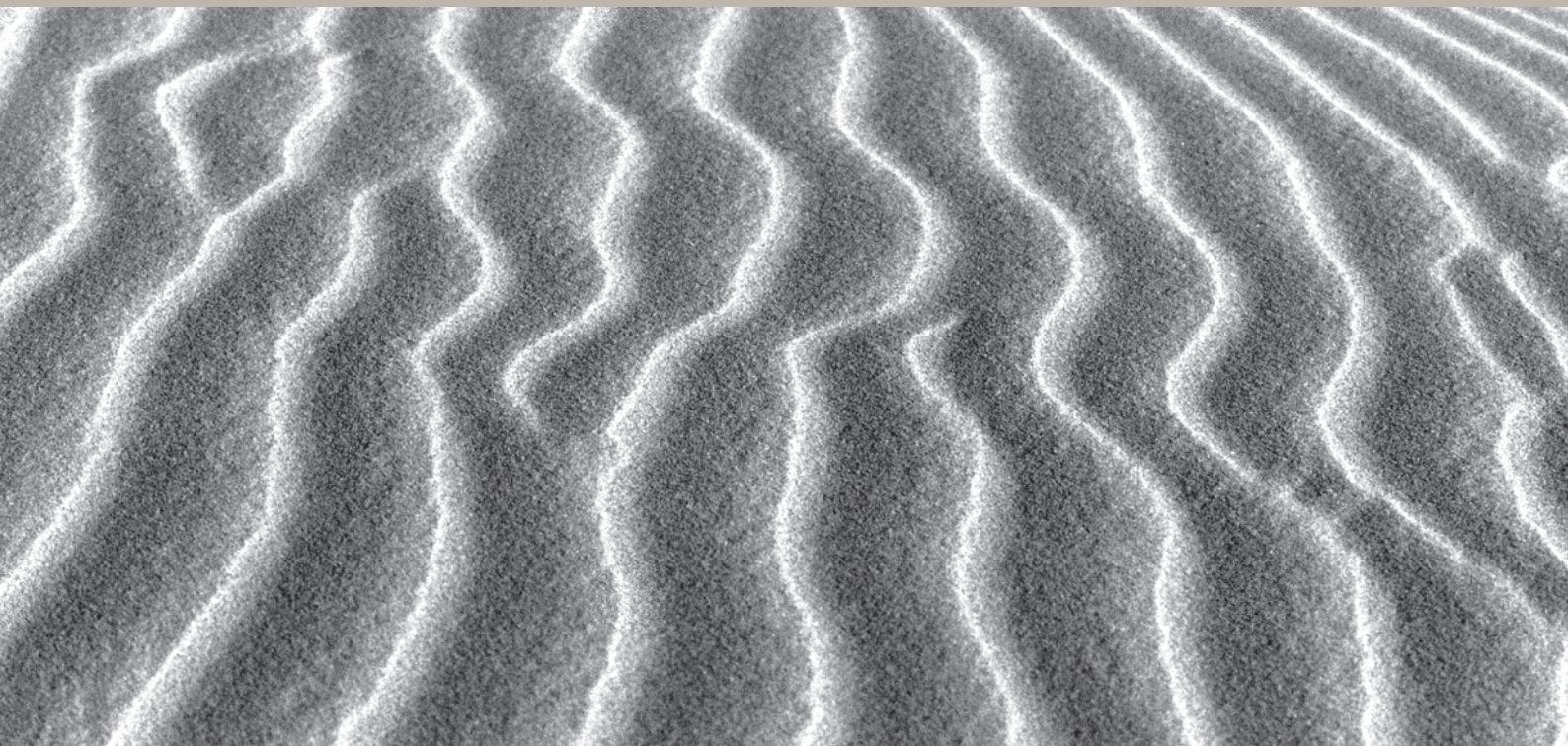


Accounting Services and SMEs: An Australian Study



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Executive summary

BACKGROUND

The observance of regulation has become a fundamental part of life for the conduct of business around the world. Governments and their duly appointed designates, acting in the interest of the collective public, have relied on regulation to moderate economic and social behaviour through the imposition and enforcement of rules. While it can be commonly accepted that such a prescriptive framework may be necessary for the achievement of desired economic and social outcomes, regulation does impose costs on society and on individual firms. These costs, which can include the costs for government departments to administer, the cost for firms to comply, and the multitude of indirect costs such as lost innovation and productivity or their interrelated opportunity costs, have received ample attention.

Accountants are key advisers to all businesses on all aspects of doing business, including regulation. As such, it is appropriate that ACCA has sponsored this study, which explores the regulatory issues facing SMEs and the critical role that accountants and other organisations play in helping SMEs be aware of, comply with and generally manage effectively the regulations that apply to their business.

ACCA has consistently argued for a balanced view to be taken on regulation, recognising that certain rules are necessary for the fair development of business and for employees' rights. Yet at the same time, ACCA recognises that SMEs are likely to be disproportionately burdened by regulatory requirements and, as a consequence, it actively campaigns for fairness in regulation, recognising the issue as a significant factor in the success, productivity and growth of small businesses.

OVERVIEW

This study complements similar research commissioned by ACCA in the United Kingdom and Canada (Blackburn et al. 2006), with the aim of helping to provide a more international picture of the effects of regulation on advice-seeking by SMEs and how accountants can help SMEs meet their regulatory obligations.

The research commenced in November 2006 and was conducted over the Australian summer period 2006/7, among SMEs and accounting practices, as follows:

- telephone survey among 250 SMEs
- postal survey among 130 accounting practitioner firms.

KEY FINDINGS

The SME section of this study revealed the following points.

- Most SMEs (between 70% and 80%), agreed that the regulations under review were reasonable, however there were significantly high levels of concern regarding:
 - the number of regulations affecting their business (80%)
 - staying up to date with changing regulations (80%)
 - complexity of regulation or the ease of understanding regulations (77%)
 - inequity, or the cost of regulation in proportion to the business (66%)
 - duplication, or being required to provide the same information to more than one government department (55%).
- External accountants were the most common source of advice, being used by 72% of SMEs; this was followed by federal government agencies, 62%; trade or industry bodies, 61%; and a lawyer or solicitor, 53%.
- Highest levels of satisfaction with the advice provided were recorded for lawyers/solicitors (94%), banks (91%) and external accountants (90%).
- Overall, 80% of SMEs who had used accountants rated their service as excellent or good. Thirty per cent gave accountants an excellent rating.
- Accountants rated particularly well on the following attributes:
 - the potential for a long-term relationship with the business (81% excellent/good)
 - technical understanding of the regulatory requirements that apply to the business (79%)
 - ability to meet the needs of the business (77%)
 - understanding of the business of the SME and its operations (73%).

The survey of accounting practitioners produced the following information.

- The results indicate that SME firms with fewer than 10 employees are the main source of revenue for the respondent accounting practitioners.
- Virtually all accountants provide regulatory advice, primarily in the areas of taxation (particularly Goods and Services Tax, GST), and Do-It-Yourself (DIY) superannuation requirements. These services provided the accountants with their largest business growth in the two years before the time of the survey.

- Seventy-nine per cent of accountants referred their SME clients to external professional advisers. Their comments indicate (see Appendix 4) that some accountants consider their role to be as convenors or advisers for their SME clients. Importantly, according to the accountants, SME firms with fewer than 10 employees did not update their knowledge of regulatory requirements; they relied on their accountant for the right advice. The main types of external adviser to whom accountants referred their SME clients were lawyers and financial planners.
- Accountants expressed their concern regarding the complexity and amount of regulations affecting their SME clients.
- The accountants also stated that they would like to provide additional advice to their SME clients.

CONFIDENCE INTERVALS – SME SURVEY

The survey sample size was 250 SMEs from the total of 1.2 million Australian SMEs. Any estimate of proportions agreeing or disagreeing with particular statements must be considered with respect to the margin of possible statistical error. Owing to the small sample size, generalising the results from this study to a wider population of SMEs may be constrained.

A 95% confidence interval of the sample mean for the following estimates based on a percentage agreement of 75% to a proposition with a sample size of 250 would be from 69.5% to 80.5%. The 95% confidence interval for estimates of any other value will diverge slightly in magnitude from the numbers given.

In general then we can be highly confident that the actual sample mean will be within approximately $\pm 5\%$ of the figure given, with a survey of this size.

CONFIDENCE INTERVALS – ACCOUNTING PRACTITIONER SURVEY

IBISWorld estimates reveal a figure of 9,222 accounting practices in Australia as at June 2006 (IBISWorld 2007). The sample size of 133 accounting practitioners gives a 95% confidence limit that the results reported from the mail-out survey are within the $\pm 5\%$ confidence interval of the reported values.

CONCLUSIONS

This report describes the results of two parallel surveys undertaken on the impact of business regulation on small and medium-sized enterprises in Australia and on the perceptions of accounting firms about the ways in which the regulatory impact on the SME sector drove their business.

The survey of SMEs provides empirical support for many of the concerns raised with the Regulation Taskforce, which reported to the Australian government in 2006.

Many businesses are concerned about the volume and complexity of government legislation as it applies to their business. They are concerned that they are unable to keep up with new legislation and that there is apparent duplication of reporting requirements across the various tiers of government.

The survey of accountants revealed that accounting firms derive a significant proportion of their revenue from SMEs. While the SMEs are concerned with regulatory changes, the accountants surveyed reported that the major growth areas in their businesses were in what could be seen as traditional accounting areas of tax and superannuation. Some SMEs sought advice on areas such as employment law, environmental regulation and health and safety but it appears that many accountants refer their clients to specialists in these areas. Recent changes to the laws regarding financial planning in Australia may lead to changes in the market for financial advice in Australia, with many accountants apparently regarding this as a key driver of future business opportunities.

The surveys were conducted using a similar instrument to similar surveys conducted in the UK and Canada and reported in Blackburn et al. (2006). Comparisons of the Australian survey results with those from the UK and Canada seem to support the perception that Australian business is not over-regulated, but the SME sector is concerned with the volume and complexity of regulation. This suggests that the SME sector wants to see improvements to Australia's regulatory regime as a result of the work of the Regulation Taskforce undertaken in 2005/6. In its response to the work of the Taskforce the government agreed with 158 of the 178 specific recommendations of the Taskforce. This now needs to be followed through at all levels of government.

Accountants in all three countries understand their SME clients' concerns with the burden of regulation and they are prepared to advise their clients where appropriate or refer them to specialist advisers. Most business growth for accountants has come from the taxation area. Very few accountants in the UK or Australia specialise in providing advice in the areas of environmental regulation or health and safety regulation.

International comparisons show that in all three countries accountants are generally highly regarded by SMEs for their professionalism and competence. The major area of client concern is the value for money offered by the accountant's service. In an era of rapidly shifting professional and technical boundaries, accountants need to be more strongly attuned to levels of client satisfaction. Lawyers, financial planners and a plethora of specialist advisers operate in the business services market and if they have an opportunity to take business from accountants by competing on price they may well do so. This suggests a stronger role for professional accounting bodies in monitoring the broader business services market for opportunities and threats on behalf of their membership.

1. Background

ACCA sponsored this research into the attitudes of small and medium enterprises (SMEs) towards various aspects of government regulation in Australia and the ways in which accounting practitioners provide business advice to SMEs. A concurrent survey was undertaken of accounting practitioners, examining the nature of their work for SMEs and the ways in which this has changed in recent years. These surveys of Australian SMEs and accounting practitioners complement similar surveys undertaken in the United Kingdom and Canada in 2006 (Blackburn et al. 2006).

1.1 INTRODUCTION

SME research has first to answer the question of what exactly constitutes an SME. For the purposes of this research we have adopted the European Commission definition of an SME; that is, an SME is a firm that employs fewer than 250 people. Australian Bureau of Statistics practice is to regard firms as SMEs where they have fewer than 200 employees. Firms with four or fewer employees are micro businesses, and firms with from 5 to 19 employees are referred to as small businesses.

Small business is pivotal to the growth of a market economy. In Australia the small business sector accounts for about 95% of all businesses and employs 3.3 million people in industries across all sectors of the economy (DITR 2006: 5). Small business is also crucial to the sustainability of exports and innovation for Australia. In the last decade the number of small businesses grew by 110,000 and this helped to maintain Australia's strong economic growth. A recent World Bank report ranked Australia as the second easiest economy in which to start up a business and the third easiest economy for getting credit for businesses. Nonetheless, in order to maintain its competitiveness, Australia, in common with many developed countries, is seeking to improve efficiency further (DITR 2006: 5).

The Australian government has embarked on a programme of legislative reform and is providing funding to promote enterprise and innovation. The Regulation Taskforce, jointly announced by the Australian Prime Minister and the Federal Treasurer in October 2005, and the \$50 million Regulation Reduction Incentive Fund demonstrate the significance of improving business efficiency in the governmental agenda (DITR 2006: 5).

The government aims to drive continual improvements in the workplace: skills development, taxation, and reduction in the regulation and cost of compliance for business. The drive to improve efficiency and reduce the cost of doing business is being actively pursued through information technology measures such as the Business Cost Calculator and the VANguard project. Both are designed to reduce the cost of compliance for business in terms of time and money (DITR 2006: 6).

Globally, the World Bank and the OECD have also, over the past decade, placed much more emphasis on the comparative costs of regulation in different countries and

highlighted strategies to make the dealings of business with government more efficient (World Bank 2004: 7; OECD 2006). According to the World Bank there are at least eight other organisations providing regular comparative international indicators and reporting on various aspects of the environment for doing business (World Bank 2004). These surveys, which highlight the costs of doing business in different countries, are often publicised in international business magazines and newspapers.

In Australia these international developments have contributed to a focus on the cost of regulation as a potential stifler of innovation and inhibitor of economic growth. Domestic regulatory developments have also contributed to mounting business concerns with the burden of regulation, and these were publicised in the Business Regulation Action Plan released by the Business Council of Australia (BCA) in May 2005. Gary Banks, the chairman of the Regulation Taskforce and the Productivity Commission, suggested that, 'the Financial Services Reform Act appears to have been the last straw for some leading BCA members, who saw the promise of a light-handed, principles-based policy regime being compromised by the emergence of an increasingly intrusive and prescriptive regulatory apparatus' (Banks 2006: 2).

The costs of regulation have come to be seen as particularly burdensome for small business. Small business is a major source of innovation and jobs growth in the Australian economy (DITR 2006: 10) and the impact of the costs of regulation can thus have a negative impact on overall economic growth. The Regulation Taskforce in October 2005 was given a broad brief to identify burdensome and duplicated legislation, suggest priority areas for regulatory reduction, examine non-regulatory options for achieving desired outcomes and provide practical options for reducing the red tape burden on business (Regulation Taskforce 2006). The Regulation Taskforce received more than 150 submissions from interested parties to assist with the inquiry.

The Regulation Taskforce reported to the government in January 2006 and the government made a formal response to the Taskforce recommendations in August 2006. In its response to the 178 specific Taskforce recommendations the Australian government agreed in full or in part to 158 of the recommendations (Australian Government 2006).

In addition, the state governments of New South Wales and Queensland have established reviews of business regulation, and the Council of Australian Governments (COAG) is reviewing National Competition Policy. Buffini (2007) has noted that the rivalry between the various levels of Australian government has contributed to the failure to provide a common legislative framework for SMEs. For example, a plumber operating in accordance with apprenticeship regulations in one State of Australia has to comply with different regulations in another State.

1.2 THE GROWTH OF REGULATION

A submission to the Regulation Taskforce inquiry by the Institute for Public Affairs (IPA) shows the growth in the volume of regulation passed by the federal and state governments over the period of the last decade. The Commonwealth government passes almost as many pages of legislation in one year as were passed in the whole of the 1960s. Not only has the volume of legislation increased over time, but so has its complexity, given that the average Act has increased from six pages in the 1960s to 36 pages in 2005. This says nothing about the total volume of legislation to which business is subject, or about the even more rapid growth in state government legislation over the same period (IPA 2005: Submission 127).

The OECD states that the smaller business finds 'red tape' burdensome, and it can deter new business start-ups. These effects are more costly in global markets, as business efficiency can be influenced by domestic regulation and the associated administration, thus reducing competitiveness (OECD 2006). The Regulation Taskforce cited research conducted by the OECD and ACCI which estimated that Australian taxation, employment and environmental legislation imposed \$17 billion in direct compliance costs on Australian small and medium-sized businesses in 1998 (RT 2006: 14). The question of the time required by SMEs to deal with the existing regulatory requirements was a key one for the Regulation Taskforce. The importance of lowering compliance costs was recognised by the Australian government when it released a draft of changes aimed at aligning the accounting standards and taxation reporting. The motivation for these changes was to lower the cost for business (Swift 2007).

To put these developments in context, it should be noted that Australia generally performs well in these international comparisons (World Bank 2004), and 'this country's regulatory regime, taken as a whole, is by no means a poor one by international standards' (Banks 2006: 3). Banks concludes that Australia's relatively high ranking is a reflection of the state of regulation in other countries and the fact that considerable regulatory reform has been undertaken in Australia in the past quarter century. His ultimate conclusion is that not much comfort should be taken from static international comparative measures because, 'As a relatively small scale, trade dependent economy lacking proximity to major markets, we need to do whatever we can to drive any unnecessary costs out of our economy' (Banks 2006: 3).

1.3 SME AND ACCOUNTING PRACTITIONER SURVEYS

It is against this background of developments in relation to the volume of government regulation of business and concern about the most appropriate means of managing regulation in a modern competitive economy that the survey research into the impact of regulation upon Australian SMEs was undertaken during November 2006. Accounting practitioners were also surveyed regarding their SME business and about any recent changes in the nature of that business. These surveys use similar methodologies to earlier surveys of British and Canadian SMEs and accounting practitioners, which were also coordinated by local professional accounting bodies (Blackburn et al. 2006).

2. Research objectives

There were three broad objectives for this research project. The research was carried out to determine:

- SME owners' perceptions of the degree of impact of regulation and legislative requirements upon their business operations
- the forms of professional and institutional support used by SMEs to deal with regulatory requirements, and
- the type of regulatory advice provided by accounting practitioners to their SME clients and the ways in which this is changing.

This research agenda was designed to be comparable in its methodology with that employed in the UK survey of ACCA members and the Canadian survey of CGA members. The Blackburn et al. (2006) report was the first stage in an attempt to provide a more global picture of the effects of regulation on advice-seeking by SMEs and of how accountants can help SMEs meet their regulatory requirements. This report builds on that work.

2.1 SME OWNER-MANAGER ATTITUDES

More specifically, this study sought to determine SME owners and managers' attitudes towards the reasonableness of particular areas of regulation relevant to business. In particular, information was sought from these SMEs on the changes in the type of advice needed over recent years. The areas chosen for analysis were taxation, superannuation, payroll, employment, environment and health and safety. These areas are also used for the accounting practitioners' survey.

Extracts from the final report of the Regulation Taskforce (2006), incorporating submissions from industry and professional bodies in these areas, are quoted below so as to provide a context for the analysis of the survey responses by SMEs and accounting practitioners.

Taxation

The consistent message from business and tax practitioners is that tax complexity and compliance costs remain a significant concern. Businesses rated tax issues as being among their highest regulatory burdens. (RT 2006: 107)

A submission from the Taxation Institute states that:

There are clear and consistent claims and some supporting empirical evidence that the global small business tax compliance costs post ANTS/Ralph¹ have increased significantly ... Taxation Institute of Australia, sub. 78, p. 17. (RT 2006: 108)

¹ ANTS/Ralph refers to the Ralph Inquiry and the subsequent changes to the tax system known as A New Tax System or more popularly as the GST changes of 2001.

Superannuation

The high level of complexity in the superannuation system and the close link between complexity and policy meant that business generally had few concrete suggestions for change. There was a widespread view that reform of the whole superannuation system would be needed to significantly reduce compliance burdens. (RT 2006: 125)

Two aspects of current superannuation legislation were of particular concern: the issue of small contributions, and the issue of the interaction of tax and superannuation.

[M]aking very small superannuation payments to many staff is an administrative burden on the business and of questionable value to staff. Restaurant and Catering Australia, sub. 70, p. 8. (RT 2006: 126)

A recent poll by the Institute of members found that taxation laws were considered the biggest regulatory burden hindering the accumulation of retirement or superannuation investments. Institute of Chartered Accountants of Australia, sub. 41, p. 12. (RT 2006: 127)

Payroll

Payroll tax differences across the states and territories involve a significant burden for businesses operating in more than one jurisdiction. The Taskforce heard that harmonising the payroll tax base would significantly reduce compliance costs for affected businesses.

The Taskforce considers that there is significant merit in harmonising the payroll tax base and administrative provisions across the states and territories. Policy issues relating to tax rates and thresholds would continue to be determined independently by each state and territory government.

Given that previous attempts at harmonisation have failed, the Taskforce recommends that the Australian Government take a leadership role through COAG [Council of Australian Governments].

[I]t has for many years been very frustrating for business to have to negotiate six or more separate payroll tax regimes, each with their own slightly different definition of what constitutes an employee. ... steps to harmonise the various definitions, so that at least the tax base would be uniform ... would significantly reduce compliance costs for business. Corporate Tax Association, sub. 68, p. 3. (RT 2006: 123)

Employment

Concerns raised by business about labour market regulation often focused on problems around complexity and compliance burdens associated with consistency. This theme was especially strong in references to workplace health and safety and workers' compensation. Unnecessary complexity was the main issue raised around business migration. Concerns about skills mobility and certification, including in the childcare sector, focused on the need for greater national consistency and the failure of mutual recognition to achieve nationally consistent outcomes. (RT 2006: 36)

Environment

Concerns raised by business in submissions to the Taskforce reflected the breadth of environmental and building regulations affecting business. Several general themes emerged.

- Inconsistency and duplication across jurisdictions; for example, variation in the way states interpret legislation and implement nationally agreed approaches.
- Approvals and licensing processes which have taken the focus of businesses away from managing risks and motivated them to focus narrowly on gaining an 'approval tick'.
- A lack of early consultation with business, which can result in concerns with the quality and transparency of regulation-making processes, including their ability to adequately assess the costs and benefits.
- In some cases, inadequate implementation and execution of programmes, which has limited the ability to achieve potential benefits.

Legislation on environmental issues, while improving, is still not yet consistent, nor are standard national practices adopted on issues such as assessment of risk, clean up of contaminated land, contaminated land audit schemes and the measurement and management of emissions. For companies operating across state boundaries, these variations add considerable cost. Business Council of Australia, sub. 109, p. 17. (RT 2006: 72–3)

Health and safety

While employers and their representatives confirmed their support for the policy objectives underlying OH&S regulation, they were concerned that inconsistency across jurisdictions adds significantly to compliance costs for businesses operating nationally; that liability is not reasonably shared between employers and employees; that OH&S training is not embedded in industry training packages; and that regulators are reluctant to provide advice and support on compliance and changes to the rules.

The chief feature of Australia's OH&S and workers' compensation schemes is their inconsistency. Within each state the schemes are predominantly complex and difficult to understand for both businesses and workers ... This situation works against the national objective of safe work environments and effective worker injury management schemes. Institute of Public Affairs, sub. 127, p. 14.

The mere fact that there are costs on business to comply with regulations is not a reason to reduce or abolish regulation. This is particularly relevant in the case of occupational health and safety and workers' compensation, where strong regulation with enforceable provisions and penalties, and prescriptive obligations on business has saved lives. Australian Council of Trade Unions, sub. 28, p. 2. (RT 2006: 36)

Further, this part of the research also sought to determine

the level of concern shown by SMEs towards particular aspects of regulation in their business. Respondents were asked to assess their degree of concern with the impact of regulation on their business as it was manifested through six channels:

- the complexity of regulations
- the number of regulations
- the ability of business to stay up to date with regulations
- the timing of regulation requirements
- the duplication of requirements
- the cost of regulations in proportion to the size of the business.

Each of these channels is discussed below and extracts from the final report of the Regulation Taskforce incorporating submissions from industry and professional bodies in these areas are quoted so as to provide a context for the analysis of the survey responses by SMEs and accounting practitioners.

The complexity of regulations

Be that as it may, the cumulative impact of more than a century of regulatory activity – good and bad – is that Australians, and businesses operating in Australia, are now subject to a vast and complex array of laws and regulations. Submissions frequently noted that, while individual regulations are generally manageable, the cumulative burden is a major concern.

General regulatory requirements faced by all small businesses such as real estate agencies include preparation, lodgement, and record-keeping associated with matters such as the GST, payroll tax, company tax, worker's compensation, superannuation, Australian Workplace Agreements, privacy, and occupational health and safety. Real Estate Institute of Australia, sub. 16, p. 2.

Each piece of new regulation may, when proposed in isolation, look reasonable. The overall effect, however, can be a considerable regulatory burden. Business Council of Australia, sub. 109, p. 5. (RT 2006: 6)

The number of regulations

The following extracts provide an overview of the extent of regulations affecting SMEs.

Box 2.1 Some rough indicators of the extent and complexity of regulation in Australia

- There are more than 1500 Commonwealth Acts of Parliament, some of which (notably the tax Acts, even with their recent revisions) are extremely long and complicated. There are also around 1000 statutory rules in force, plus an unknown amount of other Commonwealth 'subordinate' legislation.

- Each state and territory government administers a large body of its own legislation and regulation. For instance, NSW has about 1300 Acts and 650 principal statutory instruments, with a further 5500 local government planning instruments (Business Council of Australia 2005, pp. viii, 8). And in Victoria, 69 regulators of business administer 26,000 pages of legislation and regulation. VCEC 2005: xxi.
- There are also literally millions of pages of rulings, explanatory memoranda, advisory notes and so on, plus a number of self-regulatory regimes, sometimes introduced to ward off the 'threat' of government regulation.
- One particularly striking indicator of the extent and complexity of regulation affecting business is that, in mid-2003, the three levels of government appeared to administer more than 24,000 different types of licences for businesses and occupations. Human Solutions 2005. (RT 2006: 6)

The ability of business to stay up to date with regulation

SMEs often face the problem that they are unable to keep abreast of what is required of them, owing to continuously changing regulations.

.... small businesses may lack the time to readily keep abreast of regulatory developments. In addition, the complexity of regulation, and threat of penalties for even inadvertent non-compliance, can be disheartening and a source of considerable stress for some small business people.

Government reports are three per month, two per quarter, three annual ones. We computerised to make this reporting process easier, but have found the daily updating of the computer just as time consuming. The additional impost of constant changes to government laws, eg food safety, flammable goods, superannuation, taxation and now industrial relations requires continual education of self as well as staff. It's hard to run a small business as well as try to keep abreast of these changes. Retailer quoted in National Association of Retail Grocers of Australia, sub. 40, p. 3. (RT 2006: 11)

The timing of regulation requirements

Evidence provided to the Taskforce indicates that these costs can be significant. For example:

- a recent survey by the State Chamber of Commerce (NSW) (sub. 35, p. 2) found that the average business in NSW spends up to 400 hours a year (or nearly \$10 000), in time alone, complying with regulations or meeting its legal obligations; and
- one large business (QBE Insurance Group, sub. 53, p. 2) estimated that, in total, it spends \$60 million a year on compliance matters.

As well as the monetary cost, regulatory compliance obligations can also divert management attention from a company's core business. Submissions indicated that

compliance issues can consume up to 25% of the time of senior management and boards of some large companies – which among other things risks stifling innovation and creativity. (RT 2006: 9)

The duplication of regulation requirements

... the cumulative burden of regulation, and potential overlaps and inconsistencies between particular regulations, are unlikely to be given much consideration because regulations are generally developed within policy 'silos' – that is, portfolios with responsibility for a specific area of policy, such as transport, immigration or the environment – while the compliance costs are not of direct concern. For instance:

- the natural focus of officials in environmental agencies is on protecting the environment, not on minimising the costs of compliance to businesses affected by environmental regulation, and
- officials in a particular portfolio (or jurisdiction) are often unaware of whether the reporting requirements their regulations impose on business overlap with those of another portfolio (or jurisdiction). (RT 2006: 15)

The cost of regulations in proportion to the size of the business

While the paperwork burden and compliance matters may hamper and distract large businesses, empirical evidence, some of which was cited in submissions, indicates that they have a disproportionate impact on smaller enterprises. Small businesses, which comprise more than 95% by number of all businesses, have a narrower revenue base over which to spread the fixed (or set-up) costs of compliance. Many also do not have in-house regulatory expertise to help with compliance. (RT 2006: 9)

SMEs were asked to identify which external sources of advice were used in order to meet regulatory obligations, together with their level of satisfaction with the advice provided by those sources. The final component of this research questionnaire was designed to determine the level of SME satisfaction with the service provided by any external accounting firms used in the previous 12 months. Respondents were asked to assess external accountants in terms of their technical understanding of regulatory requirements, their understanding of current and future business needs, the value and responsiveness of the service provided and the potential for a long-term business relationship.

The questionnaire answered by SMEs is included as Appendix 1 to this report (see page 39).

2.2 ACCOUNTING PRACTITIONERS

The Australian Bureau of Statistics (ABS) published experimental estimates of the economic and financial performance for selected industries to the four-digit level for 2004/5 (ABS 2006).

Figure 2.1 indicates that the accounting services industry generates about 6% of the income of the Business Services industry, which is slightly less than legal services and approximately half the level of income generated by the engineering consulting and computer consultancy industries.

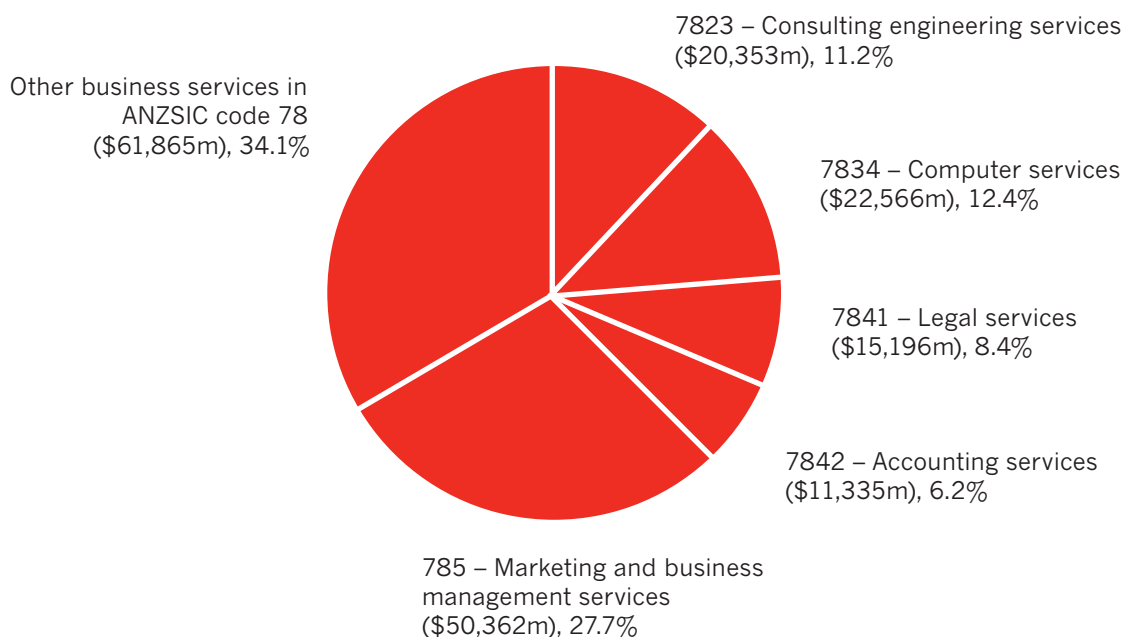
In 2001–2 the ABS undertook surveys of accounting and legal practices that enable some direct comparisons to be made between these two professional service industries. At June 2002 there were 9,860 accounting practices employing 46,474 accountants and 34,653 other staff, giving a total employment of 81,127 in the accounting services industry (ABS 2003a). Australia's 11,494 legal firms employed 36,124 lawyers and 57,628 other staff, giving a total employment of 93,752 in the legal services industry (ABS 2003b: 9).

The legal profession contributed more to the Australian GDP than the accounting profession in 2001/02, 1.1% (\$7,776.7m) compared with 0.8% (\$5,753.2m) for accounting. The legal profession also generated a greater return per professional than the accounting profession, with barristers generating the highest return at \$206,900 per barrister, followed by solicitors with \$129,500. Accounting practices generated \$73,100 return per practicing accountant (ABS 2003b: 5).

The Accounting Services industry in Australia is estimated to have employed 92,550 people in 9,222 enterprises at June 2006 (IBISWorld 2007). Industry revenues and employment had grown at rates of between 3% and 5% over a three-year period (IBISWorld 2007).

In 2005/06 the Big Four accounting firms had a market share of 29.6% of the Australian accounting services market, the Second Tier firms 12%, with the remaining 58.4% accruing to smaller operators (IBISWorld 2007). These smaller operators derived on average 50% of their revenue from business taxation services, 30% from personal accounting and taxation services and the remaining 20% from audit and assurance services,

Figure 2.1: Income of the Business Services Industry 2004/05



Total Business services of ANZSIC code 78: \$181,677m
Source: ABS 8155.0, Table 3.1 – Income.

management and business consulting services, insolvency and bankruptcy services, financial planning and investment services and other business services (IBISWorld 2007).

The geographic distribution of accounting service providers is very closely correlated both with the distribution of the population by state and with the distribution of business enterprises (IBISWorld 2007).

A report commissioned by CPA Australia (Carey et al. 2005) examines the role of accountants in providing business advice to SMEs as shown by a 2004 mail survey of 469 SMEs. Carey et al.'s results show that 67% of SMEs use accountants as a source of business advice and also indicate that there is room for accountants to increase the amount of business advice they provide to SMEs. This conclusion is based on the difference in SMEs' level of interest expressed in purchasing business advice and the current level of business advice provided by accountants to SMEs (Carey et al. 2005: 5).

The reliance by SMEs on accountants is shown to be a result of the perceptions of SMEs that accountants are trustworthy, competent and able to provide a value-for-money service, particularly in the provision of accounting services. The competence and value for money of accountants providing business advice are also rated highly, but not to the same level as for accounting services (Carey et al. 2005: 14).

Accountants have provided much of the financial management and taxation support for the SME sector and have long been seen as the preferred professional adviser to SME firms. Carey et al. (2005: 14) show that 67% of SMEs use accountants as a source of business advice compared with 52% of SMEs who use lawyers.

The present study examines this client relationship and the nature of professional expertise provided by accountants to their clients in the two years prior to the survey. Accountants were surveyed on the regulatory issues outlined in the previous section; that is taxation, superannuation, payroll, employment, environment, and health and safety. They were asked particularly about what they believed were their clients' concerns about these areas of regulation, and some questions sought to determine how the nature of the business advice and services provided by accountants to their SME clients had changed in the two years prior to the survey, and how they believed it might change in the future.

In particular, the accountants were surveyed to determine:

- the type of advice accountants provide to their SME clients
- the perception of accountants of the change in the amount of business conducted with SMEs over the previous two years
- the type of professional advice SME firms use to source information that is outside their accountant's expertise
- the level of concern they perceived among their SME clients in relation to regulatory requirements, and
- the type of advice that accountants would like to provide to their clients.

Finally, accountants were asked for the percentage of their total fee income derived from SME clients.

The questionnaire sent to accounting practitioners is included as Appendix 2 (see page 43) of this report.

3. Methodology

The methodologies of the SME and accounting practitioner surveys are discussed in greater detail in the following sections. Both surveys included an open-ended question that gave the survey respondents the option of providing further comments on the issues raised by the survey. These comments are included as raw data in Appendix 3 for SME comments and Appendix 4 for accounting practitioner comments.

3.1 SME RESEARCH METHOD

Australian Fieldwork Solutions was commissioned to field a questionnaire provided by Deakin University, and Albert Research was subsequently commissioned to provide the initial data reporting. Researchers at Deakin University provided the survey instrument and explanations of the research, and the process was approved in accordance with Deakin University Human Ethics Committee procedures for research.

The sample was taken from two sources. First, a list was derived from a database of 300 SMEs held by Deakin University, and this was supplemented with a random sample of businesses drawn from the electronic White Pages business listing.

In total 1335 businesses were contacted via phone from 9 to 28 November 2006 and 250 responses were obtained. This represents a survey response rate of 18.7%.

The objective was to achieve a quota of 30 businesses in each of eight broad industry categories identified for the purposes of the survey:

- agriculture
- manufacturing
- mining and construction
- transport
- wholesale and retail trade
- research and education
- financial services
- recreation and services.

Companies were screened to ensure that they had fewer than 250 employees, using the European Union definition of SMEs in order to ensure cross-national consistency with the UK and Canadian surveys. Senior decision makers who dealt with regulations and accounting within the company were targeted as respondents.

All interviewing was conducted by Australian Field Solutions in accordance with the briefing instructions and the ICC/ESOMAR code of professional behaviour and guidelines, which encompass the AMSRS code of behaviour. All interviewers and supervisors were certified IQCA staff, and the fieldwork was managed by associate members of the AMSRS.²

3.2 ACCOUNTING PRACTITIONERS RESEARCH METHOD

The second aspect of the research study also used a questionnaire as a survey instrument. The survey instrument and the associated preamble were approved by the Deakin Ethics Committee. The sample was obtained from a commercial database of 500 chartered accounting practitioner firms located throughout Australia. Firm size was not identified.

A total of 250 surveys were mailed in early 2006. A follow-up letter was sent three to four weeks later to all firms. These mail-outs generated a total of 130 usable responses giving a 52% response rate. The questionnaire informed the accounting practitioners that their responses were applicable to SME clients with fewer than 250 employees. The accounting practitioners were targeted as respondents.

2. ESOMAR – European Society of Marketing and Research
ICC – International Chamber of Commerce
AMSRS – Australian Market and Social Research Society
IQCA – Interviewer Quality Control Australia

4. Sample characteristics

This section discusses the characteristics of the survey respondents.

4.1 SMEs

Table 4.1 indicates the geographic distribution of the sample of businesses surveyed and indicates that the responses represent a reasonable distribution of SMEs throughout Australia.

Table 4.1: SME distribution by state or territory

	Survey (n=250)	Regional total
New South Wales and Australian Capital Territory (ACT)	31%	35%
Victoria and Tasmania	26%	27%
Queensland	16%	19%
Western Australia	14%	11%
South Australia and Northern Territory	13%	8%

Source: Regional totals from Australian Bureau of Statistics *1321.0 Small Business in Australia 2001* (ABS 2002).

Table 4.1 identifies a slight bias towards businesses located in South Australia and Western Australia which were over-represented in the survey when compared with the total Australian population. By contrast, New South Wales and ACT and Queensland were slightly under-represented in the survey population. It may be that this small geographic bias in the survey was due to the nature of the quotas used, as the over-represented mining sector is more prominent in South Australia and Western Australia.

Table 4.2: Size of SMEs

	Survey % (n=250)
Number of staff	
Sole operator	8%
2 to 9	37%
10 to 49	25%
50 to 99	15%
100 to 249	15%
Turnover	
Under \$150,000	20%
\$150,000 to \$499,999	14%
\$500,000 to \$999,999	11%
\$1m to \$4,999,999	16%
\$5 Million or more	31%
No response/not known	8%

Table 4.2 indicates that 45% of respondents had quite small businesses employing fewer than 10 staff, while 15% of respondents employed from 100 to 249 staff. Data from *1321.0 Small Business in Australia 2001* (ABS 2002) are not directly comparable with the above size categories but they show that 50% of Australia's 1,164,100 private sector non-agricultural businesses have no employees, 32% of such businesses employ from one to four people and only 0.5% of private sector businesses employ more than 100 people. Thus the survey respondents are not typical of Australian private sector businesses, as businesses with more than 10 employees are consistently over-represented and sole operators are massively under-represented. In summary, the survey is more likely to have received responses from those small businesses affected by different aspects of regulation.

Likewise, 45% of respondents reported annual turnover of less than \$1 million, while 31% had a turnover of more than \$5 million. There was under-reporting of turnover figures by the survey respondents of approximately 8%, indicating that questions seeking financial information tend to attract lower response rates.

The largest group of respondents gave their occupational status as owner/manager/partner (40%), followed by managing director (14%). Finance staff in a range of occupations accounted for 16% of responses.

That the subject of this survey is an area of significant concern to SMEs is shown by the fact that 45% of respondents requested a copy of the survey results.

4.2 ACCOUNTING PRACTITIONERS

Table 4.3 highlights the importance of SME clients of various sizes to the incomes of accounting practitioners.

Table 4.3: Percentage of accountants' income by client size (n=122)

Percentage of accountants' income	Number of employees			
	Up to 9	10-49	50-99	100-249
0-25	16.4%	62.3%	88.5%	96.8%
26-50	18.9%	31.1%	10.6%	3.2%
51-75	24.5%	4.1%	0.9%	0%
76-100	40.2%	2.5%	0%	0%

Table 4.3 shows that 40.2% of the surveyed accountants have SME clients with fewer than 10 employees providing 76-100% of their income. Only a very few accountants (3.2%) derive more than 25% of their income from larger SME firms with more than 50 employees. This screening process whereby larger businesses tend to use larger accounting firms suggests that small firms are the key source of income for smaller public accounting practices.

Table 4.4: Percentage of accountants' SME income by client size (n=122)

Up to 9 employees	10-49 employees	50-99 employees	100-249 employees
63.0%	23.9%	9.5%	3.6%

On average SME clients with fewer than 10 employees provided accountants with 63% of their fee income derived from all SMEs. The results in Table 4.4 suggest that the larger SME firms are not as reliant as smaller SMEs on external accountants for the provision of regulatory advice.

5. Survey outcomes

This section provides a more detailed examination of the findings of the surveys of SME firms and accounting practitioners.

5.1 SMEs' VIEWS AND EXPERIENCES

The findings of the SME survey in relation to attitudes towards areas of regulation, levels of concern with regulation, their use of external advice and satisfaction with the advice given, and perceptions of accountants' performance are discussed in more detail.

Attitudes towards areas of regulation

Respondents were asked about their level of agreement with a number of statements regarding the reasonableness of various areas of regulation.

In each case, the vast majority of SMEs (from 70% to 80%) agreed that the regulations under review were reasonable, although the strength of agreement regarding the various areas of regulation differed.

Three-quarters of SMEs agreed that employment regulations were reasonable and 25% agreed strongly with this. SMEs with an annual turnover of under \$150,000 were less likely to agree than average, and for many self-employed business owners the regulations were 'not

applicable'. Agreement with this statement was particularly high in the following industries:

- research and education (87% agree)
- wholesale and retail trade (84%) and
- transport (83%).

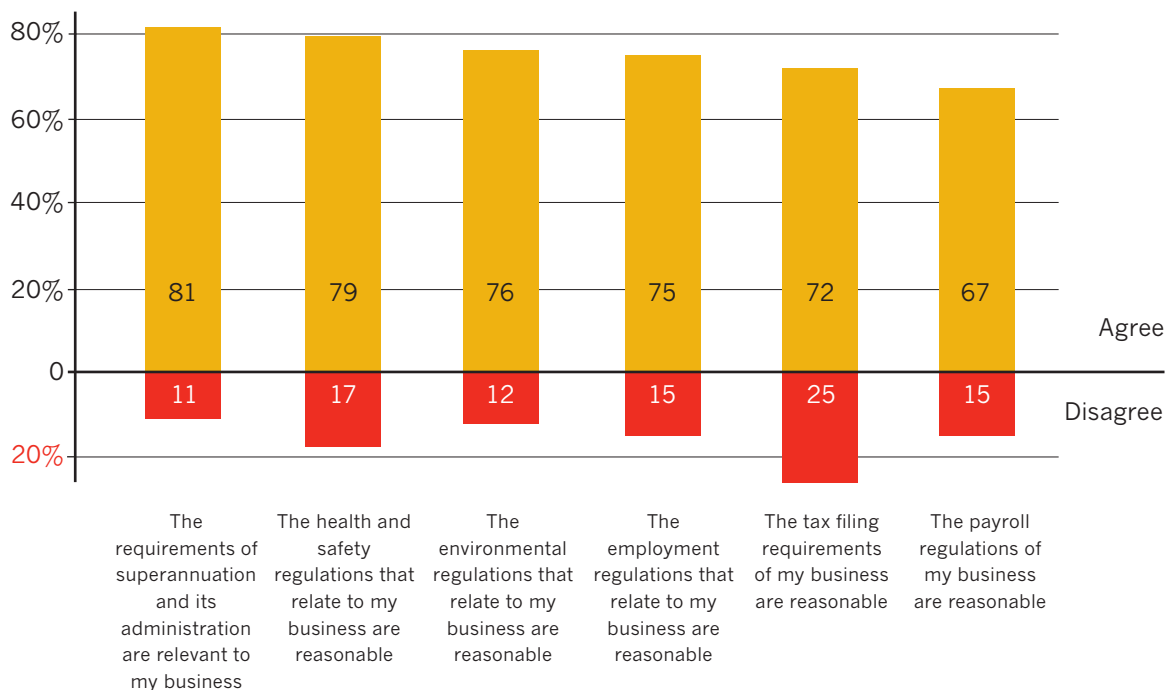
Only 68% of SMEs agreed that payroll regulations were reasonable. This was the lowest agreement score of all regulations measured, although 26% of all businesses interviewed were in strong agreement here. Those with more staff and those in the following industries tended to agree most strongly:

- wholesale and retail trade (84% agree)
- research and education (80%)
- mining and construction (77%) and
- transport (73%).

The smallest businesses were less likely to agree and 49% of those with no employees said payroll regulations were irrelevant to them.

Seventy-two per cent agreed that the tax filing regulations were reasonable, and 26% agreed strongly. The research and education industry, with 93%, stood out as having a higher level of agreement than other sectors.

Figure 5.1: SMEs' attitudes towards areas of regulations



The requirements of superannuation regulation were seen as relevant to 81% of SMEs and a high proportion, 41%, agreed strongly here. Larger SMEs with more than 10 staff tended to agree more than average, as did the following industries:

- financial services (90% agree)
- mining and construction (90%)
- wholesale and retail trade (88%) and
- manufacturing (88%).

Environmental regulations were seen as reasonable by 76% of SMEs and 32% agreed strongly with that they were reasonable. The research and education industry, 47%, the transport industry, 43%, and the wholesale and retail trade industry with 41% were more strongly convinced of the reasonableness of environmental regulation to their business than other sectors. Environmental regulation was not seen as being applicable to their business by 32% of financial services SMEs.

The health and safety regulations relating to their business were seen as reasonable by 79% of SMEs, with 44% agreeing strongly. Self-employed operators with no employees (53% of the total agreed) and those in the financial services sector (65%) were somewhat less likely to agree than others. SMEs in New South Wales and ACT

(73%) and Victoria and Tasmania (74%) were less likely to regard health and safety regulations as reasonable than were SMEs in the other states. SMEs in the following sectors were most likely to agree with the relevance of health and safety regulations:

- research and education (93% agree) and
- wholesale and retail trade (88%).

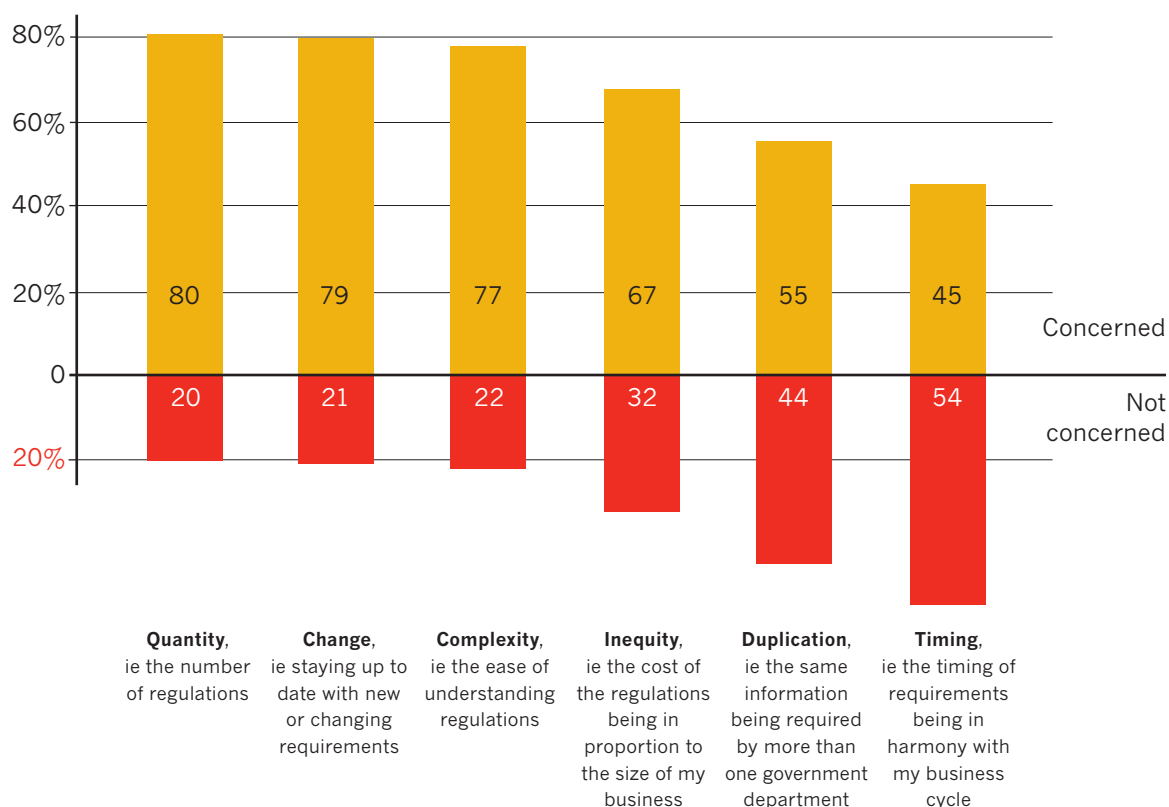
The level of concern regarding regulations

SMEs were asked how concerned they were about a number of issues regarding government regulations. There was a high level of concern across all areas.

More than three-quarters of the SME sample, 77%, were concerned about the complexity of regulations or the ease of understanding regulations, and 40% were 'very concerned'. Careful analysis indicates that those with a high level of concern were:

- those with a turnover of \$500,000–999,999 (63% very concerned)
- those in Queensland (54%)
- those who employed no other staff (53%)
- those with a turnover of less than \$150,000 (47%) and
- those who employed two to nine staff (46%).

Figure 5.2: SMEs' levels of concern regarding regulations



Eighty per cent of SMEs were concerned about the number of regulations affecting their business and 48% were very concerned about the volume of regulation. Businesses in Agriculture (57%), New South Wales and ACT (56%), Queensland (56%), and those in Victoria and Tasmania (52%) were most concerned.

Eighty per cent of SMEs, including 90% of those in manufacturing industry, were concerned about changes in regulations or staying up to date with new or changed requirements. Forty-six per cent were very concerned about this issue, with high levels of concern among:

- SMEs in Queensland (63% very concerned)
- financial services sector SMEs (61%)
- those with turnover of less than \$150,000 (57%), and
- firms employing two to nine staff (51%).

Just under half of SMEs, 45%, were concerned about the degree to which timing requirements of regulations were in harmony with their business cycle. This issue is not as important as others, with only 17% being very concerned. The financial services sector (35% very concerned), firms with a turnover of \$500,000–\$999,999 (33%), those with a turnover of \$1million–\$5million (25%), and the research and education industry (23%) stood out as being most concerned with this issue.

Just over half of SMEs (55%) were concerned about the duplication of effort in complying with regulatory reporting

by being required to provide the same information to more than one government department. Twenty-nine per cent of SMEs were very concerned about this and the smallest businesses experienced most strongly the imposition of duplicated reporting requirements on their business, suggesting a lack of resources to manage this within their business:

- single person businesses (47% very concerned)
- firms with less than \$150,000 turnover (45%)
- firms with two to nine staff (35%) and
- the mining and construction sector (33%).

Inequity, or the cost of regulation in proportion to the size of the business, was a concern for two-thirds of businesses (66%). Thirty-seven per cent were very concerned about this issue. Not surprisingly, smaller businesses stood out as being most concerned in this regard:

- \$150,000–\$499,999 turnover (54% very concerned)
- single person business (53%)
- under \$150,000 turnover pa (47%), and
- two to nine staff (43%).

The findings in this section strongly accord with the views expressed by business and particularly small business representatives to the Regulation Taskforce enquiry. Hence this project demonstrates independent empirical support for the views expressed to the Taskforce, and also gives us confidence in the results obtained.

External sources of business advice

The SMEs in the sample were asked what external sources of advice they drew upon for advice to help satisfy their regulatory obligations.

External accountants or accounting firms were the most common source of advice, being consulted by 72% of SMEs. Smaller businesses and those with a lower turnover were less likely to use this source, as were those in the research and education (47%) and the financial services sectors (39%). Advice from accountants was most commonly used by firms in the mining and construction industry (93%), wholesale and retail trade (88%) and the transport sector (73%).

Sixty-two per cent used information provided by federal government agencies or websites. SMEs in financial services (87%), manufacturing (83%), and wholesale and retail trade (72%), and New South Wales and ACT (68%) were most likely to use the federal government as a source of advice.

Forty-two per cent used the state government as a source of information and advice. This source was most popular with SMEs in research and education (67%) and financial services (61%).

Twenty-two per cent obtained information from their local government authority. The research and education sector stood out in this regard, with 30% using this source.

Trade or industry bodies were popular sources of information and advice, being used by 61% of SMEs. SMEs in mining and construction (77%), manufacturing (77%) and financial services sector (71%) were major users of this advice.

Just over half of the businesses (53%) used the advice of a lawyer or solicitor. The mining and construction sector (80%) and those in manufacturing industry (80%) were most likely to use lawyers for advice.

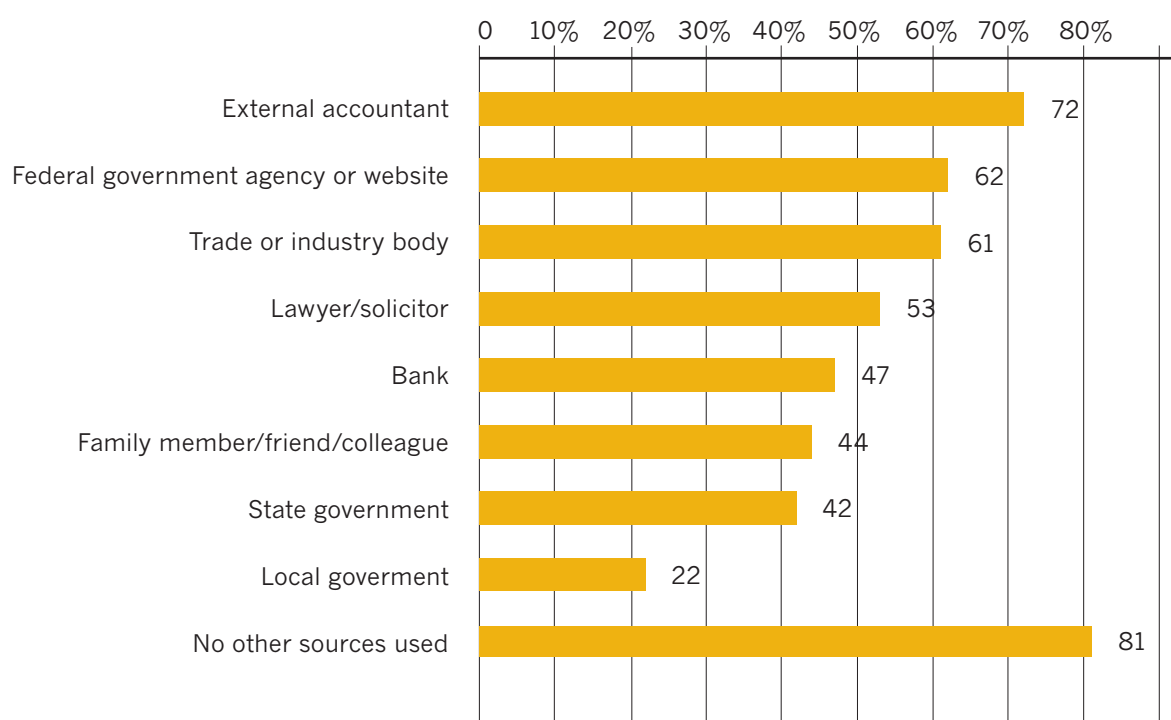
Forty-seven per cent of SMEs used their bank for business advice, with no particular type of business being more likely to use this source.

Forty-four per cent of SMEs used a family member, friend or colleague. This source of advice was more popular for single-person businesses (58%), businesses in South Australia and Northern Territory (58%), and the transport industry (53%).

Other sources of business advice, mentioned by three or more respondents, included:

- consultants (six mentions)
- environmental specialists (four mentions)
- HR consultants (three mentions)
- financial consultants/specialists (three mentions) and
- customers (three mentions).

Figure 5.3: External sources of business advice used by SMES (n=250)



5.1.4 SATISFACTION WITH THE ADVICE GIVEN

Figure 5.4 shows the levels of satisfaction with the advice given by external sources of information and advice.

SME clients were most satisfied with the advice provided by lawyers/solicitors (94%), banks (91%) and external accountants (90%). Lawyers/solicitors and external accountants rated particularly highly in terms of strength of satisfaction, with 53% and 55% of those who used their services, respectively, claiming to be very satisfied. The 'very satisfied' score achieved by accountants was the highest achieved rating in this respect.

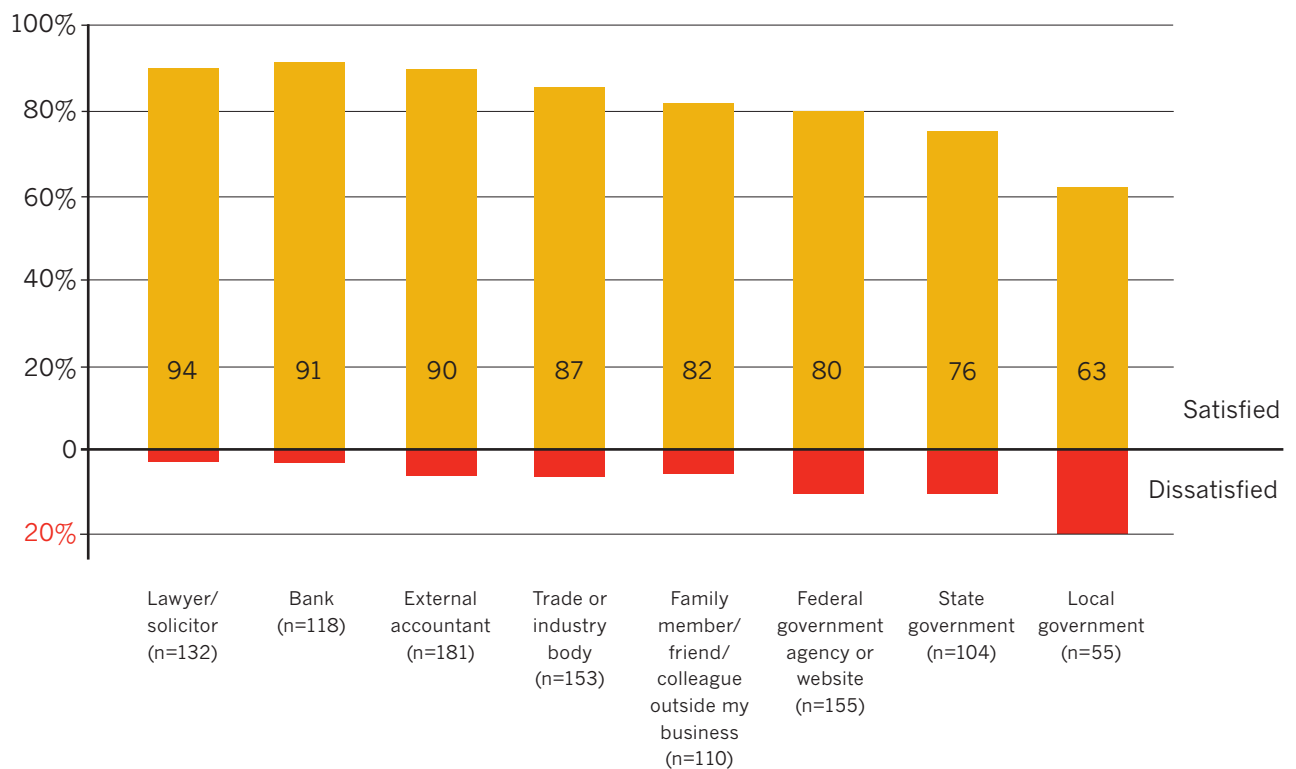
Among those who used a trade or industry body, 87% claimed to be either very or quite satisfied, and 82% of those using a family member/friend or colleague were also satisfied.

Satisfaction with the federal government was also quite high, 80%, although strength of satisfaction was low, as only 15% were very satisfied with this source.

Seventy-six per cent were satisfied with their State government, but only 63% were satisfied with their local government. All government sources achieved a relatively low score in terms of SME businesses who were 'very satisfied' with their advice:

- federal government (15% very satisfied and 11% dissatisfied)
- state government (14% very satisfied and 11% dissatisfied) and
- local government (7% very satisfied and 20% dissatisfied)

Figure 5.4: Satisfaction with advice given (n=250)



Overall performance of external accountants

Those SMEs who had consulted an external accountant or accounting firm were asked how satisfied they had been overall with their performance.

Overall 79% of SMEs who had used an accountant rated their service as excellent or good, and 30% gave accountants an excellent rating. While the sample size at the segment level is small and should therefore be treated with care, detailed tables suggest the following businesses were particularly satisfied:

- those with an annual turnover of \$150,000–\$999,999 (64%) and
- those employing two to nine staff (39%).

SMEs rated accountants well in terms of their potential for a long-term relationship with the business (81% excellent/good), as well as their technical understanding of the regulatory requirements that apply to the business (79% excellent/good).

Accountants were also rated well in relation to ‘ability to meet your needs’ (77%) and ‘understanding of your business and its operations’ (73%).

Accountants also scored reasonably well in terms of ‘responsiveness of service’ (71%), although 19% rated their accountant’s service as average.

The lowest rating was achieved for ‘value of the service provided considering the fees charged’. Only 58% of those who used an accountant or accounting firm rated this aspect of their service as excellent or good, and 31% gave accountants an average score.

Client dissatisfaction with their accountants as measured by ratings of ‘below average’ or ‘poor’ was generally low. Most concern was expressed about issues of cost and speed of response rather than issues associated with the accountants’ technical and professional expertise.

Table 5.1 shows the mean survey scores and suggests that areas of value and responsiveness could be improved in the eyes of SME clients.

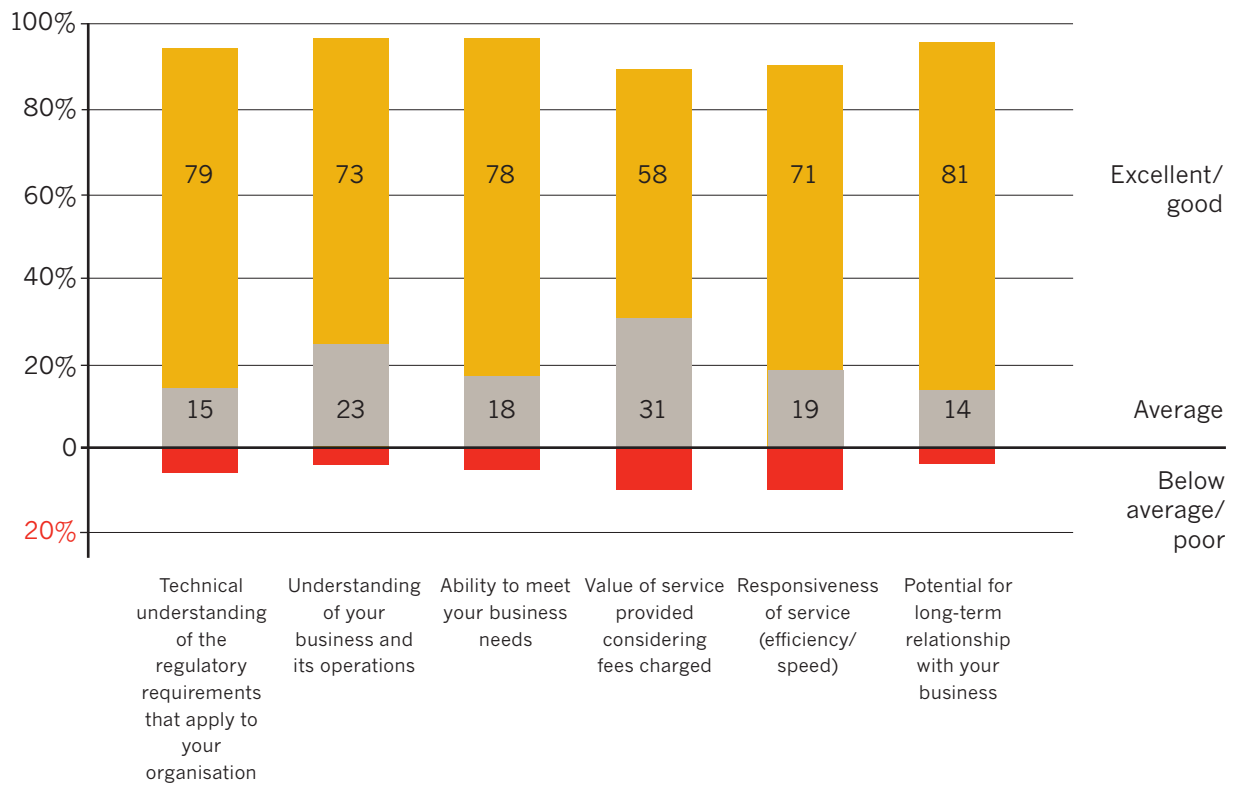
Figure 5.5: Overall performance of external accountant (n=181)



Table 5.1: SMEs’ satisfaction with accountants (n=181)

	Mean Score
Overall performance/satisfaction	4.1
Potential for long-term relationship	4.1
Technical understanding	4.0
Understanding of my business and its operations	4.0
Ability to meet my business needs	4.0
Value of service provided	3.9
Responsiveness: efficiency and speed	3.9

Figure 5.6: SMEs' satisfaction with external accountant



5.2 ACCOUNTING PRACTITIONERS' VIEWS AND EXPERIENCES

Of the 130 usable responses from accounting practitioners, 96% (125) indicated they provided advice to SME firms on issues relating to regulations. These results are discussed in greater detail in the following sections. The findings and the discussion refer specifically to accounting practitioners' SME business, not the total business of their practice.

Change in type of advice given

The results in Fig. 5.7 indicate the main areas of business advice that provide growth opportunities for accountants with their SME clients are the specialisations of taxation and superannuation. Only relatively small percentages of accountants reported that advice provision in the areas of HR/payroll or employment had increased in the previous two years.

Environmental compliance advice and health and safety compliance advice were significant for very small percentages of accountants as drivers of business growth. Only about 30% of firms provide advice to SME clients in these niche areas of accounting practice, and they are seen as key drivers of growth by very small numbers of accountants.

Seventy-nine per cent of accountants reported an increase in their business in relation to taxation, including the

Goods and Services Tax and Fringe Benefit Tax, over the previous two years. Only 2% of the surveyed accountants indicated a decrease in their tax-related business.

Seventy-seven per cent of accountants indicated an increase in DIY superannuation business from SME clients, while 2% of practitioners indicated a decrease in advice provided in this area of service and regulation.

Twenty per cent of accountants found their advice to SME firms on human relations and payroll had increased in the previous 24 months, and 2% reported a decrease in this area of their business. Seventeen per cent of accountants did not provide advice on these issues.

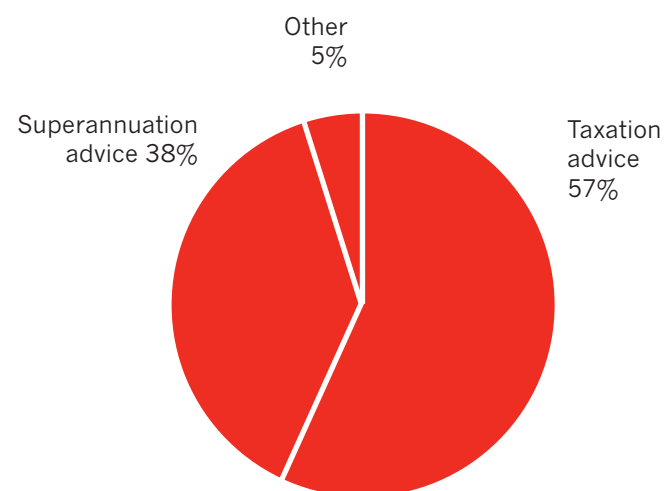
Only 12% of accountants had had an increase in the number of clients requiring information on employment and wages, and 2% indicated a decrease. Twenty-five per cent of accountants did not provide their SME clients with such advice. Despite the significant changes to federal government industrial legislation and employment contracts brought about with the introduction of the 'Workchoices'³ reforms, it appears that SME firms are not using accountants to inform them of these changes.

Although not highlighted in Fig. 5.7, 72% of accountants did not provide information relating to environmental emissions and climate change to their clients. Only 2% reported an increase in the information they supplied to SME clients.

Figure 5.7: Regulatory areas for which the amount of business has increased in the previous two years



Figure 5.8: Biggest growth areas for accountants in the previous two years



³ 'Workchoices' is Australian Federal legislation that allows the employee and employer to negotiate an individual contract within the boundaries/requirements of the legislation.

As indicated in the above comment, the same situation applies to health and safety issues. Seventy-one per cent of accountants did not provide health and safety advice to their SME clients. Two per cent of firms reported an increase in business relating to health and safety issues.

Fig. 5.8 shows that the biggest growth areas for accountants in the previous two years were in the provision of taxation and superannuation advice. Only a few firms reported that their biggest growth area was outside these two substantial areas of accounting practice, perhaps indicating that other areas are niche markets for the provision of accounting advice to SMEs.

Sources of business advice

Owing to the diversity of business advice required by the small business sector, 51% of accounting firms indicated that they employed the services of specialist advisers to assist their SME clients. In this question respondents were not required to indicate the type of adviser they employed.

Question 4 required respondents to indicate if the accountant referred their SME clients to other professional advisers. The results indicate that 79% of accountants surveyed referred their clients to external advisers.

Questions 5 and 6 sought further insights into the type of external advice recommended to their clients by accountants. The results show that accountants referred

their clients to a range of external advisers for further advice on regulatory issues. A more detailed breakdown of the type of external advice recommended is provided in Fig. 5.9.

The main type of external advice accountants recommended to their SME clients was legal advice, with more than 70% of accountants recommending lawyers as a source of advice for their SME clients. Certified financial planners were commended to their clients by 50% of those surveyed. Given the change in federal government regulations reducing the opportunities for accountants to provide investment or financial advice to their clients without a Certified Financial Planning qualification, this result indicates that many accounting professionals in Australia may not have specialist financial planning qualifications. When it comes to providing advice about shares, property and other forms of investment it appears that many accountants may not have acquired the necessary credentials and hence require professional external support.

The reason why 35% of accounting respondents referred their clients to another accounting firm was not addressed directly by the research. This aspect may provide opportunities for future research. A number of possible reasons suggest themselves, but these have no empirical support within the data generated in the course of the research.

Figure 5.9: Referrals by accounting practitioners to sources of business advice



Referral to a second accounting firm could occur simply because of a size mismatch between the client and the accounting firm. After some work for the client the initial accountant may have needed to call in support to deal with the size of the client's account within the time allowed. Geographic incompatibility may also have occurred in that some aspects of a client's business might be conducted at a remote location. A final possibility is that a generalist accounting firm needed to call on specialist accounting advice to deal with some aspects of the client's business which they were unable to handle in-house.

Other significant sources of advice to which accountants referred their SME clients included banks, the Australian Taxation Office, government bodies, and general business websites. Of interest is the small percentage recommending their clients to trade groups. It was unclear from the data if the accountants understood this to mean referring clients to industry groups or to trade unions.

The level of concern regarding regulations

Question 7 (see Appendix 2) required information on practitioner perceptions about their SME clients' concerns regarding regulatory requirements.

The results indicate that 60% of the accounting practitioners considered that their SME clients were very concerned with the complexity of regulations affecting

their business operations. An additional 31% of accountants considered their clients were somewhat concerned with the complexity of regulations, giving a total of 91% who claimed that their SME clients found government regulations unduly complex. Importantly, 93% of accountants considered that their clients were 'very or somewhat concerned' with the quantity of regulations imposed on them, and that a total of 88% were 'very or somewhat concerned' with staying up to date with regulatory changes.

A total of 73% of accountants also claimed that their SME clients were concerned with the timing of regulatory requirements; that is, the dates for completion of necessary compliance paperwork were not in harmony with the requirements of other arms of government or with other business requirements. The duplication of regulatory requirements across the various federal, state and local government bodies was also highlighted in the results, and 68% of accountants regarded this as a significant concern for their clients.

Additionally, a total of 75% of accountants considered that regulatory requirements created a competitive disadvantage for their SME clients. They considered that the time and cost expended in dealing with compliance issues was making excessive demands on the owners and managers of SME firms.

Table 5.2: Perceived level of client concern with regulation (n=125)

	Very concerned	Somewhat concerned	Not very concerned	Not at all concerned	Don't know
Complexity	60%	31.54%	5.38%	NIL	NIL
Quantity	63.08%	30%	3.08%	NIL	NIL
Change	51.54%	36.92%	5.38%	2.31%	NIL
Timing	23.85%	49.23%	20%	2.31%	0.77%
Duplication	20%	47.69%	24.62%	2.31%	2.31%
Inequity	44.52%	30.77%	16.92%	NIL	4.62%

The type of advice provided and sought

Question 8 (see Appendix 2) asked the accounting practitioners which single area of regulation small firms sought their advice on most.

Table 5.3: Area of regulation which SME clients seek advice about most (n=125)

Complexity	69.23%
Quantity	11.54%
Change	13.85%
Timing	3.07%
Duplication	0.77%
Inequity	0.77%
None of these	NIL

From Table 5.3 we can see that 69% of accounting practitioners considered that their SME clients came to them primarily for advice regarding the complexity of regulations. Only 14% of respondents considered that their clients needed up-to-date information on regulatory changes and 12% of practitioners considered that the volume of regulation was their clients' main concern, to the extent that specific advice was required.

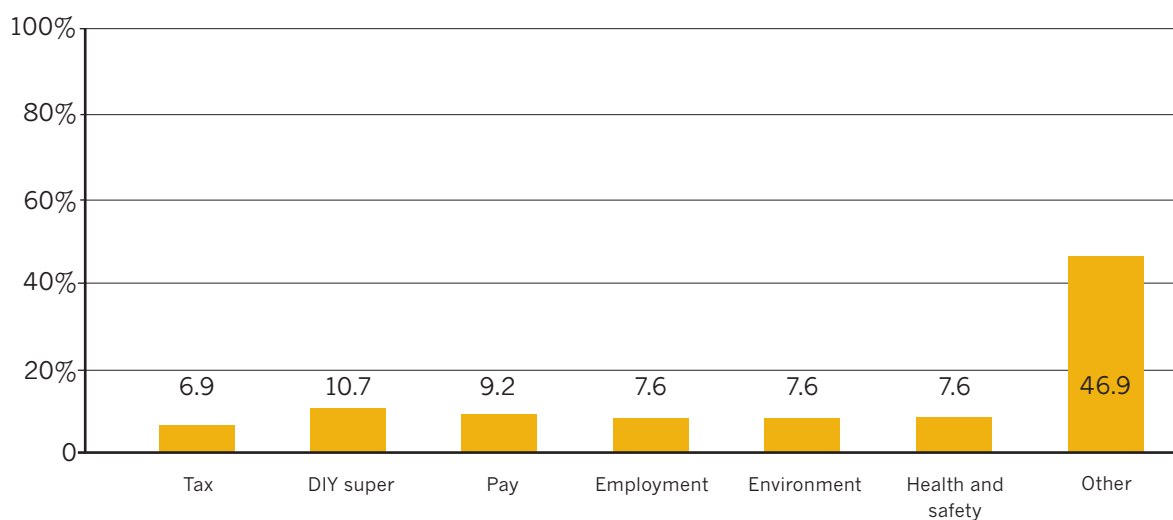
5.2.5 ACCOUNTANTS' OPPORTUNITIES IN SME CLIENT ADVICE

In addition to the type of advice already provided to the SME clients, accountants indicated in their responses to Question 9 (see Appendix 2) the areas in which they would like to provide advice in the future.

These results show that accountants as a group do not clearly see any one of the alternatives offered as representing a key growth opportunity for their future business. The results show that they are uncertain about the opportunities for business growth in the various areas of their business. Between 7% and 11% of accountants nominated the areas of superannuation, taxation, payroll, employment, the environment and health and safety. This may indicate that although much of their past business growth has come from the tax and superannuation areas, accountants are much less certain of the future growth prospects in these areas or, alternatively, are concerned with the prospect of increased competition in the provision of these services.

A very high and significant number, 47%, of respondents indicated that the type of advice they would like to provide in the future to their SME clients was not included among the options surveyed. Although not specifically supported by the results, it is suggested that financial planning may be an area which accountants see as being a significant source of future business advice growth in which they would like to be involved.

Figure 5.10: Areas in which the accountants would like to provide advice in the future (n=122)



6. International comparisons

Blackburn et al. (2006) provides comparisons of SMEs' perceptions of regulatory requirements in the UK and Canada. The surveys were sponsored by ACCA in the UK and CGA Canada. The Australian survey was designed as a companion survey to those earlier surveys so that international comparisons could be made between the three surveys. This provides an indication of the perceptions of SMEs in these three developed OECD countries about the impact of government regulation on SMEs.

6.1 SME SURVEYS

Table 6.1 shows that the comments of Gary Banks (2006), about the comparatively light hand of Australia's regulatory regime and the relative ease of doing business, appear to be justified when compared with SME perceptions in the UK and Canada. Australian SMEs were generally somewhat more inclined to regard the level of regulation as reasonable when compared with the UK, and significantly more favourably disposed than Canadian SMEs. The differences in the Canadian results may be because a slightly different question was asked, thus precluding direct comparability.

Table 6.1: SMEs' perception of regulation as 'Reasonable'

Type of regulation	United Kingdom	Canada	Australia
Taxation	69%	56%	72%
Payroll	73%	53%	67%
Employment	55%	37%	75%
Environment	71%	62%	76%
Health and safety	70%	58%	79%

Source: UK and Canada data from Blackburn et al. (2006); Australian data refer to this report, Fig. 5.1 (see page 19)

While Australian SMEs regard the level of regulation as slightly more reasonable than UK SMEs, the area of greatest difference is in relation to employment regulation. This may reflect a 'honeymoon' response to the Workchoices legislation of 2006 or it may indicate a genuinely greater SME approval of a more decentralised regulatory regime in relation to employment law. Many of the Workchoices changes were targeted particularly at SMEs, particularly the removal of the unfair dismissal laws.

Table 6.2: SMEs' concern (somewhat + very concerned) with aspects of regulation

Aspect	United Kingdom	Canada	Australia
Complexity	72% (37%)	88% (50%)	77% (40%)
Quantity	79% (46%)	87% (57%)	80% (48%)
Change	75% (35%)	88% (52%)	79% (46%)
Timing	53% (19%)	58% (29%)	45% (17%)
Duplication	57% (26%)	63% (28%)	55% (29%)
Inequity	73% (36%)	88% (62%)	67% (37%)

% in brackets = very concerned

Source: UK and Canada data from Blackburn et al. (2006); Australian data refer to this report, Fig. 5.2 (see page 20)

While SMEs in all three countries are highly concerned with most aspects of the regulatory regime, those in Canada appear to be more concerned across the board than Australian or British SMEs. The complexity of regulation together with the volume and rate of change of regulation are a source of strong SME discontent in all three countries. Together with the results in Table 6.1, this seems to suggest that while business owners are prepared to accept that regulation is generally reasonable in principle, they have significant concerns about its practical application to their business.

Table 6.3: SME satisfaction (excellent + good) with accountant's service

Aspect	United Kingdom	Canada	Australia
Technical understanding	75%	82%	79%
Understands business	76%	80%	73%
Meets needs of business	78%	NA	78%
Value for money	59%	60%	58%
Responsiveness	78%	80%	71%
Potential for long-term relationship	81%	NA	81%

Source: UK and Canada data from Blackburn et al. (2006); Australian data refer to this report, Fig. 5.6 (see page 25)

The above results show that SMEs in all three countries have a generally high regard for their accountants' technical abilities and competencies. In all three countries the lowest level of satisfaction relates to perceptions of value for money. Australian accountants are seen as less responsive than their overseas counterparts by SMEs.

The relatively consistent high international regard for the technical competence and business understanding of accountants suggests that the progressive internationalisation of professional accounting standards, accounting firms, accounting member bodies and accounting education in these three countries has assisted in developing accountants who have international standards of competence and professionalism.

6.2 ACCOUNTANT SURVEYS

The accountant surveys had more technical differences in their questions than did the SME surveys. The Australian survey followed more closely the UK survey, making direct comparison with Canada more difficult in some cases.

Table 6.4: Accountant perceptions of SME's concern (very + somewhat) with aspects of regulation

Aspect	United Kingdom	Canada	Australia
Complexity	92%	89%	91%
Quantity	95%	90%	93%
Change	88%	83%	88%
Timing	61%	76%	73%
Duplication	74%	82%	68%
Inequity	82%	88%	75%

Source: UK and Canada data from Blackburn et al. (2006); Australian data refer to this report, Table 5.2 (see page 28)

Table 6.4 shows that accountants in all three countries generally believed their clients to be more concerned with aspects of regulation than the clients themselves said they were, as shown in Table 6.2. The accountants tended to assess their clients' relative priorities of concern correctly.

Accountants' perceptions of their clients concerns with timing aspects of regulation appears to be lower in the UK, perhaps as a result of their much longer experience with VAT (or GST in Australia). Australia's slightly lower levels of concern with duplication and inequity may reflect Gary Banks' comments cited earlier about the relative efficiency of Australia's regulatory regime in an international context.

Table 6.5: Accountant perceptions of major reason SMEs consult their accountant for regulatory advice

Reason	United Kingdom	Australia
Complexity	62%	69%
Change	18%	14%
Quantity	13%	12%

Source: UK data from Blackburn et al. (2006); Australian data refer to this report, Table 5.3 (see page 29)

The results in Table 6.5 are consistent between Australia and the UK, indicating that regulatory complexity is seen by accountants as by far the most common reason for SME clients to seek regulatory advice from them.

Table 6.6: Largest growth areas in business from SMEs in the past two years

Specialisation	United Kingdom	Australia
Taxation	60%	57%
Superannuation	NA	38%
HR/payroll	21%	0.8%
Employment	12.5%	0.8%
Environment	0%	0.8%
Health and safety	0.4%	0.8%

Source: UK data from Blackburn et al. (2006); Australian data refer to this report, Fig. 5.8 (see page 26)

Table 6.6 highlights that taxation is a major area of business growth for accountants in both countries, and shows that taxation is the major source of business growth for 60% of UK accountants and 57% of Australian accountants. UK accountants apparently do more work in HR/payroll and employment advice areas than Australian accountants, but superannuation is an unknown (or unsurveyed) specialisation in the UK. Environmental advice and health and safety advice are only minor specialisations in Australia and the UK, with only small numbers of accountants generating significant business growth in these areas.

7. Conclusions

This report describes the results of two parallel surveys undertaken on the impact of business regulation on small and medium-sized enterprises in Australia and on the perceptions of accounting firms about the ways in which the regulatory impact on the SME sector drove their business.

The survey of SMEs provides empirical support for many of the concerns raised with the Regulation Taskforce, which reported to the Australian government in 2006. Many businesses are concerned with the volume and complexity of government legislation as it applies to their business. They are concerned that they are unable to keep up with new legislation and they are also concerned with apparent duplication of reporting requirements across the various tiers of government.

The survey of accountants revealed that accounting firms derive a significant proportion of their revenue from SMEs. While the SMEs are concerned with regulatory changes, the accountants surveyed reported that the major growth areas in their business were in what could be seen as traditional accounting areas of tax and superannuation. Some SMEs sought advice on areas such as employment law, environmental regulation and health and safety, but it appears that many accountants refer their clients to specialists in these areas. Recent changes to Australia's laws on financial planning may lead to changes in the market for financial advice there, with many accountants apparently regarding this as a key driver of future business opportunities.

The surveys were conducted using a similar instrument to similar surveys conducted in the UK and Canada and reported in Blackburn et al. (2006). Comparisons of the Australian survey results with those from the UK and

Canada seem to support the perception that Australian business is not over-regulated, but the SME sector is concerned with the volume and complexity of regulation. This suggests that the SME sector wants to see improvements to Australia's regulatory regime as a result of the work of the Regulation Taskforce in 2005–6. In its response to the work of the Taskforce, the government agreed with 158 of the 178 specific recommendations of the Taskforce. This now needs to be followed through at all levels of government.

Accountants in all three countries understand the concerns of their SME clients with the burden of regulation and they are prepared to advise their clients where appropriate or refer them to specialist advisers. Most business growth for accountants has come from the taxation area. Very few accountants in the UK or Australia specialise in providing advice in the areas of environmental regulation or health and safety regulation.

International comparisons show that accountants are generally highly regarded by SMEs in all three countries for their professionalism and competence. The main area of client concern is the value for money offered by the accountants' service. In an era of rapidly shifting professional and technical boundaries, accountants need to be more strongly attuned to levels of client satisfaction. Lawyers, financial planners and a plethora of specialist advisers operate in the business services market and if they have an opportunity to take business from accountants by competing on price they may well do so. This suggests a stronger role for professional accounting bodies in monitoring the broader business services market for opportunities and threats, on behalf of their membership.

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Appendix 1: Questionnaire to SMEs

1. To begin, how many people work in your organisation, including owner-managers or partners?

Just yourself	7.6%
2 to 9	36.8%
10 to 49	25.6%
50 to 99	14.8%
100 to 249	15.2%

A. REGULATORY QUESTIONS

A1. I'm going to read out a statement about each of the areas of regulation that are relevant to your business. Please tell me whether you agree or disagree with each statement.

RANDOMISE TOPICS.

TOPIC	STATEMENT	Agree strongly	Agree somewhat	Disagree somewhat	Disagree strongly
TAXATION, eg Income Tax, GST, FBT.	The tax filing requirements of my business are reasonable	26%	46%	16%	9%
SUPERANNUATION	Requirements of superannuation and its administration are relevant to my business	41%	40%	5%	6%
PAYROLL	The payroll regulations of my business are reasonable	26%	41%	7%	8%
EMPLOYMENT eg minimum wage	The employment regulations that relate to my business are reasonable	25%	50%	7%	8%
ENVIRONMENTAL eg climate change levy; care/use chemicals, recycling; water/sewage treatment; air quality; packaging requirements, wildlife/habitat protection	The environmental regulations that relate to my business are reasonable	32%	44%	6%	6%
HEALTH AND SAFETY Risks to health and safety arising from work activity, to the general public as well as employees, eg electrical safety; noise; workplace stress; land use	The health and safety regulations that relate to my business are reasonable	44%	35%	9%	8%

A2. Please tell me whether you are very concerned, somewhat concerned, not very concerned or not at all concerned about each of the following as it applies to the regulations affecting your business.

READ LIST. RANDOMISE.

	Very concerned	Somewhat concerned	Not very concerned	Not at all concerned
Complexity – ie the ease of understanding regulations	40%	37%	10%	12%
Quantity – ie the number of regulations	48%	32%	12%	8%
Change – ie staying up to date with new or changing requirements	46%	33%	11%	10%
Timing – ie the timing of requirements is in harmony with your business cycle	17%	28%	31%	23%
Duplication – ie the same information being required by more than one government department	29%	26%	24%	20%
Inequity – ie the cost of the regulations in proportion to the size of your business	37%	30%	19%	13%

B. PRACTITIONER QUESTIONS

I now have some questions about the assistance your business draws on to help satisfy its regulatory obligations.

B1. I'm going to read out a list of external sources of advice for businesses. As I read each one out, would you tell me whether – in the last year – your business has been provided with advice on the regulations that apply to your business from that external source?

RANDOMISE. CODE ALL THAT APPLY.

B2. How satisfied are you with the advice provided to you about the regulation issues that apply to your business by...

RANDOMISE. ASK FOR EACH INDICATED IN B1.

External source	Very satisfied	Somewhat satisfied	Neither satisfied nor dissatisfied	Somewhat dissatisfied	Very dissatisfied
External accountant	55%	35%	4%	5%	1%
Bank	33%	58%	7%	2%	1%
State Government	14%	62%	13%	8%	3%
Federal Government agency or website.	15%	65%	9%	7%	4%
Lawyer/solicitor	53%	41%	4%	2%	1%
Family member/friend/colleague outside your business	36%	46%	12%	2%	4%
Trade or industry body	35%	52%	7%	4%	3%
Local Government	7%	56%	15%	13%	7%

IF ORGANISATION HAS NOT USED AN EXTERNAL ACCOUNTANT OR ACCOUNTING FIRM FOR ANY OF THE REGULATORY AREAS THEN GO TO SECTION C.

B3. Thinking of those regulatory areas for which you have used an external accountant or accounting firm within the last year, how would you rate the service provided overall? Was their overall performance excellent, good, average, below average or poor?

Excellent	30%
Good	49%
Average	19%
Below average	2%
Poor	0%

B4. And using the same scale of excellent, good, average, below average or poor, how would you rate the service provided by the external accountant or accounting firm in each of the following areas:
READ LIST. RANDOMISE.

STATEMENT	Excellent	Good	Average	Below average	Poor
Technical understanding of the regulatory requirements that apply to your organisation	32%	47%	15%	4%	2%
Understanding of your business and its operations	32%	41%	23%	3%	1%
Ability to meet your business needs	24%	54%	18%	4%	1%
Value of service provided considering fees charged	18%	40%	31%	6%	4%
Responsiveness of service [efficiency/speed]	27%	44%	19%	8%	2%
Potential for long-term relationship with your business	34%	47%	14%	2%	2%

C. RESPONDENT PROFILE

C1. What is your annual turnover (most recent year or estimated current year)?

READ LIST IF NECESSARY.

Under \$150,000	20%
\$150,000 to \$499,999	14%
\$500,000 to \$999,999	11%
\$1m to \$4,999,999	16%
\$5m or more	31%
No response/not known	8%

C2. What is your position or title?

Owner/manager	32%
Partner	8%
Company Secretary	2%
MD/Managing Director	14%
CEO/Chief Executive	6%
Finance Director	8%
Other (specify)	19%

Appendix 2: Questionnaire to accounting practitioners

1. Does your firm provide advice to SMEs on issues relating to regulation – that is in relation to complying with regulations related to tax, HR/payroll, employment, environment, health and safety and superannuation?

Yes [respondent taken to Q2]	96.15%
No [respondent taken to Q11]	3.85%

2. We're interested to learn how regulation issues have affected your relationship with your SME clients. The table below shows various different areas of regulation. For each one, please would you indicate your perception of whether the amount of business your firm has conducted with SME clients has increased or decreased in the past two years? (PLEASE TICK ALL THAT APPLY)

	Increase in business from SME clients in past 24 months	No change in the amount of business from SME clients in past 24 months	Decrease in business from SME clients in past 24 months	No advice given to SME clients on this area of regulation in past 24 months
Taxation, GST, FBT.	79.23%	15.38%	1.54%	NIL
DIY Superannuation	76.92%	16.92%	NIL	2.31%
Payroll	20%	53.85%	1.54%	16.92%
Employment, eg minimum wage	11.54%	63.08%	1.54%	25.38%
Environment, eg emissions; climate change levy	1.54%	16.92%	0.77%	72.31%
Health and safety, eg fire assessments	2.31%	19.23%	0.77%	71.54%

3. In which ONE area of regulation do you think your firm has seen the biggest growth in business from SMEs in the past two years (ie in terms of advising SME clients)? (PLEASE TICK ONE ONLY)

Area of regulation	Biggest increase in advice to SME clients in past 24 months
Taxation	57.69%
DIY Superannuation	38.46%
HR/payroll	0.77%
Employment	0.77%
Environment	0.77%
Health and safety	0.77%
Other	2.31%
Don't know	NIL

4. Does your firm employ one or more specialist adviser who assist SME clients with regulation issues?

Yes	50.77%
No	45.38%
Don't know	NIL.

5. Do you/your colleagues refer SME clients to other, external advisers for further advice on regulation-related issues?

Yes [taken to Q6]	79.23%
No [taken to Q7]	16.15%
Don't know [taken to Q7]	NIL

6. Which of the following external advisers does your firm refer SME clients to for further advice on regulation-related issues? (PLEASE TICK ALL THAT APPLY)

Advisor	SME clients referred to on regulation-related issues
Lawyer/solicitor	73.08%
Another accounting firm	35.38%
Certified financial planners	50%
Payroll adviser	5.38%
Bank	25.38%
Australian Taxation Office (ATO)	21.54%
Government department/agency eg Employment (but <u>not</u> ATO)	19.23%
Trade body	13.85%
General business information supplier eg Government <business.gov.au> website	20%
Other	4.62%
Don't know	NIL

7. Based on your experience, how concerned do you think your SME clients are about each of the following when dealing with their respective regulatory requirements?

	Very concerned	Somewhat concerned	Not very concerned	Not at all concerned	Don't know
Complexity: understanding regulations	60%	31.54%	5.38%	NIL	NIL
Quantity: dealing with the number of regulations	63.08%	30%	3.08%	NIL	NIL
Changes: staying up to date with new or changing requirements	51.54%	36.92%	5.38%	2.31%	NIL
Timing: timing of requirements is not in harmony with business cycle or other requirements	23.85%	49.23%	20%	2.31%	0.77%
Duplication: same information often required by different government departments	20%	47.69%	24.62%	2.31%	2.31%
Inequity: regulations create a competitive disadvantage for SMEs	44.52%	30.77%	16.92%	NIL	4.62%

8. And in your view, of these concerns, about which ONE of these do your SME clients come to you for advice MOST?
(PLEASE TICK ONE ONLY)

Complexity: understanding regulations	69.23%
Quantity: dealing with the number of regulations	11.54%
Changes: staying up to date with new or changing requirements	13.85%
Timing: timing of requirements is not in harmony with business cycle or other requirements	3.07%
Duplication: same information often required by different government departments	0.77%
Inequity: regulations create a competitive disadvantage for SMEs	0.77%
None of these	NIL

9. In those instances where your firm does not provide advice to SME clients, which of the following areas would your firm like to provide advice about in the future? (PLEASE TICK ALL THAT APPLY)

Area of regulation	Would like firm to provide advice on this issue in future
Taxation	6.92%
DIY Superannuation	10.77%
HR/payroll	9.23%
Employment	7.69%
Environment	7.69%
Health and safety	7.69%
None of these	46.92%

10. Thinking of your SME client base only, what percentage of your firm's total fee income derives from...
(% MUST ADD TO 100)

Organisations with fewer than 10 employees	63.0%
Organisations with 10–49 employees	23.9%
Organisations with 50–99 employees	9.5%
Organisations with 100–249 employees	3.6%

11. That completes our questions in this survey – is there anything you would like to add in relation to your experiences of advising SMEs in relation to regulation?

Appendix 3: Additional comments by SMEs

The following comments were recorded in response to the final question of the interview: 'Is there anything else you would like to add?'. The comments are grouped by respondent's industry sector.

MANUFACTURING

'No, no. We just have to live with them.'

'The health and safety is totally absurd in NSW – for example the total onus that is placed on the management and directors of properly run businesses. Quite a number of prosecutions against companies for accidents; Workcover prosecuted the company and me for a staff member who had an accident, which was his fault. Workcover brought the charge and get 50% of the fine. Workcover pay their way by generating prosecutions and it is a criminal charge. It is totally ridiculous.'

'Less is good, less work for business; it is probably the biggest growth of business is the increase in administering government regulation, no.'

'We are in process of moving our business to Malaysia. Reason is the environment in this country is not suitable to a high-tech manufacturing business. Not conducive. Components are twice the price here than in Malaysia and yet they are American sourced and that's the fault of Australian government and the customs regulations, in essence one problem is wages but there are other problems that are as bad as wages. This country doesn't care about manufacturing, just not interested.'

'Too many regulations. Too many changes in superannuation and not enough flexibility in the labour laws. In the USA, if we run out of materials we can send employees home; totally flexible hours. Then if they have an RDO [Rostered Day Off] and we get materials then they give up their RDO and come in and do the job. Their hours are always made up. It's just so flexible. Penalty rates don't help anybody. Overtime is a reward for low productivity. Piece rates are the way I'm heading towards. Just have to find out how legal it would be.'

'I'm in full support of John Howard's IR laws because the current situation with industrial relations is unacceptable.'

'I think it is good that people are doing the survey to see what we think of the regulations. In summary, regulations that protect the people and the environment are very good, but generally I believe we are over-regulated in many ways. I think just in business, for example – we get educated in safety issues with work but in many cases it's required to a degree (safety regulations) and is practical because it affects me in my recreation. For example, compulsory wearing of life jackets in all boats for all people in Victoria. We acknowledge it is a good regulation to have life jackets and there are lots of others you can look at that are highly regulated many of which are just not necessary.'

'It would be good if we had more federal information provided, especially for smaller businesses. They do have some help desks but very difficult to get on to and finding right department. I want to know how to implement new changes instead of just "these are new changes". Maybe an FAQ [facility] would be good, too.'

CONSTRUCTION

'In relation to the service provided by accountants – a number of negative responses were made but I recognise that they have great difficulties themselves keeping up with current changes.'

'Some businesses also have to undergo IFRS as well – the 'International Accounting Standard.' They are trying to change it to a worldwide standard.'

'It is difficult for sole traders to employ an apprentice because of the paperwork, it's just too much when there is only one person in the business, and the cost of having an apprentice is huge.'

'The problem with regulations is the overlapping layers of government – have had situation where the state government has okayed development and the council said according to by-law they voted on I can't do it. Our mayor is the fruit and veggie guy, our councillors are the baker, butcher, a couple of surfies and a megalomaniac woman who has been a professional dole recipient all her life and who is now telling me that 'She' will not allow me to go ahead with the development. Get rid of the councils, that's what we need!'

RETAIL

'Too many regulations; nothing further to add.'

RECREATION

'Australian government regulations: they are killing small business, too much competition from big companies, and we have to put up with so many regulations and requirements from the government departments – not worth having a small business.'

SERVICE

'Could the government send me a book regarding new workplace regulations that my staff and management can understand easily? Payroll tax is a disincentive to grow my business, why has state government reneged on stamp duty relief following introduction of GST?'

'I think we've covered everything.'

FOOD OUTLETS

'A bit more education in schools about these regulations would be good, these kids can't even write a cheque.'

AUTOMOTIVE

'I would like regulations to be a lot easier, duplication to be looked at and sorted and stopped, more realistic approach to the enforcement on lot of the regulations. Like to see a better response from government departments and police on some aspects on cleaning up with problems not associated with our business but we are held responsible. We strip cars and sell them to the public and are treated as "suspect" by the police. Often myself or other wreckers, crushers, etc have police spending the day, or days or weeks in our business checking up on us and how we run our business but if we report an offence to them, whether it be stolen property or someone trying to sell to me, they either don't turn up or turn up days or hours later. That is the aspects I'm talking about. Two rules, they don't clean up crimes that are happening but they keep on top and harass us as if we are not responsible and honest.'

'No. Wish that they would put the regulations and any changes in layman's terms that make it easier to understand and implement.'

TRANSPORT

'Waste of time; let us do our thing instead of being handcuffed. The politics – we run interstate transport and when we cross borders the rules change. For example, driving hours, weights, lengths. Every week we get letters in the mail questioning how we do our job, for example how does a truck do the distance in the time, when they know we have two drivers working per truck. We are in service industry and let us do our job, servicing clients in the transport industry.'

'They're a pain in the ass. We're being over governed, particularly in our industry. Registrations, funding and accusations we don't pay our way. Policing of vehicles. Revenue raising only in NSW, just being a constant bane of the industry, too many politicians that don't know what they are doing that we have to pay for. Zero encouragement in our industry, federal excise and fuel costs just out of hand. No industry support from government. It's an industry that is a political football.'

'The way small business has only one person to cope with different areas whereas the larger businesses can employ someone for the particular area. Now that workers' compensation has changed it is very time consuming now. Now that GST4 is in, it is more work for the smaller business.'

'We rely on most of our information from our employer organisation.'

AGRICULTURE

'It's hard to keep up with changing regulation on tax and chemical usage, that's all.'

'We rely on our accountant for keeping us up to date, our accountant requires us to deliver to her information in an orderly manner not on bits of paper so we tend to spend a lot of time having to record information like superannuation and GST instead of looking at the business. We employ a few casuals and the super processing is very time consuming and I have to keep up to date with regulation and sometimes we have to employ people just to keep superannuation up to date. To avoid penalty we have to get it [superannuation] right and deliver it on time, super is a lot more complex than it used to be – the paperwork and recording and taxation implications with superannuation and the GST have been an added issue to increasing cost and time. Even though we have computers to help, it's every three months that we have to report with GST, and we have to be available at certain times of the year to do it, so we have to organise our private life around the requirements associated with regulation compliance, workplace health and safety in farming. Providing a harness and platform now to fill an elevated tank where a ladder used to be OK, handling chemicals – standards are a lot higher, which has increased cost of training, and certification and materials handling all adds up.'

'We're a small dairy farm and some of the regulations become too much and they cost a lot of money, we're at the bottom of the food chain, because of regulations we can't raise our prices but everyone else like the shops raise theirs.'

'If they had left the dairy industry alone and hadn't changed the regulations then the dairy farmers would still be here. We're down to 800 here in Queensland, they shouldn't have changed anything.'

'I think we are over-governed and over-regulated; there is an accumulation of minor irritations, no more to say.'

'The regulations go to extremes, the bureaucrats make decisions in the city without being able to understand our problems, eg bureaucrats didn't let farmers do any back burning here in WA and now we've just had a huge fire which we wouldn't have had if they'd let us back burn, also here on a farm we have to be so careful no one gets hurt. We have to tip toe, we take every necessary precaution but humans are humans and accidents happen, we're terrified something will go wrong and then what's going to happen to our business?'

'Regulations aren't clear. Just got a letter telling me that I have to report any contaminated sites on my farm within six months or I will cop a \$250,000 fine. They don't explain how contaminated they want it. We have a sheep shed that hasn't been used for 20 years and we don't know, would that be contaminated after all those years? We have to go and find out now what kind of contamination they're talking about and if we think that maybe it's been out of use for so long, no way it could be contaminated now, we could end up being fined.'

4 GST = Goods and Services Tax.

WHOLESALE

'It's very difficult to keep up with the changes in industry. I am a chartered accountant and once you move out of the profession it is very hard to keep up with the regulatory changes, often we are left to discover changes on our own and bring them to the attention of our advisers if they are relevant to us. In relation to the workplace changes I don't think business was overly well advised of how the changes would affect business operations.'

TRAINING

'I want to add that nationally the regulation and policy on greenhouse gas and urban air quality emissions and support for alternative energy technologies is most disappointing. There are people who have known about it and evidence has been mounting for ten years and the current federal government has been in denial and their strategies have been window dressing.'

OTHER

'Whilst I know that they are for the good of many I feel that very small organisations like myself are penalised by the masses of compliance or cost of compliance.'

'No, all areas seem to have been covered.'

EDUCATION

'No, just that being a school we follow whatever the government says and sends, have no say whatever government tell us we do, that's all.'

'For small rural and isolated schools access and availability of face-to-face services is somewhat problematic – people won't travel. To get services we have to travel, state and federal governments regulations and requirements for education and the running of schools makes you a manager not educator – takes away from the students. That's all.'

FINANCIAL SERVICES

'Just that we are overburdened by tax law regulations, particularly the GST, the goods and services tax. The system for collections is ridiculous. Nothing further.'

'Not at all, we have an overregulated body with ASIC, they are a law of their own and they're not getting it right. They're not chasing loan sharks or property developers, they're chasing legal businesses, everyone is a suspect and they want us to plead guilty even though we're innocent. Questionnaire doesn't hit the mark, questions are too broad, probably the wrong people doing it.'

'Find them very confusing because every department is different and yet supposedly the same, told conflicting information from each.'

'The state government does not assist small business in this state.'

'Can they try to keep it to minimum, especially tax? All areas of tax, it is changing all the time – the time trying to keep up with changes is time consuming.'

'It changes so much so often it's hard to know what's what. In particular the payroll area, eg some of the changes that haven't been publicised like long-service leave provisions that have a long-term financial impact – like when they are payable hasn't been publicised and it has a big financial and accounting impact on planning. That's the biggest headache at the moment that comes to mind here.'

'Our organisation has been able to reduce paper through a federal government body because of duplication so there has been improvement; financial services industry sector – in reporting to clients. We come under the FSRA, which we have been able to reduce the amount of pages, as originally it was about 12 pages. So we have been able to reduce it by two-thirds, which is a significant time saver in waiting for it to be printed and amount of paper used, but we can still provide all the report to the client.'

'No, I don't think so. We are kept abreast, especially with compliance.'

'Lobby the government to get rid of land tax and payroll or at least make payroll tax different – the threshold is much too low and percentage is too high. One person in 13 is lost because of payroll tax.'

'There doesn't appear to be any scalability in the regulations for businesses.'

'No, only that I think on the regulatory issues to do with superannuation are far too complex, always has been mind you.'

IMPORT/EXPORT

'No, because it has been covered very well by the questions.'

MINING

'No, I don't think so just interested to see how it comes out.'

'The main problem I have is I don't believe any of our shareholders who are the owners of this business can understand modern accounts, I don't think our shareholders have a clue what our accountants are on about, accounts nowadays are written purely for other accountants to read, which is not what they are intended for.'

'Complicated, not easy to understand, too much volume, just made it so hard for the little business and we don't need the stress and worry. We are considering winding up our business because each part of our business has different regulations and we are a vary varied business, its all gone too much, thinking of subcontracting to a large company so they can have the hassle and worries. We will sell our equipment, everything.'

'So many of them, we are in demolition and excavations, OH&S [Occupational Health and Safety], wages structures are so time consuming and complex that it's ridiculous.'

Appendix 4: Comments by accounting practitioners

Respondents were invited to comment at the end of their questionnaire. A diversity of viewpoints were expressed, which add insights and depth to their concerns. Where relevant these comments were grouped according to the main areas of discussion. Therefore, some of the discussion may overlap and include comments that may not be directly related to the classification. Nevertheless, these comments reflect the respondents' perceptions of regulation and compliance issues as they relate to SMEs. The authors of this study gratefully acknowledge the time and effort taken by the respondents to provide these insights.

GENERAL COMMENTS

'Many SME clients and also our own firm consider that much more compliance-related work has been transferred to them from government departments such as ATO.'

'The effect of IFRS will be disastrous for SMEs.'

'Where clients don't understand new regulations and/or changes they come to us and therefore their response to your Q7 is to pass on the responsibility of understanding the changes to us as their adviser.'

In response to Question 5 (Do you refer clients to other advisers?) 'Yes':

'Occasionally to a barrister specialising in tax for specialist advice.'

The same respondent commented in detail.

'Some of the over regulation comes not from government but the professional associations, eg the insistence of the Institute of Chartered Accountants that the audit of small super funds (ATO supervised) be separated from the prepare of the financial statements – puts extra expense on the client. This is, in most cases, unnecessary.'

'Also the ICA insist that the auditor cannot be company secretary of such a fund's trustee company. As ASIC has no problem with that, why does ICA? ICA's insistence on professional independence is, in most cases concerning DIY Superfunds, unnecessary and expensive.'

'I act only as Receiver appointed pursuant to the Legal Profession Act. As such I do not have any clients as I am appointed by the Court.'

'Key concern that under globalisation Australia is making our industry uncompetitive with competition overseas.'

'The majority of them do not have the time to look into new or amended regulation – they have too much on their plate and cannot afford to employ full-time people to look after compliance.'

'The difficulty for practitioners is recovering fees for additional time involved in attending to client matters. The

growth of semi-professional practices and advisers causes the cost-conscious client to transfer services elsewhere, whilst the client becomes less informed on his obligations. This has little effect till the client fails an ATO review/audit, but then the client tends to blame all accountants for this failure.'

'N.B. Succession planning as a big issue. Manufacturing businesses cannot sell their business as no experience in manufacturing coming through. Small manufacture will be a thing of the past.'

'Believe the financial services legislation does not protect consumers in that it denies accountants giving second opinions unless licensed.'

Comment under Question 7 (Changes: staying up to date with new or changing requirements):

'“Now accountant's role”. Apparently SMEs are relying on accountants to assist.'

'Increasing compliance in all fields is the greatest burden facing SMEs – often the most difficult area of obtaining good people.'

'We have expressed our opinion to many of our “self-employed” people with less than 10 employees that the capacity to conduct business in the traditional “sole trader” or “partnership” is rapidly disappearing.'

QUESTION 3: THE ONE AREA OF REGULATION IN WHICH THE PRACTITIONER'S FIRM HAS SEEN THE BIGGEST GROWTH IN BUSINESS IN THE PAST TWO YEARS

'The biggest issue for SMEs is paying their GST collected and tax owed.'

'The vast range of compliance imposts on SMEs is time consuming and expensive. Large enterprises can afford to carry additional staff, which is a luxury many SMEs cannot afford.'

Although respondents were required to tick only one area, one respondent indicated a big growth in taxation business, but made the comment 'there has been a big increase in DIY and super'. The same respondent indicated that they advise in all areas listed.

Furthermore, the same respondent commented in detail:

'Regulation, legislation changes and amendments both federal, state as well as local government, have placed increased burdens upon accountants in both professional and commercial life. It is a never-ending battle to keep on top of current legislation let alone foreshadowed changes. Computers and other advanced technology have not created a paperless office – rather paper has increased as well as storage needed. GST is the worst burden of paper and storage, with taxation forms and company forms following a close second. To fulfil own responsibility to clients we need

to keep in touch with several firms of solicitors with varying levels of expertise in the negligence, interpretation of new amendments to various legislations. Our firm has a network of business and property valuers, auctioneers, land brokers, land agents, collection agents, cost and management accountants, computer hardware and software specialists to name but of few of the people in our network. In many ways the accountant has become the coordinator of many specialist occupations to achieve the best result for their client or organisation.'

'Let me give one illustration only. I recently visited China for three weeks to meet with friends in academia and business life (all Chinese) as well as foreign service. When I returned to my office the stack of professional and other journals, as well as government notices, e-mail printouts as well as other "must see" mail was 13cm (5") high. This did not allow for the never-ending streams of daily paper information. While I have used computers since the 1970s I no longer have the time to spend on the computer. My staff monitors for me and I'm still using pen and paper to attend to matters.'

'As accountants we have not got specific specialisation in tax, DIY super, etc but generally this is in our area of operation.'

'Clients are increasingly dependent on us for advice in regulatory issues. Most of them are struggling to keep pace with competition, let alone trying to comply with some ridiculously complex regulations.'

'GST has increased the greatest compliance issues and many SMEs are still floundering with GST, especially new start-up SMEs who have not had any ATO GST compliance visits. This group are very reluctant/reticent at keeping adequate financial records.'

QUESTION 6: EXTERNAL ADVISERS TO WHOM PRACTITIONERS REFER SME CLIENTS

Other: Superfunds were mentioned as external advisers to SME clients.

The same respondent as above commented in detail.

'Please note: your first edition was not returned because I am in process of retiring and therefore not a typical practice [age 75: no business].'

'Typically, the sheer volume of regulation, with changes for the sake of change, is too much for viable SMEs to cope with. The inherent complexity just compounds the problem. Long clients of 30–35 years' standing were in the habit of referring every problem to me as a very self-contained practitioner; this meant a huge loss of time trying to keep up to date and copious hand feeding of every expanding bureaucracy.'

'Do not agree with commissions and therefore super enquiries to SF for client to choose. My retirement plans have far outstripped SF results. The new commission-based ... "financial planner" is not for me – how many can avoid bias while mindful of commission?'

'Enjoyed taxation, probate and opposing corrupt local government – a major threat to SME, and miss all the planning to achieve set goals in given times.'

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