CHALLENGES FACING SMALL & MEDIUM PRACTICES

PRESENTED BY

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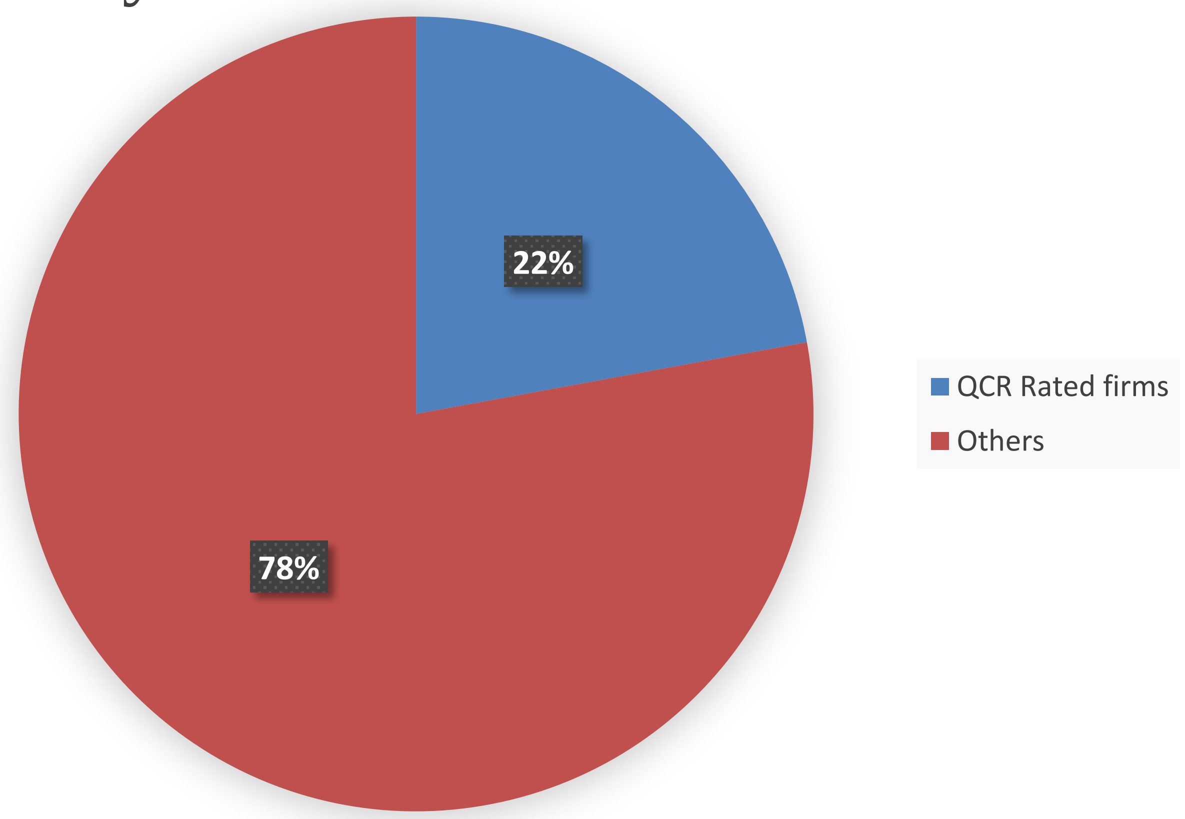
Karachi - February 06, 2017

STATISTICAL ANALYSIS OF PRACTICING FIRMS & PARTNERS AND QUALIFIED STAFF (As of October 27, 2016)

S. No	Description	Firms	Partners	Qualified Staff
1	Sole Proprietors	366	366	9
2	2 Partners	66	132	38
3	3-5 Partners	46	166	16
4	6-10 Partners	17	132	35
5	11-15 Partners	4	48	63
6	16 above Partners	3	104	348
	TOTAL	**502**	**948**	**509**

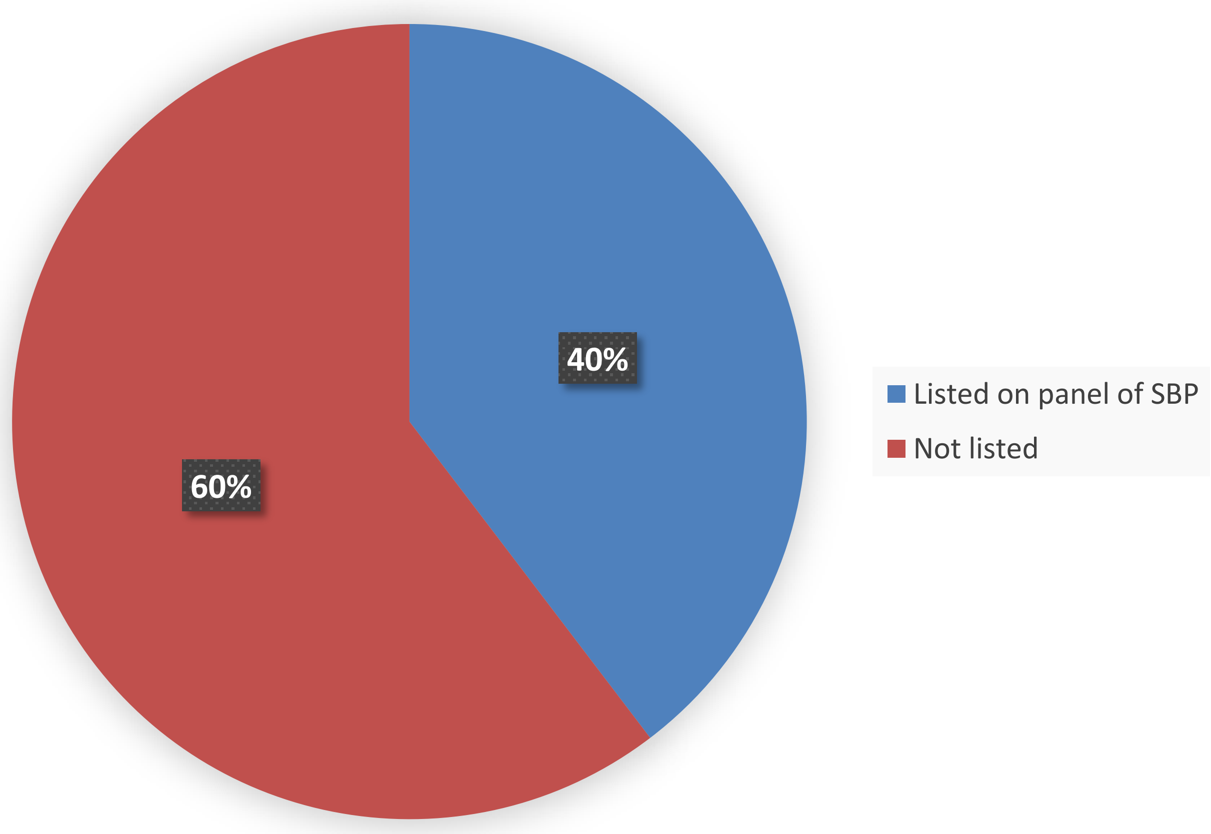
FURTHER BREAK DOWN OF FIRMS IN QCR AND SBP CATEGORIZATION

Out of 502 only 111 firms have attained satisfactory QCR successfully



FURTHER BREAK DOWN OF FIRMS IN QCR AND SBP CATEGORIZATION

Out of 111 QCR rated firms only 44 are listed on the panel of SBP



DEFINITION OF SMPs

There is no uniform definition of SMPs. IFAC has defined SMPs as accounting practices whose clients are mostly SMEs, external sources are used to supplement in-house technical resources and contain a limited number of staff.

DEFINITION OF SMEs

Small Sizes Entity is defined by State Bank of Pakistan as a business entity which does not employ (including contract employees) more than 50 persons and annual sales turnover is up to Rs.150 million.

A Medium Sized Entity is defined as a entity which employs (including contract employees) more than 50 employees and less than 100 employees in case of trading establishments. In case of manufacturing & service establishments, employs more than 50 employees (including contract employees) and less than 250 employees. For all Medium Sized Entity annual sales turnover is over Rs.150 million and up to Rs.800 million.

Contribution of SME sector in economy

- SMEs constitute nearly 90% of all the enterprises in Pakistan.
- employ 80% of the non-agricultural labor force.
- SMEs contribution to the annual GDP is 40%.
- SMEs are mostly family owned.
- SMEs are mostly single object entities.

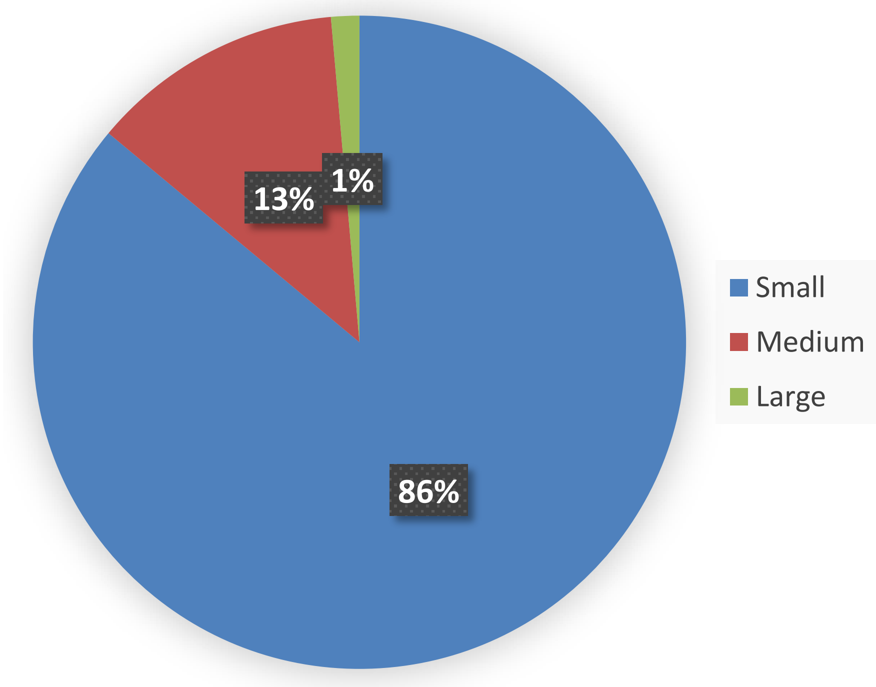
DEFINITION OF SMPs

For the purpose of this presentation we have classified practices according to number of partners as follows:

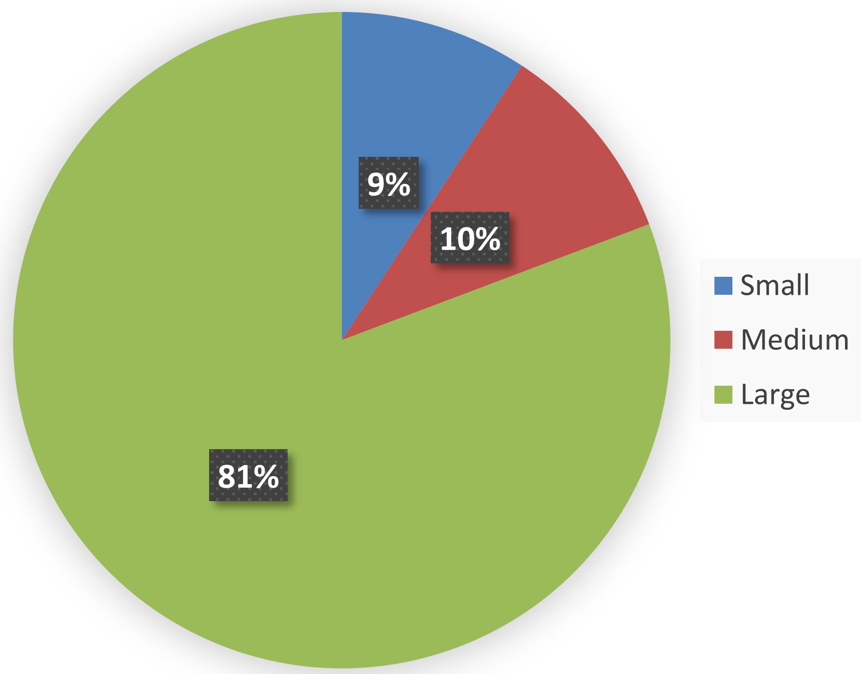
S. No.	Number of partners	Category of firms	Number of Firms
1	1-2	Small	432
2	3-10	Medium	63
3	11 above	Large	07

CONCENTRATION OF QUALIFIED INDIVIDUALS (Excluding partners)

Firms



Qualified staff



INHERENT LIMITATIONS OF SMPs

A. Majority of SMPs are sole practitioners or small partnerships.

B. Majority of clientele are SMEs.

C. Very few large Company audits.

D. Audit programs / Methodologies are often lacking.

E. Limited qualified, senior or experienced staff.

F. Excessive dependence on articled students and mid level staff.

G. Capacity limitations preclude quality assurance.

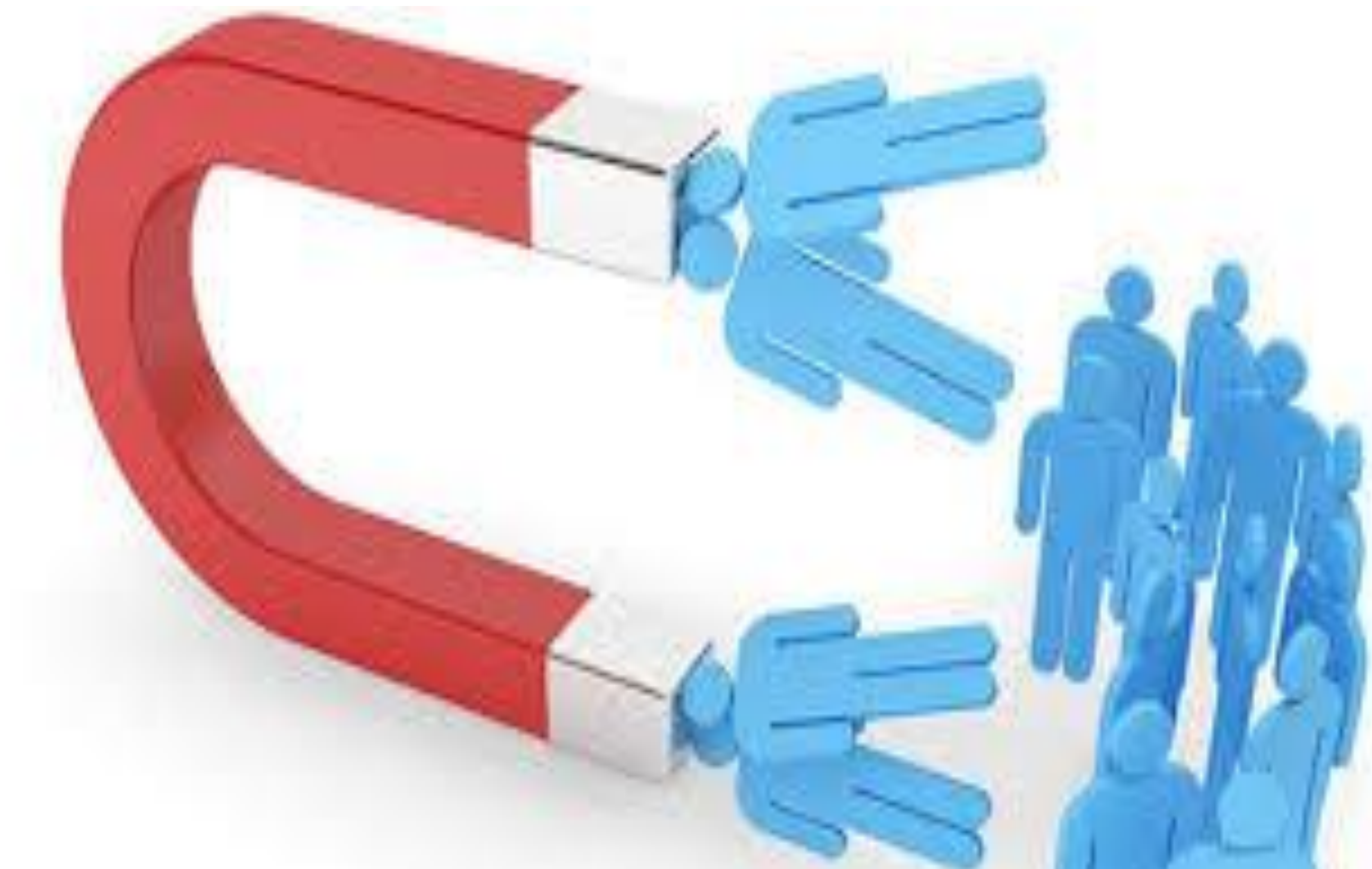
H. Resource constraint precludes broad based services(IAS / IFRS , ISA, IT and Tax work).

I. Inadequacy of capital base and limited accessibility to finance.

J. Limited data base or information availability (particularly compared to large firms).

CHALLENGES FACING SMPs

ATTRACTING NEW CLIENTS



RETAINING EXISTING CLIENTS

RETAINING QUALIFIED STAFF

MANAGING CASH FLOWS AND LATE PAYMENTS

SUCCESSION PLANNING

RECRUITMENT AND TRAINING

AWARENESS AND COMPLIANCE WITH LAWS AND STANDARDS

STRATEGIES TO COUNTER CHALLENGES

INVESTING IN TECHNOLOGY

ONE WINDOW SOLUTION

DIFFERENTIATION

CONTINUOUS PROFESSIONAL DEVELOPMENT

VISIBILITY

REPRESENTATION AND PARTICIPATION

NETWORKING AND STRATEGIC ALLIANCES

WAY FORWARD

There have been clear signs in the last couple of years that there is increase in importance of SMPs. There should be clear mechanism to address the issues faced by SMPs.

Way forward plan should cover:

- Active role of committee to promote SMPs.
- Development of an accurate database of SMPs.
- Establishment of collaboration among SMPs.
- Playing a strong advocacy role at different forums.

CONCLUSION

- Needless to say that this is high time we should accept a change in our mindset and move forward for developing size of the firm through Networking & Merger. This option is always better than to have proprietary and small firms.

- The objective of this Seminar should not be taken just as one of seminar but beginning of a series of structured interactive Program.

THANKS

HELPING SMPS MEET CHALLENGES AND SEIZE OPPORTUNITIES

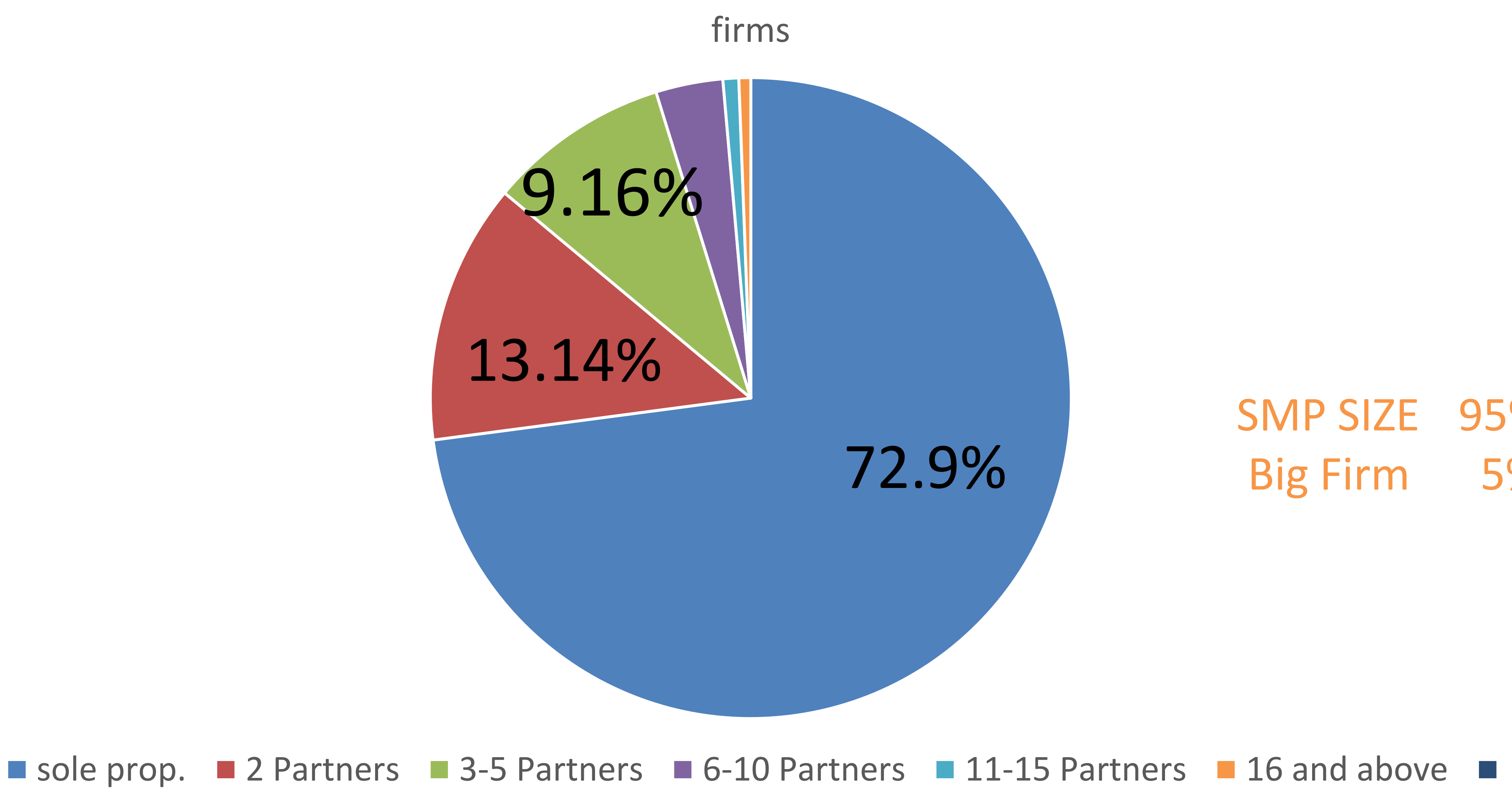
NAEEM AKHTAR SHEIKH FCA

Karachi, Islamabad & Lahore – February 6, 16, & 17 2017

Interesting facts – Analysis of Practicing Firms

SIZE OF FIRM	NO OF FIRMS
Sole proprietors	366
2 Partners	66
3 – 5 Partners	46
6 – 10 Partners	17
11 – 15 Partners	4
16 and above	3
TOTAL	502

Interesting facts- Analysis of Practicing Firms

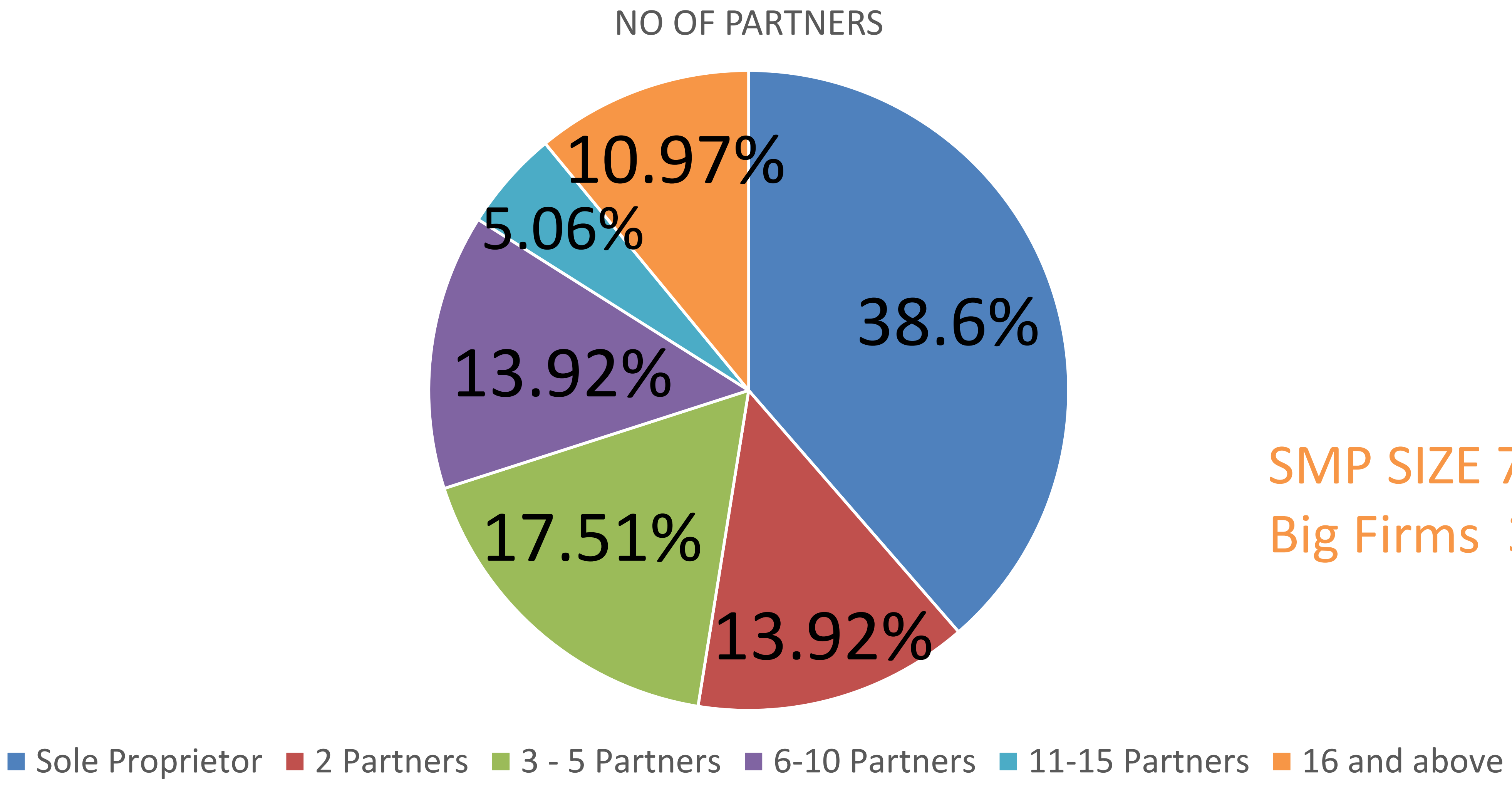


SMP SIZE 95%
Big Firm 5%

Interesting facts- Analysis of Size by Partners

SIZE OF FIRM	NO OF PARTNERS
Sole proprietors	366
2 Partners	132
3 – 5 Partners	166
6 – 10 Partners	132
11 – 15 Partners	48
16 and above	104
TOTAL	948

Interesting facts- Analysis of Size by Partners

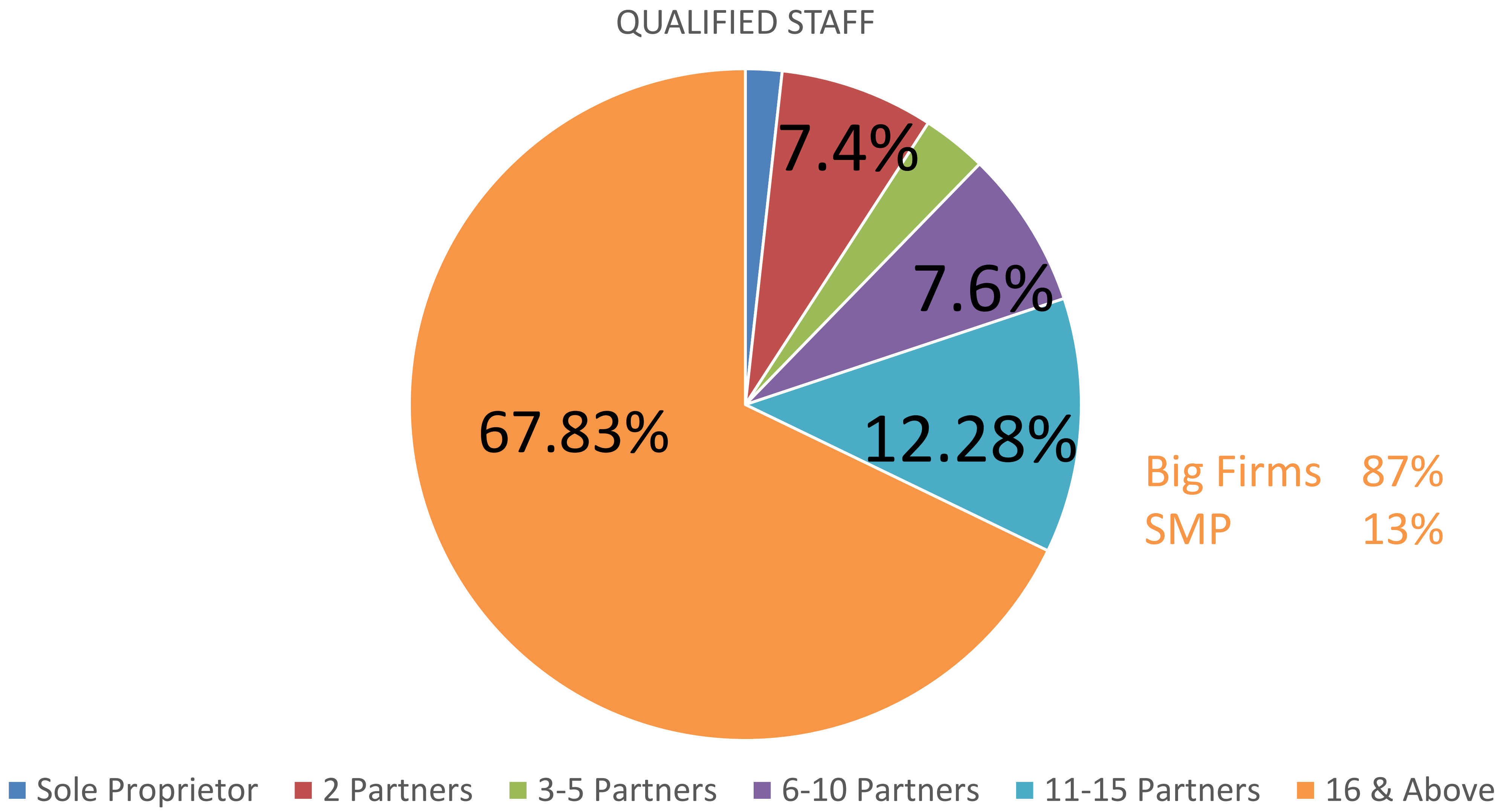


SMP SIZE 70%
Big Firms 30%

Interesting facts- Analysis of Firms by Q. Staff

Firm Size	NO OF Qualified Employees
Sole proprietors	9
2 Partners	38
3 – 5 Partners	16
6 – 10 Partners	39
11 – 15 Partners	63
16 and above	348
TOTAL	513

Interesting facts- Analysis of Firms by Q. Staff

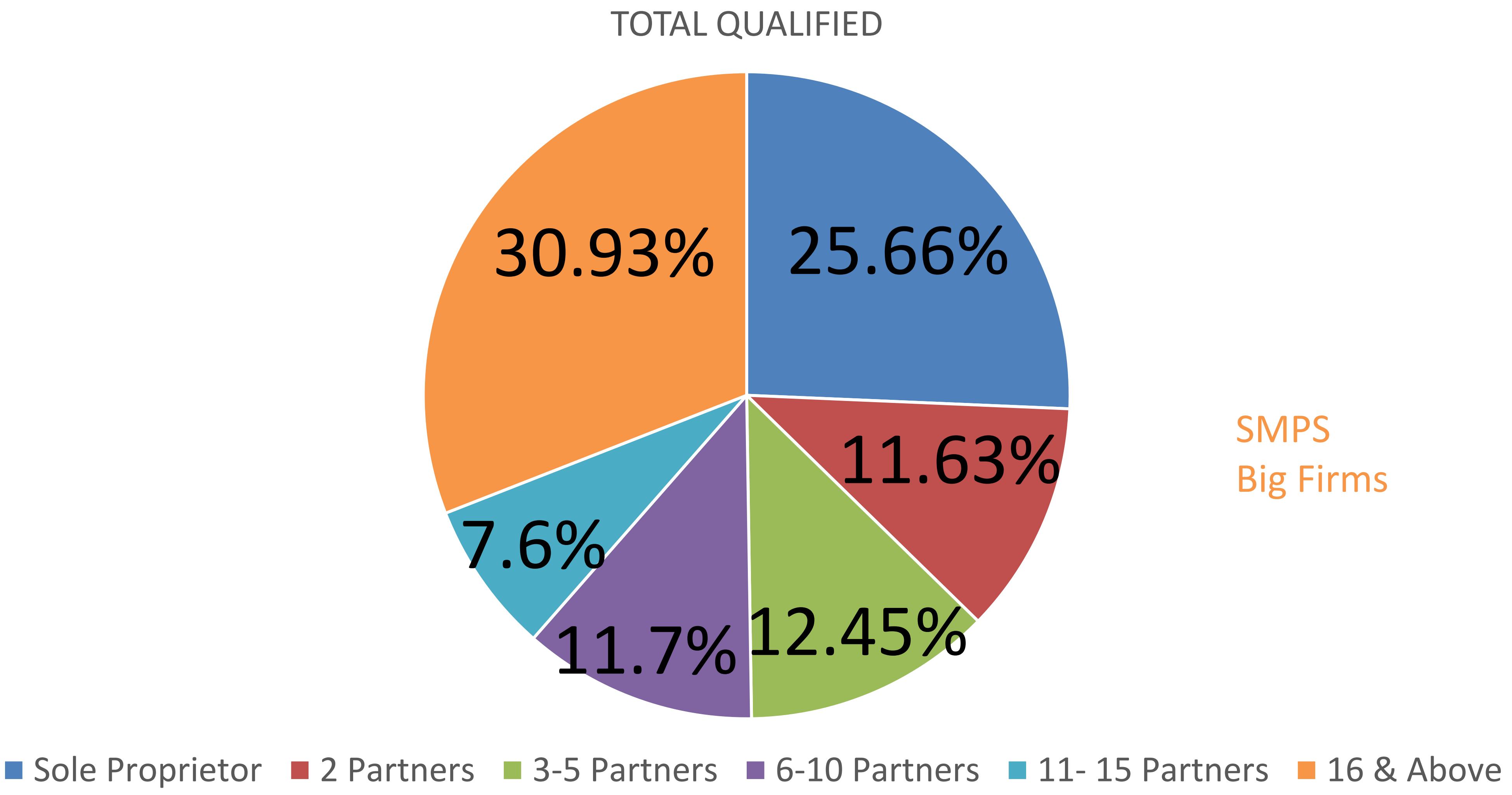


Big Firms 87%
SMP 13%

Interesting facts- Analysis by total Q. Staff

Firm Size	NO OF Qualified STAFF INCLUDING PARTNERS
Sole proprietors	375
2 Partners	170
3 – 5 Partners	182
6 – 10 Partners	171
11 – 15 Partners	111
16 and above	452
TOTAL	1461

Interesting facts- Analysis by total Q. Staff

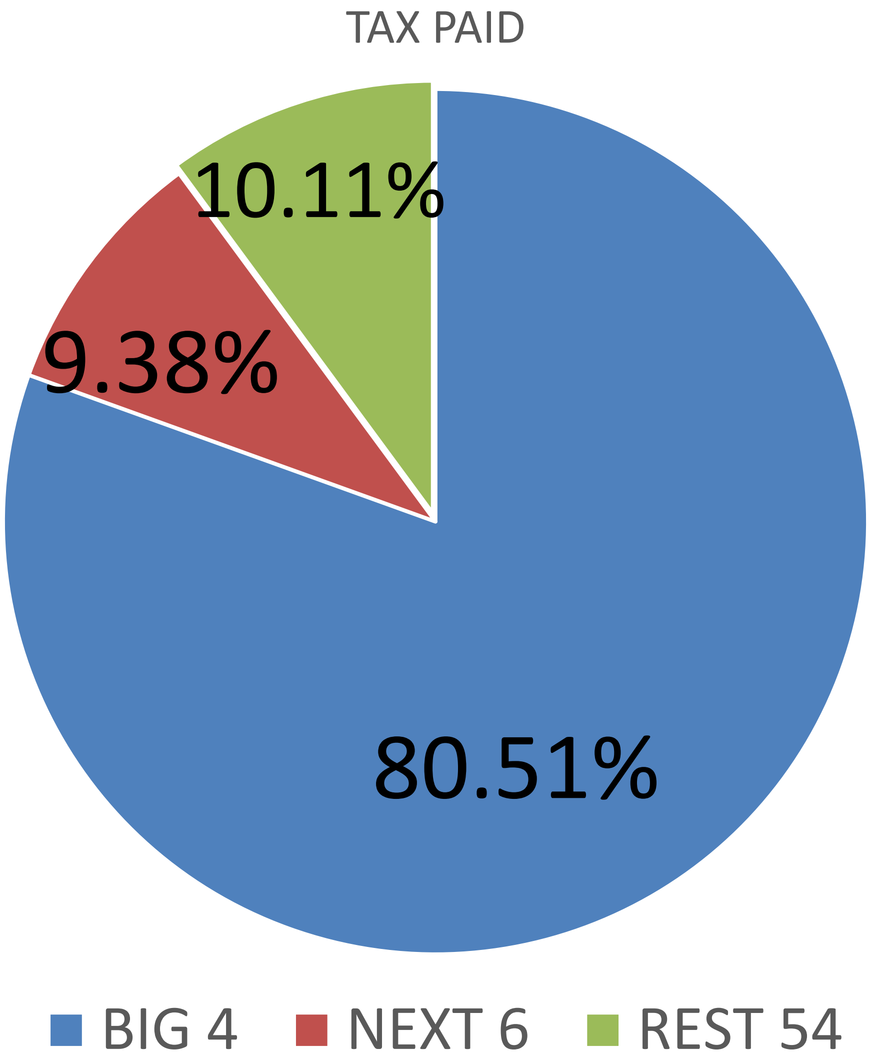


SMPS	50%
Big Firms	50%

INTERESTING DATA – Distribution of Cake (FBR Data, Tax Year 2015)

FIRM TYPE	TAXES PAID (RS. IN MILLIONS)
BIG 4	620.786
NEXT 6	72.408
REST 54	77.947
TOTAL	771.141

INTERESTING DATA – Distribution of Cake (FBR Data, Tax Year 2015)

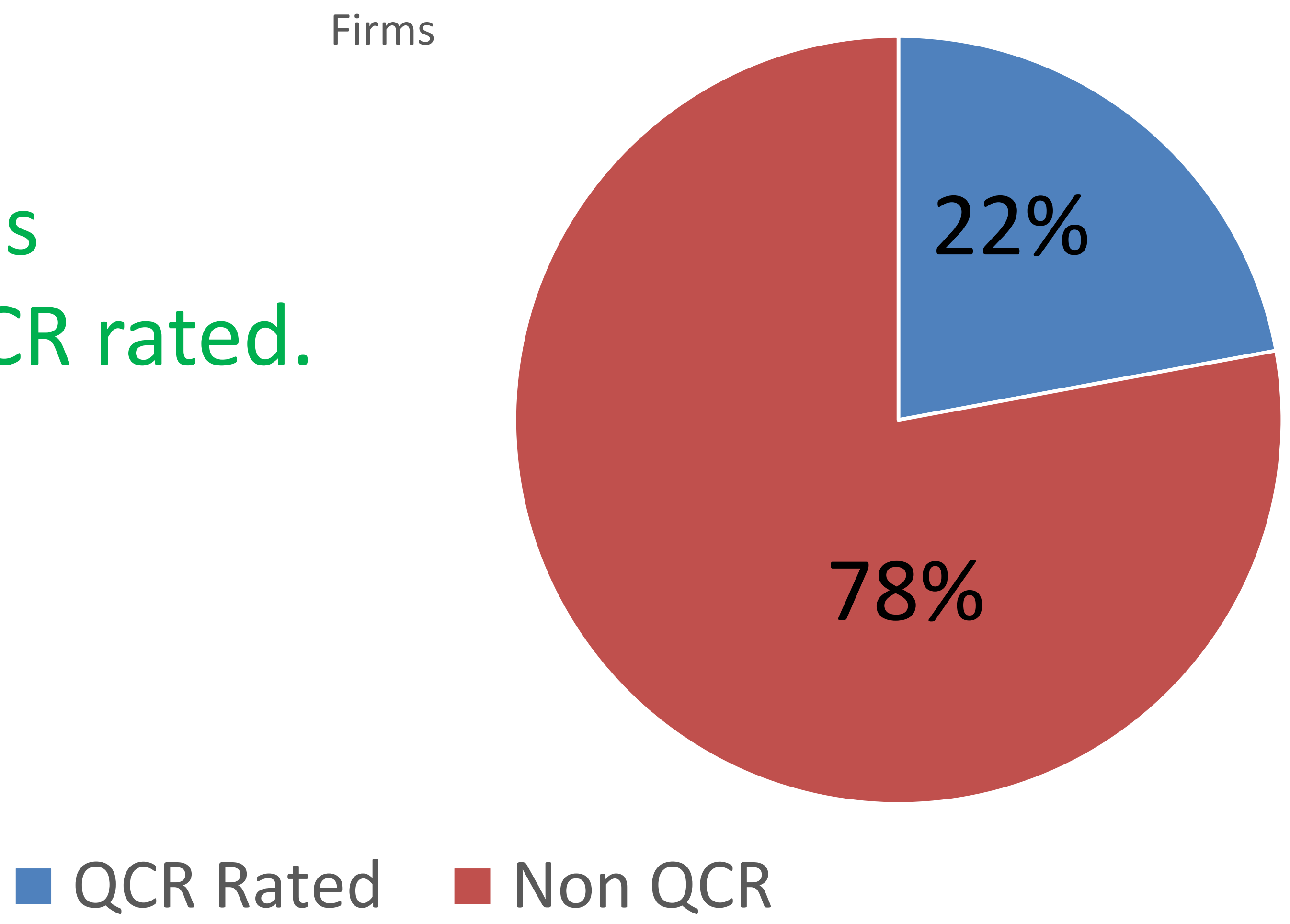


THE GROWTH AREAS – IFAC SURVEY

PRACTICE AREA	GROWTH
ACCOUNTING, COMPILATION AND OTHER NON ASSURANCE ETC.	59%
TAX	68.8%
ADVISORY AND CONSULTING	57.4%
AUDIT AND ASSURANCE	41%

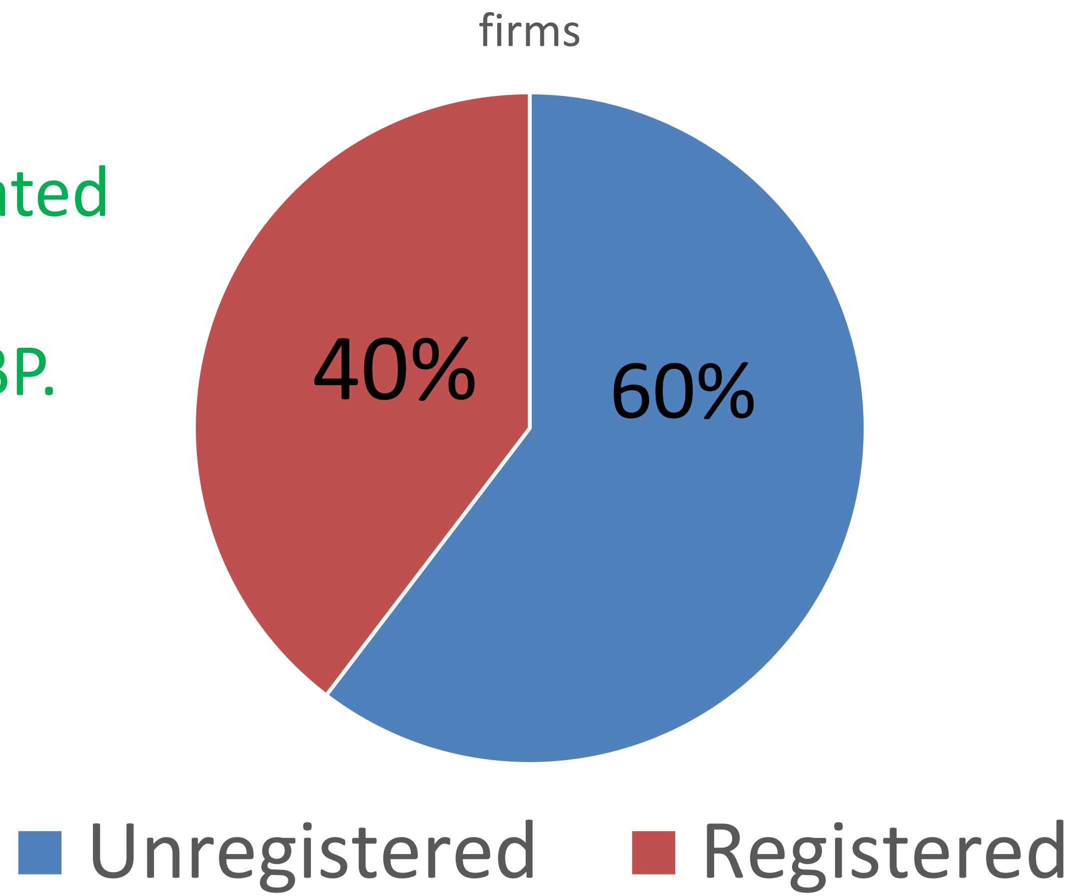
Interesting Facts- Analysis of QCR firms

Out of 502 firms
only 111 are QCR rated.



Interesting facts- SBP rated firms out of QCR rated firms

Out of 111 QCR rated firms only 44 are registered with SBP.



THE HIGHEST CHALLENGES – IFAC SURVEY

1. ATTRACTING NEW CLIENTS (42.6%)
2. RISING COST (37.7%)
3. PERSONEL AND STAFF ISSUES (36.1%)
4. DIFFERENTIATING FROM THE COMPETITION (34.4%)
5. TECHNOLOGY (32.8%)
6. NEW REGULATION (29.5%)
7. PRESSURE TO LOWER FEE (27.9%)
8. SUCESSION PLANNING (24.6%)
9. SERVICING CLIENTS INTERNATIONALLY (23%)
10. RETAINING EXISTING CLIENTS (9.8%)

HOW THE WORLD CHANGED

- THE GOLDEN ERA OF 60’s, 70’s AND 80’s.
  - No Growth Barrier
  - Every body was getting fair share
  - No international Brands

- 90’s, 2000 AND Beyond
  - Globalization
  - Regulation
  - International Branding

How It Impacted SMP

- Decrease in importance, size and market shares
- Big four phenomena
- Govt./Regulators Bias
- Tight regulatory environment
- Market Forces tilt

Where to go or What to do

You need to ask yourself a question:-

- –Remain a SMP firm
- –Move to higher league

What Is an SMP

- "SMPs are knowledge intensive firm that use the knowledge and experience of its partners to provide services to their clients."

- A typical SMP
  - Deal mostly with SME clients.
  - Employ small number of professional staff
  - Do not audit listed or economically significant entities.
  - Most of the work is in the provision of non assurance services.

What the strength of SMPs

- More personalized service
- Lean and low cost of Operations
- More Flexible and Adaptable
- Open to innovation and new ideas

Target market - SMEs

- Engine of Growth
- Represent 85% and above of business population.
- Employ 80% of non agricultural labour force.
- Represents 40% of GDP.
- Mostly owner driven
- Limited professional support available in house.
- Mostly dependent on outside support
- Natural Partners to SMPs

Broader Engagement with SMEs

- Traditional Areas
  - Audit and Assurance
  - Tax
  - Other compliances
- Conscious shift in roles
- Assessment of the Needs
- Diversifying the portfolio of services and creating value for your client and increase the depth and size of practice

Role of ICAP

- PAO role in capacity development

- Corporate Governance Training in collaboration with IFC
  - Introduction to corporate finance
  - Building on effective and efficient board
  - Management control environment
  - Family governance and succession planning
  - Shareholder practices.

Next big thing

- Business process outsourcing (A case study)
- Onset of cloud computing
- Virtual CFO
- Free SMEs from all regulatory pressures
- Win-win for all stake holder
- Potential of exponential growth

Business Development Strategy

- Developing a demand for services
- Building a sales Strategy
- Effective customer relationship (CRM)
- Creating Value for your client
- Conversion from consultant to trusted advisor
  - Building Trust
  - Giving effective advice
  - Building Relationship

THANK YOU

Twelve Keys
To
Effective SMP Practice Management

Presenter: Mohammad Maqbool FCA

Karachi, Islamabad & Lahore – February 06, 16 & 17 2017

The Twelve Keys to effective CA Firm Management is based on Guide to Effective SMP Practice Management issued by IFAC, research conducted in various countries including responses to a large number of survey on the matter. These recourses identify the best practices and common characteristics that separate the competitively successful firms from the not-so-successful. We can call them 'The Leaders vs. The Laggards.‘

Leaders Get Results

Researches confirm that the most successful Public Accounting firms are distinguished by a few key characteristics. Is the firm a “Leader” or a “Laggard?”

“Leaders” are firms that evidence above-par, performance in the generally accepted metrics of practice management, such as:

- Revenue growth
- Profit margins
- Technical excellence
- Client satisfaction
- Staff morale and tenure
- Professional reputation and brand value.

“Leaders” clearly do things differently. And they clearly get superior results.

Key # 1- Planning for Your Firm:

The essential ingredients for success for every firm are to know its own strategy - The path and direction the principals and employees wish to travel - So that the firm achieves its objectives. Good management will keep the firm commercially viable and professionally competent.

A firm can be highly specialized (offering narrow range of services) or general (offering broad range of services). It has been argued by marketing specialists that a firm can choose from following three possible positions in presenting its services; on occasion, a combination of two is possible.

- Overall cost leadership- delivering services at low price yet still be profitable.
- Differentiation- delivering services better than competitors.
- Focus- delivering services by specialization in one industry or very small number of industries.

A list of services which professional firm can offer:

- Accounts processing and reporting.
- Audit- statutory/Internal Audit
- Business advisory- business/profit improvement, budgeting, cash flow monitoring and management, business evaluation, corporate restructuring, systems development, risk management, merger and acquisition, listing of clients on stock exchange, strategic planning, succession planning and corporate governance planning in family owned businesses.
- Financial planning- preparing business plan, feasibility, suggesting and arranging sources of finance for small businesses.
- Taxation- corporate/personal tax compliance, tax planning and representing clients during taxation audits.

- Other services
  - Bookkeeping
  - Payroll Processing
  - Corporate Affairs
  - Human Resource Consulting
  - Forensic Accounting
  - IT Consulting
  - Inventory Counting and Valuation

Need for Business Planning

Often the business can become no more than a job and instead of freedom for the professionals they end up losing their lives to the business and may face following problems:

- Problem with work-life style, low profitability and/or poor liquidity, poor efficiency.
- Lack of risk management- The absence of necessary quality, high employee turnover, loss of clients.
- Loss of professional reputation.

As a part of its overall strategic planning a firm must develop detailed plans for the following functions:

- Service delivery
- Risk management and mitigation
- Personnel
- Business Development
- Technology
- Administration: and
- Finance - Budgets to achieve its plans

A well run firm will need to document its policies and procedures in the form of following manuals:

- A current practice manual
- Quality control manual in line with IFAC's guide to quality control for SMPs
- A current office manual with the contents suggested in IFAC's guide to practice management for SMPs.

Table of Contents

***Supported by various standard office forms**

Key#2:Using Network to add value

Professional accountants have two kinds of practices:

- Sole Practitioners
- Partnerships

The potential benefits and drawbacks of sole proprietorship are as follows:

Potential benefits:

- The simplicity of decision-making. Either the principal makes the decision alone, or takes some advice from suitably qualified and/or trusted experts, consultants or employees. The process is relatively quick and straightforward and free of political considerations.
- No profit-sharing; and
- The sense of direct involvement and control appeals to many people.

Potential drawbacks :

- 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 business development, 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 a field of accountancy services, the practitioner should refer that work to a suitably qualified firm or colleague.
- Sole practitioners can find it very difficult to keep abreast of changes in legislation or accounting standards due to the increasingly complex commercial/regulatory environment in which accountants work. The broader the range of services offered by the sole practitioner, the bigger is this problem and the higher is 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 or work-life balance 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 (can possibly be available through 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 (for example, under-investing in training or technology might be the unfortunate outcome).
- The firm might spend too much of its fees on fixed-cost items (for example, rent, subscriptions, fixed assets, software licenses, and possibly high cost employees). This happens because all firms need a minimum set of resources, even though those resources might not be fully utilized during the year.

Types of Networks

- Referral Networks
- Professional Networks
- Management Support Networks

Key #3. Leadership and Management:
New Rules for the New Normal

Leaders adhere to a clear set of values.

What do you stand for? Does your staff know what your firm and its partners stands for? What do your clients think you stand for? What is the vision, mission and core values of your firm?

It is important to adapt and communicate your values consistently and continually.

“*Vision, mission and core values are critical to a firm’s strategy if they are enforced and non-negotiable”.* - David Maister

CAs are viewed more positively than any other business professional by investors

- CAs are viewed more positively than any other business professional by business decision makers
- The perception of CAs by business decision makers in small to large companies, investors, and young professionals are consistent including integrity, competence, and objectivity.

Leaders are also:

- likely to have management that leads by example.
- likely to conduct performance evaluations that are useful.
- likely to hold top management accountable.

What employee expect from Leader?

People are remarkably consistent in reporting what they expect from their leaders:

- Leader need to be honest
- Leader need to be competent
- Leader need to be inspiring
- Leader need to be 'credible'

Key #4. **Technology Trends:**
Investment and Implementation Planning

Leaders follow a strategic technology plan:

1. Identify, analyze and prioritize the technology initiatives that are required to achieve the firm's strategic goals.
2. Conduct an assessment to determine the state of the firm's current technology.

"A firm's technology plan should be part of the firm's overall strategic plan."

John Higgins

3. Perform a Gap Analysis to determine where the firm is currently, relative to where it wants to go, and the technology required to get there. A technology plan should also include a timeline and a budget.

Develop a Strategic Technology Management Plan for your Firm:

- Have the right team in place.
- Develop a comprehensive understanding of the firm's current IT infrastructure.
- Evaluate the firm's current client mix and services.
- Create a list of prioritized projects based on fixing short-term issues and addressing long-term needs of the firm.

Leaders are also:

- likely to provide thorough and continuous IT training.
- likely to work with the best equipment and software available.

Key #5: Affective Billing & Collection

Protecting revenue, Cash Flow and Morale

- CA firms provide invaluable advice to clients but often struggle to run their own businesses effectively, particularly in the areas of pricing, billing and collections. Failure to set appropriate fees, delivering bills in a timely fashion and collecting payment promptly—or even in full—cuts into a firm's profitability, hurting the business and the staff in it.

- CAs must recognize that their firms are businesses that need to be properly managed. A key part of that is establishing and executing an effective billing process that sets the right fees, bills promptly and handles collections professionally. CAs also need to learn how to communicate their value in a way that shows clients that what they are paying is worth it. Failure to improve an ineffective billing process hurts the CA firm's revenue, cash flow and morale. Don't let this happen to your firm.

Useful Tips

- **CA firms often need improvement** in pricing, billing and collections. Subpar performance in these areas can lead to crimps in cash flow, cuts on the bottom line and dissatisfaction among the firm's personnel.
- **Keys to negotiating the right price with clients** include understanding the value of services provided, raising estimates and agreeing on the fee before the CA firm starts work on the engagement. Exhibits 1 - 4
- **Timely and regular increase in fee:** Every CA firm needs to increase fees regularly. This can be done in many ways. Whatever the method chosen, providing clients with an opportunity to discuss an increase, if they have any questions about it, allows for a better working relationship.
- **Accounting firms should emphasize delivering quality work** on time for two main reasons. First, it makes collecting the fee easier. Second, uncompleted work is work-in-progress (WIP) inventory, a firm's least valuable asset.

Useful Tips….

- **Clients are more inclined to pay their bill promptly** if they receive <u>the invoice </u>with the report or tax return being delivered. Clients are <u>more cognizant of the value </u>of the CA firm's service, and are more likely to pay promptly, when the bill arrives in a timely manner.
- **Timely billing requires a top-to-bottom commitment** in CA firms. Everyone in the firm must understand the importance to cash flow of delivering invoices in <u>a prompt and professional manner.</u>
- **CA firms must communicate** with clients to make sure that <u>clients believe </u>they are getting their <u>money's worth </u>from the firm. Don't <u>call only </u>when seeking to collect a late payment.
- **It's best not to let unpaid bills accumulate**, but if they do, a tip for collecting large amounts is to ask for the payment in few <u>equal instalments </u>and to emphasize that the bill can be paid via <u>credit card</u>.

Exhibit 1 Pricing Methods

Some of the most common pricing methods are:

- Time charges;
- Tiered rates depending on complexity of services;
- Fixed fees;
- Fee schedule for products delivered;
- Same as last year or same as last year with an "inflation" increase;
- Competitive amount (based on what others might charge for similar services or product output);
- A percentage of savings in certain situations (for instance, the savings generated from a tax audit appeal or by causing the reduction in the price of a business the client is purchasing); or
- Value billing, that is, the right bill for the service or the value to the client.

Exhibit 2 Services That Call for Special Pricing

Some examples of the client-service categories for which fees might be differently determined are:

- Individual tax returns;
- Small business client tax returns;
- Annual attestation and review services;
- Monthly and quarterly business client recurring services;
- Business valuations;
- Forensic investigations;
- Business plan;
- Divorce taxation consultation;
- Personal financial planning, including asset allocation assistance, retirement planning and education funding planning;
- Estate and/or business succession planning;
- Assistance in arranging bank financing;
- Guidance on buying or selling a business;
- Software installation or systems review;
- Outsourced CFO services;
- Internal audits;
- State tax preparation that internal staff previously handled; and
- General business advisory services.

Exhibit 3 Billing Methods

Bills are delivered in many ways. Some methods commonly used include:

- Invoices sent with the deliverable, that is, tax return, financial statement or special report;
- Invoices sent at the beginning of the month following the month the project or work is completed or the time charges were incurred;
- Upfront retainers;
- Periodic billing for a special project, either at time intervals or as scheduled work is completed;
- Bills sent either at the beginning or middle of a month for fixed, recurring fees;
- Bills for monthly or quarterly retainers with periodic or year-end adjustments; and
- Change orders issued when additional work to be done becomes evident.

Exhibit 4 Sample Itemized Invoice

Sample Invoice

(Each additional service is listed and priced)

Services in connection with 2011 Review report and financial statement as follows:

- Preparation of Review report as agreed. $8,500
- Assisting bookkeeper with account analysis schedules $1,800
- Discussions regarding updating valuation of business for shareholders' agreement. $975
- Review of insurance policy coverage and preparation of memo that was sent to insurance agent $1,500
- Review of company procedures of accounts receivable credit balances. $2,250

Total $15,025

WAYS TO INCREASE FEES

- **Calling or <u>meeting</u> with clients to discuss the proposed increase;**
- **Making a <u>notation at the bottom</u> of the first bill with the increased fee;**
- **Sending a <u>letter advising</u> of the increase in the current or next bill; and**
- **Including a <u>clause in the engagement letter</u> saying that rates are increased annually or periodically. These clauses usually provide for no special notification.**

Key #6. Marketing and Business Development:
Trends and Strategies

Revenue growth of leading firms surpass that of competitors.

How does this happen?

- Leaders have <u>written</u> business development plans.
- Leaders target <u>niches</u>.
- Leaders <u>fire clients</u> that don’t fit their target.
- Leaders get everyone <u>involved and accountable</u> for new business development efforts.

“Client was too demanding, not appreciative of work and took long time to pay.”

How can firing clients be considered a business development activity? Bad clients have an impact on profits, productivity, staffing, and being named a best place to work. Consider rating your clients based on annual revenue, payment history, growth potential, referral history and potential, profitability/realization, job risk or complexity, timing of the work, and satisfaction/ enjoyment working with the client.

Use this criteria to identify your A-B-C-D clients: “A” clients are your most valuable clients and “D” clients are the least valuable – those to consider firing.

Typical D Clients:

- Can’t attract and retain <u>quality staff</u>
- Demonstrate <u>low</u> commitment to technology and innovation
- Have unreasonable <u>expectations</u>
- Show little <u>willingness</u> to follow advice
- Have poor <u>teamwork</u> and commitment
- Pay <u>late</u>
- Continually put your firm at <u>risk</u>

The key component of firm business development plan should include:

- Firm mission statement and vision
- Its business development objectives and how they complement its mission statement.
- Consideration to legal, professional & ethical requirements
- Timeliness and milestone events for its business development.
- Its internal and external business development strategy.
- Resources required for achieving its business development plan.

The business development objective could include:

- Building market awareness of the firm
- Building firm brand identity
- Refining firm client base
- Acquiring new clients
- Growing firms fee base by offering new services to existing clients.

Key #7. Client Service and Satisfaction: *How to Retain Clients and Grow Revenues*

Leaders have a formal program to monitor client satisfaction.

However, the majority of SMPs have NO client satisfaction program.

"Also majority rely on real-time client feedback - unstructured, casual conversations – to determine the level of service they are providing to clients."

Any system will do, but you need a system, whether it incorporates face-to-face interviews, telephone interviews, mail or online surveys. It’s so easy, but too hard for many firms to do regularly. In today’s economy the competitors are targeting other firms’ clients more than ever. Every professional need to ask the tough questions to ensure client satisfaction and retention.

Leaders are also:

- likely to have clients that don’t resist reasonable fee increases.
- likely to empower every staffer to do what it takes to satisfy a client.
- likely to have clients that belong to the firm, not to an individual.
- likely to obtain new clients mostly from referrals.

A firm’s objective most likely need to address:

- The training and development of staff
- The reputation of firm within its prime market area
- The quality and relevance of its services
- Its clients satisfaction

Key #8. Creating a Great Place to Work:

Attract and Retain the Best Talent

Leaders likely to work as a team, not as individuals.

Successful teams require finding the right balance of people prepared to work together for the common good of the team.

Teams should have a representation of strengths in four areas:

1. Executing
2. Influencing
3. Relationship Building
4. Strategic Thinking

Although individuals need not be well-rounded, teams should be. This impacts how teams are built, how professionals can contribute to a team, and who they need to surround themselves with.

Fundamental Features of Successful Teams

- Strong and effective <u>leadership</u>
- Precise and clear <u>objectives</u>
- The <u>ability</u> to make <u>informed decisions</u>
- The <u>ability</u> to <u>act quickly</u> on these decisions
- Free <u>communication</u>
- The <u>requisite</u> skills and techniques <u>to fulfill</u> the project at hand
- Clear <u>targets</u> for the team to work toward

Leaders are also:

- likely to have fair and competitive <u>compensation</u> levels.
- likely to support a healthy <u>work-life</u> balance.
- likely to have a <u>lower turnover</u> rate than their competitors.

- Quality recruitment process to attract and recruit high caliber, trustworthy and honest employees.
- Ensuring proper initial and continous training of employees to deliver quality services in an efficient and effective manner.
- Avoiding delegating task beyond staff capability level.
- Ensuring employees are fully aware of systems and standard procedures followed in the firm.

TOs staff induction status

Category	No. of firms	No. of MTO's	As of 13 02 2017	Induction 2016	Induction 2015	Induction 2014
			Students			
Sole with students	76	76	424	118	164	136
Sole without students	309	18				
2 partner with student	30	30	260	64	110	105
2 partners without student	36	10				
3-5 partners with student	32	32	680	199	224	248
3-5 partners without student	11	6				
6-10 partners with student	19	19	1303	330	470	414
6-10 partners without student	0	0				
Above 10 partners with student	7	7	2732	509	898	1022
Above 10 partners without student	0	0				
Total	520	198	5399	1220	1866	1925

Key #9. **Building the Learning Organization:**

How to Be Agile and Adaptable in a Changing World

Leaders conduct training that supports their business strategy.

Similar to technology plans and business development plans learning/training plans should be developed with a firm's overall strategy in mind. Consider the industry niche and service specialty areas your firm promotes. These are a force for growth. What type of training do your people need to succeed?

“In today’s world people are taking a clear <u>perspective</u> that making the <u>investment in people pays back multiple fold</u> in the <u>risks</u> that you avoid because people know what they’re doing.”

-- Jon Andrews, PWC, London

“Human capital systems are <u>critical,</u>” says Mark Koziel, of AICPA. “People are our <u>greatest asset</u> and they <u>walk out</u> the door every night. Firms <u>don’t invest enough</u> in training and the <u>people</u> that they have. Some firms don’t want to train their people because they <u>figure they will just leave anyway</u>. Ron Baker asks, <u>‘What happens</u> when you don’t <u>train</u> them and they <u>stay</u>?’ Then, they’re not ready because the firm <u>didn’t make</u> them ready.”

Leaders are also:

- likely to conduct training that <u>supports</u> personal goals.
- likely to conduct training that their people <u>need.</u>
- likely to conduct training that their people <u>want</u>.

Key #10. **Strategy Execution:** *Managing for Peak Performance*

Leaders have specific and measurable business goals.

One of the pitfalls of execution is being vague about what you want. Change happens when your goals are precise and everyone sees the same future.

“Many of us fail because we haven’t turned our goal into something to actually do … Actions tell you HOW you’re going to do something … To succeed you must know what actions you’re going to take”.

-MJ Ryan

Writing down your goals makes a huge difference in execution. Written goals help make you and your team accountable to each other. Be sure that your goals are SMART:

- Specific
- Measurable
- Attainable
- Realistic
- Time-Bound

For example, “To generate Rs. 5 million in new consulting services revenue by December 31, 2017” is a SMART goal; “To grow consulting revenue in this year” is not.

Leaders are also:

- likely to meet regularly to check progress against their plan.
- likely to articulate how they are better than their competitors.
- likely to develop business plans with input from everyone.
- likely to hold individuals accountable for results.

As regarding the implementation of policies Wheelen and Hunger identified three aspects:

- Programs - The activities and steps needed
- Budget- A financial summary of cost and income associated with each program: and
- Procedures- Specific actions to be completed

Monitoring is critical element of planning process and requires a firm to measures the outcome of its actions by using the necessary KPI's and where the performance does not meet their benchmark then identify the cause of problem and make necessary changes / adjustments to the plan.

Key # 11 Risk Management:

IFAC code of ethics sets out the ethical principles, ethical threats and safeguards against these ethical threats. A professional accountant is required to follow these ethical principles and follow threats and safeguards framework in his professional work.

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 to be delivered;

- Confines the extent of exposure by:

1. specifying limitations on the work to be undertaken;
2. confining the advice to the client only;
3. restricting use of member's name on documentation / report supplied to the client;
4. obtaining an indemnity from the client, any third party; and
5. 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.

2. Advise clients on risks

- To avoid having to assuming 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 advices a member or 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:

1. Date
2. Location
3. Content of conversation/advice
4. Notation to whom it was made
5. Signature (and name, if applicable).

4. Timeliness of action and diary systems

- File notes will have the dual effect of:

1. Assisting with the recollection of events if there is litigation many years later; and
2. 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.

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.

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:

1. Monitoring existing risks
2. Identifying new risks
3. Identifying any trouble spots
4. Evaluating the effectiveness of current risk treatment strategies.

Monitoring ensures that, as risks change, new measures are introduced to control these risks. Ongoing review is required to ensure that strategies remain relevant, and that the overall risk control position is relative to the risk facing position.

8. Communication and consultation

The risk management process requires continuous communication and consultation with all parts of the business 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.

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General principles of quality control

- Quality control systems for professional accounting practices should 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:

1. The firm and its personnel comply with professional standards and regulatory and legal requirements; and
2. 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 <u>each</u> of the <u>following five</u> areas:

- 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. It should also be made clear that each staff member has a personal responsibility for quality 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.

Key # 12 Succession Planning:

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 firm's staff.

The number of issues currently facing the profession include:

- The aging of the professionals;
- 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.

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 or pay you post retirement pension. These options 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.
- The third is a series of internal options, which are the introduction of new partners, induction relative member and sale to existing employee member.

Each option is quite distinct and brings its own set of considerations and number of issues apply to each.

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.

“Leave a legacy”

Effective Practice Management IFAC Guide

- Planning for your firm.
- Practice models and networks.
- Building and growing your firm.
- People power: Developing a people strategy.
- Technology and e-business.
- Client relationship management.
- Quality Control and Risk Management.
- Succession Planning.

Major issues for an Accountancy Firm


Q&A


Thank you