

Accounting in the New Millennium

PATRICK HOIBERG^{*}

The past decade has witnessed rapid change in many areas of life and business has been at the forefront of this change. Technological change, globalisation and the opening of markets (both internationally and within national boundaries) are arguably the most significant change factors impacting on the business environment.

Technological change has had a significant impact on the way work is conducted. Clearly, the revolution in information technology and communications systems has dramatically transformed the environment in which business, governments and individuals operate. Ongoing technological change is a constant that we in the accountancy profession must learn to live with.

Globalisation has diminished the importance of national boundaries as a factor shaping organisations and their conduct. The process of globalisation and the opening of international markets are providing immense opportunities and challenges to business and its advisers. Many businesses are seeking opportunities in overseas markets. Even businesses that operate only in their own domestic markets are not able to quarantine themselves from the trend to globalisation and must also attempt to meet international best practice standards to maintain their competitiveness.

Within national economies, many regulated markets have been opened to competition. In Australia, for example, government business enterprises, utilities such as electricity, and the professions are all now subject to competition policy. This process highlights the need for all elements of the business community to focus on delivering value. Those that do not will not be able to hide behind costly regulation and other anti-competitive mechanisms to protect their place in a market.

The changes occurring within the business environment are impacting on the accountancy profession. The market for many traditional accounting services is stagnating whilst the market for new services grows. Yet in many of these new market areas accountants face strong competition from those outside the profession.

Clients and business are looking to their professional advisers to provide a range

^{*}Patrick Hoiberg is President of the Institute of Chartered Accountants in Australia.

Invited by the Editor.

of business advice and business solutions. Consequently, the services and advice provided by accountants and the range of activities that we are involved in are now far broader in scope than the traditional core activities of accounting, auditing and tax. Yet this still accords with the primary role of accountants, which is to provide information to enable informed decision making. Whilst financial information has been, and indeed still remains, the key criterion by which a company's performance is evaluated, other indicators of company performance such as social and environmental performance are now also important to a broader grouping of stakeholders. Nevertheless, our core skills in evaluating, reporting and auditing such information, and of establishing systems of procedures and controls to capture this information, remain of critical importance.

Over the past few years a number of significant reports have been prepared by accountancy bodies around the world on the future of the accountancy profession and the challenges facing our members. These have included the Inter-Institute Vision Task Force Report produced by the Canadian Institute of Chartered Accountants; "Added Value Professionals - Chartered Accountants in 2005" prepared by the Institute of Chartered Accountants in England and Wales; and the report of the American Institute of Certified Public Accountants' Special Committee on Assurance Services. More recently the Vision 2020 Task Force report prepared by the Institute of Chartered Accountants in Australia, entitled "Chartered Accountancy in the Next Century - Radical Change or Diminished Influence", has also canvassed the forces shaping the future of the profession.

The conclusions of the various "vision" papers on the role of the professional accountant in the future have been similar.

A constant theme is the importance of IT. In firms of all sizes, as well as in commerce, technology is taking away tasks from the profession, whilst at the same time opening new opportunities.

Technology is causing massive changes to business, and yet the full impact of electronic commerce and the Internet is still to be seen. Accountants will have to adapt their business practices to take account of these changes.

Technology is not only imposing a much greater need for computer and systems literacy amongst accountants but also is enabling accountants to access technical knowledge and expertise more easily than in the past. In this way technology is reducing the need for accountants to personally learn and retain a large body of detailed technical knowledge.

One of the defining aspects of the business environment in which accountants operate is complexity. Without the tools that information technology offers the complexity of business life, not to mention regulatory compliance, would be impossible to navigate.

Technology not only allows such complexity to be negotiated but it also shapes our working habits and relations with clients, colleagues and regulators. In the future more and more information will be exchanged, with clients and regulators alike, on-line and more and more functions completed with the aid of standard and task-specific software. A command over such technology will be assumed for members of the profession.

Access to information and the speed with which crucial information can be located, disseminated and acted upon, is a vital factor for business and accountants. Information is indeed the currency of our profession - whether that information be in the form of a set of financial statements for a company, an auditor's opinion on those accounts, an expert opinion on the valuation of a company's assets or its viability as a going concern, advice on tax or financial planning, or strategic advice on business planning, product lines, export markets, information technology, environmental liabilities and the like.

Regardless of whether the focus is compliance or value-added services, the speed and security of information transfers, and the ability to match and tailor information to the specific needs of the end-user, will be important considerations.

Considerable potential exists for members of the profession to expand the services they offer to clients (and the potential markets in which they can be offered) through the applied use of information technology to create "virtual" networks of professionals with complementary specialist skills. In this way, even members in smaller practices can expand their capacity to offer a range of business solutions and add value to their clients.

In other respects technology poses considerable challenges to the traditional practice of core accounting functions. IT raises a number of new issues for accountants in respect of matters such as detection of fraud, money laundering, tax avoidance, and the verification of audit trails.

CAs working in finance functions will also see changes that greatly affect the way they do business. The finance function of the future will be much smaller, with greater support from technology. There will be a greater demand for value-added services, such as identifying where savings can be made and demonstrating areas where growth can be achieved by a business to enhance shareholder value.

A feature of the accountancy profession in the future will undoubtedly be increased competition. Competitive pressures within the profession will constrain revenues from traditional sources. However, other competitive pressures will also arise from:

- Non-accountants in new information markets where regulation does not

reserve practice to accountants

- Competitive pressure from non-accountants to de-regulate reserved areas
- Sophisticated clients who can substitute their own procedures for existing services
- Technology solutions (substituting for accountants skills)
- Reduced demand for financial data, as other information becomes more important in investment and other decisions.

Competition from outside the profession may necessitate accountants to review current practises in relation to the ownership and control of firms. The development of global services firms to meet client needs may require access to capital markets which is not possible under the present partnership model.

Another implication of increased competition will be the need for accountants to develop specialist skills. The Institute of Chartered Accountants in Australia's Vision 2020 report predicts specialisation for CAs as a future challenge and predicts that the division between CAs in business and those in practice will diminish as time goes on and specialisations develop. Accountants will not be specialising as members in commerce or in practice, but instead specialise across the profession in specific functional areas from IT to treasury.

Competition and changing information demands will also present new opportunities to accountants.

As companies become more and more forward-looking their old measurements are becoming less relevant. The financial statement is still relevant as a means of adding credibility to historically-based information, but the relevance of that kind of information as a decision-making tool for business is decreasing as other types of information assume greater importance.

Non-financial measures of corporate performance, based on stakeholder expectations and requirements, will be of growing importance, including information on an entity's environmental and social performance. Such information will be demanded by a wider group of stakeholders (beyond shareholders) as the concept of sustainability becomes integrated into corporate practice and behaviour.

Existing systems of accounting are, however, not particularly useful in addressing the broader sustainability issue. Further work is needed by the professional accounting bodies world-wide to develop new systems of accounting which do not emphasise financial performance above all else.

An expanded range of assurance services extending well beyond financial statements will be an important area of growth for accountants in the future. Whilst these may be based on the current financial audit they will move far beyond

this in scope. One such example presently being developed by the Institute of Chartered Accountants in Australia is WebTrust, where accountants verify that web businesses adhere to standard business practices and controls.

New sets of measurement and reporting criteria will be needed to support assurance services in new information markets. Some of these may be developed by individual firms, and are likely to be highly tailored to the specific needs of the client. Others will require standards or guidance issued by the profession. Accountants should be well placed to leverage of our professional independence to compete in this new market area and further strengthen the identification of an accountant as an "information professional".

From the viewpoint of accountants, an important feature of such new services is to try and identify opportunities for all professionals to exercise their skills at the knowledge development and management end of the scale. Essentially, accountants must be able to add value to their clients' businesses, which means moving beyond compliance work to providing business and management advisory services.

Many businesses now seek more from their external professional advisers (and their professional employees) than just compliance work. Many clients seek a range of services that can add real value to their business and their accountant is usually the first source of such advice at present. However, we cannot take this for granted - many other non-accounting service providers covet the position that accountants currently occupy as the foremost source of external advice to business and we must compete to hold this position.

The expectations of employers of professional accountants (both in public practice and in commerce and industry) are similarly changing. Research indicates that employers require their accountants to possess not only the traditional technical skills of the profession but also developed interpersonal skills, verbal and written communication capacities, and good personal presentation and self-confidence.

Globalisation and the establishment of international networks and business links is adding a new dimension to the skill-base that accountants must possess if they are to advise clients from different cultural backgrounds or indeed located in different countries.

The accounting profession, as the most globalised of professions, has an important role to play in facilitating the on-going process of globalisation that is taking place in business and society generally. Opportunities exist for accountants in practices of all sizes to work wherever their clients may need them. There is also the opportunity for the profession itself to facilitate this by developing an international "business language" based on shared standards.

The expansion in the roles performed by accountants poses challenges for the professional bodies. Accounting bodies need to understand service expectations of members are changing. The challenge for the professional bodies is not only to parallel their members' expansion into new areas by providing services and tools to assist them but how to regulate and supervise this work. The professional bodies do have a valid role to play in this regard, including in the area of standard setting, but to do so they must remain relevant to members' needs, which means keeping pace with the changes that are occurring in the marketplace.

Providing an internationally recognised professional designation of high standing should be the key objective of professional bodies in the future.