EUROPEAN FEDERATION OF ACCOUNTANTS AND AUDITORS FOR SMES

WHAT CAN THE ASIAN PROFESSION LEARN FROM THE 2016 IFAC GLOBAL SMP SURVEY?

HOW DO THE IFAC GLOBAL 2016 SMP SURVEY RESULTS FOR ASIA COMPARE TO THE GLOBAL VIEW? AND WHAT CAN PROFESSIONAL ACCOUNTANCY ORGANISATIONS LEARN?

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The 2016 IFAC Global SMP Survey asked practitioners from small- and medium-sized practices (SMPs) across the globe about: their challenges, with a close look at the impact of technology, personnel, and staffing issues; how various environmental factors may affect them over the next five years; their 2016 revenues and projected 2017 revenues; key performance indicators, namely collection and employee utilization rations; and the consulting services they provide. It additionally reports on practitioners' views on the impact of challenges faced by their small- and medium-sized entity (SME) clients.

Some 5,060 respondents representing 164 countries completed the survey. This article provides a summary of the Asia results, selected comparisons with the global picture and potential implications of the findings for Asian professional accountancy organisations (PAOs).

Respondents

The second largest groups of respondents to the survey were from Asia (28%), giving a large representative sample. Consequently, of the 164 participating countries, Asian countries featured prominently in the list ranking countries by respondents: China is 1st with 493 and India 2nd with 417. Pakistan (95), Thailand (93), Malaysia (60) and Japan (50) were also in the top 25 countries.

The high response rate from Asia was partly due to the South Asian Federation of Accountants (SAFA) and its member organisations encouraging SMP members to participate.

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A majority (61%) of Asian respondents were either sole practitioners (26%) or practitioners from practices with two to five partners and staff (35%); most of these were a partner, sole proprietor, or owner; and 70% were male.

Challenges Facing SMPs

The top four challenges faced by Asian respondents were serving clients operating internationally (48%), attracting new clients (48%), experiencing pressure to lower fees (44%), and differentiating from the competition (43%). These results differ from the global top four of attracting new clients (46%), keeping up with new regulations & standards (41%), experiencing pressure to lower fees (41%), and differentiating from competition (39%). Serving clients operating internationally was a significantly greater challenge for Asian SMPs than SMPs globally while keeping up with new regulations & standards was a relatively lesser challenge for Asian SMPs than SMPs globally. **This suggests PAOs may need to consider whether they are doing enough to assist SMPs in their endeavors to serve clients operating internationally.**

IMPACT OF 11 CHALLENGES ON SMPs*

	Asia	Global
Attracting New Clients	48%	46%
Keeping Up With New Regulations and Standards	32%	41%
Experiencing Pressure To Lower Fees	44%	41%
Differentiating From Competition	43%	39%
Rising Costs	42%	39%
Technology Developments	34%	35%
Serving Clients Operating Internationally	48%	34%
Personnel and Staffing Issues	40%	33%
Managing Cash Flow and Late Payments	29%	32%
Retaining Existing Clients	18%	23%
Succession Planning	29%	23%

*Combining high and very high

The survey addressed in more detail the impact of technology and personnel and staffing issues on SMPs. Regarding technology issues, the survey revealed variation between Asia and global results. Asian SMPs said advances in data analytics, including availability and use of big data (35% as a high/very high challenge) followed by achieving a digital, paperless environment (30%) and managing privacy and security risks (30%) were the technological issues having the most impact, as compared with investing in and staying current with software (38%) and achieving a digital, paperless environment (37%) for all global respondents.

In relation to personnel and staffing issues, Asian SMPs considered finding and retaining qualified staff at all levels to have the greatest impact, with 47% and 44%, respectively, viewing the impact as high/very high, almost identical to that of all respondents (45% and 41% respectively). **This suggests PAOs may need to consider whether they are doing enough to assist SMPs to attract and retain talent.**

Environmental Factors Impacting SMPs

Respondents rated eight environmental factors to assess the extent to which they believe each may impact their SMP over the next five years. The regulatory environment (56% as high/very high impact) and technological developments (52%) were viewed as having the highest potential impact for SMPs globally. This compares with Asia where competition (49%) and regulatory environment (48%) topped the rankings.

FACTORS IMPACTING SMPS OVER NEXT FIVE YEARS*

	Asia	Global
Regulatory Environment	48%	56%
Technology Developments	43%	52%
Competition	49%	48%
Capability to Adapt to New Client Needs	40%	45%
Perceived Trust & Credibility of the Profession	36%	43%
Political Instability	31%	40%
Globalization	42%	38%
Mergers, Acquisitions, and Consolidation in the Accounting Industry	38%	33%

*Combining high and very high

Technological developments (43%) were predicted to have a relatively lesser potential impact for Asian SMPs than globally while competition was forecast to have a similar potential impact for both SMPs in Asia and SMPs globally. **PAOs need to ask themselves whether they are doing enough, or have plans in place, to help their SMPs compete, especially with other professions, and prepare for changes in technology.**

SMP Performance In 2016

A slight majority of Asian SMPs (52%) reported an overall increase in practice fee revenues during 2016, identical to the global picture. Changes in total practice fee revenues between 2015 and 2016 varied significantly by region: while a greater proportion of respondents from North America (64%) and Africa (58%) reported an increase in revenues compared with Asian respondents, growth in Europe (48%) and the Middle East (44%) was lagging that of Asia.

For all four service areas (audit and assurance; advisory and consulting; tax, including compliance and planning; and accounting, compilation, and other non-assurance/related services), fee revenues increased for 30-35% of all respondents' practices. For Asian SMPs the picture was slightly more positive: between 31-37% of respondents reported an increase. Interestingly, Asia was out of line with the global picture: accounting, compilation, and other non-assurance/related services experienced the slowest growth for Asian SMPs compared with the highest for SMPs globally while audit and assurance was showing the strongest growth for Asian SMPs compared with the weakest growth for SMPs globally. However Asian SMPs, in concert with SMPs from other regions, are witnessing robust growth in advisory and consulting services. **PAOs might need to think how they can help SMPs build their revenue base, possibly by building their advisory services in the region.** After all, advisory services appear to have recently propelled the prosperity of North American SMPs.

INCREASE IN FEE REVENUE FROM 2015 TO 2016 BY PRACTICE AREA*

Service	Global	Asia
Accounting, Compilation, and Other Non-assurance/Related Services	35%	31%
Tax (e.g. Compliance and Planning)	33%	34%
Advisory and Consulting	35%	37%
Audit and Assurance	30%	37%

*Combining moderate and substantial increase

For the first time, the annual survey included questions on key performance metrics. A question on utilization revealed that nearly half (49%) of all SMP respondents had a utilization percentage (chargeable hours divided by total hours) of 61-90%, while 9% had a utilization percentage exceeding 90%. Utilization at less than half of capacity was 17% for Asian SMPs, much more than the global average of 12%. This suggests Asian SMPs are operating with significant spare capacity: this means they have the capacity to grow or else have scope to boost efficiencies. Another question revealed that 26% of all respondents' SMPs experienced an average receivables collection period of 0 to 30 days. Asian SMPs reported a lower figure of 18% indicating a less timely collection of receivables than the global norm.

SMP Outlook for 2017

Respondents from Asia were, in general, more optimistic regarding increases for all four service lines with advisory and consulting services alongside audit and assurance expected to show the highest growth rates. A higher proportion of Asian SMPs than SMPs globally anticipated revenue increases for all four service lines with Asia ahead most significantly for audit and assurance services (47%, 38% for all respondents) and advisory and consulting services (47%, 45% for all respondents). **PAOs need to consider whether they are doing enough to help SMPs realize the growth potential in these service lines, especially advisory and consulting which is considered by many to offer the greatest growth potential.**

FORECASTED FEE INCREASES BY PRACTICE AREA*

Service	Global	Asia
Accounting, Compilation, and Other Non-assurance Related Services	44%	42%
Tax	42%	44%
Advisory and Consulting Services	45%	47%
Audit and Assurance	38%	47%

*Combining moderate and substantial increase

Business Advisory and Consulting Services

The most frequently provided business advisory and consulting services by Asian SMPs in 2016 were in line with that for all respondents. The two most commonly provided were corporate advisory (50%, 48% for all respondents) and management accounting (44%, 46% for all respondents). Fewer respondents from Asia (13%) reported that their SMP offers human resource policies and procedures/employment regulation services suggesting that there might be untapped potential for growth in this area.

Challenges Facing SME Clients

SMEs continued to face many challenges, with a majority of all respondents' viewing economic uncertainty (61%), rising costs (59%), competition (53%) and difficulties accessing finance (51%) as a high/very high challenge for their SME clients. By comparison in Asia only rising costs (54%) was considered a high/very high challenge by a majority of respondents. Rising costs are arguably the one challenge where accountants stand to have a direct role in helping SMEs mitigate and manage. Though it is still a significant concern, economic uncertainty (49%) was much less a challenge for Asian SMEs than SMEs globally. While across all challenges a lower percentage of Asian respondents than all respondents assigned a rating of high/very high, the top challenges facing Asian SMEs are very similar to the top challenges facing all respondents.

Overall Asian SMPs and their SME clients have found 2016 better than 2015 and, moreover, expect 2017 to be better still. The business environment continues to be challenging but SMP fee revenue is growing. **PAOs in Asia will find the survey data useful for helping them to determine how best they can help their SMPs realize their potential for growth.**

EFAA PUBLICATION

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ABOUT EFAA

The European Federation of Accountants and Auditors for SMEs ("EFAA") represents accountants and auditors providing professional services primarily to small and medium-sized entities ("SMEs") both within the European Union and Europe as a whole. Constituents are mainly small practitioners ("SMPs"), including a significant number of sole practitioners. EFAA's members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, tax and business advice) to SMEs.

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