adopt? There are many options, such as:

- Approaching people your employees know and recommend;
- Advertising on Internet job boards;
- Advertising in local print media such as newspapers and accounting magazines;
- Using specialist recruitment companies;
- Approaching local universities for graduates;
- Searching social networking sites such as LinkedIn and Facebook;
- Creating a "group" for your company on LinkedIn and/or Facebook, calling it something like "(XYZ Company) is hiring," and listing your latest jobs along with information on how to apply;
- Monitoring blog pages and accounting community discussion forums, noting opinion leaders and approaching them directly; and
- Ensuring that your company website is continually updated as new job opportunities become available. Two issues to keep in mind when deciding on your promotional plan are:
- Where can you feasibly attract candidates? Are you limited to your local region, your country (because of recognition of qualifications), or can you bring someone in from overseas?
- Do you want to tap only the market of candidates who are actively looking for work (active candidates), or do you want to try to entice someone to join you who is currently working elsewhere (passive candidates)?

4.4.5e Your Selection Process

In most countries, employers are required to give equal opportunity to applicants, and to treat everyone equally throughout the selection process. To avoid any claims of unfair practices in local tribunals, it is wise to follow the same selection process for all candidates applying for a position.

This process should be determined prior to advertising a position, and could incorporate elements such as those outlined below.

4.4.5f Background Checking

Confidentiality of client information, an increase in fraud activities, and greater awareness of money-laundering particularly in relation to funding terrorist activities, means that clients and governments are holding companies responsible for the actions of their employees. It is highly advisable to do some form of background screening on any potential candidates. In some cases this is a requirement of Professional Indemnity policies.

This traditionally incorporates two aspects:

Background checking: This includes gathering information on behavior in the past through seeking referee reports, criminal records, checking for bankruptcy, checking claims made on résumés, etc. Extrapolations are then made on the basis of past behavior as to how the candidate will behave in the future.

Psychometric testing: There are many forms of psychometric testing, and any test should be tailored to your firm's specific need. Psychometric testing gives a picture of the person's current personality and behavioral characteristics, which has proven to be a far more accurate method for determining future behavior than background checking alone.

While both these methods require an investment of time and money, the devastating effects of an unethical or subversive employee cannot be underestimated. If you inadvertently hire someone like this, it will cost your firm much more in the long run.

A sample checklist of employment conditions is included in the sample office manual Appendix 1.4.

4.4.5g Interviewing

It is highly recommended that you have a fixed set of questions (within reason) to ask each applicant. Where possible, have a face-to-face interview, where you can more readily assess body language and get a more accurate "feel" for the person. If you cannot interview in person, you may wish to utilize facilities such as web-cam, rather than just a telephone interview.

Ideally, provide the candidate with a role description at the interview so they can understand the position they are applying for and be more specific in their comments.

Where possible, the same employees should interview each applicant. Since each interviewer will have a different approach or perspective, a consistent interviewing panel assists in ensuring consistency.

Make notes during the interview that can be referred to later in the decision-making process. They can also be produced as evidence should an applicant query your hiring decision.

4.4.6 Induction

Once you have selected the successful applicant, it is important for them to get to know your firm in more detail.

Induction (also known as orientation) may be regarded as the final phase of recruitment and selection. However, it is also the first phase of learning and development. It is the formal process of familiarizing new employees with the firm, their roles within it, and how the firm operates.

Some firms do not have a formal employee induction program. This is unfortunate, since there are a number of very practical and cost-effective benefits to a well-run program, even for smaller firms, including the following:

- The new employee forms a favorable impression of the practice, contributing to their overall enthusiasm for the job. In this way, it can be an important factor in reducing staff turnover and employee dissatisfaction.
- It lets you establish a good working relationship with the new employee through explaining their job in relation to others in the firm. It also allows the person in charge of the induction to explain the firm's rules and regulations, thus reducing future misunderstandings.
- Transitions from school or university/college are made easier for employees with limited work experience.
- The employee adapts to the job and work environment more quickly, thus increasing their confidence. This reduces disruption and increases productivity.

4.4.6a Induction Program

The type of job and structure of the firm will determine the kind of induction program undertaken. In some organizations, it may simply take the form of a conversation with a partner, with more detail provided by a supervisor. In larger firms, it may involve conversations with the human resources manager, partners, and supervisor and include several days (perhaps weeks) of training.

Make a list of topics you will need to cover. Put them into a suitable sequence, and use this induction program again for each new employee, with occasional minor updates. Generally you will need to cover the following three main areas.

4.4.6b An Introduction to the Firm

Provide a tour of the firm and give information about:

- Its history, vision, mission, structure, services, and clients;
- The lines of communication within the firm, both formal and informal;
- The industry;
- Working environment: policies, rules, and work practices;
- Sources of advice and assistance;
- Policies on smoking, alcohol, misconduct, holidays, and absences;
- Grievance procedures and other relevant policies;
- Where to find washrooms, lockers, parking, toilets, kitchen and fire escapes;
- Security systems such as fire drills, fire warden, location of extinguishers, and procedures in case of accident or emergency; and
- Safety information and occupational health.

4.4.6c Defining the Individual's Terms of Employment

Provide information about:

- Relevant awards and enterprise agreements, systems of pay and relevant local regulations;
- Hours of work, breaks, and finishing time;
- Time-keeping and recording procedures; and
- Performance appraisal processes and competency requirements.

4.4.6d Acquainting the Employee in Detail with the Requirements of the Job

- Provide them with role descriptions;
- Introduce workmates and other people they will need to deal with in their roles;
- Identify promotion opportunities;
- Outline training and development opportunities;
- Discuss details relevant to their jobs: what tools, equipment, and supplies will be used and how these can be obtained, as well as safety requirements;
- Explain where their job fits into the overall firm structure;
- Train them on the firm's software;
- Define supervisors' expectations of them; and
- Define peers' and clients' expectations of them.

Provide *directly relevant information* before proceeding with more general information. People want to know first about things that affect them immediately, such as the location of the toilets, where to park and how their pay is calculated.

After a few days of formal induction the program can become more flexible, with stages for such activities as learning about each individual service of the firm, or the learning and executing of each type of work.

A review of employment terms, workplace health and safety, and equal-opportunity discrimination and harassment policies should form part of a new employee induction program. The sample office manual in Appendix 1.4 provides an example of the content that should be discussed with new employees.

4.5 Leading Your Team

4.5.1 Setting an Example: "Tone at the Top"

Accountants are trained to be skilled in the management of information and systems. The moment you take on a leadership role though, you also accept responsibility for affecting the behavior of other people and for exerting a significant daily influence on their understanding of their jobs and awareness of their performance. This requires developing integrity, personal responsibility, personal vision and self-understanding. It means working with people who may have different backgrounds, work preferences or personal and professional strengths. Above all, it entails a willingness to be accountable and to expect accountability in return.

Another useful way of thinking of the distinction between "management" and "leadership" is:

- *Management* is working with processes to accomplish goals; and
- *Leadership* is working with people to accomplish agreed-upon results.

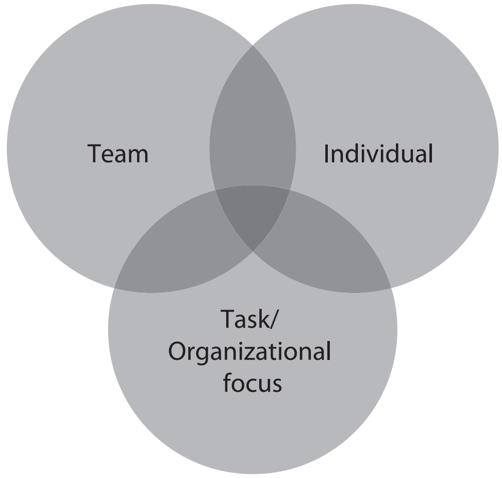
It is important to remember that processes are managed, while people are led. In their jobs, individuals to some extent will need to balance both aspects, the particular "blend" depending on overall job demands and circumstances. Team leaders should try to find the balance between the task, the person and the team.

Creating the right "tone at the top" is not only an important element of corporate governance, but also critical to the effective operations of audit firms, according to a paper issued by the IFAC Forum of Firms. The "Tone at the Top and Audit Quality" paper describes five areas in which management can address "tone at the top" issues: strategy, communication, job descriptions, performance appraisals, and monitoring. Examples are also provided to clarify further the types of policies and procedures being put in place, and the corresponding system of rewards and sanctions. *Tone at the Top and Audit Quality* can be downloaded free-of-charge from the IFAC website at http://web. ifac.org/publications.

Functional leadership model

The challenge for team leaders is to ensure that one element does not draw attention or too many resources away from the other two areas so that all three interlock evenly (as shown in Figure 4.1 below). At times you will need to allow for a short-term imbalance in order to rectify problems or focus resources on particular issues. However, if one element is allowed to "overshadow" the others for too long, then imbalance, conflict and dysfunction can occur.

Figure 4.1 The overlapping team, task and individual model



Essentially this model states that:

- Teams work best when they know the task they are expected to perform (or the outcome to achieve) and that there is a good likelihood of success;
- Team members have a basic need to work together as a team and be seen as achieving results; and
- Every *individual* in the team needs to feel that they are doing a good job and is a valued part of the team. Effective leaders pay attention to all three areas.

4.5.2 What Employees Expect from Leaders

People are remarkably consistent in reporting what they expect from their leaders.

Team members want leaders who are "honest"

This means:

- Leaders mean what they say;
- Employees know where they stand with the leader;
- Leaders do what they say and ensure their actions are consistent with their words;
- Leaders aren't afraid to admit they don't have all the answers; and
- Leaders engender trust.

Employees want leaders who are "competent"

This means:

- Leaders understand what is required to get the job done;
- Leaders have the people skills to engage the team effectively;
- Leaders communicate clearly so that employees know what is going on and whether they are doing a good job;
- Leaders understand the capabilities and interests of team members and can harness this within the team; and
- Leaders engender respect.

Employees want leaders who are "inspiring"

This means leaders:

- Are enthusiastic;
- Have a vision and can communicate it to others;
- Look forward as well as building on the past;
- Create an environment that helps to motivate employees;
- Focus people on long-term goals while celebrating achievement of short-term goals; and
- Engender commitment.

Employees want leaders who are "credible"

This means a leader who:

- Has a proven track record;
- Deals with people directly;
- Understands that credibility must be earned and can be lost very quickly; and
- Engenders confidence.

4.5.3 Building a High-Performing Team

It is helpful to understand how to develop a high-performing team culture.

What is a team? People generally share needs for affiliation and connection. An effective team usually evolves from a group of employees who have come to know each other well, are focused on a shared objective over time and know the capabilities of each member and each member's contributions to the success of the whole. This is commonly seen in, say, a sports team, a debating team or a well-functioning work team.

Members of a team share:

- Recognition and membership: being accepted and recognized as a valued member of a defined team;
- Identity: mutual awareness and respect, agreed symbols, fellow feeling;
- Open communication: free exchange of information, ideas, and views, and full interaction between members;
- A common goal: consciousness of a common cause, task, goal, ideal; a reason for being and staying together to achieve something; and
- Mutual accountability and interdependence.

Teams are a powerful vehicle for enhancing productivity, creativity and empowerment. They offer many benefits to a firm as it seeks to maintain and improve core business performance in a rapidly changing, unpredictable strategic and operational environment, including:

- Better decision-making;
- Increased quality;
- Higher productivity;
- Improved performance;
- Stronger communication and coordination;

- Greater flexibility both for individuals and the firm;
- Better service;
- Diverse skills and ideas;
- Higher job satisfaction and morale;
- Reduced operating costs;
- Fostering of creativity and innovative work practices;
- Increased synergy (the effectiveness of the whole is greater than the sum of individual efforts);
- Leaders released from detailed work to think strategically; and
- Succession.

4.5.3a How to Form an Effective Work Team

- **Agree on clear and achievable goals**: A team works best when members clearly understand where they are going and why.
- **Set a clear plan**: Once the team has agreed upon a clear purpose, help them determine what advice, training, and other resources they may need. Develop an action plan that details who is going to do what, by what deadline, and what resources or support are required.
- **Define roles clearly:** Effective teams empower their members and expect each to contribute. Everyone needs to know what they are expected to do, and how performance will be measured. Be clear about which roles are shared. Clear job roles are an important foundation for effective feedback on performance.
- **Insist on clear communication**: Team members depend on each other to achieve shared outcomes. All need to keep the shared goal in mind, listen actively, ask questions and share relevant information in a timely manner.
- **Encourage team behaviors**: A supportive team climate encourages all to work closely together. The team leader needs to establish a collaborative team environment and to step in when team members display contrary behaviors.
- **Establish effective decision-making**: Decision-making should be open, transparent, and involve team members where possible, particularly on changes that impact them. It works better when team members understand the reasons for decisions.
- **Increase awareness of group processes/group dynamics**: Team members need a solid understanding of how the team works together and how individuals behave in teams. The team should conduct regular self-assessments to see what could be improved. This could be done on a weekly basis, or monthly, following the firms Practice Meeting.
- **Expect and encourage participation**: Most people are goal-directed, social beings, and teams provide opportunities to be involved in decision-making discussions, especially where outcomes are likely to affect them. Ensure all members have the opportunity to participate and be prepared to contribute their talents.
- **Establish ground rules**: Have the team agree on “ground rules” as early as possible. Have processes in place to reinforce the ground rules, and take appropriate action when they are not being followed.
- **Insist on the best available information**: Having good information makes it much easier to agree on, and get, effective solutions. Sound data also help to minimize divergences of opinion and disagreements. Team leaders should promote and model good information-gathering processes.

4.5.3b Stages of Team Growth

Five stages in a team's formative process have been identified. While these are most apparent in a new team, any team can exhibit characteristics of the various stages whenever there is a significant change—for example, in membership, leadership, or in team goals or functions.

A team will not necessarily progress through each stage in a linear fashion. Change at any stage can force the team back to any of the earlier stages. The team leader needs to identify this process and respond appropriately to "get the team back on track."

Table 4.1 Stages of group formation and team growth

Stages	Feelings	Behaviors
Forming	Excitement, anticipation, optimism Initial, tentative attachment to the team Suspicion, fear, anxiety	Attempts to define the task, acceptable group behaviors and decision-making processes Abstract discussions of concepts and issues Discussions of symptoms not relevant to the task Complaints about organization and barriers to task
Storming	Resistance to the task and different approaches Sharp fluctuations in attitude	Arguing among members Defensiveness and competition Questioning wisdom of appointed leader Establishing unrealistic goals Perceived "pecking order" emerges Increased or unresolved tension and rivalry
Norming	Growing ability to criticize constructively Acceptance of membership in the team Relief: everything is going to work out!	An attempt to achieve harmony More friendliness, confiding, sharing Sense of team cohesion Establishing and maintaining rules and boundaries Emerging sense of direction and focus
Performing	Clearer insights into personal and group processes Understanding of each other's strengths and weaknesses Satisfaction with the team's progress Sense of shared achievement	Constructive self-change Ability to prevent or work through group problems Close attachment to the team Progress, energy, achievement
Adjourning/ (Mourning)	Sense of loss of common purpose Concern about disengagement Concern about withdrawing from group relationships	Output drops/low-level conflicts Individuals withdraw Separation "rituals" Interdependency drops

Adapted from: Tuckman 1965 and Tuckman & Jensen 1977[1]

4.5.3c Leadership Styles

How can you arrange things so you get to the high-performing stage more quickly? The answer lies in your flexibility as a leader, as one style of operating does not suit all people or all situations.

[1] Tuckman, Bruce W. and Jensen, Mary Ann C. *Stages of Small-Group Development Revisited*. Group & Organization Management 4(1977): 419–427.

Table 4.2 Leadership styles for effective teams

Leadership Style	How It Builds Resonance	Impact on Climate	When Appropriate
Visionary	Moves people toward shared dreams	Most strongly positive	When change requires a new vision, or when a clear direction is needed
Coaching	Connects what a person wants with the team's goals	Highly positive	To help a person contribute more effectively to the team
Affiliative	Creates harmony by connecting people to each other	Positive	To heal rifts in a team, motivate during stressful times, or strengthen connections
Democratic	Values people's input and gets commitment through participation	Positive	To build buy-in or consensus, or to get valuable input from team members
Pacesetting	Sets challenging and exciting goals	Frequently highly negative because poorly executed	To get high-quality results from a motivated and competent team
Commanding	Soothes fears by giving clear direction in an emergency	Often highly negative because misused	In a crisis, to kick-start a turnaround

Adapted from: Goleman, Boyatzis and McKee 2002 [2]

As you can see, different styles of leadership each have their uses.

For more information about personality types and tools, you may like to research the following, which are discussed only briefly.

- **Myers-Briggs Type Indicator (MBTI)** (developed by Katharine Cook Briggs and Isabel Briggs Myers; see www.myersbriggs.org) measures where someone gets energy (extraversion/introversion), how someone takes information in (sensing/intuition), what decision-making process is used (thinking/feeling), and how the individual organizes themselves in life (judging/perceiving).
- **DISC** (based on the work of William Moulton Marston) stands for Dominance—relating to control, power and assertiveness; Influence—relating to social situations and communication; Steadiness—relating to patience, persistence and thoughtfulness; and Conscientiousness—relating to structure and organization. From these, measures of assertiveness, passivity, openness and guardedness may be drawn.
- **The Herrmann Brain Dominance Instrument (HBDI)** (developed by William Hermann) is a type of cognitive style measure and model similar to the MBTI and DISC.

More recently, a concept of forms of intelligence other than intellectual has been gaining prominence. It is said that factors such as emotional capacity may also affect an individual's ability to perform.

[2] Goleman, Daniel, Boyatzis, Richard and McKee, Annie. *Primal Leadership: Realizing the Power of Emotional Intelligence*. Boston, MA: Harvard Business School Press, 2002.

- **The theory of multiple intelligences** (developed by Howard Gardner) includes interpersonal intelligence (the capacity to understand the intentions, motivations and desires of other people) and intrapersonal intelligence (the capacity to understand oneself, to appreciate one's feelings, fears and motivations). In Gardner's view, traditional types of intelligence, such as IQ, fail to fully explain cognitive ability.
- **Emotional intelligence (EI)**, often measured as an Emotional Intelligence Quotient (EQ), measures someone's ability to read and manage their own emotions and those of others and groups. Daniel Goleman has outlined four emotional intelligences: self-awareness, self-management, social awareness, and relationship management. These are said to be learned rather than innate intelligences, and therefore a leader may develop and heighten these traits.

While some take to leadership naturally, many do not, so it is reassuring to know that many of its components can be learned over time. As a principal or partner in your practice, it is worth putting the required effort into this—as you will be rewarded by a proportional increase in productivity, and thus profitability.

4.5.4 Communication

Good communication within a firm is vital to avoid friction and enhance productivity. It ensures that information relating to a particular client or skill can be shared and that people are aware of any difficulties experienced elsewhere in the firm. By communicating well with the workforce, a partner can outline the firm's expectations clearly, discuss them, and have them accepted as reasonable by the firm's employees. Communication handled in this way will help avoid conflict later.

Communication is a key way to promote professional standards within the firm. All employees need to know where to find certain items, how to perform certain tasks, how to fill any gaps in their personal knowledge, and whom to ask for help when needed. This communication might be via email or memo, or through having a set of common work papers to standardize the way a task is completed, a procedures manual, or it may be achieved through staff meetings or training activities. "Face to face" is usually the best way to communicate.

4.5.4a Interpersonal Communication Model

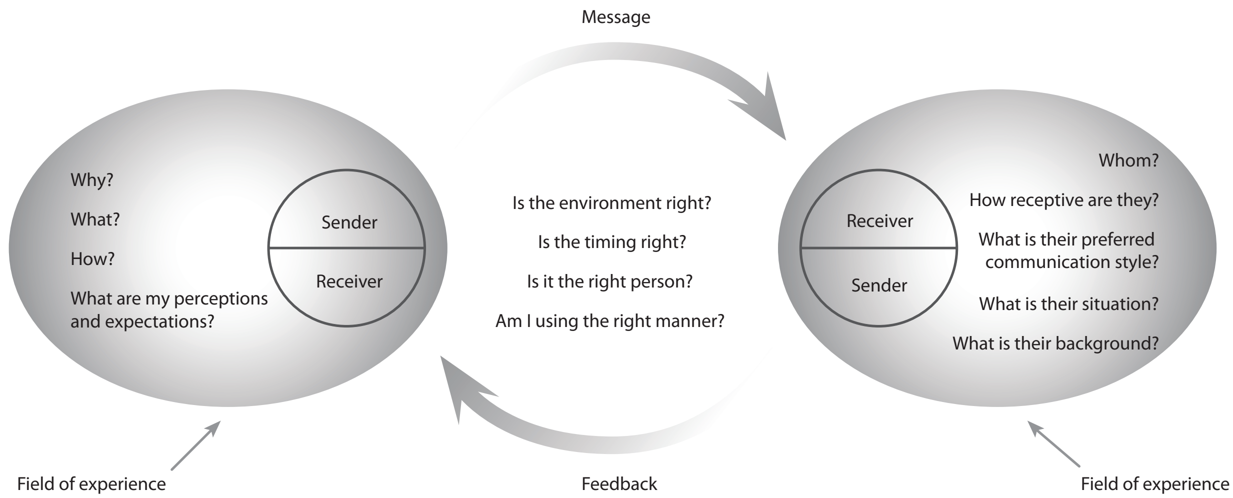
Effective communication should result in shared understanding.

As shown in the diagram below (Figure 4.2), how the message is understood will depend on how clear the communication process is between the sender and the receiver.

Whatever your reason for communicating, your receiver needs to:

- See some benefit in paying attention to your message;
- Be clear on what you intended to convey; and
- Have the opportunity to respond appropriately (to note your message, agree with it, get more information, do something or simply agree to disagree).

Figure 4.2 Effective communication



Effective communication occurs when the message is precise, and when the message passes through the communication channel between sender and receiver without any form of interference. The sender has two important roles: first, to convey the initial message, and second, to use feedback to ensure that the receiver has received and interpreted the message correctly. Feedback is achieved when the sender asks some question of the receiver to test the level of understanding. If the message has not been received correctly or completely, the sender may then restate and explain the message.

This process is obviously easier in meetings and telephone conversations than if the "channel" is an email, letter, memo, or web page. These situations do not generate immediate feedback, so you don't know if the message has been correctly received. As a general rule, the best outcome in any communication is to use multiple channels, such as a verbal description backed up by writing.

4.5.4b Seven-Step Strategy for Practical Communication

1. Preparing the message

- What is your key message?
- Who is it intended for?
- What outcome are you looking for?
- How can you best get your message across?
- When is the best time?
- Where is the best place?
- Are the main points clear?
- Is there any ambiguity in your message?
- Are the facts correct?
- Is the necessary action clear?
- Is all the necessary information included?

2. **Preparing yourself**
   - Consider your own attitude and confidence levels.
   - Draw on your assertiveness skills.
   - Be aware of verbal/non-verbal congruence.
   - Seek to create the environment that will bring out the best in you as you communicate.
3. **Gaining attention**
   - Be direct and ask for attention.
   - Use eye contact with confidence.
   - Engage your listener's interest with a dramatic statement, an anecdote, or a straightforward question.
   - Use vivid visual images or vocal intensity.
   - Use emphatic body gestures or positioning.
   - "Dress to impress"(personal appearance).
4. **Preparing the receiver**
   - Make it clear what it is you wish to communicate or discuss.
   - Point out the importance of your communication and/or the benefits to the listener.
   - Check that they are willing for you to proceed.
5. **Sending the message**
   - Use simple language, and emphasize the key points.
   - Speak clearly and audibly, varying your voice pitch, tone and volume for emphasis or to convey emotion and meaning.
   - Be ready to respond to signs of boredom or disinterest.
   - Pause for questions or clarification.
   - Summarize to help understanding.
   - Talk "to" people, not "at" them.
   - Change your approach if need be.
6. **Receiving and clarifying**
   - Actively listen and show interest in the speaker.
   - Do not switch off just because you disagree.
   - Ask for clarification, restatement, or more explanation if you are not sure you understand.
   - Try paraphrasing to check your understanding.
   - Do not miss main points by getting blinded by detail.
   - Concentrate on what is being said, not on your own opinions, biases or problems.
   - Give a fair hearing to the other's point of view before responding.

7. Closing

- Agree on a course of action or ask for a reaction.
- Suggest a way or ways forward.
- Summarize what has been achieved so far.
- Arrange another meeting.
- Indicate that you have finished.
- Thank the person for his or her time and attention.

4.5.5 Delegation: The Key to Firm Leverage

Often in an accounting firm, the most senior people are the busiest in the organization. These are the people under the most pressure, who often work the longest hours, and who sometimes simply do not have the time to do all the things they would like to.

Telltale signs of difficulties include employees unable to access a partner to get a query answered, a backlog of jobs awaiting review, invoices raised but not sent, and client questions awaiting resolution. Partners are too busy doing client work to engage with the firm management.

Delegation is crucial to freeing up partner time in order to allow them to manage client relationships and to make the most efficient use of their time and talents. The trend is for each partner to have more employees who achieve higher levels of profitability, but clearly the more people a partner supervises, the less time they can spend directly doing work for clients. Delegation is the only way the work can be completed effectively.

4.5.5a What is Delegation?

Delegation involves assigning tasks, duties, and projects to your employees, along with the responsibility, power, and authority necessary to accomplish those tasks and achieve the expected results.

Delegation allows your team to use its abilities to the fullest capacity. In addition, it enables you to position the right work at the most efficient responsibility level, helping both you and your team members to meet expected turnaround times. In the process, you expand the skills of those involved and improve the contribution to the firm. Finally, it allows you to focus on the big picture and on your most important tasks.

4.5.5b Why Senior Employees Fail to Delegate

There are a number of reasons some partners and senior employees fail to delegate:

- Delegation means giving up some control, which they don’t want to give up.
- They do not want to risk their relationships with the clients.
- They fear that quality control might be at risk if they do not do the work personally.
- They like what they are doing and get satisfaction from doing it.
- They think it is quicker and easier to do it themselves (it probably is, but this is short-term thinking, and not sustainable).
- They can do a better job than any of their employees (this may be the case initially, but can be overcome with training).

While well-intentioned, this thinking prevents a partner from achieving the best long-term results for the firm.

4.5.5c Keys to Successful Delegation

1. **Determine the tasks or area of responsibility to be delegated. Delegate anything that:**

- Is time-consuming;
- Is low priority;
- Is recurring or mechanical;
- Someone else could do either better than you or at a lower cost; and
- Will train and develop the skills of your employees. and then:
- Decide which employee should complete the task;
- Give clear job instructions;
- Set a deadline for the task;
- Set milestones to report back on;
- Set a deadline for completion; and
- Monitor progress of junior staff.

Remember, however, that there are certain things only you can do, decisions that only you can make and critical areas that only you can and should handle. One should approach delegation on a “cascading” basis. Areas of lower risk, requiring lesser levels of specialization, and where fee pressure is less likely to occur are the first places to consider for delegation.

Sole practitioners and partners should seek to drive the work down through the firm and retain for themselves the work that demands their level of expertise. The more you delegate and train, the more work your people will be able to take on. The delegation cycle should go from each level to the next. Ideally, the partners’ time can eventually focus almost exclusively on client management, client cultivation, and management of the firm and team.

2. **Decide which of your employees should complete the tasks**

You know the capabilities of each member of your team. You will find it easier to delegate work to senior members of your team, whose work you have confidence in. However, when you are completing the workflow scheduling, decide which member of your team could do the job most effectively. If you find that no employee has the necessary skills, then you should implement the necessary training.

3. **Give clear instructions**

Clearly communicate the objective, time frame and outcome of the task, including how much initiative is expected and autonomy is allowed. Have systems and procedures in place to support the completion of a task in a consistent manner.

4. **Ensure that you provide the necessary authority and tools**

Ensure that your employees have the necessary authority and tools to do what is asked of them. When they complete tasks successfully, acknowledge that contribution to the success of the firm.

5. **Communicate trust and confidence in people’s ability**

Stress the importance of the task, and express confidence in the person to whom you have delegated a task.

6. Set milestones at key points

Even though you are delegating tasks and responsibilities, you still retain the ultimate accountability for the actions of your team. Consequently, you must allow time to check completed work, to correct any errors that have been made, and to answer any questions. Your employees will not have the same level of skill as you and may not see things from your viewpoint, so it is vital that you have a means of catching up with those you delegate to. This will protect the integrity of your firm's work.

4.6 Managing and Retaining Employees

Accounting firms often underestimate the cost of staff turnover. There are obvious costs of staff replacement, such as recruitment and training, but these are just the start of the cost equation. There is also possible disruption to productivity from a dissatisfied employee prior to their departure. This also applies to the remaining employees who need to pick up the work until a replacement is found. This increased pressure on remaining employees can lead to reduced capacity for new business growth. While a certain level of staff turnover is inevitable, a principal or manager wanting to maximize the firm's profitability will do their best to minimize staff turnover and retain key employees.

A number of factors influence staff retention rates; the most important of these are outlined below.

4.6.1 Motivation

Motivation is an inner drive or need that influences individual behavior, attitudes and responses. People may not be conscious of all their needs, yet these needs may still affect their performance in the workplace.

While people are motivated in different ways, there are underlying themes and commonalities that apply to everybody.

Maslow's "hierarchy of human needs"

Abraham Maslow identified a "hierarchy of human needs" in his 1943 paper, *A Theory of Human Motivation*. He argued that when people's needs were satisfied at one level, then they were no longer motivated by those needs. For instance, people are no longer driven by hunger once they are fed. On the other hand, when people are starving, all other needs are irrelevant and will not motivate them. His hierarchy is as follows:

Survival (physiological): These are the basic needs to sustain life: food, drink, shelter, bodily needs, and sex drive.

Security (safety): This reflects the need to be free from danger. In work terms, this can mean freedom from the fear of losing one's job or home. Most people need to feel that the world around them is orderly. Having a job, or at least a source of income, provides for this level of motivation.

Social: People have an underlying need to feel accepted, and to give and receive affection to some degree. This is usually expressed through belonging to a group and having friends. People who feel excluded, or without friends in a workplace are usually lonely and unhappy. This reflects a universal need for affiliation and being valued by others.

Self-esteem: Once people have fulfilled their social needs, they feel the need to be respected. This builds a sense of self-worth and self-confidence. People in all sorts of jobs like to feel that they do their jobs well and contribute to their organizations, and that other people respect them for it. This need relates to the need for self-respect, status, recognition and ego fulfillment.

Self-actualization: Maslow argued that this was the highest human need—the need to recognize one's full potential and realize that potential. Personal and professional development, taking on a very challenging job or winning a promotion might be manifestations of this need in the workplace.

Self-transcendence: This is the level at which the person attains and surpasses self-actualization and works beyond notions of "self" in favor of the collective good of others. There have been many examples of people who have lived selfless and generous lives.

Some may have stronger social needs than others, and not everyone has a strong desire to accomplish great things. In any case, partners and managers have to be aware that everyone has needs and that those needs can vary enormously according to personal circumstances.

Signs of poor motivation/morale

Indicators of poor motivation/morale in a team include:

- High absenteeism and employee turnover;
- Values conflicts/poor relationships; and
- Low job satisfaction, productivity, and achievement.

Be aware of these signs, and be prepared to address them directly with individual staff members or with the firm as a whole. Remember: either too much or too little work can be a source of tension, stress, dissatisfaction and low morale. Morale is influenced strongly by attitudes and behaviors of co-workers, supervisors/managers and team members, and assumptions in the workplace culture.

4.6.2 Staff Retention

Attracting, engaging, and retaining top-quality talent is one of the greatest challenges facing accounting firms today. Without appropriate strategies and practices around engagement and retention, a firm will just not be able to achieve sustainable high performance.

Simple strategies that can support staff retention include:

- **Know your staffing** and making a personal connection. Communicate and provide regular formal and informal feedback.
- **Mentor and develop staff**. If they are doing a good job, make sure you provide positive feedback. If they are not, provide constructive feedback followed up with mentoring or coaching.
- **Create an engaging firm culture** that acknowledges that staff are motivated by a range of factors, including money. Using verbal praise and alternative rewards, such as training, can motivate and create a positive and engaging work culture.
- **Use performance reviews** to define career pathways and explore development opportunities.
- **Establish stretch targets** and challenge team members by offering them greater levels of responsibility. Delegate special projects that can test their leadership abilities.

By creating a positive, engaging, and collaborative firm culture, it will make it harder for staff to leave. There is another side to this too. Remember that your clients like to engage with staff they know and have built a relationship with. Retaining good staff will improve the long-term success of your firm.

4.6.3 Keys to a Productive, Cohesive Work Environment

- The right mix of competencies and maturity (individual and whole team);
- A motivating environment;
- A good match between people and jobs, and a good balance within the team;
- Appropriate reward and recognition processes;

- Support systems and networks;
- Well-integrated recruitment, training, development, orientation and assessment systems;
- Treating people as individuals with unique strengths and preferences; and
- Recognition that personal style differences can exist between peers, and between supervisors/managers and their own managers.

While the culture of a firm and the motivation of its employees have a direct correlation to performance levels, there are measures you can take to increase productivity.

4.6.4 Performance Management

Performance management is the use of inter-related strategies and activities to monitor and improve the performance of individuals, teams and the firm as a whole. It involves:

- Clarifying performance objectives (this could include tasks, outcomes, behaviors) and linking these with the firm's business plans;
- Periodic performance appraisal of individuals or teams against the achievement of these objectives;
- Feedback from this appraisal;
- Recognition or reward for performance, including performance pay, salary progression guided by performance, or non-pay reward systems;
- Team and individual development to build capabilities; and
- Coaching, or other action to deal with poor performance.

Performance management should be an ongoing activity, where timely feedback can be given to keep performance on track. Ongoing monitoring and dialogue feeds into a formal system of documenting the performance of an individual called performance appraisal. Often the outcome of the formal performance appraisal is linked to remuneration and recognition, so it requires a higher degree of robustness in the processes used to reach the outcomes, whereas ongoing performance management tends to be more informal and situational.

To be a good performance manager, ideally you will:

- Communicate a clear "context" for the individual's job and work;
- Agree upon clear objectives and expectations with the team and with each individual;
- Show clear relationships between the work of the individual, the team and the firm; provide guidance and support as needed, without being obtrusive;
- Give ongoing, timely and specific feedback;
- Be open to receiving and learning from constructive feedback; see performance management as a positive role;
- Focus on issues relating to performance, behavior and development, not personality clashes;
- Allow for differing stages of maturity of the employee, as well as any changing circumstances; and
- Encourage continuous learning, helping people develop their strengths and potential.

But even if you do the above, how do you know if an employee is performing adequately or not?

4.6.5 Productivity Versus Performance

There is a difference between "productivity" and "performance." Productivity can easily be measured by chargeable hours, but performance also needs to encompass factors such as the quality of the work, the ability to recover the time spent and the attitude with which the work was done. For example, you may have two employees who are both billing the same hours, and yet one employee requires little supervision and gets their work done correctly the first time, whereas the other employee may make many errors and require much senior employee time quality-controlling the work, thus increasing the cost to the firm. Similarly, an employee who has a morose or resentful outlook can have a negative impact on those working around them.

4.6.6 Calculating Productivity

4.6.6a Identifying Revenue Capacity

- Step 1: Identify the standard hours worked by your people.
- Step 2: Set charge rates.
- Step 3: Calculate capacity/revenue budget.

Identify the standard hours worked by the people in your firm, and set efficiency levels for them

Standard hours need to be calculated after an allowance for annual leave, sick leave and statutory holidays. Even though you might work longer hours than an average working week, it is important to leave a level of conservatism in your estimate.

Table 4.3 Standard hours calculator (example)

Criteria	Weeks
Weeks in year	52
Annual Leave	(4)
Public Holidays	(2)
Sick leave	(1)
Training (Continuing Professional Development)	(1)
Available weeks	44
Hours worked per week	37.5
Total Standard Hours	1,650

This approach determines the number of hours that are available for the firm, referred to as Standard Hours.

The starting point is the total number of weeks available in the year. Deduct from this the time that is not available, such as annual leave, public holidays, sick leave and staff training or continuing professional development. This is the number of weeks available.

Multiply this by the hours expected to be worked each week. This is the total standard hours per year.

The above table can be used to calculate the standard hours for your firm. Use it as a template and adjust for local variations. For instance, annual leave and public holidays are likely to differ from the example above and differ between countries, as will the standard hours worked per week.

Efficiency levels relate to the level of chargeable work within the available time frame. Since employees generally have some non-chargeable functions, such as completing timesheets, professional development and team meetings, Table 4.4 gives a guide to calculating these levels.

Table 4.4 Efficiency levels

Position	Efficiency Level
Partner	50–70%
Professional employees	70–80%
Support employees	Depends on duties

When setting efficiency targets it is important to consider that efficiency levels will depend upon the business model the firm uses and the type of work undertaken. For example, compliance work tends to demand higher efficiency rates, whereas consulting work tends to have lower efficiency, but commands higher charge-out rates.

4.6.6b Set Charge Rates

Charge rates for each position will differ. Office location, market forces, and the salary and level of experience of each person influence rates. There is a commercial trade-off. You want these rates to be competitive and realistic so that you do not price yourself out of work, or spend too much time handling client complaints about excessive fees. But they also drive your profitability, so they should not be set too low.

Since charge rates need to reflect the seniority and experience of personnel, one approach is to set your rate for the partner(s), then cascade your rates down through the organization (see Table 4.5).

Table 4.5 Charge rates

Position	Charge Rate
Partner	100%
Manager	75–80%
Senior	55–60%
Graduate	40–50%
Support employees	50% or less depending on role

Another option is a detailed calculation of a multiplier that is applied to the wage cost of each person. To come up with a figure for each person, the multiplier takes into account the overheads of your firm, the likely working and chargeable hours, and your desired profit level.

4.6.6c Calculate Capacity/Revenue Budget

From the information above, revenue capacity can be established. Table 4.6 shows how this is done for an individual.

Table 4.6 Individual revenue capacity

Staff Member	Standard Hours	x	Efficiency Level Per Hour	x	Charge Rate	=	Revenue Budget
John Smith	1,650	x	75%	x	$160	=	$198,000
Joel Bracken							
Maria Brownlee							

This process not only creates a budget for the firm, but also sets some productivity standards against which employees can be evaluated. Once you have established your annual budgets, break them down to a monthly basis and then measure actual time performance against the budget. If budgets are not being met, you need to start looking for the reasons.

4.6.6d Monitoring Productivity

Time is a key resource for any accounting firm, so it is important that a firm manager monitor the use of time and employees' productivity.

1. Establish and communicate performance standards

Productivity cannot be monitored properly until performance standards are established. Standards are set at two levels. The first is the chargeable time percentage that employees are expected to achieve; the second is the time budgets for completion of individual pieces of work for clients.

These standards must be realistic and achievable. If they are too restrictive, employees may compromise on the quality of work simply in order to achieve the target. Alternatively, if the standards are too flexible, time may be wasted on unnecessary functions.

Where employees are mainly providing administrative and support functions, other standards may need to be established.

The firm's standards must be communicated to employees. What they are not aware of, they cannot strive to achieve.

2. Have employees maintain a continual record of time usage and fee billing

Most firms maintain timesheets in order to bill clients for work undertaken; however, these are also used for monitoring employees' productivity. Timesheets should indicate the client's name or code, the type of work being completed, and the time spent. This allows a partner or manager to monitor both the number of productive hours worked and the length of time taken on each task.

In order to accurately reflect the time spent on each task, timesheets must be updated regularly throughout the day. It is useful for employees to get into this habit so they can accurately record the details of what they were working on.

3. Check time summary and fee budget against agreed standards each month

Most practice management packages provide a report comparing productive hours against standards for each employee. This will indicate whether a particular employee has met budget for the month in question.

4. Identify discrepancies, and discuss these with the employee

Where significant variances appear, promptly discuss this with your employee to understand why the budgets are not being met. Perhaps the budgets are not realistic or achievable. Perhaps there are other impediments to meeting the agreed standards, such as poorly functioning equipment. If the discrepancies are considered achievable and there are no other impediments, a training plan can be put in place to assist the employee in meeting the goals in the future.

5. Take necessary action to improve productivity

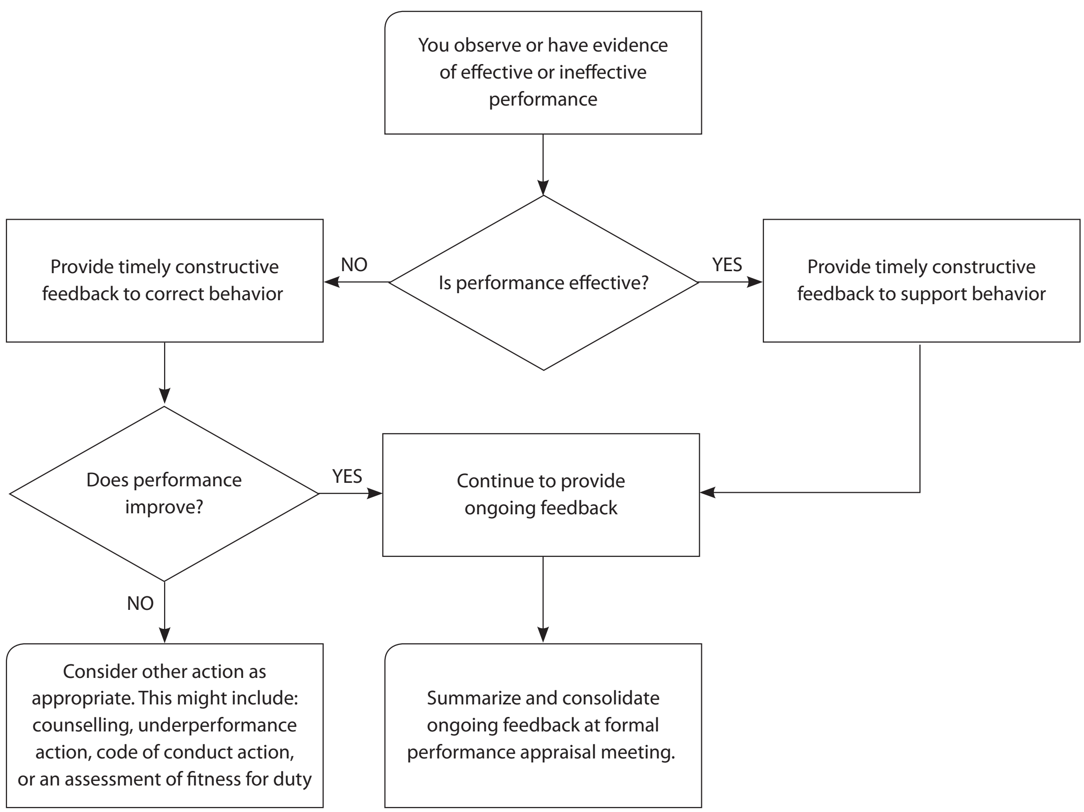
Talk alone will not fix a poor productivity situation; action is needed. This may be as simple as reducing reworks, instituting new standard systems such as working papers and procedures, repairing or replacing equipment that is hampering employees' efforts, or providing training.

4.6.7 Assessing performance

Performance can be identified through:

- Direct observation (productivity, attitudes, and behavior);
- Assessment of work outputs (quality, quantity, process, product, and turnaround time);
- Degree of adherence to agreed performance standards;
- Information from work monitoring systems, audits, reviews;
- Formal or informal discussions/feedback; and
- A report, or complaint by another employee, client, or other person.

Figure 4.3 Assessing performance



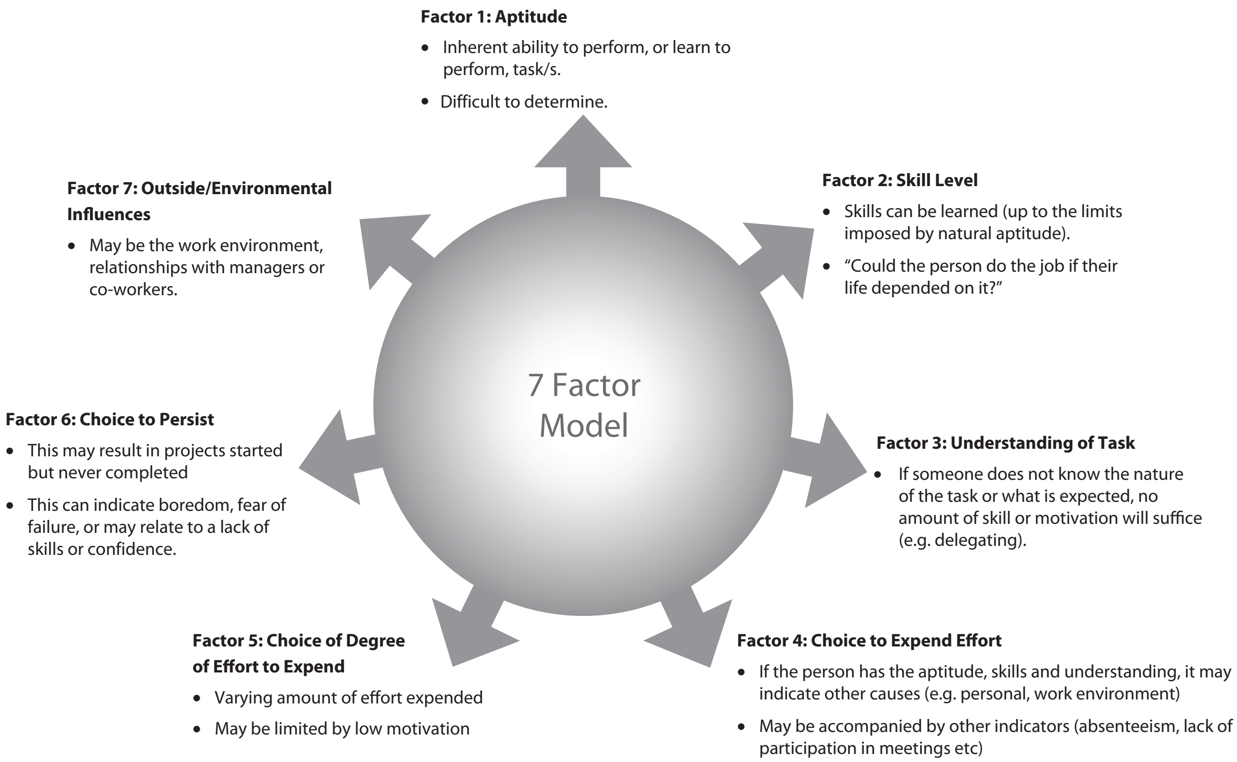
4.6.7a Bias and Objectivity

It is important to be fair when doing performance appraisals. But in order to ensure fairness, it is essential to be aware of some of the most common forms of bias that may influence your assessment.

Table 4.7 Common assessment biases

First Impressions	First impressions not balanced by “factoring in” subsequent evidence	**The “Halo” or “Horns” Effect**	Allowing good or bad performance in one or two areas of work to color assessment in other areas, resulting in overall assessment as high (halo) or low (horns)
Contrast Effects	Assessing people against others rather than strictly against job requirements	**Central Tendency**	Habit of assessing most people as “average”: neither very high nor very low
Similarity/ Clone Factor	Tendency to assess others more highly if they are similar to oneself	**Assumptions/Hearsay (the person is “lazy,” “dishonest.” etc.)**	“Filling in the gaps” without direct evidence, or by believing what others tell you
Recency/ ‘Prominence’ bias	Tendency to assess people based mainly on recent behavior	**Over-/Under-Attribution (Leniency or Severity Bias)**	Assessing higher or lower than is actually warranted: the most common is “leniency”
Personal/ Personality Bias	Focusing on personality factors rather than behaviors, which can be changed	**Opportunity Bias**	Ignoring or overlooking factors beyond the employee’s control that contribute to high or low performance; credit or blame can be wrongly assigned to the employee
Stereotypes/ Preconceptions	Over-focusing on one or two attributes, leading to unwarranted generalizations	**False Attribution Errors**	Tendency to attribute success or failure solely to individual effort and ability rather than examining the role that other factors (such as systemic factors) may have played
Direct/Indirect Discrimination	Assuming everyone should have the same work “style,” instead of tying performance to measurable indicators of work achievement		

Figure 4.4 Assessing performance: Seven-factor model



If a staff member is not performing according to expectations, there are several steps to follow. These are outlined below.

4.6.7b Handling Underperformance

The first step is to understand the possible cause of underperformance. Acknowledge that performance can be less than expected due to:

- Changes in objectives, duties or work priorities;
- Unclear, or unrealistic job roles, responsibilities, or performance expectations;
- Lack of ongoing feedback, or feedback that has not properly addressed poor performance;
- Lack of skills or knowledge that has not been adequately addressed;
- Variable or poor motivation which is related to organizational or personal issues;
- Structural or other organizational changes (for example, new IT systems, changes in processes or policy);
- Deliberate misconduct;
- Poor decision-making processes leading to unintended consequences;
- Personal issues outside of work, such as family, health, finances, etc.; and
- A lack of resources (such as financial or systems) or support (such as team, peer, or managerial support).

The key is to determine which of these reasons may have caused the employee's underperformance, and to put appropriate measures in place to rectify. This may entail:

- Providing more frequent, informal constructive feedback on performance;
- Addressing their learning and development needs;
- Providing support, information, and coaching;
- Addressing system or physical resource issues;
- Adjusting the performance agreement if set too high originally;
- Changing job responsibilities to better suit the person's interests, skills, and aspirations; or
- Adopting a formal counseling process, which ultimately will lead to termination of employment if performance does not improve by a specified time.

It is most important to have open communication with the employee. Keep in mind the following:

- Never procrastinate. Address the issue when it arises, or employees will question whether you are serious about rectifying the problem.
- When talking to an employee about their poor performance, indicate why it is a problem, and then quickly move on to prevent it from recurring. This moves the focus from blame to improvement.
- Whenever possible, elicit the employee's suggestions about how to prevent a recurrence. Encourage the person to take responsibility and offer support to implement a solution.
- Focus comments on performance, not personality. Restrict comments to instances of inappropriate performance and avoid implying that the person is lazy, uncaring, or incompetent.
- Remember that to improve performance it is often necessary to eliminate fear. Inducing fear is more likely to reduce performance, loyalty, and effort.
- If you never recognize effective performance and do not praise those who perform well, you will not be effective in dealing with problem performance!

Remember that even the best employees will find a discussion about inappropriate performance unpleasant. Some will take it personally, so be prepared for some defensiveness. Proceed slowly. Allow them the chance to process internally and respond. Stay in control of yourself and the situation. Seek agreement on the outcomes.

4.6.7c Performance Appraisal

This is the term often given to the formalized process of assessing performance. There are many ways to implement a performance appraisal system, and they will depend on variables such as:

- The size of the firm;
- The ratio of employees to partners—that is, the time efficiency needed;
- How familiar the partners and senior managers are with your performance appraisal process;
- The degree of technological sophistication in the organization (if running the appraisal system on-line); and
- How much money the partners are willing to invest in establishing the system. Regardless of the methods used, some general principles will be consistent.

At its simplest, performance appraisal should involve an assessment by the supervisor and the individual of the individual's performance against the performance indicators identified in their role description (see Appendices 4.2–4.4). Any discrepancies in perceived performance are then discussed until a common understanding is reached. This is recorded either electronically, or on paper.

Increasing levels of sophistication invariably come from data gathering. For example, should you wish to have perceptions of performance other than the supervisor's and the individual's, you may wish to consider a process called 360-degree feedback. This is where the person's staff, peers and supervisor all complete questionnaires providing feedback on the individual, which then provides the basis for the performance discussion.

Regardless of the complexity of the system you decide on, at minimum you will need to establish a performance agreement with each employee. See Appendix 4.6.

4.6.7d A Performance Agreement

Key result areas (KRAs)

KRAs constitute the focal point of an agreement. They provide the main framework for formal feedback.

- They outline what an employee is expected to do, including activities, tasks, or special projects.
- They are written to reflect the employee's contribution in achieving the corporate goals of the firm.
- They acknowledge contribution to a team environment, or making the workplace a positive environment to work in, not just billings generated for the practice.

Performance measures

These measures describe, in broad terms, how the job should be done.

- They outline how well the employee is expected to perform the major activities in each KRA.
- They are the basis for evaluating how often these behaviors are exhibited.

Skills and knowledge (competencies)

Competencies are the combination of skills and knowledge that the employee needs in order to meet performance measures. Competencies are actually a formally agreed-on framework that groups skills and knowledge into "bundles" so that training can be designed in a consistent way. Using this consistent framework, the "competence" of one person can be measured against that of another person. This is because predetermined standards and evidence are documented, with consistent evaluation systems in place. External industry-specific bodies design these competencies. It is your choice to implement competencies in your firm, or simply to list the knowledge, skills, and attributes someone requires in order to perform satisfactorily.

Development required

- Outlines training and development to help employees meet their KRAs to the required standard;
- May address core or job-specific competencies, certification requirements (such as certified professional development programs) or general personal development;
- Identifies resources and support needed; and
- Includes formal training, on-the-job training, or project work.

Consider development options that also address further professional development, career planning, or change of assignment.

If you have used a role description suggested in the Appendices, designing a performance agreement will be straightforward, as you have already identified the primary responsibilities, performance measures, and the competencies (that is, skills and knowledge) required for the job.

Appendix 4.4 shows you an example of what this might look like for a junior accountant. The “development required” column is used to take notes on any development needs that arise from the discussion. These can then be implemented and monitored in the separate personal development plan (see Appendix 4.5). Developmental options will be further explored in Section 4.7.

There is much at stake for the employee from the performance appraisal process and the resultant discussion, so it is important that you approach it consistently and professionally. An outline of a best-practice format is provided below.

4.6.7e The Performance Review Discussion: Seven-Step Structure

1. **Establish goals of the meeting**
    - Explain what to expect and how much time has been scheduled.
    - Convey your expectation that this will be an open and honest discussion.
    - Outline your plan for the session and find out if the employee wishes to include anything for discussion.
2. **Encourage dialogue**
    - Invite the employee to share their views first.
    - Ask open questions to elicit information: “What do you think you have done particularly well?”; “What could you have done better?”; “Can you explain any obstacles that are preventing you doing your work?”; “One of your objectives was to… How do you feel that went?”
3. **Discuss significant achievements**

    Use the “Four-step reinforcement process”:
    - Be specific about outstanding behavior (to reinforce and encourage repetition): “The training I asked you to implement for new members of the team was outstanding! It gave them a clear picture of what we do and why.”
    - Express your feelings about the achievement (detail specific improvements): “I was impressed by how well you demonstrated fundamental training principles during the session. Your skills have really improved over the past few months!”
    - Specify the behavior or activity you want to continue (reiterate what is working well): “Your strategy of assessing your team’s training needs before conducting the training helped you achieve these great results. Keep doing that in future, as it gives you a great framework to focus on key information.”
    - State your confidence in the employee (convey further opportunities): “I knew you would do well with this project. I will be suggesting at the next management meeting that other teams consider having you deliver this training to them.”
4. **Review primary responsibilities and performance measures**
    - Honestly explore with the employee what has not been achieved against KRAs, major activities, and performance measures, as well as what has. Ask them for their response, then listen attentively while they answer.

- Remember this is a two-way discussion and an opportunity to explore reasons why performance may not be reaching expected standards.

5. **Discuss unsatisfactory performance**

Phase 1: Review expectations

- Focus on performance issues in terms of actions and results, not personality.
- Use directive questioning to encourage honest exploration of the issues: "Your reports contain all the necessary information, but often they are not forwarded to me on schedule. Why is this happening?"

Phase 2: Understand their response

- Listen carefully, paraphrase responses and encourage specific examples.
- Avoid blame and fault-seeking: emphasize that you want to look at improvement for the future.
- Use questions to encourage reflection: Employee: "Our output would be higher if we changed the procedures we use." [Listen and paraphrase what you hear] Manager: "You think that could improve our output ?"

Phase 3: Solve it together

- Engage in a problem-solving dialogue, offering support, but making it clear that it is ultimately the employee's responsibility: "What do you suggest as a fair solution?"; "What options do you see here?"; "How could you have done that better?"; "Some ways you could be even more effective are . . ..."; "A strategy I've seen used effectively would be for you to . . ..."

Phase 4: Keep it realistic

- Be specific about what you expect and on what deadline: "Please keep me up to date with how you are progressing every week by 5 pm each Friday/end of shift during the next review period."

6. **Discuss future major activities and development goals**

- Set realistic performance goals supported by an achievable development plan.
- Encourage the employee to set at least some of their goals: "So what would you be willing to commit to doing?" [Answer] "By what date?"; "An area I'd like to see you tackle is the difficulty we've had with … Let's set an objective and a time frame for solving it."

Document the agreement and the plan for achieving improvements.

7. **End on an upbeat note**

- Summarize the discussion, and be positive about the future: "Let's restate what we agreed upon"; "I'm feeling good about what we discussed."

Note: Even if your employee has agreed to the KRAs and major activities, it is important to have them say so one last time. If you feel you need to check their level of comfort with what was agreed, ask, "Do you foresee any problems achieving what we have discussed?" Discuss questions and seek to resolve any concerns before the meeting ends and the employee signs the performance agreement.

4.7 Training and Development

Training and development are pivotal to your firm in many ways:

- It is how your employees gain the skills and knowledge necessary to carry out their duties.

- It provides the interest and mental stimulation often required to keep employees engaged and loyal to the firm.
- It increases the capacity of your firm to service its clients, often with flow-on financial benefits.
- It is a risk mitigation strategy.

4.7.1 Identifying Development Needs

Identifying development needs can occur at any time; however, development needs should be reviewed and formalized during the performance appraisal discussion with your employee. Base the discussion on identified gaps in competency compared with performance measures or certified professional development programs.

The need for new or upgraded skills can also arise when changes occur to legislation, policy, procedures, technology, and organizational structure.

Document the development requirements in a personal development plan. This plan should be a straightforward description of the steps to be taken in development activities. It should include:

- What development activities are required;
- The names of those who will assist the employee; and
- Target dates for completion of the plan's objectives. See the personal development plan in Appendix 4.5.

Opportunities for development

New skills and knowledge can be learned through:

- On-the-job training;
- Internal or external courses;
- Computer-based (online) learning;
- Action learning using projects (employee studies their own actions in order to improve performance);
- Personal coaching and mentoring, either by someone within the firm or an external coach;
- Vocational or tertiary extension development, such as masters or postgraduate study;
- Working toward and attaining formal assessment under industry professional certification programs;
- Understudying someone on the job;
- Attending conferences, workshops, and seminars;
- Job enrichment (more challenging projects);
- Job enlargement (widening range of learning opportunities on the job);
- Job rotation (moving to another part of the firm for a specified period of time);
- Videos, books, and journal articles;
- Reading documents such as manuals and legislation;
- Work-based projects such as the development of a new firm-management approach in a particular discipline;
- Delegation for development (as a real part of the job, not just a task);

- Delivering presentations to clients or other employees; and
- Representing the firm at conferences or on industry committees.

These methods can be used individually or in combination for a more effective outcome—for example, postgraduate studies with work provided in that field of study in the workplace, and coaching from a partner.

4.7.2 Development is an Investment

At times you will need to move away from the general principle of the most cost-effective way of servicing your clients in the interest of training and developing your employees. This may mean you work on a particular component of a client job with an inexperienced person, to start transferring your knowledge. In this situation, the time-recorded cost will be higher because you will spend time explaining and training, then assisting or monitoring the employee, then reviewing the end result. At the same time, your trainee will probably spend more time than an experienced employee doing the first few examples of this work.

This is likely to cause a “write-down” on the time recording system. This is the reduction of a bill to allow for training, rework, or other factors outside the client’s control. Consider this write-down as an investment in the future of the firm as you develop your people. Remain balanced however, remembering that a dollar of write-down represents a dollar of profit invested.

Best practice standard

If you want a learning ethos to become part of your firm’s culture, then training and development will be an ongoing part of it. There is always a new piece of work that someone in your practice has not yet been exposed to; there is always something that one person can teach another, for the benefit of your clients. If this is part of your culture, the exchange of information can happen freely. And it does not always need to flow from the principals to the employees.

Record the value of write-downs and, if possible, divide the dollar value into the different major controllable elements—for example:

- Training write-downs that will occur frequently and are an essential part of the development of your people and your firm;
- Rework write-downs that indicate mistakes, or inadequate training, so they can and should be eliminated; and
- Research write-downs, where a large amount of time is considered to be non-recoverable from an individual client.

In this way, the cost of each type of write-down can be examined, and the problem can be corrected at the source, with more training and better systems.

4.7.3 Remuneration

Remuneration has the potential to be a source of aggravation for both partners and employees if negotiations on its components and the rationale behind them are not clearly communicated and agreed upon. Here are some factors to consider.

- **What are your expectations of the individual employee?** Have you communicated those expectations clearly? Are you referring to a given level of output, or are you focused on measuring time? How important to the perceived success of the employee will it be for them to, for example, achieve or exceed the annual fee budget? Can the output from this role be easily measured (for example, in fees generated or chargeable hours worked), or does it require more subjective evaluation? Has the employee accepted your expectation as reasonable? Unless this basic ground is accepted and understood, the discussion will be unsatisfying for both employer and employee.

- **What hours do you expect the employee to work?** Is it acceptable for the employee to work conscientiously for 35 or 38 hours per week only, or do you want them to work more hours? If you expect them to work longer, this should be recognized either through a higher base wage or through some type of variable remuneration that reflects the additional effort.
- **Have you assisted the employee in every reasonable way?** In the case of an employee going through a salary review, ask yourself whether you have provided suitable training, coaching, advice and assistance, and have they been provided with the equipment necessary to do their job effectively. Or are there obstacles in the way of their achievement?
- **What is the market rate for this position?** This might be the local rate, particularly for firms in a rural or coastal region, where the pool of alternative employees is limited to a specific town or area. Or, it could be a wider rate, such as a city rate, even though your firm might be based in the suburbs. Use the various salary surveys conducted for the accounting profession as another set of input; employment agencies might also be able to assist. What special factors would lead you to pay above these market rates to an individual, or a group of people?
- **What non-financial benefits will you offer?** This might include some flexibility in taking leave, or allowing an employee to work some hours on a more flexible basis. It could mean allowing the employee the opportunity to sacrifice part of their salary as a way of increasing its after tax net value to the individual. It could mean building in additional training or professional development activities, or supporting the employee through, their professional certification program. Often these non-financial benefits have minimal cost to your firm, yet they significantly increase the value of the employment relationship to the employee.
- **Decide on the frequency of salary review.** This could be annually, or in line with the consumer price index.

Best practice standard

Get agreement as to a reasonable remuneration expectation for each person. Agree on the job and the measurement criteria used. Check local sources and salary surveys for current pay rates.

Ensure that the remuneration package consists not only of the salary component, but also of non-monetary factors such as training, mentoring, development, flexibility, and a variety of work, so that the employee can bundle up a range of benefits or arrangements that they value.

For the financial component, focus on the delivery of a result to your firm relative to any additional salary. This helps the employee be aware that the extra financial reward is tied to some additional productivity or performance. Bonuses might play a part in the overall remuneration package. These are most effective when they are linked to performance above the minimum acceptable level. For example, if you expect a person to generate 1,200 chargeable hours per annum with no more than 10% write-offs, then you might pay a bonus of $20 per chargeable hour beyond 1,200 hours. In this way, the base salary covers the acceptable level of performance, and the bonus rewards the performance above this level. This provides a real incentive to overachieve.

Be careful that your remuneration policy does not drive undesirable behaviors. For example, remuneration for increased chargeable time may discourage delegation, training of junior staff or contribution to improvement in the firm’s systems and procedures.

Ultimately it will be a negotiation between you and the potential employee, with some give and take in relation to the components and their weighting.

Remember that the performance management process starts with this initial negotiation; from it comes agreement about expectations and the resulting remuneration.

4.8 Rewards and Recognition

There is an important distinction between the terms “recognition” and “reward.” How reward and recognition are handled must, of course, be culturally appropriate—in some countries singling out one particular employee can be seen as an indictment of the rest of the team.

4.8.1 Rewards

A *reward* provides something in return for a completed task or project, usually remuneration or compensation for services provided—for example, when service exceeds expected requirements. Sometimes a performance bonus may be given to reward the person for extra effort or an excellent outcome.

4.8.2 Providing Recognition

Recognition acknowledges and honors effective and/or exceptional performance. It focuses on genuine, personal appreciation of an employee’s accomplishment. It can be provided as part of normal feedback processes or in a more formal one-time award or ceremony. As Maslow identified, people have a basic need for recognition. This encourages them to perform at consistently high levels. A simple “thank you” for good work from the sole practitioner or a partner can boost morale and improve people’s willingness to sustain good performance over time.

Recognition strategies provide benefits through:

- Raising a person’s self-esteem;
- Improving individual and team performance;
- Promoting and reinforcing desired actions and behaviors; and
- Helping create a high-performance work culture.

All of these contribute to increased productivity, and thus profitability.

Barriers to providing recognition

Barriers to providing appropriate rewards and recognition include:

- A lack of skills or confidence to do it properly;
- Personal beliefs that recognition strategies are tokenistic elitism, and they do not assist in improving performance;
- Bad past experiences in giving or receiving recognition;
- An unwillingness to single out one employee over another;
- A lack of knowledge about the range of strategies available and what others might value; and
- A lack of time or resources to do it well.

These barriers can be overcome if they are recognized and strategies are put in place to address them.

Table 4.8 Informal recognition strategies

Written/Verbal	Job-Related	Symbols and Honors
• Thank-you letter, card • Positive job reference • Email message (copied to others) • Informal verbal feedback • Affirming performance feedback • Public praise (for example, at team meetings) • Sharing accomplishments (for example, at team meetings)	• Additional development opportunities (for example, attend conferences) • Learning resources (for example, management books, videos) • More challenging assignments • Cross-training opportunities • Higher proportion of more enjoyable work, fewer tasks that are less enjoyable • Opportunity to represent the team at an important meeting • More involvement in setting goals, generating ideas and making decisions	• Provide certificates or plaques • Take the person out to lunch • Hold a presentation ceremony at a breakfast or afternoon tea • Give them a gift voucher for something related to a personal interest • Donate money to their favorite charity

Formal recognition strategies include nominating your employee for a professional body or industry award, or creating formal company rewards such as highest billing hours or outstanding project awards (for a team).

Managers should only use formal recognition strategies to acknowledge top performance. To ensure that they have meaning:

- Promote criteria widely so they are well understood by all employees;
- Be transparent about the reasons for using the formal awards;
- Match the award to the contribution and outcomes of individuals or teams;
- If reward to an individual is non-monetary, allow the person to select the reward;
- Provide informal recognition to complement the formal processes; and
- Provide formal recognition as soon as practicable after the event. For those formal awards that are offered once a year, provide informal recognition at the time.

Ensure that recognition is delivered in a personal, sincere and honest manner. Match the ceremony to the importance of the award and to meet the personal preference of those being recognized.

4.9 Exiting/Transitioning Employees

4.9.1 Termination

Unfortunately, no matter how diligent your employment screening process is, sometimes an employee will not work out as expected. In these cases it is fairest for all parties to address this openly and promptly in order to minimize the risk to the firm.

The regulatory framework in relation to termination changes from time to time, and varies across countries. However, most guidelines prevent employees from being treated in a harsh, unjust, or unfair way. You will need to show that you have followed due process in reaching the conclusion that the employee is unsuitable, and that you have documentation to support this. This may be in the form of records of billable hours agreed, position descriptions and performance measures, file notes on performance records of counseling discussions and copies of performance appraisal outcomes.

Even if this evidence is not formally required in your jurisdiction, it is best practice to keep records such as these for your internal reference and record.

The Employment Agreement is an important document to refer to when you terminate staff, as the legal obligations of the parties should be outlined. You must ensure you meet your contractual and statutory obligations to your staff member, and you may need to remind them of meeting theirs. Such matters may include the confidentiality of client and firm information, non-competitive activity and property or information owned by the firm.

While there are some employees you may want to remove from your firm, there will be others you will want to keep on for as long as possible.

4.9.2 Retaining Older Workers

In many countries, the Baby Boomers comprise a large percentage of the skilled workforce and are starting to retire. There are not enough younger employees to take their places once they retire, and this is without taking into account the lost knowledge and expertise that will walk out the door with them.

Many firms are investigating ways to keep these employees in the workplace longer, as there are often benefits for both parties. For example:

- Older workers might be permitted to reduce the number of days or months that they work each year and earn proportionately less in wages. This can have the personal benefit of preparing them for their eventual full retirement, while keeping their social networks and professional skills current. This also lets them be available to coach and mentor younger staff.
- In a firm that has peaks and valleys in workload, older employees provide an ideal contract solution while still providing a high-quality, professional service to clients.
- Job sharing can be attractive to this group. Some financial institutions are specifically recruiting older workers for frontline service roles.

4.9.3 Exit Surveys

When employees leave of their own volition, it helps the firm to understand the reasons behind this decision so that it can continuously improve its work environment. The two main ways of gathering this information are discussion with the employee, asking his or her reasons for leaving, or through a standardized survey.

Bear in mind that the employee may not always feel comfortable telling you the real reasons they are leaving. That’s because it may have an adverse impact on their career options within the wider industry or limit their opportunity to come back to your firm at some time in the future. For this reason, in large organizations, anonymous surveys are usually used. Obviously in a small firm this is impossible, as there is not the level of employee turnover to provide anonymity.

Remember this: unless you ask questions, you will not gather any information that will improve your firm. At the very minimum, it shows the employee that you care about staff views and seek to provide a good working environment for those that remain.

4.10 Conclusion

This module focused on developing one of your greatest assets, the people within your firm. One of the most important ways to do this is to develop your people management strategy. The module discussed the key components of this, such as the importance of clarifying expectations, and also considered the impact of generational diversity. Another important element covered was identifying the skills mix required for your practice and how to go about recruiting and training your team to fulfill these needs.

The key areas you should take into account when recruiting new employees, including your selection process, interviewing and induction were discussed too. A very important area directly impacting a firm's success is leadership, and the module shows how to apply key leadership principles in small- and medium-sized practices.

Module 4 also explored how to build and develop teams, emphasizing the importance of managing and retaining staff. This led to a fuller understanding of productivity and of implementing the right measures for motivating and rewarding your team. A number of checklists and personal development tools are provided in the Appendices, which will be useful for implementing much of the material discussed in the module.

As this is such an important area for all firms, it is well worth taking the time to fully understand the essential messages contained in the module and how best to apply them within your firm.

4.11 Further Reading and IFAC Resources

The IFAC Global Knowledge Gateway is a digital hub where professional accountants can easily access thought leadership and resources from IFAC, member organizations, and other notable groups and individuals.

The Gateway Practice Management section includes additional articles, videos, and resources to complement this module. We encourage you to review the content, provide feedback, engage with contributors, and share your own insights on contemporary practice issues.

Appendix 4.1 Functional Leadership Checklist

Task	✓	Team	✓	Individual	✓
As a leader, you: • Agree team goals with your partners/board; • Are clear on your authority and delegations; • Understand what you and the team are accountable for; • Have a team plan to achieve agreed goals; • Take time to plan and set priorities; • Are clear about what each task is and what it entails; • Communicate how the success of each task will be measured; • Assess the resources and skills required; • Delegate work effectively; • Distribute workload fairly and appropriately; • Monitor and evaluate performance; and • Model high standards of behavior.		As a leader, you: • Explain goals to your team and agree on priorities; • Let team members know what you expect (outcomes and standards); • Encourage team involvement in decision-making; • Seek suggestions and input from the team; • Keep the team informed of any changes and how this affects them; • Spend time on "team maintenance"; • Make sure team members observe health and safety principles; • Model appreciation of diversity; • Apply rules and standards equitably; • Deal promptly with team conflict; • Represent your team positively to your partners; and • Build a positive team climate by being present and involved.		As a leader, you: • Ensure each individual knows their job role and how it fits into the "bigger picture"; • Gain agreement from employees on tasks, priorities and standards; • Provide the equipment, resources and information needed; • Get to know each employee (strengths, weaknesses and potential); • Use delegation as a development tool; • Coach, train and develop individuals; • Build a strong working relationship with each individual; • Give frequent, constructive feedback; • Recognize and reward good work; • Deal promptly and fairly with individual concerns; and • Understand what motivates each individual and use this knowledge wisely.	

Appendix 4.2 Senior Accountant/Manager Role Description

<table>
<tr><th colspan="3">Senior Accountant Role Description</th></tr>
<tr><td colspan="2">Division: Accounting</td><td>Team: Tax</td></tr>
<tr><td colspan="2">Reports to: Partner/Principal</td><td>Roles reporting to this one: None</td></tr>
<tr><td colspan="2">Hours: 8.30 am–5.00 pm (one-hour lunch)
38 hours/week (and reasonable overtime as required)</td><td>Remuneration: $(XXXX), plus (XXXX) incentives and annual salary review based on performance</td></tr>
<tr><td colspan="3">Strategic Direction Summary: Contributes to the organization by delivering such high-quality service that clients see (Company X) as their accounting firm of choice.</td></tr>
<tr><td colspan="3">Position Summary: Be responsible for client portfolio, including tax accounting, business advice and other service areas as delegated by principal/partner. Ensure accuracy and completeness of work with attention to detail, while at the same time maintaining productivity and team performance.
Suitable for accountants with five (plus) years' experience.</td></tr>
<tr><td colspan="3">Performance Appraisal: Three-month probation review, and then annually from commencement.</td></tr>
<tr><td colspan="3">Key Accountabilities</td></tr>
<tr><td>Key Result Area</td><td>Major Activities</td><td>Performance Measure</td></tr>
<tr><td>Accounting</td><td>• Attend to queries and final review work done by team.</td><td>• Ensure accurate and timely completion of jobs by team.</td></tr>
<tr><td>Monthly Trial Balance</td><td>• Attend to queries and final review work done by team.</td><td>• Ensure accurate and timely completion of jobs by team.</td></tr>
<tr><td>Taxation</td><td>• Finalize end-of-year trial balance, including all adjustments, end of year entries for depreciation, provisions, accruals and prepayments.
• Prepare working papers for tax returns for individuals and businesses.
• Prepare draft financial statements.
• Prepare income tax returns.
• Attend to queries and final review work done by team.
• Attend to client queries and communication.</td><td>• Ensure work papers, checklists and internal processes have been completed accurately and in a timely manner.
• Ensure accurate and timely completion of jobs by team.
• Ensure client satisfaction.
• Ensure compliance with tax laws and regulations.
• Ensure timely lodgements of all jobs with regulators.</td></tr>
</table>

Senior Accountant Role Description		
VAT/Sales Tax* Compliance	• Review VAT/sales tax reconciliations, based on computer records against client records. • Prepare VAT/sales tax returns.	• Work papers and checklists completed accurately and in a timely manner.
Management of Team Performance	• Clearly explain to team members their role, accountabilities, and support provided by practice. • Maintain a positive team dynamic. • Identify any negative team dynamic issues before they impact on performance. • Put appropriate strategies in place to restore a positive team dynamic. • Provide ongoing feedback to team members on their performance and work standard. • Undertake formal performance appraisal process annually, including identifying development requirements.	• All team members are clear on what is expected of them and where to obtain resources/support. • All members of team are completing work to a high standard on time. • Team members provide positive feedback that they enjoy working in the team, and for the firm. • All team members receive ongoing feedback about their performance and work standard. • All team members are formally appraised annually. • All team members have current personal development plans, and are supported in completing their plan's activities.
Liaise with clients, principal/partner, firm manager, other accountants and support employees. Supervise accounting team		
* VAT stands for value-added tax.		

Skills and Knowledge (Competencies)	
Essential	**Desirable**
• Sound accounting and taxation skills and knowledge • Sound computer literacy: ability to navigate around a computer and access email, Internet, cloud-based applications • Medium level understanding of Microsoft suite of products • Sound understanding of accounting software programs • Ability to supervise team	• Eye for detail and accuracy • Sound understanding of the accounting industry

Personal Attributes	
Essential	**Desirable**
• Good communication skills, both written and oral, and in particular a professional and pleasant phone manner • Ability to work as a member of a team • Initiative • Ability to juggle multiple priorities • Willingness to learn • Attention to detail • Businesslike personal presentation • Responsible for self and team performance against predetermined standards	• Positive, proactive demeanor
Education, Training and Development	
Essential	**Desirable**
• Degree in accounting or business • Five years' minimum experience in professional accounting firm • Sound understanding of income tax and VAT/sales tax provisions together with other statutory regulations and requirements	

Appendix 4.3 Assistant Accountant Role Description

<table>
<tr><th colspan="3">Assistant Accountant Role Description</th></tr>
<tr><td colspan="2">Division: Accounting</td><td>Team: Tax</td></tr>
<tr><td colspan="2">Reports to: Tax Manager, who is ultimately responsible to the Partner/Principal</td><td>Roles reporting to this one: None</td></tr>
<tr><td colspan="2">Hours: 8.30–5 pm (one-hour lunch)
38 hours/week (and reasonable overtime as required)</td><td>Remuneration: $(XXXX), plus (XXXX) incentives and annual salary review based on performance</td></tr>
<tr><td colspan="3">Strategic Direction Summary: Contributes to the organization by delivering such high-quality service that clients see (Company X) as their accounting firm of choice.</td></tr>
<tr><td colspan="3">Position Summary: Be responsible for client work for tax accounting areas as delegated by manager. Ensure accuracy and completeness of work with attention to detail, while at the same time maintaining productivity.
Suitable for accountants with two to three years’ experience.</td></tr>
<tr><td colspan="3">Performance Appraisal: Three-month probation review, and then annually from commencement.</td></tr>
<tr><td colspan="3">Key Accountabilities</td></tr>
<tr><td>Key Result Area</td><td>Major Activities</td><td>Performance Measure</td></tr>
<tr><td rowspan="2">Bookkeeping</td><td>• Review work done by junior accountant</td><td>• Ensure accurate and timely completion of jobs.</td></tr>
<tr><td>• Review general journal and general ledger, including sales ledger and purchase ledger.</td><td>• Ensure accurate and timely completion of jobs.</td></tr>
<tr><td>Monthly Trial Balance</td><td>• Review reconciliation of bank accounts, sales and purchase ledgers.
• Calculate and post end-of-month entries for depreciation, provisions, accruals and prepayments.</td><td>• Completed accurately and in a timely manner.</td></tr>
<tr><td>Taxation</td><td>• Finalize end-of-year trial balance, including all adjustments, end of year entries for depreciation, provisions, accruals and prepayments.
• Prepare working papers for tax returns for individuals and businesses.
• Prepare draft financial statements.
• Prepare income tax returns.</td><td>• Work papers and checklists completed accurately and in a timely manner.</td></tr>
</table>

Assistant Accountant Role Description		
VAT/Sales Tax Compliance	• Review VAT/sales tax reconciliations, based on computer records against client records. • Prepare VAT/sales tax returns.	• Work papers and checklists completed accurately and in a timely manner.
Management of Team Performance	• Clearly explain to junior accountants answering to you their roles, accountabilities, and support provided by practice. • Maintain a positive team dynamic. • Identify any negative team dynamic issues before they impact on performance. • Put appropriate strategies in place to restore a positive team dynamic. • Provide ongoing feedback to team members on their performance and work standard. • Undertake formal performance appraisal process annually, including identifying development requirements.	• All team members are clear on what is expected of them and where to obtain resources/support. • All members of team are completing work to a high standard on time. • Team members provide positive feedback that they enjoy working in the team, and for the firm. • All team members receive ongoing feedback about their performance and work standard. • All team members are formally appraised annually. • All team members have current personal development plans, and are supported in completing their plan's activities.
Liaise with clients, team manager, other accountants and support employees. Supervise junior accountant.		
Skills and Knowledge (Competencies)		
Essential		**Desirable**
• Sound bookkeeping and accounting skills • Sound computer literacy: ability to navigate around a computer and access email, Internet • Medium level understanding of Microsoft suite of products • Sound understanding of Accounting Software programs		• Eye for detail and accuracy • Sound understanding of the accounting industry • Ability to supervise junior and support employees

Assistant Accountant Role Description	
Personal Attributes	
Essential	**Desirable**
• Good communication skills, both written and oral, and in particular a professional and pleasant phone manner • Ability to work as a member of a team • Initiative • Ability to juggle multiple priorities • Willingness to learn • Attention to detail • Businesslike personal presentation	• Positive, proactive demeanor
Education, Training and Development	
Essential	**Desirable**
• Degree in accounting or business • Two to three years' minimum experience in professional accounting firm or commercial environment • Understanding of basic income tax and VAT/sales tax provisions	• Training or experience in income tax and VAT/sales tax

Appendix 4.4 Junior Accountant Role Description

<table>
<tr><th colspan="3">Junior Accountant Role Description</th></tr>
<tr><td colspan="2">Division: Accounting</td><td>Team: Tax</td></tr>
<tr><td colspan="2">Reports to: Tax Manager, who is ultimately responsible to the Partner/Principal</td><td>Roles reporting to this one: None</td></tr>
<tr><td colspan="2">Hours: 8.30–5.00 pm (one-hour lunch)
38 hours/week (and reasonable overtime as required)</td><td>Remuneration: $(XXXX), plus (XXXX) incentives and annual salary review based on performance</td></tr>
<tr><td colspan="3">Strategic Direction Summary: Contributes to the organization by delivering such high-quality service that clients see (Company X) as their accounting firm of choice.</td></tr>
<tr><td colspan="3">Position Summary: Be responsible for client work for bookkeeping and tax accounting areas as delegated by manager. To ensure accuracy and completeness of work with attention to detail, while at the same time maintaining productivity.
Suitable for fresh graduates.</td></tr>
<tr><td colspan="3">Performance Appraisal: Three-month probation review, and then annually from commencement.</td></tr>
<tr><th colspan="3">Key Accountabilities</th></tr>
<tr><td>Key Result Area</td><td>Major Activities</td><td>Performance Measure</td></tr>
<tr><td rowspan="2">Bookkeeping</td><td>• Data entry of bank details, income and expenses.</td><td>• Records kept up to date on weekly basis.
• Accuracy and completeness.</td></tr>
<tr><td>• Maintain general journal and general ledger, including sales ledger and purchase ledger.</td><td>• Records kept up to date on weekly basis.
• Accuracy and completeness.</td></tr>
<tr><td>Monthly Trial Balance</td><td>• Reconcile bank accounts, sales and purchase ledgers.</td><td>• Reconciliation reports completed accurately and in a timely manner.</td></tr>
<tr><td rowspan="2">Taxation</td><td>• Prepare working papers for basic tax returns for individuals and businesses.</td><td>• Work papers and checklists completed accurately and in a timely manner.</td></tr>
<tr><td>• Prepare VAT reconciliations, based on computer records against client records.</td><td>• Work papers and checklists completed accurately and in a timely manner.</td></tr>
<tr><td colspan="3">Liaise with clients, team manager, other accountants and support employees.
Supervise junior accountant.</td></tr>
</table>

Junior Accountant Role Description	
Skills and Knowledge (Competencies)	
Essential	**Desirable**
• Basic bookkeeping and accounting skills • Reasonable computer literacy, i.e., ability to navigate around a computer and access email, Internet • Basic/medium level understanding of Microsoft suite of products • Basic level of understanding of accounting software programs	• Eye for detail and accuracy • Basic understanding of the accounting industry
Personal Attributes	
Essential	**Desirable**
• Good communication skills, both written and oral • Ability to work as a member of a team • Initiative • Willingness to learn • Attention to detail • Businesslike personal presentation	• Positive, proactive demeanor
Education, Training and Development	
Essential	**Desirable**
• Degree in accounting or business, or approved certificate in accounting	• Training or experience in income tax and VAT/sales tax

Appendix 4.5 Personal Development Plan **Covers the period ___/___/___ to ___/___/**

For ____(person's name)

Key Result Area	Major Activity Requiring Some Development	What Development Activity will Enhance Your Effectiveness?	Who will Support You?	Indicate a Priority	Date Completed	Signed by Both Parties (After Development Activity Completed)
The following are provided as examples only, and are by no means exhaustive.						
Team Performance	Appraise performance.	Undertaking course in how to undergo an effective performance appraisal process.	Direct supervisor	4		
Team Performance	Maintain positive team culture.	Take part in workshop on how to develop a high-performing team.	Direct supervisor	2		
Taxation	Remain current on tax legislation.	Attend professional association update programs.	Direct supervisor	3		
Taxation	Remain current on any changes to tax compliance requirements.	Read up-to-date materials and journals.	Direct supervisor	1		

Appendix 4.6 Performance Agreement **Covers the period ___/___/___ to ___/___/**

For ____(person's name)

Senior Accountant/Manager (Example)

(Fill out the first three columns from the role description at the beginning of the twelve-month period, and ensure the employee understands and agrees with what is expected of them. At the end of the twelve-month period, review each item and agree on a level of performance with employee, filling in the remaining two columns.

If you want to add another degree of sophistication to the process, you can identify competencies required to meet the performance measures, and thus insert a column between "performance measure" and "meets requirement.")

Key Result Area	Major Activities	Performance Measure	Meets Requirement (Can be Yes/No, or % Degree of Meeting)	What is Required to Maintain or Improve Performance?
Accounting	Attend to queries and final review work done by team.	Ensure accurate and timely completion of jobs by team.	Yes, 80% of time	Increase focus on team progress to ensure 100% on-time completion. Attend to team member questions on the spot if possible.
Monthly Trial Balance	Attend to queries and final review work done by team.	Ensure accurate and timely completion of jobs by team.	Yes	Nil
Taxation	Finalize end-of-year trial balance, including all adjustments, end-of-year entries for depreciation, provisions, accruals, and prepayments. Prepare working papers for tax returns for individuals and businesses. Prepare draft financial statements. Prepare income tax returns. Attend to queries and final review work done by team. Attend to client queries and communication.	Ensure work papers, checklists, and internal processes have been completed accurately and in a timely manner. Ensure accurate and timely completion of jobs by team. Ensure client satisfaction. Ensure compliance with tax laws and regulations. Ensure timely lodgments of all jobs with regulators.	Yes, 60% Calculations in working papers using outdated tax legislation. Clients commenting that there is a three-day turnaround on responding to their queries.	Update tax legislation knowledge. Respond to client queries the same day.

Key Result Area	Major Activities	Performance Measure	Meets Requirement (Can be Yes/No, or % Degree of Meeting)	What is Required to Maintain or Improve Performance?
VAT/ Sales Tax Compliance	Review VAT/sales tax reconciliations, based on computer records against client records. Prepare VAT/sales tax returns.	Work papers and checklists completed accurately and in a timely manner.	Yes	Continue to read up-to-date and journal material.
Management of team performance	Clearly explain to team members their role, accountabilities, and support provided by the firm. Maintain a positive team dynamic. Identify any negative team dynamic issues before they impact on performance. Put appropriate strategies in place to restore a positive team dynamic. Provide ongoing feedback to team members on their performance and work standard. Undertake formal performance appraisal process annually, including identifying development requirements.	All team members are clear on what is expected of them and where to obtain resources/support. All members of team are completing work to a high standard on time. Team members provide positive feedback that they enjoy working in the team and for the firm. All team members receive ongoing feedback about their performance and work standard. All team members are formally appraised annually. All team members have current personal development plans, and are supported in completing the plan's activities.	No Strong dissatisfaction expressed by some team members, with two employees leaving in last twelve months.	Learn how to build a high-performing team. Learn how to conduct a formal performance appraisal process, including providing effective feedback.

Supervisor Signature and Date ______________________________ _____/ _____/ _____/

Employee Signature and Date ______________________________ _____/ _____/ _____/

Leveraging Technology

Module 5

CONTENTS

5.1 Introduction

Small- and medium-sized practices (SMPs) are heavily reliant on technologies to provide efficient, cost-effective, high-quality, and profitable services for their clients. While an SMP is unlikely to have a dedicated IT Department or Help Desk, it still has to perform all the same tasks as a large organization and should ensure that those tasks are allocated to someone within the business or to an external service provider.

Effective selection, implementation, and management of technologies, as well as training employees to use software solutions, are fundamental to the success of any firm.

When introducing or reviewing a technology strategy, a firm needs to first define what it wants it to do. Then, find a system that will achieve most, if not all, of that.

Technology will assist a firm in, among other things, the following aspects:

- Efficient processing and scheduling of work;
- Enhancing the presentation of the firm's work;
- Storing and retrieving data efficiently and with adequate disaster recovery mechanisms;
- Maintaining both records and contact with the firm's client base;
- Sharing data with their clients;
- The communications process;
- The marketing of the firm and their value proposition; and
- Managing time pressures.

Just some of the core applications relevant to the effective use of technology include:

- A practice management system which records financial details about the firm's performance, including work in progress and debtor levels, costs, profit, and investment in fixed assets;
- A diary or personal organizer software where multiple people have access to a single diary;
- File-management and archival software;
- Client relationship management (CRM) software;
- A general ledger program capable of handling your processing of clients' financial data (this should be regularly updated, and have templates which conform to statutory accounting requirements);
- Time-recording software (generally, this comes with integrated billing modules for raising invoices as well as monitoring time and productivity by person and by client);
- Word-processing and spreadsheet capability;
- A database system capable of creating your own personalized applications (optional);
- Internet connections;
- A web page for your firm;
- A fixed asset system, ideally with direct integration to the client ledger, which calculates amounts such as depreciation and gain or loss on disposal;
- Software to calculate asset and liability values for leased assets (optional); and
- Speciality applications to assist firms to automation of many procedural tasks.

There continues to be an increase in the number of suppliers focused on information technology (IT) solutions for accountancy firms and their small business clients. As a result of new cloud solutions, businesses are embracing computerized accounting, resulting in the changing role the practitioner plays and low-end tasks such as bookkeeping, reconciliation, and monthly report preparation being automated.

SMPs need to also acknowledge how technology is changing regulatory oversight programs. Regulators are adapting and building systems to automate the collection and transmission of data with firms and enhancing their data analytics capabilities to strengthen their oversight programs.

In a climate of ongoing change it is critical that practitioners ensure that they have adopted best practices in respect of their technologies.

This module examines contemporary practice issues related to leveraging technology within a firm and emerging technologies.

5.2 New and Emerging Technologies

IT continues to evolve rapidly with faster, more reliable, and cheaper Internet connections and fundamental changes in how applications are developed, deployed, implemented, and used all across the world.

Businesses and accounting firms are now using the Internet as an application platform. These technologies are commonly referred to as Web 2.0, and have led to the development and evolution of web-based communities and hosted services (such as social-networking sites, video-sharing sites, wikis, and blogs).

Cloud technology is already well established and having an impact on how firms are doing business. Business and consumer acceptance is being driven by readily available cloud applications allowing you to access software, data, contacts, and calendars from whatever device you are on. The impact on business and accounting firms is substantial and it is already changing how accountants interact with their clients and staff.

Research indicates that investment in technology is a key driver of productivity in the accountancy sector.

Existing and emerging technologies provide a solution to automate tasks, reduce data processing, and predict clients' future needs. With research regularly indicating that a new generation of clients is seeking to only interact with their accountant via technology, some firms may face the challenge of the risk of not investing sufficient time and resources to keep abreast of emerging technologies. The risk of not investing in technology will also impact a firm's ability to attract and retain staff who see technology as an enabler to adding value to clients.

5.2.1 Cloud Computing and Hosted Applications

Cloud computing facilitates anywhere/anytime access to real-time data. The benefits include improved efficiencies, increased availability, elastic scalability, fast deployment, and low upfront costs. Cloud providers offer services using three models.

- **Software as a Service (SaaS)**

  SaaS (or Application Service Provider [ASP] application) is having a significant and rapid impact on how accounting firms are doing business and interacting with their clients by providing a cheaper and easier technology solution.

  Instead of firms spending time synchronizing data, a firm may now work on the same sets of data online.

  Cloud-computing applications are hosted by a service provider and accessed by customers over the Internet, often with a simple web browser but sometimes with a small application automatically downloaded from the hosting provider.

- **Platform as a Service (PaaS)**

  PaaS is a cloud solution for the creation of applications. In this model software, developers have access to computing platforms including operating systems, programming language, and execution environments without the underlying infrastructure costs.

- **Infrastructure as a Service (IaaS)**

  IaaS is the most basic of services and refers not to a machine that does all the work but to a cloud facility where a business has access to extra storage space and data centers.

  The cloud service provides fundamental computing services (such as a server, storage, and a network as an on-demand service).

  In this model the cloud user is responsible for maintaining the operating systems and applications software.

Hosted applications have a number of advantages:

- The infrastructure required by the end user can be quite simple: often just a computer capable of running a web browser and Internet connection. Tablets, low-cost web books (cheap laptops), and smartphones have emerged to capitalize on these new applications.
- This also allows the firms and the employees to use their own devices, which has an overall effect of lowering the firm’s capital outlay on infrastructure.
- Software deployment is eliminated. There is either no software installation on the user’s workstation or a small application is automatically downloaded and installed. Users don’t undertake a complex installation procedure. Furthermore, updates are automatically loaded, allowing staff to use the latest versions of the software applications.
- The hosting company hosts the data, and has responsibility for security and backup. Security is much higher than the measures small businesses can usually afford if doing directly. Premises are highly secure and sophisticated security systems are deployed. Users are released from the need to provide security and regularly backup.
- Users are free to access the application at any time of day from any location where an Internet connection is available. This enables staff in an SMP to work where it is most productive (for example, working from the client’s office, home, or remote office).

Some concerns exist with hosted applications:

- Hosting companies generally don’t accept liability for any security breach. This concern is mitigated by the significant investment of most hosting companies in ensuring highly secure premises and application/data access.
- Accessing or downloading data, should the user terminate the service or the provider cease business.
- Often, service agreements try to exclude the supplier from liability for almost everything. Potential confidentiality and security issues arise when staff remotely access data from their own devices. Users of cloud solutions do not always ask or realize where their data will be stored and the potential impact of jurisdictional laws.

In response to the rapid uptake of cloud solutions, governments around the globe are developing data protection rules to provide businesses with clarity on governing laws where information is stored, shared, and accessed. Many countries have privacy legislation that regulates the collation, storage, and use of data relating to individuals, including in some instances the prohibition on cross-border data transfers. Some local professional bodies have developed guidance or standards, in order to obtain an understanding of where data is held and provide a level of assurance that data is secure and periodically backed up to a secondary location.

Despite these concerns, cloud computing is transforming how accountants and clients work together.

Hosted accounting applications may overcome problems such as inefficient transfer of information and amendments. Since the application is online, the accountant and their client can access the same data at the same time. This means that any adjustment made by one will be seen by the other. Further, the inconvenience of moving data to and fro is eliminated.

Providers are continuing to develop greater functionality. For example, a client may not know the coding for a particular transaction. A question could be posted for the accountant who, by clicking on the link, could review the transaction and either respond to the client's query or code the entry directly. During year-end work, accountants could mark for the client's attention entries that appear to be incorrectly processed.

Hosted accounting applications that incorporate alert systems may enable the accountant to see trends occurring in real time. The accountant can then contact the client to rectify the issue of concern before performance deteriorates. For example, if receivables collections start to wane, the accountant may see this trend and contact the client to suggest increasing collections activity. Hosting applications are also being developed that can predict client needs and immediately flag clients that will be impacted by changes to taxes or regulations.

Hosted applications generally require a fast and reliable Internet connection. Even where the best infrastructure is available, Internet connections can fail, connection to the application is lost, and productivity suffers. To overcome this risk, developers are creating "stateless" applications which, while hosted, can continue to operate when the connection is lost. A synchronized version of the application and data are stored to the local machine. When the connection is lost, processing can continue on the local machine. Once the connection is reestablished, the application and data between the hosting platform and the local machine is synchronized and processing continues on the hosted application.

Cloud computing allows businesses and accounting firms to rapidly upsize or downsize without the cost of expensive network and hardware solutions.

Clients can access their data and financial results from anywhere, allowing firms to provide services outside traditional geographical boundaries.

5.2.2 Social Networking/Online Communities

Generally, users can join networks such as Facebook, LinkedIn, Twitter, and others organized by geographic location, workplace, or interests. The use of particular social networks can change from one country or region to another. Users can add friends or connections and send them messages, or they can update their profiles and notify their friends or connections about their activities.

Many businesses try to limit access, as they are concerned about productivity loss in the workplace. Some sites (such as LinkedIn) target business people directly to create a network of colleagues that can be used as a referral network or to find a trusted individual or company with sought-after skills. Some firms are creating their own groups within these social networking sites to stay connected with current and past staff.

It is likely that social networking and other communication platforms (such as instant messaging) will become important platforms to communicate internally and externally. Businesses will increasingly use social networking sites to connect with groups of individuals who may be attracted to their products. The IFAC Global Knowledge Gateway is a perfect example of a tool developed to encourage knowledge sharing by bringing together news, views, resources, and thought leadership for the worldwide accountancy profession, with tailored content for different audiences such as SMPs.

5.2.3 Communications Technologies

A clear influence of the Internet (and technological change generally) is the revolution in communications technology. In less than 20 years, communications have been transformed, with significantly lower costs and widespread, all-pervasive availability. The downside has been the expectation of an instant response. This needs careful management in firms to ensure that staff do not become distracted responding to almost constant communication, with a resulting loss of productivity.

Many new communications platforms have emerged. Voice over IP (VoIP) is continuing to transform telephone communications. VoIP is the transmission of voice/sound communication using Internet technology. The quality of VoIP calls continues to improve, although some systems can suffer from latency (delay) caused by poor-quality Internet connections between the callers.

Products such as Skype and FaceTime facilitate free or very low-cost voice communication that can be invaluable in providing free communications between team members who are at different locations or with clients who are located in other cities or countries. Video calls are now also commonplace, although they require connections with greater bandwidth.

Instant messaging systems are also heavily used, particularly by younger people. Mobile phones are used throughout the world and costs are continually falling as there is more takeup. These systems can be helpful in a business setting to quickly respond to a simple question. Use should be carefully controlled so that the potential for constant interruption does not hamper productivity.

5.2.4 Wikis—Collaborative Knowledge

A wiki (defined by Wikipedia, the most famous wiki) "is a page or collection of web pages designed to enable anyone who accesses it to contribute or modify content, using a simplified markup language. Wikis are often used to create collaborative websites and to power community websites. The collaborative encyclopaedia project Wikipedia is one of the best-known wikis. Wikis are used in business to provide intranet and knowledge management systems."

Few accounting firms have created wikis. However, they possess the potential to improve productivity by allowing people to share knowledge by building document precedents, defining processes, and recording technical knowledge. It is unclear whether wikis will deliver these benefits and whether the loss of productivity to maintain the wikis will be justified. With the clients themselves also burdened with a lot of communication, it is questionable whether they will read the firm's content.

5.2.5 Multimedia and Video Sharing

For over 50 years, generations have become accustomed to using pictures, video, and sound to absorb information and to communicate. As Internet bandwidths continue to increase, video and rich web-based multimedia environments have emerged.

Graphically rich gaming platforms have created online environments where millions of people can interact and work collaboratively on projects. Some businesses are now licensing these platforms to create virtual workplaces which enable teams to work collaboratively regardless of geographic location.

Video-sharing sites such as YouTube permit the simple upload and sharing of videos. Podcast technology enables the simple creation and sharing of sound files.

Accountancy firms often use multimedia in web-based video training for their team members and to improve the financial literacy of their clients.

It is only a matter of time before multimedia will affect how SMPs engage with their clients. Many firms have incorporated graphical presentations to assist clients to understand their financial results. A few are experimenting with the use of videos and podcasts to provide information to clients on business management and the latest legislative changes.

5.2.6 Blogs

A blog is a website, generally maintained by an individual or a company, which comments on a particular subject. Often readers can respond and post their own thoughts on the blog. Blogs could be used by SMPs to outline business management ideas and create an additional medium to highlight expertise and to further engage with clients and prospects.

5.2.7 Freeware and Open Source Applications

Freeware is software that is distributed for free. The supplier often achieves revenue from advertising or encouraging the purchase of other products. Some freeware applications are "open source" applications—built by developers who wish to build quality applications and learn from collaborations with like-minded developers.

Internet browsers are the most common freeware. Microsoft's Edge (which replaced Internet Explorer), Mozilla's Firefox, Google's Chrome and Apple's Safari are all free. Most online email systems are also free, such as Microsoft's Hotmail and Google's Gmail.

Take care when considering freeware for any critical firm applications. Review issues such as the availability of support and the reliability of the product. Generally, avoid freeware unless it is well known with a strong reputation for quality, functionality, and reliability.

5.2.8 Business Intelligence Software

Business intelligence (BI) software is designed to analyze business data to better understand an organization's strengths and weaknesses and improve decision-making. Sometimes the software is also referred to as business analytics, big data, or predictive intelligence. Despite what the software is called, the overall objective is to assist businesses to make better decisions.

New Practice Management software now includes common features such as online and predictive analytics and benchmarking analysis, allowing firms to be proactive in predicting a client's future needs. By harnessing and aggregating data already on hand, such as financial reports and tax returns, it can identify actionable and value-added business insights.

5.2.9 Data Analytics

Data analytics is the process of examining data sets in order to draw conclusions about the information they contain, increasingly with the use of technology or specialist software.

For practitioners, data analytics provides an opportunity to expand and deepen the analysis of a client's operations. For auditors, data analytics provides an opportunity to improve the quality and value of audit.

A variety of software is now available making it increasingly viable for even SMPs to implement data analytics.

5.2.10 Artificial Intelligence

Artificial intelligence (AI) is intelligence exhibited by machines whereby a computer program mimics human cognitive functions, has self-learning capabilities, and enhances problem-solving. Often what is called AI is actually technology efficiency and automation.

There have been fears that AI may replace the role of the accountant; however, innovative firms are investing in AI software that can predict the future needs of their clients using mathematical rules or algorithms.

The new way of thinking about AI is to see it doing time-consuming tasks, freeing up time for accountants to do the serious thinking and to exercise professional judgment on more complex matters. Any tasks that are mostly repetitive can be automated, such as invoicing or personal expense reconciliation, with customer receipts being turned into a machine-readable format, encrypted, and then allocated to an account. The software platforms can self-learn while tracking invoices, and sales and costs data.

AI is about knowledge, not just data, and will complement the evolution of accountants from number crunchers to value-added advisers.

5.2.11 Development, Customization, or Off-The-Shelf Software

Off-the-shelf software provides practitioners with access to affordable and sophisticated software because the cost of development is shared. But for some practices the software may not meet the existing business processes or requirements and customization may be considered.

Customizing software to match your business processes and the functionality you seek carries with it long-term risks, such as problems with maintaining, updating, and upgrading software; costs of supporting customized software; and higher training costs. It is usually better to rely on standard functionality, which may mean reconfiguring your business processes to match the software rather than customizing the software.

A new emerging option is to use bolt-on apps which draw data from a core database and facilitate add-on functionality. Section 5.5.27 examines integrated software suites and bolt-on apps in more detail.

5.2.12 XBRL and Standard Business Reporting

XBRL stands for eXtensible Business Reporting Language and has become a global standard for exchanging business information. XBRL, or standard business reporting as it is also referred to, is a standard approach to online or digital recordkeeping that adopts a standard taxonomy and tags data in a way software can read and process.

XBRL-enabled software incorporates standard terms that are used in government legislation and reporting. These terms are then tagged or referenced to terms used in accounting software creating consistency for business and users of the data. Software uses XBRL tags to process information in an intelligent way, allowing end users to easily compare data from multiple sources. It also reduces data extraction and analysis time and ensures that users interpret the reported data in the same way.

In many jurisdictions, XBRL is standardizing the way firms and businesses share data with government and stakeholders. XBRL-enabled software can streamline internal and external financial and business reports and regulatory compliance programs, and expedite the turn-around time for loans or completion of mergers and acquisitions.

For most SMPs, benefits are immediate, by reducing time-consuming activities, such filling out government compliance forms, reducing the need to re-enter data into different documents or systems, or interpreting different stakeholder's requirements. Electronic lodgment systems are also providing additional layers of security for data sharing.

5.3 Developing a Technology Strategy

Few SMPs have a formal technology strategy or plan that's reviewed on a regular basis. Firms should consider establishing a technology plan and budget that is reviewed and updated at least annually. The firm's management team or partner group should review and approve the plan. Once approved, the partner or manager responsible for technology should be free to execute the plan and seek additional approvals only when a material deviation from the plan is required.

Undertaking system acquisitions without a plan is dangerous and can result in poor decisions, resulting in increased cost, loss of productivity, and loss of benefits that could have occurred if better decisions were made. Without a plan, your firm may buy what the supplier wants to sell rather than what your firm needs. Your plan needs to consider possible future hardware/software acquisitions and communications, as well as the elements you need now.

Firms need to make an objective assessment of the software and hardware options. Suppliers will be active in promoting the benefits of their solutions and you will need to consider different alternatives. Don't let a supplier control the evaluation process. Take control of the selection process and subject all suppliers to the same evaluation criteria. Only in this way can a fair assessment be made of the solutions and the value to your firm.

The elements of a technology plan are as follows.

5.3.1 Snapshot of Current Position

Review your firm's current technologies and summarize the following:

Hardware deployed	All hardware, noting main specifications, age, maintenance plans, and recommendations for upgrade or replacement.
Software deployed	All software applications, noting versions and maintenance plans. Software should be deployed in accordance with the applicable software license requirements. These requirements specify the terms of use for an application and define the rights of the software producer and end user.
Technology management structure	The internal and external resources used to maintain your firm's systems, highlighting the skills of the individuals, the time required, and the main areas where time is spent. Improvements needed would also be highlighted.
Expenditures	All costs, including internal labor and insurance costs.
Outstanding projects	Highlight the resources required, timelines to achieve successful completion, and any barriers to completion.
Strengths and weaknesses	Your firm's technology achievements and areas where your firm has struggled, highlighting the reasons behind the positive and negative results.
Problems being experienced and desired improvements	Seek the views of all staff. A survey could be used or groups of staff interviewed to discover their issues with the current system and their thoughts as to how it could be improved. A firm may also consider seeking the views of the clients who interact with the software.

5.3.2 Update Knowledge and Summarize Opportunities

For many accountants, especially those who have little personal interest in technology, ensuring that they keep up to date with the latest developments in firm technologies can be difficult. Supplier or accounting body conferences, websites, journals, and newsletters can provide useful updates. This section of the plan should summarize new developments in hardware and software and their potential benefits.

5.3.3 Alignment with the Firm's Strategy

Ensure that the technology plan is aligned with the overall strategic plan for the firm. Growth targets, number of offices, service offerings, and standards will all drive the technologies that your firm needs to deploy.

In addition, your firm may seek to harness technology developments to improve its efficiency, client service, or profitability. This could include remote access, document management and scanning, multiscreens, or website improvements.

Summarize your firm's strategic technology objectives and clearly prioritize them to focus on projects that have the potential to deliver the greatest outcomes.

5.3.4 Summarize the Projects

Having established your firm's strategic technology objectives, the next step is to determine the projects that are required to achieve the desired outcomes. Develop a plan and justification for each project, including:

- The benefits of the project;
- The tasks required to complete the project;
- The resources and key personnel required;
- Any hardware/infrastructure acquisition costs;
- Any software acquisition costs;
- Any implementation and training costs (including internal labor costs);
- Any ongoing maintenance, training, and associated costs;
- The best person in the firm to drive the project;
- The key milestones to be tracked to ensure that project overruns are discovered early and quickly rectified;
- Whether the project is dependent upon other projects, so that it cannot be started until part or all of another project is completed; and
- How long the project will take?

By developing a detailed technology plan and budget, firms position themselves to harness technology developments and deliver optimum outcomes to the firm and its clients.

5.3.5 Identifying Suitable Products

Undertaking system acquisitions without a plan is dangerous and can result in poor decisions resulting in increased cost, loss of productivity, and loss of benefits that could have occurred if better decisions were made. Without a plan, your firm may buy what the supplier wants to sell rather than what your firm needs. Your plan needs to consider possible future software acquisitions as well as the software you need now.

With a plan, your firm is able to filter supplier offerings and concentrate on those that are immediately important. Find out what benefits a product will bring to your firm before you accept any offer from a supplier.

When considering a product, ask the suppliers for details of the number of its users, the size of the five largest users, and the size of the five smallest users. This will indicate whether firms of similar size to yours are successfully using the product.

Ask for a summary of any client satisfaction surveys relating to the product, post-implementation reviews, and common challenges faced by clients.

5.3.6 Selecting a Supplier

Purchasing application software is a long-term investment. The cost of implementation, training, and data conversion is significant and prevents firms changing regularly. In purchasing software, your firm is establishing a long-term relationship with the supplier.

Similarly, the same considerations need to be given to selecting other suppliers, such as hardware, Internet, and telecommunications.

You need to be confident that the supplier will continue to improve the product to leverage technology developments and increase firm efficiency, profitability, or client service.

Suppliers should articulate their vision for their business and for the accounting industry. Your supplier should also have a road map for product development so your firm understands new products and enhancements that are being developed.

Issues to consider when choosing a supplier include:

- The quality of its executives. Look for experience in and/or knowledge of the accounting industry. Also, how consistent is its ownership and the senior management team?
- Its track record. Has it met promises and been consistent with its vision or has it been constantly changing? A poor track record reduces confidence that current road maps and visions will be achieved.
- The supplier's success and profitability. A lack of profitability can affect the quality of product support and future development. In the worst case, the supplier could disappear, bringing potentially catastrophic disruption to your firm.
- Its investment in research and development.
- The personnel that the supplier has dedicated to the product you are purchasing and whether this has changed significantly in the past three years. A significant drop in head count would indicate potential loss of clients or a scaling back of further product development.
- How the supplier engages with its customers. Companies that actively engage with customers and seek their feedback to improve their products and services tend to ensure that they remain closely aligned to the customers' needs and deliver effective products and services.
- Ask the supplier to explain future developments for the product, and review the development road map of the product. Ask for a list of enhancements that users have requested.
- Does the supplier provide an implementation plan that it recommends to its new customers? This will tell you the resources that your firm is expected to commit to the product's implementation. Also ask for a firm timeline for the product's implementation.

5.3.7 Review the Underlying Technologies

Your firm's technology is used to deliver quality and profitable services. Technology should be proven and reliable. You cannot afford nonstandard or unproven solutions that, if they fail, will disrupt your operations and incur significant time and cost to resolve.

Generally, only deploy industry-standard technologies. This usually means Microsoft's operating systems and databases. However, many suppliers have very effective legacy products that use older technologies: in this case, it is important to understand the supplier's plan to upgrade the application to the latest industry standards.

Supplier certification of their products for the latest hardware, operating systems, and database platforms can lag the release of these new platforms by many months. Some software applications also require other applications to be installed on the system. In particular, Microsoft Office can be a prerequisite for some applications. You need to understand the need for and versions of these applications.

Consider product scalability. Your firm should seek assurances from the supplier that the product can handle projected transaction volumes and database sizes without any serious degradation.

The supplier should provide its recommended hardware and other infrastructure configurations to ensure effective and reliable system performance. The cost of all the underlying technology needs to be factored into the overall purchase decision when comparing suppliers who may have different infrastructure requirements.

Also consider system complexity. The more components to the recommended hardware and software solution, the greater the likelihood that one component may fail. It is vital to understand these interdependencies and the consequences of their failure on the entire system.

The requirement to make changes is always inevitable. Whether it is just your website, or practice management, or accounting software. When choosing software or a supplier, consider how early simple changes or tweaks can be made without the need to contract in an expert. The reality is that the more exclusive and customized your solution is, the costlier and more time-consuming the changes will be.

5.3.8 Review the Training and Support Options

Ask the supplier for details of their recommended training program. Many suppliers provide options for classroom training, web-based training, or online self-paced training. Which alternatives are on offer and what is the cost of the initial and ongoing training for team members?

Prompt and high-quality product support is essential. Many companies do not provide support outside normal office hours, which can sometimes cause issues as software updates are often loaded at that time. Some companies have limited telephone support and rely on email/web-based support.

Ask for details of their average response time in relation to the product. Find out the number of people who provide support and their experience with the software. For some applications, such as tax preparation software in peak periods, prompt and reliable support is a key consideration.

5.3.9 Understand the Costs and Contract Conditions

You must review supplier contracts. Occasionally clauses exist that place undue obligations on the customer and attempt to exclude the supplier from any liability, should failures occur. Check the supplier's warranties or guarantees and the obligations placed on customers. There should be a mechanism to deal with breaches. For large, complex contracts, seek the advice of lawyers.

Suppliers are often expert in concealing the overall product cost. Suppliers can price products differently, which makes comparison difficult. It is important to understand all of the costs associated with the product during its life cycle:

- The upfront cost to acquire and install the software;
- The ongoing software maintenance cost (the services included in maintenance should be outlined);
- The cost of future enhancements, if not included in maintenance;
- The cost of hardware and related infrastructure and any additional software required;
- The cost of implementation and training;

- The cost of internal resources that will need to be dedicated to implementation, training, and ongoing internal support;
- The supplier's track record for maintenance price increases; and
- Insurance and upgrade costs.

Assessing these costs for all suppliers enables a true cost comparison over the product's projected life on a discounted cash flow basis.

5.3.10 Seek Testimonials and References

There is no better way to assess a product than to talk to existing customers. Ask for at least three references and ask the references:

- Has the software met their expectations?
- What additional enhancements do they think the product needs?
- Did the supplier meet their promises? Were they responsive and accessible?
- What is the quality of training?
- What has been the quality and responsiveness of support?
- How often and for what reasons do they need to contact support?

Also ask the references about the proposed implementation consultant.

- Did the consultant understand your firm's needs?
- Did the consultant have deep knowledge of the product?
- Was the implementation a success? If not, why not?
- How could the implementation have been improved?
- Did the consultant fulfill all promises made?

5.4 Hardware Options

In establishing a technology platform for their firms, practitioners face a wide array of choices. It can be quite daunting to determine the appropriate hardware/operating system (the software that brings the hardware to life) platform. Having an up-to-date firm technology strategy will assist the assessment process.

5.4.1 Choosing a Hardware/Operating System Platform

For firms not wishing to utilize cloud solutions, there remains a wide array of technology platforms providing a hardware/operating system.

In virtually all jurisdictions, the dominant platforms are Intel–based computers with Microsoft–based operating systems. Other choices include platforms based on Apple computer technology or platforms that utilize the Linux operating system.

The principal factor in determining the appropriate hardware/operating system platform will be the specialty software supplier selected by your firm to provide the core software. Operating outside the supplier's guidelines is fraught with danger. Suppliers will be reluctant to provide support in these circumstances and will often blame the noncertified platform when problems arise.

Yours is an accounting firm, not an IT business (except in rare cases where there is also an IT specialty). Accordingly, you need to be conservative in the selection of a hardware/operating system platform to minimize risk and ensure that support can be easily obtained. For virtually all firms, a platform based around Intel and Microsoft is the proven, low-risk option that will be supported by every software supplier. Any decision to adopt an alternative platform should be taken only after careful consideration of the risk of additional downtime and cost that may result from resolving difficulties.

Consider these two important factors when selecting a hardware/operating system platform:

- Is the platform recommended by your firm's preferred software supplier(s)?
- Is technical support readily available to support the preferred platform?

5.4.2 Terminal Services/Citrix (Thin Client Computing) Versus Traditional Local Area Network (PC-Based or Fat Client Computing)

A further decision is whether your firm should adopt thin client computing over the more traditional personal computer (PC)-based fat client computing.

In the Intel–Microsoft world, thin client computing is generally based on Microsoft's Terminal Services (shipped with various versions of Microsoft's server operating systems) or products from Citrix that provide enhancements to the Terminal Services environment.

In PC-based networks all users have PCs on their desks, which are connected to a file server that allows users to share resources such as printers, email, and files. All the applications are installed on the PC. This means that for an office running 30 applications with 20 team members it will be necessary to perform 600 software installations and have 20 little "islands" to manage. This is called fat client computing since the PC is full of all the software the user needs.

In a thin client model (Terminal Services/Citrix), all users log in to one or more central servers running Terminal Services or Citrix. The users do not need the applications installed on their PC. All software is installed only once on each server and is instantly available to all users.

Fat client computing advantages and disadvantages

Advantages

- Software is generally designed to run in a fat client environment. There are usually fewer problems in installing and maintaining software; however, the complexity comes from the software needing to be installed on every machine.
- All peripherals (webcams, USBs, printers, and scanners) are supported as again these devices have been primarily designed for the traditional PC environment.
- A large number of IT support organizations are familiar with and can support this environment.

Disadvantages

- Because the software is installed on every PC, each machine has to be individually managed. While there are tools to assist in the management of the applications, these are presently generally not cost-effective for smaller organizations.
- Remote access is difficult to set up and generally slow. However, a variety of tools are available that can facilitate remote access including Remote Desktop, which ships with Microsoft Windows. Most often these involve establishing a connection to a PC on the network and taking remote control of the machine.

- Supporting multiple offices and/or mobile users who may wish to share data is difficult and may require workaround such as emailing files backward and forward.

Thin client computing advantages and disadvantages

Advantages

- Application management is easier. Applications are installed on the server(s) rather than individual PCs.
- Remote users (other offices, mobile users, team members working from home) are easily supported. They connect to the servers via the Internet. The applications execute on the servers. The communications link is used to transfer screen display, keyboard and mouse activity, printing, and other peripheral activity such as remote scanning. Accordingly, with a caveat relating to printing and scanning, the communications link required can be relatively slow. Dial-up modems, while not ideal, are usable in this environment.
- The workstation used by the team member can be cheaper as it doesn't need the same processing power that a fat client environment requires since the applications are running on the server not the workstation.

Disadvantages

- Not all applications work. Until recently, software developers generally developed their applications for the traditional PC fat client environment. Some have decided that the cost of certifying and supporting their product in a thin client environment is not worth the effort. Others only provide limited support. Accordingly, it is often more difficult to resolve software issues in a thin client environment. Many software companies lack the knowledge and skills to resolve their product's thin client problems. Clearly, it is critical that the firm ensures that all software they require is certified and can be supported by the supplier in the thin client environment. As software development moves to the web (Internet browser-based applications) this disadvantage should be largely eliminated.
- Not all peripherals work. As most of the devices (USB devices, webcams, scanners, printers, etc.) were designed to function with traditional PCs, there can be problems getting some of these devices to work, which can lead to additional cost and frustration.
- Optimizing Terminal Services/Citrix is more complex. Fewer people have sufficient indepth knowledge of these environments. Specialist skills are required. Often it can be a hidden tweak to the configuration that can make all the difference in system performance.
- Printing and scanning can be slow depending upon the speed of the communications link as these applications can move large amounts of data to and from the remote location. As broadband penetration continues to increase this disadvantage is largely removed.
- Support for multiscreen environments is more complex and less elegant than in a fat client arrangement. Often applications can appear split between screens. Support for multiscreen systems continues to improve with the latest editions of Terminal Services and Citrix.
- The servers become a single point of failure. As all applications execute on the service, should the server not be available no applications are available for the end user. In a traditional PC (fat client) arrangement, users may be able to continue with some tasks without servers being available as the software is loaded locally. It would be limited, however, as most data are stored on the central servers.
- Applications can be quite basic. To optimize the terminal server performance, usually applications are configured with minimum functionality and look. The thin client world is generally not as attractive

as the PC world. Power users can become quite frustrated with a thin client environment as they generally have the desire to customize their setup. Thin client environments heavily restrict the customization allowed.

What to choose

There are clear advantages and disadvantages when choosing between a thin and fat client environment. Some firms run hybrid environments with a traditional PC-based (fat client) environment internally and a thin client environment for remote access (generally when remote access isn't too critical). This has the potential to be the worst of both worlds and needs to be carefully managed.

Factors driving the decision include:

- Software supplier support for the environment;
- The need for multilocations and/or remote access;
- The ability to source skilled IT professionals to support the environment;
- Whether critical peripherals will operate;
- The number and complexity of applications where a thin client environment makes it easier to manage installations and updates;
- The effect on team members of a more austere computing environment generally delivered in the thin client world; and
- Cost differences over the life of the system.

Care also needs to be taken with software licensing to ensure that sufficient licenses are held for the environment implemented.

While there are other thin client environments in addition to Microsoft Terminal Services and Citrix, many software vendors will not support their products on these alternative environments and technical support may be difficult to find. Potential cost savings can be quickly eliminated when problems arise. Unless your firm possesses a high degree of technical skill and is willing to bear the risk of software not being supported or failing, avoid these alternative environments.

5.4.3 Other Hardware/Infrastructure Considerations

Most SMPs lack the technical knowledge and resources to implement and support key infrastructure components. Most use external support organizations, and the appointment of the right organization is therefore critical to the success of the overall IT solution.

Some organizations specialize in supporting accounting firms and often have quite detailed knowledge of the various software applications in the market. Many have worked for the suppliers during their career. Given the reliance of most SMPs on Microsoft's server, database, and workstation operating systems, Microsoft's certification of a support organization provides reassurance that they have a strong understanding of those technologies. Other suppliers with similar certifications may be relevant, depending upon the technology being implemented.

While the support organization will implement and maintain the technology infrastructure, you still need to appreciate the components required to ensure a robust and reliable system.

Cabling and switches

Cabling standards often change with new technology. There is no need to implement the latest standard, which will generally be more expensive. However, cabling is long-term infrastructure. You need to know it will cope with emerging technologies. Ensure a data cable professional installs it. Many electricians with limited data cable experience install cables which can result in poor reliability and performance due to poor connections or incorrect placement next to other infrastructure.

Switches join the workstation cables to the server infrastructure. It is the point where vast amounts of data are moved. Look for quality switches.

Wireless networks

Wireless networks are increasingly being used, particularly in meeting rooms, where cabling is difficult or expensive to implement and for teams working at a client's premises. Ensure that these networks are secure, since wireless networks can be accessed from a remote location. Some of the low-level security features of wireless networks can be easily broken. It is important to implement the highest level of security.

Wireless networks can be significantly slower than cabled connections. Like other infrastructure, however, speeds and supported distances between devices continue to increase.

Server hardware

Servers are critical components of any system. A server failure can cause significant disruption and loss of productivity. Additional expenditure to gain greater assurance of server reliability is a prudent investment. Many firms prefer "name brand" server hardware, since response times for parts and service technicians may be superior. With workstations, reliability is less critical since only the individual workstation user is affected, should a failure occur.

A key aspect is to configure server hardware with redundant components such as hard disks and power supplies so that, should a failure occur, the operation of the server is not affected.

Laptops and tablets

Laptops and tablets are portable and therefore can improve productivity; however, there are extra complications, particularly with security. Often important client and firm data are stored on these machines. Laptops and tablets need to be effectively secured so that data cannot be accessed, should they be stolen or otherwise accessed.

Look for encryption technologies to protect data stored on hard disks. These should be implemented and passwords stored in a secure area on your firm's main systems in case the passwords are forgotten.

Most of these systems have Internet-access capabilities via wireless networks, which mean there is high risk of infection from malicious software. Install and maintain software to protect systems from malicious attack on every laptop. Failure to protect laptops could expose your firm's infrastructure to attack when the laptop is reconnected inside your firm.

Printers and scanners

Printing and scanning technology continues to evolve at a rapid rate. Multifunction devices that combine printing, scanning, copying, and facsimile services are being adopted in most firms. Key considerations are:

- Does the firm have sufficient printing and scanning resources to ensure that team members do not waste time waiting for print jobs or to use the device?
- Is color printing a requirement? Some firms purchase black and white laser printers for the bulk of their printing with only a single color printer for special jobs when required. Ink for color inkjet printers is expensive and inkjet printers cannot match the speed of laser printers.
- Is privacy a requirement? If so, small printers in individual offices may be necessary but overall the larger, faster general office printers will be more cost-effective and efficient.

- Can the scanner scan both sides of the page, scan to Adobe PDF format, and scan a large number of pages rapidly? This is a critical component of any document management solution.

A further consideration with printers and scanners is whether to adopt a policy of using personal or departmental technologies. Personal printers and scanners are located at the user's workstation and have the obvious advantage that they are easily accessible, while departmental printers and scanners are located at a central location for use by the entire firm or team.

Departmental technologies have the advantage that the firm can afford to invest more and acquire devices that are significantly faster, have more sophisticated features, and are generally more reliable than desktop printers and scanners. A downside of departmental printers and scanners is that, should the firm provide insufficient printing and scanning resources, team members can waste time and become frustrated having to wait for the print jobs or to access the scanning technology. Accordingly, care should be taken to ensure sufficient centralized resources are provided.

On the other hand, desktop printers encourage printing and therefore can negatively impact a firm's initiatives to move to less paper. Each device is generally low cost (due to the need to deploy on a large number of desks). Accordingly, they can be slower and less reliable and inefficient for large jobs. Printer consumables are generally more expensive per page cost compared with departmental technologies. Desktop scanners can support paperless initiatives by enabling convenient access to scanners.

Uninterruptible power supply (UPS)

In many areas, particularly rural areas, power supply can be unreliable. Power spikes can damage hardware and power outages can cause complete system failure. Accordingly, in virtually all firms (even those with reliable power supplies) it is prudent to implement an uninterruptible power supply. These solutions incorporate batteries which, should the power fail, continue to provide power to the system. This enables the system to continue to operate for some hours and allows an orderly shutdown of the system should power not be restored. These systems vary in the length of time they can maintain power and often also incorporate alarms to notify technicians that a power outage has occurred. Ensure that you acquire a system with sufficient battery life to enable a technician to arrive to shut these systems down if power has not been restored.

Energy efficiency

As concerns for the environment and the cost of energy continue to grow, there is an increased focus on the energy efficiency of technology utilized by the practice. Many hardware manufacturers are developing equipment that can operate on low power and can switch off various components when they are not being used for a period of time. Other innovations include controlling fan speeds based on the thermal requirements of a system, more efficient power supplies, and processors.

Moving to a less-paper environment can also achieve significant energy savings ranging from using less paper to a reduced usage of printers.

Firms should also consider implementing energy efficiency policies such as switching off workstations and other equipment overnight and at weekends.

Security

Your firm must implement effective security to control access to its infrastructure and applications. As almost all firms now maintain permanent connections to the Internet, the risk of unauthorized access is significant. Firewalls, either hardware- or software-based, should be implemented; this limits the traffic that is allowed to access your firm's infrastructure.

Team members must have individual username/password combinations. Passwords should not be given to others and should be changed regularly. Team member profiles should control their access to applications and data. Some workstations, particularly laptops, are now incorporating biometrics such as fingerprint recognition to further enhance security.

Some firms limit Internet access by blocking undesirable Internet sites, which prevents team members being distracted and limits the likelihood of an attack from malicious software. Make sure such measures do not become too restrictive, as it can frustrate team members. Often Internet use is better managed by firm policies and culture rather than a heavy-handed blocking of sites.

With a myriad of data storage devices such as USB drives and portable hard drives, it is almost impossible to fully protect your firm's data from theft by team members. While USB ports can be disabled, USB drives and other devices assist in moving data and providing temporary backups. This emphasizes the need to secure servers so that team members only have access to the data they need for their duties. Often it is also possible to secure data by only allowing access via the application. This prevents people from accessing and copying the data directly.

Develop and communicate clear policies in relation to the removal of data from your firm's premises.

5.5 Software Options

A firm's software is the combination of generic business software with specialty applications targeting the tasks undertaken in an accounting firm. Increasingly, all new cloud accounting software includes "bolt-on" or "add-on" solutions which allow firms to utilize additional software from specialty suppliers which are integrated with the accounting software to improve efficiency and add value.

The applications fall into the following categories.

5.5.1 Operating Systems

Operating systems are the software that bring the computer hardware to life and provide the services that are used by the business software applications. Every computer has an operating system. Microsoft dominates the supply of operating system software to businesses such as accountancy firms. It provides Windows Server software for the system's servers and the desktop Windows operating system for PCs. It is for this environment that the software industry targeting the profession develops its software. It is not recommended that firms move outside the Microsoft world for its operating systems except in special circumstances.

Operating system suppliers, particularly Microsoft, provide regular, often weekly, updates to their software. It is critical that these updates are loaded as they often contain changes to close security holes discovered in the system. Even though Microsoft provides an automatic update service, firms should ensure that a manual check is done on a regular basis to ensure the updates are correctly loaded.

5.5.2 Backup

Firms need to back up systems effectively, so that the systems and data can be recovered in the event of a system failure. Every firm must ensure that adequate on-site and off-site backups are maintained.

5.5.3 Personal Productivity

Word processing, spreadsheets, calendar, tasks, presentations, and email are the most heavily used applications in any firm. This software is designed to improve productivity in performing everyday tasks. Microsoft Office dominates this category; the products are feature rich and have the following distinct advantages:

- Almost all team members are familiar with the software, thereby reducing training costs.
- Files can be sent to external parties with the confidence that they can be easily read and/or edited. (It is better to convert the file to Adobe PDF format if the intention is for the information to be read not edited.)

- Many third-party software applications integrate with Microsoft Office, which improves the productivity from both the third-party application and Microsoft Office itself. Integration of all the Microsoft Office applications with document management systems is common, as with integration between accounts production and other compliance applications and Microsoft Excel.

Many accountants favor spreadsheet applications like Microsoft Excel for preparation of budgets, cash flows, work papers, and many *ad hoc* calculations. Of particular concern is research that has shown that a large percentage of spreadsheets contain errors (Professor Ray Panko, University of Hawaii and others). Issues that can lead to errors include:

- Unintentional formatting where numbers are formatted as text;
- Formulas being overwritten by numbers;
- Incorrect formulas; and
- Incorrect cell references in formulas.

Accordingly, care should be taken in the preparation of spreadsheets and where information is being provided to clients who will rely upon the outputs. It would be prudent for a second person to check the design of the spreadsheet.

While Microsoft's applications are often chosen for the reasons outlined above, it is clear that many team members do not utilize the products efficiently. An ongoing focus on training to ensure the efficient use of these products is critical in maintaining individual productivity. These products also contain functionality that has the potential to improve productivity by the automation of particular tasks. For example, Microsoft Word contains sophisticated functionality that allows documents to be prepared and formatted based on certain criteria. Few firms invest the time to explore this functionality to improve practice performance.

Competitors to Microsoft Office include:

- OpenOffice.org, which is the leading open-source office software suite for word processing, spreadsheets, presentations, graphics, databases, and more. It is available in many languages and works on all common computers. It stores all the data in an international open standard format and can also read and write files from other common office software packages. It can be downloaded and used completely free of charge for any purpose.
- Google Docs, which includes a free web-based word processor, spreadsheet and presentation application, and complementary Gmail (email) and Google Calendar. Google Gears allows users to edit their documents off-line. The benefit of Google's approach is that the documents are stored on the web. The applications have been built for collaboration. Sharing, where people at different locations can edit documents at the same time, is simple. Where only basic functionality is required, this provides a cost-effective way for collaboration, regardless of location.

OpenOffice.org and Google Docs can import and export files with each other and Microsoft Office, although care should be taken with important documents using rich Microsoft Office functionality.

While the zero cost associated with OpenOffice.org and Google Docs is attractive, this needs to be balanced against the advantages of Microsoft Office's applications. Integration with firm software may be a key productivity benefit that should not be overlooked.

5.5.4 Firm Management

Firm management software or CRM (customer relationship management) systems have become the foundation database application, providing a source of truth for client management. Every firm, except perhaps the smallest solo operators, needs a firm management or CRM system to manage the business allowing core client data to be stored and accessed via one primary database. These systems are a critical tool for all staff who interact or provide services to clients.

For most firms these systems are also used to record time spent on jobs, prepare bills, and maintain accounts receivable. Increasingly these systems are part of the core accounting applications for a practice.

Some firm management systems are integrated to Microsoft Outlook (email and calendar) to create time entries directly from the Outlook calendar and/or will synchronize Outlook contacts with the firm management client database.

Depending upon the system, reports and graphical representations are available which can highlight:

- Productivity of team members;
- Profitability of individual jobs, clients, or work types; and
- Billing and collection performance.

Many systems utilize Microsoft's SQL Server technology. Microsoft SQL Server provides the underlying database for the system. It provides security and is a reliable and scalable database to support businesses as they grow. It provides a rich set of integrated services that enable the user to do more with the data, such as query, search, synchronize, report, and analyze. Often a dedicated server is established to house the SQL Server database; however, for many firms it is possible, depending upon the size of the firm and the services required, for the server to provide the SQL Server platform along with other services, such as file and print or email. A key benefit of SQL Server is that the data are open to be accessed by other applications, thereby enabling greater integration of data and the ability to produce custom reports from the data.

Some firm management systems also provide functionality to manage workflow and assist in capacity planning, helping firms to identify the resources needed to complete the predicted workload for a month or year. Generally, they assist in the allocation of jobs to teams or team members and then provide a means to track the status of a job.

Some firm management systems have expanded to incorporate CRM functionality. This records all interactions with clients and sets alerts for when a client needs to be contacted or an action for the client is required. To benefit, your firm needs to ensure all interactions are captured. Many firms struggle to establish such a culture.

Some firm management systems incorporate data warehouses and business intelligence tools to "mine" the data to reveal insights about the client base, such as the type of work, client industry, and team member combinations that generate the most profitable work.

A significant challenge for small firms is maintaining a database. Information is often missing or outdated. In particular, email addresses are often not recorded or updated. Processes need to be established and followed to ensure that at least annually each client's record is reviewed and updated.

Generally small and larger firms have similar requirements; however, as a rule SMPs should look for systems that:

- Are easy to implement and learn: you cannot afford the time and cost of complex implementations; and
- Have less complex functionality: larger firms generally require greater flexibility in how a system is configured so it can more closely match their operations. Usually the greater the flexibility, the greater the complexity. For most SMPs it is more efficient to trade off this flexibility for greater simplicity. However, you may need to change your processes to match the functionality of the software.

5.5.5 Compliance Services

Accountants use these products to produce financial statements, tax returns, and other documents required by regulators—generally designed specifically for the country or region. Categories of compliance software are outlined below.

5.5.6 Accountants Production Software

This software produces financial statements that comply with the regulations and accounting standards applicable in the firm's jurisdiction. It can often be used to produce management and other reports to regularly update clients about how their business is performing.

Generally the products include a report generator with formats that can be regularly updated as regulatory requirements change. For SMPs, it can be a challenge to learn how to use these report writers to efficiently make changes when required. Some systems integrate to Microsoft Excel, enabling production of graphs and other summary reports.

Originally these products were designed to process ledger entries from source documents. Newer versions have abandoned general ledger functionality in favor of systems that can efficiently import client data and produce financial statements.

Some products facilitate efficient write-up work where it is not effective for the client to maintain their own computerized accounting system. Often these products have interfaces to assist in efficient downloading and processing of bank statement data. Functionalities such as coding memorization build efficiency since all similar transactions can be coded from a single entry.

In some places, small owner-operated private companies have significantly reduced the need to fully comply with accounting standards. Some firms therefore use the basic accounts formats available in their client's small business software and have abandoned the use of accounts production software.

Many accounts production software incorporate asset ledgers to maintain a list of a client's assets and calculate and record depreciation. In some jurisdictions calculation of depreciation is different for accounting and taxation purposes. These systems generally calculate and record depreciation for both situations.

Some accounts production software incorporates functionality that generates and manages the supporting work papers for an accounts production engagement. These systems save time by generating the work paper schedules directly from the accounting data, which team members can then edit.

In some jurisdictions where audit services are required for most companies' accounts, production software is often linked to audit software to enable efficient conduct of the audit process. As SaaS web-based accounting applications emerge, there is potential to further transform accounts production. Historically, the movement of data between the client and the accountant has presented a challenge. Issues arise with the client and accountant using different versions of the software and also ensuring that data in the accountant's and client's systems stay synchronized. Web-based accounting software has the potential to eliminate these issues.

- Web-based accounting systems enable the accountant and the client to share the same data. The need for the client to save the data for sending on to the accountant is eliminated. With appropriate security permissions, the accountant could access the data at any time and make appropriate adjustments. The accountant and the client always share the data so concerns over data being synchronized are also eliminated.
- Web-based accounting systems potentially provide new opportunities for the accountant to assist the client. For example, where clients are unsure of the coding required for a particular entry they

could email a link to a transaction to the accountant who could quickly review it and/or respond to the query or code it directly. Alerts could be also created so the accountant is quickly notified when certain conditions arise.

When considering accounts production software, ask whether it:

- Is capable of producing financial statements that comply with the jurisdiction's requirements;
- Is easy to edit the financial statements;
- Is able to produce graphs and other reports to enable clients' greater understanding;
- Requires an asset ledger;
- Is compatible with clients' accounting systems and will efficiently share data with clients; and
- Requires the system to generate work papers.

5.5.7 Tax Return Preparation

The software for tax return preparation facilitates the production of clients' income tax and other tax documents. These products are usually designed for a particular jurisdiction to meet their regulators' specifications. The systems generally provide an interface that follows the design of the paper form and applies validation to assist in eliminating errors. Your region's legislation will generally determine how complex it is.

A key aspect in most jurisdictions is the ability of the system to lodge documents electronically with the regulators. Often the regulator conducts software and system testing and will only allow software and systems that have met their criteria to lodge documents electronically.

Software suppliers are often challenged by the continual changes that occur to tax and related legislation that needs to be incorporated into the software. This can often lead to product reliability issues as bugs are created from the constant changes or software being late.

Some systems incorporate "tax management" functionality to track the status of a particular document, such as awaiting the client's signature or lodged with the regulator, and can often assist firms to meet specific lodgment deadlines.

Purchasing tax return preparation software from the same supplier as the firm management software generally ensures data integration. This means that client names, addresses, and other information are shared. In some instances bills for return preparation prepared in the tax system can be uploaded into firm management.

Some systems are increasing their use of the Internet to deliver further benefits to firms and their clients. For example, some systems allow clients to perform limited data entry functions or enquire as to the status of a particular document. Other systems provide links to regulator or tax research websites so that team members can quickly access the information needed to complete a document.

In some jurisdictions, regulators are moving to populate tax return preparation systems with client's income and other data held on their systems. This should increase the efficiency and accuracy of tax preparation systems.

Regulators are looking to XBRL to improve the efficiency and accuracy of data collection.

In some jurisdictions, regulators are creating their own web-based systems to facilitate preparing documents online.

When considering tax preparation software, ask:

- Is the system appropriate for the relevant jurisdictions?
- Is the system integrated to your firm's management system, to eliminate duplication of client data?
- Does your firm need software to assist in managing its deadlines with the regulators and to track the status of documents?
- Can the system produce documents efficiently? A firm whose client base consists of a large number of small returns will need greater efficiency than a firm whose client base is a smaller number of larger clients.
- Does the supplier have a good track record in shipping up-to-date, reliable software in a timely fashion?

5.5.8 Company Statutory Records Maintenance and Form Lodgment

In most jurisdictions, companies are strongly regulated. Forms need to be lodged notifying changes in company particulars. Accordingly, software companies in many jurisdictions have developed software to maintain company records and produce the required forms when changes occur. Many produce company minutes and other documents related to changes.

As with tax preparation software, in some jurisdictions, regulators have powers to control aspects of the product design, particularly when the system facilitates electronic lodgment of documents. Software suppliers can be challenged to update software for regulatory changes in a timely and reliable fashion.

Integration with companion firm management software eliminates duplication of data as client names, addresses, and other data are required by both systems. Some systems also produce fees that are uploaded into the firm management system.

In some jurisdictions, regulators are providing web-based applications to facilitate notification of changes online, thereby reducing the needs for company statutory records software.

When considering statutory records software, ask:

- Does the regulator provide a web-based interface that allows efficient processing of changes in particulars, thereby eliminating the need for statutory records software?
- Is the system appropriate for the relevant jurisdictions?
- Is the system integrated to your firm's management system to eliminate duplication of client data?
- Does the supplier have a good track record in shipping up-to-date, reliable software in a timely fashion?
- Are minutes and other documents which don't need lodgment with the regulator needed?

5.5.9 Trust and/or Pension Fund Administration and Reporting

In many jurisdictions, retirement planning and investment management are often conducted in highly regulated trust structures. As well, trust funds and pension funds are heavily regulated. This has resulted in the development of software targeting the administration of these funds. Often these systems incorporate a general ledger as well as an investment ledger. They can have complex calculation engines for actuarial purposes or incorporate complex legislative demands including taxation.

Like tax preparation software, they can be subject to constant legislative change, which can affect product reliability and timeliness of updates. Integration to firm management software eliminates duplication of data.

Some systems incorporate data feeds from banks, stockbrokers, stock exchanges, managed funds, and others to significantly reduce data entry and errors. Many firms use these systems to maintain investment ledgers for other entities that hold investments, such as estates, charities, or individuals.

The system provides a significant lift in efficiency compared with using a combination of spreadsheets, general ledger software, and word processors.

Often these systems can be quite complex and team members with knowledge of the legislation and software are responsible for this area of the business.

When considering trust and/or pension administration and reporting systems, ask:

- Does your firm have sufficient business in this area to justify the investment in the software, implementation, and training?
- Is there sufficient legislative complexity to justify the investment or can accounts production software handle the requirements?
- Is the system designed for your jurisdiction?
- Does the supplier have a good track record in shipping up-to-date, reliable software in a timely fashion?

5.5.10 Audit Automation

Audit automation software is designed to assist in the management and conduct of audits. The products generally contain template audit programs, checklists and templates. Most contain functionality to monitor engagement progress highlighting outstanding tests and queries.

Many systems link to account production systems to generate audit schedules. Adjusting journals are maintained and linked to schedules. Control of sign-off is generally maintained.

Some systems contain sophisticated functionality to assist in assessing risks, materiality, and financial ratio calculations.

Some audit applications are integrated to firm management systems for time and billing.

In some jurisdictions audit is not required from small companies, trusts, and other entities. In these situations, the time required to implement audit automation systems is difficult to justify since audit services are only required for a small number of clients. In other jurisdictions, where audit is required for a larger number of clients, the investment in audit automation software can deliver significant efficiencies.

When considering audit automation software, ask:

- Do you have sufficient audit business to justify the investment?
- Do the template programs match the type of client audited and the audit standards of your firm?
- Does your firm have team members who will be able to implement, customize, and manage the software?
- Does the software provide simple interfaces to your clients’ accounting systems?

5.5.11 Statistical Sampling

A further aspect of auditing and forensic accounting is the use of statistical sampling software. This software has the capability of importing data from accounting systems and then by using complex algorithms can:

- Generate transaction samples for review by audit team members;

- Highlight unusual transactions for detailed review; and
- Unlock unforeseen trends in the data.

This software can significantly improve the efficiency of the audit process and improve the ability to uncover possibilities of fraud or unusual trends. It can also be used for tax investigation work.

Issues to consider in purchasing statistical sampling software:

- Does the practice have sufficient business in audit or forensic accounting to justify the investment required to effectively implement the software?
- Does the software have the capability to import accounting data from the firm's key clients' accounting systems?
- Will the system generate statistical samples that comply with the auditing standards of the firm/jurisdiction?
- Will the documentation produced by the system offer enough audit evidence to be able to pass an audit quality test?

5.5.12 Insolvency Management and Reporting

Insolvency management software generally contains a general ledger to record trading activity; a system to manage assets through to ultimate realization and manage creditors and other claimants; and functionality to meet the reporting requirements to regulators, creditors, and others.

Many incorporate task management and document management systems to record all the work and documentation associated with an engagement.

These systems are often expensive and only bought by specialist insolvency firms.

When considering specialist insolvency management software, ask:

- Does your firm have sufficient insolvency business to justify the investment required?
- Does it meet the legislative and court requirements of the relevant jurisdictions?

5.5.13 Advisory Services Software

All SMPs endeavor to provide additional advisory services to assist clients to improve their business or to ensure that they are effectively planning for taxation and other costs. The following software products can assist in the provision of these services. Some include functionality for two or more of the categories listed below.

5.5.14 Enhanced Reporting

Often the reporting provided in small business accounting software is limited. The reports may not have been designed with small business people, who have limited accounting knowledge, in mind. Accordingly, products have emerged that integrate or download data from small business accounting software and generate simple, easy-to-interpret reports. These summarize key financial indicators and use graphics to emphasize key points.

When considering enhanced reporting software, ask:

- Can the system easily import data from your clients' small business accounting software?
- Will your clients interpret the reports easily?

- Will the reports create a positive image of your firm?
- Can the reports be easily customized?

5.5.15 Benchmarking

These systems provide reports to clients so that they can compare their business performance with similar businesses. Often the benchmarks include both non-financial information as well as financial information. Some systems are industry-specific and provide detailed benchmarks in areas such as sales and profitability of individual product lines. Other systems are more general and aim to provide benchmarks that follow the financial statements for the business.

A key consideration is whether the benchmarking system has sufficient samples of comparable businesses (location, size) in the industries where benchmarks are sought. A limited sample size can severely limit the value of any benchmarks produced. In addition, industry classifications are critical. Two businesses in a similar industry grouping may be significantly different—for example, companies in the construction industry can be involved in building high-rise commercial premises, residential homes, or roads and bridges. It is important the benchmarks correctly reflect the specific business of the client as the results may be misleading.

When considering benchmarking software, ask:

- Are benchmarks available for the industries applicable for your firm's clients?
- Are sample sizes large enough to produce effective benchmarks?
- Are the benchmarks applicable to the client's business?
- Is it easy to extract the required data and create benchmarks?
- Are reports easy to understand?

5.5.16 Budgeting

Many firms do not use budgeting software and rely upon Microsoft Excel for budget preparation. However, using electronic spreadsheet software is prone to error due to:

- User-created formulas that are incorrect;
- Data being entered into incorrect rows or columns. Numerical information can sometimes be entered as text;
- New information requiring reformatting of rows and/or columns; and
- Professional reports that have to be manually created. It is a complex exercise to create a spreadsheet that accurately produces a budgeted cash flow, profit and loss, and balance sheet.

Specialist budgeting software often contains data entry screens to ensure that all the information required to calculate the budget is correctly entered. For example, details of finance agreements can be entered, which the software then interprets to ensure that the treatment in the budget is correctly calculated and shown in the appropriate period. In addition, specialist budgeting software contains calculations to ensure that the budget is correctly prepared. For example, a change in the number of days accounts receivable may be outstanding will result in a recalculation of cash inflows across periods including the appropriate lags that may relate to taxation amounts included in receipts.

Accordingly, errors in producing budgets with specialist budgeting software are significantly reduced when compared with electronic spreadsheets or manual calculations.

When considering budgeting software, ask:

- Do the calculations take account of the relevant taxation and other regulations?
- Can the system import data from the clients' and/or your firm's accounting system?
- Can budgets be prepared for the years and periods required? Is the functionality flexible enough to meet the needs of each client?
- Are the reports produced easy to interpret?

5.5.17 Scenario Planning

This helps a client to understand what the key drivers of their business are. Generally, financial information is imported or entered from the client's financial statements. The system then permits key drivers for the business to be modified so that the financial effect of the change can be observed. Many products also provide "work-back" capabilities where the desired financial result is entered and the system highlights the changes required to the key drivers in order to achieve the desired financial result. Most products highlight key financial ratios to further assist clients to understand the importance of regular reporting and monitoring of critical financial indicators.

Many reports are produced such as break-even analysis reporting or key performance indicators and ratios.

In some jurisdictions, financial institutions use this software to assess the creditworthiness of businesses. These products can also help firms assist their clients in business planning, loan applications, and business valuations.

When considering scenario-planning software, ask:

- Can the system import data from the clients' and/or your firm's accounting system?
- Do the calculations take account of the relevant taxation and other regulations?
- Can multiple scenarios be prepared and stored for individual periods, and can years and periods applicable to clients be established?
- Are reports produced easy to interpret?

5.5.18 Business Planning

Firms use business-planning software to assist a client to compose a plan for their business. The software generally contains template documents and spreadsheets and provides examples of text that can be used for different types of businesses.

Often business-planning functionality can be found in scenario-planning software and enhanced reporting software.

When considering business-planning software, ask:

- Are the templates applicable to the relevant jurisdictions?
- Are the templates applicable to the client's business?
- Are the templates of high quality?
- Is the plan generated of high quality?

5.5.19 Business Valuations

This software incorporates models to help accounting firms assess the value of businesses by accessing the most up-to-date market intelligence to assist clients in decision-making. Many of the software solutions feature real-time industry benchmarks. Some products include questionnaires that help assess risk to determine the appropriate valuation approach, such as capitalization rate to value business goodwill and total business value; discounted cash flow; market benchmarks using a range of average median values; and analysis of discretionary earning etc. for the valuation. Other products include models to assist in the calculation of affordability for the purchaser and determine if a business investment makes financial sense.

Firms often use these products to highlight to clients the need to improve business performance. This can support a successful exit value being achieved to fund the owner's retirement and at the same time identify potential succession planning roadblocks, identify strategies to improve growth and productivity, and examine alternative strategies such as mergers and acquisitions.

When considering business-valuation software, ask:

- Are the tax calculations in the software appropriate to the jurisdictions?
- Are the questionnaires or other industry-specific issues addressed by your clients' software?
- Will your clients understand the reports?

5.5.20 Tax Planning

This kind of software is used to assist clients to understand the financial effects of tax-planning measures, timelines, amounts of future tax payments based on various scenarios, and tax consequences of legislation changes. Often they are similar to scenario-planning tools. They allow various models to be created to help clients understand the taxation consequences of business decisions. The products can be invaluable in assisting clients to ensure that monies are set aside for tax liabilities by the due dates.

When considering tax-planning software, ask:

- Does it provide frequent and accurate updates to ensure legislative change is incorporated on a timely basis?
- Is the quality and clarity of reporting high enough?

5.5.21 Wealth Management Tools

Many firms provide wealth management/financial planning services, including risk products (such as income protection and life insurance) and finance. Generally these services are highly regulated. Most often products are tailored for a specific jurisdiction to ensure compliance with the regulations and include:

- Products to gather information and generate financial plans and model scenarios;
- Products to monitor client investment portfolios; and
- Platforms, generally online, to assist firms in accessing finance and other financial services products.

As the highly regulated nature of the wealth management industry means that the products could be substantially different in each jurisdiction, the fundamental issue for any firm looking to acquire these products is jurisdictional compliance. Other factors include the quality and clarity of reports produced.

5.5.22 Data Analytics Tools

With the help of sophisticated algorithms, firms are finding ways of using this data to better meet the needs of existing and future clients and add value.

With the advent of cloud accounting and cloud computing in general, new technologies now exist to unlock this information by analyzing it quickly and automatically, allowing all parties to act on it immediately.

Data analytics is something SMPs have been doing for centuries—examining financial and non-financial data from various sources with the purpose of identifying trends and opportunities. This data is used to allow businesses to make good business decisions based on verifiable facts or projections.

As more data is created every year, there has been a rapid growth in data analytical tools to allow firms to model and analyze data in different ways and from different databases.

The concept of “big data” is currently the buzzword which is often interchanged with data analytics. Big data is a term that describes the large volume of data which is both structured and unstructured that inundates a business on a day-to-day basis. What is important is how organizations choose to use and verify available data.

Predictive intelligence is now emerging as one of the most powerful tools available for a broad range of businesses including SMPs. For today’s modern firm, predictive intelligence is actually closer than ever and has the ability to transform the firm and the financial future for its clients. Harnessing and aggregating the data at hand is the key to unlocking valuable information and delivering actionable business insights. What is needed is the toolkit to tap into this information and produce business intelligence that can be used to influence future outcomes.

Predictive intelligence is a mix of automated analytics that produces results in real time for cloud-based subscribers. Once the domain of the world’s largest data-trawling companies, the automation of the cloud and a handy software toolkit can now match a range of externally held data to internally held data—such as the extensive information kept within tax returns—and predict a possible outcome.

Toolkits based on predictive intelligence, now being made available to the accounting industry, will help unlock the intelligence in such valuable data. They will pave the way for accounting firms of all sizes to deliver the same high-quality advisory outcomes.

Predictive intelligence is based on big data algorithms that search legislation, rulings, the precedents created by legal proceedings, commentary, and practice aids. By applying filters across results by content type, library, topic, jurisdiction or court, it can match possible changes to any field held in a tax return with client data entered. Predictive intelligence big data can also search news items and cross-match them to legislation outcomes. Toolkits can even assess the impact on other financial transactions, property valuations, or portfolio-management software.

This is no time for inertia—the accounting industry’s journey to more cloud-based, bespoke solutions should continue so that it can lead the way in providing the information clients need to make more informed business decisions. SMPs need to remain focused on how to best support and add value to their existing clients and keep embracing innovation.

No matter the size of your firm, a range of data analytical tools are available. Microsoft Excel continues to be the world’s most commonly used application for data analysis and was designed for this purpose. Using its statistical tools and vast collection of functions, it provides an entry-level product to extract useful and valuable data. The product can be used to build forecasting models, understand relationships between variables, and support dashboard reporting. There are also now new products available targeted specifically to SMPs.

5.5.23 Communications

Firms are increasingly seeking ways to connect with their clients and their team as the world goes online. Technology is providing new ways to service clients and greater flexibility in work arrangements.

Increasingly, team members are working from home, from clients' offices, and even from different cities and countries. The success of a firm today is more dependent than ever before on the judicious deployment of communications technologies.

Cloud solutions are making it easy to share information and data within firms and with clients in real time.

5.5.24 Firm Websites

Many firms now have a website. Most provide an overview of the firm's services and people and give some information for potential recruits.

To date, few firms have used their websites to assist in service delivery. However, some have incorporated secure client portals where electronic copies of client documents are stored. Clients can access copies of their financial statements, taxation, and other documents whenever they are required. Some document management providers also provide this portal functionality, which can then be linked to your firm's website. Other firms have created opportunities for clients to pay their fees online or book appointments. As accounting software moves online, firms are starting to provide branded accounting and other applications for clients to use.

Some have engaged web developers to custom build a website. These websites can be difficult to maintain and update and your firm is locked in to the web developer for ongoing maintenance and support.

More simple out-of-the-box software or host solutions are now available, including templated solutions for accounting firms. These often incorporate sought-after functionality at a competitive price while still allowing firms to promote their unique value proposition through a personalized "look and feel." Some providers engage web designers to ensure that each firm's website has a significantly different look, even though the functionality is the same. For example, many provide client portal functionality, appointment-booking systems, and recruitment functionality.

Your firm needs to be able to update content without the involvement of the website developer. Many websites incorporate a content management system (CMS), which can publish standard word-processed documents without the user needing to know coding. This means that a non-IT professional can maintain much of the website.

For most firms, your website's prominence in search engine results can be a useful marketing aid. Search engine optimization (SEO) in theory can bring a website to the top of search results when specific words or phrases are searched; however, it can be expensive and not enduring, since search engine companies change their search algorithms regularly. Search engine marketing (SEM) enables the purchase of keywords that bring a website into prominence (via a sponsored link) when those keywords or phrases are used. A charge is incurred if a user clicks on the link that takes them to the sponsor's website. The amount incurred for SEM activities can be easily controlled and SEM providers supply detailed analytics to assist website owners understand the keywords that achieve the best results.

Your firm would be wise to regularly explore the websites of other accountants to review the functionality provided.

5.5.25 Intranet/Knowledge Management Systems

If your firm is large enough, has multiple offices, or a virtual team, you may want to consider the benefits of an intranet. While new practice-management software systems may provide similar features, firm intranets continue to have a role in facilitating knowledge sharing and collaboration.

A firm's intranet, equivalent to an Internet site just for your staff, can facilitate internal communication and knowledge sharing. Generally, the intranet will contain news, links to commonly used applications and websites, and an internal contacts directory. Most also contain reference libraries where technical and other reference papers can be uploaded/downloaded; however, many firms struggle to maintain them. A dedicated team member needs to be appointed to ensure the library is maintained.

Include an online version of the firm's manual, containing checklists, standard letters, standard work papers, and other precedent documents to ensure quality is maintained and to enable efficient production. Many firms also list standard procedures. These document the steps to follow to complete a particular assignment. This reduces training and assists in ensuring that all team members are following the procedures that your firm has designed to maintain quality and efficiency. Many suppliers of firm intranet technology also provide standard precedents. Many professional bodies also provide a series of precedents for use by their members.

You may wish to integrate the intranet with your firm's practice management system. This enables standard letters and other documents to be automatically populated with client names, addresses, and other details. This reduces errors and increases efficiency.

A key aspect of the firm's intranet is to capture the intellectual property in the minds of team members (knowledge management). This may include a precedent on a key advisory topic, a checklist to ensure that work is complete and accurate, and research material. Other forms of knowledge relating to client interactions are often maintained in practice management systems.

In many firms, knowledge management systems fail. Underlying technology is only a small part of any successful knowledge management system. The most important element is firm culture and training to ensure that everyone in the organization is committed to ensuring that key data are captured. Team members need to be encouraged to:

- Capture details of client interactions;
- Record information about a client that may assist others who may have a need to service the client in the future;
- Capture past reports, advice, and other information that may assist others who may carry out similar assignments in the future;
- Make suggestions to improve existing precedents and checklists; and
- Store (with relevant keywords) research material, newspaper articles, and other information that may assist others in the future.

The intranet/knowledge-management technology needs to incorporate functionality that enables rapid access to the desired information by keywords or full text searching (much in the same way an Internet search engine does). Many document management systems incorporate firm intranet functionality.

5.5.26 Document Management, Workflow, and Scanning

In recent years many firms have moved to improve efficiency in document creation, storage, and retrieval and to reduce the space and cost associated with paper storage. Document management solutions may be integrated with a firm's management systems.

Document management

This is the electronic storage of your firm's letters, work papers, and other documents. The mere storage of documents does not provide the breakthrough in productivity that a full document management system can achieve. Many suppliers only provide a document storage facility with limited document management functionality.

Document management functionality includes:

- Ability to filter and sort the document store based on sophisticated criteria: Many systems enable firms to store user-definable data (metadata) on documents that can then be used for document retrieval. Examples include work types, years, type of document, and reviewer or approver. This enables users to quickly locate documents or groups of documents.
- Access control: This controls who is able to create, edit, view, delete, review, or approve a document. It ensures the integrity of the document store is maintained. For accounting firms, it is critical to maintain the review and approval process. Approved documents need to be locked so that they cannot be changed without the approver's (or authorized administrator's) action. Only with effective access control can firms consider abandoning paper and place reliance on their document management system.
- Check in/out functionality: This ensures that two people cannot edit the same document at the same time and is important in ensuring that one individual does not overwrite the work of another.
- Version controls and audit history: This keeps each version of a document as edited and can track when and by whom changes were made. This enables reversion to older versions of the document if necessary or an ability to review the changes made from one version to another. This is implemented in most law firms; however, most accounting firms do not see the value in maintaining multiple versions of the same document.
- Full text and keyword searching: A full text index enables the system to index every word in every document for most document types. The system automatically maintains the index as documents change. Once indexed, users are able to search for documents in the same way that an Internet search engine is used. Access is instantaneous. It should not be compared with the search functionality in Windows Explorer, which does not have an index and is therefore slow, as it has to read each document in turn. Note: Google Desktop has document indexing capability.
- Multi-office synchronization: Some systems provide the capability to synchronize data between offices. This enables each office to work independently using a local copy of the database to ensure access speed is maintained. Periodically the versions of the database at each location are synchronized so that a firm-wide document store is maintained.

Access speed is a critical component of any document management system. Team members will quickly become frustrated if documents take too long to find or load. For this reason, care should be taken if an online document-management solution is being considered, since this will depend on the speed and reliability of communications links. Therefore, in many jurisdictions, online document management systems are not viable.

Some document-management systems assist in the entire document creation process. They incorporate document creation functionality, which launches the editing application (such as Microsoft Word); provide rapid document profiling (creation of user-definable metadata); and on completion, automatically store the document in the system. In other systems, the document is created outside the system and is imported into the document store on completion. Systems that assist in the document creation process are generally more efficient.

Document management systems often utilize Microsoft SQL database technology to enable rapid searching, sorting, and access to documents and to ensure that performance is not significantly impaired as the system grows. Even for smaller firms, the document management store can quickly grow to a large size. This is less important as disk storage and backup technology continue to rapidly grow.

Many systems incorporate functionality that enables emails to be directly stored into the document management system from the email system.

Document-management systems often drive significant change in firm operations. To be effective, everyone in your firm must use the system. This requires changes to personal work practices, which often can be difficult to achieve. Significant time and effort should be put into implementation.

You need to ensure that team members have the technology platform that optimizes their use of the system. The first requirement is to ensure rapid access to documents even when the system is under heavy load. The second is to implement multiscreen technology to enable review and edit of multiple documents at the same time.

PDF creation

Adobe PDF has become the *de facto* standard for transmitting documents between organizations. While not totally secure, PDF documents are more difficult to change for the average computer user. Accordingly, most firms will create PDF versions of financial statements and other documents for storage in their document management systems and for electronic transmission to clients.

PDF documents provide greater levels of security than a traditional document. Security features include encryptions, digital ID and signatures for sender authentication, approval, printing, editing, and copying restrictions.

Some PDF creation software products also incorporate PDF collators, which enable multiple PDF documents to be incorporated into a single PDF file, with the user being able to manipulate the order of the documents. This means that when multiple documents are sent to clients in PDF form, they can be incorporated into a single file in the order that your firm would like the client to review them.

Other PDF creation software facilitates the inclusion of “sign here” stickers, addition marks, or ticks to highlight a document has been reviewed, as well as watermarks.

Storage of documents into the document-management system directly from the PDF creation software enables efficient storage of PDF documents.

Document workflow

Document workflow is progressively being incorporated into most document-management systems. Document workflow is the integration of tasks and queries with documents. Many firms use *ad hoc* systems that record tasks and “to do” lists.

A system that incorporates document workflow goes one step further, connecting tasks and documents. So a task or query can be attached to a document and delegated to a team member. Team members can request the system to show only those documents that have open tasks that have been delegated to them. The tasks/queries list is highlighted and connected to each document it relates to. This greatly increases the efficiency of accessing information to complete tasks or queries.

Examples include requesting a document to be reviewed, asking a question about how to complete a document, or requesting a task to be completed for a document. Without document management systems, team members revert to sending emails, often with a copy of the document attached. This not only can create confusion with multiple versions of documents, but also means that it is not possible to review the status of the particular task or query. Think of it as the paperless office’s version of a Post-it Note on a paper document.

Scanning

In most firms a significant volume of paper is still received from clients, regulators, and other parties. If a document-management system has been implemented, scanning enables efficient electronic storage of these paper documents.

In some firms, hard copy work paper files are still preferred, as it is considered that file review can be more efficient with paper (however, see comments above regarding multiscreen workstations in the document-management section). In these firms often the work paper file is scanned at job completion and the paper file destroyed.

Scanning solutions require hardware and application software. Often the hardware supplier provides them but the software applications are quite generic. Scanning applications that are designed for the accounting profession are available and should work with most scanning hardware as almost all such applications use common interfaces.

Scanning should be high speed, facilitate double-sided scanning, and be integrated into the document-management system to facilitate rapid storage with appropriate user-defined metadata. Some scanning systems have functionality to remove marks on documents and to rotate documents to ensure all documents are the right way up.

Some scanning solutions incorporate optical character recognition (OCR) functionality, which reads the text on the document after it is scanned. Often these systems can interpret the document and intelligently store it, often utilizing the data to automate other processes. For example, some can interpret source documents for tax preparation systems and populate the items on the tax preparation system automatically. Others can scan source documents from regulators and automatically generate letters to clients outlining the action to be taken. A potential downside to OCR functionality can be the speed. As the OCR application needs to read the text from a scanned document, it can be quite slow. Firms should ensure that “real world” examples of the application are shown in any demonstration.

5.5.27 Integrated Suites and Bolt-On Apps

Often, one or more suppliers provide an integrated suite incorporating many of a firm’s applications. These suites will include firm management, accounts production, tax preparation, company statutory records, intranet, and document management functionality. The benefit of the integrated suite is the sharing of data between applications. For instance, a change of address in firm management needs to be incorporated into a tax return as well as the statutory records for the company. In an integrated suite the change is made once, and all applications automatically update. The software is also generally aware of any processes to generate documents needed by these applications resulting from the change.

Integrated suites also facilitate firm-wide reporting so that data from multiple applications can be incorporated on a single report. For example, useful insights may occur from including firm management and tax preparation data in the same report.

Most integrated suites use Microsoft SQL database technology, which enables easy integration and reporting across the applications.

Stand-alone software is often developed to focus on a single aspect of business operations and can deliver a highly tailored solution, but because of the single focus on a specialist field the software systems often don’t integrate easily with other systems. As a result, to allow data to connect or be shared with other systems, it requires data exports or the use of other programs to transfer or manipulate data. This means there is the potential of increased cost and time frames, and the possibility of human error.

For small firms integrated software packages are affordable and help to mitigate risks and encourage data sharing from core systems. While some packages have a limited number of features compared to individual single-application packages the move to cloud solutions is enabling niche developers to offer bolt-on apps that can provide access to additional tools and functionality on demand.

5.6 Leveraging Technology for Practice Innovation

5.6.1 The Role of Technology in the Modern Accounting Firm

Technology will play a significant role in all modern accounting firms. To achieve this you must consider the following:

- Develop a strategic plan and budget for your firm's technologies.
- Implementation and training are the key to successful use of technologies.
- Ensure that a system selection process is followed and not overly influenced by suppliers.
- The Internet is transforming how firms today are interacting with clients.
- Firm websites are critical components in servicing clients and in positioning the firm for recruitment.
- Firms must ensure adequate technical support for efficient and reliable systems.
- Stick to mainstream hardware and applications that are in wide use so the firm can have confidence that the applications and systems will deliver desired outcomes.
- Practice management, accounts production (and audit), and tax software together with word-processing and spreadsheet software are the key production platforms that underpin the efficiency of most firms. Hardware platforms should be implemented that efficiently and reliably support these applications.
- Document-management and knowledge-management applications have the potential to deliver significant improvements in client service and efficiency in the future.
- Hosted solutions/cloud-computing solutions are emerging that have the potential to enable SMPs to operate with lower infrastructure investment and system management costs.
- Adequate attention and resources should be dedicated to risk management to prevent catastrophic failures.

Technology, when used strategically, is a mechanism to improve efficiency.

The implementation of new and emerging technologies can completely transform a firm and having a technology and e-business strategy is important for real change to occur.

Technology is an example of an emerging risk which firms need to acknowledge as our society and business environment continues to face rapid change.

Technology is a key component of success in any firm in today's world. It is critical that accountants stay up to date on the solutions available and the benefits these technologies can deliver. It is equally important to dedicate sufficient resources to ensure that any solutions that are deployed are properly implemented and maintained.

To succeed, firms must ensure that people fully understand and capitalize on the functionality of the software. All staff will need to be well trained to ensure the promised productivity gains from any solution are achieved.

5.6.2 Mobile Working

Another form of remote working is the mobile team member. Equipped with a laptop or netbook, these remote workers can work from any location—home or clients' offices. Working from clients' offices has the potential to increase efficiency as it can facilitate faster resolution of queries.

Some firms with large numbers of clients in remote areas schedule “tours” where team members visit a region and, with the appropriate technology, meet clients and complete all or most of the work while on-site.

5.6.3 The Virtual Office

Possibly the greatest transformation brought about by the Internet is the elimination of barriers caused by geographic separation. In particular, technologies like VoIP enables remote accountants working at clients’ offices to stay connected to the firm, accessing resources and exchanging information with other staff from remote locations. The technology also enables more opportunities for staff to work from home (“remote working”).

Many firms have created “thin client” environments which enable all staff to access your firm’s systems and work as though they are located in the office, regardless of actual location. Document management systems are critical to enable access for all client files.

The past 20 years have seen significant changes with many staff seeking opportunities to work flexible hours or work from home.

Some firms remain reluctant to permit significant remote working. There are concerns about supervising a team member to ensure productivity is maintained. Working from home requires personal discipline, a quiet work area free of disruption, and all the enabling technology. Some firms have found this works for some staff but not for others.

5.7 Technology Risks

Technology risks continue to evolve. A firm should establish and maintain a technology risk management framework. This framework should include policies and procedures that document how a firm assesses and identifies risks associated with the use, ownership, operation, and adoption of IT.

5.7.1 Disaster Recovery and Business Continuity Plans

Failure to have an effective business continuity and disaster recovery system can be catastrophic. Fires, equipment failure, data theft by disgruntled team members and hackers can create serious rectification costs and/or loss of productivity.

Your firm needs an effective risk management plan. While for a SMP it may not need to be a long and complex document, it should cater to the following systems issues.

Backup systems

Firms need to ensure systems are effectively backed up, so that the systems and data can be recovered in the event of a system failure. There are different types of backup:

- Bare-metal backups: these back up everything possible on the server including device drivers and other low-level configurations so that a server can be restored exactly as it was configured.
- Full-system backups: these back up all server operating systems, application software, and all data but often may not back up key server configuration information.
- Data backups: these only back up data, not operating systems and application data.

If only data backups are maintained, the time, cost, and effort to restore systems significantly increases. As full-system backups are significantly larger than data-only backups, some firms perform data backups daily and full-system backups weekly or monthly. Should any significant change occur to the configuration of the server or applications, a fresh bare-metal or full-system backup should occur.

Some backup systems perform incremental backups. This backs up only data that has been changed since the last backup. This can mean that to perform a full-system restore, multiple backups will be required. The backup software maintains a database of the backups so that it can locate specific files.

The advantages of disk or cloud backup procedures rather than backing up to tape include:

- Backing up to the cloud eliminates the cost associated with multi-site tape storage and tape transportation. Cloud-based backup includes multi-site data redundancy.
- Unlike disk drives, tapes can deteriorate without proper care thus resulting in the unexpected loss of data.
- Data/system restoration via disk or cloud is significantly quicker than via tape.

Rotation and off-site storage

An important consideration is the rotation of the backup media or, if the backup is online, the management of when backups are overwritten or deleted.

Generally firms maintain a separate backup for each day of the week. This allows a file or system to be restored for any day (in case a file is deleted). Most firms then hold the last daily backup for the week for 4 weeks. Some then hold the fourth weekly backup as a monthly backup, which in turn is held for 12 months. Finally, some firms hold a yearly backup forever.

In this way it should be possible to restore a file that was deleted a day ago, a week ago, a month ago, a year ago, or any point in-between.

It should be noted that this rotation will require 5 daily, 4 weekly, 12 monthly, and 1 yearly backup (a total of 22 copies). For this reason tape systems continue to be the cheaper alternative.

Clearly backups should be maintained off-site in case of fire or other disasters. They should be maintained at a secure location that can be quickly accessed if a disaster occurs. Backups should not be held in team member homes due to the risk of loss or destruction should the team member become disgruntled.

Backup software

A backup is only as good as the backup software. It is the software that ensures the right files are backed up and can be restored. For SMPs with limited IT knowledge, only well-known brand backup software should be considered. As a general rule, use the software recommended by your firm's external IT technical support company, since that company will be responsible for its maintenance and support.

Reviewing logs

Most backup software systems maintain logs to record the success or failure of the backup. Some backup systems cannot back up some file types while the file is in use. Accordingly, it is important that the backup logs are reviewed daily to assess whether any failures have occurred. Backup alerts should be configured to automatically notify the IT administrators when backup failures occur. This secondary measure ensures that key IT personnel are alerted and continuous backup failures are not overlooked.

Trial restores

The most effective test of a backup is to attempt to restore a file. Procedures should be adopted that at the very least, a monthly trial to restore occurs to ensure, as far as possible, backups are working effectively.

5.7.2 Cybersecurity

In today's computerized world, new risks emerge every hour of every day. Connecting to the Internet opens up the possibility of a hacker targeting your firm. Cybercrime is becoming big business and cyber risk a focus of governments globally. Risks are high in monetary and reputational terms if you don't have an appropriate cybersecurity plan.

Cybersecurity is making sure your business data is safe from attack via the Internet. It can encompass a body of technologies, processes, structures, and practices used to protect networks, computers, programs, and data from unauthorized access or damage. The goal of any cybersecurity strategy is to ensure confidentiality, data integrity, and availability.

There are several primary means by which cybersecurity issues can affect (or even destroy) your firm and reputation.

There is the risk that a hacker might obtain sensitive information such as bank account, credit card, or tax file data. There are open markets for such information on the "dark web" —the more seamy alleyways of the Internet. If others access such sensitive information, your business might find its banking or credit card facilities withdrawn or in breach of privacy laws. Each month high-profile security breaches impacting individual data are reported globally.

A second but related issue is that when a hacker obtains sensitive information about the business, the business may find its reputation ruined. Few small firms or their clients can survive the damage to its reputation that such lost data might cause. The damage to business reputation and goodwill might be more crippling than the actual data loss itself.

Loss of client data may result in court action against the business. A third party might sue your firm as they have themselves incurred a loss. Firms might also be subject to significant penalties and/or court action arising from breaches of the privacy laws in many jurisdictions.

The most recent and alarming aspect of cybersecurity that causes considerable problems for firms is ransomware. From about 2012, ransomware attacks have adopted commercially focused business models. That is, the virus has commercialized. Here, a virus arrives via a Trojan horse—a phishing email disguised as a funny video or perhaps a fine—and secretly installs the virus. This virus slowly encrypts your data with a secret 2,048-bit encryption key. For a time, your data continues to be accessible as the virus decrypts the data using the key. However, once all data is encrypted including in most instances your backup systems, you will be contacted and asked to pay a ransom within three days, or the criminal gang will remove the encryption key and your data will be lost. Literally, the criminal gang holds your data to ransom—hence, ransomware. The key is sufficiently strong that cracking the key instead of paying the ransom is uneconomic—some estimate that an average desktop computer would take five quadrillion years to decrypt the data without the key. It is unlikely you have that kind of time.

New threats continue to emerge and your firm needs to be sure it is equipped to deal with them.

Protection from malicious software and external attack

Most important among the critical system utilities is software to protect you from malicious attacks.

- Firewalls are software (and also hardware) designed to protect your system from attack from people accessing the firm's systems via its external communication links.
- Virus protection protects your system from attack by software code that can do anything from displaying annoying messages to erasing files and disks.
- Malware/spyware protection protects your system from software code that may annoyingly pop-up windows or have more insidious intent, such as logging usernames and passwords for fraudulent purposes.
- Anti-spam software protects email inboxes from being clogged by unwanted broadcasted email.

- Anti-phishing software protects users visiting websites that are designed to trap user information that can then be used for fraudulent purposes.

All are mandatory for any well-managed system. The cost of an attack can be significant, involving loss of data, fraud, and the significant cost of rebuilding systems.

Always use a well-known, reputable supplier. Some companies purport to supply these utilities but in fact the utilities themselves can be malicious software. Be cautious about using free software or software from an unknown vendor. Generally, it is best to use the utilities recommended by your systems integration (technical support) organization, as they will be responsible for its installation, configuration, and maintenance.

Maintenance of these applications is critical. New malicious software emerges every day. Most software vendors provide at least daily automatic update to their databases to ensure that the system continues to be effectively protected. Ensuring that these updates are correctly implemented is essential.

5.7.3 Hardware Maintenance Plans

Maintenance contracts should be maintained with hardware suppliers so that hardware failures can be quickly rectified. These contracts should specify the service levels that the supplier will meet in the event of failure. Critical hardware such as servers, switches, and backup technologies require prompt attention. Many contracts specify four-hour response for failure of these components. Other, less critical hardware such as individual workstations can have longer response times.

Some firms, particularly in remote areas, purchase some critical components that have a higher potential to fail, such as disk drives or power supplies, as spare parts that can quickly replace a failed component. For firms that rely on maintenance contracts, your firm should ensure that the support organization maintains an adequate supply of spare parts.

The quality of your firm’s external IT support organization is critical in ensuring your systems are correctly implemented and supported. Issues that need to be considered in selecting an appropriate organization include:

- Their knowledge and experience with your firm’s hardware and operating system configuration;
- Their knowledge and experience with your firm’s application software;
- Certifications held with major hardware and software companies, which provides an assurance as to the competency of the people in the organization;
- The number of people within the organization who have the required knowledge to support the system—this is critical as a reliance on a single individual can result in significant delays and cost should that individual be unavailable for any reason; and
- Their ability to provide support services remotely to enable rapid response to issues at a reasonable cost.

5.7.4 People and Documentation

Your firm should establish a plan to mitigate the risk of key people being unavailable in the event of a system failure. Keep a list of contact details for backup technicians. Document the configuration of hardware and software applications and keep this up to date so that a new technician can quickly rebuild the system.

5.7.5 Policies and Procedures

Good IT governance procedures within a firm are critical. Implement policies to ensure that systems are not misused, and ensure that applicable policies are continually reviewed and updated to reflect current risk.

Ongoing education to all firm employees on technology risks should form part of a firm's risk management framework, with potential security breaches being avoided as a result of education and policies being promulgated to all levels of staff throughout a firm.

Policies should include:

- User Account Management: rules and policies for all levels of users; procedures to ensure the timely discovery of security incidents; IT systems and confidential data are protected from unauthorized users.
- Data Management: establishment of effective procedures to manage the repositories, backup and recovery of data, and proper disposal of media. Effective data management helps ensure the quality, timeliness, and availability of business data.
- IT Security Management: process that maintains the integrity of information and protection of IT assets. This process includes establishing and maintaining IT security roles and responsibilities, polices, standards, and procedures.

Individual jurisdictions are likely to have enacted legislation that may require particular policies, or issues within a particular policy, to be addressed. The local professional body may be able to assist. Common policies are listed below.

System use policy

This policy generally outlines the rules by which your firm's IT systems can be used. Issues to be considered in this policy include:

- Mandatory use of passwords on all systems, such as phones and tablets, including the need for passwords to be changed regularly and a prohibition of providing passwords to other team members or third parties;
- Prohibition of copying firm data and removing firm data from the office without approval;
- The encryption of memory/USB sticks;
- The physical security of equipment;
- Use of the system during business hours for only your firm's business; and
- Rules for the private use of the system, if allowed, outside office hours.

Email use policy

Issues to be considered in this policy include:

- Prohibiting the use of personal email accounts for business matters;
- Responsibility to check email regularly;
- Responsibility to organize and file email;
- Use of professional standards and courtesy in messages;
- Prohibiting email use for unlawful purposes (copyright infringement, obscenity, slander, fraud, computer tampering, etc.);
- Prohibiting email use outside your firm's policies;
- Prohibiting sending large attachments;
- Prohibiting opening email attachments from unknown sources (as they may contain malicious software);

- Prohibiting accessing email accounts of other individuals;
- Prohibiting sharing email account passwords;
- Prohibiting excessive personal use of your firm's email;
- Notification that the firm will monitor email; and
- Reporting of misuse.

Internet use policy

The issues to be considered in this policy include:

- Limiting Internet use to business purposes;
- Notification of the ability of your firm to track Internet usage;
- Prohibiting access to sites that are offensive to a person's gender, sexuality, religion, nationality, or politics;
- Other prohibited sites (some firms prohibit sites that can affect productivity);
- Ensuring that downloads occur only from a safe and reputable website;
- Prohibiting downloading executable (program) files as they may contain malicious software, and also prohibiting downloading pirated music, movies, or software;
- Prohibiting providing the user's business email address in order to limit the likelihood of spam; and
- Consequences of violation.

Remote access policy

Issues to be considered in this policy include:

- Approvals required for external access;
- Reimbursement of external access costs;
- Security procedures (including disclosure of passwords, third-party use of system, disconnection from other networks while accessing your firm's systems, and use of firewalls and installation of appropriate software to protect the remote system from malicious attack);
- Physical security of firm-supplied equipment such as laptops;
- Reporting of any possible breach of security, unauthorized access, or disclosure of your firm's data;
- Agreement that your firm can monitor the activities of the external user to identify unusual patterns of usage or other activities that may appear suspicious; and
- Consequences of noncompliance.

5.7.6 Insurance

Adequate insurance should cover the cost of replacing infrastructure as well as the labor costs to rebuild systems and restore data. Consider also insurance for the loss of productivity resulting from a major system failure or catastrophic event.

5.8 Conclusion

The IFAC Global SMP Survey continues to rank keeping up with new technology as a major challenge for SMPs and their clients.

From the Internet to knowledge management and the automation of financial data handling, technology continues to be a key driver of change. Firms need to embrace technology as an opportunity rather than a challenge and acknowledge they have no control over the rapid pace of change.

Technology will increasingly become a component of a modern accounting firm and in the future it will be highly likely that for SMPs mainstream hardware and applications will be replaced by Internet-based solutions. Key areas for focus are:

- Develop a strategic plan and budget for your practice technologies.
- Implementation and training are the key to successful use of technologies.
- Ensure a system selection process is followed rather than being overly influenced by suppliers.
- The Internet is transforming how firms today are interacting with clients.
- Firm websites are critical components in servicing clients and in positioning the firm for recruitment.
- Firms must ensure that they have adequate technical support to ensure that systems are efficient and reliable or adopt new service models.
- Stick to mainstream hardware and applications that are in wide use so the firm can have confidence that the applications and systems will deliver desired outcomes.
- Practice management, accounts production (and audit), and tax software are the key production platforms, together with word-processing and spreadsheet software, that underpin the efficiency of most practices. Hardware platforms should be implemented that efficiently and reliably support these applications.
- Document-management and knowledge-management applications have the potential to deliver significant improvements in client service and efficiency in the future.
- Hosted solutions/cloud-computing solutions are emerging that have the potential to enable SMPs to operate with lower infrastructure investment and system management costs.
- Adequate attention and resources should be dedicated to risk management to ensure catastrophic failures do not occur.

Technology is a key component of success in any practice in today's world. It is critical that practitioners ensure that they keep up to date to fully understand the solutions available and the benefits these technologies can deliver. It is equally important that sufficient resources are dedicated to ensure that any solutions that are deployed are properly implemented and maintained. To succeed, firms must spend time to ensure that people fully understand and capitalize on the functionality of the software and that all team members are well trained to ensure the promised productivity gains from any solution are achieved.

5.9 Further Reading and IFAC Resources

The IFAC Global Knowledge Gateway is a digital hub where professional accountants can easily access thought leadership and resources from IFAC, member organizations, and other notable groups and individuals.

The Gateway Practice Management section includes additional articles, videos, and resources to complement this module. We encourage you to review the content, provide feedback, engage with contributors, and share your own insights on contemporary practice issues.

Appendix 5.1 Website/Intranet/Extranet Software Evaluation

Product:____________________ **Evaluation Date:**____________________

	Importance to Firm 0 = Not Required 1 = Low Requirement 5 = High Requirement	Rating 0 = Function does not Exist 1 = Exists, but Poor Implementation 5 = Exists and Excellent Implementation	Comments
Website			
Website templates provided			
Client newsletter facility			
Client/prospect registration facility			
Client surveys			
Optional news and business content automatically provided to site			
Assistance in website design/logo, etc.			
Ease of website content creation (no need to learn HTML or other technical website creation skills)			
No limits to number of pages or subpages			
Secure shopping facility (shopping cart)			
Credit card payment facilities			
Broadcast email facility			
Client database integration to practice management			
Website hosting provided			
Supplied form templates (feedback forms, invitations, competitions)			
Email a friend functionality			

	Importance to Firm 0 = Not Required 1 = Low Requirement 5 = High Requirement	Rating 0 = Function does not Exist 1 = Exists, but Poor Implementation 5 = Exists and Excellent Implementation	Comments
Search engine management (for the website to be found by popular search engines)			
User-defined forms can be included			
Job board (employment opportunities)			
Event registrations			
Intranet			
News area			
Web links			
User-defined favorites (links to websites, documents, or other data)			
History (recently accessed documents or pages)			
Provides views of firm management and other firm applications data			
Provides access to best firm precedents and procedures			
Staff directory/location tracker			
Firm knowledge base (technical and other papers)			
Outlook integration (email, calendar)			
Automated emails when news/knowledge base and other updates loaded			

	Importance to Firm 0 = Not Required 1 = Low Requirement 5 = High Requirement	Rating 0 = Function does not Exist 1 = Exists, but Poor Implementation 5 = Exists and Excellent Implementation	Comments
Extranet			
Upload documents directly to extranet from other applications			
Add or remove documents from extranet based on date ranges			
Secure client login creating secure location for client interactions			
Secure client discussion forums			
Public client discussion forums			
Client product/service exchange (community of clients)			
Email notification to clients or firm when documents uploaded into client secure space			
Share documents with multiple clients from a single operation			
Client ability to update details (addresses, mobile, etc.)			
Client ability to review debtors ledger and pay fees			
Other			
Scanner integration			
Keyword indexing			
Full text indexing			
Support for all file types (sound, video, PDF, etc.)			
Integration with optical character recognition (OCR)			

	Importance to Firm 0 = Not Required 1 = Low Requirement 5 = High Requirement	Rating 0 = Function does not Exist 1 = Exists, but Poor Implementation 5 = Exists and Excellent Implementation	Comments
Statistical reporting of website/ intranet/extranet usage			
Content management system (CMS) (approvals, removal dates)			
Access controls to individual aspects of website management system			
Search facility			
Spell checker			
Company			
Number of customers			
Smallest customer			
Largest customer			
Support provided			
Implementation services provided			
Training provided			
Client satisfaction survey results			
Reference sites			
Server requirements			
Workstation requirements			
Provider financial viability			
User groups			
Pricing			
Customer input into development			
Conversion from other products			

Appendix 5.2 Document Management/Workflow Evaluation

Product:____________________ **Evaluation Date:**____________________

	Importance to Firm 0 = Not Required 1 = Low Requirement 5 = High Requirement	Rating 0 = Function does not Exist 1 = Exists, but Poor Implementation 5 = Exists and Excellent Implementation	Comments
Document management			
Function			
Email storage			
Check-in, check-out			
Versioning			
Integration with MS Office and Outlook			
Clients/engagements integrated with firm management			
Integration with firm tax/accounts production, statutory records, pension plan, audit, and other compliance applications			
Launch applications from document management system			
Track history of edits			
Views of documents by outstanding queries, document preparer, document type, follow-up dates, etc.			
User-definable views of document lists			
Store documents by client			
Store documents by engagement			
Store documents by file type (correspondence, minutes, etc.)			
Drag and drop document to document management folder			

	Importance to Firm 0 = Not Required 1 = Low Requirement 5 = High Requirement	Rating 0 = Function does not Exist 1 = Exists, but Poor Implementation 5 = Exists and Excellent Implementation	Comments
Permanent file support			
Document-retention processes for automatic archiving			
Integration to PDF creator software			
Document access control (reader, creator, editor)			
Client/engagement access control			
Attach user-definable attributes to documents			
View documents by user-definable attributes			
Review notes on documents			
General comments on documents			
Workflow			
Track queries on documents			
Assign documents to staff members			
Assign tasks to documents			
Track document delegators			
Create document due dates/follow-up dates			
Track status of document (in preparation, in review, approved)			
Lock documents once approved			
Use document links rather than copies of documents to email around the firm for review			
Track date the document was sent to the client			

	Importance to Firm 0 = Not Required 1 = Low Requirement 5 = High Requirement	Rating 0 = Function does not Exist 1 = Exists, but Poor Implementation 5 = Exists and Excellent Implementation	Comments
Email document from within application			
Document threads (hierarchy), that is, parent/child documents			
Ability to link related documents			
Online approval of documents			
Automatic notification of outstanding issues			
Automatic escalation of outstanding issues			
Email management			
Store email direct from inbox			
Send email from application and store copy in application and outbox			
Keep firm-wide archive of all inbound and outbound email			
Approval tracking on emails			
Prevent staff from sending unapproved emails			
Ability to route emails to staff and allocate tasks			
Templates			
Create documents from standard templates			
Templates, client names, and addresses integrated with practice management system			

	Importance to Firm 0 = Not Required 1 = Low Requirement 5 = High Requirement	Rating 0 = Function does not Exist 1 = Exists, but Poor Implementation 5 = Exists and Excellent Implementation	Comments
Suite of template documents supplied			
Standard letter templates			
Checklist templates			
Work paper templates			
Template updates supplied			
Template versions maintained			
Template usage tracked			
User templates can be added			
User amendments to standard templates not overwritten on update			
Facility to distribute user templates to multiple offices			
Best firm procedures provided, linked to best practices documents			
Individual users can have their own suite of documents			
Facility to track reviews and authorization of standard documents			
Other			
Internet access to application			
Access to documents from other applications			
Documents replication/ synchronization (disconnected access to documents)			
Scanner integration			

	Importance to Firm 0 = Not Required 1 = Low Requirement 5 = High Requirement	Rating 0 = Function does not Exist 1 = Exists, but Poor Implementation 5 = Exists and Excellent Implementation	Comments
Keyword indexing (searching)			
Full text indexing (searching)			
Smart filters to enable viewing of only required data			
Integration with secure client extranet			
Support for electronic signatures on documents			
Integration with optical character recognition (OCR)			
Company			
Number of customers			
Smallest customer			
Largest customer			
Support provided			
Implementation services provided			
Training provided			
Client satisfaction survey results			
Reference sites			
Server requirements			
Workstation requirements			
Provider financial viability			
User groups			
Pricing			
Customer input into development			
Conversion from other products			

Appendix 5.3 Cloud Computing Evaluation Checklist

Product:______________________ **Evaluation Date:**______________________

Issues for Consideration	Rating of Importance	Rating of Supplier	Comments
Service provider due diligence			
• Is the infrastructure used by the cloud provider owned, outsourced, or contracted?			
• Where are the key service locations?			
• Has the provider obtained independent service and security accreditation and certification?			
• What type of business is using your service and are references available?			
• What data backup systems are in place and what would be the maximum lost days as a result of a major shut down?			
• What is the supplier's short-term and long-term product development plan?			
• Are there any compatibility issues with existing business systems or software systems?			
• What contingency and disaster recovery procedures are in place?			
Pricing			
• Are there upfront setup costs?			
• What is the pricing model (per license, data usage, or a combination)?			
• Ongoing fees (monthly or quarterly)?			
• Yearly fees (per license or data)?			
• What will be the cost of additional data transfer via my Internet provider?			
• Can the solution be quickly up- or downscaled at minimum cost?			

Issues for Consideration	Rating of Importance	Rating of Supplier	Comments
Accessibility			
• What is the guaranteed uptime and how is this calculated?			
• What compensation is available for downtime. How would this be calculated?			
• What are the minimum Internet requirements and what is the impact of Internet outages?			
• Is there a schedule of upgrades or scheduled service outages?			
Data storage			
• Where are the data servers located?			
• What encryption methods are used to secure the data?			
• How often are backups scheduled?			
• In what formats is the data stored? Are those formats easily convertible to the data storage format you use in-house?			
• What guarantee do they provide to maintain data security and leaks?			
• Who can access your data in the data center?			
• Is the service provider allowed to use data and/or metadata (i.e. Gmail and Google algorithms)?			
Support			
• Is emergency support available 24/7?			
• What kind of support channels are available (phone hotline/email/web-chat)?			
• How helpful is the customer help desk?			

Issues for Consideration	Rating of Importance	Rating of Supplier	Comments
• Do the help desk staff have an extensive knowledge base to answer day-to-day issues?			
• What self-service tools are available to manage logins, passwords, and general reporting?			
• Are documented customer governance policy documents available?			
• Do invoicing and payment systems allow online query management and service reporting?			
Termination clauses			
• Can you terminate the contract at any time without a significant penalty?			
• Can you terminate the contract without penalty if there is a security breach or other tenuous circumstances?			
• On what grounds can the provider terminate your contract?			
• How soon will the provider return your data after termination?			
• What is the cost of the return of data and are there options and pricing for escrow of object code, source code, and data?			

Client Relationship Management

Module 6

CONTENTS

6.1 Introduction

The relationship accountants have with their clients is fundamental to the value of the accountancy firm. Increased competition demands that accountants shore up their client relationships so that clients are less vulnerable to persuasion from competitors.

Each word in the term “client-relationship management” is important.

- “Client” implies an ongoing, professional relationship. This means that once an initial relationship is established, both the firm and the client intend to continue to deal with each other.
- “Relationship” implies that the association between client and firm is more than a simple transaction, or a one-time purchase of a service. It is often the case that the client shares private or confidential information with the firm, and hence a level of trust is established. Both the client and the firm come to know each other and gain an understanding of how the other works.
- “Management” implies that the relationship doesn’t just happen, it needs to be managed. This means that there is an active involvement, more than just the firm responding to client requests.

Establishing a deeper client relationship makes good commercial sense. It has been established over a number of surveys that it costs far less to retain a client than it does to acquire a new one. This should be of particular interest to accountants, who are often very concerned with matters relating to cost and cost management.

No matter how deep, or not, your relationship is with your client, it is important not to overlook the benefits of a proper engagement letter, where it is not already mandated by relevant standards, in which “who is doing what and when” is fully documented. A proper engagement letter will help you during the relationship and also, if necessary, when ending it.

6.2 Knowing Your Client

“Knowing your client” certainly means understanding their business affairs. It’s also about understanding what motivates them, what their fears are, and why they do what they do.

It’s valuable to understand what’s important to your clients—their values and their core characteristics. It also really helps if you understand the vision they have for their business. Keep in mind your clients have lives separate from their business: a business can be a person’s escape, their means of making a living, or their mode of expression, but is not necessarily who they are.

The service you provide will be well regarded, and valued. When you achieve this level of relationship, price becomes less of an issue. The client becomes less concerned about the lowest price because they are getting sound advice from their trusted adviser. (They will still want good value, though!)

Getting to know your client:

- Builds a closer relationship;
- Strengthens your position as their “trusted business adviser”;
- Means that price becomes less of an issue;
- Increases client loyalty, which means clients will be less interested in approaches from competitors;
- Increases client retention, and therefore profitability and value of the firm;
- Increases staff satisfaction, as they also build relationships with clients;

- Increases efficiencies: your firm and its clients know each other's systems and methods and how to work together; and
- Tends to be more professionally satisfying.

This module provides assistance to those who realize the benefits of deepening the relationship with their clients and are looking for ways to do it.

6.2.1 Client Questionnaire

The best way to get to know your client, and understand the client's vision and long-term plans, is simple. You must ask them and be genuinely interested in the answer. This works best when done in a structured way.

Two client questionnaires are provided, one with a business focus (see Table 6.1), the other with a family focus (see Table 6.2). You can use this format, or use the ideas to design your own questionnaire.

When you meet your client and ask the questions, make sure you give them time to answer fully. Take the time to listen. Clients often like to elaborate on their answers, as they are keen for you to understand them and their plans better. You may choose to use a formal approach (such as a questionnaire) or engage them in conversation, gathering usable information in a less formal manner.

Table 6.1 Sample client questionnaire: Business

Question	Reply/Comment
Client: Directors: Owners:	
Age of directors/owners	
What is the main purpose of the business (describe products, services, and client profile)	
Experience in business	
Time in current business	
Expertise in current business	
What is your current business plan?	
What do you want to achieve in this business?	
Have you undertaken a competitor analysis and/or reviewed industry benchmarks?	
What are your goals and key objectives?	
Where do you see your business in two, five, and ten years?	Two years: Five years: Ten years:
Where is your business now in relation to where it needs to be?	

Question	Reply/Comment
What are the key steps you need to take to get there?	
What might stop you from getting there?	
What are the most important things you want from your accountant?	
What are your key frustrations?	
Identify key employees Note the length of their service What are their ambitions, goals, and objectives?	
How long do you want to stay involved in this business?	
When do you plan to retire?	
What else do you like to do apart from working in the business (hobbies, interests, etc.)?	

Table 6.2 Sample client questionnaire: Family

Question	Reply/Comment
Client: Family Members:	
Age of Family Members	
Overview of family members in family business interests and/or investments	
Level of interest of each family member in family business interests and/or investments	
What is family business or investment plan?	
What does the family want to achieve from their investments? What are the family goals and key objectives?	
Where do you see the family investments in two, five, and ten years?	Two years: Five years: Ten years:
When do family members plan to retire?	
What else do you like to do apart from working in the business (hobbies, interests, etc.)?	

6.3 Reviewing Your Client Base

One of the key elements in client relationship management is continual focus on the client. Even though accounting firms deal with numbers, laws, and regulations, it is the relationship the client has with the firm that will bring them back to you, year after year. This is where real value is added to your firm.

The reality for most firms is that the relationship they have with their clients varies. Firms may provide the same professional services, such as an audit or tax return, to many clients, but the relationship differs from client to client. This is because it is people who run each business, and people are different wherever you go.

It is important to understand how your clients interact with your firm and just what the client relationship is based on. One effective way to do this is to classify your clients. This allows you to see which clients have a strong relationship with your firm, and which do not. It also allows you see where resources should be allocated and if there are any areas requiring special attention.

6.3.1 Client Classification

There are many ways to classify clients. Questions you could ask include:

- How much time does the client spend with our firm?
- What is our return on investment with this client?
- What contribution margin do they make?
- What hourly contribution margin do they make?
- Client contribution as % of total?
- How many of our services do they currently utilize?
- Do they pay our bills on time?
- Do they dispute or argue over fees?
- Do we make good recovery on their fees?
- Do they respect our advice?
- Can we add value to their business?
- Do we enjoy working with them?

Firms that go to the effort to rank their clients often do so on the basis of the fees the clients pay. This is one important indicator; however, remember to also use some “non-monetary” criteria, as you deal with clients on many levels.

Tables 6.3 shows an example of how client bases might be classified according to different criteria.

Table 6.3 Client base classification criteria

A+	A	B	C	D	"Up and Comer"
Spends $20,000 or more per year	Spends $10,000–$20,000 per year	Spends $5,000–$10,000 per year	Spends $2,000–$5,000 per year	Spends $2,000 or less per year	Enthusiastic client of firm
Utilizes five or more of our services	Utilizes four to five of our services	Utilizes three to four of our services	Utilizes two to three of our services	Utilizes only one to two of our services	Potential to utilize three or more of our services
Monthly payment arrangement	Monthly payment arrangement	Monthly payment arrangement	Monthly payment arrangement	No monthly payment arrangements	Will do monthly payment arrangement when ready
Respects our advice	Respects our advice	Respects our advice	Respects our advice	Minimal scope for advice, but does appreciate our services	Respects our advice
Values our services	Values our services	Values our services	Values our services		Values our services
We enjoy dealing with them	We enjoy dealing with them	We enjoy dealing with them	We enjoy dealing with them	We enjoy dealing with them	We enjoy dealing with them

Table 6.4 Client classification exercise

	Action	Completed/Comment
1.	Determine the criteria on which you will classify your clients.	
2.	If this includes financial information, ensure that this information is available.	
3.	Determine the coding system you will use (for example, A+, A, B, C, etc.).	
4.	Access a listing of all clients of the firm. (This works best in electronic format.)	
5.	Allocate a classification code against each client.	
6.	Sort client list according to code.	
7.	Review list for anomalies.	
8.	Make list available to all employees for review and comment.	
9.	Determine appropriate strategies to maximize use and value of this information.	

6.3.2 Benefits of Client Classification

A number of benefits may be gained from the process of client classification.

6.3.2a Demographics

Classification allows the firm to discern:

- Which clients are utilizing which services;
- The popularity of certain services;
- The resources and training required to support these services;
- The opportunities to up-sell and cross-sell additional services; and
- Those clients who utilize most services in the firm.

It is important to share this information with all the employees in the firm so that they know where clients sit in the firm rankings. This will help them deliver the appropriate level of client care and support. It will also keep them alert to the opportunity to up-sell and cross-sell additional services to those clients who utilize a lower number of services.

6.3.2b Pricing

Client classification may also allow the firm to consider special pricing arrangements. These may apply in different circumstances.

Preferential pricing may be considered for clients who utilize a large number of services. This may enhance the client relationship and show loyalty and appreciation to the client for their support of the firm, by providing lower prices in some areas.

Preferential pricing may also be considered for clients as an incentive or inducement to increase the number of services they utilize. For example, a firm could offer 10% off fees on the additional service in the first year of use.

In addition to preferential pricing, the firm could also consider different pricing structures that may apply to different service levels, or to different types of work, or to services provided. Value and other pricing models are discussed in Module 3.

6.3.2c Valuation

It may be possible to attribute a value to the clients within each category of classification. While this may not be an exact or precise measure, it may at least give an indicative value of the client base. It will also allow the firm to assess the return on investment that is being realized from the client base.

One method of valuation is called the Lifetime Value of the Client. This involves estimating how much the client will spend with your firm during the lifetime of the mutual relationship. Also make an estimate of how many other clients they are likely to refer to your firm, and what the value of those clients will be to the firm. This will then provide the firm with a guide as to the level of investment they should make with various clients.

As you can see, there are many ways the information gained from the classification of clients can be used. The next step is to determine the appropriate strategies the firm should use to make the most of the opportunities this information presents.

6.4 Measuring and Exceeding Client Expectations

The starting point for measuring and exceeding client expectations is to understand what those expectations are in the first place.

6.4.1 What do Clients Want?

The key to growing a successful firm has much to do with keeping a firm relevant to the changing needs of the clientele. Hence, understanding the challenges your clients are facing is important if you want to be seen as a business partner and provide tailored services which are valued by the client. Recent IFAC SMP Global Surveys have identified that when asked about the challenges facing their SME clients, 75% or more of respondents rated seven of the eight challenges as a moderate or greater challenge. Top challenges facing SME clients included economic uncertainty, rising costs, competition, and difficulties accessing finance.

Table 6.5 What clients want

	Result	Quotation
1.	Accessibility	"Be available for me, whenever, wherever."
2.	Initiative	"Come up with ideas that will help me and my business."
3.	Timeliness	"Be in the present, stay current with me, not focused on the past."
4.	Comprehensible advice	"Relate to me in ways I can understand."
5.	Client choice and control	"Give me options, let me choose."
6.	Improved relationship	"It's more than just a transaction."
7.	High level of expertise	"Practitioner has specialist knowledge."

Take a few moments to review this list and consider its implications. You can see that the main emphasis is to be available to the client and involved in a relevant way with their business.

Many accountants focus on the specifics of the service they deliver. While this is important, you need to also look beyond the actual transaction at what the client is actually looking for.

Consider, for example, the preparation of a tax return. The accountant assumes this is what the client wants. But the client is more concerned about ensuring that their tax obligations are being met. The tax return is simply the mechanism for getting this done.

This highlights the importance of understanding what clients really want from their accountant. Firms then have the opportunity to develop so that they can deliver a service of real value to their clients.

Real value also needs to be considered vis-à-vis what the clients can afford and wish to pay. From a client-management perspective, this means there may be no need to over-service clients.

The results of polls and surveys like these will assist accountants in gaining a better understanding of how clients wish to be serviced and the various challenges they need assistance with.

6.4.2 Measuring Client Expectations

In order to measure and exceed client expectations, a number of steps must be completed.

Table 6.6 Steps to measure and exceed client expectations

Step	Action Required
1.	Know what your client's expectations are.
2.	Quantify your client's expectations.
3.	Check regularly to see whether their expectations are being met: *Ask your client.*

It is only by understanding what a client expects of you that you can exceed those expectations. The client's expectations should be identified in your first meeting with them and then checked on an ongoing basis. Use the client questionnaire in Table 6.1.

6.4.3 Exceeding Client Expectations

If you can exceed your client's expectations, you will ensure a long-term relationship with them and a constant stream of client referrals.

Exceeding client expectations is all about giving them something unexpected, something they did not predict. It has been called the "Wow!" factor, and it is worth considering as an effective way to enrich the client relationship.

This requires you to be innovative and creative. You must think constantly about how you can go beyond what they expect. As soon as you introduce an initiative, you will need to be thinking about the next one. You need to set the bar higher each time. A relentless, exciting progression!

As mentioned earlier, the technical areas are a given: you are expected to be competent in those areas. So, it is often in the nontechnical areas that you really make an impression.

IFAC's Good Practice Checklist for Small Business can be used by practitioners to help them determine what type of assistance a client may need. This checklist can provide a starting point for developing specific action plans for your clients which, when presented with industry benchmark data, can demonstrate your commitment to maintaining a long-term relationship and to provide value-added services.

6.4.3a Phone Calls

One example is an unsolicited phone call. After the initial chat, say something along the lines of, "I just thought I'd give you a call to see how your business is doing. How are things going?"

Clients usually warm to such a conversation very quickly and will soon talk about the issues they are facing. Sometimes there may be ways you can help, other times not. But you can be assured that your client will appreciate the call. This will go some way toward building your relationship with your client.

6.4.3b Does Your Client Understand You?

Key Performance Indicators (KPIs) are important for every business, and the practitioner is well placed to explain the financial indicators to their clients. KPIs based on the Profit and Loss Statement are usually of interest to the client. For example, a discussion of the break-even sales point or the safety margin will typically attract interest from the client.

Another approach might be to translate ratio analysis for your client. Explaining a ratio brings it to life. Consider the current ratio: the calculation is "current assets/current liabilities." Traditionally we would describe this in terms of "2:1," or "two times." This might be meaningful to the accountant but it doesn't necessarily make sense to the client.

It is possible to make that ratio more meaningful to the client. For example, you could rephrase it in terms such as these: "For every dollar of current liability, you have $2.00 of current asset to pay for it." Or, "Last year, for every dollar of current liability, you had $2.20 to pay for it, but this year it's down to $2.00. Something has happened to the liquidity of the business." Now the ratio has come to life. It brings new meaning to the ratio and opens a whole new area of understanding for the client. It also opens the door to more meaningful discussion with the client on this topic.

By taking this approach to ratios, your own staff's understanding and interest will also increase. Your employees will enjoy preparing the ratios so they can assess your client's performance. You may wish to give a staff member the responsibility of setting up your accounting software to produce the ratios and the sentences that go with them automatically.

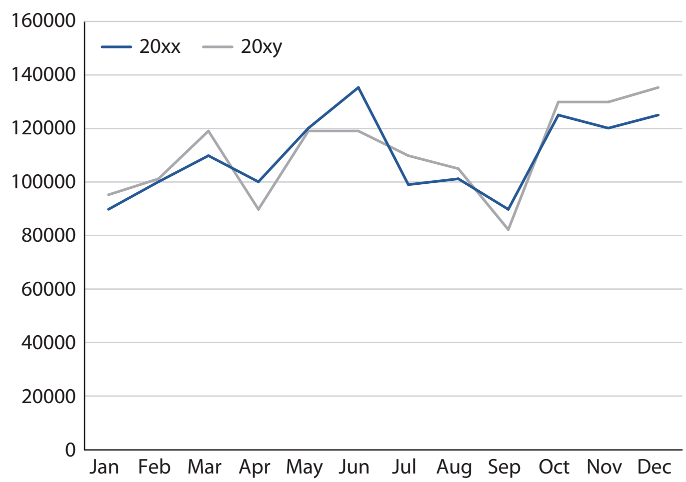
This is a simple example of how to engage with client, while at the same time improving staff morale by encouraging their involvement.

6.4.3c Graphs and Charts

"A picture is worth a thousand words." Accountants are comfortable looking at numbers all day. They are accustomed to seeing the relationship between figures and financial situations. However, most clients are not like that. So, it is important to present information to clients in ways they can understand. Graphs and charts are a great way of doing that.

Most spreadsheet packages can generate graphs quickly. Yet is surprising how few firms present their client's financial information in this form. It is certainly one of the most cost-effective methods of impressing your clients and giving them something of real value, something they can easily understand.

Figure 6.1 Sample sales graph



Consider other types of information that your clients would appreciate seeing in graph format, such as:

- Sales versus last year's sales;
- Sales versus budget;
- Sales versus gross profit;
- Wages versus sales; or
- Sales versus net profit.

Many other combinations would be useful to graph. The important thing is to gauge the level of interest from the client. They usually show a keen interest when the graphs are shown and discussed. They often suggest other information they would like to see graphically represented in the future.

6.4.3d Pie Charts

Balance sheet items are often best shown in the form of a pie chart. Multiple formats can be used. Find the format that works best for your client and gives them the information that is most useful to them.

Figure 6.2 Sample balance sheet

There are other benefits to producing graphical information.

- It typically generates additional interest within the firm, as the results are so easy to understand, and arouses staff curiosity.
- Standard formats can be preset on your computer system and can be produced with the press of a button.
- Generation Y is highly computer literate and can usually produce graphs with ease, saving time and money in their production.
- The image and perception of professionalism are enhanced.

6.4.3e Other Services

A number of accounting firms have broadened the range of services they provide in response to demand from current and prospective clients. Review the following list and consider whether some of these services could be incorporated in your firm, in addition to traditional tax and accounting services.

- **Annual planning session**: Meet with client each year to map out, or update, the strategic direction of the client's business.
- **Develop action plan**: Assist in completing the action plan to achieve the goals identified. This includes identifying the necessary follow-up steps, and allocating responsibilities for tasks and deadlines.
- **Implement and update the action plan**: Ensure the plan is fully implemented, with regular follow-up meetings, mentoring, and coaching.
- **Goals and objectives**: Identify and establish the goals and objectives of the business, and together determine how to get there.
- **Organization chart**: Review the client's organization chart, including allocation of responsibilities and accountabilities. This also includes a review of position descriptions for each position.
- **Site visits**: Regularly spend time in the client's business to physically assess the continued sustainability and development of the business.
- **Regular Business meetings**: Meet in person or via video-enabled apps with the directors on a regular basis to discuss the financial performance, growth, and development of the business. This could be on a monthly or quarterly basis.
- **Management accounts**: Review the business's performance against the budget.

- **Annual budget**: Prepare and review.
- **Annual cash flow forecast**: Prepare and review.
- **Sales pipeline**: Regularly review.
- **Accounts receivable**: Review and track accounts receivable monthly. Consider the impact on the cash flow forecast, and bring any concerns to the attention of the directors.
- **Accounts payable**: Review and track monthly. Check against the annual budget allocation, and consider the impact against the cash flow forecast.
- **KPIs**: Identify the specific KPIs for the business that are to be regularly reported and relevant financial and nonfinancial information relating to the performance of the business.
- **Finance and funding**: Review the finance and funding arrangements that are in place to ensure that the most appropriate and cost-effective forms of finance are being utilized.
- **Bank manager**: Meet with the client and the client's bank manager annually to discuss the performance of the business and future plans. This discussion should include a review of the relative appropriateness of the funding arrangements in place.
- **Bank security**: This discussion will be linked to a review of the security the bank holds to support the finance structure. These meetings should coincide with a monthly management meeting.
- **Corporate structure**: Review and consider the corporate structure through which the business operates, to ensure it continues to reflect the client's intentions for the business.
- **Asset protection**: Link to the review of corporate structure a consideration of asset protection measures that are in place and whether the current structure is relevant and will continue to be so.
- **Investment plans**: Review and discuss the client's investment and development plans, in light of taxation and investment benefits. Be mindful of your local regulations in regard to what "advice" can be given here.
- **Succession**: Consider annually what the client intends to do regarding their succession. Include the timing of their progressive withdrawal from the business, and the relative position of the business in light of taxation issues, stamp duty, etc.
- **Estate**: Confidentially discuss and consider the legal wills of the client and the client's intentions in regard to their estate planning, from a financial and taxation perspective.
- **Insurance coverage**: Review insurance coverage in place to ensure it is appropriate for the current and ongoing needs of the client.
- **Insurance broker**: Meet with the client's business insurance broker annually to discuss the current level of insurance coverage and provide an update as to future plans and expectations. These meetings should coincide with one of the regular business management meetings.
- **Staff salaries and bonus structures**: Review and discuss staff salaries and bonus structures annually.
- **Risk assessment**: Conduct a formal risk assessment of the client's business annually to ensure key areas of risk are identified. Also ensure that appropriate risk mitigation strategies are identified and recommended.

- **Profitability analysis**: Conduct client profitability analysis and product profitability analysis to ensure that the clients and product lines that your client deals with are profitable. If not, review their continuation.
- **Key clients**: Meet the key clients of your client to discuss their financial terms and arrangements. Gain an understanding of their dealings with and expectations of the client's business.
- **Key suppliers**: Meet with the client's key suppliers to discuss their financial terms and arrangements, and seek to negotiate better terms.
- **Business Plans**: Review or prepare business plans for the client to be presented to banks or financiers.
- **Assets physical inventory reconciliation**: Assist the client in setting up a periodic physical inventory of assets and make a comparison between assets accounting records and data issued from assets physical inventory in order to find discrepancies and correct errors.

When considering which other services to introduce, subject of course to your client's openness to embrace these new offerings, you should be aware of ethical considerations and any local restrictions that may apply in your jurisdiction.

6.4.4 Internal Versus External Strategies

So far the discussion has focused on internal strategies to exceed your client's expectations. Other strategies include building on the relationship you already have with your client.

External strategies

Some accountants have semi-regular contact with some of their clients on an ad hoc basis. Many accountants only see their clients once a year, to sign their tax returns and financial statements, or conduct an audit.

Building closer relationships with your clients depends on changing this around. Set a plan for regular contact and a range of activities. This has a very positive proven effect on client relationships and the retention of key clients. It will almost certainly exceed their expectations and deepen the relationship you have.

The most important factor is to have a plan that covers:

- **Whom** should we invite: clients, prospects, referrers, alliance partners?
- **What** should we invite them to: what are their interests?
- **Where** is the event or function: how do we get clients there?
- **When** would this suit the client?

It is recommended you do this for your top ten or twenty clients, but you should also consider doing this for your prospective clients, referrers and alliance partners. It really is an excellent way to build and deepen relationships. Map these points in a table, as shown in Table 6.7.

Table 6.7 Sample plan for regular client contact

	Who	What	Where	When
1.	ABC Ltd	Client Networking Event—*Cirque du Soleil*	City	March
2.	CBC Bank	Business Financing Lunch	Local restaurant	May
3.	Lew & Wing	Government Budget Briefing for Small Business	North Shore	May
4.	Sokya & Epstein	Football: client is keen supporter of Wests football club	Football stadium	July
5.	Morgan & Assoc	Tulip Festival: client is plant breeder/horticulturalist	Regional	September
6.	Lawyers Co	Breakfast meeting to discuss referral and alliance prospects	City	October
7.	Frontline PR	Local Race Day sponsored by Business Network	Race Club	November
8.	IT Partners	Charity Golf Day	Muirfield	June
9.	Abbott & Co	Health Smart Luncheon with Guest Speaker	Harbor	April
10.	Damien W	Leadership Seminar	Central	January

Subject to your country's laws or professional regulations, there may be limitations on what you can do. The important point is to make the event or activity appealing to your clients or contacts. It is not necessary to spend a lot of money: it's the contact that matters. In fact, it matters more than the event.

You might also decide to increase your client outings and contacts as an important step toward growing and developing your firm. Include members of your team. This will deepen the relationship they have with the firm and allow them to build closer relationships with the clients.

By planning your activities, you will see how much time you have available. You may wonder why you haven't done something like this before! What a wonderful way to exceed your clients' expectations, and will undoubtedly enjoy yourself as well.

Refer to Table 6.8 as an example of the format to use as a planning tool.

Table 6.8 Client relationship management action plan

Client	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec

6.5 Benchmarking Service Levels

6.5.1 Benchmarks

Benchmarks provide a powerful mechanism for monitoring business performance and identifying opportunities for improvement. At their most basic, benchmarks compare one set of information with another. It's important to decide exactly what you want to compare and what/who to compare against.

Benchmarking tools that compare a business' performance against industries and peers are freely available, simple, and easy to use. When used in conjunction with government statistics, they can provide useful insights into a client's risk profile. For firms wishing to provide expert benchmarking services, there are a wide range of online "user pays" diagnostic tools and health checks which facilitate the process.

Firms might also wish to refer to surveys that allow them to compare their own firm's performance against peers based on firm size and region.

The following key indicators can be benchmarked for client relationship management. Work your way through this list of indicators, and select the ones relevant to your firm. Determine your own benchmarks. Then regularly track your actual firm performance against these benchmarks (see Table 6.9).

Table 6.9 Benchmarking client relationship management

Client Relationship Management Key Indicators		
People		
Staffing	Number of full-time equivalents (FTEs)	Number of employees
Client-facing staff	Number of FTEs (with client-facing responsibilities) Percentage of total staffing	Number of FTEs with client-facing responsibilities Client-facing staff as percentage of total staff We want this to increase as we improve our client relationship culture
Revenue per FTE	Firm's billings divided by number of FTEs	Indicates revenue per FTE Firm's aim is to increase this over time
Networking meetings attended	Number of meetings attended	Indicates intention of team to proactively market the firm To be tracked regularly and compared against target
Mentoring hours	Number of hours	Indicates number of hours team members have been mentored To be tracked regularly and compared against target
Productivity		
Work in progress	$ Value	Indicates how much time is recorded on timesheets yet to be billed to client Emphasis should be on recording time which the client will appreciate in the completion of their work

Client Relationship Management Key Indicators		
Work in progress (WIP)	Age (WIP Days)	Indicates how long work has been in office and in progress Emphasis should be on reducing WIP days, thereby improving turnaround times for client
Accounts Receivable	Age (Debtor Days)	Indicates how long clients take to pay their accounts A very good indicator of client satisfaction Also a good indicator of our internal follow-up and control
Write-offs	Write-off ($ value)	Indicates time charged, but not recoverable Firm takes decision not to invoice client, and writes it off WIP Emphasis to be on reducing write-offs. Time charged should be of value to the client, and therefore billable
Profitability		
Net income percentage	Net income as percentage of total firm's billings	Indicates profitability of firm Indicator of capacity of firm to reinvest in people and client services
Labor as percentage of revenue	Labor costs as percentage of total firm's billings	Shows employment costs as percentage of billings Indicates if too many non-productive staff
Services		
Services utilized	Number of services utilized (#)	Indicates number of services utilized by clients Indicates depth of client relationship Emphasis to be on increasing the range of services utilized
	Number (per annum) of additional services taken up by existing clients	Indicates additional services taken up throughout year Emphasis to be on increasing the services utilized by each client
	Number (per annum) of new services introduced by firm during year	Indicates new services introduced throughout year Emphasis on continuing to introduce new services to clients Positions firm as innovative and creative Firm may deliver the service, or it may come from an alliance partner

Client Relationship Management Key Indicators		
	Revenue ($ per annum) from new services introduced by firm during year	Indicates revenue value of new services introduced Important to separately identify Specific costs can be allocated against revenue to determine gross profit contribution
	Number of unsolicited client contacts made during week	Indicates how spontaneous and proactive you are. You need to be! Increase this number
	Number of hours spent on non-charged client-related initiatives	Indicates time you invest in your clients A number to track, not necessarily increase Caution: don't be excessive on this. You can't do everything for free!
	Number of proposals for new or additional services delivered during month	Indicates success of marketing new or additional services Emphasis is to increase this until target levels of service utilization are reached
Client service		
Client ratings	Excellent (%) Satisfactory (%) Unsatisfactory (%)	Measure client satisfaction with regular surveys Provides feedback on firm performance and client perception Emphasis should be on continual improvement
Disputes	Number of disputes	Client disputes. Track the nature of the dispute and dollar impact Goal: no disputes
Extra service activity	Number of occurrences	Track non-standard service and assistance provided to clients Over and above normal service levels Emphasis is on increasing this activity on ongoing basis
Client referrals	Number of referrals	Number of new clients referred to the firm Indicates if existing clients happy with service levels and experience
Client seminars	Number of seminars	Indicates number of seminars held To be tracked regularly and compared against target in marketing plan

6.6 Embracing Opportunities for Enhanced Relationships

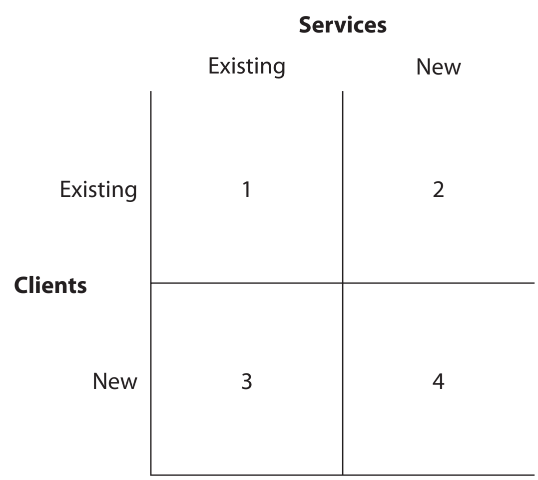
So far, this module has shown ways to develop the relationship with your client—this is of great importance to the firm, and there are various methods to use. The next section is on making the most of the opportunities that arise as a result of this enhanced relationship.

Recall the client classification model (see Section 6.3.1). You will recall that your goal is to move your clients from their current classification category to the next level up.

6.6.1 Using Gap Analysis

Gap analysis is one of the more powerful business development tools. It is simple, yet can produce remarkable results. The model is produced in Table 6.10; how to use it is shown below.

Figure 6.3 Gap analysis model



Gap analysis provides a brilliant framework for your client relationship management strategy. It provides the context within which you determine your next step.

Quadrant 1: Existing services to existing clients

Quadrant 1 is all about understanding your existing client base. It answers the question, “Do all of our clients use all of our services?” The answer is typically “No!”

The follow-on question then becomes, “Which of our clients use which of our services?” The answer to this question will highlight where the “gaps” are. It will highlight where your marketing activity needs to focus, with the aim of increasing the number of services each client uses.

As a matter of priority, list all of your clients and the services they use. It works best to do this on a spreadsheet. This will clearly show you the clients you should be targeting **now**, to increase the take up rate of services. Table 6.10 gives examples of the services used by different clients of an accounting firm.

Quadrant 1 also shows the “Path of Least Resistance.” Your clients know and trust you and are more likely to be open to your suggestion to use additional services.

Table 6.10 Existing client–service matrix

		Audit	Accounts	VAT/Sales Tax	Income Tax	Finance
1.	ABC Ltd	X	X		X	
2.	SCK Chin Pty Ltd		X	X	X	
3.	Smith & West	X	X			
4.	Impala & Co		X	X	X	
5.	Lawyers Co		X	X		
6.	Frontline			X	X	X
7.	Hanif Partners	X	X			X
8.	Laurence Yuen		X	X	X	
9.	Jersey Co		X	X		
10.	San Marco				X	

Showing the services utilized in this matrix format demonstrates where the opportunities lie for promoting additional services.

Identify where the “gaps” are, and focus your attention on those clients with gaps. Meet with them to discuss the other services you have to offer and how they can be of benefit to the client.

Quadrant 2: New services to existing clients

This presumes you have new services available and they’re ready to take to the market.

Quadrant 2 shows that the best market to promote your new services to is your existing client base. Existing clients who are satisfied with your firm’s service will be open to new services, even if on a trial basis.

After Quadrant 1, Quadrant 2 is the second path of least resistance. It should be pursued once you have mined Quadrant 1 completely. You also have to think about the client’s ability to pay: some of them pay for accounting services because of an imposed compliance obligation but may be reluctant to pay for other services even if they are relevant.

Past IFAC Global SMP Surveys have identified that one of the most important drivers of practice growth for SMPs is additional revenue from existing clients. Past surveys have highlighted the importance of working with existing clients, ensuring they are happy with your existing services, therefore, making them more open to approaches about new services. Remember to focus on the benefits the client will receive from the new service.

Quadrant 3: Existing services to new clients

Here, you are looking for new clients to utilize your existing services. The advantage here is that the services are not new to you. You’re familiar with the processes involved, you know what you’re doing, and the systems are all in place. IFAC SMP Global Survey results have continuously identified the acquisition of new clients to be the primary driver of future practice growth for SMPs.

Quadrant 4: New services to new clients

This is where you look to break into new markets with new services. Quadrant 4 is the hardest option: these services are new to you and also new to the market. There are likely to be multiple aspects you have yet to come to terms with. At the same time, you will be coming to grips with a whole new prospective client group you will need to market to and understand.

From a business development perspective, it is better to exhaust the other three quadrants before addressing Quadrant 4. It is best to consider very carefully during tougher economic times.

6.6.2 Summary: Maximizing Opportunities

The steps to maximize the opportunities from an enhanced client relationship are summarized in Table 6.11.

Table 6.11 Maximizing opportunities from enhanced client relationships

Opportunity	Action Required
1.	Be clear on the direction you wish your firm to take. This should be clearly stated in your business plan.
2.	Be specific about which services you will offer your clients.
3.	Have a good understanding of how the services will be delivered, and how they will be priced.
4.	Undertake a gap analysis on your client base.
5.	Identify the additional services you can market to your existing clients.
6.	Set a plan for how and when you will approach your clients.
7.	Have marketing material available at all times, which outlines the benefits of additional services.

6.7 Developing Strategies to Provide a Full Range of Quality Services

There is a series of steps toward developing strategies to provide a full range of quality services (set out in Table 6.12).

Table 6.12 Steps to developing a full range of services

	Action	By Whom	By When
1.	Determine what your market considers the full range of services to be.		
2.	Identify those services your firm currently provides.		
3.	Decide which additional services your firm would like to develop capability in.		
4.	Determine which services you will refer to other firms.		

As a result of the information gained, your firm can decide which services it will continue to provide, which services it will develop, and which services it will refer to other firms.

6.7.1 *Identifying the Services Required in the Marketplace*

Ask your clients what their current requirements are and what they expect them to be over the next few years. You may do this by running a focus group, or simply by asking your clients and contacts.

Use the list of suggested services in Table 6.13 to determine the level of interest for each service suggested.

Table 6.13 Services checklist

	Service	Do you Use this Service Now?	Would you Expect to Use it in the Future?	Comment
1.	Audit and assurance			
2.	Taxation advice			
3.	Financial statements			
4.	Management accounting			
5.	Tax return preparation			
6.	Regulatory compliance			
7.	Company secretarial			
8.	VAT preparation and compilation			
9.	Business valuations and due diligence			
10.	Financial planning			
11.	Business coaching and mentoring			
12.	Tax planning and consulting			
13.	Insolvency and liquidation			
14.	Corporate finance			
15.	Risk management and asset protection			
16.	Finance broking and mortgage lending			
17.	Succession planning			
18.	Wealth management and coaching			

Table 6.14 lists related services that accounting firms may provide, or could provide introductions for. Again, you may choose to ask your clients, potential clients and contacts which of the following services would be of interest to them and their businesses.

Table 6.14 Related services checklist

	Service	Do you Use this Service Now?	Would you Expect to Use it in the Future?	Comment
1.	Information technology provider			
2.	Residential real estate agent			
3.	Commercial real estate agent			
4.	Finance broker			
5.	Taxation specialist			
6.	Stockbroker			
7.	Personal risk insurance agent			
8.	Lawyer			
9.	Banker			
10.	General insurance broker			
11.	Human resources provider			
12.	Utilities			
13.	Stationery and office consumables			

These questions work well when asked in a formal and structured way. Many accounting firms simply don't ask many questions of their clients to gain a better understanding of their needs. You can differentiate yourself in the market by asking questions like these, and gaining an understanding of what your clients really want. Your firm must then decide if it will provide the service, develop the capability internally, or refer clients on to other firms.

Consider using the questionnaire shown in Table 6.15. Firms looking to introduce a broader range of services to their clients and the marketplace in general may complete this. Your opportunity to offer these services will be subject to local restrictions and ethical considerations.

Table 6.15 Internal questionnaire

	Question	Reply/Comment
1.	What services do our clients need?	
2.	What is the best way to find out? (for example, questionnaire, focus group, etc.)	
3.	Can we provide these services? If so, which ones?	
4.	If not, which services can we develop internally?	
5.	What resources and training will be required if we choose to develop the competency in-house?	
6.	Which services should we refer to another firm? (See next section.)	

6.8 Strategies for Providing a Full Range of Quality Services: Mergers, Networking, Referrals

The exercises above may demonstrate to firms that they need help to provide a full range of services. Some firms may wish to form an alliance with another firm. Table 6.16 shows the questions to ask.

Table 6.16 Forming an alliance

	Question	Reply/Comment
1.	Whom should we align with?	
2.	How will we assess their competence and capabilities?	
3.	What structure should our alliance or referral arrangements take, if any?	
4.	What quality assurance processes will we have in place, to ensure our partners provide quality service?	
5.	Should there be any financial arrangements to consider?	
6.	Which services should we refer to another firm? (See next section.)	

In deciding which organization to ally with, the starting point is for the firm to assess the services they are likely to refer to other firms. The firm should then consider the likely contenders (see examples shown in Table 6.17).

Table 6.17 Target list of possible alliances

Specialization	Name of Firm, or Person	Preferred Arrangement	Action Required	By Whom	By When
Financial Planning	Sharpe Planning	Joint Venture	Meet to discuss	PK	April 15
Stockbroker	Gecko & Assoc	Alliance	Lunch	PK & GG	May 31
Audit and assurance	Smith & Co	Referral	Meet to discuss	PK	June 25
Business Coach	Maximus Consulting	Potential merger	Due diligence	Third-party firm	October 15

6.8.1 Common Concerns with Referrals or Introductions

A number of concerns arise when clients of one firm are introduced and referred to another firm. These include concerns that the referred firm will:

- Not give the client a good, professional experience;
- Not provide service at the standard that the client and referring firm would expect;
- Disappoint or upset the client; or
- Destabilize the relationship the client has with the referring firm.

These concerns all stem from the fact that most firms strenuously protect the relationships they have with their clients. Most firms will do all they can to retain their clients and enjoy a long and healthy relationship.

Prior to the commencement of any referrals, each firm involved is advised to do a “mini due diligence” on each other. This will allow the firms to confirm that each has the same concern for client welfare as the other does. This should also ensure that the client has an excellent professional experience.

Table 6.18 will assist you to determine the attitude of your referral partner toward client service and satisfaction.

Table 6.18 Discovering Your Potential Referral Partner's Attitudes

	Question	Reply/Comment
1.	Describe how you and your firm will deal with any clients we may refer to you.	
2.	Describe the attitude you and your firm have toward client service.	
3.	How will you ensure that our clients will have a good professional experience with your firm?	
4.	Describe the level of client service you and your firm provide.	
5.	What assurances can you give that you will not upset the client, or destabilize the relationship we have with them?	
6.	Which services should we refer to another firm? (See next section.)	

This type of discussion will allow each firm to better understand each other's service standards. It will also allow each firm to make its expectations clear to the other.

The various strategies that can actually deliver the full range of services to the client base and marketplace are shown below.

6.8.2 Mergers

This is where two firms join together to form one new firm. It was discussed in Module 3 as a growth strategy and is equally relevant when considering the delivery of quality services. Mergers are also examined in more detail in Module 8.

There are a number of issues that typically arise during a merger. Differing work cultures often raise questions about:

- Work ethics;
- Work–life balance (hours expected to be worked each week);
- Work practices;
- Blending of personalities;
- Human resources;
- Different expectations;
- Technology;
- Billing and debt collection practices;
- Profitability variations; and
- Two becomes one.

There are also a number of advantages and disadvantages to consider.

Advantages

- Each firm brings its unique strengths to the combined firm, thereby making more services available to all.

- There are economies of scale: a more efficient team can usually do more work.
- There is a reduction in duplication of effort and certain staffing roles.

Disadvantages

- A merger is an extreme position to take if you are simply providing one or two additional services.
- The issues arising from the merger might cause significant distraction to the business. This may have a negative impact on profitability, workflow and the overall client experience.

6.8.3 Cherry-Picking

Rather than merging two firms, it may be possible for one firm to "cherry-pick" or "headhunt" a partner or senior manager from another firm who has specialist skills the firm needs.

The specialist may have a small team of workers who may also join the new firm. Essentially, this allows the firm to create a new division and provide a broader range of services.

Advantages

- Simplicity of approach.
- Usually only minimal disruption.

Disadvantages

- It could be an expensive exercise to attract the right person.
- It could be an expensive exercise if it doesn't work out.

6.8.4 Alliances

When two or more firms, or specialists within firms, work together on client matters on a project-by-project basis, this is an alliance.

Advantages

- Each party retains its individual identity and structure.
- There is a combined focus on the joint objective of satisfying the clients' requirements.
- It allows each party to bring their specialist skills to the table, for the overall benefit of the client.
- The fee on the assignment is usually split on the basis of contribution to the project.

Disadvantages

- There is potential difficulty with sharing resources on occasion.
- No centralized administration.
- There is potential for conflict, as one party typically needs to take the lead role.

6.8.5 Referrals

One firm refers work to another firm (see Table 6.19). These arrangements are very popular. Some are tightly structured, with a minimum number of cross-referrals required per month. Others are loosely structured, and there is simply an agreement between the firms to refer work as the need arises.

In some arrangements, referral fees are paid between the firms, usually in some proportion to the value of the fee on the project. Others have no referral fees, as the referring firm is simply concerned about the client matter getting resolved by the most suitable person.

Advantages

- They are flexible in structure.
- They are flexible in financial arrangement.
- The arrangement allows each firm to stay focused on its area of specialization.
- Each party retains its own independence.

Disadvantages

- The referring firm has no control over the work performance of the referred-to firm.
- Low-standard work by the referred-to firm may reflect badly on referring firm.
- The referring firm must trust in the ability of the referred-to firm.

You should consult the IESBA Code or your professional body for further guidance regarding the receipt of referral fees or commissions. Ethical threats and safeguards are examined in Module 7.

Table 6.19 Sample plan to deliver a full range of quality services

Services Required by Clients and/or Market	Services Currently Provided	Strategy for Delivery of Service We do not Currently Provide	Action Required	By Whom	By When
Taxation	Yes	Not applicable	N/A		
Audit	No	Referral to audit firm	Develop relationship with professional colleagues who provide audit services	PK	March 31
Company secretarial	Company secretarial	Not applicable	N/A		
Business valuations and due diligence	No	Referral to specialist firm	Find appropriate firm. Check with professional colleagues for reputable firm	PK	June 25
Liquidation	No	Referral to specialist firm	Contact previous colleagues	PK	As soon as possible (ASAP)
Succession planning	No	Referral, then possible merger	Have lunch with Brian to discuss	PK and BC	October

6.9 Invoicing and Collection

This module has said a great deal about the importance of a good working relationship with your client. However, it is equally important that you get paid for the work you do. The following discussion addresses credit control and some proven collection techniques, before discussing some of the reasons why some clients don't pay.

6.9.1 Credit Control

Use these tips to develop an effective approach.

- Develop a credit policy. Write a clear and concise credit policy that applies to all clients.
- Consider flexible arrangements for your larger clients.
- Specify clear terms: make your clients fully aware of your terms and conditions.
- Implement the policy: train your employees on the policy and how to enforce it.
- Screen prospective clients: there is no sense taking on new clients if they don't pay you.

6.9.2 Collection Techniques

These techniques will enable more successful collection of payments.

- Explain your credit terms and expectations clearly from the outset.
- Make sure your clients understand them.
- Quantify your fees in advance where possible (it usually is).
- Provide payment alternatives.
- Follow up debts systematically and frequently.
- Replace the aging classification of your debtors; instead of "Current, 30 Days, 60 Days, 90 Days, 90+ Days," use only "Due Now" and "Overdue."
- Commence follow-up early.
- Make it easy for your clients to pay.
- An effective collections process requires regular weekly attention.

To get the best results, focus on the "just overdue," as these are the easier accounts to collect.

6.9.3 Some Fundamental Rules

- Invoice by email rather than post: it is faster and provides you with online records.
- Invoice as close as possible to the time you deliver the service.
- Start the follow-up process early.
- Don't wait to follow up. When the account is overdue, start reminding the client that payment is expected.
- Always be courteous and professional.
- Collections should be a process, not a punishment.
- Most clients are honest and will pay if they know they have to.

- A series of gentle, non-confrontational reminders will get most clients to pay.
- Be persistent and consistent—this is essential.
- Consider the benefits of offering incentive options, like small discounts for early or prompt payments.

As you can see, this process is really all about communicating with clients to make sure they are fully aware of your firm's requirements.

One of the secrets of effective debt collection is to have a system that makes it as easy as possible for your clients to pay on time. A good collection system starts with the initial client contact, and moves through the whole workflow process to invoicing, and then to any follow-up.

Early identification of clients who have poor intentions regarding payment of their account will ultimately determine the success of, or level of frustration with your system. Not having a system will ensure poor results.

6.9.4 Why Clients Don't Pay

There are typically a number of reasons, most of which you can deal with.

1. Client has a genuine dispute

The best approach is to start follow-up early. A reminder letter will flush the issues out, and it is far easier to resolve a complaint when the matter is still fresh.

Waiting ninety days to find out a problem exists significantly reduces your chances of a successful resolution and payment in full.

2. Client is careless

The client forgot to pay the invoice, or simply didn't understand when they were supposed to pay. This may have been because you weren't particularly clear about your terms.

The best approach is to start early, and make it easy for your clients to pay. A reminder letter is a gentle prompt and has a great result for this group. There are many other things you can do **before** you issue the invoice that will increase your chances of being paid on time. It is important to be extremely clear with your client in regard to your terms and expectations.

3. Client is disorganized

Once again, the best approach is to start early and make it easy for your clients to pay. If they are disorganized now, they will still be in trouble in sixty days. Don't join the queue of creditors: move to the front.

4. Client has no money

The intent is there but not the cash. Again, the best approach is to start early and make it easy for your clients to pay. Getting payment arrangements agreed upon early ensures a greater chance of being paid in full. Small regular amounts confirm the client's intent.

If they are in real trouble, it is important to find out early. This lets you avoid doing more work. Alternatively, you might see an opportunity to assist the client in sorting out their problems.

5. They are unconcerned and can't be bothered

The best approach is to start early and be difficult to ignore. You must be persistent with this type of client. You should also consider alternative payment arrangements before you do further work.

You should also assess whether you wish to continue acting for clients such as these, as they are likely to be outside your target client model.

6. They are dishonest

This is not the type of client you should continue with. The best approach is to start early and be difficult to ignore. Also, don't get emotionally involved in your communications with this client. Ensure that you have established rules internally and that your collection system is followed consistently.

Do no further work for this client, and decide on an exit strategy for them after they have paid in full.

6.9.4a The Engagement Letter

The engagement letter outlines the scope of work you will do for the client and also outlines the terms and conditions of trade of the firm. Each firm should carefully consider how to incorporate their trading terms into their client-engagement letter. This becomes a strong piece of evidence in any dispute, particularly when the client has signed their acceptance of the engagement.

6.10 Conflict Resolution and Arbitration Services

This module is about the development of client relationships. Unfortunately, sometimes that relationship breaks down. This section will concentrate on the relationship between the client and the firm. However, it is worth noting that the strategies discussed apply equally well to all relationships, whether they are in the workplace, or in a private context.

6.10.1 Five Signs of Rising Conflict

In order to begin to resolve conflict, there needs to be an awareness that conflict is happening, or is about to happen. You need to be sensitive to the signs of conflict. There are five levels of escalating seriousness in a typical conflict situation.

1. Discomfort

Discomfort is the vague feeling that something is not quite right between you and the client, even though nothing may have been said or done overtly. This is a good time to consider reaching out to the other person to explore whether or not there is a problem.

Think about possible causes of the discomfort, either in yourself, the other person or the total situation. Ask yourself, "What steps can I take, what questions can I ask, what can I do right now to clarify and perhaps relieve the problem?"

This requires you to take the first step in clarifying any issue. It may be difficult to bring yourself to do this, but it is an important step.

2. Incidents

This is where there is a minor clash or disagreement between you and the client. Although you don't feel particularly upset, it may disturb, surprise or irritate you enough to remember it for a day or two. This is a step beyond mere "discomfort."

You may choose to discuss this with your client, in order to clarify any issues or fallout from the disagreement. However, you may find this awkward, decide to let the moment pass, and let the passage of time heal any small wounds.

3. Misunderstanding

In situations where there are different expectations between your client and your firm, or where communication is incomplete, words and actions can be misinterpreted. Unfortunately, this can often lead to misunderstanding. This is especially the case where there is a lack of rapport or openness between the client and the firm.

As a result, you start to pay close attention to things that confirm what you had already started to believe about the other person, or about the situation. This then becomes a “self-fulfilling prophecy” as you see more and more instances confirming your belief that the client is in the wrong.

4. Tension

When you are experiencing tension in the client relationship, your feelings and perceptions about nearly everything they say or do can become quite negative. It may come about from a simple misunderstanding that quickly escalates.

In these situations, you will find it difficult to interact or work with them without feeling anxious or defensive. It is then likely that you will be concerned about losing them as a client and the potential damage to your firm or reputation as a result.

5. Crisis

In a crisis situation, people tend to behave in extreme ways that they would normally not even consider. This may have significant consequences for a firm, depending on the actions the client or the firm takes.

As examples, the types of behavior that represent a crisis include actual or threatened physical violence, verbal and emotional abuse, destruction of property, or the breakdown of the client relationship. This can become particularly difficult for a firm if the client takes legal action against the firm and reports the firm to their professional body.

6.10.2 Dealing with Conflict

Fortunately, you can address any of these stages in a number of ways. It is important to learn these methods, as you never know when you may need to call on them.

1. **Don’t react, respond!**
   - Keep yourself calm in the present moment.
   - Breathe deeply to compose yourself.
   - Maintain your composure; be receptive.
   - Keep track of your emotions, reactions and body language.
   - Consider how you are coming across to the other person.
2. **Let your position go**
   - Don’t be defensive.
   - Respect the other person’s need to express how he or she feels.
   - Move aside from your position for now.
   - Be prepared to be flexible, and consider options.
   - Ask, “What would it take to solve this issue?”
3. **Focus on the other person**
   - Listen actively and reflect feelings and the meaning he or she has expressed.
   - Listen so that people can and will talk.

- Are you really listening? Is that clear?
- Acknowledge the importance of the other person's issues and concerns.

4. Seek clarity

- Check, clarify and confirm by asking open and reflective questions.
- Honestly explore problems, effects and possible causes.
- Look for opportunities in what you are hearing.
- What would they like? What would they not like?
- See the problem in a broader context. Are people seeing the whole picture, or just their own point of view?

5. State your position

- Explain how it is for you, using statements which clearly state your position.
- Stay in tune with your values, principles and objectives.
- Express your own needs and concerns assertively, but not aggressively.
- Attack the problem, not the person. Speak so that people will listen, not in angry or aggressive tones.
- Be soft on the people, hard on the problem.

6. Look for a win-win outcome

With a "win-win" outcome, both parties' needs and concerns are respected.

- What are the best possible options to meet both parties' needs?
- Identify areas of "common ground" and build from there.
- What will help achieve solutions that are mutually satisfying?
- Would more time or information help?
- Identify and work on the issues causing the "blockages."
- If possible, work together for change, or you may agree to disagree.
- Be creative, look for possibilities. What's the most positive outcome you can both achieve?
- Get commitment and agreement on the next steps.

7. Maintain the relationship

- Review progress and follow up.
- Take time to maintain and strengthen the relationship.

As you can see, conflict resolution is a big issue—but there are tools and techniques for dealing with it. The relationship with your client is an important one and has far-reaching consequences. By gaining a better understanding of conflict, and ways in which to handle it, you will be better able to cope with these situations if they arise, and continue a satisfactory relationship with your client.

6.11 Ceasing a Client Relationship

After completing the client-classification exercise, you will be in a good position to assess the client base of your firm. One of the outcomes of this process may be that you decide to end some client relationships. It may be that they no longer fit the profile of your firm, or that after considering a number of factors you have decided your firm should no longer deal with them. Whatever the reason, you have come to a significant decision.

The way you handle the client departure is very important. There are a number of ways to end a relationship with a client, including:

- Sending a letter stating that you are no longer available to act on the client's behalf;
- Increasing fees until the client leaves;
- Referring the client to another accounting firm;
- Selling the client; or
- Meeting with the client and talking it over. Each of these is discussed briefly below.

6.11.1a Sending a Letter

This is the most formal and, some would argue, the most professional way of ending a client relationship. These letters tend to be fairly brief and to the point. However, the content usually depends on the relationship the firm has had with the client over the years. This will determine how much detail the firm discloses as to why it is ending the relationship.

Whatever the reason, it is important to state quite clearly that the relationship will end, or has ended, and that the client should seek alternative professional advice and service. It is also customary to add your best regards and wish the client well in their future endeavors.

6.11.1b Increasing Fees

This method involves increasing the fees charged to the client on a progressive basis. It is hoped that the client will eventually come to the conclusion that the firm has become too expensive and make the decision to leave.

There are a number of problems with this strategy.

- The client might not leave. If they don't leave, you will have to continue putting up with them (but at least you're getting paid!).
- The client might not pay the fee, but still expect the work to be done. If this happens, you will have incurred costs in preparing the work but will then see lengthy delays getting paid.
- The client may become obnoxious (or more obnoxious). They may already be obnoxious, but they may become worse. This puts additional pressure and stress on your employees. Such pressure is probably not worth it.
- They may report you to your professional body. You may not be breaching any regulations, but your client may argue that you are not acting professionally.

Another possible outcome is that the client comes to appreciate the true value of the service your firm is providing, and the relationship improves.

6.11.1c Referring to Another Firm

This is quite a popular method. Firms with different specializations or skills may refer clients between themselves. The referring firm may have realized that the relationship with the client is not working, yet thinks it might work with another firm. The referral can take place in writing, face to face, or over the phone. The firm maintains credibility in the eyes of the client, as the client has been provided with an alternative adviser, and the matter has been handled in a professional manner.

6.11.1d Selling the Client

It may be possible to bundle a number of clients together and sell them to another firm that may appreciate these clients.

6.11.1e Meeting with Client

This is the preferred approach. After all, the client you are saying good-bye to has paid your firm over the years. They have supported you to some degree. But now, for any number of reasons, the relationship has come to an end.

A face-to-face meeting is most highly regarded by clients when they are told their relationship is over. It gives the opportunity for other matters to be discussed. It also allows for any misunderstandings to be cleared up, and for best wishes to be given.

6.12 Conclusion

Strong and effective client relationships are the backbone of your firm. As this module has made clear, you need to really know your clients, and what they want. Good business practice requires that you meet and, where possible, exceed these expectations. There are many resources and methods available to help you to improve and cement your client relationships, including networks, referrals, and other alliances. Even where there is conflict, good client relationship skills can help you to achieve a positive outcome.

6.13 Further Reading and IFAC Resources

The IFAC Global Knowledge Gateway is a digital hub where professional accountants can easily access thought leadership and resources from IFAC, member organizations, and other notable groups and individuals.

The Gateway Practice Management section includes additional articles, videos, and resources to complement this module. We encourage you to review the content, provide feedback, engage with contributors, and share your own insights on contemporary practice issues.

Appendix 6.1 Case studies

Case study 1

This case study relates to Section 6.4.3, “Exceeding client expectations.”

William and Indira had noticed there was increased competition in the market they were operating in. More accountants were competing with them for the same clients, but some of these accountants were reducing their prices to increase their market share. William and Indira decided to provide additional value to their clients rather than simply matching the lower fees their competitors were offering.

The first area they reviewed was the presentation of clients’ financial statements. They agreed with the idea that graphs should be included in all reports prepared for their clients. They discussed this with their staff, and the staff also agreed it would add an extra element to their financial statements.

One employee, Manu, had excellent skills in Excel and put together a number of standard template graphs. He saved these as “Masters” on the office computer system, which meant they were then available for the entire staff to use.

Manu trained the staff in how to update the “Masters” with the relevant client information and save them as separate client files.

Once the training was complete, Indira sent a memo to all staff instructing them to complete a set of graphs with all year-end financial statements for clients. William and Indira had decided that for the majority of clients they wanted a line graph to plot sales for the year against sales for the prior year. They also wanted a pie chart to represent the balance sheet. Staff were instructed to prepare these graphs each time they ran a final set of accounts for their clients—unless the information was unavailable or would require too much time to compile.

Clients reacted very favorably. Most clients appreciated the extra information the graphs provided, though some were concerned it would create additional costs. William and Indira assured the clients that the graphs would not cause a fee increase and they were included so the clients could more easily understand the financial information they received.

An unintended benefit arose for William and Indira’s firm after they started producing the graphs with the financial statements. There was an increase in the level of inquiry from new clients who had heard about the graphs being produced by the firm; they also wanted graphs with their financial statements.

The level of interest which had been generated from the introduction of a simple initiative such as the graphs encouraged William and Indira to consider other measures they could introduce to add additional value for their clients.

(This case study is based on a true story.)

Case study 2

This case study relates to Section 6.6, “Embracing opportunities for enhanced relationships.”

William decided to introduce a planning-session meeting for his key clients at the beginning of the new financial year. He decided he would restrict the planning session to just his top five clients and see how well the idea was received. All of the clients he discussed the idea with were delighted to be involved.

William structured the session around the following agenda:

Planning Session Agenda

- Identify the key objectives for the business
- Identify three goals to be achieved this year
- Identify the most pressing issue to be addressed urgently
- Identify the key milestones
- SWOT analysis
- Identification of client's strategic plan
- Review organization chart
  - Allocate responsibilities
  - Identify accountabilities
- Budget and cash flow: set date for completion and review
- Other business
- Set date for next meeting

William was pleased with the response he received from his clients when he started working with them on the planning for their businesses. He had assumed most business owners spent quite a deal of time on planning already and was surprised to discover that most spent very little time on this most important aspect of their businesses.

There was only one client who was not particularly interested in assistance from William. After discussing the reasons with the client, William discovered that the client considered William not particularly skilled in this area and preferred that William stay in the accounting arena! However, all the other clients were delighted to take up William's offer for assistance with their planning.

One of the key results of the planning session is to establish key milestones—achievements that the business seeks to reach throughout the year. Achieving them lets the business owners know they are on track to achieve their full-year goals. It also means William gets to meet the clients at regular intervals throughout the year, which gives him the opportunity to provide additional services and generate additional fees.

(This case study is also based on a true story.)

Risk Management

Module 7

CONTENTS

7.1 Introduction

The concept of risk is not new to practitioners. It has been around as long as the profession has provided services in a commercial setting. However, the issue of risk and risk management has increased in importance as the number and size of legal claims has increased over the years.

You will notice this module is entitled risk management, not risk elimination. This is an important distinction and key to the material covered—mostly it is about managing the risks you can identify and, if possible, eliminating them. However, even if you can't completely eliminate most of the risks associated with being a practitioner, you can reduce and manage them to an acceptable level.

Risk management has a specific impact on life in an accounting firm. It is important in terms of protecting the assets, finances and operations of the firm and contributing to satisfactory legal compliance, corporate governance and due diligence. Consequently, risk management will protect the reputation, credibility and status of the firm.

Establish a risk management "culture" in the firm. A risk management culture emphasizes at all levels of your firm the importance of managing risk as part of each staff member's daily activities at all levels of the firm. The goal of creating a risk management culture is to create a situation where partners and staff instinctively look for risks and consider their impacts when making effective operational decisions. The essence of a risk management culture is that it is not geographically dependent, or specific to any country or location. The principles in establishing this culture are universal and relevant to each locality.

The sections of this module cover the component parts of establishing a risk management culture. This module discusses ethical issues and their impact on the risk exposure of your firm. The client engagement process is examined, as well as how best to manage your risk in this area.

The module discusses quality control processes within an accounting firm, emphasizing the important role they play in assisting practitioners manage their risk in the day-to-day working of the firm. Business continuity planning and the key elements of prevention, preparedness, response and recovery are also covered. This also includes strategies to deal with the death, or incapacity of the practitioner.

The module concludes with a discussion on liability and insurance within your firm and reviews the types of insurance that are most relevant to it.

7.2 Professionalism and Ethics within the Firm

This section provides background and information regarding ethical issues for small to medium-sized firms. It discusses the nature and impact of different types of ethical issues in providing assurance and non-assurance services. A greater understanding of these issues will allow practitioners to be better equipped when they have to face these types of issues.

7.2.1 The Code of Ethics for Professional Accountants

The *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (the IESBA Code) was developed for professional accountants internationally. To date, the Code has been adopted or is used as a basis for national ethics standards or the ethical codes of professional accountancy organizations in over 120 jurisdictions around the world, including 16 among the G-20. In addition, the 31 largest networks of firms around the world that comprise the Forum of Firms have aligned their policies and methodologies to conform to the Code for transnational audits. It is reviewed and updated by IESBA from time-to-time, as appropriate. The IESBA Code was significantly revised and restructured with an effective date of June 15, 2019.

This module has used the revised and restructured IESBA Code as a guide on how practitioners should deal with the ethical issues they face in small- and medium-sized practices (SMPs) and recommends that practitioners use it as a key resource.

The foundation of the IESBA Code is a principles-based conceptual framework. This was explicitly intended to be broadly applicable around the world. Such an approach allows for differences in legal systems and jurisdictional variations. The focus, therefore, is on underlying principles rather than on prescriptive regulations, as this allows professionals to apply the principles to their own circumstances. The IESBA Code essentially covers three key areas.

Firstly, it establishes the fundamental principles for professionalism and ethical behavior within the firm. Secondly, it identifies ethical risks and assists in evaluating the significance of these threats. Thirdly, it provides guidance on how to address those threats when they are not at an acceptable level including the possibility of applying suitable safeguards to eliminate or reduce the threats to an acceptable level.

A discussion of the five fundamental principles on which the IESBA Code is based appears below.

7.2.2 Fundamental Principles of the IESBA Code

Principle 1: Integrity

Act with integrity. Be straightforward and honest in all professional and business relationships. Integrity implies fair dealing and truthfulness. Disassociate from matters such as reports, returns or communications that are materially false or misleading, or that obscure or omit information that renders them misleading.

It is appropriate that integrity is listed as the first principle because it is the foundation on which professional behavior is built. It should also be the foundation stone on which your firm is built. Integrity should pervade all areas of your firm. It would be a worthwhile exercise to consider your organization chart and ensure that integrity is exercised in all key areas of operation. For instance, consider the key areas of marketing, operations, human resources and finance within your firm. You need to be sure each area operates with integrity.

Principle 2: Objectivity

Be objective. Do not compromise your professional or business judgment due to personal interest, bias, pressure or the interests of others. Your objectivity may be impaired if you perform a professional service where there is a relationship bias, which results in your judgment being compromised. Objectivity means not being influenced by outside interests; the practitioner makes up his or her own mind.

Principle 3: Professional competence and due care

Ensure all work is performed with professional competence and due care. Both you and your staff should possess the knowledge and relevant skill to ensure competent professional service.

This also means your firm must exercise reasonable care and diligence in applying technical and professional standards. Professional competence means having attained certain skills and knowledge and having the capability to perform the task. You should ensure competence is maintained through continuing professional development.

When undertaking an engagement, ensure that you and your staff act responsibly in accordance with the requirements of the assignment. You and your staff should be careful, thorough, and on time. Proper training and supervision must be given on an ongoing basis to ensure that all services are provided competently and with due care.

Principle 4: Confidentiality

Keep all client and firm information confidential. Do not disclose any client information outside the firm without authority, and do not use client information for personal gain or purpose. Be cautious at all times, including in a social environment, to ensure that information is kept confidential.

There are limited exceptions to the principle of confidentiality. You have a duty to disclose if authorized by the client and are required by law to do so. There may also be a duty to disclose when required to comply with quality review checks, or in response to an inquiry. Disclosure may also be made to protect the professional interests of an accountant in legal proceedings, or to comply with technical and ethical standards. This includes, in particular understanding and complying with the provisions of Section 360 of the IESBA Code dealing with "Responding to Non-Compliance with Laws and Regulations".

Principle 5: Professional behavior

A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. This means that professional behavior requires a practitioner to put the interests of the clients and the public ahead of his or her own.

It also means complying with all relevant laws and regulations, and avoiding any action that may discredit the profession. This also applies when you promote or market professional services. Promotions must be made honestly and truthfully and not contain exaggerated claims, or disparaging references to the work of others.

There is no one definition of professional behavior, as it can be quite subjective and can vary from country to country. It is up to each professional to monitor and assess his or her own behavior and avoid any action that may discredit the profession.

Professional behavior applies internally and externally. The practitioner must ensure it applies to everyone within his or her own firm. This can apply to a broad range of areas but essentially applies to the very heart of the firm. For a firm to be a professional entity, it must exhibit professional behavior.

It also applies externally for the firm, in how the firm deals with all external parties. In all of these dealings, the firm itself must display professional behavior and act in a professional manner.

7.2.3 The Conceptual Framework

The circumstances in which professional accountants operate might create threats to compliance with the fundamental principles. It is important that all practitioners comply with the conceptual framework and the fundamental principles. The conceptual framework applies equally for auditors who, when applying the ISAs, must comply with specific independence standards when performing audit or assurance engagements.

The conceptual framework uses a threats and safeguards approach. It forms a separate section in the IESBA Code with provisions that describe a simple, three-staged process for considering whether or not circumstances or a situation creates threats to compliance with the fundamental principles, and if so, whether such threats are at an acceptable level and what should be done as a result. The stages of the conceptual framework involve identifying, evaluating and addressing those threats by eliminating them or reducing them to an acceptable level.

A description of the conceptual framework is set out in Section 120 of the IESBA Code.

The provisions of Section 120 are not intended to be a "step-by-step" checklist. Rather they specify a logical and systematic approach for practitioners to identify, evaluate and address threats irrespective of the facts and circumstances. The provisions in the subsequent sections of the Code build on the provisions of the conceptual framework, and provide general and context-specific guidance depending on the specific facts and circumstances of a particular service, including outright prohibitions in certain cases. Therefore, those subsequent sections are incremental in nature and do not repeat the material included in Section 120.

When applying the conceptual framework, the practitioner has an overarching requirement to:

a) Exercise professional judgment;

b) Remain alert for new information and changes in facts and circumstances; and

c) Use the reasonable and informed third party test.

Exercise of Professional Judgment

Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, including the nature and scope of the particular professional activities, and the interests and relationships involved. The exercise of professional judgment is required when the practitioner applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances.

An understanding of known facts and circumstances is essential to the proper application of the conceptual framework. Determining the actions necessary to obtain this understanding and coming to a conclusion about whether the fundamental principles have been complied with all require the exercise of professional judgment.

In exercising professional judgment to obtain this understanding, the practitioner might consider whether:

- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the practitioner.
- There is an inconsistency between the known facts and circumstances and the practitioner’s expectations.
- The practitioner’s experience and expertise are sufficient to reach a conclusion.
- There is a need to consult with others with relevant experience and expertise.
- The information provides a reasonable basis on which to reach a conclusion.
- The practitioner’s own preconception or bias might be affecting the practitioner’s exercise of professional judgment.
- There might be other reasonable conclusions to reach based on the available information.

Reasonable and Informed Third Party

As noted, the practitioner will use the reasonable and informed third party test when applying the conceptual framework. The reasonable and informed third party test is a consideration by the practitioner about whether the same conclusions would be reached by another party. This consideration is made from the perspective of a reasonable and informed third party, who weighs all of the relevant facts and circumstances that the accountant knows, or could reasonably expected to know, at the time the conclusions are made.

7.2.3a Identifying Threats

The conceptual framework requires the practitioner to identify threats to compliance with the fundamental principles. This includes identifying threats to independence when applicable. An understanding of the facts and circumstances, including any professional activities, interests and relationships, that might compromise compliance with the fundamental principles, is essential to the practitioner’s identification of such compliance.

The existence of certain conditions, policies and procedures established by the profession, legislation, regulation, the firm or the client that can help the practitioner acting ethically might also help identify threats to compliance with the fundamental principles.

Examples of such conditions, policies and procedures include:

- Corporate governance requirements.
- Educational, training and experience requirements for the profession.
- Effective complaint systems which enable the practitioner and the general public to draw attention to unethical behavior.
- An explicit stated duty to report breaches of ethics requirements.
- Professional or regulatory monitoring and disciplinary procedures.

Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. It is not possible to define every situation that create threats. In addition, the nature of engagements and work assignments might differ and, consequently different types of threats might be created.

It is important to note that threats to complying with the independence standards are the same as the threats to comply with the fundamental principles. Threats to compliance with the fundamental principles and independence fall into one or more of five categories. These are discussed below with examples given for each.

1. Self-interest

The threat is that you will act in your self-interest over the interest of your client. A financial or other interest may inappropriately influence your judgment or behavior.

2. Self-review

The threat that you will not appropriately evaluate the results of a previous judgment made or activity performed, whether by you or by another individual within your firm on which you will rely in forming a judgement as part of performing a current activity. This arises when you have to evaluate or form a judgment on a past service provided by your firm, or by yourself.

3. Advocacy

The threat arises when you advocate the position or interest of your client or the firm by which you are employed. You may promote a particular position in favor of certain interests to the point that your objectivity is compromised.

4. Familiarity

The threat arises when you become too familiar with your client. A long or close relationship with a client, or a related party may mean you may become too sympathetic toward their interests or too accepting of their work.

5. Intimidation

The threat arises when you are intimidated e.g., by your client to act in a certain way. You may be placed under pressure or undue influence to act in a certain way, and your objectivity may become compromised. The pressures may be actual, or perceived.

Each of these ethics threats could occur on its own at some stage during the client relationship. A circumstance may create more than one threat, and a threat might affect compliance with more than one fundamental principle. In extreme cases, all five ethics threats could occur together. This may place the practitioner and their firm under extreme pressure to compromise their fundamental principles and ethical position.

Examples of ethics threats

The IESBA Code also provides some examples of ethics threats to use as a guide—however, it is impossible for all threats to be identified or described. The overriding principle is that professional accountants should not knowingly engage in any business, occupation or relationship that might impair their ability to uphold the fundamental principles.

Table 7.1 Examples of threats firms may face

Types of Threats	Examples
Self-interest	Direct financial interest in client, including loans or other significant business relationships, or entering into a contingency fee arrangement relating to the assurance engagement. Having a close business relationship with a client. Having access to confidential information that might be used for personal gain. Dependence on total fees from a client or concern about losing a significant client. Accepting gifts offered by client over a documented threshold. Discovery of a significant error from a previous professional service performed by the same firm
Self-review	A firm issuing an assurance report on the effectiveness of a system after designing or implementing that very system. A firm performing a service for an assurance client that directly affects the subject matter information of the assurance engagement. Accepting an engagement, the subject matter of which has been prepared by the firm.
Advocacy	Promoting shares in a listed audit client. Acting as an advocate on behalf of an assurance client in resolving disputes with third parties or in litigation. Lobbying in favor of legislation on behalf of a client.
Familiarity	Close or immediate family relationship with a director or officer of a client or with an employee who is in a position of influence over the subject matter of the engagement (applies to any member of the engagement team). A former engagement partner of the firm being a director or officer of the client, or an employee with direct and significant influence over the subject matter of the assurance engagement. An audit team member having a long association with the audit client.
Intimidation	Being threatened with dismissal or replacement in a client engagement because of a disagreement about a professional matter. Being threatened with litigation by a client. Feeling pressured to agree with the judgment of a client employee because the employee has more expertise on the matter in question. Being informed by a partner of the firm that a planned promotion will not occur unless the accountant agrees with an audit client’s inappropriate accounting treatment.

7.2.3b Evaluating Threats

When a threat to compliance with the fundamental principles or independence is identified, the practitioner will evaluate whether such a threat is at an acceptable level. An acceptable level is a level at which the practitioner, using the reasonable and informed third party test, would likely conclude that the practitioner complies with the fundamental principles.

The practitioner will consider the qualitative as well as the quantitative factors when evaluating the level of threats. Also, the practitioner will take into account the combined affect of multiple threats, if applicable.

In addition to helping to identify threats, the existence of certain conditions, policies and procedures established by the profession, legislation, regulation, the firm or the client might also be factors relevant in evaluating the level of threats to compliance with the fundamental principles. These conditions, policies and procedures are no longer categorized as safeguards because they are not specific actions the practitioner or firm takes to reduce threats to an acceptable level and, therefore, do not meet the new criteria needed to be considered a safeguard. Nevertheless, their existence, or lack thereof, should be considered by the practitioner in determining whether they contribute in reducing the threat to an acceptable level.

7.2.3c Addressing Threats

If the practitioner determines that the threats identified are not at an acceptable level, the practitioner must address the threats by eliminating them or reducing them to an acceptable level. To address threats that are not at an acceptable level, the practitioner has three possible courses of action:

a) Eliminating the circumstances, including interests and relationships, that have created the threats;

b) Applying safeguards, where available and capable of being applied, to reduce the threat to an acceptable level; or

c) Declining or ending the specific professional activity.

Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat. However, there are some situations where threats can only be addressed by declining or ending the professional activity. This is because the circumstances that created the threats cannot be eliminated or safeguards are not capable of being applied to reduce the threat to an acceptable level.

7.2.3d Safeguards

It is important to be aware of the safeguards that can be put in place to reduce threats to an acceptable level. Safeguards are actions, individually or in combination, that the practitioner can take that effectively reduce threats to compliance with the fundamental principles to an acceptable level. Actions are safeguards only when they are effective in reducing threats to an acceptable level such that the practitioner complies with the fundamental principles. The practitioner needs to exercise professional judgment to determine whether an action is a safeguard.

Examples of safeguards

Safeguards vary depending on the facts and circumstances. Examples of actions that, in certain circumstances, might be safeguards to address threats include:

- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat
- Having a professional accountant who was not involved with the non-assurance service review the non-assurance work performed might address a self-review threat;
- Having an appropriate reviewer who was not a member of the assurance team review the assurance work performed or advise as necessary might address a self-review threat;
- Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client might address self-interest, self-review, advocacy, familiarity or intimidation threats;
- Separating teams when dealing with matters of a confidential nature might address a self-interest threat;
- Disclosing the nature of services provided and the extent of fees raised to those charged with governance of the client might address a self-interest threat; and
- Involving another firm to perform or re-perform part of the engagement might address self-interest, self-review, .advocacy, familiarity or advocacy threats.

Ethics Threats and Possible Safeguards

The IESBA Code provides an overview of the types and examples of ethics threats and the example of safeguards that might address these threats. These are noted in Table 7.2 together with the relevant section of the IESBA Code.

Table 7.2 Possible threats and safeguards

Professional Appointment (Section 320 of the Code)		
Stage	*Possible threats*	*Safeguards that might be applied*
Client acceptance	Questionable management conduct (for example, involvement with illegal activities, money laundering, dishonesty or questionable financial reporting practices) might create self-interest threats	Obtain thorough knowledge and understanding of client and its governance structures. Secure client's commitment for corporate governance practices and internal controls.
Engagement acceptance	Lack of adequate skills and knowledge to carry out engagement might create self-interest threats Reliance on improper or inadequate advice might also create self-interest threats	Use experts where necessary. Agree on realistic time frame for the performance of the tasks. Assign sufficient and experienced employees with necessary competencies. Where reliance on an expert is necessary, ascertain their reputation, expertise, resources and applicable professional and ethical standards.

Professional Appointment (Section 320 of the Code)		
Stage	*Possible threats*	*Safeguards that might be applied*
Changes in professional appointment	Self-interest threats might be created by the following facts and circumstances: • Rationale for changes in professional appointment not fully known, leading to uninformed decision to accept • Request to perform complementary or additional professional work to the existing work of another professional accountant where there is a lack of or incomplete information • The professional appointment is constrained by an issue of confidentiality or prohibition by legal regulation in obtaining information	Contact the existing accountant before acceptance. Ascertain the reasons behind change. Request information on any facts that in the opinion of the existing accountant, the proposed accountant needs to be aware of. Request the disclosure of information through the client from the existing accountant. Discuss with the client in order to obtain confidential information from existing accountant. Inquire of third parties or background investigations of senior management or those charged with governance of the client.

Conflicts of interest (Section 310 of the Code)	
Possible threats (business relationships)	*Safeguards that might be applied*
The professional accountant competes directly with client or is in a joint venture with a major competitor of a client Professional services for clients whose interests are in conflict or in dispute with each other in relation to the matter in question	Notify client of the firm's business interest that may present a conflict of interest and obtain their consent to act. Notify all known relevant parties that the professional accountant is acting for two or more parties in respect of a matter where the respective interests are in conflict and obtain their consent to act. Notify the client that the professional accountant does not act exclusively for any one client in the provision of the proposed services and obtain their consent to act. Other safeguards include: • The use of separate engagement teams; • Clear guidelines for members of the engagement team on issues of security and confidentiality; and • Having an appropriate reviewer, who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key judgments and conclusions are appropriate.

Second Opinions (Section 321 of the Code)	
Possible threats (business relationships)	*Safeguards that might be applied*
Providing a second opinion on the application of accounting, auditing or other reporting standards on behalf of a company that is not an existing client, especially when it is not based on the same set of facts might create a self-interest threat	Obtain client permission to contact the existing accountant, describing the limitations surrounding the second opinion with the client and providing the existing accountant with a copy of the opinion.
Fees and other types of remuneration (Section 330 of the Code)	
Possible threats (business relationships)	*Safeguards that might be applied*
Lowballing: a self-interest threat to professional competence and due care when fees quoted are lower than the amount required to perform a competent service	Adjusting the level of fees or scope of the engagement. Having an appropriate reviewer review the work performed.
Contingency fees: a self-interest threat to objectivity, especially on non-assurance engagement	Obtain advance written engagement letter with the client regarding the basis of remuneration. Have an appropriate reviewer review the work performed.
Referral fee or commission received will create a self-interest threat to objectivity, professional competence, and due care	Disclose to the client any arrangements to pay a referral fee to another professional accountant for the work referred. Disclose to the client any arrangements to receive a referral fee for referring the client to another professional accountant. Obtain advance agreement from the client for commission arrangements in connection with the sale by a third party of goods or services to the client.

Inducements, Including Gifts and hospitality (Section 340 of the Code)	
Possible threats	*Safeguards that might be applied*
Accepting a gift from a client creates a self-interest threat or familiarity threat; an intimidation threat to objectivity may also result from the possibility of such offers being made public	Being transparent with senior management of the firm or of the client about offering or accepting an inducement. Registering the inducement in a log monitored by senior management of the firm or another individual responsible for the firm's ethics compliance. Having an appropriate reviewer, who is not otherwise involved in the professional service, review any work performed or decisions made by the practitioner or firm with respect to the client from which the practitioner accepted the inducement. Donating the inducement to charity after receipts and appropriately disclosing the donation, for example, to a member of senior management of the firm. Reimbursing the cost of the inducement received. As soon as possible, returning the inducement, such as a gift, after it was initially accepted.

Relationships – Business, Family and Personal, Recent Service With an Audit Client, Serving as a Director or Officer of an Audit Client, Employment With an Audit Client, Temporary Personnel Assignments (Sections 520, 521, 522, 523, 524 and 525 of the Code)	
Possible threats	*Safeguards that might be applied*
Having interests in, or personal or business relationships with, a client or its directors, officers, or employees might create self-interest, familiarity or intimidation threats.	Remove the individual creating the threat from the engagement team. Structure the responsibilities of the audit team so that any audit team members do not deal with matters that are within the responsibility of a close family member. Having an appropriate reviewer review the work performed by an audit team member. In the case of an audit team member takes employment with a client is to have an appropriate reviewer review any significant judgments made by the individual while on the audit team.

7.2.3e Remaining Alert

If the practitioner becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the practitioner must re-evaluate and address the threat accordingly.

7.2.3f Consideration of Significant Judgments Made and Overall Conclusions

When addressing threats, the practitioner must form an overall conclusion about whether or not the actions they have taken, or intend to take, will eliminate the threats or reduce them to an acceptable level. This new requirement is referred to as the "step-back" provision. It also provides that the practitioner will make an overall assessment as to whether the significant judgments made or conclusions reached were appropriate, using the reasonable and informed third party test.

7.3 Risk Management within the Firm

7.3.1 Identifying Risk within an Accounting Firm

Risk management is an area of life within a firm that has increased in importance over the last few years. There are a number of reasons it is essential for a firm to have a risk management program in place, including:

- To protect the assets, finances and firm operations;
- To contribute to satisfactory legal compliance, corporate governance and due diligence;
- To improve the services offered by the firm;
- To protect the reputation, credibility and status of the firm; and
- To enhance confidence in the firm.

Implementing a risk management program provides many benefits to accounting firms. These include:

- More effective strategic planning in their firms;
- Better cost control through better workflows and client evaluation and engagement processes;
- Increased profitability through better client and job controls;
- Reduced risks of litigation as a consequence of better processes and contingency plans;
- Increased knowledge and understanding of exposure to risk;
- A systematic, well-informed and thorough method of decision-making;
- Less disruption and less rework through better understanding of process by all staff in the firm; and
- Sets the scene for continual improvement within a firm.

7.3.1a Establishing a Risk Management Program

In order to establish a risk management program, it is important to understand the steps involved. These steps are:

1. **Implement a risk management framework based on the risk policy**
2. **Establish the context**
   (a) Consider the goals and objectives of the firm;
   (b) Consider the environment within which the firm operates; and
   (c) Identify internal and external stakeholders.
3. **Identify risks**
   (a) Identify existing and potential risks as well as existing controls.

4. **Analyze and evaluate risks**

    (a) Analyze and evaluate your own firm's risks on a continuing basis; and

    (b) Identify high and low risks.

5. **Treat and manage risks**

    (a) Develop strategies to manage the identified risk.

6. **Communicate and consult**

    (a) Communicate and consult with all parts of the firm, as well as outside parties, to ensure that all are kept well informed.

7. **Monitor and review**

    (a) Monitor and review the risk management strategies on an ongoing basis.

8. **Record**

    (a) Keep a written record of all policies and procedures, including documentation of the assessment process, major risks identified and the measures designed to reduce the impact of these major risks.

After completing this risk review, where an area of the firm has been identified as posing a high risk, you need to:

- Evaluate your ability to reduce the risk in terms of existing procedures;
- Adjust or reconsider that area and its development;
- Retrain or employ personnel to meet any staffing weaknesses;
- Review the engagement with clients in that area of your firm; and
- Apply risk management procedures.

It is also important that you consider risk management procedures such as:

- Clarity on the terms of the engagement;
- Advising the clients on the risks involved and ensuring that going forward both you and the client are in agreement on the level of risk to be managed (if you agree it is not to be (or cannot be) eliminated);
- Obtaining adequate insurance and controlling claims once they have occurred;
- Maintaining accurate and contemporaneous documentation;
- Ensuring timeliness of action and diary systems;
- Only practicing in those areas where there is sufficient expertise; and
- Implementing strict selection criteria for clients and consultants or agents used.

Questions you should ask yourself to identify risks and determine how to treat them follow. Please note that the following checklist should be used as a guide only and should be customized for the individual circumstances of each firm.

Establish the context

The risk management process requires the practitioner to consider matters such as those set out in Table 7.3 below:

Table 7.3 Matters to consider in terms of context

☐	What outcomes does the firm want to achieve?
☐	What is the environment in which the firm operates? (for example, cultural, legal and operational)
☐	Identify internal and external stakeholders. (for example, clients, personnel, consultants, agents, internal systems, third parties, suppliers, etc.)

In defining the relationship between the firm and its environment, including all stakeholders, identification is made of the practice's strengths, weaknesses, opportunities and threats.

This "strategic" plan will include financial, operational, competitive, political (public image and perception), social, cultural and legal aspects of the firm.

9. Identify risks

Once the context has been established, the potential risk factors or threats and the existing risk controls of the firm need to be identified. Potential risks in a firm can be categorized as:

a. Services performed;

b. Contract risk;

c. Acceptance or continuance risk; and

d. Performance risk.

A checklist has been established to review each of these areas of risk and is attached as Appendix 7.6 at the end of this module.

10. Analyze and evaluate risks

A practitioner should analyze and evaluate the firm's risks on a continuing basis. Risk evaluation takes into account the following (see Table 7.4):

Table 7.4 Analyzing and evaluating risks on a continuing basis

☐	A comparison of exposure levels against the predetermined tolerance level.
☐	Importance of the activity that is being risk-managed and its outcomes.
☐	Degree of control over the risk.
☐	Potential or actual losses that may arise from the risk.
☐	Benefits and opportunities presented by the risk.

There may be times when practitioners would like to identify the cost of the controls and their adequacy. There are a number of ways to evaluate this—the simplest model is to consider the likelihood of occurrence of an event and the consequences of that event, e.g., Risk = Likelihood x Consequence.

Consult with others, and use your experience to calculate the level of risk. It may be categorized as extreme, high, moderate or low. The risks should be ranked to establish management priorities.

Among other matters, the assessment process needs to canvass items shown in Table 7.5 below.

Table 7.5 Assessing level of risk

	Consideration	Comment/Action	Date Completed
1.	The firm's existing and anticipated areas of practice		
2.	The composition, experience, and expertise of the firm		
3.	The management and internal control procedures of the firm		
4.	The likelihood of being sued and the potential ambit of any claim		
5.	The process to assess new and existing clients		

Other approaches which may be used to analyze identified risks include checklists, judgments based on experience and records, flow charts, brainstorming, systems analysis and scenario analysis.

Many practitioners have procedural manuals, checklists and internal processes already in place. The level of risk analysis undertaken will depend on the information and data available. It can range from qualitative, semi-quantitative, to quantitative. In the case of quantitative analysis, a sensitivity analysis should also be used to test the data being used.

When assessing the kind of risks the firm is exposed to, it is important to consider both the internal risks and the external risks. These two areas of risk are set out in more detail below.

7.3.2 Examining Internal Risk

7.3.2a Risks Posed by Staff

The practitioner should consider whether employees see the firm as a short-term employment option or a long-term opportunity.

The risk lies in the perception of the firm as a short-term employer. High staff turnover could result in disruption to the practice, and generate the expense of finding and training new staff who won't deliver a return to the firm if they also leave after a short time.

The practitioner should also consider whether there are employees in the firm who are critical to its success. If an employee is critical to the firm's success, billings and profits may suffer if that employee leaves the firm, sets up a practice in competition, or goes to work for a competitor.

The practitioner also needs to consider whether staff face occupational health and safety risks. If staff members work in an unsafe environment, the firm is at risk for fines and penalties and the absenteeism, injury or even the death of an employee.

Risk mitigation strategies for these types of risks include:

- Implementing selection procedures that increase the probability of finding the right staff for the firm, those who take a longer-term view;

- Putting in place confidentiality agreements and/or reasonable restraint of trade agreements to be signed by key staff, or all staff where appropriate;
- Implementing a robust performance development system for communicating performance expectations and goals, monitoring performance and setting remuneration;
- Providing ongoing training and cross-training for staff, consistent with the needs of the firm;
- Allocating several people to fulfill key tasks and provide backup in the event of illness or sudden departure;
- Rotating employees through various functions of the practice to familiarize them with other areas of the firm;
- Implementing suitable occupational health and safety policies to minimize risks;
- Using equity interests, profit-sharing or other incentives to help retain key personnel and let them share in the success they create for the practice. But be careful how such incentives schemes are designed, as they could encourage unintended behavior; and
- Reviewing the period of notice required of staff who resign. Be careful with this, as it could have unintended legal consequences, depending on your local regulations.

7.3.2b Risks Posed by the Business Premises and its Location

The practitioner needs to consider how dependent the firm is on its current location.

If the firm depends significantly on where it is located to generate billings, moving the premises away from the current location may cause disruption by affecting customer, staff and supplier access. Another risk is that, in the event of a fire, flood or other disaster, the business may not be able to restart trading if the premises, equipment, materials and/or records are destroyed.

Another matter for the practitioner to consider is whether the business is growing, or is relatively stable. If it is growing strongly, the practitioner will need to consider how long this can be expected to continue and how big the premises will need to be in two, five or ten years' time.

Unless plans have been made to expand the current premises, the risk is that the business may not be able to grow to its full potential, and it could stagnate or be overtaken by competitors.

Risk mitigation strategies for the above risks include:

- Identifying a number of suitable alternative premises which would suit customers, suppliers and staff;
- Where the premises suit the business's long-term needs, consider securing a long-term lease or right of first option when the lease expires; and
- Managing the business to predict future space requirements early.

7.3.2c Threats to Goodwill and Reputation

An important matter for the practitioner to consider is how exposed the firm is to a threat to its reputation or goodwill. For example, what would happen if the firm provided bad advice, or was involved in a major fraud?

The risk is that a fraud, or other similar event, would be likely to generate bad publicity. This could cause immediate distress to the firm and possibly also cause longer-term damage to its goodwill and reputation.

Risk mitigation strategies would include:

- Incorporating robust review processes and quality assurance systems to avoid a situation that may damage the firm's reputation;
- Investing in research and development and keeping up-to-date with technological advances; and
- Compulsory training and development programs for staff.

7.3.2d Risks Posed by Information Technology

The important issue to consider here is the extent to which the firm relies on information technology (IT). The level of risk created by using IT increases as the firm becomes more reliant on it.

The obvious risk is that if the firm is heavily reliant on IT, it might not be able to operate without it—for example, if the main server or processor fails during a high-usage period. There are many other risk areas associated with IT and cloud solutions, including:

- IT service delivery: do all the software applications (including spreadsheets) work as intended? Are they all accurate?
- IT solution delivery: do you try to integrate IT solutions into daily work processes, so that the firm runs more efficiently and predictably?
- IT benefit realization: consider not only the cost of an application, but also consider the cost of not implementing that application. Some IT outlays are essential simply to keep pace with others in the industry.

Risk mitigation strategies include:

- Protecting laptops and desktops;
- Keeping data safe by performing backups and storing those backups off-site;
- Ensuring software licenses are up-to-date;
- Ensuring software update versions are run on a regular basis;
- Having documented Internet access strategies;
- Establishing and monitoring social media use policies;
- Protecting networks;
- Protecting servers;
- Securing the line of business applications;
- Ensuring appropriate IT support is available within an acceptable time frame;
- Having an uninterrupted power supply unit; and
- Conducting appropriate IT training for staff.

Policies and Checklists for technology risk management strategies are included in Module 5.

7.3.3 External Risk

7.3.3a Risks Posed by Customers

An important matter for the practitioner to consider is whether the firm is highly dependent on a small number of major clients. For example, is there one client, or client group, who generates 65% or more of total revenue?

The risk is that if the firm relies on a small number of major clients, profit and cash flow may be affected in the short term if one of them leaves the firm, or stops yielding revenue.

Risk mitigation strategies include:

- Locking in major clients through long-term service contracts, regularly visiting them, or continually asking their views about the firm's services;
- Spreading the risk by developing smaller existing customers so they become larger customers;
- Seeking new, profitable customers; and
- Finding lower-cost ways of servicing the less profitable customers.

7.3.3b Risks Posed by Competitors

Virtually every business has competitors. However, if competitors—both current and potential—pose a significant threat to the practice, then the viability of the firm is at risk. The practitioner needs to consider whether their competitors pose a threat.

Risk management strategies include:

- Continuing to build on relationships with clients and the local community (providing great service as a way of combating competitors!);
- Researching industry trends, and adopting new services or ways of delivering those services;
- Investing in the development of new services; and
- Continually monitoring competitors, including the prices they charge.

7.3.4 Developing a Risk Framework for Your Firm

When assessing your firm for sources of risk, you should consider the following areas:

- Integrity;
- Services offered;
- Marketing and communication;
- Staff and human resources issues;
- Information and resource management;
- Regulatory obligations and intervention;
- IT issues and security;
- Management collapse (succession planning);
- Acceptance and continuance of clients; and
- Cash flow management.

Figure 7.1 shows these in diagram form.

Figure 7.1 Sources of risk for an accountancy firm

Each of these areas should be considered as you develop your firm's risk framework.

A series of checklists has been established to review each of these areas of risk and is attached as Appendix 7.6 at the end of this module, covering:

- Integrity;
- Services offered;
- Marketing and communication;
- Staff and human resources;
- Information and resource management;
- Regulatory obligations;
- Information technology and security;
- Management collapse and succession planning;
- Acceptance or continuance of clients; and
- Cash flow management.

Note that these checklists are suggested as a guide only and should be amended to suit the specific needs of your firm. Also be aware of any local regulatory impact.

7.3.5 Adopting Risk Mitigation Strategies

Strategies need to be developed to manage the risks you identify in your firm. Options can be selected from any of the following:

- Accept;
- Avoid;
- Transfer (in part or full);
- Reduce likelihood;
- Reduce consequences; and
- Retain the risk.

Where risks fall within the tolerance level of exposure, they may be treated as low-priority and retained. Optimal action plans are developed based on:

- Current levels of risk exposure;
- Benefits arising from actions/controls;
- The duration of time to implement actions; and
- Available budget.

7.3.5a Risk Management Strategies

There are numerous examples of strategies that can be used to manage risk. These include:

i. **Contingency strategy**: applies to risks of higher consequence but lower likelihood of occurrence and aims to bring the potential consequence of the risk within acceptable confines. Simple examples of such a risk control strategy are insurance and contractual indemnities, business continuity plans and contracting some or all of the activity to another organization or person.

ii. **Preventative strategy**: applies where potential impacts are not very large but the likelihood of occurrence is high, for example, client complaints. In this case, quality control assurance procedures, supervision and training would be instances of this strategy.

iii. **Monitoring strategy**: is suited to exposures where the likelihood and consequence of risk are deemed to be relatively small. This strategy aims to ensure all "standard safeguards" are in place and working. It also requires the risk to be periodically reviewed. For example, quality checks, regular reporting, audit and performance reviews.

iv. **Mixed strategy**: corresponds to managing a risk environment; that is, managing potentially likely negative outcomes and outcomes of high impact or consequence which would involve a combination of strategies outlined above.

Where an area of the firm is identified as posing a high risk, the firm should follow actions suggested in Table 7.6.

Table 7.6 Strategies to manage risk

a.	Evaluate the firm's ability to reduce the risk in terms of existing procedures;
b.	Adjust or reconsider that area of the firm and its development;
c.	Retrain or employ personnel to meet any staffing weaknesses;
d.	Review the engagement with clients in that area of the firm; and
e.	Apply risk management procedures.

7.3.5b Risk Management Procedures

The IESBA Code outlines a number of important risk management procedures that need to be considered by the firm. These include:

1. The engagement letter

- Confirms acceptance of the appointment;
- Outlines the objective, scope and extent of the engagement;
- Highlights the extent of the member's responsibilities to the client;
- Defines the client's responsibilities;
- Manages the "client expectation gap," i.e., matching the services expected by the client with the services delivered;
- Confines the extent of exposure by:
    - specifying limitations on the work to be undertaken;
    - confining the advice to the client only;
    - restricting use of member's name on documentation supplied to the client;
    - obtaining an indemnity from the client, any third party or in connection with receiverships, trust and secretarial work; and
- Sets the fees applicable to the engagement.

A letter of engagement is an essential document in any firm and benefits both the practitioner and the client. It is covered in greater detail in Section 7.4 of this module.

Documented policies for accepting a new client or parting with an existing client are essential to mitigate risk.

2. Advise clients on risks

To avoid having to assume responsibility for the client's risk-taking, advise the client in writing of relevant dates and consequences in the event of failure by the client to act. This will transfer the risk of noncompliance back to the client to act and/or follow-up.

3. Accurate and contemporaneous documentation

It is recommended that all advice a member of staff provides be noted in a file/diary system, or by confirmation letter or report to the client. The information that should be included is:

- Date;
- Time;
- Content of conversation/advice;
- Notation to whom it was made; and
- Signature (if applicable).

4. Timeliness of action and diary systems

File notes will have the dual effect of:

- Assisting with the recollection of events if there is litigation many years later; and

- Being tendered in Court as evidence that a conversation actually occurred (subject to authenticity of documentation being established).

5. Practice in areas where there is sufficient expertise

Each staff member should recognize his or her own limitations. If the staff member forms the view that there is insufficient time or he or she does not have the skill required to perform the service requested, then the matter should be referred on to a specialist.

6. Client selection

A review of the firm's client mix is recommended with a view to considering increasing the proportion of clients requiring lower-risk advice. The review should examine:

- type of business conducted by the client;
- ongoing work or one-time engagement; and
- effect of economic climate on client's business.

It is important to note that the application of such measures does not relieve the member of the duty to exercise the level of skill, care and judgment appropriate to the service provided, and therefore application of the highest standard at all levels is essential.

Generally, the firm should consider its quality control and assurance procedures, the problems that have arisen, and how they have been dealt with in the past.

7. Monitoring

A firm needs to continuously monitor and review the strategies used to manage risk.

It is also necessary to monitor and manage the implementation of the action plan against time and budget.

Over time, new risks are created, existing risks are increased or decreased, risks no longer exist, the priority of risk may change or the risk treatment strategies may no longer be effective.

Monitoring should comprise:

- Monitoring existing risks
- Identifying new risks
- Identifying any trouble spots
- Evaluating the effectiveness of current risk treatment strategies.

Monitoring ensures that new measures are introduced to control new risks as these emerge. Ongoing review is required to ensure that strategies remain relevant, and that the overall risk control position is relative to the potential costs of the risk.

8. Communication and consultation

The risk management process requires continuous communication and consultation with all parts of the practice as well as with outside parties to ensure that all personnel are informed of all stages of the process.

9. Record-keeping

All policies and procedures should be in writing. Records should be maintained documenting the assessment process carried out, the major risks identified and the measures recognized to reduce the impact of these major risks.

Failure to document policies can lead to breaches in performance due to misunderstanding or misinterpretation. A written set of policy statements supplied by documented procedures provides a constant reference, a guide to action and a framework for checking that the operations are conducted in the manner intended by the firm.

7.4 Client Engagement

7.4.1 The Engagement Process

The relationship between a practitioner and a client is an important one to both parties. As already discussed, the practitioner brings a number of important elements to the relationship. These should include integrity, objectivity, professional competence and due care, confidentiality and professional behavior. In addition to these characteristics, the practitioner also brings individual interpersonal skills to the relationship.

One of the most important aspects of the professional relationship is a clear understanding of what the relationship is about; what specifically it is that the client has engaged the practitioner to do. The formal way of acknowledging this is in the form of an engagement letter, or engagement document. This is where the practitioner provides a formal, written understanding of what the client is seeking.

Such a letter confirms the arrangement—or provides the opportunity to clarify any uncertainties—which may exist between the client and the practitioner. It goes a long way toward avoiding client disputes, as the terms of the engagement are clearly stated up front in a clear and explicit manner. This may not always be the case, but without an engagement letter, the practitioner is in a weakened position.

7.4.1a Terms of Engagement for Professional Services

The engagement letter is one way of formalizing the relationship between practitioner and client. The process of documenting and communicating the terms of the engagement should ensure that there is a clear understanding between the client and the practitioner regarding the terms of engagement. It is in the interests of both the client and the practitioner that this occurs, preferably before the engagement commences, to avoid misunderstandings with respect to the engagement.

The terms of engagement do not need to take the form of a letter or agreement. For example, a standard format handout, brochure, leaflet or electronic communication is also acceptable. However, any form of agreement that is not signed by both parties poses a higher risk than a signed letter of engagement, contract, or agreement.

The law establishes the objectives and scope of some engagements. It should be noted that documentation of the terms of engagement cannot reduce those obligations imposed by law. Where the engagement is undertaken under legislation, the practitioner should refer to the applicable provisions of the law in the engagement letter or document.

7.4.1b General Contents of an Engagement Document

The following is a guide to matters that the practitioner may wish to consider for inclusion in an engagement letter. Examples of the types of matters you may wish your firm to consider include:

Purpose: The engagement document should explain that its purpose is to set out and confirm the understanding of the practitioner of the terms of the engagement.

Objectives of the engagement: A brief summary of the objectives of the engagement, including reference to the fact that:

- Procedures to be performed will be limited exclusively to those related to the engagement;

- Neither an audit nor a review will be conducted, and, accordingly, no assurance will be expressed (if applicable); and
- Unless otherwise agreed, the engagement cannot be relied upon to disclose irregularities, including fraud, other illegal acts and errors that may occur.

Scope of the engagement: Pertinent details of such matters as:

- Time periods covered by the engagement;
- Period of appointment and time schedules;
- References to any legislation and professional standards that may be relevant to the engagement;
- Client operations or procedures to be included in the engagement;
- Details of information to be provided by the client;
- Due diligence directly connected to the anti-money laundering and other corruption legislation in the jurisdiction(s) in which the client is operating;
- Any limitations on the conduct of the engagement; and
- Other matters considered necessary or appropriate.

Engagement output: Details of reports or other anticipated outputs, including:

- Expected timing;
- Intended use and distribution of reports; and
- Nature of any anticipated disclaimer or arrangement that limits the liability of the practitioner, including appropriate limitation of liability clauses for those practitioners participating in legislative schemes which limit their liability with respect to the client or any other user of the results of the engagement.

Relative responsibilities: Responsibilities agreed upon, detailing those acknowledged as the responsibility of:

- the practitioner, including reference to relevant confidentiality requirements and the impact of them on the quality review program of the relevant professional body to which the practitioner belongs;
- the client, noting the fact that the client is responsible for the completeness and accuracy of information supplied to the practitioner; and
- any third party.

Involvement of other members in public practice: Where the work of another practitioner is to be used on some aspects of the engagement, the details of this involvement should be documented in the engagement document.

Fees and billing arrangements: Reference to the basis of fees (e.g., time-based billing, fixed price contracts, contingent fee arrangements or other similar agreement). Details of agreed-upon billing schedules should also be included.

Ownership of documents: The engagement document should make clear who owns any documents produced as a result of the engagement or provided by the client for such a purpose, including electronic data. If a firm has a policy of seeking to exercise a right of lien over such documents in the event of a dispute with a client, this policy should be disclosed in the engagement document communicated to the client, including the procedure for dealing with disputes over the lien.

Confirmation by the client: Request for a response from the client confirming its understanding of the terms of engagement as outlined in the engagement document. It is preferable for this confirmation of client acceptance to be obtained in a written form.

7.4.2 Review and Re-Engagement

Practitioners should be aware of the importance of reviewing their relationships with their clients to ensure that they are satisfied with the service they are currently receiving. This also provides the client with the opportunity to offer feedback, if needed, on how the accounting firm can improve its services. It also provides the practitioner with the opportunity to discuss new or additional services that may be relevant to the client.

In light of this, the firm should establish policies and procedures for the acceptance and continuance of client relationships and specific engagements. These should be designed to provide reasonable assurance that the firm will only undertake or continue relationships and engagements where it:

- Has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity;
- Is competent to perform the engagement and has the capabilities, time and resources to do so; and
- Can comply with ethical requirements.

The firm should obtain the information it considers necessary before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Where issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, it should document how the issues were resolved.

With regard to the integrity of a client, matters which the firm should consider include, for example:

- The identity and business reputation of the client's principal owners, key management, related parties and those charged with its governance. Specific requirements may be required by law in some jurisdictions.
- The nature of the client's operations, including its business practices.
- Information concerning the attitude of the client's principal owners, key management and those charged with its governance toward such matters as aggressive interpretation of tax regulations, accounting standards, and the internal control environment.
- Whether the client is aggressively concerned with maintaining the firm's fees as low as possible.
- Indications of an inappropriate limitation in the scope of work.
- Indications that the client might be involved in money laundering or other criminal activities. Very specific requirements may be required under Anti-Money Laundering or Counter Terrorism Financing Law (AML/CTF) in some jurisdictions.
- The reasons for the proposed appointment of the firm and non-reappointment of the previous firm.

Module 3 of this guide discussed the process a firm should undertake when assessing prospective clients and whether they would represent a good fit for the firm. The process of client review also gives the firm the opportunity to reassess their level of interest in retaining the client.

Table 7.7 provides useful guidance when assessing whether to continue servicing current clients of the firm:

Table 7.7 Reviewing clients of the firm

	Question	Answer/Comment
1.	Do the management and staff of the firm like working with the client?	
2.	Does the client respect the firm, its opinion, its work and its management and staff?	
3.	Does the client represent a risk to the firm?	
4.	Do the firm’s management and staff relate well to the client?	
5.	Does the client relate well to the firm and the firm’s team?	
6.	Does the client utilize a number of the firm’s services?	
7.	Does the client pay bills on time?	
8.	Does the client work cooperatively with the firm when required?	
9.	Does the client cause the firm’s management and staff stress?	
10.	Is there a good fit culturally?	
11.	Does the firm add value to the client’s business?	
12.	Does the client add value to the firm?	
13.	Is the firm proud to introduce the client as such?	
14.	Is the client proud to introduce the firm as its accountants?	
15.	Does the client observe ethical business principles?	
16.	Has the client asked the firm to compromise the practice’s ethical values?	
17.	Are there other ways of servicing this client?	
18.	Has an annual client assessment been undertaken to ensure client represents value for money in terms of income based on their risk profile.	

7.4.3 Reviewing Ongoing Engagements

As mentioned above, the review and re-engagement of clients provides the practitioner with the opportunity to meet and discuss work performed to date with the client. It not only provides the opportunity for the client to discuss how the practitioner could improve their service, but also allows the practitioner the opportunity to discuss with the client areas in which they can improve the way they deal with the practitioner.

For recurring engagements, the practitioner may decide not to send an engagement letter on each occasion. The following factors may affect this decision:

- Any indication that the client misunderstands the objectives and scope of the engagement;
- Any significant changes in the terms of the engagement;
- A recent change of client management or ownership;
- A significant change in the nature or size of the client’s business; or
- Legal requirements.

Any of these factors may cause the practitioner to consider issuing a new or revised engagement letter.

7.4.4 Managing the Disengagement Process

It is a fact of life in an accounting firm that relationships with clients will sometimes come to an end. This may come about because you want the client to leave, or if—for any number of reasons—the client chooses to go to another firm.

You may receive a professional letter from the new accountant who has been engaged, advising you of their appointment. It is recommended that you acknowledge their letter and provide whatever details they request, within your policy guidelines.

Unless the client has contacted you already, you may wish to contact the client to let them know you have received the professional letter from the other accounting firm and that you will act accordingly.

You may wish to engage in a discussion with the client as to the reasons for their leaving. This may provide you with important feedback on your firm. If you approach it with the right attitude, you may discover a systemic problem in your firm that needs to be addressed.

The firm should establish policies and procedures for those occasions when it withdraws from an engagement or from both the engagement and the client relationship. It should include consideration of issues including the following:

- Discussing with the appropriate level of the client's management and those charged with its governance the appropriate action that the firm might take based on the relevant facts and circumstances.
- If the firm determines that it is appropriate to withdraw, discussing with the appropriate level of the client's management and those charged with its governance withdrawal from the engagement or from both the engagement and the client relationship, and the reasons for the withdrawal.
- Considering whether there is a professional, regulatory or legal requirement for the firm to remain in place, or for the firm to report the withdrawal from the engagement or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities.
- Documenting significant issues, consultations, conclusions and the basis for the conclusions.
- Have all legislative or professional requirements around the disengagement of clients been adhered to.

7.5 Quality Control Processes within an Accounting Firm

7.5.1 Objective of Quality Control

Quality control is an important component of any strategy for delivering consistent, high-quality services to clients. Quality control encompasses the firm and its objectives, the services provided, the delivery of those services, the quality of the work, the processes and policies adopted, and the staff and management.

A system of quality control essentially consists of policies designed to achieve the objectives of the firm and procedures necessary to implement and monitor compliance with those policies. Professional accounting firms also need to ensure that the quality of their work meets professional standards. A quality control system means they have documented what they do and how they do it.

The relevant minimum standards for quality control are:

- International Standard on Quality Control (ISQC) 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* issued by the IAASB;

- International Standard on Auditing (ISA) 220, *Quality Control for an Audit of Financial Statements* issued by the IAASB; and
- *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the IESBA.

The *Guide to Quality Control for Small- and Medium-Sized Practices*, which provides guidance on implementing ISQC 1, can be downloaded.

7.5.2 Benefits of an Effective Quality Control System

An effective quality control system reduces the risk of error, thereby reducing exposure to complaints from clients and possible litigation or professional indemnity claims. It is also important in demonstrating that appropriate standards have been followed in the event of any litigation or professional indemnity claims. Other benefits offered by an effective quality control system include:

- Enhanced reputation and brand value in the marketplace;
- Enhanced risk management;
- Improved client relationships;
- Improved recruitment and retention of employees; and
- Improved efficiencies in the provision of services.

7.5.3 General Principles of Quality Control

Quality control systems for professional accounting practices are essentially based on ISQC 1 (the standard). This states that a system of quality control consists of policies and procedures designed to achieve two objectives. A firm can have reasonable assurance that:

- The firm and its personnel comply with professional standards and regulatory and legal requirements; and
- Reports issued by the firm, or engagement partners, are appropriate in the circumstances.

The system of quality control is to include policies and procedures that address each of the following:

- Leadership responsibilities for quality within the firm;
- Ethical requirements;
- Acceptance and continuance of client relationships and specific engagements;
- Human resources;
- Engagement performance; and
- Monitoring.

The quality control policies and procedures are to be documented and communicated to all staff. They should include a full description of the relevant policies and procedures and outline the objectives they are designed to achieve. It should also be made clear that each staff member has a personal responsibility for quality control and is expected to comply with the firm's policies and procedures.

The firm should also recognize the importance of obtaining feedback on its quality control system from staff, encouraging communication of staff views or concerns on quality control matters.

The nature of the policies and procedures developed by individual firms will depend on various factors, such as the size and operating characteristics of the firm. They do not need to be complex or time-consuming to be effective, but it is important for firms to establish policies and procedures that are both relevant and proportionate to the size of their practice.

7.5.4 Quality Control Elements

7.5.4a Leadership Responsibilities for Quality within the Firm

Your firm should aim to establish policies and procedures that promote an internal culture which recognizes that quality is essential in performing client engagements. These policies and procedures will require you to assume ultimate responsibility for the quality control system of the practice.

The example you set will significantly influence the culture of the firm. Promoting a quality-oriented culture depends on clear and consistent actions and messages from all staff. Such deeds and attitudes encourage a culture that recognizes and rewards high-quality work. Training seminars, formal or informal meetings, mission statements, newsletters, or briefing memoranda may communicate this message. It can be incorporated in the firm's internal documentation and training materials. It can also be included in staff appraisals in a way that supports and reinforces the firm's view on the importance of quality and how it is to be achieved in a practical sense.

7.5.4b Relevant Ethical Requirements

The firm is to establish policies and procedures designed to provide it with reasonable assurance that the firm and its staff comply with relevant ethical requirements.

The relevant ethical requirements are based on the fundamental principles contained in the professional standards, which include:

- Integrity;
- Objectivity;
- Professional competence and due care;
- Confidentiality; and
- Professional behavior.

In order to comply with these ethical requirements, the firm must have policies and procedures in place to identify and evaluate those circumstances where these requirements are under threat. It must then outline the appropriate action to eliminate those threats, or reduce them to an acceptable level so that compliance is not compromised.

It is therefore necessary to identify any actual or perceived conflicts of interest between your firm and your clients. The trust and confidence of clients is crucial to any ongoing professional relationship and avoiding real, potential or perceived conflicts of interest builds trust. Included in Appendix 7.2 is a form to assist in this assessment.

The firm's policies and procedures addressing these ethical requirements must be communicated to all staff and you should reinforce them through education and training, monitoring and providing a process for dealing with noncompliance. It is important to continually review these protocols to take into account any change of circumstances, including staff changes, client acquisitions or structural changes such as mergers.

Compliance with the ethical principles that apply to all areas of a professional accounting firm require:

- All personnel to adhere to the relevant ethical requirements;
- The establishment of procedures to communicate independence requirements to firm staff and, where applicable, others subject to them;
- The establishment of procedures to identify and evaluate possible threats to the fundamental principles, and to take appropriate action to eliminate those threats, or reduce them to an acceptable level by applying safeguards; and
- At least annually, written confirmation of compliance with the firm's policies and procedures on independence from all firm personnel required to be independent by relevant requirements (see Appendix 7.3 for an example form).
- For assurance practices, it is particularly important to establish policies and procedures to deal with identifying threats to independence, criteria for determining the need for safeguards, and the reporting of any breaches in a timely manner. Parts 4A and 4B of the IESBA Code outline the requirements for independence when undertaking an assurance engagement.

7.5.4c Acceptance and Continuance of Client Relationships

The firm is to establish policies and procedures for the acceptance and continuance of client relationships and specific engagements. These are designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where it:

- Has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity;
- Is competent to perform the engagement and has the capabilities, time and resources to do so;
- Can comply with legal and ethical requirements; and
- Has reached an understanding with the client regarding the services to be performed.

1. Client integrity

Factors to consider regarding the integrity of a client have been examined in 7.4.2 as part of the review and reengagement process.

2. Client continuation

It is also important for you to review existing clients to ensure that any significant changes in the client's operations, business environment, or their key personnel are identified and documented, where appropriate. These changes may affect on your ability to comply with ethical requirements, which includes having the necessary knowledge or expertise to handle all of the issues the client may now be exposed to.

7.5.4d Human Resources

The firm is to establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements and to enable the firm to issue reports that are appropriate in the circumstances.

These policies and procedures are to address the following personnel issues:

- Recruitment;
- Performance evaluation;
- Capabilities;
- Competence;
- Career development;
- Promotion;
- Compensation; and
- The estimation of personnel needs.

Compliance with this element of quality control requires:

- Recruitment of staff of integrity with the capacity to develop the capabilities and competence to perform the firm's work;
- Identifying the capabilities and competencies possessed by personnel;
- Assigning personnel based on the knowledge, skills, and abilities required in the circumstances and the nature and extent of supervision needed;
- Having personnel participate in general and industry-specific continuing professional education and professional development activities; and
- Selecting for advancement only those individuals who have the qualifications necessary to fulfill the responsibilities they will be called on to assume.

The firm's performance evaluation, compensation and promotion procedures should give due recognition and reward to the development and maintenance of competence and commitment to ethical principles. In particular, the firm is to:

- Make staff aware of the firm's expectations regarding performance and ethical principles;
- Provide staff with evaluation of, and counselling on, performance, progress and career development; and
- Help staff understand that advancement to positions of greater responsibility depends on, among other things, performance quality and adherence to ethical principles. Failure to comply with policies and procedures may result in disciplinary action.

The size and circumstances of the firm will influence the structure of its performance evaluation process. Smaller firms, in particular, may employ less formal methods of evaluating the performance of their staff.

1. Recruitment and retention

The recruitment and retention strategy of the firm should include policies and procedures which cover:

- Position interview and evaluation procedures;
- Maintaining current job descriptions for all positions;
- Orientation of new personnel; and
- Ongoing professional development and training to ensure maintenance of professional and educational standards.

2. Assignment to engagements

As a practitioner, you should only take on engagements for which you are confident you have the necessary skills, knowledge and experience to competently complete the work. Staff should be assigned after taking into account the nature and complexity of the engagement and the staff's capabilities and competencies.

7.5.4e Engagement Performance

The firm is to establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirements and to enable the firm to issue reports that are appropriate in the circumstances.

Through its policies and procedures, the firm is seeking to establish consistency in the quality of its performance on the engagement. This is often accomplished through written or electronic manuals, software tools or other forms of standardized documentation, and industry- or subject-matter-specific guidance materials where relevant. Matters addressed include the following:

- How individual staff members are briefed on the engagement to obtain an understanding of the objectives of their work;
- Processes for complying with applicable engagement standards;
- Processes of engagement supervision, staff training and coaching;
- Methods of reviewing the work performed, the significant judgments made and the form of report being issued;
- Appropriate documentation of the work performed and of the timing and extent of the review; and
- Processes to keep all policies and procedures current.

It is important that all members of staff working on the engagement understand the objectives of the work they are to perform. Appropriate teamwork and training are necessary to assist less experienced members of staff to clearly understand the objectives of the assigned work.

Supervision includes the following:

- Tracking the progress of the engagement;
- Considering the capabilities and competence of staff members, whether they have sufficient time to carry out their work, whether they understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement;
- Addressing significant issues arising during the engagement, considering their significance and modifying the planned approach appropriately; and
- Identifying matters for consultation or consideration by more experienced staff during the engagement.

Responsibilities for review are determined on the basis that more experienced staff review work performed by less experienced staff. Reviewers need to consider whether:

- The work has been performed in accordance with professional standards and regulatory and legal requirements;
- Significant matters have been raised for further consideration;
- Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;

- There is a need to revise the nature, timing and extent of work performed;
- The work performed supports the conclusions reached and is appropriately documented;
- The evidence obtained is sufficient and appropriate to support the report; and
- The objectives of the engagement procedures have been achieved.

Policies and procedures also should require that consultation takes place when appropriate, for example, when dealing with complex, unusual, unfamiliar, difficult, or contentious issues. In these cases it is necessary that:

- Sufficient and appropriate resources are available to enable appropriate consultation to take place;
- The nature, scope, and conclusions of such consultations be documented; and
- The conclusions resulting from such consultations are documented and implemented.

In addition, a policy should establish criteria against which all engagements are to be evaluated to determine whether an engagement quality control review should be performed.

To comply with this element, the firm needs to establish and maintain policies to:

- Plan all engagements to meet professional, regulatory and legal requirements;
- Perform work and issue reports and other communications that meet professional, regulatory, and the firm's requirements;
- Require that work performed by other team members be reviewed by qualified engagement team members, which may include the engagement partner, on a timely basis;
- Require that differences of opinion be dealt with and resolved and documented;
- Require that all engagements are evaluated against the criteria for determining whether an engagement quality control review should be performed;
- Establish procedures addressing the nature, timing, extent, and documentation of the engagement quality control review; and
- Establish criteria for the eligibility of engagement quality control reviewers.

7.5.4f Completion of the Assembly of Final Engagement Files

The firm is to also establish policies and procedures for staff to complete the assembly of final engagement files on a timely basis after the engagement and relevant reports have been finalized.

7.5.4g Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of Engagement Documentation

The firm shall also establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of documentation used for the engagement.

Relevant ethical requirements require staff to maintain at all times the confidentiality of information contained in engagement documentation, unless specific client authority has been given to disclose information, or there is a legal or professional duty to do so. Specific laws or regulations may impose additional obligations on staff to maintain client confidentiality, particularly where data of a personal nature are concerned.

Whether engagement documentation is in paper, electronic or other media, the integrity, accessibility or retrievability of the underlying data may be compromised if the documentation could be altered, added to or deleted without the firm's knowledge, or if it could be permanently lost or damaged. Accordingly, the firm is to design and implement appropriate controls for engagement documentation to:

- Enable the determination of when and by whom the engagement documentation was created, changed or reviewed;
- Protect the integrity of the information at all stages of the engagement, especially when the information is shared within staff or transmitted to other parties via the Internet;
- Prevent unauthorized changes to the engagement documentation; and
- Allow access to the engagement documentation by staff and other authorized parties as necessary to properly discharge their responsibilities.

7.5.4h Retention of Engagement Documentation

The firm is to establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the practice, or as required by law or regulation.

The needs of the firm to retain engagement documentation, and the period of such retention, will vary with the nature of the engagement and the circumstances of the firm. For example, whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. The retention period may also depend on other factors, such as whether local law or regulation prescribes specific retention periods for certain types of engagements, or whether there are generally accepted retention periods in the jurisdiction in the absence of specific legal or regulatory requirements. In the specific case of audit engagements, the retention period ordinarily is no shorter than seven years from the date of the auditor's report, or, if later, the date of the group auditor's report.

Examples of procedures that the firm may ordinarily adopt for retention of engagement documentation include those that:

- Enable the retrieval of, and access to, the documentation during the retention period, particularly in the case of electronic documentation, since the underlying technology may be upgraded or changed over time;
- Provide, where necessary, a record of changes made to the engagement documentation after the engagement files have been completed; and
- Enable authorized external parties to access and review specific engagement documentation for quality control or other purposes.

The firm is also to ensure that the quality control system remains relevant and operates effectively by monitoring and updating the system on a regular basis. It is important to maintain policies and procedures and keep them current to reflect changes in professional standards and regulatory and legal requirements.

7.5.4i Monitoring

The firm is to establish policies and procedures designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively, and complied with in practice. Such policies and procedures are to include an ongoing consideration and evaluation of the firm's quality control system, including a periodic inspection of a selection of completed assignments.

The purpose of monitoring compliance with quality control policies and procedures is to provide an evaluation of:

- Adherence by the firm to professional standards and regulatory and legal requirements;
- Whether the quality control system has been appropriately designed and effectively implemented; and
- Whether the firm's quality control policies and procedures have been appropriately applied, so that engagement outputs that are issued by the firm are appropriate in the circumstances.

Monitoring encapsulates all the other elements of quality control, as it ensures compliance with policies and procedures established for meeting the objectives of leadership, ethics, client acceptance and continuance, human resources, engagement performance, as well as the monitoring itself. However, review of engagements is only one aspect. Monitoring also requires documentation of the procedures and findings, and the communication of those findings.

It is important that the responsibility for the monitoring process be assigned to the practitioner, or to partners with sufficient and appropriate experience and authority to assume the responsibility.

Monitoring procedures consist of the following:

1. **Assessing the firm's compliance with its quality control policies and procedures**
    - Review selected administrative and personnel records pertaining to the quality control elements;
    - Review engagement working papers, reports, and clients' financial statements;
    - Discuss with the firm's personnel;
    - Summarize the findings from the monitoring procedures at least annually, and consider the systemic causes of findings that indicate that improvements are needed; and
    - Determine any corrective actions to be taken or improvements to be made with respect to the specific engagements reviewed or the firm's quality control policies and procedures.
2. **Communicating results of monitoring**
    - Communicate the identified findings to appropriate management personnel within the firm;
    - Communicate at least annually, to relevant engagement partners and other appropriate personnel, deficiencies noted as a result of the monitoring process and recommend appropriate remedial action; and
    - Communicate the results of the monitoring of the firm's quality control system process to relevant firm personnel at least annually.
3. **Evaluation of quality control system**
    - Appropriate firm management personnel are then to consider the findings. They should also determine any actions that may be necessary, including any modifications required to the quality control system, and see that these are implemented on a timely basis;
    - Assess:
        - The appropriateness of the firm's guidance materials and any practice aids;

- New developments in professional standards and regulatory and legal requirements and how they are reflected in the firm's policies and procedures;
- Compliance with policies and procedures on independence;
- The effectiveness of continuing professional development, including training;
- Decisions related to acceptance and continuance of client relationships and specific engagements; and
- Staff's understanding of the quality control policies and procedures and their implementation.

4. Appropriate complaints handling

The firm is to establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with:

- Complaints and allegations that the work performed by the firm fails to comply with professional standards and regulatory and legal requirements; and
- Allegations of noncompliance with the firm's system of quality control.

Complaints and allegations, which do not include those that are clearly frivolous, may originate from within or outside of the firm. Staff, clients or other third parties may make complaints or allegations.

As part of this process, the firm is to establish clearly defined channels for staff to raise any concerns, in a manner that enables them to come forward without fear of reprisals.

The firm is then to ensure documentation of the complaints and allegations and the responses to them, including:

- Complaints and allegations that the work performed by the firm fails to comply with professional standards and regulatory and legal requirements;
- Allegations of noncompliance with the firm's system of quality control; and,
- Deficiencies in the design or operation of the firm's quality control policies and procedures, or noncompliance with the firm's system of quality control by staff.

5. Documentation

The firm is to establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element in its system of quality control.

The form and content of such documentation is a matter of judgment and depends on a number of factors, including the following examples:

- The size of the firm and the number of offices; and
- The nature and complexity of the firm's practice and organization.

The firm is to retain this documentation for a period of time sufficient to permit those performing monitoring procedures to evaluate the firm's compliance with its system of quality control, or for a longer period if required by law or regulation.

7.6 Business Continuity Planning and Disaster Recovery

The key to business continuity planning and disaster recovery is to look at it as an entire function, as whole and complete in itself. The most effective way to coordinate your thinking and planning in this area is to document the various components required in one central document. This is called the Business Continuity Plan.

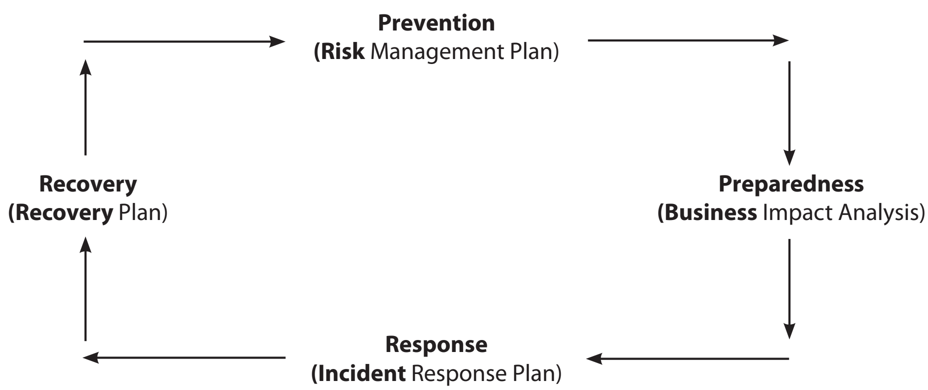
The purpose of developing a Business Continuity Plan is to ensure the continuation of your firm during and following any critical incident that results in disruption to the normal operational capability of the firm.

This section will assist you to prepare a Risk Management Plan and Business Impact Analysis, and create Incident Response and Recovery Plans for your business.

1. Developing a Business Continuity Plan

The Business Continuity Plan is based on the Prevention, Preparedness, Response and Recovery (PPRR) framework. Each of the four key elements is represented by a part in the Business Continuity Planning Process as illustrated in Figure 7.2.

Figure 7.2 Business continuity planning process



It is important that you also consider any legislative or professional accounting body requirement in regard to business continuity or succession planning requirements that are designed to protect the interest of your clients.

2. Prevention

Prevention is all about risk management planning. This is where the likelihood and/or effects of risk associated with an incident are identified and managed. The key elements of the risk management processes are implemented at this stage, with threats identified and dealt with, or reduced to an acceptable level. These have been covered in detail in Section 7.3 of this module, but will be discussed briefly again here to maintain the context of the discussion in this section.

3. Preparedness

The key tool for the Preparedness element is the Business Impact Analysis. This is where the key activities of the firm that may be adversely affected by any disruptions are identified and prioritized.

4. Response

The key function of the Response element is Incident Response Planning. This plan outlines the immediate actions to be taken to respond to an incident in terms of containment, control and minimizing of impacts.

5. Recovery

The Recovery section focuses on recovery planning. The purpose is to outline the actions that are to be taken to recover from an incident in order to minimize disruption and recovery times.

Another important element of the Business Continuity Plan is the concept of regular updates and review. It is hoped that you will never need to use the plan, but if the need ever arises, you should know the plan is up to date with current details, information and resources. This is important, as it should reflect the changing needs of your firm.

The templates and checklists provided in the following sections should be used as a guide only to assist you in developing your own Business Continuity Plan. You should customize it to suit the specific requirements and needs of your firm.

6. **Key items the plan should include:**
   - Distribution list: An up-to-date list should be maintained of the people you have supplied with a copy of the plan and their contact details. Remember to keep a copy of the plan in a safe off-site location.
   - References and related documents: Make a list of all the documents that have a bearing on your Business Continuity Plan.
   - Table of contents: A table of contents should be included at the beginning of the plan.
   - Objectives of the plan: Objectives clarify the purpose of the plan and should describe the intended result. An example of some objectives for a practice would include:
7. **The objectives of this plan are to:**
   - Undertake a risk management assessment of our firm;
   - Define and prioritize our critical practice functions;
   - Detail our immediate response to a critical incident;
   - Detail strategies and actions to be taken to enable our firm to continue operating; and
   - Review and update this plan on a regular basis.

7.6.1 Prevention—Risk Management Plan

You need to manage the risks to your firm by identifying and analyzing the things that may have an adverse effect on it and choosing the best method of dealing with each of them.

There are a number of steps to take in establishing your Risk Management Plan:

1. Select someone to take responsibility for risk management. Typically this will be the practitioner when first establishing the Risk Management Plan. Once established, the management and maintenance of the plan can be delegated to another responsible staff member.
2. Identify the risks. Review the checklists provided in Table 7.2 and Appendix 7.6 as a starting point, and brainstorm with your staff other areas of risk within your firm.
3. Evaluate and prioritize risks. Use the assessment guide provided in Section 7.3 (Table 7.5) as the key tool for this task.
4. Identify possible preventive actions and/or ways in which to minimize the risks.
5. Identify the contingency plans you will establish if the identified threat were to eventuate. You may wish to use a risk assessment table (see Table 7.8).

Table 7.8 Risk assessment table

Key: VH: Very High H: High M: Moderate L: Low					**Date**__________
Risk Description	Likelihood	Impact	Priority	Preventative Action	Contingency Plans
Interruption to process for producing financial statements	L	H	H	Backup copy of data maintained at all times Laptop computers to have current software loaded Cloud-based systems to be reviewed	Off-site storage of all computer programs and client data Cloud-based systems to be reviewed
Client does not pay their account	M	M	M	Regular follow-up with debtors and review of aged listing	Debt collection processes and contact details in place

The questions to ask yourself and your team are:

- What could go wrong?
- What could cause an impact?
- How serious would that impact be?
- What is the likelihood of this occurring?
- Can it be reduced or eliminated?

7.6.2 Preparedness—Business Impact Analysis

The key tool for the Preparedness element is the Business Impact Analysis. This is where key activities of the firm that may be adversely affected by any disruptions are identified and prioritized.

1. Business Impact Analysis

Practitioners should undertake a Business Impact Analysis as part of the firm's Business Continuity Plan. To prepare this, you use the information in your Risk Management Plan to assess the identified risks and impacts relating to the firm's critical activities and determine the basic recovery requirements.

Critical activities are those primary business functions that must continue in order to support your firm. You need to identify:

- Your firm's critical activities;
- The impact on your firm in the event of a disruption; and
- How long your firm could survive if it did not perform this activity.

As part of your Business Impact Analysis, you should assign Recovery Time Objectives (RTO) to each function. The RTO is the time from which you declare that a crisis has occurred to the time that the critical business function must be fully operational in order to avoid serious financial loss.

The following questions will help you and your team determine these critical activities for your firm (see Table 7.9 below):

Table 7.9 Critical activities checklist

No.	Question	Comment/(Example)
1.	List the activities which must be performed to ensure your firm continues to operate effectively: 1. 2. 3. 4. 5.	 Financial statements production
2.	For each activity listed above, complete the following: Activity Name: Activity Description:	 Financial statements production Preparation of financial statements
3.	What is the loss to the firm if this activity could not be provided? Loss of revenue: Increased costs: Staffing impact: Service delivery: Fines or penalties due to missed deadlines: Legal liability, public harm, personal damage: Loss of goodwill, public image: Comments:	 $10,000 per week N/A Staff will need to be reduced No financial statements can be prepared until production resumes Possible/minimal Unlikely Will occur if unable to meet client deadlines Current work in progress of 3 weeks work
4.	What is the maximum amount of time this activity could be unavailable (either 100% or partial) before the losses would occur? Hours: ____________ Days: _____________ Weeks: ____________ Months: ___________ Comments:	 Hours: _________________ Days: __________________ Weeks: 2–3 _________ Months: ________________ If financial statements are not produced within 2–3 weeks, the firm is likely to come under significant pressure from clients, with potential loss of revenue and also losses of clients.

No.	Question	Comment/(Example)
5.	Does this activity rely on any outside or third-party service for its successful completion? No: Yes: If yes, select: Sole supplier: Major supplier: Many alternate suppliers:	 No, all production is done in-house.
6.	On a scale of 1 to 5 (1 being Most Important), where would this activity fall in terms of being important to the operation of the firm 1. 2. 3. 4. 5. Comments:	1. MOST IMPORTANT!! CRITICAL!! 2. 3. 4. 5. Preparation of financial statements is the primary activity of the firm. The firm is therefore dependent on this activity.
7.	Completed by: ____________________________ Name ________________ Date	

Completion of the above questionnaire will allow you to complete the Business Impact Analysis. A suggested Business Impact Analysis is shown in Table 7.10, using the example data shown above.

Table 7.10 Business impact analysis

Critical Practice Activity	Description	Priority	Impact of Loss	RTO (Critical Period before Losses Occur)
Financial statement production	Preparation of financial statements for clients	High	Billings reduced by up to $10,000 per week Some staff may need to be laid off No financial statements can be prepared until production resumes Possible fines due to late lodgment with regulators Likely loss to goodwill if unable to meet client deadlines The firm is likely to come under significant pressure from clients, with potential loss of revenue and also losses of clients if financial statements are not produced within 2–3 weeks	2–3 weeks

7.6.3 Response—Incident Response Planning

The key function of the Response element is Incident Response Planning. This plan outlines the immediate actions that are to be taken in response to an incident in terms of containment, control and minimizing impacts.

7.6.3a Incident Response Plan

The purpose of the Incident Response Plan is to prepare your firm for a timely response to major or critical incidents and reduce the impact of those incidents on your practice operations as identified in your risk assessment. It also prepares key personnel to provide and coordinate an effective response to ensure minimal disruption to the firm's operations in the event of emergency.

Table 7.11 below provides an example of the type of information, including checklists, you might include when planning your response to a major or critical incident. Together these form your Incident Response Plan.

Table 7.11 Incident response checklist

Incident Response	Check X	Actions Taken
Have you: • Assessed the severity of the incident?	☐	
• Evacuated the site if necessary?	☐	
• Accounted for everyone?	☐	
• Identified any injuries to persons?	☐	
• Contacted Emergency Services?	☐	
• Implemented your Incident Response Plan?	☐	
• Started an event log?	☐	
• Activated staff members and resources?	☐	
• Appointed a spokesperson?	☐	
• Gained more information as a priority?	☐	
• Briefed team members on the incident?	☐	
• Allocated specific roles and responsibilities?	☐	
• Identified any damage?	☐	
• Identified critical activities that have been disrupted?	☐	
• Contacted key stakeholders?	☐	
• Understood and complied with any regulatory or compliance requirements?	☐	
• Initiated media/public relations response?	☐	

7.6.3b Evacuation Procedures

You need to have appropriate evacuation procedures that cater to both staff and visitors. These procedures should be stored in a place accessible to all staff.

The objective of an evacuation plan is to provide a set of procedures to be used by site occupants in the event of a critical incident. You should:

- Start with a floor plan of the site;
- Clearly identify the location of emergency exits;
- Develop strategies for providing assistance to persons with disabilities;
- Make sure that everyone knows what to do if evacuation is necessary;
- Select and indicate a meeting place away from the site; and
- Test the plan on a regular basis.

7.6.3c Emergency Pack

If there is damage to the building, or if it must be evacuated and operations need to be moved to an alternative location, the emergency pack can be taken quickly and easily carried off-site or, alternatively, stored safely and securely off-site. Document within your plan what is contained within your emergency pack and when it was last checked.

Items that you may wish to include are:

1. **Documents**
   - Business Continuity Plan—your plan to recover your firm in the event of a critical incident.
   - List of employees with contact details, including home and mobile numbers and even email addresses. You may also wish to include next-of-kin contact details.
   - Lists of customer and supplier details.
   - Contact details for emergency services.
   - Contact details for utility companies.
   - Building site plan (this could help in a salvage effort), including location of gas, electricity and water shut-off points.
   - Evacuation plan.
   - Latest stock and equipment inventory.
   - Insurance company details.
   - Financial and banking information.
   - Engineering plans and drawings.
   - Local authority contact details.
   - Headed stationery and company seals and documents.
2. **Equipment**
   - Computer backup tapes/disks/USB memory sticks or flash drives.
   - Spare keys/security codes.
   - Torch/flashlight and spare batteries.
   - Hazard and cordon tape.
   - Message pads.
   - Marker pens (for temporary signs).
   - General stationery (pens, paper, etc.).
   - Mobile telephone with credit available, plus charger.
   - Dust and toxic-fume masks.
   - Disposable camera (useful for recording evidence in an insurance claim).

3. Notes

- Make sure this pack is stored safely and securely on-site or off-site (in another location).
- Ensure items in the pack are checked regularly, kept up-to-date, and function.
- Remember that cash/credit cards may be needed for emergency expenditure.

This list is not exhaustive, and you should customize it to suit your own firm's situation.

7.6.3d Roles and Responsibilities

Table 7.12 allows you to assign responsibility for completion of each task to one of your designated roles. You will then assign each role, or multiple roles, to one or more staff members and assign backup staff as appropriate.

The staff members involved should then be given this table in order to understand their roles and as a task assignment list for completion of pre-emergency planning and emergency tasks.

You should customize this table to suit your firm's needs and structure.

Table 7.12 Roles and responsibilities list

Role	Designated Staff Member	Alternate
Team Leader	Name: Brenton Peters Contact Details: 123-456-7890	Name: John Johnston Contact Details: 234-567-8901
Emergency responsibilities: • Ensure the Business Continuity Plan has been activated • Oversee smooth implementation of the response and recovery section of the plan • Determine the need for, and activate the use of, an alternate operation site and other continuity tasks • Communicate with key stakeholders as needed • Provide important information to the Communication Officer for distribution • Keep staff apprised of any changes to situation.		

Role	Designated Staff Member	Alternate
Title	Name: Contact Details:	Name: Contact Details:
Emergency responsibilities:		

Role	Designated Staff Member	Alternate
Title	Name: Contact Details:	Name: Contact Details:
Emergency responsibilities:		

7.6.3e Key Contact Sheet

1. Contact list—internal

Use Table 7.13 to document your staff emergency contact details.

Table 7.13 Staff emergency contact details

Person	Contact Number	Email	Responsibilities
Brenton Peters	123-456-7890	brenton.peters@accounts.com	Team leader
John Johnston	234-567-8901	john.johnston@accounts.com	Alternate team leader

2. Contact list—external

Use Table 7.14 to document your external services (including Emergency Services) contact details.

Table 7.14 External services contact details

Key Contacts	Contact Number/s
Police	
Emergency Services	
Ambulance	
Medical	
Security	
Insurance company	
Suppliers	
Water and sewerage	
Gas	
Electricity	
Telephone	
Professional associations	
Computer hardware/software suppliers	
Bank manager	
Landlord	

3. Event log

Use the Event log (see Table 7.15 below) to record information, decisions and actions in the period immediately following the critical event or incident.

Table 7.15 Event log

Date	Time	Information/Decisions/Actions	Initials
DD/MM/YY	Time	Activate Business Continuity Plan	BP

7.6.4 Recovery

This section focuses on recovery planning. The purpose is to outline the actions to be taken to recover from an incident in order to minimize disruption and recovery times. Recovery is the return to your pre-emergency condition. Performing your critical activities as soon as possible after a critical incident is your primary focus.

You will see below the structure for the Recovery Plan (Table 7.16). You should complete this table with the intention of supporting recovery in "worst case" scenarios. It can then be modified according to the degree of loss to your firm. The recovery process includes:

- Developing strategies to recover your firm's activities in the quickest possible time;
- Identifying resources required to recover your operations;
- Documenting your previously identified RTOs; and
- Listing the people who have responsibility for each task and the expected completion date.

Table 7.16 Recovery plan

Critical Business Activities	Preventative/Recovery Actions	Resource Requirements/ Outcomes	Recovery Time Objective	Responsibility	Completed
Production services—halted	Reassess financial position of firm including cash flows due to loss of revenue to meet minimal overheads Minimize overheads, review expenses, and develop plan of action to reduce fixed overheads; include reduction of casual and permanent staff hours Source alternative temporary equipment to continue production Diversify service range of offerings to clients	Put aside cash reserves to cover costs Reduce costs where possible Research new service offerings Identify alternative equipment providers	2 weeks	Practitioner	DD/MM/YY

7.6.4a Incident Recovery Checklist

This checklist (Table 7.17) should be used once the crisis is over and you are looking to re-establish your firm back to full operation. You will need to customize this list to include information specific to your firm.

Table 7.17 Incident recovery checklist

Incident Response	Check X	Actions Taken
Now that the crisis is over, have you: Refocused efforts toward recovery?	☐	
Continued to gather information about the situation as it affects you?	☐	
Assessed your current financial position?	☐	
Contacted your insurance broker/company?	☐	
Developed financial goals and time frames for recovery?	☐	
Kept staff and other key stakeholders informed?	☐	
Identified information requirements and sourced the information?	☐	
Set priorities and recovery options?	☐	
Updated the Recovery Plan?	☐	
Documented lessons learned from your individual, team and firm recovery?	☐	
What is the current financial position of your business?	☐	
Have you determined how much cash your business has currently available by creating a cash flow statement?	☐	
Have you considered and noted your recovery objectives, actions and priorities?	☐	
Have you established a recovery team with clear responsibilities from the recovery plan?	☐	
Can you support such team members working off-site?	☐	
Do you have adequate resources (staff, finances, etc.) to bring the business up to former operating levels?	☐	
Have you priced out your Recovery Plan, and can you afford it?	☐	
Do you have a marketing strategy to promote that you are open for business?	☐	
Have you completed cash flow and profit and loss forecasts?	☐	

Do you intend to fund the reopening of your firm from the firm itself or from other sources?	☐	
Where the business has existing debt financing arrangements, have these been reviewed to ensure that the finance facility and structure fit the new needs of the firm?	☐	
What existing lines of credit does the firm have access to, and can these lines of credit be accessed to fund the reopening of the firm	☐	
Given the potential changed market conditions, are your firm's premises situated in the right location?	☐	
Are there any plans by local government or others that may impact the viability of the location of your firm, such as changes that may restrict access?	☐	
Is the size of your premises too large or too small, given the future potential of your firm?	☐	
Do you still have the plant and equipment your firm needs to restart?	☐	

7.6.4b Update, Maintain and Review

It is critical that you rehearse your plan to ensure that it remains relevant and useful. This may be done as part of a training exercise and is a key factor in the successful implementation of the plan during an emergency.

You must also ensure that you regularly review and update your plan to maintain accuracy and reflect any changes inside or outside the firm.

The following points may help:

- A training schedule must be prepared for all people who may be involved in an emergency at the site.
- Pay attention to staff changes. Incorporate an overview of the plan in new staff induction procedures.
- It is best to use staff titles rather than names.
- If you change your firm's structure or suppliers and contractors, this must be amended in your plan.
- After an event, it is important to review the performance of the plan, highlighting what was handled well and what could be improved upon next time.

Record details of your plan reviews in Table 7.18 below.

Table 7.18 Review of recovery plan

Update/Review Date	Reason for Review	Changes Made

7.6.5 Death or Incapacity of Practitioner

Another key area of risk for the firm is the death or incapacity of the practitioner. Much of what has been discussed in this section so far has concentrated on the risk management processes for the firm itself. However, it is also appropriate to give some attention to risk mitigation strategies for the death or incapacity of the practitioner.

7.6.5a Risk Mitigation Strategies

Risk mitigation strategies to prepare in case of death or incapacitation of practitioner or partners (see Table 7.19 below for a checklist):

1. Document sensitive information

(a) It is important for the practitioner to document and keep in a safe place critical information that is necessary for the effective running and operation of the firm. This information may include:

(i) Client agreements and arrangements;

(ii) Employee agreements and arrangements;

(iii) Supplier agreements and arrangements;

(iv) Personal guarantees provided and to whom;

(v) Bank and finance arrangements;

(vi) Lawyer's name and contact details;

(vii) Intellectual property residing within or developed by the firm; and

(viii) Recommendations for ongoing management of the firm.

2. Maintain adequate insurance

(a) It is important to maintain adequate insurance to cover the practitioner and also the firm.

(b) If the practitioner has partners, it is prudent to ensure that the firm has adequate insurance to cover each partner and to provide the funds to pay out the estate for the partner's share of the firm in the event of their death.

(c) The prudent practitioner will insure their key human assets just as they do their physical assets.

(d) Important insurance coverage to hold includes:

- "Key person" insurance;
- Partnership/shareholder insurance (this provides for payment to the survivors of the partner); and
- Business equity insurance (it is important that the business equity insurance policy is supported by a "buy/sell agreement," as discussed below).

3. Ensure there is a valid "buy/sell agreement"

(a) If there are partners in the firm, it is important to ensure there is a valid "buy/sell agreement." This outlines the terms and conditions agreed upon between the partners for the purchase or sale of their share in the firm.

- Ensure legally drawn buy/sell agreement has been prepared; and
- Confirm it has been reconciled with the partnership/shareholder coverage to ensure there is no shortfall.

4. Inform bankers and suppliers

(a) It is important to consider beforehand what might be the reaction of bankers, other lenders and suppliers to the death or incapacitation of the practitioner.

- Would they be prepared to continue with their financial arrangements, or would they call up their debt?
- Does the business have sufficient financial reserves to cover this situation?

5. Ensure adequate training of staff

(a) Appropriate training should be provided to staff in the key areas of management and the operation of the firm so that it is not totally dependent on the practitioner.

6. Ensure procedures manual written and maintained

(a) It is vital to the ongoing operation of the firm that a procedures manual has been prepared which fully documents the procedures, processes and operations of the practice.

(b) This means the firm is able to continue to operate during the death or incapacitation of the practitioner until certainty as to its future is known.

(c) The procedures manual also becomes a key document in any valuation process which is undertaken, as it tends to add value to the firm by reducing reliance on the practitioner.

7. Ensure job descriptions are completed

(a) It is important that job descriptions have been completed for all roles within the firm and that each staff member is clear on the tasks they are to perform.

8. Undertake regular staff appraisals

(a) Regular staff appraisals allow staff to stay informed of their progress and development within the firm and also provides the practitioner with the opportunity to provide feedback on their performance.

(b) It also provides the practitioner the opportunity to advise the staff member of the steps that should be taken if the practitioner were to die or become incapacitated.

9. Partnership issues

(a) If there are partners within the firm, it is important they clarify what will happen in the event of either their death or their incapacitation.

10. Other business relationships

(a) It is important to understand whether the untimely death or incapacitation of the practitioner or partner would unduly affect any other business relationship that the firm has.

Table 7.19 Checklist of risk mitigation strategies

	Risk	Questions to Ask
1.	Document sensitive firm information	Is the following information documented and in safe keeping: 1. Client's agreements and arrangements; 2. Employees' agreements and arrangements; 3. Suppliers' agreements and arrangements; 4. Personal guarantees provided and to whom; 5. Bank and finance arrangements; 6. Lawyer's name and contact details; 7. Intellectual property residing within or developed by the firm; 8. Recommendations for ongoing management of the firm.
2.	Maintain adequate insurance	Is the following insurance held: 1. Key man insurance? 2. Partnership/shareholder insurance? 3. Business equity insurance?
3.	"Buy/sell agreement"	1. Has a legally drawn buy/sell agreement been prepared? 2. Has this been reconciled with the partnership/shareholder insurance?
4.	Bankers and suppliers	1. Are they prepared to continue with their financial arrangements or would they call up their debt? 2. Does the firm have sufficient financial reserves to cover this situation?
5.	Staff training	1. Have staff been trained in management and the operation of the firm?
6.	Procedures manual	1. Has a Procedures Manual been prepared? 2. Is it maintained and kept current?
7.	Job descriptions	1. Have job descriptions been prepared?
8.	Staff appraisals	1. Are regular staff appraisals held? 2. What is their format?
9.	Partnership issues	1. If there are partners within the firm, have they clarified what will happen in the event either of their death or their incapacitation?
10.	Other business relationships	1. Would the death or incapacitation of the practitioner unduly affect any other business relationship the firm has? 2. Are documented succession planning or continuity plans in place?

7.7 Liability and Insurance within Your Firm

This module has focused on the topic of risk management and discussed strategies to manage or mitigate that risk. You can eliminate some of these risks; however, many risks you have to manage and, over time, try to reduce.

Practitioners in public practice should consider insurance as an important component of their overall risk management strategy. In the process of managing their business risks, practitioners will identify certain risk exposures that could have a significant impact on their firm. As discussed throughout this module, the approach to take is to identify the risk, quantify the risk, and treat the risk.

However, when you reach the conclusion that a risk is too great to hold, the option is to transfer the risk. Insurance is one of the oldest forms of risk transfer, and professional indemnity insurance is a mandatory requirement for members of some professional bodies and regulators.

For the practitioner, there are many different types of insurance that can provide protection now and in the future. It is important to choose the most appropriate form of insurance to suit your circumstances. To do this, you will need to understand your position and the level of exposure and liability you may be facing.

For most types of insurance coverage, an insurance broker will act as your representative. The broker will approach the underwriting market on your behalf. Accordingly, it is important to have confidence in your broker's ability to know your profession, understand your risk profile and convey it correctly to the underwriters. It is also important that your insurance broker meets the appropriate licensing requirements for your geographical location.

Your broker should have not only a good understanding of your profession but also a solid grounding in insurance law. It is useful for you to understand the underwriter and qualitative policy issues, such as their experience in the profession and how suitable the coverage is. It is important to determine whether the underwriter is prepared to provide assistance to reduce your risk.

7.7.1 Professional Indemnity Insurance

Professional indemnity protects a practitioner against their legal liability toward third parties for injury, loss or damage arising from their professional negligence or that of their employees.

Levels of coverage can vary greatly from insurer to insurer. Among the issues you need to consider are the extent of the coverage, applicable excess, retroactive date, geographical coverage and exclusions. You should also be clear on what is included in the insurance coverage you are taking on.

7.7.1a Coverage for all of Your Work

You must be fully informed of any restrictions, limitations or exclusions on policies that can affect the coverage you have for your activities. Where possible, you should obtain written confirmation of the coverage provided for the areas of work you are doing. Examples of these activities, subject to jurisdictional regulations, include:

- Audit work;
- Investment advice;
- Pension planning;
- Eldercare services;
- Mortgage/finance broking;
- Insolvency;

- Mergers and acquisitions;
- Buying or selling businesses;
- Migration;
- Work for deceased estates; and
- Insurance and risk management advice.

7.7.1b Other Issues to Consider

1. Identifying your risks

It is important to fully disclose all the facts concerning your risk profile when you apply for professional indemnity insurance coverage. The proposal form plays a critical role in helping the insurer understand this.

The majority of professional indemnity insurances are not renewable contracts, which means the policy will terminate on the expiration date. Accordingly, you will need to submit a new proposal form for coverage before the current policy expires. The information you provide in the proposal gives the underwriter the information they need for their quote and the basis for their position.

2. Reinstatements of the limit of indemnity

Unlike other forms of liability policy, the sum insured by the professional indemnity policy typically is limited, so that the limit applies to the aggregate of all claims against the policy during the policy period. An automatic reinstatement allows this aggregate limit to be increased for the number of reinstatements specified in the policy, while the limit for any one claim remains the limit of the sum insured. As this may vary from policy to policy, it is preferable to have unlimited reinstatement of the limit of indemnity.

3. Retroactive date

The retroactive date is the date after which acts, errors or omissions of the insured are covered. Any act, error or omission arising from work done after the retroactive date will be covered under the policy. The inception date is the start of the policy period.

Any limitation on your retroactive coverage could affect coverage for some or all of the work you may have done in the past. Carefully consider the impact of any such limitation.

4. Coverage for past firms or business

Check whether your policy covers you for claims made in connection with a previous firm or other business.

5. Extensions to standard coverage

Extensions likely to be available include:

- Libel and slander;
- Loss of documents;
- Dishonesty;
- Fidelity;
- Outgoing and/or incoming partners; and
- Inquiry costs and complaints resolution services.

Some of these extensions may be automatic if the policy provides coverage for any civil liability. It may be worthwhile checking to see if any other extensions are offered.

6. Run-off coverage

Run-off is a term used by the insurance industry to describe how a firm will reduce (or “run-off”) its liability to its clients after it has ceased operating. It is simply a professional indemnity policy that provides limited coverage (that is, coverage limited to work done prior to the date the firm closed).

Professional indemnity insurance is underwritten on a “claims made” basis. A firm is therefore only covered against claims that may be made against it for work it performed while operating, for as long as that firm maintains insurance protection.

Run-off coverage can only be provided to a firm that is no longer operating. Such a firm may be closed because the partner(s) has retired or following the sale of the business to another firm.

There is no limitation on your liability to your clients and therefore no limitation on the period of time for which the insurance needs to be continued. Coverage simply needs to be continued until the firm’s partners feel satisfied that there is no longer any likelihood of problems with their work.

7.7.2 Other Types of Insurance to Consider

The following types of insurance may be worth considering for your firm. However, be aware that different insurances and requirements may apply in your local jurisdiction. This information is provided for guidance purposes only.

1. Business interruption or loss of profit insurance

This type of insurance covers the firm for interruption due to damage to property by fire or other insured perils. The coverage should ensure that ongoing expenses are met and that anticipated net profit is maintained through a provision of cash flow.

2. Building and contents insurance

This insurance should cover the building premises and contents of the firm, as well as contents and stock, against loss due to a number of circumstances.

3. Public liability insurance

Public liability insurance should cover the owner and business against the financial risk of being found liable to a third party for death or injury, loss or damage of property, or economic loss resulting from the firm or practitioner’s negligence.

4. Key person insurance

This type of insurance should help cover the loss of a key member of staff.

5. Personal accident and illness insurance

This insurance is important for practitioners to cover their own positions as self-employed operators, subject to local and jurisdictional requirements.

6. Burglary and theft coverage

Firm and business assets should be protected against burglary by this type of insurance. This may also be covered under property contents insurance.

7. Fidelity guarantee

Losses resulting from misappropriation by employees who embezzle or steal should be covered by this insurance.

8. Plant and equipment/machinery breakdown insurance

This insurance should protect the firm against plant and equipment and machinery breakdown—this is important where there is high dependence on computer hardware. These items may also be covered under property contents insurance, but it is worth checking the specific policy.

7.8 Conclusion

This module has discussed the issue of risk management and the specific impact it has on accounting firm life. It has provided a framework for identifying, evaluating and acting on risks you identified within your firm.

It also discussed the ethical issues you must be aware of in a firm and discussed the safeguards that can be put in place to help you deal with ethics threats. The module went on to discuss quality control processes and the important role they can play in managing the firm's risks. It then covered business continuity planning and included strategies on how to deal with the death or incapacity of the practitioner.

The module finished with a discussion on liability and insurance within your firm and reviewed the types of insurance likely to be most relevant to the practitioner. Practitioners are encouraged to be watchful and remain vigilant for all areas of risk within their firm and look for ways to reduce or eliminate those areas where their risk is at an unacceptable level.

7.9 Further Reading and IFAC Resources

The IFAC Global Knowledge Gateway is a digital hub where professional accountants can easily access thought leadership and resources from IFAC, member organizations, and other notable groups and individuals.

The Gateway Practice Management section includes additional articles, videos, and resources to complement this module. We encourage you to review the content, provide feedback, engage with contributors, and share your own insights on contemporary practice issues.

Appendix 7.1 Leadership Responsibilities for Quality Control within a Firm

ISQC 1 Paragraphs 18 and 19

In compliance with ISQC 1, the firm recognizes the importance of promoting an internal culture that recognizes quality control as essential in performing engagements. Ultimate responsibility for the firm's system of quality control has been accepted by the partner(s)/principal/managing board of partners, and as such the firm has established policies and procedures which address each of the elements of a system of quality control as described in ISQC 1.

Partner(s)/principal/managing board of directors assigns operational responsibility for the firm's system of quality control to:

(insert name/s) ____

who has/have sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility, and who has/have accepted the role.

Signed ____________________

Date ______________________

Signed ____________________

Partner ____________________

Date ______________________

Appendix 7.2 Circumstances and Relationships Requiring Notification (to Engagement Partners in the Case of Assurance Engagements)

Where an employee (or assurance team member) is aware of a relationship/association with a client, a quality-control officer needs to be notified so that appropriate action can be taken. Such relationships/associations include:

- Employment of family or friends by the client;
- Future or recent employment with client serving as officer, director or company secretary of client;
- Close business relationship with client;
- Financial interest in the client;
- Having loans and or guarantees to or from the client;
- Receiving a gift, benefit or hospitality from the client; and
- Any other association that may compromise integrity and objectivity.

Upon notification, engagement partner/partner responsible for evaluating any threats to independence and objectivity will take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards. Documentation provides evidence of how threats that have been identified have been dealt with. Below is a pro forma template for assurance practices from the IFAC *Guide to Quality Control for Small- and Medium-Sized Practices.*

Schedule A
Partner and Staff Independence

List and briefly explain the nature of all matters that to the best of your knowledge and belief might affect independence. Refer to Parts 4A and 4B of the IESBA Code when completing the list.

Each item will be reviewed by the engagement partner. Further information may be necessary to determine what action, if any, is required.

All decisions and the course of action to be followed shall be fully documented.

Description	Detail how Independence Might be Affected	Appropriate Safeguard Applied (if Applicable) and/ or other action taken to Eliminate or Reduce Threats to an Acceptable Level

Appendix 7.3 Annual Independence Confirmation

Instructions

All team members, including partners, should complete this form to assess their compliance with the firm's independence policies and procedures. It should be completed:

- By new employees as part of the orientation process;
- At each annual employee performance review; and
- By partners annually.

Name of employee ....

Yes	No	
☐	☐	Do you have a direct or indirect material financial interest in a client or its subsidiaries/affiliates?
☐	☐	Do you have a financial interest in any major competitors, investors in or affiliates of a client?
☐	☐	Do you have any outside business relationships with a client or an officer, director or principal shareholder having the objective of financial gain?
☐	☐	Do you owe any client any amount (except as a normal customer, or in respect to a home loan under normal lending conditions)?
☐	☐	Do you have the authority to sign checks for a client?
☐	☐	Are you connected to a client as a promoter, underwriter or voting trustee, director, officer or in any capacity equivalent to a member of management or an employee?
☐	☐	Do you serve as a director, trustee, officer or employee of a client?
☐	☐	Has your spouse or dependent child been employed by a client?
☐	☐	Has anyone in your family been employed in any managerial position by a client?
☐	☐	Are any billings delinquent (high WIP) for clients that are your responsibility?

If you answered YES to any of these questions, you must detail the reason for this threat to independence on the independence resolution memorandum, together with an explanation of how the threat to independence has been eliminated or reduced to an acceptable level.

I have read the independence policy of the firm, and the IESBA's International Code of Ethics for Professional Accountants (including International Independence Standards), and I believe I understand them. I am in compliance except for the matters on the independence resolution memorandum.

Signature of employee .... Date ....

Signature of partner…... Date ....

Appendix 7.4 New Client Acceptance Checklist

Instructions

This form should be used to document the decisions to accept the client.

Warning: Practitioners are reminded that care should be taken when completing this checklist to avoid any possibility of defamation of individuals, for example, in the course of assessing their integrity.

Client ………………………………………………… Date ……………………

	Comments
Client integrity has been considered, and we do not have any information that would lead us to conclude that the client lacks integrity.	
Competent to perform engagement?	
Resources to complete on time?	
Independence considerations: Assurance engagement—independence checklist completed? Non-assurance engagement—no significant threats to independence?	
Fee level/collection issues?	
Consideration of client screening questions?	
Genuine reason for leaving previous accountant?	
Any conflicts of interest considered and threat reduced to an acceptable level?	
Ethical letter response considered?	

Record keeping and accounting system review visit scheduled Y/N

Date ………………………………………

Decision made to accept client Y/N

Review of client information on government registers
and necessary follow-up Y/N

Client engagement task checklist completed Y/N

Engagement letter sent Y/N

Add to team meeting agenda to inform staff Y/N

Prepared by …………………………………………….. Date …………………

Partner review ………………………………………….. Date …………………

Appendix 7.5 Client Engagement Procedures: Changes in Professional Appointments

Client name ……………………………………………………………… Year end ……………..

	Comments	Initials
1. Request prospective client's permission to communicate with the existing auditor. If permission is refused, decline the appointment.		
2. If permission is received, write to the existing auditor requesting all information that ought to be made available to enable the prospective auditor to decide whether or not to accept the appointment. Reasons for not accepting the appointment could include ethical and commercial reasons: outstanding fees owed to the predecessor auditor are not of themselves grounds for declining.		
3. The existing auditor must obtain the client's permission to give information to the prospective auditor. If permission is withheld, the existing auditor should inform the prospective auditor, who should decline the appointment.		
4. Communication received from predecessor auditor (can be verbal or written). Such communication must be treated in the strictest confidence, whether or not the appointment is accepted.		
5. Note any reasons given by the existing auditor as to why the appointment should be declined. The existing auditor is required to give specific reasons to the prospective auditor.		
6. If no reply is received from the existing auditor, send a follow-up request by recorded or registered delivery, stating a deadline after which it will be assumed that there are no professional reasons why the appointment should be declined.		
7. If no reply is received from previous auditor, obtain proof of resignation or valid removal from office.		
8. Type the individual's name and company name into Internet search engine. Investigate any unusual hits or reports of illegal or unethical behavior.		

Appendix 7.6 Risk Management Checklists

Identifying potential risks in a firm

a. Services performed	
☐	Have you adequately scoped the assignment, and in particular excluded areas that you are not accepting responsibility for?
☐	How do you evaluate knowledge/experience requirements for both new and ongoing work?
☐	How do you assess client expectations/intended use of reports?
☐	Is the service provided high risk? (e.g., assurance engagements undertaken or provided)
☐	Can you deliver an objective report, or does the client require subjective judgment?
b. Contract risk	
☐	How do you formally agree on the terms of engagement and any variation?
☐	Do you utilize “standard terms and conditions” for all engagements?
☐	Can your liability be capped?
☐	How do you manage “contingency fees” or performance-based remuneration?
☐	Are you precluded from holding financial interests in the client or receiving commissions?
c. Acceptance/Continuance risk	
☐	How are you formally assessing potential clients for acceptance?
☐	Why is the client changing accountants?
☐	Have any other professionals rejected the potential client?
☐	Are there early signs of disputes on the fees that are proposed to service the client?
☐	Has the client allowed sufficient time for the acceptance process to be completed?
☐	How do you evaluate retention of clients from time to time?
☐	How do you address any conflict of interest?
☐	How are you maintaining independence?
☐	Are there any concerns about a client’s viability, reputation, or management?
d. Performance risk	
☐	Do you seek the opinion of a second partner or an external “mentor”?
☐	How are you maintaining confidentiality?
☐	Are fees too low for quality work?
☐	Are you investing enough in continuing professional development for yourself and your staff?
☐	Have you complied with minimum continuing professional development requirements?

☐	What is the level of your professional indemnity insurance?
☐	Is it adequate in terms of level and policy conditions?
☐	Have you declared all services offered to the underwriter?
☐	Are you aware of the potential of a claim, and have you given notice to the underwriter during the period of insurance or on your proposal for insurance?
☐	Have you a claim for fees that could result in a client counter-claiming for negligence?
☐	What are the risks of the performance of different professionals from within the firm?
☐	Are other professionals covered by liability capping schemes?
☐	How are you engaging subcontractors/agents/consultants, and how are you indemnified in respect to their work?
☐	Have you considered skill levels, levels of insurance coverage, and is there an indemnity in place?
☐	Are you or is your advertising/promotional material deceptive or misleading as to your skill, qualifications, etc.?
☐	How have you given appropriate guidance and assistance to personnel?
☐	How have you given appropriate supervision to personnel?
☐	How have you appraised ongoing performance of personnel?
☐	Do you have appropriate inspection and review processes in place?
☐	Have the roles and responsibilities of personnel relative to risk management been defined and communicated?

Integrity

Questions to consider:

Integrity checklist

No.	Question	Comment	Date Completed
1.	Do you review client files?		
2.	How often do you review each client's files?		
3.	Do you have operational notes in client files (e.g. software, postal preferences, etc.)?		
4.	Do you have criteria for new clients and for client retention? Are they documented?		
5.	Do you use an engagement letter? To whom are they sent and how often?		
6.	Does your firm use checklists? Is there a central list of these? Who uses the checklists in the office? How often are they updated and by whom?		
7.	Do you have documented procedures such as manuals, standard letters, etc.? If so, where are they kept?		
8.	Who in the firm is the person responsible for managing the procedures of quality control to ensure all work is performed to a high quality?		

Services offered

Questions to consider:

Services offered checklist

No.	Question	Comment	Date Completed
1.	Do you know what services your firm offers? Is there a centralized list available for clients and staff?		
2.	Do you offer services that you are not qualified to offer?		
3.	Do you ensure that the services you offer are well known to the clients in the form of an engagement letter?		
4.	Are the staff members allocated to clients' work capable and trained in the relevant area?		
5.	Are the services right for your firm's profile and resources?		
6.	Do you have the resources to meet delivery of the services to be performed?		
7.	Do you have a referral network, and how do you ensure quality control for referral?		
8.	Do you outsource any part of your work, and do you ensure quality control (e.g., bookkeeping, auditing, etc.)?		

Marketing and communication

Questions to consider:

Marketing and communication checklist

No.	Question	Comment	Date Completed
1.	Do you have a marketing and/or strategic plan suitable for your firm (big or small)? If so, how is this monitored and appraised for any risks?		
2.	Is this plan documented and communicated to any or all of your staff? If so, how is this done? If not, why not?		
3.	Every firm has a culture. Have you identified your firm's culture? If so, are your staff aware of it?		
4.	Do your clients understand the culture of the firm, and, if not, do you see the need for communicating it to them?		
5.	Have you considered your competition in your marketing plan?		

Staff and human resources issues

Questions to consider:

Staff and human resources checklist

No.	Question	Comment	Date Completed
1.	Do you have staff, and have you identified each of their roles?		
2.	Do you have employee work contracts or similar for your staff? If not, it is highly recommended that you do provide each staff member with a work contract.		
3.	Have you considered your staff's security and personal safety?		
4.	Do you have an occupational health and safety policy? Is it enforced and practiced?		
5.	Does your firm have a complaint resolution policy?		
6.	Do you have a staff induction procedure?		
7.	How do you monitor staff performance? When is this done, and how often?		
8.	How are staff trained and updated on important office and regulatory changes?		
9.	Are your staff members properly supervised? Is their work reviewed?		
10.	If staff members give advice to clients, are you aware of the advice given? Are they covered under your professional indemnity insurance policy?		
11.	If they give advice, is it monitored and recorded for future reference?		
12.	How do you ensure that you or any of your staff are properly qualified to give the advice to the clients?		

Information and resource management

Questions to consider:

Information and resource management checklist

No.	Question	Comment	Date Completed
1.	Identify/describe any electronic medium you use to communicate with government regulators or any other government body you interact with.		
2.	Identify how you take reasonable care when advising clients and interacting with the various legislative requirements.		
3.	How do you keep up-to-date with all the latest changes that may affect your firm and that of your clients? How do you keep your staff informed?		
4.	What steps do you take to ensure that you are not professionally negligent?		
5.	Where do you obtain your information and resources that you rely on? Are your information sources reliable? Do they support your obligation to take reasonable care?		
6.	Do you know what your obligations are with regard to professionalism?		
7.	Do you and your staff comply with continuing professional development requirements? How do you keep up-to-date? How is this monitored?		

Regulatory obligations

Questions to consider:

Regulatory obligations checklist

No.	Question	Comment	Date Completed
1.	What is your procedure for filing of your firm's forms with all government and regulatory bodies?		
2.	Do you have a client list? Do you know what role you play for each client?		
3.	Do you monitor your client list according to the filing and reporting program?		
4.	In regard to workflow for your firm, do you know what is to be completed and the current status of each job at any given point in time? How do you do this?		
5.	Do you communicate with your clients regarding their filing and reporting obligations, and your work flow?		
6.	Do you measure your filing and reporting performance? How do you do this?		
7.	Do you identify any risks associated with late filing and penalties? Do you communicate with your clients once any risks are identified?		

Information technology and security

Questions to consider:

Information technology and security checklist

No.	Question	Comment	Date Completed
1.	How secure is your hardware, software, and any information that is stored electronically?		
2.	Is all your software licensed? If not, have you considered the risks to your firm?		
3.	How do you guard your firm against pirating/copying of your software?		
4.	Backups: What backup plans do you have in place? Do you know whether your backup restores successfully? Do you test your backups? Who is responsible for this function in your firm? Where is this process documented?		
5.	Internet: What virus protection (if any) do you have? How frequently is this updated? What policies do you have regarding information downloads that are inappropriate? Is this documented? Do you have a firewall? Do you have anti-spam software?		
6.	Emails: Do you have policies and procedures to manage the email use of your staff? Do you have a disclaimer outlining the “limited liability scheme” and the “privacy statement” where applicable?		
7.	Do you have immediate assistance or technical specialists on hand, or easily available, if you suffer computer or software failure?		

Management collapse—succession planning

Questions to consider:

Management collapse—succession planning checklist

No.	Question	Comment	Date Completed
1.	Who is the principal/main partner of the firm? Does the same person have the responsibility for office management? If not, who has that responsibility?		
2.	Is there anyone else in the firm who can manage this responsibility in the event that the primary person becomes unable to?		
3.	What backup arrangements are in place if the principal person is unable to carry on?		
4.	If you are a sole trader, have you considered what possibilities could put you out of action for an extended period of time?		
5.	Do you have any plans for when your staff are sick for extended periods of time?		
6.	Do you have contingency plans for your firm in the case of fire, flood or other disaster?		
7.	Regarding delegation, are there any areas of practice which only one person is familiar with? Consideration should be given to cross-training of staff, so the firm has at least two people who know each particular job.		

Acceptance or continuance of clients

Questions to consider:

Acceptance or continuance of client's checklist

No.	Question	Comment	Date Completed
1.	How often do you review your clients and whether they meet your acceptance criteria?		
2.	Do you evaluate retention of clients from time to time?		
3.	Do you note any client disputes that could potentially lead to a professional indemnity issue? Do you then inform your insurance company?		
4.	Have you ensured that your objectivity and integrity are not jeopardized?		
5.	How are you maintaining client confidentiality?		

Cash flow management

Questions to consider:

Cash flow management checklist

No.	Question	Comment	Date Completed
1.	Do you have a credit management policy? Who is responsible for this in your firm?		
2.	Do you have contingency plans to cover you in a deficit cash flow position?		
3.	Do you have sufficient working capital to sustain your firm, now and in the future?		
4.	Is your business trading in a solvent position?		

Succession Planning

Module 8

CONTENTS

8.1 Introduction

As professional accountants grow older, their thoughts inevitably turn to their exit—not only from the firm, but from practicing accountancy altogether. As they consider their departure from business life, they wonder if the firm they have built up will have value in someone else's eyes.

It has provided them with an income stream over the years, and allowed them to serve the community. They have built relationships with clients over this time, helped them, served them and supported them. Yet the question remains, will the firm be worth anything to anyone else? And if so, how much and to whom?

A succession plan allows for the orderly exit of the practitioner. This means it is not left to chance, and there is a plan in place. This gives a degree of comfort to those involved, particularly staff.

This module considers these questions and many more. Its objective is to assist you in coming to terms with the issues you need to consider and to help you get "succession-ready."

8.2 Succession Planning for the Sole Practitioner

The number of issues currently facing the profession has been well documented and covered in previous modules. These include:

- The aging of the profession;
- Trouble attracting and retaining staff;
- Compliance and regulatory pressures;
- Time pressures on sole practitioners; and
- Client requirements at a high level, which means practitioners have little time to focus on their succession plan requirements.

In addition, a large percentage of accounting firms are one- to two-partner firms. This is what the practitioners wanted, but many sole practitioners will need to consider taking on partners as part of their succession plan. Many will find this difficult, as they will have been on their own for many years. This may seem contrary to the whole philosophy of operating as a sole practitioner.

If anything, this highlights the fact that the sooner the succession plan is underway, the sooner these issues can be dealt with.

This module provides checklists and resources to assist in this process. In this module, the term "succession planning" is used essentially in the context of firm exit.

8.3 Developing Your Succession Plan

One of the most common questions asked by practitioners as they begin to consider succession planning is, "Will someone pay me for this firm?" The answer is usually "Yes," but the answer to the question, "How much?" depends on a number of factors.

8.3.1 Understanding Your Firm

One of the best ways to enhance the value you realize on exit is to plan for it in a structured manner. Table 8.1 sets out pertinent considerations for those thinking of retiring. The answers to these questions will help you determine the approach you should take with your succession, and also help you assess which of the potential options you should consider.

Table 8.1 Understanding you and your firm better

	Question	Response/Action
1.	What options do I have?	
2.	What needs to be done to make it all happen?	
3.	What would I like to see happen to my clients?	
4.	What would I like to see happen to my staff?	
5.	What restraints of trade will I find acceptable?	
6.	When should I start talking to potential purchasers/ partners?	
7.	How much do I think my firm is worth?	
8.	How much is my firm really worth?	
9.	How much money do I want to exit with?	
10.	Do I enjoy working with others, or prefer working on my own?	
11.	How long will I need to stay involved in the firm after I sell my interest?	
12.	Whom should I start talking to about buying my interest?	
13.	Are any of my staff potential purchasers?	
14.	How profitable is my firm?	
15.	What systems, procedures and processes do I need to put in place to enhance the performance of my firm?	
16.	Would my firm represent a worthwhile investment to someone else?	

Once you have answered these questions, you need to review the rest of this module to gain an understanding of the succession options available. This module discusses eight such options in detail. At least one of these will stand out to you as the preferred option. You should plan to position your firm in such a way as to maximize the return you can achieve by pursuing that option.

8.3.2 *Your Future Purchaser*

Whichever option you choose, if you plan to sell one day, you must always be mindful of your future purchaser. Your future purchaser will need to have the following questions satisfied:

- Is this a good investment?
- Will it provide me with a good return on my investment?
- Does it represent good value?

The first step in succession planning is to get your firm "succession-ready." The best way to do this is to consider the questions a potential purchaser, or future partner will ask. You should then develop your firm in such a manner as to be able to give strong, positive answers to these questions.

A purchaser will typically assess their purchase against the criteria shown in Table 8.2.

Table 8.2 Purchaser considerations

Area	Level	Analysis	Response
Fees	History of fee levels	What have fees been over the last one, three, and five years?	
		Calculate and assess growth over these years.	
	Maintainability of fees	Will fees be maintained?	
		Is there evidence of sustainable cash flows?	
		What evidence exists to support this?	
	Impact of non-recurring fees	Identify non-recurring fees.	
		Assess impact on expected future maintainable fees.	
Profitability	History of profits	Identify profits over last one, three, and five years.	
	Maintainability of profits	Will profit levels be maintained?	
		What impact will the succession event have on profits?	
	Impact of non-recurring fees on profits	Identify non-recurring profit component.	
		Assess as to impact on recurring profit.	
	"Add backs" of non-operating expenses	Identify non-business expenses.	
		Add back non-operating expenses to assess operating profitability from a business perspective.	
		Items may include excessive wages to owner, travel and accommodation, utilities.	
		Assess normalized profit against purchase criteria.	
Debtors	Debtors position	Review debtors.	
		Review and assess bad debts.	
		What are current levels of bad debt write-offs?	
		What are expectations for future?	

Area	Level	Analysis	Response
	Debtors control process	Identify current debtors control process.	
		Identify collections history.	
		Assess effectiveness.	Adjust as appropriate.
Work in progress (WIP)	WIP position	Review WIP.	
		Assess WIP and likelihood of converting to fees and collection.	
		What are current levels of write-offs and expectations for future?	
	WIP control process	Identify current WIP control process.	
		Assess effectiveness	Adjust as appropriate.
Client base	Stability of client base	Assess client numbers over last three years.	
		Check number of clients acquired over last three years.	
		Check number of clients lost over last three years.	
	Spread of clients	Check spread of clients across industry sectors.	
		Check size of clients; that is, turnover, number of employees, etc.	
	Age of business owners in client base	Check age of business owners in client base. If close to retirement age, this will likely have an impact on future earnings of firm.	
Dependency	Clients	Check for dependence on any one client, or few clients.	
	Industry	Check for dependence on any one industry, or few industries.	
	Practitioner	Check for dependence on existing practitioner, from both clients and staff.	
Staff	Quality of existing staff	Assess for competence and ability.	
		Assess qualifications and experience.	
		Review and assess billings history.	
Systems	Internal infrastructure	Assess internal infrastructure, processes, systems, quality control procedures.	

Area	Level	Analysis	Response
Compliance	Government regulator	Identify any outstanding issues.	
		Assess impact on new owners.	
	Government tax department	Identify any outstanding issues.	
		Assess as to impact on new owners.	
Weighting	Value of top five clients as percent of fee base	Identify top five clients.	
		Determine their fees.	
		Total these and calculate as a percentage of fee base.	
Transition	Handover process	What is the “handover” process?	
		How long is vendor prepared to stay for handover?	
		Look for planned approach, which should include:	
		Strategy for handover;	
		Strategy for communicating with key clients, e.g. meetings to be held with each;	
		Communication strategy for balance of client base;	
		Strategy for communicating with existing staff, e.g., team meeting; and	
		Training on systems and procedures.	
	Restraint	Assess restraint of trade conditions.	
		Assess non-compete issues.	
	Ethical	Assess as to existence of ethical issues within client base which may impact on ethical position of firm.	

8.3.3 Succession Plan

Whichever succession option you choose, your firm may need to improve its financial position to be a more attractive investment option for potential purchasers.

There are typically a number of key areas in which a firm can improve and which will have a positive impact on financial performance. It is important that these improvements have been implemented and are ingrained in the firm before putting the firm up for sale.

Key areas for firm assessment include:

- Revenues;
- Profitability;

- Liquidity;
- Debtor control;
- Work in progress control; and
- Growth.

Other modules discuss approaches to improving these areas.

8.4 Selecting Your Succession Option

It is important to consider which succession option is most naturally attractive to you and which you think will maximize your final settlement amount. There are three to choose from.

- The first is joining with others and becoming larger. This ensures you have others who are in a position to buy you out. These options are covered in Section 8.6, and include partnership, consolidation, and merger alternatives.
- The second is selling off the firm, whether in total, or selling a fee parcel at a time, or on a progressive sell-down basis. These options are considered in Section 8.7.
- The third is a series of internal options, which are covered in Section 8.8 and include internal succession, the introduction of new partners and sale to existing partners.

Each option is quite distinct and brings its own set of considerations. As Table 8.3 shows, a number of issues apply to each.

Table 8.3 Issues to consider when selecting your succession option

	Issue	Comment	Response
1.	Planning	Set date for completion. Discuss with key stakeholders. Identify checklists to complete.	
2.	Taxation	Consider tax implications of alternative options. Identify any reorganization of entity structures required. Put in place new structures within time frame requirements.	
3.	Funding	Consider funding requirements for your exit. Organize financial arrangements as required. Introduce topic of funding early in discussions with potential purchasers to ensure capacity.	
4.	Exit	Consider full impact of your exit from the firm. Consider strategies to ensure minimal disruption to ongoing firm performance. Implement strategies to ensure effective handover on your final exit.	

8.5 Valuation Methodologies

8.5.1 Introduction

The valuation of your firm is an important step in your succession plan. If one of your objectives is to maximize the amount you receive at settlement when you leave, you should focus on ensuring that this valuation is as high as possible. By understanding the component parts of the valuation methodology, you can concentrate on those areas that need to improve.

It is well established that valuation is more of an art than an exact science, albeit with sound methodology behind it. It is also important to be clear on the definition of the actual valuation. The technical definition would be, "The fair market value is the price that would be negotiated in an open market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller dealing at arm's length." This would correctly establish the fair market value, but may be different from the amount which is finally paid.

There can be many reasons for this, including external factors beyond the control of the parties. These would include factors such as the economic climate, interest rates and the supply and demand of firms for sale at that particular time.

It may also include other factors over which the parties do have control, such as the state of readiness the firm is in at the time of sale, the internal systems and procedures, the level and capability of staff, or the financial position of either the vendor or purchaser.

Value is usually a function of profitability multiplied by a "multiple," where the multiple takes into account growth prospects, risk, quality of earnings, and other factors discussed throughout this module. However, it is also wise to consider the synergistic benefits available to potential purchasers. This could be the elimination of a competitor, opening a new market, or adding fees to an existing cost base.

To maximize value, it is important to recognize such factors and incorporate them into your strategy for the future sale of the firm. At the same time, it is important to acknowledge the areas over which you do have control, and put strategies in place to improve these.

It may take a number of years for these strategies to have an impact on the value of the firm, which highlights the need to start the succession process early.

8.5.2 Valuation Methods

The traditional methods used in business valuation include:

- Capitalization of future maintainable earnings;
    - value is based on expected future earnings, relative to the risk return expected, where a capitalization rate, or multiple, is applied against an estimate of future maintainable earnings,
- Rule of thumb, or industry method;
    - value is based on an "industry standard" applied to each firm, with the value expressed in terms of a multiplier, or cents in the dollar.
- Net book value;
    - value is simply based on the net book value of the assets of the firm.
- Discounted cash flow
    - value is based on estimated future cash flows discounted to give their present values, where the discount rate used reflects the risk of the expected future.

The most commonly used method is the capitalization of future maintainable earnings method, followed by the rule of thumb method. Where partnership agreements are in place, the agreement would normally nominate the valuation formula to be applied and identify certain key components, such as number of years' earnings to be included and capitalization rate to be used.

8.5.3 Capitalization of Future Maintainable Earnings

This is a widely used method for valuing accounting firms.

This methodology seeks to determine the current value based on expected future earnings, relative to the risk return expected.

There are two key elements in this model.

The *capitalization rate* is the rate that will be applied to the earnings to determine the value. It is essentially an application of the price/earnings ratio. It is not a precise figure that can be applied universally, as each situation will be different. However, it is often within a range that takes into account the particular circumstances of a case.

Future maintainable earnings is an estimate of the earnings the firm will generate on a maintainable basis into the future. Earnings from the recent past are taken as a guide. Traditional accounting firms with a strong audit or compliance base tend to have a high level of recurring income. This provides them with strong earnings potential, as their clients come back year after year.

Other factors that will impact earnings need to be taken into account, such as the loss of a key client, or the introduction of new services. Also, non-recurring income is identified and removed from the calculation.

This approach can be expressed as a formula:

$$\text{Valuation} \quad = \quad \frac{\text{Future maintainable earnings}}{\text{Capitalization rate}}$$

8.5.3a Capitalization Rate

The capitalization rate is essentially the return on investment that the valuer expects from that particular investment. Factors to consider include:

- The current "risk free" rate of return available in the market, usually the government bond rate;
- Bank interest rates;
- Price earnings ratios of publicly listed shares;
- Ability to re-sell the firm, supply of ready buyers;
- Industry and business risks;
- Length of time the firm has been operating;
- Impact of technology on the firm;
- Where the firm is in its business life cycle;
- Dependency on clients, staff, or practitioner;
- Impact of any regulation changes; and
- Comparative rate used in comparative firm sales.

The starting point is the risk-free rate, which is then adjusted according to consideration of factors influencing the rate, such as those listed above. A common way to express the capitalization rate is to invert it and refer to it as the "multiple." That is, 1/Capitalization Rate is the multiplier.

8.5.3b Discounted Cash Flow

Discounted cash flow is a valuation approach that determines what someone is willing to pay today in order to receive the anticipated cash flow in future years. Essentially it means converting future earnings into today's money. The future cash flows are discounted in order to express their present values to properly determine the value of the investment under consideration.

The discounted cash flow or DCF approach describes a method of valuing an investment using the concepts of the time value of money. All future cash flows are estimated and discounted to give their present values. The discount rate used is generally the appropriate weighted average cost of capital that reflect the risk of the expected future cash flows. The discount rate reflects two things:

- The time value of money. Investors would rather have cash immediately than have to wait; therefore, they must be compensated by paying for the delay.
- The risk premium. This reflects the extra return investors demand because they want to be compensated for the risk that the cash flow might not materialize after all.

The DCF for the purchase of an accounting firm is calculated by estimating the investment you will have to make at the start and the return you think you will receive. The timing for when you expect to receive the payments also needs to be estimated. Each transaction then needs to be discounted by the opportunity cost of capital over time between now and when you expect to receive the return on your investments.

8.5.4 Rule of Thumb

The rule of thumb valuation method applies an "industry standard" to each business within that industry. It is typically expressed in terms of a multiplier, or cents in the dollar. It is applied to either the net earnings of the business, that is, earnings before interest and tax (EBIT), or to its turnover.

For instance, accounting firms may apply a certain level of cents in the dollar to their gross fees. This valuation method is popular for smaller firms, where other factors affect the valuation decision. Likely purchasers of fees at this level are sole practitioners looking to enter business at a low fee level. Essentially, they want to "buy a job," and are prepared to pay a higher price for the fees than the price point at which traditional methods would value them.

If there is a high reliance on low-value work, such as income tax return preparation, they tend to be toward the lower end of this price range. If there is a strong recurring base of business client work, it tends to be at the higher end of the price range.

The main drawback to adopting the rule of thumb approach is that it assumes all firms are run and managed in the same way. It assumes clients interact the same way and pay their bills in similar ways, and the cost structure of the firm is the same. Clearly this will not be the case, but even so, this method is fairly widely used. The main reason is its simplicity; it is also widely understood.

8.5.5 Net Book Value

The net book value valuation method is used where there is unreliable profit and loss information or where the business being valued is trading at a loss. If it is trading at a loss, the future maintainable earning method cannot be applied.

This method may be appropriate in situations where vendor and purchaser agree that there is some value in the firm but that this will not be realized from future earnings. The value is essentially held in the balance sheet, and both parties agree to accept that as the starting point. It is mostly used in those situations where the firm is asset rich but earnings poor.

In such situations, it is advisable to engage an independent valuer for the assets of the business, because the assets are likely to be stated at historic cost value, and depreciation is likely to be charged at tax rates, not useful life. The written-down book value may be quite different from the market value in such cases.

8.6 Options for Partnerships, Consolidations, Mergers, and Acquisitions

One succession pathway is to join others and become larger. This may allow the practitioner to become a more attractive investment target, or provide a ready pool of fellow partners who are in a position to buy out the practitioner. There are a number of structures to consider.

1. Partnership

Two or more people carry on business in common with a view to a profit. Rules relating to partnerships include joint ownership, participation in gross returns, sharing of profits and losses, and the exercise of partners' rights. One of the key issues in a partnership is joint and several liabilities of all partners; this will be subject to your country's laws or professional regulations.

2. Consolidation

A larger company purchases a number of smaller firms and "consolidates" them into one larger entity, seeking to achieve operating efficiencies and cost savings. The consideration is usually a combination of cash and shares in the larger company. The shares in the larger company are typically held in escrow and cannot be sold until a prescribed time period has elapsed. Consolidators are typically structured in a corporate model, with external investors, board of directors, chief executive officer and management team.

3. Merger

Two firms combine to make one larger firm. It works best when the two firms are of similar size; otherwise it tends to be more of a takeover. The equity of each partner in the combined firm is typically based on the proportionate value of the fees going in.

As you can see, there is a common thread running through each of these structures: the coming together of existing businesses and structures. Note that the issues involved in working with others in joint ownership are quite different from issues relating to the sale of a firm, or the sale of fee parcels, which are covered later. As such, there are a large number of issues common to partnerships, consolidations and mergers, which need to be considered prior to the actual event.

8.6.1 Thinking About Shared Ownership

For many sole practitioners, the idea of sharing the ownership of their firm is contrary to the philosophy of their professional careers. Some may have been involved in or worked in partnerships previously and decided it was not for them. Others may simply have decided to be on their own from the start. One thing is certain: being involved in a partnership, consolidation or merged firm is distinctly different from being a sole practitioner.

Accordingly, prior to becoming involved in such structures, the practitioner should self-assess their aptitude and carefully consider the questions in Table 8.4.

Table 8.4 Self-assessment questionnaire for those considering partnership, consolidation or merger

	Question	Response Comment
1.	Do I really want to share decision-making, control, and profits with others?	
2.	What am I really getting myself involved in?	
3.	Do I want to share ownership of the firm?	
4.	Does the upside of shared ownership outweigh the downside?	
5.	Can I trust my partners?	
6.	Will they work as hard as I do?	
7.	How much money will I make?	
8.	Will I make more in the new structure, or less?	
9.	What are the key reasons I am doing this?	
10.	Have I considered the advantages and disadvantages of each? What are they?	

If you have decided that this is the most suitable succession pathway, it is important to consider each option in greater detail.

8.6.2 Partnership/Merger

In the context of succession, there are two important steps in the partnership or merger process. The first is the challenge of the partnership or merger itself. The second is the exit of the practitioner. Remember that the main reason for choosing this option is to enable your exit from the firm.

It is important that all partners have a clear understanding of this from the outset and clear expectations. It is essential that the partnership agreement takes this into account and documents how and when the exit is to occur. The partnership agreement should also deal with valuation issues. The value on exit is typically determined by the value of the partnership or the merged firm, unless prior agreement has been reached among the partners.

There are a number of advantages and disadvantages of partnerships and mergers.

Advantages

- Expected economies of scale;
- Broadening of experience and skill base within firm;
- Potential broadening of services offered to the market;
- Cost savings proceeding from reduction in duplication of resources;
- Broadening of knowledge pool from which firm can draw internally; and
- Larger pool of resources from which firm can pay out exiting partner.

Disadvantages

- Challenges of aligning firm cultures;
- Practitioners' sense of loss of control;
- Discomfort with shared decision-making and profit sharing; and
- Lack of enjoyment in working with partners after merger takes effect, therefore lower professional satisfaction than previous situation.

Appendix 8.1 (Partnership/merger checklist) provides a useful framework to work with as you consider these issues.

One of the key issues to remember when considering a partnership or merger is the need for compatibility between the partners of the new firm. The ability of partners to work together in a harmonious and productive manner cannot be underestimated. Many mergers never materialize because at the end of long talks the partners discover they are not meant for each other, or believe they could not work together. Even though significant time, effort and resources may have been spent on the process up to this point, it is an important conclusion to reach and may well save much grief in the future.

8.6.3 Consolidation

From a succession perspective, the consolidation model is very attractive. This is particularly the case where the consolidator is a publicly listed company. It is often a win-win situation: the practitioner wins by having a ready market of investors to purchase shares after the escrow period. The consolidator wins by ensuring the practitioner stays motivated to generate profits and facilitate a smooth transition of clients, as otherwise this will have a negative impact on share value, and hence the firm's future value.

There are a number of advantages and disadvantages to the consolidation model.

Advantages

- Ready market of investors to buy shares after escrow period;
- Larger firm infrastructure of consolidator that can benefit and assist the practitioner;
- Structured training and development program;
- Career path for staff of practitioner; and
- Large knowledge pool from which the practitioner can draw.

Disadvantages

- Challenges of aligning firm cultures;
- Practitioners may feel sense of loss of status, autonomy and control; and
- Practitioner may be uncomfortable with regular performance checks.

Appendix 8.2 (Consolidation checklist) provides a useful framework to work with as you consider the issues involved.

Objective for vendor

Your objective as a vendor is to make your firm as attractive an investment as possible. Do all you can to ensure you maximize the return you get for the investment you have made over the years. This will also let you maximize the return available to the purchaser.

Action plan

As you review the above list, you may think of improvements you can implement immediately in your firm to start getting succession-ready.

8.7 Sale of Firm, Fee Parcel or Progressive Sell-Down

8.7.1 Sale of Firm

Sale of firm is the most common succession option. This is where the whole firm is sold to a new purchaser. Potential purchasers who consider the purchase of an existing firm an attractive option include:

- First-time entrants to public practice;
- Employees from another public firm looking to go into business on their own;
- An employee or employees from your own firm;
- Another firm of smaller or similar size looking to increase their critical mass and achieve economies of scale; and
- A larger firm looking to increase its fee base, and/or looking for geographic presence.

In a sale to an existing staff member, it is likely that they will continue to operate the firm in much the same way initially, with only minor changes. Other improvements are likely to be introduced on a staged, progressive basis, particularly if you are still involved in the firm and the new owners do not wish to disturb you.

A larger firm is unlikely to seek your infrastructure or systems. It is more likely they want your client base and recurring income stream. They will probably also be interested in your staff who have client relationships and institutional knowledge and history.

As part of their due diligence, most purchasers will consider issues such as those raised in Table 8.2, earlier in this module. You should ensure your firm has been developed in such a way as to give strong, positive answers to these types of questions.

Typically the purchaser wants the business assets, not the existing business structure. This includes plant, equipment and goodwill. The debtors, work in progress and creditors are usually retained by the vendor.

The sale of a firm has advantages and disadvantages for the vendor.

Advantages

- Ongoing commitment to firm ceases once handover period and agreed obligations are met;
- Once the money is banked, the transaction is over, and the vendor's involvement ends;
- There is a certain amount of professional satisfaction for the vendor in knowing that they ran a business of sufficient value to be saleable; and
- Sense of finality, knowing the transaction is complete.

Disadvantages

- Once sale is complete and professional involvement ceases, it may take some time for vendor to adjust; and Appendix 8.3 (Sale of firm checklist) provides a useful framework to work with as you consider these issues.

Objective for vendor

Your objective as a vendor is to make your firm as attractive an investment as possible. Do all you can to ensure you maximize the return you get for the investment you have made over the years. This will also ensure you maximize the return available to the purchaser.

Action plan

As you review the above list, you may think of a number of improvements you can implement immediately in your firm to start getting succession-ready.

8.7.2 Sale of Fee Parcel

The sale of a fee parcel is more straightforward than the sale of a firm, as the fee parcel is the asset being purchased. There are typically no other assets sold or transferred at this time.

There are a number of potential purchasers who consider the purchase of a parcel of fees an attractive option:

- First-time entrants to public practice;
- An employee or employees from your own firm;
- An employee or employees from another public firm, looking to go into business on their own; and
- Another firm looking to increase their critical mass and achieve economies of scale.

The sale of a parcel of fees has advantages and disadvantages for the vendor. These include:

Advantages

- Can select which clients to parcel and sell off;
- Can continue with firm, albeit on a lesser scale;
- May allow for specialization, by selling off clients outside areas of key interest; and
- May also allow vendor to reduce other costs, as resources required to service remaining clients may not be as great.

Disadvantages

- May lose professional relationship with those clients included in parcel which is sold off; and
- Some clients may not wish to move to another accountant, which reduces the sale price accordingly. Appendix 8.4 (Sale of fee parcel checklist) provides a useful framework when you are considering these issues.

Objective for vendor

Your objective as a vendor is to make your parcel of fees as attractive an investment as possible. Do all you can to ensure you maximize the return you get for the investment you have made over the years. This will also ensure you maximize the return available to the purchaser.

Action plan

As you review the above list, you may think of improvements you can implement immediately in your firm to help you get succession-ready.

8.7.3 Progressive Sell-Down

This is where the vendor progressively sells down a percentage of his or her equity in the firm. This means that during the time of sell-down there is a partnership in place, even if it is limited to the period of the sell-down.

This option is of interest to vendor practitioners who do not wish to abruptly cease their professional careers, and who may wish to withdraw progressively, from active service.

There are a number of potential purchasers who are typically interested in this option:

- New entrants to public practice, who want to take the incremental approach to equity ownership, as their confidence and knowledge increase;
- Existing staff members, who take on greater equity as their confidence increases, and as their borrowing capacity allows; and
- Another firm, who wishes the vendor partner to stay on for an extended period to assist with client transition and handover.

Finance considerations may also be a factor.

This can be one of the most delicate and sensitive succession options, as the purchaser and vendor will need to work together for the period of sell-down. It is in the best interests of both parties to make it work; however, it can be an emotionally charged time.

Issues typically include:

- Vendor still involved, but conscious that their reign is coming to an end;
- New partners with lesser equity may want certain things to change, but the senior partner still controls the votes; and
- Vendor partner may have run the firm as a sole trader for many years, and struggles with dealing with new partners.

The progressive sell-down has advantages and disadvantages for the vendor.

Advantages

- Vendor continues to remain involved in firm;
- Allows purchaser to take up equity in incremental steps; and
- Existing partners may take up additional equity on progressive basis.

Disadvantages

- Can be an emotional time as vendor partner comes to terms with their pending departure; and
- As sell-down period may take years, all parties must ensure they can work together for the time required. Appendix 8.5 (Progressive sell-down checklist) provides a useful framework when you are considering these issues.

Objective for vendor

Your objective as vendor is to make your firm as attractive an investment as possible. Do all you can to ensure you maximize the return you get for the investment you have made over the years. This will also ensure you maximize the return available to the purchaser.

Vendors are often concerned that the interests of their clients and staff will be taken care of. This should be discussed fully with potential purchasers.

Action plan

As you review the above list, you may think of improvements you can implement immediately in your firm to help you get succession-ready.

8.8 Developing Internal Succession Plans

As discussed in Module 4, the third pathway of succession planning focuses on internal options:

- Internal succession;
- Introduction of new partners; and
- Buyout by existing partners.

8.8.1 Internal Succession

The main focus of internal succession is assisting senior staff in progressing to partnership. It is most effective when there is a deliberate strategy in place and the objective is clearly communicated.

From a succession perspective, it manages the retirement of partners through the appointment of new partners. To be successful, it requires that the firm have the following four attributes:

- Firm growth sufficient to allow for another partner;
- Recruitment of willing and capable staff;
- Development program for managers and senior staff; and
- Firm performance that is attractive to aspiring partners.

Such a process allows for succession to be handled in a managed way, and provides for the progressive handover of control of the firm, and the client base.

Advantages

- Incoming partners have familiarity with firm culture and client base;
- Staff and internal systems and procedures are well known;
- An existing business model is operational and already in place; and
- There is minimal disruption to existing clients, staff and internal arrangements, systems and procedures.

Disadvantages

- Gaining respect in new position from long-term staff; and
- Incoming partner may have limited exposure to other accounting firms.

Appendix 8.6 (Internal succession checklist) provides a useful framework when considering these issues.

Objective for vendor

Your objective as vendor is to make your firm as attractive an investment as possible. Do all you can to ensure you maximize the return you get for the investment you have made over the years. This will also ensure you maximize the return available to the purchaser.

Action plan

As you review the above list, you may think of improvements you can implement immediately in your firm to help you get succession-ready.

8.8.2 Admission of New Partners

This applies where an existing partnership is already in place. The exit of one partner will still leave one or more partners at the firm. The idea is to find a replacement partner for the retiring partner, sourced externally from business practice or commerce.

There are a number of risks associated with this strategy, mostly to do with managing the transition of the retiring partner while dealing with the introduction of an incoming partner. Once the prospective new partner has been identified and agreement has been reached, there is a higher success rate when the incoming partner commences twelve months prior to the exit of the retiring partner.

Advantages

- An existing business model is operational and already in place; and
- There is minimal disruption to existing clients, staff and internal arrangements, systems and procedures.

Disadvantages

- Issues may arise with assimilation of new partner into existing firm culture; and
- Some of the existing partners may have wanted to take up equity.

Appendix 8.7 (Admission of new partners checklist) provides a useful framework when considering these issues.

Objective for vendor

Your objective as vendor is to make your firm as attractive an investment as possible. Do all you can to ensure you maximize the return you get for the investment you have made over the years. This will also ensure you maximize the return available to the purchaser.

Action plan

As you review the above list, you may think of improvements you can implement immediately in your firm to help you get succession-ready.

8.8.3 Buyout by Existing Partners

This succession option allows for the buyout of the retiring partners by the existing and remaining partners. The remaining partners take up the shares of the retiring partner under pre-emptive rights, or under separate arrangements made between the individual partners.

Normally, existing shareholders are first offered the opportunity to take up the available shares in proportion to their existing shareholding. If there are still shares remaining after this offer, then it is left to individual negotiations between partners.

The partnership or shareholders' agreement would normally outline the process to be followed. It should also contain the valuation model and methodology to be used.

Advantages

- This is an internal negotiation, and has no impact on those outside the existing partnership;
- It provides certainty of position to all partners if the partnership agreement has taken this option into consideration;

- There is minimal disruption to existing clients, staff and internal arrangements, systems and procedures; and
- An existing business model is operational and already in place.

Disadvantages

- May cause financial stress to existing partners; and
- Ongoing reduction in total number of partners in firm, unless new partners are admitted.

Appendix 8.8 (Buyout by existing partners checklist) provides a useful framework when considering these issues.

Objective for vendor

Your objective as vendor is to make your firm as attractive an investment as possible. Do all you can to ensure you maximize the return you get for the investment you have made over the years. This will also ensure you maximize the return available to the purchaser.

Action plan

As you review the above list, you may think of improvements you can implement immediately in your firm to help you get succession-ready.

8.9 Exit Considerations

Whichever option for succession you have decided on, the day will come when you leave your firm. Such an event will undoubtedly carry with it many mixed feelings. However, you will have planned for it, and will be ready to move on.

There are a number of issues you should consider before the big day occurs.

8.9.1 Taxation Implications

Subject to your country's laws or professional regulations, your exit from your firm is likely to have several taxation consequences. For this, your last big transaction, do everything in your power to minimize the taxation impact.

Ensure that you have arranged your affairs in such a manner as to allow you to take the most advantage from the rules in place. This may involve the establishment of alternative structures. It may also require you to operate in a certain manner for a prescribed period of time. Be aware of the laws and professional regulations that govern these transactions, and strive to maximize your advantage.

8.9.2 Constraints of Trade

You will almost certainly be required to sign some form of constraint of trade when you exit your firm. This is a very common business practice. The purpose is to provide some level of certainty to the purchaser that their investment is secure.

Constraints of trade usually cover a number of key areas. They typically apply for a prescribed period of time during which you are restrained from setting up a similar business to the one you have just left. They also typically apply to a geographical distance from your previous firm. These contracts are enforceable by law if they are considered to be in line with reasonable business practice.

If the constraints are considered excessive, they can be challenged in court. The basic principle is that a restraint of trade cannot prevent you from earning a living from your skills and training. Constraints that are overbearing or enforce too much restriction will likely be considered extreme and therefore unenforceable.

8.9.3 Lifestyle Changes

Perhaps the most difficult aspect of succession is the dramatic lifestyle changes that occur after leaving a firm. Many people have worked long hours for many years. Many have foregone holidays and weekends in order to work on client matters. Work has given them meaning in life, stature in their communities, and a feeling of being wanted and needed. Many practitioners know that if it weren't for them, their clients would be in all sorts of trouble with the regulators.

And then it all stops.

The phone stops ringing, the clients stop hassling, the emails go quiet. Your former clients no longer ring you for advice, because they now deal with your successor. Most of the issues are handled, and your firm seems to be able to continue quite well without you.

You would be entitled to feel slightly upset that the world did not crash without you at the helm!

Unfortunately, many practitioners fail to move on and find new interests. They live in the past, reliving their glory days. This is not a healthy strategy.

It is important that you give as much thought to "life after firm" as you did to life in the firm. This will let you move on to the next stages of your life in full mind and spirit, able to enjoy every moment. Take the time before your exit to think of other interests you might like to explore. What are the things you always wanted to do? You might finally now have the chance to do them.

If you give this serious thought before your exit, you will be well placed to make the most of all the opportunities that come your way.

8.9.4 Compliance Issues

When you finally leave your firm, there will undoubtedly be a range of compliance issues that need to be attended to. Appendix 8.9 (Compliance issues checklist) provides some guidance as to the areas you may need to attend to.

8.10 Conclusion

This module has covered many of the areas you should consider when making your succession plan. As it is likely to be one of the most significant occasions in your practice life, it is of great importance that you plan for it very carefully. This final chapter sets out the options that are available to you and suggests ways to organize your path toward retirement from the firm.

The various firm valuation methodologies are discussed, together with a consideration of internal and external strategies to think about. The Appendices provide a number of checklists that can be used according to the succession option you decide on, to help you take all the relevant issues into account.

The module ends with a discussion of steps to be considered as part of your eventual exit from the firm. If these steps are followed, they should ensure that the succession plan is well developed and in place and that you, as a retiring practitioner, can look forward to a busy and interesting time, knowing that your firm is in good hands and will continue as a profitable entity.

8.11 Further Reading and IFAC Resources

The IFAC Global Knowledge Gateway is a digital hub where professional accountants can easily access thought leadership and resources from IFAC, member organizations, and other notable groups and individuals.

The Gateway Practice Management section includes additional articles, videos, and resources to complement this module. We encourage you to review the content, provide feedback, engage with contributors, and share your own insights on contemporary practice issues.

Appendix 8.1 Partnership/Merger Checklist

	Issue	Response	Date
1.	All parties to sign confidentiality agreement.		
2.	List terms and conditions required on merger.		
3.	Agree on new entity structure.		
4.	Agree on management, dispute resolution, exit provisions, valuation formula, and capital investment.		
5.	Agree on services to be provided.		
6.	Agree on decision-making process.		
7.	Determine process for deciding on managing partner.		
8.	Develop partnership/shareholders agreement.		
9.	Determine partners' remuneration.		
10.	Determine partners' access to profits.		
11.	Agree on charge-out rates.		
12.	Agree on target client profile.		
13.	Agree on process for any existing clients outside of new client profile.		
14.	Determine time period allowed and scope of due diligence on each other's firm.		
15.	Agree on valuation of each firm's interest at time of initial merger.		
16.	Determine valuation formula and process on partner exit.		
17.	Agree on location and number of offices to be maintained.		
18.	Assess office and storage requirements.		
19.	Agree on organization chart, partner responsibilities and staff structure.		
20.	Agree on quality control systems and procedures to be used.		
21.	Determine computer hardware and software platforms to be used, including accounting, tax and firm management database.		
22.	Determine employment terms for all staff, and review salary levels for equality.		
23.	Consider any staff redundancies.		
24.	Determine working capital requirements and funding for the firm.		
25.	Agree on firm bankers.		

	Issue	Response	Date
26.	Agree on firm lawyers.		
27.	Agree on professional indemnity insurer and level coverage required.		
28.	Agree on firm name.		
29.	Provide access to historic information on client base, fees by client and fees by service range for due diligence purposes.		
30.	Agree as to whether pre-merger debtors and creditors are to be combined in new firm, or collected separately post-merger.		
31.	Agree as to whether work in progress of the firms is to be billed out prior to merger.		
32.	Instruct solicitor to commence drafting merger agreement or partner/ shareholder agreements.		
33.	Professional bodies to be advised on new entity and new registration.		
34.	Develop merger plan and timetable.		
35.	Allocate partnership/merger responsibilities.		
36.	Determine communications strategy and plan.		
37.	Determine strategy to advise clients.		
38.	Issue new employment agreements for all staff.		
39.	Agree on human resources policies and firms.		
40.	Transfer or assign existing commitments, leases, etc., to new entity.		
41.	Agree on timing of changeover.		

Appendix 8.2 Consolidation Checklist

	Issue	Response	Date
1.	All parties to sign confidentiality agreement.		
2.	List terms and conditions required on sale.		
3.	Is vendor prepared to sign restrictive covenant on final exit?		
4.	Is vendor prepared to accept period of escrow restricting sale of shares for a given time period?		
5.	Set your asking price. Be prepared to justify and validate this figure. Ensure you have applied sound valuation techniques and methodology.		
6.	Identify the systems and procedures that are in place, complete documentation as required, and confirm with staff that they work as intended.		
7.	Consider time period you are prepared to allow purchaser for due diligence.		
8.	Consider period of time you are prepared to assist with handover, client transition and training, subject to escrow period.		
9.	Make available historic information on client base, fees by client and fees by service range.		
10.	New employment agreements will need to be issued for all staff, likely to be prepared by consolidator.		
11.	Determine if responsibility for debtors and creditors pre-consolidation will be vendor's, or included in sale terms.		
12.	Determine if work in progress is to be billed out prior to settlement.		
13.	Transfer or assign existing commitments, leases, etc., to purchaser. This may include rent of premises, photocopier, hardware and software licenses.		
14.	Determine communications strategy and plan.		
15.	Decide on appropriate strategy to advise clients and staff.		
16.	Ensure client notes and files are complete and fully documented.		
17.	Ensure no client matters are unresolved.		
18.	Determine time frame for entire process to be completed.		
19.	Remember, your final payout is likely to be linked to the successful retention of clients by the purchaser. It is in your interest to do all you can to ensure a successful transition.		

Appendix 8.3 Sale of Firm Checklist

	Issue	Response	Date
1.	All parties to sign confidentiality agreement.		
2.	List terms and conditions required on sale.		
3.	Is vendor prepared to sign restrictive covenant?		
4.	Is vendor prepared to accept part of settlement as contingent on future revenue performance of the firm?		
5.	Is vendor prepared to accept “clawback” provisions, subject to agreement?		
6.	Set your asking price. Be prepared to justify and validate this figure. Ensure you have applied sound valuation techniques and methodology.		
7.	Identify the systems and procedures that are in place, complete documentation as required, and confirm with staff that they work as intended.		
8.	Consider time period you are prepared to allow purchaser for due diligence.		
9.	Consider period of time you are prepared to assist with handover, client transition and training.		
10.	Do you expect payment for your time involved with handover, client transition and training?		
11.	Make available historic information on client base, fees by client and fees by service range.		
12.	Issue new employment agreements for all staff.		
13.	Determine if responsibility for debtors and creditors will be vendor’s, or if it will be included in sale terms.		
14.	Determine if work in progress is to be billed out prior to settlement.		
15.	Transfer or assign existing commitments, leases, etc., to purchaser. This may include rent of premises, photocopier, hardware and software licenses.		
16.	Instruct solicitor to commence drafting sale contract.		
17.	Determine best method of marketing the firm for sale.		
18.	Develop sale of firm plan and timetable.		
19.	Determine communications strategy and plan.		
20.	Decide on appropriate strategy to advise clients and staff.		
21.	Ensure client notes and files are complete and fully documented.		
22.	Ensure no client matters are unresolved.		
23.	Determine time frame for entire process to be completed.		
24.	Remember, your final payout is likely to be linked to the successful retention of clients by the purchaser. It is in your interest to do all you can to ensure a successful transition.		

Appendix 8.4 Sale of Fee Parcel Checklist

	Issue	Response	Date
1.	All parties to sign confidentiality agreement.		
2.	List terms and conditions required on sale.		
3.	Is vendor prepared to sign restrictive covenant?		
4.	Is vendor prepared to accept part of settlement as contingent on future revenue of the fee parcel?		
5.	Is vendor prepared to accept “clawback” provisions, subject to agreement?		
6.	Set your asking price. Be prepared to justify and validate this figure. Ensure you have applied sound valuation techniques and methodology.		
7.	Consider time period you are prepared to allow purchaser for due diligence.		
8.	Consider period of time you are prepared to assist with handover, client transition and training.		
9.	Do you expect payment for your time involved with handover, client transition and training?		
10.	Make available historic information on client base, fees by client and fees by service range.		
11.	Instruct solicitor to commence drafting sale contract.		
12.	Determine best method of marketing the firm for sale, consider firm broker.		
13.	Develop sale of parcel of fee plan and timetable.		
14.	Decide on appropriate strategy to advise clients and staff.		
15.	Ensure relevant client notes, work papers and files are fully documented and completely handed over.		
16.	Ensure no client matters are unresolved.		
17.	Determine time frame for entire process to be completed.		
18.	Remember, your final payout is likely to be linked to the successful retention of clients by the purchaser. It is in your interest to do all you can to ensure a successful transition.		

Appendix 8.5 Progressive Sell-Down Checklist

	Issue	Response	Date
1.	All parties to sign confidentiality agreement.		
2.	List terms and conditions required on sale.		
3.	Is vendor prepared to sign restrictive covenant?		
4.	Is vendor prepared to accept part of settlement as contingent on future revenue performance of the firm?		
5.	Is vendor prepared to accept “clawback” provisions, subject to agreement?		
6.	Agree price up front. Vendor may need to justify and validate this figure.		
7.	Identify the systems and procedures that are in place, complete documentation as required, and confirm with staff that they work as intended.		
8.	Consider time period you are prepared to allow purchaser for due diligence.		
9.	Make available historic information on client base, fees by client and fees by service range.		
10.	Determine if work in progress is to be billed out prior to settlement.		
11.	Instruct solicitor to commence drafting sale contract.		
12.	Develop sale of firm plan and timetable.		
13.	Determine communications strategy and plan.		
14.	Decide on appropriate strategy to advise clients and staff.		
15.	Determine time frame for entire process to be completed.		
16.	Remember, your final payout is likely to be linked to the successful retention of clients by the purchaser. It is in your interest to do all you can to ensure a successful transition.		

Appendix 8.6 Internal Succession Checklist

	Issue	Response	Date
1.	All parties to sign confidentiality agreement.		
2.	List terms and conditions required on sale and transition of firm equity.		
3.	Is vendor prepared to sign restrictive covenant?		
4.	Is vendor prepared to accept part of settlement as contingent on future revenue performance of the firm?		
5.	Is vendor prepared to accept "clawback" provisions, subject to agreement?		
6.	Set your asking price. Be prepared to justify and validate this figure. Ensure you have applied sound valuation techniques and methodology.		
7.	Consider time period you are prepared to allow incoming partner for due diligence.		
8.	Consider period of time you are prepared to assist with handover, client transition, and training.		
9.	Consider financial arrangements between incoming partner and retiring partner.		
10.	Make available historic information on client base, fees by client and fees by service range.		
11.	Determine terms for dealing with work in progress.		
12.	Instruct solicitor to commence drafting sale contract and adjustment to partnership/shareholder agreement.		
13.	Update registrations with authorities, professional bodies and professional indemnity insurers for new partnership.		
14.	Check transfer or assignment of existing commitments, leases, etc., to newly constituted partnership. This may include: rent of premises, photocopier, hardware and software licenses.		
15.	Develop internal succession plan and timetable.		
16.	Decide on appropriate strategy to advise clients and staff.		
17.	Determine optimal time frame for entire process to be completed.		
18.	Remember, your final payout is likely to be linked to the successful retention of clients by the new partnership. It is in your interest to do all you can to ensure a successful transition.		

Appendix 8.7 Admission of New Partners Checklist

	Issue	Response	Date
1.	All parties to sign confidentiality agreement.		
2.	List terms and conditions required on sale and transition of firm equity.		
3.	Existing partners to agree to sale of retiring partner’s equity to incoming partner.		
4.	Identify requirements of continuing partners in regard to new partner selection.		
5.	Incoming partner to agree to existing partnership/shareholder agreement.		
6.	All partners to agree on remuneration and access to profits for incoming partner.		
7.	Review and as appropriate re-allocate clients among partners.		
8.	Determine role of new partner within firm.		
9.	Is vendor prepared to sign restrictive covenant?		
10.	Is vendor prepared to accept part of settlement as contingent on future revenue performance of the firm?		
11.	Is vendor prepared to accept “clawback” provisions, subject to agreement?		
12.	Set your asking price. Be prepared to justify and validate this figure. Ensure you have applied sound valuation techniques and methodology.		
13.	Consider time period you are prepared to allow incoming partner for due diligence.		
14.	Consider period of time you are prepared to assist with handover, client transition and training.		
15.	Consider financial arrangements between incoming partner and retiring partner.		
16.	Make available historic information on client base, fees by client and fees by service range.		
17.	Determine working capital requirements.		
18.	Instruct solicitor to commence drafting sale contract and adjustment to partnership/shareholder agreement.		
19.	Update registrations with authorities, professional bodies and professional indemnity insurers for new partnership.		
20.	Check transfer or assignment of existing commitments, leases, etc., to newly constituted partnership. This may include rent of premises, photocopier, hardware and software licenses.		
21.	Develop transition timetable.		
22.	Decide on appropriate strategy to advise clients and staff.		
23.	Determine optimal time frame for entire process to be completed.		
24.	Remember, your final payout is likely to be linked to the successful retention of clients by the new partnership. It is in your interest to do all you can to ensure a successful transition.		

Appendix 8.8 Buyout by Existing Partners Checklist

	Issue	Response	Date
1.	All parties to sign confidentiality agreement.		
2.	List terms and conditions required on sale and transition of firm equity.		
3.	Review exit terms under existing partnership/shareholder agreement.		
4.	Review existing partnership/shareholder agreement for buyout protocol and procedure. If silent, gain agreement with partners as to process.		
5.	Review and re-allocate as appropriate clients among partners.		
6.	Is vendor prepared to sign restrictive covenant?		
7.	Is vendor prepared to accept part of settlement as contingent on future revenue performance of the firm?		
8.	Is vendor prepared to accept “clawback” provisions, subject to agreement?		
9.	Set your asking price. Be prepared to justify and validate this figure. Ensure you have applied sound valuation techniques and methodology.		
10.	Consider period of time you are prepared to assist with handover, client transition, and training.		
11.	Consider ongoing consulting arrangements.		
12.	Instruct solicitor to commence drafting sale and transfer contracts, and adjustment to partnership/shareholder agreement.		
13.	Update registrations with authorities, professional bodies, and professional indemnity insurers for new partnership.		
14.	Check transfer or assignment of existing commitments, leases, etc., to newly constituted partnership. This may include rent of premises, photocopier, hardware and software licenses.		
15.	Develop transition timetable.		
16.	Decide on appropriate strategy to advise clients and staff.		
17.	Determine optimal time frame for entire process to be completed.		
18.	Remember, your final payout is likely to be linked to the successful retention of clients by the new partnership. It is in your interest to do all you can to ensure a successful transition.		

Appendix 8.9 Compliance Issues Checklist

	Issue	Response	Date
	Statutory		
1.	Are you required to de-register from any taxation registrations or obligations?		
2.	If so, are there any adjustment events that need to be reported?		
3.	Are you required to issue any final notifications or payment summaries to former employees?		
4.	Ensure you complete all payments on behalf of former employees as required by your local regulators.		
5.	Cancel any policies or registrations that are in your name, if not transferred across to your previous firm.		
	Contractual		
1.	Ensure all directors' and secretaries' resignations have been completed and lodged, as required.		
2.	Withdraw and remove any relevant guarantees, particularly in regard to bank facilities, lease arrangements, or any other areas relating to the business.		
3.	Ensure payouts are made for those financial obligations for which you are responsible.		
4.	Ensure leases or hire purchase agreements are transferred on any equipment being transferred.		
5.	Ensure you perform handover, client transition and training as per contractual obligations to your purchaser.		
6.	Ensure you abide by any restraint of trade obligations as per contractual obligations to your purchaser.		
	Housekeeping		
1.	Advise firm bankers and confirm your exit from the firm.		
2.	Advise professional indemnity insurers and confirm your exit from the firm.		
3.	Establish professional indemnity run-off insurance as appropriate.		
4.	Advise firm insurance brokers and confirm your exit from the firm.		

	Issue	Response	Date
5.	Ensure your obligations cease in regard to business and property insurance.		
6.	Ensure you have copies of all relevant partnership/ shareholder agreements.		
7.	Ensure you have copies of all documents reflecting your resignation as director/secretary and your withdrawal from personal guarantees.		
8.	Advise creditors and confirm your exit from the firm.		
9.	Advise your professional body and confirm your exit from the firm.		
10.	Ensure responsibility for all utilities has been transferred.		
11.	Issue final invoices to clients for work completed up until settlement, in accordance with sale agreement.		
12.	Subject to jurisdiction, consider arrangements for voluntary pension plans and compulsory pension schemes.		

Appendix 8.10 Case Study

Case study 8.1

This case study relates to Section 8.6.2, "Partnership/Merger."

William and Indira had recently met another accountant, Manu (see Case study 6.1). Over the following months, they got to know each other better and started discussing the opportunity of working together. William and Indira had been practicing together as partners for a number of years and found that the arrangement suited their needs. They had learned to work together well and respected each other's strengths and weaknesses.

They had also become used to the structure they had adopted regarding the firm's running and management. Each of them was responsible for their own billing targets, and they also had separate responsibilities for managing the firm. This was based around the organization chart for the firm.

They had also developed a regular routine for management meetings to run the operational aspects of the business. These meetings were held each Monday morning with the full staff, and the priorities for the week for each staff member were identified and noted. William and Indira also met once a month at a partners meeting, at which they discussed higher-level reporting and strategy.

Manu, on the other hand, was a sole practitioner, and had begun to feel the pressures of running a firm on his own. He had done this for a number of years, starting with just a handful of clients. Over time he had built the firm up and now had three staff members covering accounting and administrative functions. He was attracted to William and Indira's firm, not only because it was successful, but because it was well managed and had a good culture.

When the three of them got together to discuss a potential merger, William introduced a checklist he suggested they work through, as it covered many of the issues relevant to merger discussions. The key issues identified were:

1. Share of profits

They agreed to split profits according to their proportionate interest in the partnership and would only draw on funds when their cash flow position allowed.

2. Admitting or terminating partners/directors

All agreed that the basis for admitting or terminating partners would be an essential element of any arrangement. They agreed to all contribute their thoughts on this important matter and discuss it fully next time they met.

3. Frequency and timing of partners meetings

William and Indira were keen to continue with their regular monthly partners meeting and Manu agreed that the meeting was an important management tool. This was one area where Manu felt particularly disadvantaged as a sole practitioner as there was no one at his level he could discuss important issues with.

4. Expectations of a partner within the firm and managing outside interests and obligations

Discussion around this point included the roles and responsibilities assigned to each partner, productivity levels (e.g. billing hours) expected from each partner and any non-chargeable work allowed for voluntary activities during work hours, such as professional bodies, *pro bono* work, and charity work.

5. Drawing policy and loan accounts

They all felt it was important to have a policy about the timing and formula for drawings as well for dealing with any loan accounts of any individual partners. Again, this would be discussed at their next meeting.

6. Determining goodwill calculations on entry and exit

They all agreed that it was extremely important to establish a formula for the valuation of goodwill. They felt that when a new partner is either admitted or retired, each party should have a clear understanding of how much consideration they may expect to pay/receive, and the bases for such a calculation were arrived at. They all felt this would add more certainty to their situation.

7. Restraint requirements and notice period on retirement

They agreed that restraints should be imposed if a partner was to leave but were conscious that any restraint requirements must be enforceable and would not invalidate the whole agreement. They recognized this as a complex area and agreed to seek separate legal advice on the matter.

8. Leave entitlements

They all agreed there should be no confusion or ambiguity about their leave entitlements, which would include annual, special, sick, long-term, carer's or maternity leave. Indira was asked to draft a policy which they could all consider at their next meeting.

Manu was pleased with the progress of discussions and was looking forward to becoming part of a larger team, while William and Indira each had mixed feelings about the possible merger. William was secretly pleased that he would have another partner to discuss matters with, as he felt superior to Indira and was seeking her counsel less frequently. However, he felt that Manu was quite aggressive and was not sure if Manu's style would suit the culture of the firm.

On the other hand, even though she outwardly appeared to be in favor of the merger, Indira was quite anxious about having another partner. She felt that her working arrangement with William suited her well, and that having another party involved might change the dynamics of their working arrangement. She also doubted whether Manu would work as hard as she did, even though he would want his equal share of profits. Indira decided she would wait until after the next meeting with Manu to see how she felt and would then discuss her concerns with William.

For more information, please contact:
Christopher Arnold
Head of SME / SMP and Research
christopherarnold@ifac.org
T +1 646 350 4927
www.ifac.org/SMP