



EU-REPARIS is funded
by the European Union
and is a part of WB EDIF.

Small and Medium Practices: The Trusted Advisors of SMEs

Small- and medium-sized practices (SMPs) have an important role to play in supplying professional services to their small- and medium-sized enterprise (SME) clients. This publication describes the range of professional services available that are more naturally suited to the SME profile. It also provides guidance that might be useful for practitioners, SMPs and professional accountancy organizations (PAOs) as they support their members during the transition from traditional compliance providers to trusted advisors of SMEs.

What type of services are offered by professional accountants?

Accountants offer a broad range of professional services to their clients that can be cataloged in different ways:

- Compliance versus voluntary services. Compliance services or regulated services are those whose supply

What kind of services do SMEs demand?

Research conducted by the International Federation of Accountants (IFAC)¹ indicates that SMPs continue to be the preferred advisors and natural service providers to SMEs. In general, SMEs do not start out with in-house finance staff; they tend to rely on external practitioners for most professional services and day-to-day advice. As SMEs grow, they build in-house capabilities and engage accountants in business to support their finance operations. However, they often still need the external support of SMPs, especially when seeking external funding.

By offering a range of non-assurance professional services that are more naturally suited to the SME profile (such as compilations, agreed-upon procedures, client accounting services, advisory and consultancy services) SMPs can help SME owners to produce more credible financial information and gain access to better advice in order to make important decisions about the growth of their businesses.

¹ <https://www.ifac.org/publications-resources/role-smpps-providing-business-support-smes-new-evidence>

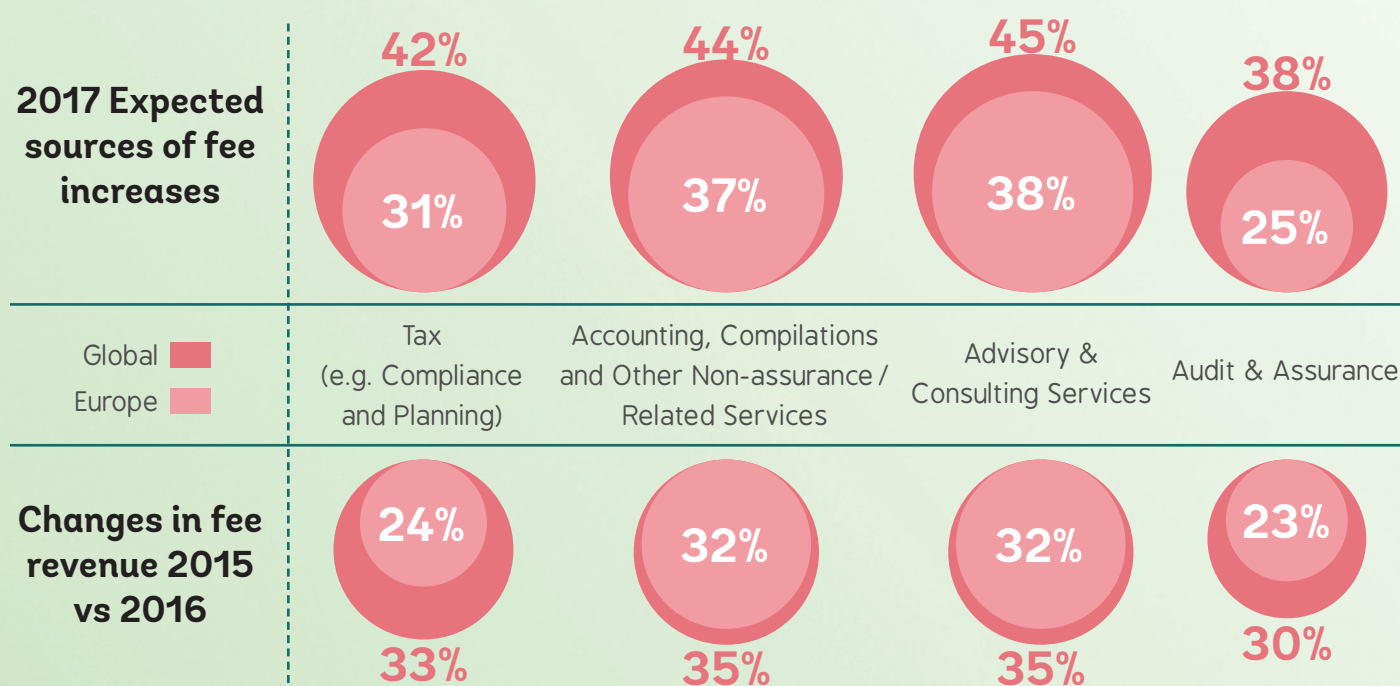
is a mandatory requirement per laws, regulations, or contractual obligations (for example audits or financial reporting). Services provided to clients on a voluntary basis are not driven by a requirement to comply.

- Assurance versus non-assurance services. Assurance services provide either reasonable or limited assurance (e.g. audits, reviews and other assurance engagements) compared with those that provide no assurance (e.g. compilations and agreed-upon procedures).
- Services and engagements covered by International Standards versus those not covered by International Standards. The standards issued by the International Auditing and Assurance Standards Board (IAASB) cover services performed under the following: International Standards on Auditing (ISAs); International Standards on Review Engagements (ISREs); International Standards on Assurance Engagements (ISAEs); and International Standards on Related Services (ISRSs). All other engagements are not covered by IAASB International Standards. However, accountants need to comply with the International Ethics Standards Board of Accountants (IESBA) Code of Ethics while performing these engagements.
- Traditional versus emerging services. Traditional services comprise a range of service offerings that most accountancy firms have offered historically, e.g. bookkeeping, accounting, audit and taxation services. Emerging services include a wide range of service offerings that are driven by technology advancements and client demand for business advisory or consultancy services. Emerging services can also include newer forms of reporting that focus on creating value for clients and their stakeholders, such as enhanced corporate reporting services (e.g. sustainability, social responsibility and integrated reporting services).

What services offer potential for SMP growth?

Since 2011, the [IFAC Global SMP Survey](#)² has helped to raise awareness about the challenges and opportunities faced by SMPs and SMEs globally. The survey has also provided valuable insights into which services to offer as well as how to best offer these services.

Most SMP revenue is still generated from traditional sources, including compliance, audit and taxation, however the survey results have identified an increase and diversification of SMP services from non-traditional sources. For example, advisory and consulting as well as accounting, compilation and non-assurance /related services have consistently been identified as the first and second fastest growing source of SMP revenue globally.



Source: 2016 IFAC Global SMP Survey

² <https://www.ifac.org/publications-resources/2016-ifac-global-smp-survey-report-summary>

How are SMPs transforming their practices?

Many SMPs are revisiting their practice models to adjust to technological advancements, evolving needs of their clients and the changing business environment in order to benefit from the potential offered by providing a range of professional services. These transformational changes include:

- Specializing in non-audit services and moving away from traditional service focused practices;
- Investing in new technologies (cloud computing, data analytics);
- Talent management and developing both technical and soft skills (selling, negotiating, branding);
- Rethinking their pricing models by moving towards value pricing over time-based billing;
- Increasing their promotional efforts and placing greater focus on branding and marketing, including developing a digital marketing strategy; and
- Developing networks and partnerships to extend their knowledge, share resources and enter referral arrangements.

By building on their original role which focused on compliance, SMPs that make these changes are successfully transforming their practices into becoming trusted business advisors of their SME clients.

Professional Service Firms versus Traditional Accounting Firms

Outsourcing, technological advancements, competition, SMEs' shifting demands, the economic environment as well as regulatory changes are all having a rapid and significant impact on the accounting industry. All of these environmental change factors have increased the need for accountants to think more strategically about the way they operate. More recently, smaller accounting practices have started to brand and market themselves as professional service firms that provide quality advice and expertise outside the traditional accounting scope, which has the most impact for small businesses.

In order to expand their skill set, professional service firms hire non-accountants, e.g. professionals with double degrees (commerce, law, and/or marketing) or with a specific field of specialization (e.g. IT, cyber security). In some cases they use a referral system in order to overcome the limited in-house capabilities across a variety of business operations. Others join networks to expand their range of expertise as well as their functional and geographical diversification.

Traditional accounting firms have taken a passive stance towards marketing activities because they were perceived as incompatible with the profession. Professional service firms are emerging as active marketers with established branding, marketing and digital strategies. Their approach includes a well-developed communications strategy (client newsletters, websites, face-to-face communication) to attract new clients and cross sell to existing ones supported by in-house or outsourced marketing specialists.

Professional service firms have a very different approach to pricing their services compared to traditional accounting firms, who usually base the fees they charge purely on a system of hourly or other time-based billings. New concepts are emerging, such as value pricing and total pricing concepts that allow clients to enjoy a better customer experience while also maximizing the opportunities for professional service firms to cross-sell additional services and ensure that the interests of the practitioners are better aligned with those of their clients. Some examples of the new value based pricing concepts include:

- Basing prices on a percentage (10-20 percent) of savings achieved;
- Agreeing on a fixed or total price upfront to avoid any potential surprises to the client and so that customers can compare value to price before they agree to purchase the service;
- Offering several levels of service packages and different pricing options for each package; and
- Providing a service guarantee whereby clients are eligible for total or partial reimbursement of the fees paid if they are not completely satisfied with the service.

ASSURANCE ENGAGEMENTS

AUDITS

International Standards on Auditing (ISAs)

REVIEWS

International Standards on Review Engagements (ISREs)

OTHER ASSURANCE ENGAGEMENTS

International Standards on Assurance Engagements (ISAEs)

ISQC 1: International Standard on Quality Control

NON-ASSURANCE ENGAGEMENTS

**RELATED SERVICES:
AGREED-UPON PROCEDURES
& COMPILATIONS**

International Standards on Related Services (ISRSs)

ALL OTHER ENGAGEMENTS

Not covered by standards



Range of Professional Services

Understanding the range, requirements and benefits of available professional services is essential for practitioners and SMPs to be able to tailor the various services to meet the needs of their SME clients, as well as helping them to choose the right service for their needs.

AUDITS provide a reasonable (high but not absolute) assurance after performing procedures to obtain sufficient and appropriate evidence that enables the auditor to issue an opinion on a company's financial statements as to whether they are prepared, in all material respects, in accordance with an applicable financial reporting framework.

REVIEWS include performance of procedures, mainly consisting of inquiry and analytical procedures. This enables the professional accountant to obtain limited assurance and conclude on whether they have become aware of any matter that may cause the financial statements to be materially misstated.

OTHER ASSURANCE ENGAGEMENTS include a broad category of engagements that express assurance on engagements other than audits or reviews of historical financial information. These include specific standards on the examination of prospective information and assurance reports on controls at a service organization, greenhouse gas statements and reports on the compilation of pro forma financial information included in a prospectus.

AGREED-UPON PROCEDURES are engagements that do not provide any assurance regarding financial information. The professional accountant performs specified procedures which are agreed with the client at the outset of the engagement and are reported in a report on factual findings regarding the financial information.

COMPILATIONS are also engagements that do not provide any assurance. Under these engagements, the professional accountant assists management with the preparation and presentation of financial information in accordance with an applicable financial reporting framework.


OTHER NON-ASSURANCE ENGAGEMENTS that are not covered by IAASB International Standards include a wide-ranging category of professional services. These services range from compliance oriented and traditional accountancy services (e.g. simple bookkeeping to more complex financial analysis and accounting framework conversions) and tax compliance services (e.g. preparing returns for tax purposes and other tax compliance engagements), to more recently developed accounting firm service models enabled by technological advances, advisory and consultancy services.

CLIENT ACCOUNTING SERVICES are offered by organizations that provide automated technology and affordable accounting guidance, thanks to cloud-based software and technology. These services enable SMEs to obtain bookkeeping, accounting and controller services virtually, from remote teams of accounting experts.

THE VIRTUAL CFO is a new concept enabled by technological advances and is an effective way for small businesses to get access to an experienced financial professionals at a fraction of the cost of a full-time CFO. The virtual CFO handles all of the traditional CFO's duties but works remotely and on a part-time basis. In addition to back-office functions, duties include monitoring the financial health of the business (usually with cloud technology) and offering financial insights and guidance on all company decisions.

ADVISORY AND CONSULTANCY SERVICES are especially attractive to high growth SME owners as they enable them to use financial information and advice to make better informed decisions on how to utilize resources effectively.

The type of SMEs that are more inclined to seek external business advisory and consultancy services include the following: those with higher growth rates or expectations to grow; SMEs with higher levels of debt or those seeking funding; and larger and younger SMEs. Similarly, larger and more proactive SMPs are more inclined to implement a strategy to offer business advisory and consultancy services.



The demand for business advice versus the profession's independence requirements

The emergence of advisory and consultancy services has been driven by the growing demand from SME owners for specialist advice to help them achieve a competitive advantage in a complex marketplace. Much of this advice originates from traditional forms of services and is requested from SMPs' audit clients. This is not surprising as auditors are professionals trained to provide services from an external perspective with an independent viewpoint. An additional factor is that SME owners already have a relationship with their auditors which is built on trust.

There are, however, potential threats that need to be considered by SMP audit firms that also provide business advisory services to audit clients. For example, there is the possibility of creating a "familiarity" threat, whereby the auditor becomes too close to the company that they are also auditing. Another factor that needs to be considered concerns over-reliance on income from a single source when a financial dependency threat is created. Any potential threat needs to be carefully considered by the SMP audit firm and appropriate safeguards should be put in place to ensure that the requirements of the IESBA Code of Ethics for professional accountants are complied with.

One current IESBA project is on safeguards and their applicability pertaining to non-assurance services that may have particular implications for SMPs. The project's objective is to review existing safeguards across the code, review if changes are necessary and assess whether additional safeguards should apply in certain circumstances.

Advisory and consultancy services include a wide area of offerings, including:

Business Development

- Strategic business planning
- Budgets and projections
- SWOT analysis
- Marketing
- Benchmarking

Corporate Advisory

- Advice on financing and access to finance
- Cash flow
- Due diligence
- Valuations
- Forensic accounting
- Litigation support

Wealth Creation and Preservation

- Strategic business planning
- Financial position evaluation
- Investment strategy
- Asset allocation
- Estate and succession planning

Management Accounting

- Planning and budgeting
- Management reporting
- Internal control
- Product and customer planning
- Performance
- Risk management

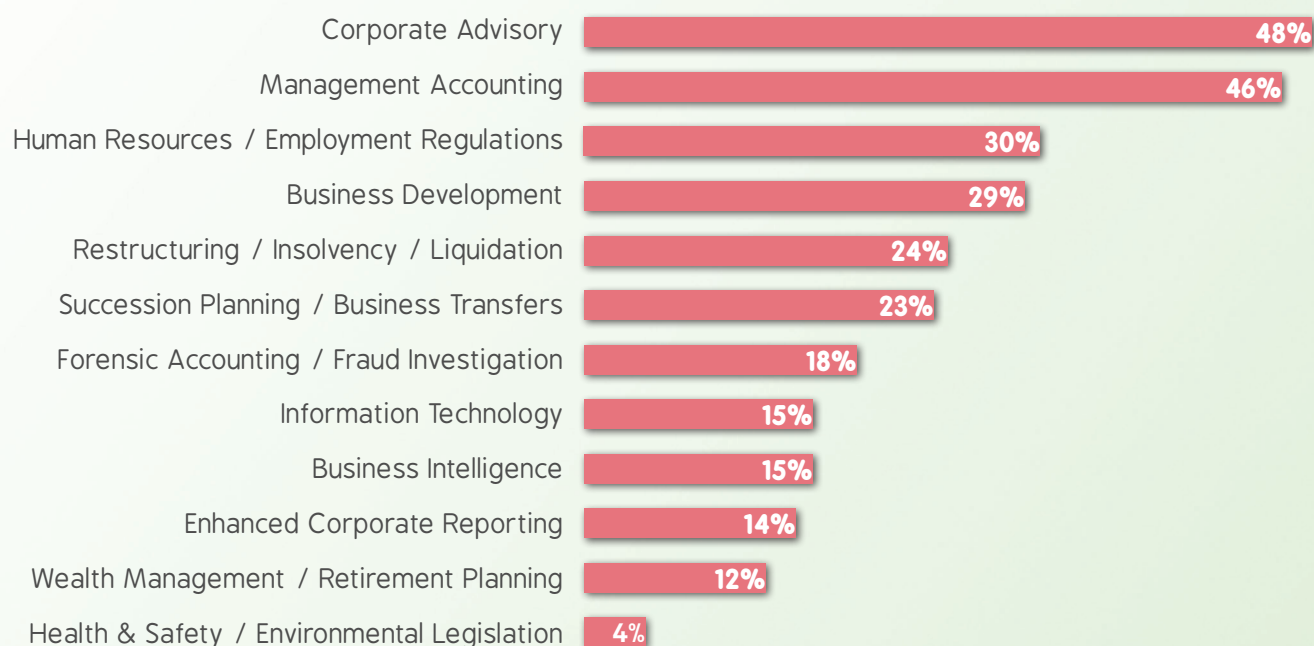
Human Resources

- Business coaching and mentoring
- Pensions
- Remuneration schemes and payroll
- Design of incentive schemes
- Training and skill development

Other Advisory and Consultancy Areas

- Tax planning and advisory
- IT system support
- Cybersecurity
- Enhanced corporate reporting (sustainability, social responsibility and integrated reporting)

Most frequently provided business advisory and consulting services in 2016



Source: 2016 IFAC Global SMP Survey

IAASB activities in respect of other professional services

The role of other professional services has become more widely appreciated in recent years. International standard-setters have issued a number of standards specifying requirements and providing application guidance. In line with its strategic goal of ensuring that standards evolve in order to address the emerging needs of stakeholders for services other than audits, the IAASB has issued several new discussion papers related to services other than audits:

- In August 2016, the IAASB Integrated Reporting Working Group issued a discussion paper for public comment: **Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements**³. The discussion paper is a response to the increasing demand for action to support credibility and trust in emerging forms of external reporting. It also explores how the IAASB's current standards, especially ISAE 3000 (Revised), **Assurance Engagements Other than Audits and Reviews of Historical Financial Information**, may be applied.
- In November 2016, the IAASB Agreed-Upon Procedures Working Group issued the discussion paper: **Exploring the Demand for Agreed-Upon Procedures Engagements and Other Services, and the Implications for the IAASB's International Standards**⁴. This discussion paper sought input from practitioners in view of the planned project to revise ISRS 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*. In particular, practitioners were requested to provide input on the extent to which the existing requirements are helpful or challenging. This input will help the IAASB to understand how reports on factual findings are used to determine the needs of users, and to explore the demand for engagements that combine reasonable assurance, limited assurance, and non-assurance engagements.

³ <https://www.ifac.org/publications-resources/discussion-paper-supporting-credibility-and-trust-emerging-forms-external>

⁴ <https://www.ifac.org/publications-resources/discussion-paper-exploring-demand-agreed-upon-procedures-engagements-and>

5 Ways PAOs can enhance the SMP-SME relationship

There are a number of activities that PAOs can undertake to enhance the SMP-SME relationship and support SMP practitioners as they make the transformational changes needed to become trusted advisors to SMEs:



1

Focus on SMP-SME issues

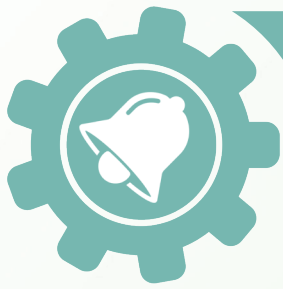
- Create and set up SMP-SME advisory groups and formalized working committees that represent the interests of SMPs and promote their visibility and recognition.
- Conduct surveys to understand the SMP landscape, their needs and the skills required to help the profession prepare the future generation of practitioners.
- Commission research to understand the opportunities and challenges faced by both SMPs and SMEs as a tool to provide valuable insights into what services to offer as well as how to best offer these services.
- Provide regular input (globally, regionally and nationally) to policy development, standard setting, legal and regulatory reform processes that impact the SME segment.
- Sponsor satisfaction surveys in order to monitor how SME needs are met and learn valuable lessons about how their needs can be served better.



2

Facilitate contacts between SMPs and SMEs

- Maintain (online) public registers that enable an accountant to be located by region, specialization, size of firm or other relevant criteria that facilitate business and service-matching, i.e. "Find an Accountant" databases.
- Provide contact details and other information about SMPs and practitioners to interested clients and SMEs.
- Initiate and maintain registers of firms interested in joining networks in order to enhance and broaden the quality of services rendered, enable a referral system and assist in the pooling of resources between practitioners and SMPs.



3

Raise awareness about the benefits of the SMP-SME connection

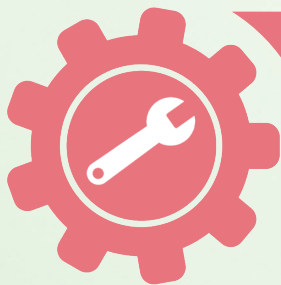
- Promote the role of accountants and build trust in the profession through publications, articles and media.
- Raise awareness and help establish wider recognition that professional accountants are subject to professional ethics requirements, as a fundamental differentiation from other business support consultants.
- Engage in alliances, partnerships and joint initiatives between PAOs and small business support organizations and/or chambers of commerce aimed at improving the interaction and perception of professional accountants among SMEs and to promote their role as trusted SME business advisors.
- Raise awareness about the available services that can help SMEs solve their business challenges.
- Facilitate specialized groups within small business support organizations, chambers of commerce and other institutions through participation, sponsoring or chairing their specialist working meetings and sessions (e.g. tax consultancy groups, foreign investor councils, etc.).
- Support events and exhibitions that enable accountancy service providers to showcase the range of professional services available and the benefits they offer to SMEs.
- Represent the profession by undertaking an active role in speaking engagements at job fairs, commercial chambers events, universities and governmental receptions.
- Organize competitions to award innovative and successful professional service firms.
- Host conferences, forums and other outreach events on topics of interest to SMEs in order to promote the benefits of the SMP-SME interaction.



4

Provide education and skills training to SMPs and SMEs

- Develop education programs to promote specific competences (e.g. skills in business judgment, technology and data analytics, soft skills etc.).
- Offer focused personal trainers, mentoring and coaching courses. These courses would educate members on professional service offerings that are available as well as enhancing their soft skills. In addition, the courses would equip them with the skills necessary to “coach” their SME clients on how to select the right service for their needs and help them connect to the appropriate service providers or networks of service providers.
- Organize specialized technical groups to provide training to fellow SMPs (e.g. on cybersecurity or enhanced corporate reporting).
- Encourage SMPs staff to engage as lecturers at continuing education sessions or in academic programs on a part-time basis to develop or enhance their communication and presentation skills.
- Provide free of charge classes to educate SMEs and other stakeholders (e.g. bankers) on available service offerings, selecting a professional service firm, and other related areas.



5

Develop resources, guidance and tools for SMPs and SMEs

- Develop guidance and toolkits for SMPs to enable them to offer business advice to SMEs, make changes in their practice models and deliver new services.
- Provide PowerPoint presentations and brochures to help SMPs approach small clients and market their services.
- Promote the use of technology and connect accountancy technology providers with SMPs.

IFAC's SMP Focus

The International Federation of Accountants (IFAC), with the support of the Small and Medium Sized Practices Committee that acts as its strategic advisor, supports the SMP sector through a number of initiatives. These initiatives are designed to raise the profile and build the capacity of SMPs globally, as well as increase awareness about their role and value, especially in supporting SMEs.

Key IFAC SMP guidance and publications include the following resources that can be accessed at www.ifac.org/smp:

- [Guide to Compilation Engagements](http://www.ifac.org/publications-resources/guide-compilation-engagements)⁵
- [Guide to Review Engagements](http://www.ifac.org/publications-resources/guide-review-engagements)⁶
- [Guide to Quality Control for Small- and Medium-Sized Practices \(QC Guide\)](http://www.ifac.org/publications-resources/guide-quality-control-small-and-medium-sized-practices-third-edition-0)⁷
- [Guide to Using International Standards on Auditing in the Audit of Small- and Medium-Sized Entities \(ISA Guide\)](http://www.ifac.org/publications-resources/guide-using-international-standards-auditing-audits-small-and-medium-sized-en)⁸
- [Guide to Practice Management for Small- and Medium-Sized Practices \(PM Guide\)](http://www.ifac.org/publications-resources/guide-practice-management-small-and-medium-sized-practices)⁹
- [Good Practice Checklist for Small Business](http://www.ifac.org/publications-resources/good-practice-checklist-small-business)¹⁰
- [Choosing the Right Service: Comparing Audit, Review, Compilation, and Agreed-Upon Procedure Services](http://www.ifac.org/publications-resources/choosing-right-service-comparing-audit-review-compilation-and-agreed-upon)¹¹
- [Value Pricing Series Pricing on Purpose: How to Implement Value Pricing in Your Firm](http://www.ifac.org/news-events/2014-06/pricing-purpose-how-implement-value-pricing-your-firm-parts-i-iii)¹²

⁵ <http://www.ifac.org/publications-resources/guide-compilation-engagements>

⁶ <http://www.ifac.org/publications-resources/guide-review-engagements>

⁷ <http://www.ifac.org/publications-resources/guide-quality-control-small-and-medium-sized-practices-third-edition-0>

⁸ <http://www.ifac.org/publications-resources/guide-using-international-standards-auditing-audits-small-and-medium-sized-en>

⁹ <http://www.ifac.org/publications-resources/guide-practice-management-small-and-medium-sized-practices>

¹⁰ <http://www.ifac.org/publications-resources/good-practice-checklist-small-business>

¹¹ <http://www.ifac.org/publications-resources/choosing-right-service-comparing-audit-review-compilation-and-agreed-upon>

¹² <http://www.ifac.org/news-events/2014-06/pricing-purpose-how-implement-value-pricing-your-firm-parts-i-iii>



Further useful SMP resources can be found at IFAC Global Knowledge Gateway (www.ifac.org/gateway), including the following articles:

- [Attracting and Retaining New Talent: The Case for SMPs](#)¹³
- [The Future of Small Practices & Service Offerings](#)¹⁴
- [Is Your Accounting Firm Ready?](#)¹⁵
- [Tomorrow's Firm—Think Big, Think Advisory](#)¹⁶
- [Where Machines Could Replace Accountants - and Where They Can't \(Yet\)](#)¹⁷



The World Bank Centre for Financial Reporting Reform (CFRR) wishes to thank participating trainers and Professional Accountancy Organizations of the EU REPARIS Audit Training of Trainers Community of Practice (Audit ToT) (listed below in order of country):

- Institute of Authorized Chartered Auditors of Albania (IEKA)
- The Association of Accountants and Auditors of Republika Srpska (AAARS)
- Union of Accountants, Auditors and Financial Workers of Federation of Bosnia and Herzegovina (SRRF-FBH)
- Auditors Chamber in the Federation of Bosnia and Herzegovina
- Institute of Certified Public Accountants of Bulgaria
- Croatian Audit Chamber
- Estonian Auditors' Association
- The Society of Certified Accountants and Auditors of Kosovo (SCAAK)
- Institute of Certified Auditors of the Republic of Macedonia (ICARM)
- Institute of Certified Accountants of Montenegro (ICAM)
- Philippines Board of Accountancy
- Chamber of Financial Auditors of Romania (CAFR)
- Chamber of Authorized Auditors of Serbia (CAA)
- Serbian Association of Accountants and Auditors (SAAA)

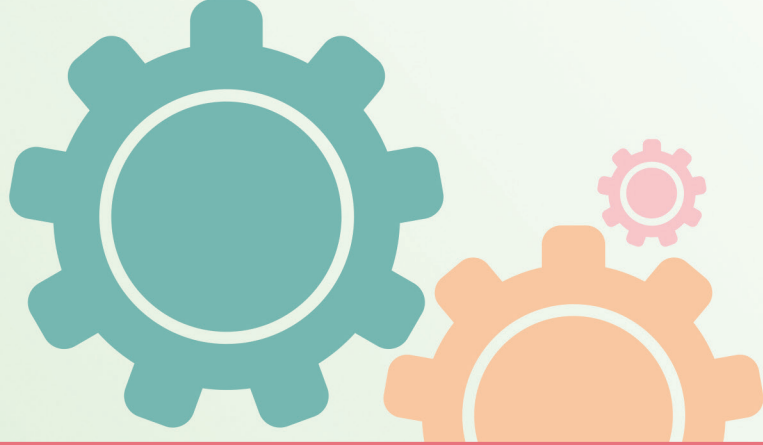
¹³ <http://www.ifac.org/global-knowledge-gateway/practice-management/discussion/attracting-and-retaining-new-talent-case>

¹⁴ <http://www.ifac.org/global-knowledge-gateway/practice-management/discussion/future-small-practices-service-offerings>

¹⁵ <http://www.ifac.org/global-knowledge-gateway/practice-management/discussion/your-accounting-firm-ready>

¹⁶ <http://www.ifac.org/global-knowledge-gateway/practice-management/discussion/tomorrow-s-firm-think-big-think-advisory>

¹⁷ <https://www.ifac.org/global-knowledge-gateway/finance-leadership-development/discussion/where-machines-could-replace>



Acknowledgements

This publication is the product of a process of exchange of ideas and information among members of the Audit Training of Trainers (Audit ToT) Community of Practice, under the EU-REPARIS Program. It was developed by Kalina Shukarova–Savovska, Senior Financial Management Specialist, CFRR, the World Bank, with contributions and inputs from Christopher Arnold, Head of SME/SMP and Research, International Federation of Accountants; Johnny Yong, Technical Manager, Global Accountancy Profession Support, International Federation of Accountants; Mats Olsson, Deputy Chair, IFAC Small and Medium Practices Committee and Paul Thompson, Director, European Federation of Accountants and Auditors for SMEs (EFAA – www.efaa.com). The team wishes to thank Bonnie Ann Sirois and John Hodge, both Senior Financial Management Specialists, CFRR, The World Bank and Piotr Pyziak, Consultant, CFRR, The World Bank, for their comments on this publication.



© 2017 International Bank for Reconstruction and Development / The World Bank, 1818 H Street NW, Washington DC 20433, Telephone: 202-473-1000, Internet: www.worldbank.org

This work is a product of the staff of The World Bank with external contributions. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of The World Bank, its Board of Executive Directors, or the governments they represent.

The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Rights and Permissions: The material in this work is subject to copyright. Because The World Bank encourages dissemination of its knowledge, this work may be reproduced, in whole or in part, for noncommercial purposes as long as full attribution to this work is given.

Any queries on rights and licenses, including subsidiary rights, should be addressed to World Bank Publications, The World Bank Group, 1818 H Street NW, Washington, DC 20433, USA; fax: 202-522-2625; e-mail: pubrights@worldbank.org.