

Small practices fighting fit



Hong Kong practitioners remain optimistic in the face of rising personnel costs.

Hong Kong's small and medium size accounting firms are enjoying fee income growth, but they are having a difficult time hiring qualified staff, according to a new survey from the Hong Kong Institute of CPAs. The new study, *Practice Management Benchmark for Small and Medium Size CPA firms*, provides valuable data allowing individual firms to compare their performance – and costs – against industry averages.

With 66 percent of small and medium practices (SMPs) seeing a net increase in fee revenue since 2003-04, business sentiment is good. More than 90 percent of firms rate Hong Kong's business outlook as optimistic or neutral, with fewer than 10 percent believing business will decline in 2006.

However, personnel costs are up, particularly for newer staff. In 2004, the average increase in annual salary between new recruits (HK\$97,000) and

staff with one to two years' experience (HK\$125,000) was over 20 percent.

Fact finding

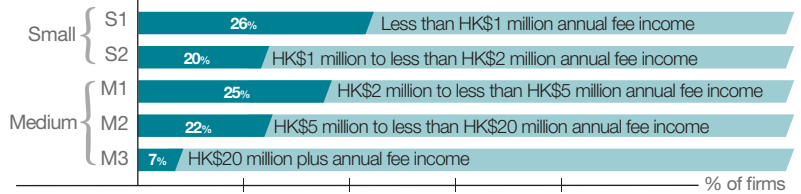
"This data helps smaller firms understand their strengths and weaknesses," says Paul M.P. Chan, the Institute's vice president and chairman of its committee overseeing SMPs. "The data is available to more than 1,000 CPA firms in Hong Kong, and gives them reliable information for setting goals and measuring performance."

The survey helps Hong Kong firms benchmark their business practices in four areas: Financial measures, human resources management, external relations and service development, and information technology. To make the benchmarks more meaningful to users, firms were also categorised into five revenue tiers. In total the survey was sent to over 1,200 firms and had a 13 percent response rate.

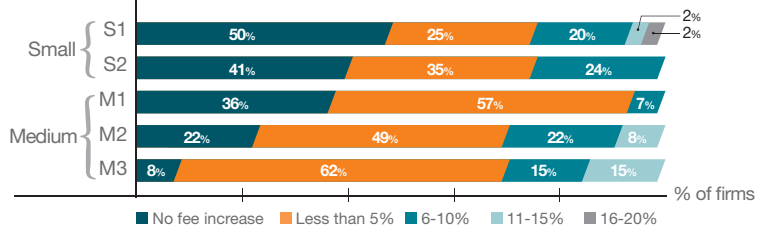
Key findings

- ▶ Auditing and assurance services are the major source of income for SMPs. On average, over half of the fees for responding firms derived from auditing and assurance services (57 percent). Second and third were income from company secretarial services (15 percent) and accounting and book-keeping services (11 percent).
- ▶ Surveyed firms see auditing and assurance services as the most important area for revenue growth, followed by tax services, company secretarial services and accounting and book-keeping services.
- ▶ Professional talent is becoming an even bigger investment. "We've measured the demand for accounting professionals this year and competition for qualified staff has increased dramatically," says Albert Au, chairman of the task force responsible for this survey. "The smaller firms responding to the survey say they felt the shortage acutely and were paying more to get and retain their best staff."
- ▶ Overall, two-thirds of the participating firms say they do not have a business alliance or joint venture. For those who did, these were related to their main areas of business, specifically auditing and assurance services (24 percent), tax services (21 percent) or company secretarial services (19 percent).
- ▶ However, more than half of surveyed firms (56 percent) intend to develop their businesses on the Mainland, either through an alliance (34 percent) or an affiliation (31 percent). While many intend to set up their own consulting firm over the border, Hong Kong remains the most important source of clients for 81 percent of firms, with China second.

Key to SMP classification and breakdown among respondents

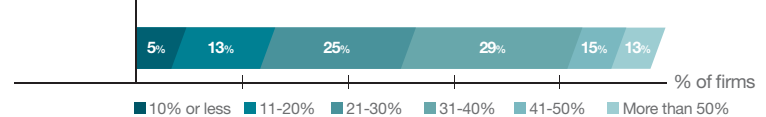


Respondents that planned fee increases in 2005



The survey shows the proportion of firms intending to increase fees is larger among firms in the top revenue tiers.

Professional staff costs as a percentage of total fee revenue for 2004



The mean proportion of fees allocated to professional staff costs is 31 percent.

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