Public Practice

Joe
Welcome to the ACCA, Association of Chartered Certified Accountants podcasts on commercial awareness. In this session we are going to use the tools discussed in the introductory episode and apply them to the public practice sector.

As we mentioned in the first introductory podcast there is a simple formula that you can apply to any organisation to gain an understanding of their business, their stakeholders and the issues they face.

In this session we are going to focus on Grant Thornton and how you can you can look at their mission statement and core values to gain an understanding of the organisation. We will also explore key drivers and the financial and risk implications that impact on practice firms in general.

Grant Thornton is the UK's fifth largest accountancy firm and it is a member firm of Grant Thornton International. Grant Thornton specialises in assurance, advisory services, and tax, and they define their culture under three areas: 'global vision'; 'global values' and 'experience for our people'.

So, their vision is simple: *"to be the foremost name in their field."* This applies not just in the UK, but also globally. They are always looking to widen their international market – for example, in 2011, a merger with the assurance and consulting firm Rosexpertiza significantly opened up the Russian market to Grant Thornton.

Grant Thornton have six core values:
Collaboration;
Leadership;
Excellence;
Agility;
Respect;
Responsibility.

They also emphasise 'experience for our people', which means they are striving to make Grant Thornton a great place to work, and provide excellent training and staff development.

Clare
So if we know the vision and core values, how does that help us gain an understanding of Grant Thornton? Well, Grant Thornton's business is service and knowledge orientated: their people have to deliver an excellent service to clients for them to be known as the foremost name in the field. Their staff need to live the core values.

Let’s look at each value individually. Firstly, ‘collaboration’. All staff at Grant Thornton have a common purpose: providing the same quality experience for their clients and their people, seamlessly across borders. This core value is essential to ensure that Grant Thornton succeeds – it has over 40,000 clients in the UK alone, and Grant Thornton International has clients in over 100 countries globally. Staff are encouraged to take secondments to gain experience in different markets, and this doesn’t only apply to Partners.

‘Leadership’ is the next value. Grant Thornton develops leadership in its staff from the beginning: at their Talent 10 induction event they provide trainees with direct access to members of the National Leadership Board who are on hand to answer questions about life at Grant Thornton.

Joe
There is also ‘Excellence’. Grant Thornton says it is ‘distinguished for innovation and its solutions-based approach, created and delivered by talented people with the passion to exceed expectations.’ The National Leadership Board (NLB) has ultimate responsibility for the quality of services across the whole business and for the development of appropriate internal control systems and the management of risk. This is also supported by the Quality and Professional Standards team.

This management of risk leads onto the next value, ‘Agility’. Grant Thornton expect their staff to be able to adapt, anticipate and respond quickly to meet complex client requirements, changes in markets and the profession.

Respect is another core value. Grant Thornton builds relationships based on confidence and trust, so their respect for others and their own standing in the business community are essential for their success. One way they gain respect is by contributing to a more accountable and robust accounting profession. Respect for clients is demonstrated through honesty, and in their Transparency Report 2012, Grant Thornton noted that behavioural patterns out of line with the firm’s values and the expected standards of behaviour set out in the code of conduct resulted in reduction of profit shares.

Clare
Finally, there is the core value of ‘Responsibility’, which is interpreted in two ways. Firstly, Grant Thornton expects all of its staff to act in a responsible way when working with clients’ assets and to uphold the reputation of the organisation. They run a recognition scheme which provides the opportunity for anyone in the firm to nominate a colleague for recognition for living the Grant Thornton values - which reinforces that values are to be lived - not just words on a piece of paper. Quarterly awards are made to the best examples.

Secondly, Grant Thornton values corporate responsibility, and demonstrates this by supporting a charity each year, running an annual Overseas Volunteer Programme and setting targets to reduce its carbon footprint: this year they aim to reduce their use of paper by 10 percent and purchase at least 50 percent of their stationery from green suppliers.

Joe
It is important to note that although the ‘Big Four’ firms do dominate FTSE 100 clients, there are also a range of firms out there that operate very differently. Even between the ‘Big Four’ there will be a difference in their values and mission and so it’s important to compare them. In this podcast we’ve chosen to focus on Grant Thornton, but we would strongly recommend that you look at a few of the firms to gain a deeper understanding.

Let’s look at public practice more generally as a sector now.

Since the introduction of the British Companies Act 1884, audit has always been seen as the key product that an accountancy practice delivers. However, over the last twenty years many accountancy firms have moved beyond traditional services such as audit and tax and diversified into new areas such as business recovery services. Indeed the ‘Big Four’, and many other firms, offer such a range of services that they have now re-classified themselves as ‘professional services’ firms.

In the previous podcast we talked about the Boston Consulting Group Matrix or BCG Matrix. Essentially it tracks the product life cycle. It is very easy to take the products of professional services firm and place them into the BCG Matrix.

Business Advisory can be classed as a ‘cash cow’. Forensic Accountancy could be classed as a ‘star’ as it is an area of accountancy that has grown considerably over the last ten years. Areas such as business recovery services could previously have been classed as ‘question marks’. However, the recent economic crisis has led to a period of unprecedented restructuring so this is now an area of growth. Nowadays, Audit is normally a loss leader.

Key drivers can be internal or external forces that impact on the organisation’s strategy. All professional services firms will face similar issues that will impact on their strategy. By knowing what the key drivers are you can then identify how each organisation has responded to it. So what are the key drivers that a professional services firm might come up against?

The emerging economies of Brazil, Russia, India and China (which are usually referred to as ‘BRIC’) provide accountancy firms with the opportunity for expansion and growth. India’s economy has grown at over 7% per cent during the last year - and China’s at over 9 per cent - despite the credit crunch. This means that businesses will be starting, growing and diversifying, all of which requires specialist advice. Many of the 'Big Four' have already set up offices and are engaged in local recruitment drives to establish themselves as the key player within that market.

The rise in environmental awareness is also a key issue amongst not only the public but businesses. Not only does this impact on the organisation's own CSR initiatives but often introduces a new untapped revenue stream to invest in. Accountants are a key source of advice to businesses in this area. ACCA has championed the development of sustainability reporting for more than 20 years. We are also helping our members understand how to account for carbon emissions. For more info visit our website.

Regulation is also a topical issue. Accountancy scandals over the last 20 years have seen an increase in the amount of regulation and compliance that businesses now have to adhere to. Added to that are the different regulatory frameworks in the different countries. The Financial Reporting Council, the UK's independent regulator, may have a set of criteria that is different to that of the Securities and Exchange Committee, the US regulator. This can pose a problem for firms working internationally as they could be challenged about their work not meeting the legal requirements of that country.

There are other issues which also affect the practice sector, such as competition, which is especially relevant in the area of audit, as this is dominated by the 'Big Four'. They are responsible for the audits of all but one of the FTSE 100 companies. This makes it very difficult for Mid-Tier firms to compete. They struggle to enter the FTSE 100 markets simply due to the significant barriers to entry and mandatory audit firm rotation is the subject of much debate. The decision behind which audit firm to choose isn't solely based on cost. It's about reputation, and this leads to what is the greatest risk to a professional services firm.

Clare
So they trade on their knowledge and support. But if for some reason the quality of that knowledge and support is compromised, then their reputation and the future of the firm is at risk. Business is won and lost on a firm's reputation. This is the reason that Arthur Andersen collapsed. It wasn't that they were Enron's auditors. It was because they were caught shredding evidence. This one act compromised their reputation and as a result the firm collapsed. You need to understand risk. You also need to understand the way the business is financed. They are key elements of commercial awareness.

Despite the large scale operations delivered by some professional services firms, very few are listed on the stock market. One of the reasons for this is because it is a legal requirement for firms performing audits to be independently owned. RSM Tenon is one of the few professional services firms that raises funds through listing on the stock market. The only way in which they could do this was to keep their audit function as a separate company that isn't listed.

Very few firms operate as sole traders or partnerships. In a partnership each partner is liable for the debts of the partnership as a whole. The majority of firms however operate as Limited Liability Partnerships (LLP's) where the individual partners are not liable for the LLP's debts.

So how do these firms raise capital? This can happen one of two ways. The first is the individual partners supplying the capital and 'buying' into the firm. The second is through loans or overdrafts. Obviously the larger the firm the more partners there are that have bought in and provided capital.

This brings us to the end of the Public Practice Commercial Awareness podcast. We hope that the information in this podcast will be useful as you develop your commercial awareness, and remember to listen to the other podcasts in the series.

These include podcasts on the Corporate sector, the Financial Services sector and the Public sector, which you can find by visiting www.accaglobal.com/ukgraduates.

Goodbye

Supporting documents:

- Terminology Guide