This is the published version:

Carr, Rodney, Cooper, Barry, Ferguson, Colin, Hellier, Phil, Jackling, Beverley and Wines, Graeme 2010, Public accounting firm services in rural and regional Australia, The University of Melbourne, Melbourne, Vic.

Available from Deakin Research Online:

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Public Accounting Firm Services in Rural and Regional Australia
Research Monograph No. 1: Practitioner Views

Research Monograph from Australian Research Council (ARC) Linkage Project between CPA Australia The University of Melbourne Deakin University RMIT University Victoria University
Public Accounting Firm Services in Rural and Regional Australia

Research Monograph No. 1: Practitioner Views

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Acknowledgments

The authors gratefully acknowledge the financial support and research assistance provided by CPA Australia and the financial support of the Australian Research Council.
Contents

Executive summary .................................................................................................................. 7
1. The survey .......................................................................................................................... 9
2. Accounting practice characteristics .................................................................................. 11
3. Types of services provided .............................................................................................. 14
4. Actions to improve practices’ ability to meet client requirements ....................................... 16
5. Factors that inhibit the ability of practices to meet client requirements ............................. 17
6. Staff shortages .................................................................................................................. 19
7. Current and future service supply ..................................................................................... 21
8. External specialist advice ................................................................................................. 24
9. Professional accounting bodies ......................................................................................... 27
10. Government authorities ..................................................................................................... 30
11. Strategies and programs .................................................................................................... 32
12. Summary .......................................................................................................................... 34

References ............................................................................................................................. 37

Tables:
Table 6.1 Average number of additional staff required by staff type and practice location ....... 19

Figures:
Figure 1.1 Percentage of respondents from each state .......................................................... 9
Figure 1.2 Distance of respondents from capital city ............................................................. 10
Figure 1.3 Size of town or city in which practices are located ................................................ 10
Figure 2.1 Size of practice (number of partners/principals) .................................................. 11
Figure 2.2 Type of accounting practice ................................................................................. 11
Figure 2.3 Type of client ......................................................................................................... 12
Figure 2.4 Percentage of clients from various industries ....................................................... 12
Figure 2.5 Distinguishing characteristics of accounting practice ......................................... 13
Figure 3.1 Percentage of practices providing various services ............................................. 14
Figure 4.1 Actions to improve ability to meet client requirements ......................................... 16
Figure 5.1 Factors that inhibit the provision of client services .............................................. 17
Figure 6.1 Staff shortages by State/Territory ......................................................................... 19
Figure 7.1 Respondent assessment of current and future undersupply of services ................. 22
Figure 7.2 Factors affecting the future demand for accounting and allied services ............... 23
Figure 8.1 Reasons for obtaining external specialist advice ................................................. 24
Figure 8.2 Location of firms from which specialist advice is obtained ................................... 24
Figure 8.3 Type of firms from which specialist advice is obtained ......................................... 25
Figure 8.4 Percentage of respondents obtaining various external specialist advice ............... 26
Figure 9.1 Respondent satisfaction with their professional body .......................................... 27
Figure 9.2 Type of support required from professional accounting bodies ............................ 28
Figure 10.1 How government authorities and regulators could assist rural and regional practices . 30

Rural and regional accounting practices in Australia 5
Executive summary

This research monograph is the first of two summarising results from an Australian Research Council (ARC) Linkage Project research program titled Modelling factors affecting the long-term demand for and supply of professional accounting and allied services in rural and regional Australia.

The research was undertaken by a team of researchers from The University of Melbourne, Deakin University, RMIT University and Victoria University, together with CPA Australia as the Linkage Project partner. The research program entailed large-scale surveys and in-depth interviews with professional accounting firm practitioners and small and medium enterprises (SMEs) located in rural and regional Australia. For the purpose of the study, rural and regional Australia is defined as those areas that lie outside the greater metropolitan areas of Melbourne, Sydney, Brisbane, Adelaide and Perth.

There have been several studies of Australian public accounting practices (e.g. ACCA 2008, Ciccotosto et al. 2008, CPA Australia 2007, IBISWorld 2007) in recent years. However, as far as we are aware, this Linkage Project research program is the first comprehensive academic study to specifically investigate public accounting firm services in rural and regional Australia.

This first research monograph, Public accounting firm services in rural and regional Australia: Practitioner views, summarises findings from the study’s survey of accounting practices. Usable responses to the survey numbered 546, representing 31.6 percent of the 1,729 questionnaires distributed.

The report provides a background description of Australian rural and regional accounting firms and their services. Some of the major findings are as follows:

- Rural and regional accounting practices in Australia are generally healthy and the provision of services is, overall, satisfactory. There are, however, some significant concerns and tensions.

- As expected, the services that have the highest frequency of provision by rural and regional practices are those in the accounting and tax category, especially those of tax and accounting compliance services. A lower proportion of rural and regional practices provide services in the auditing and assurance, information technology, business and economic advice and investment categories.

- Rural and regional practices generally consider their provision of services, across all categories of services, to ‘always meet’ or ‘nearly always meet’ client requirements.

- The most commonly mentioned actions that practices adopt to meet client requirements and to maintain and improve their understanding of client requirements involve direct communication with clients, training and professional development of staff and improving the practice’s computer and electronic technology facilities.

- A shortage of professional staff is the most significant issue affecting the ability of rural and regional practices to provide services to their clients. Other factors mentioned by respondents include over-regulation of accounting practice, the negative attitude of clients to fees charged and succession planning difficulties.

- Some tensions have arisen from recent regulatory developments that particularly affect rural and regional accounting practices:
  - Provisions of the CLERP 9 Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004 have had, and will continue to have, an adverse impact on the provision of audit services by rural and regional practitioners, especially by smaller practices.
  - The requirements of the Financial Services Reform Act 2001, particularly for the licensing of financial service providers, have resulted in many rural and regional practices providing less investment, financial planning and superannuation advice themselves, while increasing the referral of clients to outside specialist providers.
  - Respondents, in general, estimate that there is currently a minor undersupply of many accounting and allied services in rural and regional Australia. The category of service for which respondents
believed there to be the greatest current undersupply was that of auditing and assurance services. This was followed by the business/economic advice and information technology categories. Respondents believed there to be only a minor undersupply in the core accounting and tax services category. Respondents did not consider there to be a real undersupply in investment advice, personal financial planning and advice (including superannuation), real estate, finance brokerage and insurance services.

- For almost all categories of service, survey respondents expect that the undersupply in services will increase over the next five years. The exceptions are for information technology services and economic outlook and property development services. The services with the biggest estimated undersupply, both currently and that expected in five years, are in the auditing and assurance services areas. As noted earlier, it is likely that the provisions of the CLERP 9 Act have had an effect in reducing the frequency of the provision of auditing and assurance service by rural and regional practices, especially by smaller practices, and that this reduction will continue into the future.

- Rural and regional accounting practices access external specialist advice when necessary, particularly to overcome any lack of expertise in specific areas and to obtain an independent second opinion. The highest categories of service for which practices access external advice are taxation (both tax compliance and tax planning/advice), legal services, superannuation fund administration and superannuation/financial planning/investment advice. A majority of practices obtain this external advice from capital city-based, non-accounting firms.

- Rural and regional accounting practitioners are, on average, ambivalent in their satisfaction (‘neither dissatisfied nor satisfied’) with the support provided to rural and regional practices by their professional accounting bodies.

- Accounting practitioners consider that government authorities and regulators could best assist rural and regional accounting practices by (a) simplifying regulatory requirements on accounting practices, (b) increasing practitioner access to professional development programs, (c) increasing the supply of professional accounting staff to rural and regional Australia, and (d) developing rural and regional economic growth strategies.

In summary, this research monograph presents findings related to the current state of play with respect to public accounting firm services in rural and regional Australia. The report paints a picture of a high standard of service provision by these rural and regional practices, but with considerable tensions existing that will present difficulties in future years. These tensions primarily arise from professional staffing difficulties and regulatory developments. These problems will affect the whole range of services provided by rural and regional firms in future years. It is particularly concerning that survey respondents generally consider that the current undersupply in the core accounting compliance, tax compliance, tax planning and auditing services will worsen over the next five years.
1. The survey

Using CPA Australia’s member database, 1,729 questionnaires were mailed to rural and regional members holding public practice certificates. A follow-up mailing to non-respondents was also conducted. A total of 546 useable questionnaires were returned, a response rate of 31.6 percent.

The survey was administered in August and September 2008. Many rural and regional communities in Australia at this time were suffering the effects of drought, which in some areas had persisted for the previous eight to ten years. The problem of restructuring to take account of restricted water supplies was the predominant factor affecting business outlook in many rural and regional areas. Nevertheless, at the time of the survey, business expectations were generally buoyant as the Australian commodity industries were performing well due to substantial and growing international demand for agricultural commodities, minerals and natural gas resources. The survey was conducted before the full extent of the looming international financial crisis was generally recognised or appreciated by the Australian community, although the difficulties some major US financial institutions were facing as a result of sub-prime mortgage lending was common knowledge at the time.

The 546 survey respondents were from 503 separate accounting practices located in 274 different towns and cities across the nation. The vast majority of survey respondents (almost 96 percent) held the position of principal/partner/director in their practice.

As revealed in Figure 1.1, the study included respondents from all Australian states, the Northern Territory and the Australian Capital Territory. Eighty-five percent of the accounting practitioners who responded were from eastern mainland Australia (ACT, NSW, Qld and Vic).

Figure 1.1 Percentage of respondents from each state

<table>
<thead>
<tr>
<th>State</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACT</td>
<td>4%</td>
</tr>
<tr>
<td>NSW</td>
<td>24%</td>
</tr>
<tr>
<td>QLD</td>
<td>29%</td>
</tr>
<tr>
<td>VIC</td>
<td>28%</td>
</tr>
<tr>
<td>SA</td>
<td>2%</td>
</tr>
<tr>
<td>TAS</td>
<td>3%</td>
</tr>
<tr>
<td>NT</td>
<td>2%</td>
</tr>
<tr>
<td>SA</td>
<td>2%</td>
</tr>
<tr>
<td>QLD</td>
<td>29%</td>
</tr>
<tr>
<td>VIC</td>
<td>28%</td>
</tr>
<tr>
<td>NSW</td>
<td>24%</td>
</tr>
<tr>
<td>ACT</td>
<td>4%</td>
</tr>
<tr>
<td>TAS</td>
<td>3%</td>
</tr>
<tr>
<td>NT</td>
<td>2%</td>
</tr>
</tbody>
</table>

The vast majority of survey respondents (almost 96 percent) held the position of principal/partner/director in their practice.
All respondents were from rural and regional areas in Australia outside the major state capital cities: Sydney, Melbourne, Brisbane, Adelaide and Perth. Thirty-two respondents (5.9 percent) were located in the metropolitan areas of Hobart, Canberra and Darwin. Figure 1.2 shows that almost fifty percent of respondents were located at least 200 kilometres from the capital city of their State or Territory. Seventeen percent were located at least 500 kilometres from their capital city.

Figure 1.3 presents a further summary of respondents by size of the town or city in which their practice was located. Thirty-seven percent of respondents were based in towns and small regional cities with populations of less than 15,000, while 63 percent were located in medium and large regional cities with populations of at least 15,000.
2. Accounting practice characteristics

Figures 2.1 and 2.2 present data on the size and type of the accounting practices of respondents. Figure 2.1 reveals that seventy-one percent of respondent practices were of relatively small size with either one or two partners/principals. Twenty-two percent were from firms with three to five partners/principals, and seven percent were from practices having six or more partners/principals.

As shown in Figure 2.2, nearly three-quarters of the survey respondents were from a non-consolidated practice with a single office. Twenty-two percent of respondents were from non-consolidated practices with more than one office, with the majority of these having their offices within their region. Five percent of respondents were from practices that were part of a consolidated group.
Figure 2.3 indicates that rural and regional accounting practices deal primarily with business clients. Respondents indicated that, on average, nearly three-quarters of their practices' clients were in the business owners/self-employed category. Further analysis of the research data indicated that smaller practices tended to have a slightly lower proportion of business clients.

Rural and regional accounting practices primarily service small to medium size firms. Figure 2.4 shows the distribution of respondent clients by industry.
Respondents were asked to identify the distinguishing characteristics of their accounting practice. Results are summarised in Figure 2.5. More than three-quarters of respondents indicated that personalised service and quality of service were among the distinguishing characteristics and strengths of their practice. Smaller practices tended to emphasise personalised service more than larger firms, whereas larger practices tended to emphasise quality of service, staff expertise and range of services. It is evident that only a minor proportion of respondents mentioned lower fees and charges and regional or industry specialisation as a distinguishing characteristic of their practice.

Additional comments provided by respondents reinforced the ability of rural and regional accounting practices to provide a personalised service of high quality.

A selection of respondent comments is provided below:

- Small, friendly office as opposed to larger impersonal office.
- Clients have immediate access to principal and/or staff.
- Availability out of normal office hours.
- Based in the area with staff resident.
- Affinity with country people.
- Ability to communicate effectively with clients.
- Very approachable, no intimidation. Willing to explain things simply. Willing to take time with non-English speaking backgrounds.
- Dealing with whole family issues at one location.
- Sole practitioner able to advise clients on a personal basis.
- Tailored services.
- Small to medium size firm specialist.
3. Types of services provided

The types of services provided by rural and regional accounting practices are summarised in Figure 3.1. The figure shows, for each service, the percentage of respondents indicating that their practice provides that service.

Figure 3.1 Percentage of practices providing various services

<table>
<thead>
<tr>
<th>Accounting and tax</th>
<th>Accounting compliance</th>
<th>94%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Management accounting services</td>
<td>65%</td>
</tr>
<tr>
<td></td>
<td>Tax compliance</td>
<td>96%</td>
</tr>
<tr>
<td></td>
<td>Tax planning/advice</td>
<td>90%</td>
</tr>
<tr>
<td></td>
<td>Superannuation fund administration</td>
<td>72%</td>
</tr>
<tr>
<td>Auditing and Assurance</td>
<td>Auditing: companies/commercial</td>
<td>26%</td>
</tr>
<tr>
<td></td>
<td>Auditing: incorporated associations</td>
<td>52%</td>
</tr>
<tr>
<td></td>
<td>Business investigations</td>
<td>19%</td>
</tr>
<tr>
<td></td>
<td>Valuations</td>
<td>29%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>Computer consulting</td>
<td>11%</td>
</tr>
<tr>
<td></td>
<td>Computer training</td>
<td>23%</td>
</tr>
<tr>
<td></td>
<td>Computerised accounting/budgeting software</td>
<td>38%</td>
</tr>
<tr>
<td>Business/Economic Advice</td>
<td>Economic outlook</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td>Business planning</td>
<td>60%</td>
</tr>
<tr>
<td></td>
<td>Property development</td>
<td>16%</td>
</tr>
<tr>
<td>Investment</td>
<td>Investment advice</td>
<td>30%</td>
</tr>
<tr>
<td></td>
<td>Personal financial planning/advice, superannuation</td>
<td>34%</td>
</tr>
<tr>
<td></td>
<td>Estate planning</td>
<td>32%</td>
</tr>
<tr>
<td></td>
<td>Legal services</td>
<td>1%</td>
</tr>
<tr>
<td></td>
<td>Real estate services</td>
<td>1%</td>
</tr>
<tr>
<td></td>
<td>Finance brokerage</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>Insurance</td>
<td>18%</td>
</tr>
<tr>
<td>Referrals</td>
<td>Referrals for Investment advice</td>
<td>51%</td>
</tr>
<tr>
<td></td>
<td>Referrals for Personal financial planning/advice, superannuation</td>
<td>49%</td>
</tr>
<tr>
<td></td>
<td>Referrals for Estate planning</td>
<td>32%</td>
</tr>
<tr>
<td></td>
<td>Referrals for Legal services</td>
<td>63%</td>
</tr>
<tr>
<td></td>
<td>Referrals for Finance brokerage</td>
<td>43%</td>
</tr>
</tbody>
</table>
As expected, the services that respondents reported as most often provided by rural and regional practices are those in the accounting and tax category, and especially those for tax and accounting compliance and tax planning/advice. Over half the respondents reported that their practice provides auditing of incorporated associations, business planning, referrals for investment advice and referrals for legal services. Just under a half (49 percent) of respondents reported that their practice provides referrals for personal financial planning/advice and superannuation.

The various categories of services were further analysed by practice size. The frequencies for each of the types of services in the accounting and tax category were relatively equal across practice size. In contrast, differences in service by practice size were particularly evident for auditing and assurance services. For example, only 14 percent of single partner practices provided company/commercial audits, while 76 percent of practices with six or more partners provided these services. Similarly, while 70 percent of practices with six or more partners provided valuation services, only 12 percent of single partner practices provided such a service.

It is likely that the provisions of the CLERP 9 Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004 have had an effect in reducing the provision of auditing and assurance service by rural and regional practices, especially by smaller practices. For example, the requirement for audit partner rotation every five years makes it impossible for a practice with only one registered company auditor to conduct, over the long term, audits that can only be undertaken by such registered practitioners.

In the information technology category, the service most frequently provided, as indicated by 38 percent of respondents, was that relating to computerised accounting and budgeting software. Computer consulting and training services were provided less frequently. The frequency of the provision of services in the information technology category did not generally vary across different practice sizes.

In the business/economic advice category, business planning was the service most frequently provided. This is not surprising, as business planning is closely related to the accounting and tax services that are fundamental to accounting practices. Sixty percent of respondents indicated their practice provided a business planning service.

Around thirty to thirty-five percent of respondents indicated that their practice provided investment advice, personal financial planning/superannuation advice and estate planning. The propensity for rural and regional practices to refer clients to outside providers for these services is evident, with around half the respondents indicating their practice does this for investment advice and for personal financial planning/superannuation advice. However, in interviews some respondents stated that, due to their intimate knowledge of their clients' financial affairs, they are well placed to provide such advice themselves.

Taken together, the statistics for the provision by rural and regional accounting practices of services in the investments category and in the area of outside referrals for investment advice illustrate the effect of the Financial Services Reform Act 2001. The figures are consistent with the conclusion that the Act's requirements, particularly for the licensing of financial service providers, have resulted in rural and regional practices providing less investment, superannuation and financial planning advice themselves while increasingly referring clients to outside specialist providers.

The frequency of the provision of services in the category of business planning and investment advice varied by size of accounting practice, with the propensity to provide these services increasing with practice size. For example, only 14 percent of single partner practices provided investment advice, while 84 percent of practices with six or more partners provided these services. Similarly, while 16 percent of single partner practices provided personal financial planning/advice and superannuation services, 92 percent of practices with six or more partners provided these services.

Respondents were given the opportunity to list other services provided by their practice. The services most often mentioned were those relating to Centrelink advice, employment/recruitment, payroll administration, insolvency/reconstruction services or referrals, insurance referrals and real estate service or referrals.

A further survey question asked respondents to indicate the extent to which they believe their practice meets client requirements. Respondents in general believed the services they provide ‘always met’ or ‘nearly always met’ the level of quality required by their clients. This was the case across all categories of services.
4. Actions to improve practices’ ability to meet client requirements

Respondents were asked to list the actions that they undertook to meet client requirements and to maintain and improve their understanding of client requirements. The results are summarised in Figure 4.1.

As shown in Figure 4.1, the most commonly mentioned actions involved direct communication with clients (e.g. visiting clients at their place of work, becoming familiar with their employment/industry situation and meeting to reviewing their requirements) and internal staff support (e.g. providing training and professional development and improving electronic technology).

![Figure 4.1 Actions to improve ability to meet client requirements](image)

Less than half the respondents indicated that their practice provides fee quotations to clients and about one-quarter indicated that their practice generates a statement of the client’s accounting and financial requirements. The percentage was generally higher for larger practices. Only a small proportion of respondents indicated their practice arranges information sessions for clients and conducts client and market research. This indicates the substantial reliance practices place on face-to-face personal communications as a means of improving their ability to meet client requirements.
5. Factors that inhibit the ability of practices to meet client requirements

The factors that respondents identified as inhibiting their practice's ability to provide services to their clients are summarised in Figure 5.1.

Figure 5.1 Factors that inhibit the provision of client services

- **Staffing issues**
  - Shortage of professional staff due to recruitment difficulties: 51% inhibit, 19% may inhibit, 30% does not inhibit
  - Shortage of staff due to growing client base: 39% inhibit, 24% may inhibit, 37% does not inhibit
  - Shortage of professional staff due to retention difficulties: 28% inhibit, 18% may inhibit, 55% does not inhibit
  - Shortage of support staff due to recruitment difficulties: 23% inhibit, 19% may inhibit, 58% does not inhibit
  - Shortage of professional skills due to inability to provide sufficient staff: 17% inhibit, 23% may inhibit, 60% does not inhibit
  - Inadequate staff motivation: 16% inhibit, 25% may inhibit, 59% does not inhibit
  - Shortage of support staff due to retention difficulties: 15% inhibit, 17% may inhibit, 68% does not inhibit
  - Shortage of support staff due to inability to provide sufficient staff: 15% inhibit, 10% may inhibit, 75% does not inhibit

- **Other issues**
  - Over-regulation of accounting practices: 36% inhibit, 28% may inhibit, 35% does not inhibit
  - Negative attitude of clients to accounting fees: 31% inhibit, 30% may inhibit, 39% does not inhibit
  - Accounting practice succession planning difficulties: 27% inhibit, 24% may inhibit, 49% does not inhibit
  - Inability to keep up with change: 22% inhibit, 33% may inhibit, 46% does not inhibit
  - Inadequate access to external specialist advice: 14% inhibit, 15% may inhibit, 71% does not inhibit
  - Decline of the client base in rural and regional areas: 13% inhibit, 15% may inhibit, 72% does not inhibit
  - Inadequate access to broadband/other electronic network facilities: 12% inhibit, 9% may inhibit, 79% does not inhibit

Rural and regional accounting practices in Australia
It is particularly evident that respondents consider staffing, particularly professional staffing, as the most significant issue affecting their practice's ability to provide services to clients. Slightly over half the respondents indicated that a shortage of professional staff due to recruitment difficulties constrains their practice's performance. Respondents indicated that, for professional staff, recruitment was a more common problem than retention.

Other factors that respondents indicated as inhibiting their practice's ability to provide services were over-regulation, the negative attitude of clients to accounting fees and difficulties in succession planning. The difficulties with succession planning suggest a lack of staff rising up through practices. The negative attitude of clients to fees inhibits practices charging the full value of their services, which in turn impacts on the practice's ability to recruit professional staff. One respondent wrote: “After 27 years as a partner in a rural practice the core problem is fee sensitivity. That pricing issue caps profits and reduces our capacity to recruit, retain and reward staff.”

Rural decline (consistent with a decline of the client base in rural and regional areas), inability to keep up with change and inadequate access to broadband and electronic networks were generally not seen as significant factors inhibiting the ability of accounting practices to meet client needs. It might be expected that these factors would become increasingly difficult for smaller and more remotely located practitioners, but analysis of responses by size of practice and distance of practice from capital city shows that this was not the case.

In spite of the staffing and other inhibiting factors identified by respondents, the majority of respondents assessed their practice as providing a high or very high standard of client service in terms of the maintenance of service quality and timeliness of service, service fees and engendering client trust in the practice. A sample of respondent written comments is provided below:

- I believe we provide great quality service to our present clients at value for money - to the best of our abilities.
- This practice provides a very high quality service to clients, who often fail to appreciate the level of service they receive within the realm of complicated tax law. It is done to the financial disadvantage of the practice, i.e. fees are often significantly less than the real value of the service.
- Many fees are too low.
- A trustworthy practice is of utmost importance.
- Our integrity in our local community is linked strongly to our ability to attract and keep clients.
- Our close relationship with clients is such that one event leads to forming more confidence and trust.
6. Staff shortages

As highlighted in the previous section, survey respondents considered staffing, particularly professional staffing, as a significant factor hampering the ability of rural and regional accounting practices to provide services to clients. Forty-six percent of respondents reported that their practice was experiencing a staff shortage. The shortage of staff appears to apply to rural and regional accounting practices across the nation, although there are some state and territory variations. This is evident from Figure 6.1 below, which reveals that respondents from New South Wales and Tasmania indicated less of a shortage than those in other states. At least half the respondents in each of the ACT, Northern Territory, Queensland and South Australia reported that their practice had a staff shortage. Almost half the respondents in Victoria and Western Australia also indicated a staff shortage for their practice.

The average number of additional staff (part-time and full-time) that practices could currently employ is summarised in Table 6.1. Respondent assessments indicate that, on average across Australia, rural and regional practices could currently employ an additional 0.62 full-time graduate accountants with at least three years experience. These practices could also employ an additional 0.39 full-time graduate accountants with less than three years experience. This indicates that the shortage of accountants is greatest for experienced staff, but that there is also a shortage of those with less experience.

<table>
<thead>
<tr>
<th>Staff type</th>
<th>ACT</th>
<th>NSW</th>
<th>NT</th>
<th>QLD</th>
<th>SA</th>
<th>TAS</th>
<th>VIC</th>
<th>WA</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Graduate accountants with three or more years experience</td>
<td>0.76</td>
<td>0.40</td>
<td>0.60</td>
<td>0.82</td>
<td>0.82</td>
<td>0.24</td>
<td>0.62</td>
<td>0.59</td>
<td>0.62</td>
</tr>
<tr>
<td>Graduate accountants with less than three years experience</td>
<td>0.32</td>
<td>0.27</td>
<td>0.50</td>
<td>0.45</td>
<td>0.45</td>
<td>0.24</td>
<td>0.43</td>
<td>0.41</td>
<td>0.39</td>
</tr>
<tr>
<td>Other professional staff</td>
<td>0.37</td>
<td>0.16</td>
<td>0.10</td>
<td>0.20</td>
<td>0.27</td>
<td>0.12</td>
<td>0.22</td>
<td>0.20</td>
<td>0.20</td>
</tr>
<tr>
<td>Support staff</td>
<td>0.11</td>
<td>0.16</td>
<td>0.25</td>
<td>0.29</td>
<td>0.00</td>
<td>0.00</td>
<td>0.19</td>
<td>0.32</td>
<td>0.21</td>
</tr>
</tbody>
</table>
While rural and regional practices are short of professional accountants, there is not the same level of shortage for other professional staff and support staff. Table 6.1 shows that, on average, rural and regional accounting practices have a shortage of 0.2 professional staff other than accountants and 0.21 support staff.

Further analysis of the responses about staff shortages suggests that more remote practices may experience greater staff shortages than those closer to capital cities. For example, respondents from practices located at least 500 km from their capital city reported a need for approximately 0.8 additional graduates with at least three years of experience, while respondents from practices less than 200 km away from their capital reported a need for only about 0.6 additional staff of this type.

Additional analysis of the data also showed that larger practices could currently employ more additional staff than smaller practices. For example, on average respondents from practices with 6 or more partners/principals reported that their practice could currently employ an additional 2.8 graduates while on average respondents from sole practitioner practices reported that their practice could only employ an additional 0.6 of a graduate accountant.
7. Current and future service supply

Figure 7.1 shows the proportions of respondents who believed there is a current undersupply of accounting and allied services in their region and the proportions of respondents who believed there will be an undersupply in five years time.

The figure reveals that a relatively large proportion of respondents considered that there is currently an undersupply of many accounting and allied services, especially those services in the auditing and assurance category. Further analysis of the research data showed that most respondents considered the level of undersupply to be minor rather than major and that, in general, respondents from practices further away from their capital city did not report a larger level of undersupply of services.

Figure 7.1 also shows that for almost all categories of service, survey respondents expected that any undersupply will increase over the next five years. The exceptions are for information technology services and economic outlook and property development services.

The services with the biggest estimated undersupply, both currently and that expected in five years, are in the auditing and assurance services areas. As noted earlier, it is likely that the provisions of the C LERP 9 Act have had an effect in reducing the provision of auditing and assurance services by rural and regional practices, especially by smaller practices, and that this reduction will continue into the future.

While services in the auditing and assurance category were considered by respondents to have the greatest levels of both current and future undersupply, it is services in the accounting and tax category for which there is the greatest difference between current and expected future undersupply. In particular, while 38 and 37 percent of respondents respectively considered there to be a current undersupply of accounting and tax compliance services, the percentage of respondents who believed there will be an undersupply in these services in five years time increases to 57 and 56 percent respectively.

Accordingly, over half the respondents believed there will be an undersupply in these core accounting firm services in five years time. This is a reflection of the staff shortage problem discussed in the previous section. This situation is also particularly a concern given that, as evident from Figure 3.1 presented earlier, services in the core accounting and tax category are those provided by the highest proportion of practices.

Respondents were asked to identify the extent to which they believed various factors (changes to accounting and tax regulations, general economic conditions and business conditions, communications technology and family circumstances) were likely to affect client requirements for accounting and allied services over the next three to five years. The results are summarised in Figure 7.2.

The three most important factors were changes to accounting and tax regulations, general economic conditions and business conditions. Further analysis of the research data shows that there is no effect due to distance of accounting practice from the capital city. Written comments by respondents identified three additional factors, namely the ageing rural and regional population, the variable population growth between regions and the ongoing drought conditions, as being major factors expected to affect the future demand for services.
Figure 7.1 Respondent assessment of current and future undersupply of services

**Accounting and tax**
- Accounting compliance: Current 38% / In 5 years 57%
- Management accounting services: Current 53% / In 5 years 62%
- Tax compliance: Current 37% / In 5 years 56%
- Tax planning/advice: Current 47% / In 5 years 62%
- Superannuation fund administration: Current 48% / In 5 years 60%

**Auditing and Assurance**
- Auditing: companies/commercial: Current 77% / In 5 years 79%
- Auditing: incorporated associations: Current 73% / In 5 years 78%
- Business investigations: Current 68% / In 5 years 68%
- Valuations: Current 55% / In 5 years 50%

**Information Technology**
- Computer consulting: Current 53% / In 5 years 50%
- Computer training: Current 48% / In 5 years 40%
- Computerised accounting/budgeting software: Current 41% / In 5 years 40%

**Business/Economic Advice**
- Economic outlook: Current 57% / In 5 years 54%
- Business planning: Current 53% / In 5 years 57%
- Property development: Current 49% / In 5 years 47%

**Investment**
- Investment advice: Current 27% / In 5 years 32%
- Personal financial planning/advice, superannuation: Current 28% / In 5 years 34%
- Estate planning: Current 30% / In 5 years 47%
- Legal services: Current 30% / In 5 years 31%
- Real estate services: Current 9% / In 5 years 14%
- Finance brokerage: Current 15% / In 5 years 20%
- Insurance: Current 16% / In 5 years 22%
Figure 7.2 Factors affecting the future demand for accounting and allied services

- Changes in accounting, tax and financial regulatory requirements: 73% Likely to affect, 19% May or may not affect, 8% Not likely to affect
- Changes in the general economic environment: 76% Likely to affect, 17% May or may not affect, 7% Not likely to affect
- Changes in client business or employment situation: 75% Likely to affect, 19% May or may not affect, 6% Not likely to affect
- Changes in client computer access and client electronic submission processes: 64% Likely to affect, 26% May or may not affect, 9% Not likely to affect
- Changes in information and communication technology: 62% Likely to affect, 29% May or may not affect, 9% Not likely to affect
- Changes in client family circumstances: 59% Likely to affect, 34% May or may not affect, 7% Not likely to affect
8. External specialist advice

Of the 546 respondents, 421 (77.1 percent) indicated that their practice obtains external specialist advice from other outside firms. On average, rural and regional accounting practices sought external advice between two and three times a month.

Figure 8.1 shows the reasons respondents indicated for obtaining external specialist advice. The figure indicates that the major reasons rural and regional accounting practices seek external advice are due to a lack of expertise within the practice and because the advice provides an independent second opinion.

Further analysis of the data revealed that respondents from smaller practices reported insufficient time and an insufficient number of staff as being a more important reason for accessing external specialist advice than did respondents from larger practices. The latter respondents more frequently reported a lack of expertise within the practice as a reason for obtaining external advice, possibly because larger practices provide more complex services to clients. Further analysis also indicated that there was no significant difference in reasons for obtaining external specialist advice due to the distance of the rural and regional accounting practice from the capital city.

As shown in Figure 8.2, the majority of the rural and regional practices obtained their specialist advice from firms located in capital cities only. A further 20 percent obtained advice from both capital city and rural and regional-based firms, while only a relatively small proportion obtained advice solely from rural and regional firms.
Figure 8.3 shows the types of firms from which specialist advice was obtained by respondent practices.

The use of non-accounting firms for external advice reflects the need for specific information concerning complex issues in the areas of taxation, superannuation, investment and estate planning, given the associated legal implications. Figure 8.4 provides a breakdown of the types of services for which specialist advice is obtained. The figure indicates that around one-half or more of the respondents reported that their practice obtains external advice with respect to tax compliance and planning/advice and superannuation fund administration issues.
### Figure 8.4 Percentage of respondents obtaining various external specialist advice

<table>
<thead>
<tr>
<th>Services</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accounting and tax</strong></td>
<td></td>
</tr>
<tr>
<td>Accounting compliance</td>
<td>16%</td>
</tr>
<tr>
<td>Management accounting services</td>
<td>5%</td>
</tr>
<tr>
<td>Tax compliance</td>
<td>50%</td>
</tr>
<tr>
<td>Tax planning/advice</td>
<td>57%</td>
</tr>
<tr>
<td>Superannuation fund administration</td>
<td>47%</td>
</tr>
<tr>
<td><strong>Auditing and Assurance</strong></td>
<td></td>
</tr>
<tr>
<td>Auditing: companies/commercial</td>
<td>13%</td>
</tr>
<tr>
<td>Auditing: incorporated associations</td>
<td>7%</td>
</tr>
<tr>
<td>Business investigations</td>
<td>9%</td>
</tr>
<tr>
<td>Valuations</td>
<td>19%</td>
</tr>
<tr>
<td><strong>Information Technology</strong></td>
<td></td>
</tr>
<tr>
<td>Computer consulting</td>
<td>15%</td>
</tr>
<tr>
<td>Computer training</td>
<td>7%</td>
</tr>
<tr>
<td>Computerised accounting/budgeting software</td>
<td>9%</td>
</tr>
<tr>
<td><strong>Business/Economic Advice</strong></td>
<td></td>
</tr>
<tr>
<td>Economic outlook</td>
<td>7%</td>
</tr>
<tr>
<td>Business planning</td>
<td>8%</td>
</tr>
<tr>
<td>Property development</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Investment</strong></td>
<td></td>
</tr>
<tr>
<td>Investment advice</td>
<td>32%</td>
</tr>
<tr>
<td>Personal financial planning/advice, superannuation</td>
<td>35%</td>
</tr>
<tr>
<td>Estate planning</td>
<td>27%</td>
</tr>
<tr>
<td>Legal services</td>
<td>39%</td>
</tr>
<tr>
<td>Real estate services</td>
<td>13%</td>
</tr>
<tr>
<td>Finance brokerage</td>
<td>23%</td>
</tr>
<tr>
<td>Insurance</td>
<td>22%</td>
</tr>
</tbody>
</table>
9. Professional accounting bodies

The survey sought the views of respondents on their satisfaction with their professional accounting body. On a 1 to 5 scale (where 1 = ‘very dissatisfied’ and 5 = ‘very satisfied’), the overall mean score was 2.8. This indicates that respondents are, on average, ambivalent in their satisfaction with the support provided to regional and rural accounting practices by their professional accounting body. While 28 percent of respondents were either ‘very satisfied’ or ‘satisfied’ with their professional accounting body, 35 percent were either ‘very dissatisfied’ or ‘dissatisfied’. The balance of the respondents (37 percent) were ‘neither dissatisfied nor satisfied’.

Further analysis of the research data revealed that the level of respondents’ satisfaction with their professional accounting body did not vary significantly by size of practice or distance of the respondent’s practice from the state/territory capital city. However, respondent satisfaction assessments could perhaps vary between particular accounting bodies, but respondents were not asked to name the specific professional accounting body to which they belong and for which they were providing the assessment (although respondents were drawn from the CPA Australia membership database).

Respondents were more forthcoming in their unconstrained written comments. The majority of respondent comments revolved around general dissatisfaction with continuing professional development (CPD) courses offered in rural and regional areas, and to a lesser extent with the quality assurance (QA) reviews of accounting practice auditing services. While some respondents offered positive suggestions for the improvement of activities, others were critical of their professional association.

A representative selection of respondent comments is provided below:

- Have experienced poor representation from accounting bodies in rural areas.
- Waste of annual subscriptions. The professional bodies have failed public practitioners. Very disenchanted and have been for a long time. They provide no value to us.
- We have very little contact with CPAA and I guess our expectation is fairly low resulting in neither dissatisfaction nor satisfaction.
- Professional bodies need to remember that regional and rural practitioners cannot easily travel to capital cities for short duration events.
- I am proactive in choosing CPD seminars from various providers and maintaining currency of my tertiary training.

- CPA firstly looks after the big 4 accounting firms and the big end of town. They have lost touch with the small public practitioner. Other organisations such as NTA provide far superior seminars and notes, value for money from our membership fee.

- The reality is that we are largely responsible for our own destiny. Any assistance from CPA would be gratefully received.

- Support has been improving on an incremental basis over the last 10 years and appears like it will continue to do so.

- The CPA run quarterly tax training which is extremely well attended—and supported by us—Very Good.

- Need to keep QA program costs down as use city accountants at very high rates.

A summary of the actions respondents felt their accounting body could undertake to best support rural and regional accounting practices is provide in Figure 9.2. Approximately two-thirds of respondents indicated that they require accounting organisations to lobby governments on issues affecting accounting practices, particularly in relation to the minimising of compliance and regulation requirements and assistance with staff recruitment and training. This is consistent with two major factors respondents identified as inhibiting accounting practice ability to meet client requirements, as reported in section 5 earlier.

![Figure 9.2 Type of support required from professional accounting bodies](image)

- Lobbying governments on issues affecting accounting practices: 66%
- Minimise compliance and regulation impacts: 65%
- Increase staff training: 50%
- Recruiting and retaining staff: 38%
- Establishing networks to specialist firms: 35%
- Reduce practice operating costs: 35%
- Benchmarking performance: 28%
- Identifying new growth opportunities and specialisations: 27%
- Succession planning: 26%
Other actions respondents felt could be undertaken by accounting bodies relate to the practice management issues of operating cost and performance, specialist advice networking, identifying growth opportunities and internal succession planning. Further analysis by practice size revealed that smaller practices would like assistance with establishing networks to specialist firms and the reduction of practice operating costs, while larger practices seek assistance with staff recruitment and retention, benchmarking and identifying new growth opportunities and specialisations.

Additional written comments by respondents indicated that they would like the accounting bodies to make substantial improvements to the CPD programs provided to rural and regional accountants, to standardise accounting procedures and documents, and to promote the image of the professional accountant. A selection of respondent comments is provided here:

- *Offer more CPD in regional centres.*
- *More online professional development for geographically isolated accountants.*
- *Continue to develop generic check lists, letter and forms for practices to use/adopt in the workplace.*
- *Needs to be proper professional recognition of qualified accountants.*
- *Provide a legal definition of “accountant” which is acceptable in court.*
10. Government authorities

Survey respondents were asked for their views on how government authorities and regulators could best assist rural and regional accounting practices. Results are summarised in Figure 10.1. Almost seventy percent of respondents indicated that government authorities could assist rural and regional practitioners by simplifying the regulatory requirements on accounting practices. Nearly half of the respondents indicated that government authorities could assist by increasing practitioner access to professional development programs, increasing the supply of professional staff and developing economic growth strategies for rural and regional areas.

Figure 10.1 How government authorities and regulators could assist rural and regional practices

- Simplifying regulatory requirements on accounting practices: 69%
- Increasing practitioner access to professional development programs and specialist financial advice: 48%
- Increasing the supply of professional accounting staff to rural and regional areas: 47%
- Developing rural and regional economic growth strategies: 46%
- Increasing the supply of accounting support staff to rural and regional areas: 27%
- Supporting the recruitment of qualified graduates from overseas: 11%
Further analysis of the data by size of practice found that more respondents from smaller practices, in comparison to those from larger practices, mentioned increasing practitioner access to professional development programs and specialist financial advice as a beneficial form of assistance. On the other hand, more respondents from larger practices mentioned simplifying regulatory requirements, increasing the supply of professional accounting staff and developing economic growth strategies for rural and regional areas than did respondents from smaller practices. Increasing the supply of support staff or the recruitment of qualified graduates from overseas was not seen to be of major importance, though the latter appears to be more favourably regarded by respondents from larger practices.

Additional written comments by respondents generally elaborated on the actions listed in Figure 10.1. Two additional suggestions advanced are for a reduction of the constraints under the *Financial Services Reform Act 2001* upon accountants providing financial planning advice and to improve public accountants’ access to Centrelink and other government department advice and information.

A representative selection of respondent comments is provided below:

- *Simplifying tax laws and other regulation relating to small business.*
- *Alleviating the compliance pressures on regional accounting practices will assist them to concentrate on the rural client services they provide.*
- *Better interpretation of legislation and provision of training to assist implementation.*
- *Promoting accountancy traineeships in rural areas where the trainee can work for a firm in a rural area and study their degree by correspondence/externally.*
- *Providing assistance and subsidies to encourage skilled graduates to remain or go to regional centres. Incentive based on loyalty and retention/commitment.*
- *Supporting the industry in country areas.*
- *Having rural areas marketed as desirable places to run businesses. Then accounting and other professionals/businesses will take care of themselves.*
- *Non-English speaking accountants are an issue because they cannot communicate with clients—in country areas this is a big issue.*
- *Remove the FSA detailed requirements in the financial planning industry.*
- *Ongoing training and information sessions on available subsidies, grants and incentives available.*
- *Providing a one stop shop that can provide or facilitate all required services for myself and my clients.*
11. Strategies and programs

The survey questionnaire provided respondents with the opportunity to briefly outline any further strategies and programs they felt would assist or benefit rural and regional accounting practices and their clients. Practitioner comments under this heading are of two broad types. One group of responses assessed the future of rural and regional public accounting practices. The second group of responses provided suggestions for improving the prospects of rural and regional accounting practices.

Responses assessing the future of rural and regional practices often emphasised current problems and negative trends facing public accounting practices in rural and regional areas, such as staff shortages and workload stress. However, some responses were more positive, suggesting options for change. A small sample of representative responses is provided below:

- **Big problems in deadlines by Government departments and pressure put on practice to comply. Staff are tired of pressures of deadlines and are leaving the industry for reduced time pressures. Better money less stress. Younger ones don’t want the stress, pressure, responsibilities and risks associated with the industry.**

- **Our practice is typical of many in the area. The principals are all over 50. Young staff are difficult to recruit. Because of the above, practices are difficult to sell. The trend will be for principals to wind up practices and retire.**

- **Tremendous potential for accountants in developing fully integrated accounting/financial planning businesses based on an accounting platform. I did this and a huge market exists for this approach. People are looking for comprehensive and cohesive financial advice that will take them beyond business, into and through retirement and ultimately to disposition of their estates. It is not hard and accountants can do this where other professions cannot.**

Responses providing suggestions for improving the future prospects of public accounting practices in rural and regional areas concentrated on improving the education and training support for accounting professionals, reducing unnecessary compliance requirements, increasing support for rural communities, improving access to government and specialist services and increasing the professional recognition of accountants. Many of the respondent strategy and program suggestions reinforced their responses as to how the professional bodies and government authorities could best assist rural and regional practices, summarised in sections 9 and 10 above.

A selection of responses of respondents is provided here:

- **Subsidised education for under graduates who are prepared to work in provincial areas.**

- **Better liaison between universities and the profession particularly the public practices sector to encourage graduates into public practices. Also a need for universities to focus more attention on practical skills to enable graduates to have access to the type of work undertaken in public practice.**

- **A second level accounting and tax system should be implemented for small businesses, say with assets less than $10 million. Simplified rules for accounting reporting and tax returns.**

- **Relocation assistance, reduce cost accommodation, financial assistance for staff training.**

- **Better use and increased Tax Zone Rebates to assist retentions in the area e.g. no tax on investment/interest income from local credit unions etc that only re-invest in the region.**

- **The tax agent portal developed by the ATO has made a positive difference to the information that tax agents can access online. It would be great for this to be broadened to other Government agencies such as Centrelink, child support agencies and other information we use to prepare tax returns.**
• Mentor program between larger regional based practices and smaller local sole practitioners. On-site visits by professional association specialists regarding successions planning strategies for sole practitioners.

• We have 3 accounting bodies—what a joke. One body should represent all accountants.

• Make use of the word “accountant” subject to similar conditions as “lawyer”. We have non-university educated practitioners running around providing sub-standard/sub-regurgitated advice and unfortunately many clients won’t know if they have a good accountant or not. An accountant should be limited to people who have a recognised degree and membership of an appropriate accounting body.

• Would like to see a schedule of fees.
12. Summary

This research monograph, the first of two, presents findings from the first comprehensive academic research study investigating public accounting firm services in rural and regional Australia. The results are based on a large scale survey of public accounting practitioners located in regions outside the major metropolitan areas.

An interesting finding was that, for the majority of issues examined, differences according to distance of the accounting practice from the closest capital city do not generally exist. With some exceptions, the issues are generally the same whether the accounting practice is located within 200 kilometres of a capital city or 500 kilometres or more from a capital.

The rural and regional accounting practices surveyed predominantly service small to medium sized businesses, particularly in the areas of primary production, retail and wholesale trade and building and construction. These industries are vitally important for regional economic development and the services provided by rural and regional accounting firms are also, in turn, essential for the health of rural and regional economies.

To maintain and improve their ability to meet client requirements, rural and regional practices engage in client-focused activities such as visiting them at their place of work or business, becoming familiar with their employment, industry and general situations, and meeting with them to review their requirements. Providing staff training and professional development activities and improving computer and electronic technology are also high on their list of priorities.

The major factor inhibiting the ability of rural and regional practices to provide services is that of a shortage of professional staff due to recruitment difficulties and growing client bases. Other factors include problems arising from the over-regulation of accounting practice, a negative attitude of clients to accounting fees and practice succession planning difficulties.

The provision of audit services into the future represents a problematic area for rural and regional accounting firms. The 2004 CLERP 9 legislative provisions, for example with respect to the requirement for audit partner rotation every five years, are making it increasingly difficult for smaller rural and regional practices to provide company auditing services.

The provision of financial planning services represents a further problematic area for rural and regional accounting firms. The Financial Services Reform Act 2001, requiring the licensing of financial service providers, has resulted in rural and regional accounting firms providing less investment, financial and superannuation advice themselves while increasingly referring clients to outside specialist providers. This can be a source of frustration for some accounting practitioners who feel they are often well placed to provide such advice themselves.

It is no surprise that the major factor inhibiting the ability of rural and regional practices to provide services is a shortage of professional staff. Survey results indicate that rural and regional accounting practices have a shortage, on average, of one professional accounting staff member. Smaller practices require around 0.6 of a graduate accountant and larger practices up to three graduates. This represents a significant staff shortage when extrapolated across all Australian rural and regional practices.

Study findings indicate there are State and Territory variations in the staff shortages experienced by rural and regional accounting practices. The shortages are greatest for South Australia, the Australian
Staff shortages are one aspect of practice that does vary by distance from the closest capital city, with shortages increasing with distance from the capital.

To assist in the provision of services to clients, more than three-quarters of the rural and regional practices surveyed indicated they had obtained specialist external advice of some type. Sixty-four percent of respondents indicated this specialist advice was procured from only capital city-based firms, with the balance indicating they obtained this advice either from both capital city and rural/regional based firms or solely from rural/regional based firms.

In general respondents estimated that there is currently a minor undersupply of many accounting and allied services, especially those services in the auditing and assurance category. A worrying trend, though, is that survey respondents believed the undersupply of services will increase into the future. For almost all categories of service, the undersupply in services is expected to increase over the next five years. The exceptions are for information technology services and economic outlook and property development services. The services expected to have the greatest undersupply in five years time are those in the auditing and assurance services areas. It is also concerning that it is expected that the current undersupply of the core accounting compliance, tax compliance and tax planning services will increase over future years.

Respondents tended to be ambivalent with respect to the level of support provided to rural and regional practices by the professional accounting bodies. Some positive comments were provided by respondents, reflecting acceptance by some members of the problem of the cost of providing support services in rural and regional areas. Other respondents were more negative, suggesting, for example, that they viewed their professional body to be excessively capital city focused and disconnected from the needs of members in rural and regional locations.

With respect to the issue of how government authorities and regulators could assist rural and regional practices, the highest response was a need to simplify regulatory requirements facing practices. Other responses suggested increasing practitioner access to professional development programs and specialist financial advice, increasing the supply of professional accounting staff to rural and regional areas, and developing rural and regional economic growth strategies. This report has also documented strategies and programs suggested by survey respondents in assessing the future of rural and regional practices and in providing suggestions for improving the prospects of rural and regional practices.

In summary, this research monograph presents findings related to the current state of public accounting firm services in rural and regional Australia. The report paints a picture of a high standard of service provision by these rural and regional practices, but with considerable tensions existing that will present difficulties in future years. These tensions primarily arise from professional staffing difficulties and regulatory requirements, and will affect the whole range of services provided by rural and regional firms.

This first monograph is based on a survey of only rural and regional public accounting firm practitioners. Also examined as part of the research program, and to be the subject of a second monograph, are the views of small and medium enterprise (SME) owners and managers located in rural and regional areas. These parties represent the clients of accounting firms. Accordingly, the second monograph will add to the findings reported here and present insights drawn from both the demand and supply sides of the market for accounting firm services.
References


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ISBN 978-0-7340-4140-1