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Public Accounting Firm Services in Rural and Regional Australia

Research Monograph No. 2: SME 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. 2: SME Views

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Executive summary

This research monograph is the second of two summarising results from an Australian Research Council (ARC) Linkage Project 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.

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

The first of the two research monographs (Carr et al. 2010) summarised the views of rural and regional accounting firm practitioners on various matters related to the demand for, and supply of, the services provided by accounting firms. This second research monograph summarises findings from the study’s survey of rural and regional small and medium size enterprises (SMEs). These SMEs represent the clients of accounting practices. Usable responses to the survey numbered 309, representing 16.1 percent of the 1,916 questionnaires distributed.

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

- The majority of the rural and regional SME respondents engaged an accounting practice also located in a rural and regional area, although a sizeable minority (24 percent) engaged a capital city based practice.

- Reflecting the long-term relationship that develops between accountants and their clients, the majority of the SME respondents had been clients of their accounting practice for a period of at least 10 years. Eighteen percent had been with their accounting practice for 25 years or more, while for 21 percent of respondents this engagement period had been less than 5 years.

- The most common reasons cited by the SME respondents for selecting their accounting practice were the standard of service received (e.g. personalised service, quality of service, staff expertise and experience) and history/recommendation (e.g. family history with the practice and recommendation by others). This reinforces the importance of personal connections in the accountant–client relationship.

- The services that were most often provided to the rural and regional respondent businesses by their accounting practice were those in the accounting and tax category, and especially those for tax and accounting compliance and tax planning/advice. Other services with high frequencies were management accounting, personal financial and investment advice, superannuation services and business planning. Hence, while public accounting practices have moved beyond a narrow range of routine, compliance-driven tasks, the bulk of the services procured by the respondent businesses comprise those within the traditional accounting arena.

- The rural and regional businesses surveyed generally considered that their service requirements were ‘nearly always’ or ‘always’ met by their accounting practice, indicating satisfaction with service quality. This was especially the case for services in the traditional accounting, tax and auditing categories. Hence, despite the staff shortages being experienced by accounting practices, the rural and regional SMEs are generally very satisfied with the quality of the services they receive from their accounting practice. This is reinforced by the generally long periods for which SMEs had been with their accounting practice.
• Again reflecting a high level of satisfaction with their accountant, 83 percent of the SME respondents indicated they were not likely to switch to another accounting practice within the ensuing two years.

• While generally very satisfied with the quality of services provided by accounting practices, some concerns were expressed in the additional comments provided by some of the SME respondents. These concerns focused on the promptness and responsiveness of accounting services, accounting practice staff numbers and expertise, and fees and billing systems.
1. Introduction

This monograph presents an analysis of the assessments of SMEs located in rural and regional Australia of the services provided to them by public accountants. For the purpose of the study, and consistent with the first research monograph, 'rural and regional' is defined for purposes of the study as encompassing those geographical areas outside the greater metropolitan areas of Melbourne, Sydney, Brisbane, Adelaide and Perth.

A database of 1,916 rural and regional SMEs was developed from the Telstra Yellow Pages telephone directory website (www.yellow.com.au). Businesses from seven regions across Australian were selected (Alice Springs NT, Devonport TAS, Griffith NSW, Kalgoorlie WA, Mackay QLD, Port Augusta SA, Warrnambool VIC). In each region, businesses from eight industries were selected for the study (agriculture, manufacturing, building and construction, retail and wholesale trade, transport, business services, personal services, entertainment and recreation). Twenty-two specific activities within these eight industries were included in the analysis (farmers, graziers, abattoirs, bakeries, general engineering, general printing, steel fabricators, electrical contractors, house builders, plumbers, butchers, ladies’ wear retail, motor repairs, heavy carriers, cleaning contractors, computer repairs, real estate, chiropractors, dentists, hairdressers, motels and restaurants).

The 1,916 questionnaires were mailed to the rural and regional SMEs during the period 21 November to 1 December 2008. A follow-up mailing to non-respondents was conducted during December 2008. A total of 309 useable questionnaires were returned, a response rate of 16.1 percent. This response rate is better than is often achieved for this type of survey.

At the time of the survey, November and December 2008, many rural and regional communities in Australia were suffering from drought that 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 at the time. Further, the survey was conducted during a period of a substantial fall in share prices on the Australian Securities Exchange resulting from the worsening global financial crisis at the time. The difficulties some major US financial institutions were facing as a result of sub-prime mortgage lending had become common knowledge in Australia during the latter half of 2007. However, the impending world-wide credit restrictions and resulting financial crisis were not generally recognised in Australia until the final quarter of 2008, when Australian share market values fell by approximately 40 percent.

The respondents were located in 95 different towns and cities within the seven regions targeted. The study included respondents from all Australian states and the Northern Territory. No responses were received from SMEs in the Australian Capital Territory.

Figure 1.1, presenting data on the respondents by state, shows that 45 percent of respondent SMEs were located in eastern mainland Australia. Table 1.1, presenting respondent SMEs by type and mean number of staff, indicates that slightly over 80 percent of SMEs were structured as private companies or partnerships. On average, the SMEs employed approximately 16 staff members (inclusive of the SME owner/managers and partners). Private company respondents had a considerably higher number of staff than did the other forms of business.
Figure 1.1 Percentage of respondents from each state

<table>
<thead>
<tr>
<th>State</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>10%</td>
</tr>
<tr>
<td>NT</td>
<td>12%</td>
</tr>
<tr>
<td>WA</td>
<td>12%</td>
</tr>
<tr>
<td>TAS</td>
<td>13%</td>
</tr>
<tr>
<td>QLD</td>
<td>14%</td>
</tr>
<tr>
<td>SA</td>
<td>18%</td>
</tr>
<tr>
<td>VIC</td>
<td>21%</td>
</tr>
</tbody>
</table>

Table 1.1 Respondents by type and number of staff

<table>
<thead>
<tr>
<th>Type of business</th>
<th>Number</th>
<th>Percent</th>
<th>Mean number of staff*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private company</td>
<td>154</td>
<td>50.5%</td>
<td>26.3</td>
</tr>
<tr>
<td>Partnership</td>
<td>100</td>
<td>32.8%</td>
<td>5.5</td>
</tr>
<tr>
<td>Sole trader</td>
<td>50</td>
<td>16.4%</td>
<td>4.5</td>
</tr>
<tr>
<td>Public company**</td>
<td>1</td>
<td>0.3%</td>
<td>8.0</td>
</tr>
<tr>
<td>All</td>
<td>305</td>
<td>100%</td>
<td>15.8</td>
</tr>
</tbody>
</table>

Non-respondents = 4
* Including owner/managers and partners
** A small regional branch office of a public company
Figure 1.2 provides further detail on the size of SMEs as measured by the number of staff employed. Emphasising the relatively small size of most of the respondent SMEs, 21 percent have one or two staff and 70 percent have 10 or less staff.

As noted earlier, respondent businesses operated across eight industries and twenty-two specific industrial activities. Figure 1.3 shows the percentage of survey respondents across the eight industry areas, and indicates that the respondent SMEs were drawn from a cross-section of industries.
2. Accounting practice patronage and selection

The respondents included many business owners and managers located in rural and remote areas of Australia. Figure 2.1 shows that 94 percent of the businesses were located at least 200km from a capital city and more than one-third were at least 500km from a capital city.

The majority of the SMEs (slightly over three-quarters) utilised the services of a rural and regional accounting firm, with slightly less than one-quarter using a capital city based firm (Figure 2.2). This supports the conclusion that a relatively large proportion of rural and regional SMEs tend to engage an accounting practice also located in a rural and regional area, although a sizeable minority do engage capital city based accounting practices.

Further dissection of the location of the accounting practice utilised by the SME respondents indicated that, proportionately, larger clients were more likely to utilise a capital city based accountant (Figure 2.3). Approximately one-quarter of the SMEs using a rural/regional based accounting practice had 1 or 2 staff, while only 8 percent of SMEs using a capital city based practice were of this small size. Conversely, 46 percent of the SMEs using a capital city based practice employed at least 11 staff, while a smaller proportion of 25 percent of the SMEs using a rural/regional accounting practice were of this larger size.
Figure 2.4 reveals that 40 percent of the SME respondents employed an accountant who was located in the same town or city as the respondent’s business. Forty-seven percent employed accountants located more than 100km from the respondent’s business.

Figure 2.5 shows that the majority of respondents (59%) had been a client of their accounting practice for at least 10 years and 18 percent had been with their accounting practice for at least 25 years. Only approximately one-fifth of the respondents had been with their accounting practice for less than five years. This indicates that, in general, the SME respondents had a relatively long relationship with their accounting practice.
Respondents were asked to indicate the characteristics of their accounting practice that were important to them in their selection of that practice. Results are summarised in Figure 2.6. The most commonly cited reasons for selecting their accounting practice were the standard of service received (i.e. personalised service, quality of service, staff expertise and experience) and history/recommendation (i.e. family history with the practice and recommendation by others). Relatively few clients identified the range of services, regional or industry specialisation and the level of fees as reasons for selecting their accounting practice. This reinforces the importance of personal relationships in the selection decision.
3. Types of services received

This section examines the types of services received by respondent businesses from their accounting practice.

Figure 3.1 shows, for each service, the percentage of respondent businesses indicating that they received that service from their accounting practice.

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax compliance</td>
<td>97%</td>
</tr>
<tr>
<td>Accounting compliance</td>
<td>95%</td>
</tr>
<tr>
<td>Tax planning/advice</td>
<td>91%</td>
</tr>
<tr>
<td>Management accounting service</td>
<td>66%</td>
</tr>
<tr>
<td>Personal financial planning/advice/superannuation</td>
<td>61%</td>
</tr>
<tr>
<td>Business planning</td>
<td>59%</td>
</tr>
<tr>
<td>Investment advice</td>
<td>55%</td>
</tr>
<tr>
<td>Superannuation fund administration</td>
<td>49%</td>
</tr>
<tr>
<td>Economic outlook</td>
<td>49%</td>
</tr>
<tr>
<td>Computerised accounting/budgeting software</td>
<td>34%</td>
</tr>
<tr>
<td>Estate planning</td>
<td>33%</td>
</tr>
<tr>
<td>Property development</td>
<td>29%</td>
</tr>
<tr>
<td>Auditing</td>
<td>28%</td>
</tr>
<tr>
<td>Computer consulting</td>
<td>28%</td>
</tr>
<tr>
<td>Finance brokerage</td>
<td>26%</td>
</tr>
<tr>
<td>Legal services</td>
<td>24%</td>
</tr>
<tr>
<td>Business investigations</td>
<td>23%</td>
</tr>
<tr>
<td>Computer training</td>
<td>22%</td>
</tr>
<tr>
<td>Valuations</td>
<td>22%</td>
</tr>
<tr>
<td>Real estate services</td>
<td>15%</td>
</tr>
<tr>
<td>Insurance</td>
<td>13%</td>
</tr>
</tbody>
</table>
Figure 3.1 shows that more than 90 percent of respondents received tax and accounting compliance, advice and planning services, while one half to two-thirds also received advice and service in relation to management accounting, personal finance, superannuation, business planning and investment.

As expected, the services that were most often provided to respondent businesses by accounting practices were those in the accounting and tax category, and especially those for tax and accounting compliance and tax planning/advice. Figure 3.1 shows that more than 90 percent of respondents received tax and accounting compliance, advice and planning services, while one half to two-thirds also received advice and service in relation to management accounting, personal finance, superannuation, business planning and investment.

It has often been stated that public accounting practices today have moved beyond routine, narrow, technical compliance driven tasks and that they now offer a wider range of non-traditional services, such as financial planning, business valuations, forensic accounting, family trusts services and bankruptcy advice (see, for example, Gibbins and Wright, 1999; Ciccotosto et al., 2008). However, a survey of Australian accounting practices by CPA Australia (2004) indicated that while accounting firms work in a broad range of areas, revenues flow predominantly from a relatively narrow range of services. The profile of services provided by the rural and regional Australian practices in this study is remarkably similar to those for all Australian practices in the CPA Australia (2004) survey. Hence, the conclusion is that, while public accounting practices have moved beyond a narrow range of routine, compliance tasks, the bulk of their services continue to comprise such traditional areas as accounting and tax compliance, tax planning, superannuation fund administration and management accounting work.
4. Assessments of services received

This section outlines the overall assessments of the SME respondents of the quality of the services received from their accounting practice.

Figure 4.1 presents data on the perceived quality of the services received by the SMEs. Survey respondents were requested to indicate whether their service requirements were met for each individual service on a 5 point scale where ‘1’ indicated that their service requirements were ‘Very often not met’ and ‘5’ indicated their service requirements were ‘Always met’.

The mean responses of clients indicate that, for all services, clients were generally satisfied with the services they had received. The means responses for individual services were generally between 4.0 and 4.7, indicating that client requirements were ‘nearly always’ or ‘always’ met.

Earlier discussion noted that the services with the highest frequency of procurement by the SME respondents were those in the traditional accounting and tax category. Figure 4.1 shows that these services have high service quality mean responses, with mean scores of 4.7 for accounting and tax compliance services, 4.5 for superannuation fund administration, 4.3 for tax planning and advice, and 4.1 for management accounting services.

While not purchased to the same extent as those in the accounting and tax category, services in the core auditing and assurance category have high mean responses with scores of 4.6 for auditing, 4.4 for valuations and 4.1 for business investigations.

Our Research Monograph No. 1 (Carr et al. 2010) highlighted that accounting practitioners consider that staff shortages are a major factor affecting their ability to provide services to clients. Despite the documented staff shortages, the responses of the SMEs indicate that they are generally very satisfied with the quality of the services they receive. How can this dichotomy of accounting practices experiencing a staff shortage but nevertheless providing services of high quality be reconciled? A probable explanation is that rural and regional accounting practices typically have only a relatively small number of partner/principals and staff (although there are notable exceptions), and certainly that close working relationships develop between clients and their accounting practice. This enables rural and regional practices to maintain and improve their understanding of client requirements and helps clients build trust in their accountant and the accounting practice, with a high level of service ensuing. However, this also translates into long working hours for rural and regional accounting practitioners, and Ciccotosto et al. (2008) document the extreme stress that practitioners are experiencing. The issue this raises is the question of the extent to which this situation might be sustainable in the long term.
<table>
<thead>
<tr>
<th>Service Category</th>
<th>Service</th>
<th>Mean Response</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accounting and Tax</strong></td>
<td>Accounting compliance</td>
<td>4.7</td>
</tr>
<tr>
<td></td>
<td>Management accounting services</td>
<td>4.1</td>
</tr>
<tr>
<td></td>
<td>Tax compliance</td>
<td>4.7</td>
</tr>
<tr>
<td></td>
<td>Tax planning/advice</td>
<td>4.3</td>
</tr>
<tr>
<td></td>
<td>Superannuation fund administration</td>
<td>4.5</td>
</tr>
<tr>
<td><strong>Auditing and Assurance</strong></td>
<td>Auditing</td>
<td>4.6</td>
</tr>
<tr>
<td></td>
<td>Business investigations</td>
<td>4.1</td>
</tr>
<tr>
<td></td>
<td>Valuations</td>
<td>4.4</td>
</tr>
<tr>
<td><strong>Information Technology</strong></td>
<td>Computer consulting</td>
<td>4.1</td>
</tr>
<tr>
<td></td>
<td>Computer training</td>
<td>4.0</td>
</tr>
<tr>
<td></td>
<td>Computerised accounting/budgeting software</td>
<td>4.2</td>
</tr>
<tr>
<td><strong>Business/Economic Advice</strong></td>
<td>Economic outlook</td>
<td>4.2</td>
</tr>
<tr>
<td></td>
<td>Business planning</td>
<td>4.2</td>
</tr>
<tr>
<td></td>
<td>Property development</td>
<td>4.0</td>
</tr>
<tr>
<td><strong>Investment</strong></td>
<td>Investment advice</td>
<td>4.2</td>
</tr>
<tr>
<td></td>
<td>Personal financial planning/advice, superannuation</td>
<td>4.2</td>
</tr>
<tr>
<td></td>
<td>Legal services</td>
<td>4.1</td>
</tr>
<tr>
<td></td>
<td>Estate planning</td>
<td>4.0</td>
</tr>
<tr>
<td></td>
<td>Real estate services</td>
<td>3.8</td>
</tr>
<tr>
<td></td>
<td>Finance brokerage</td>
<td>4.2</td>
</tr>
<tr>
<td></td>
<td>Insurance</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Figure 4.1 Quality of service received

Mean response on the scale: 1 = Very often not met, 2 = Often not met, 3 = Usually met, 4 = Nearly always met, 5 = Always met
The SMEs were asked to indicate the actions undertaken by their accounting practice to maintain and improve their understanding of rural and regional client requirements. These actions are summarised in Figure 4.2.

The most commonly mentioned actions involve direct communication with clients (i.e. the accountant becomes familiar with the client’s business, meets with clients to review their requirements, meets clients at their place of work, and generates a statement of the client’s accounting and financial requirements) and improvements to the accounting practice’s computer and electronic technology. It is interesting that accounting practices place substantial reliance on face-to-face personal communications and up-to-date electronic technology as the means of improving their ability to meet client requirements.

Less than 40 percent of the respondent businesses indicated that their accounting practice provides them with a letter of engagement or fee quotations, arranges information sessions for clients or conducts surveys of client evaluations of their service.

Figure 4.2 Respondent identified accounting practice actions to meet client requirements

- The practice has become familiar with my business: 92% (3% service not provided, but would be helpful if it were provided)
- My accountant meets with me to review my requirements: 83% (6% service not provided, but would be helpful if it were provided)
- The practice has generated a statement of my accounting and financial requirements: 71% (8% service not provided, but would be helpful if it were provided)
- The practice continually improves its computer and electronic technology: 59% (4% service not provided, but would be helpful if it were provided)
- My accountant sometimes visits my place of business: 51% (14% service not provided, but would be helpful if it were provided)
- The practice specifies services to be provided in a letter of engagement: 38% (13% service not provided, but would be helpful if it were provided)
- The practice has arranged information sessions for clients: 38% (13% service not provided, but would be helpful if it were provided)
- The practice provides fee quotations for me: 34% (22% service not provided, but it would not be helpful if it were provided)
- The practice conducts surveys of client evaluations of its service: 16% (16% service not provided, but it would not be helpful if it were provided)
It can be seen from the mean responses that the clients generally provide very favourable assessments for each of the service aspects listed. Mean scores for each statement are generally between 4 and 5, where a response of ‘4’ indicates ‘agreement’ with the relevant statement and ‘5’ indicates ‘strong agreement’. Reinforcing the view that the SME respondents generally considered their service requirements to be met (as shown in Figure 4.1), the SMEs considered their accounting practice to be trustworthy, honest and to act with integrity and in the client’s best interests, to deal with queries and difficulties politely and efficiently, to understand the SME’s requirements, and to provide good value for money and rarely make mistakes in dealing with the SME’s queries and difficulties. This again emphasises that, despite the staff shortages faced by accounting practices, most rural and regional SMEs are very satisfied with the accounting services they receive.
5. Likelihood of switching accounting practice

One of the major indications of the extent to which the SMEs are, or are not, satisfied with the accounting services they receive is whether or not they intend to switch their accounting practice. In response to the question 'Is your business likely to switch to another practice in the next year or two?', 83 percent of respondents indicated that they were not likely to switch. This again reinforces a generally positive view of the accounting services received.

However, a sizeable minority of 17 percent responded that they intended switching to another practice in the next year or two or were unsure about whether they would switch.

As shown in Figure 5.1, there is some variation in the likelihood of SMEs switching depending on the length with which they had been with their accounting practice. Not unexpectedly, the longer the business had been a client of an accounting practice, the less likely it was that they intended switching. For SMEs who had been with their accounting practice for at least 40 years, only 5 percent were not considering shifting (or were unsure). However, for SMEs who had used their current accounting practice for less than 5 years, a larger proportion of 29 percent were considering shifting or were unsure whether they would shift.

The written comments provided by clients indicate the factors that tend to push clients away from their current accounting practice, and those that tend to pull clients towards an alternative provider of accounting services. Concerns about service promptness and responsiveness, cost, staff expertise, along with client or accounting practice restructuring, were the factors encouraging clients to leave their existing accounting practice. Closer location, anticipated improved services and recommendations from acquaintances were the factors pulling clients toward an alternative accounting practice. One respondent mentioned the inconvenience and cost of changing accounting practice, while another indicated that the threat of leaving may keep the current accounting practice honest. These are inertia factors in the switching process.
6. Further SME views and recommendations

The mail questionnaire provided respondents with the opportunity to provide further written feedback. The following common themes were evident from the responses:

1. General client satisfaction.
2. Promptness and responsiveness of service.
3. Suggestions on specific services.
4. Accounting practice staff numbers and expertise.
5. Fees and billing systems.
6. Accounting practice restructuring.
7. Government services and support.

Further details of the respondents’ comments under each of these headings follow.

6.1. General client satisfaction

The analysis presented earlier in section 4 indicated that the SME respondents were generally very satisfied with the quality of the services received from their accounting practice. The following are examples of additional comments provided by the respondents in this respect:

- All my requirements are met by the accounting firm that I am using.
- Accountants in this neck of the woods are great. They keep in contact with their clients and usually know what is going on. It’s pretty tight knit.
- I’m only new to all this. When we’ve needed help my accountant has always called/ emailed or came out the next day. I can’t get any more help than that at this stage.
- I am very happy with service provided and feel that the practice I deal with attracts suitably qualified professionals.
- Good service provided and prompt response to any requests.
- An accounting firm is an outsourced partner in our business, and the relationship is crucial to our business health and success.
- We stay loyal to our accountant as he has an intimate knowledge of all our family businesses.
- The accountant and his junior accountant treat me like part of a family of clients.

6.2. Promptness and responsiveness of service

Despite the general satisfaction of the SMEs with the services they receive from their accounting practice, a minority of the SME respondents did comment on deficiencies in the promptness and responsiveness of service delivery. This is no doubt, at least in part, a reflection of the staff shortages being experienced by accounting practices. One category of comments referred to a lack of promptness in services, as indicated by the following:

- Capacity to provide service in a timely fashion is a problem.
- Difficulty with proper communications (takes days/weeks to receive an email or a phone call back).
- Practice needs to catch up with its workload.
- Slow, inefficient.
- Practice could be more efficient with company tax returns taking 6 months and some emails not replied to for a week.
A second category of comments under this heading referred to deficiencies in the responsiveness of the accountant and suggested that accountants need to be more proactive. The following are examples of relevant comments:

- Current practice not proactive in offering advice. I have to ask the questions first.
- Practice is a bit reactive, considering changing to an accounting practice that is proactive.
- Maybe getting too complacent.
- Need more interest in my overall business concerns. More personally involved with my situation.
- Not enough advice given. Does not contact us through the year – only at tax time.
- To keep being updated and be more interested in looking to their customers’ long term needs rather than only looking at a year by year situation.

Some respondents called for more personalised and industry-specific advice, as illustrated with the following comments:

- More face to face contact, done at the client's home, over the kitchen table, or at the place of business.
- Need to visit clients in their workplace and give personal attention.
- More personalised services for small operators, who may not know much about bookwork.
- Better economic outlook and business planning.
- Information sessions for clients, even every six months, aimed at particular industries to improve knowledge and office procedures regarding tax and accounting practices.
- Financial advice to rural business owners, concerning drought affected regions and overall economic crisis.
- Looking for proactive services, benchmarking and KPIs.
- Specialised service people from a similar background who have an understanding of rural issues and life.

The above comments reinforce the dilemma experienced by accounting practices; that is, how to balance meeting compliance-driven client requirements with a desire to proactively deliver more ‘value-adding’ advisory type services. Increased regulatory requirements facing accounting practices and their clients at a time of increased accounting staff shortages serve to exacerbate this dilemma.

6.3. Suggestions on specific services

Various respondents made specific recommendations for increased communication and interaction with their accountant via newsletters, workshops and information/education sessions. Some of the SME respondents were also seeking information that would allow them to ‘benchmark’ their operations with similar businesses. The major specific areas for which further information was requested were those of taxation, financial planning, the economic environment and succession planning.

A sample of the respondents’ comments under this heading are reproduced below:

- Regular newsletters on macro and micro economics, interest rates, market rates, demand and supply trends, etc.
- More information available to all clients in relation to the Australian economy at the moment – especially due to the current financial crisis (downturns) in the markets.
• Workshops, information session would be great (more of them) especially in relation to current economic outlook.

• More questionnaires to find out what is lacking. More involvement with the client/support and education.

• IT, current economic situation.

• To know your financial situation compared with others in the same industry in your local area.

• Comparisons between similar businesses anonymously.

• Better communication – e.g. group discussion on specific subjects must retain personal contact, not rely on technology.

• Annual meetings/seminars to inform on taxation changes and the like.

• More communication about industry and tax trends.

• Forward planning advice in relation to tax changes.

• Tax planning, carbon tax advice.

• Services available other than tax.

• Better investment advice would be handy.

• More information on business planning e.g. super, financial advice and employment.

• Investment advice would be good. Most accountants opt out for legal reasons.

• Each year an update of super and tax advice to business in rural areas.

• Succession planning, Retirement planning.

• Need business planning and succession planning for family take-over of business.

The above comments reinforce the fact that these SMEs would like their accounting practice to be more proactive in meeting their requirements.

6.4. Accounting practice staff numbers and expertise

While generally satisfied with the services received, some of the SME respondents obviously recognised the staffing difficulties being experience by accounting practices. The following are examples:

• Lack of staff back-up in the office when key people are away.

• Of the three local accountants we have used locally we feel there is a lack of quality time give, there’s always a ‘hurry’.

• We have an internal chartered accountant employed as our financial controller. She has attempted to take maternity leave for the past 2 years, without success, as we have been unable to recruit a suitable person to the position. Recruiting professional staff to remote areas is very difficult, even with a considerable remuneration package.

• As far as I know, they are a good accounting practice but are often swamped with work, which can delay things.

• Due to workload time to get tax returns done takes till the due date and beyond.

• The practice has been slow responding and completing work in the last 18 months because of staff shortages.
A number of respondents recognised the importance of education and training for rural and regional accountants and the necessity of ensuring an adequate supply of accountants in rural and regional areas. A sample of the respondent written comments is reproduced below:

- Keep the smart ones in the country.
- Encouragement/incentives for junior accountants to work in regional areas.
- Country programs for recently qualified personnel.
- Have branch practices from major city firms in rural areas.
- A graduate program for the larger firms that have practices in rural and remote areas to encourage university leavers to work outside the city. They may find that they love it and stay!
- Main problem in rural and regional Australia is finding skilled people to work in these areas. Generally, does not matter which business. My accountant is good and tries to be as efficient as possible, but, like myself, sometimes finds it hard to replace employees, to keep up with that efficiency. We need more incentives to attract people to these areas – e.g. tax benefits.
- Provide incentives for CPA/CA to work in regional areas.
- More regional training in private practice accounting issues.
- You have to be confident that the partners are up to pace with the latest rules/laws. However, it’s really the quality of the young graduates, which is important as they do the ‘great’ work. Generally these people are not going to the country.
- I use a city accounting firm due to its constant exposure to larger and modern clients. I feel regional practices need to gain this exposure either via direct exposure or alliances with the major firms in cities.
- More training allocated to accounting practices is required.

Nevertheless, one respondent put the shortage of accounting staff into perspective with the comment that ‘Our region needs more doctors, nurses and police before we need more accountants.’

6.5. Fees and billing systems

Not unsurprisingly, some of the SME respondents provided comments that were critical of accountants’ fees and billing systems. A sample of the respondent written comments appears below:

- Cost is also a big factor.
- Fees have increased beyond a reasonable annual increase percentage.
- Accounting costs are going through the roof like everything else on the farm.
- Poor service, and poor presentation of reports, especially SMF (small to medium sized firms). Also fees are not as cheap as had been hoped and may need services of a larger office.
- Charges way too high. Some free advice/more advice.
- A fixed billing system would work better for our business as we carefully budget our operation annually.
- Need for a fairer way of debt collecting and paying while cash flow is low.
- Lower fees for low income earners as I know a lot of people do not attempt to get advice from an accountant because of the fees involved. Perhaps a secondary school visit so students understand what an accountant does.
- When you pay so much for a job, you do not expect to find so many mistakes, year after year. And when you help fix them, you don’t get a discount!
Charges (fees) sometimes not clarified.

I would prefer an itemised invoice for services rendered. Also – comments and feedback on shortfalls within the ‘in house’ book keeping, which may make the accountants job easier/efficient and less costly.

Interesting comments from two respondents, reproduced below, provide further perspectives on services, fees and switching costs:

• I have contemplated switching due to high fees and as a result of my accountant recommending investment products (especially agribusiness) which were not in my interest and which I cannot easily divest from, as I have recently learned. However, the thought of having to establish a new relationship with another accountant is rather daunting, given the complexity of all the trusts and company accounts that have been set up by my current accountant over the years!

• The practice does what it has to. It’s a bit like banks, it’s a hassle and expensive to change and when you aren’t in the ‘industry’ you don’t know what a good or bad accountant is. The tax system is now so complicated that accountants can be busy and lucrative enough to first provide the compliance services.

6.6. Accounting practice restructuring

Related to the above issue of fees and billings systems, a small number of respondents commented on how accounting practice restructuring had an effect on them. The three comments provided below highlight how accountants need to think carefully about how any practice restructure is achieved.

• A recent further amalgamation in the practice means I will be reviewing value for money and alternative providers.

• Current accounting firm has ceased to practice in current form.

• We may need to change if the current practice becomes more ‘geared’ towards larger clients, making it harder for them to service our needs at effective costs.

6.7. Government services and support

Respondents raised some comments that referred to government services and support, particularly with respect to taxation.

• [Need for] regional tax office advice centres or ATO hotlines that are more accessible.

• Simplified taxation – too many variations, criteria variable for primary producers.

• Reduce regulatory demands on reporting to a minimum per annum. Since GST there is a huge increase in work costs on business just reporting to authorities.

• Get rid of GST.

• Promoting the trades, raising apprentice wages, I do believe the truly supportive industries do pay above award, but there are a lot that don’t. We need a strategy to compete with the mining sector, we as small businesses can’t compete!

• Small business programs set up to help owners through tough times. Not just financial, but education re: cash flow adjustments; recruiting and training staff.

• Education for clients on basic record keeping, saving time for accountants and money for clients. Govt. should provide GST training for new businesses. Perhaps arranged through local business development board.
• Knowledge of specific programs or benefits that are available to rural people. May include the scholarships available for rural students in city colleges, government grants to help establish or maintain and grow existing business

• More subsidies or grants for small business owners other than farmers to help pay for high accountancy bills.

• Tax breaks for people working greater than 250kms from capital cities. This helps to encourage professionals to rural areas. Therefore, easier to get staff with adequate training.

• Better/faster internet access – more reliable.
7. Summary

This research monograph, the second of two, presents findings from the first academic research study investigating public accounting firm services in rural and regional Australia. The results reported in this monograph are derived from a large scale survey of SME businesses located in regions outside the major Australian metropolitan areas. The 309 survey respondents were drawn from across all states and territories of Australia, with the exception of the Australian Capital Territory, and operate over a broad cross-section of industry/service areas.

The rural and regional SMEs tended to use the services of a rural and regional, rather than city based, accounting practice. Seventy-six percent of the SME respondents engaged an accounting practice also located in a rural and regional area, while 24 percent engaged a capital city based practice. Further dissection of accounting practice location indicated that, proportionately, larger SMEs were more likely than smaller SMEs to utilise a capital city based accountant.

The services provided by public accounting practices involve relationship building between the accountant and client. Reflecting this, most SMEs had been with their accounting practice for a long period of time. Fifty-nine percent of respondents had utilised their accounting practice for a period of at least 10 years, and 18 percent for 25 years or more. The engagement period had been less than 5 years for only 21 percent of respondents.

Also reflecting the relationship building between the accountant and client, the most commonly cited reasons for accounting practice selection were the standard of service received (e.g. personalised service, quality of service, staff expertise and experience) and history/recommendation (e.g. family history with the practice and recommendation by others). The SME respondents generally considered their accounting practice to be trustworthy, honest and to act with integrity and in the client's best interests, to deal with queries and difficulties politely and efficiently, to understand the SME's requirements, and to provide good value for money and rarely make mistakes in dealing with the SME's queries and difficulties.

While public accounting practices are increasingly moving beyond a narrow range of routine, compliance-driven tasks to higher value-adding ones, the bulk of the services procured by the rural and regional SMEs comprised those within the traditional accounting arena. The services with the highest frequency were those in the accounting and tax category, and especially those for tax and accounting compliance and tax planning/advice. Other services with high frequencies were management accounting, personal financial and investment advice, superannuation services and business planning.

For all categories of services received, and especially for those in the traditional accounting, tax and auditing areas, the majority of SME respondents were very satisfied with service quality and generally considered that their service requirements were met. A further reflection of their satisfaction was the high proportion of respondents, 83 percent, who indicated they were not likely to switch to another accounting practice within a two year period.

Our Research Monograph No. 1 (Carr et al. 2010) highlighted that accounting practitioners consider that staff shortages are a major factor affecting their ability to provide services to clients. This staff shortage being experienced by public accounting practices has been well documented. Yet this staff shortage is not reflected in a lack of satisfaction by our SME respondents in the quality of the services they are receiving. How can this dichotomy of accounting practice staff shortages and high service quality be reconciled? A probable explanation is that rural and regional accounting practices typically have only a relatively small number of partner/principals and staff (although there are notable exceptions), and certainly that close working relationships develop between clients and their accounting practice. This enables rural and regional practices to maintain and improve their understanding of client requirements and helps clients build trust in their accountant and the accounting practice. A high level of service is the result, but this translates into long working hours for
rural and regional accounting practitioners and considerable stress. The issue this raises is the question of the extent to which this situation is sustainable in the long run.

While generally very satisfied with the quality of accounting services received, some concerns were expressed in the additional comments provided by some of the SME respondents. These concerns focused on the promptness and responsiveness of accounting services and accounting practice staff numbers and expertise, concerns caused, no doubt, by the staff shortages referred to above.

Also, some SME respondents raised concerns relating to the fees and billing systems of accounting firms, with a minority of respondents referring to fees sometimes not being clarified and increasing beyond what they considered reasonable. This raises a controversial issue, and one touched on in our Research Monograph No. 1 from the accounting practitioner’s perspective. Comments from accounting practitioners indicated that many clients failed to appreciate the level of service they receive within a complex regulatory environment, and that fees were often significantly less than the real value of the service provided. Ciccotosto et al. (2008) referred to this as an ‘expectation gap’. The challenge is for the accounting profession, especially through the professional accounting bodies, to continue reinforcing the value and complexity of accounting services.

In conclusion, our two research monographs present findings related to the current state of public accounting firm services in rural and regional Australia from the perspective of both public accounting practitioners and SME clients. As we stated in our first research monograph, and as is reinforced in this second one, we paint a picture of a high standard of service provision in rural and regional Australia but with considerable tensions existing that will continue to present difficulties in future years. These tensions primarily arise from professional staffing difficulties and detailed regulatory requirements, and these will affect the whole range of services provided by rural and regional public accounting practices.

Our two research monographs have reported the results of analysis at a general level of the research data obtained from surveys of both accounting practitioners and SMEs located in rural and regional Australia. Our research has also involved in-depth interviews with accounting practitioners and SMEs, and further detailed analysis of all research data is continuing and will be presented at conferences and published in academic journals in the future.

Finally, we thank the many accounting practitioners and SMEs who participated in our interviews and responded to our survey for their time and cooperation. We also gratefully acknowledge the financial support and research assistance provided by our research partner, CPA Australia, and the financial support of the Australian Research Council.
References


