

Challenges facing the profession in Asia Pacific

July 2019

Some of the earliest known writings discovered by archaeologists are accounts of ancient tax records on clay tablets from Egypt and Mesopotamia dating back as early as 3300 to 2000 BC.¹

For as long as civilisations have been engaging in trade or organised systems of government, methods of record keeping, accounting, and accounting tools have been developed out of the need to record trade and business transactions.

As companies flourished and developed, spurred on by the industrial revolution in Europe and the United States, shareowners, bondholders, bankers and others who had a vested interest in a company's results were created. The demand for reliable accountancy and the need for more advanced cost accounting systems soared, and the profession rapidly became an integral part of business and financial systems.

This rising public status of accountants helped to transform accounting, and from this the accountancy profession emerged.

Fast-forward to today, and it is recognised that a strong accountancy profession continues to lie at the heart of any thriving or stable economy. What has changed is how the world now operates. The confluence of globalisation, the gravitational pull of the global economic centre towards the East led by China, India and Japan, and industrial revolution 4.0 means that Asia Pacific is uniquely positioned for the future.

According to *Accountancy in Asia-Pacific*, the accountancy market in the region had a compound annual growth rate of a whopping 7.2% in a span of just 4 years between 2011 and 2015.²

Asia Pacific is a region of contrasts, and its accountancy profession is no different – it is well developed in certain countries, emerging in others, including in some fast-growing economies, and in less developed countries has barely started its journey towards international standards.

So, what are the challenges that the accountancy profession today needs to face – in Asia Pacific where 50% of the world's top 10 economies reside³ and especially in Asia, the fastest growing element. Some of these challenges are not new. What is new is the environment in which these challenges exist.

CAPA members identify the challenges

The Confederation of Asian and Pacific Accountants (CAPA) took a look at the challenges in June 2019 in Kuala Lumpur, Malaysia, during an interactive session for its members, whose professional accountancy organisations represent close to 2 million accountants in the world. The session gathered insights from 36 leaders and representatives from 26 organisations across 18 jurisdictions.

The challenges identified in the session, coupled with findings from other research, revealed four key themes, namely: Complexity and Markets – the macro issues, and People and Reputation – the issues for the profession to directly address.

Complexity

Impact of rapid technological changes

Technological advancement in the last two decades has been occurring at an astounding pace. According to CAPA's members, the impact of rapid technological changes is one of the 'top three' issues that keeps the profession awake at night.

The impact of digitisation has several facades for the accountant. On one side, development of technology and tools has changed the way in which work is done. For example, computer assisted audit techniques and tools (CAAT) have resulted in changes to the way audits are performed. In some instances, sampling sizes are now extended to 100 percent of accounting entries, something that was not possible in the days of manual audits. Assessment of application controls over computer-based accounting systems is now absolutely imperative. On development fronts, technologies such as Blockchain, Cloud Computing, Artificial Intelligence (AI) and Robotics Process Automation (RPA) have impacts on finance functions and systems. This gives rise to further challenges, including cyber security threats, though the benefits can outweigh the issues.

Another key challenge is the expansion of skillsets required by an accountant – firstly, to understand what these developments are and how these impact their work; secondly, the need to train or retrain finance personnel to operate within this technological landscape; and thirdly, to have the ability to manage effective relationships with IT departments and staff.

Building on this, another side to the façade is the 'people' aspect and their ability to cope with these changing trends. Potentially, what is learnt and assessed in the first year of a 4-year education program may be obsolete by the end of the fourth year. It is therefore necessary for the accountant to adapt, adopt and manage the technological changes of today. The accountant also needs to be prepared for a future where there will be further technological progression.

Keeping abreast of regulatory requirements

With the advent of multinational business organisations, and oversight by public regulators or institutions charged with upholding overall public interest, it is inevitable that legislation, regulations, codes and standards arise. Together with large and robust financial and regulatory systems, both the quantity and complexity of rules and regulations have heightened in recent years. A case in point is addressing tax avoidance in the form of the Organisation for Economic Co-operation and Development's (OECD's) Transfer Pricing guidelines first issued in 1995, with the latest edition in 2017; as well as the Base Erosion and Profits Shifting (BEPS) project by the OECD and G20. These developments have resulted in many transnational organisations seeking advice on how to best comply, with all eyes on the accountants to play a key advisory role.

In some jurisdictions, it may be challenging to meet deadlines for reporting (e.g. public interest entity announcements) or to deliver on services, and long working hours can become the norm for the profession. Coupled with heightened requirements and information needs – especially after the corporate scandals in the past two decades – the expectations of an accountant's role and responsibilities have increased. The professions' role in tackling fraud and corruption is also under debate and scrutiny. It is therefore not surprising that regulatory related issues were raised as a key concern by CAPA members, and most noticeably from those based in Asia.

Markets

Adapting to the rapidly growing economies in Asia

Based on the International Monetary Fund's *Regional Economic Outlook: Asia Pacific* published in October 2018, the region is very much at the forefront of global economic growth, accounting for more than 60 percent of world growth and projected to grow at 5.4 percent in 2019. The Asian Development Bank in its *Asian Development Outlook 2019 (ADO 2019)*, highlighted India and China as the two fastest growing economies in developing Asia, which continue to post strong growth despite headwinds of softer global economic activity and prolonged trade tensions. The former country moving from a mainly agrarian economy, and the latter a centrally planned and closed economy, are both growing at exponential rates. China is an exporting platform for the world and India has the fastest growing services sector in the world.

The profession's role – to rise to the call to support clients ranging from small and entrepreneurial businesses to large conglomerates – is not an easy role to play. The growth rate of some businesses in Asia can be astounding and the profession must be able to keep pace.

Further, the rise of emerging industries, particularly in e-commerce like *Alibaba*, ride services like *Uber* or online marketplace and hospitality services such as *Airbnb*, present their own set of challenges for the profession as they challenge traditional brick-and-mortar business models with actual physical assets.

Changing client needs

Globalisation, digitisation, differing business structures and combinations, and the trend towards increased entrepreneurship, particularly start-ups with new innovative business ideas, have required the profession to reinvent and evolve. The traditional record keeping, 'bean-counting' profession has given way to the accountant as a business advisor. Services such as audit, assurance and tax may remain central to professional services firms, but other advisory services are now significant. The challenge to evolve to meet changing client needs was specifically flagged by our members in South Asia.

Sustainability and growth of the Small-and-Medium-sized Practices (SMPs)

SMPs continue to make up a large part of the profession worldwide, particularly in many of the developing countries in Asia. In many areas of the world, SMPs are believed to employ the majority of professional accountants working in practice, typically serving small- and medium-sized entities (SMEs). Although there is no standard definition of what constitutes an SME, the *Edinburgh Group* research estimates that more than 95% of enterprises across the world are SMEs, accounting for approximately 60% of private sector employment and contributing significantly to countries' gross domestic product (GDP).

The sustainability and growth of the SMPs therefore have great bearings on SMEs which are crucial to the health, stability, and sustainability of economic growth for both developed and developing economies. However, the ability of SMPs to grow, sustain and keep abreast of developments in an ever-increasingly complex global marketplace, remains trying.

Demand for greater transparency and accountability in public sector financial management

CAPA is a strong proponent of the effective management of public finances – known as public financial management (PFM). In one of CAPA’s earlier publications, *“Improving Financial Management in the Public Sector – The Eight Key Elements of PFM SuccessTM”*, it was noted that PFM is fundamental to the development and growth of individual economies. Governments are responsible to their citizens and taxpayers for implementing effective systems of PFM and for utilising those systems to safeguard, and ultimately enhance, a country’s economic sovereignty.

Governments and the public sector have come under increased scrutiny in recent years, perhaps due to the advent of the knowledge economy where information is now more accessible and available to the person on the street, who in turn have grown into being more sophisticated and informed users of information. Their expectation is for the public sector to deliver greater value and be more transparent and accountable in the management of finances. Reforms to PFM have been called for in some countries, with the aim of greater fiscal prudence, transparency and efficiency, including the strengthening of treasury functions, more systematic public investment planning and implementation, and the adoption of appropriate accounting and auditing standards.

Accountants therefore need to be able to understand the intricacies and specific needs of PFM and how to support their governments to do the right thing.

Given the unprecedented climate of change, the ensuing complexities, and an ever-evolving marketplace, the question is whether the profession in Asia and the Pacific is able to keep up. Can the profession meet these challenges? Can it be better prepared and further strengthened for future changes? And what are the immediate matters and challenges that stand in the way? We ponder these questions through two spectrums – People and Reputation.

People

War for talent

A popular phrase coined by McKinsey & Co., and a book of the same name published by the Harvard Business Press in 2001, the ‘war for talent’ predicts that the crucial force that will make or break firms in the next two decades will be their ability (and mindset) to attract, develop, and retain managers (or employees) at all levels. Two decades on, the forecast has proven true. The war, to win the best and the brightest to the accountancy profession in an increasingly competitive landscape, continues to be very real today and especially so for a dynamic region, where choices are aplenty. For CAPA members, ‘attracting and retaining talent’ came up as another of the ‘top three’ issues affecting the profession in Asia Pacific. Interestingly, this was true for both developing and developed professions in the region.

Many studies have been undertaken to understand the expectations and needs of the ‘millennials’ and/or Generation Z. In fact, not too long ago, the challenge was to understand Generation Y who in the past decade have become the new leaders in the profession and in businesses. Organisations that were able to adapt and understand that the traditional styles of work, processes and benefits needed to be redefined and fine-tuned, thrived better than those that did not. Further, Asia Pacific is unique in that it harbours some of the world’s youngest populations but is also home to some of the most aging populations, for example, Japan.⁴ Accordingly, human capital practices and processes need to acclimatise and evolve to meet the expectations and demands of the different modern-day workforces in the various nations. The question is whether the key employers of the accountancy profession are able to adapt and flourish based on these challenges.

Skills gaps

The skillsets and ability of talent in emerging Asia, which houses differing educational standards, may not be able to meet the needs arising from the speed of growth in some economies. For example, *ADO 2019* noted that a number of recent surveys and studies show that investors and businesses in Cambodia are constrained by a widening gap between the skills the workforce possesses and those it needs. This could be said of the accountancy profession, which is trying to develop rapidly to meet the required needs.

A further example is Myanmar, one of Southeast Asia's fastest growing economies currently in the process of democratic transition. Recognising the critical role that the accountancy profession can play in attracting investment for sustainable growth, in April 2018 the International Federation of Accountants (IFAC) partnered with ACCA to commence its first accountancy capacity building project in Southeast Asia to assist the Myanmar Institute of Certified Public Accountants (MICPA) in its work to strengthen the profession in Myanmar. The Myanmar government's support of the project demonstrated the recognition that a sustainable professional accountancy organisation can act as the cornerstone of the profession in the country and contribute positively towards economic reforms.

Evolving roles in finance

The roles of finance leaders and accountants have changed. Expectations of accounting firms and their service offerings have changed. CAPA members underlined the heightened demand in the region for more 'specialist' skillsets as opposed to the more traditional 'generalist'.

Professional accountancy bodies are reacting and readying their members to deliver more value. By way of example, CPA Canada's *Foresight: Reimagining The Profession* initiative explores the drivers of change and reimagining how they will shape the future of the profession. CIMA's *Future of Finance* research has built a picture of what the finance function in a digital world looks like, and ACCA explores *EQ (emotional quotient) in a digital age*.

Further, with advancements in AI, accounting software and computerisation of rote processes, the profession's role has moved towards analysing and reporting on data. In fact, many finance departments have pivoted from cost centres to service centres and the finance heads or leaders have now taken on a more strategic role alongside the business leaders or CEOs.

Reputation

The professions' reputation has taken some hard knocks in the last two decades mainly due to the occurrence of some major corporate collapses, some involving malfeasance. While the blame cannot be solely placed on any one individual, firm or indeed the accountancy profession alone, the scandals and the apparent failure to identify or report accounting anomalies have often left a sour taste in the minds of the public. Corporate scandals such as *Enron, Worldcom, Freddie Mac, Satyam, Olympus, Toshiba* and now *Carillion* have shocked the world and led to, or has played a part in, some displacement of trust in the accountant and the auditor.

Accountants and the accountancy profession, in comparison to some other occupations and industries, still command a reasonably good level of respect and trust. However, trust can be quickly lost and efforts to maintain must be continuous. As certain quarters question the audit quality and the market concentration of large firms, supplying both audit and other services and its impact on 'independence', how the accountancy profession reacts will determine its future reputation.

Meanwhile, a pertinent point that also comes to mind is one of ‘relevance’. In light of all that has happened and the developments taking place globally, deep consideration must be given to whether the accountants and auditors are providing what the market wants and needs. Historically in Asia, recognition of the value of the profession to the marketplace has been and continues to remain low in many countries, evidenced by the comparatively lower fees the market is willing to pay when benchmarked to the more developed countries in the West. Given the concerns regarding reputation and relevance, perhaps it is not surprising that CAPA members in both developed and emerging markets recognised that demonstrating the importance and value of the profession is vital, making it the final ‘top three’ challenge arising from the interactive session.

Perhaps the market has already spoken in part with the rise of Integrated and Sustainability Reporting – a hint of what the market is asking for of the ‘new’ accountant, someone who is able to connect the dots and help makes sense of information and numbers. Quoting Professor Jacob Soll from the University of South California in ICAEW’s *Economia* publication “...a new sort of accounting education needs to emerge, not simply to produce great technicians – we are doing that – but to also create accounting leaders who can take part in societal and international debate at all levels.”

What seems essential now is for the many stakeholders in the profession, whether in Asia Pacific or globally, to work together. Creating an inventory of key and possible challenges, such as in this article is but only one piece of the larger picture. The need to build on the relevance of the profession both now and for the future, as well as the call to build and/or rebuild the brand and presence of the profession, and harness the myriad of opportunities presented by current times, needs to be approached in a strategic, holistic manner.

Optional Statement

[*Insert PAO name*] is a member of the Confederation of Asian and Pacific Accountants (CAPA).

CAPA is a regional organisation representing 33 national professional accountancy organisations (PAOs) operating in 24 jurisdictions in Asia and the Pacific. These PAOs, referred to as CAPA’s members, represent close to 2 million accountants across the region. CAPA is one of four regional organisations (ROs) recognised by the global accountancy profession, which is represented by the International Federation of Accountants (IFAC).

References

¹ Mary Bellis, *History of Accounting from Ancient Times to Today*, 2018

² Nanyang Technological University, *Accountancy - Around the World - Asia*

³ International Monetary Fund (IMF), *World Economic Outlook Database*, April 2018

⁴ United Nations, *The Economic and Social Commission for Asia and the Pacific: World Economic Situation and Prospects Report*, 2019