Compliance keeps firms in the black

Agnes King

Accounting firms stand to lose two-thirds of their income if the federal government introduces pre-populated tax returns and makes good on its promise to reduce red tape.

But clients might get what they've been craving: strategic financial advice to better manage and expand their business.

A survey of 362 accounting firms by Brisbane practice management consultancy Business Fitness shows that 70 per cent of accounting firms' revenue is generated from compliance-based tax and accounting work, widely regarded as commoditised.

The data shows that firms' reliance on compliance work has dipped only marginally in the last three years, down from 75 per cent in 2009.

Revenue from advisory work and tax planning dropped slightly in fiscal 2011, compared with the year prior. Audit work remained steady, while income from self-managed superannuation funds climbed.

"This heavy reliance on commodity services persists despite growth being consistently identified by accountants as a top challenge," Business Fitness chief executive Stuart Spalding said.

He said this could reflect that accountants are unwilling to sell additional services, or be an indication of capacity constraints.

"It's hard to find people with business skills, experience talking to clients and technical knowledge. And the reality is, that talent pool is unlikely to increase," Mr Spalding said.

The research is concerning in that it represents a yawning disconnect between accountants' service and what their clients want.

A poll of 1000 business owners and directors by accounting software maker MYOB this year revealed that 60 per cent were crying out for proactive advice to support growth from their accountants.

It also highlights the burden of responsibility on government to reduce red tape if it genuinely intends to increase productivity. Businesses ultimately need this compliance work done.

"Every dollar a business spends on compliance they can't spend on advice," Kelly + Partners senior client director Brett Kelly said. "But it's also a fallacy to assume that accountants know how to improve business. It's quite a fraud on the community that accountants hold themselves out to be business advisers," he said.

Consultants often push accountants to dump compliance work in the pursuit of business advisory jobs. But Mr Spalding believes this approach is flawed.

"Compliance work is a good training ground; it's easy to leverage, and gives firms the opportunity to build a relationship to offer business advisory services. The trick is making compliance work profitable," he said.

Net profit per partner, which in effect says how profitable a firm is, increased by 10 per cent in fiscal 2011, across firms surveyed by Business Fitness. It ranged from $200,000 to $420,000, with the medium being $300,000 (before partner salaries are taken out).

An assessment of the top five performing firms, each with net profit per partner above $1 million, indicates that one-partner firms are typically the most profitable.

Four-partner firms performed the worst in terms of revenue and net profit per partner.

Salaries as a percentage of revenue fell slightly from 2010 but actual salaries did not. The majority of firms surveyed granted wage increases of between 3 and 7 per cent over the course of the year.

An analysis of charge rate multiples – the cost of a worker weighted against the income they generate – shows that accountants are most profitable to a firm when they receive remuneration that is in the $45,000 to $65,000 salary bracket. Less than a third of firms surveyed are paperless or thereabouts.

"This means that two-thirds are missing out on savings in time, money and space, plus strengthened risk management and disaster recovery plans, and the benefit of a more saleable business," Mr Spalding said.

Firms are getting better at controlling debtor days – which range from 43 to 83 days – but are still outside of the 30 days or less that Business Fitness considers to be ideal.

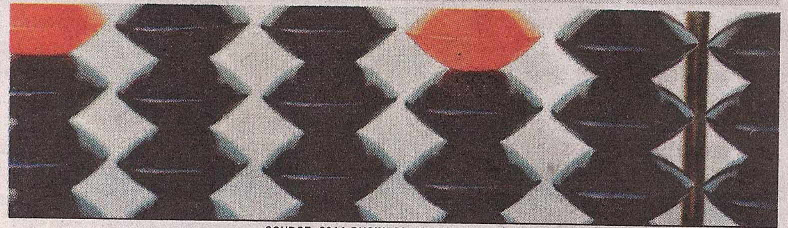
"The data proves that different firms can do things differently and still be highly successful.

"The hallmark of top-preforming firms is that they have the fundamentals right – that they have systèms to handle compliance work efficiently, they price their work accurately and take on clients that fit the identity of the firm," Mr Spalding said.

Top guns

Characteristics of five top-performing accounting firms

Key performance indicator	Range (of the five firms)	Average
Net profit per equity partner	$1.1m - $3.2m	$1.86m
Number of partners	1 - 2	1.2
Ratio of partners to staff (leverage)	15 - 30	22.8
Salaries as a percentage of revenue	31% - 48%	38.0%
Staff turnover	17% - 36%	22.8%
Hours worked per week (partners)	37 - 57	51
Partner charge-out rates	$355 - $525	$428
Non-compliance work (% of revenue)	18% - 45%	31.8%
Revenue per client	$3,266 - $31,470	$10,312



SOURCE: 2011 BUSINESS FITNESS ANNUAL SURVEY OF 362 ACCOUNTING FIRMS NATIONALLY