

# TRENDS SHAPING THE ACCOUNTING PROFESSION AND ITS FUTURE OUTLOOK

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**“sustainability of accounting profession depends upon how well it serves the public interest through its work to maintain the credibility in the eyes of all stakeholders”**

## Introduction

It is a well-known truth that the world we live in today is changing rapidly and at a greater speed. The sooner we realize this ever changing environment it is better for us as the changes or the trends essentially unearth opportunities despite the challenges they would pose. The accounting profession is not an exception and it is constantly changing, reorganizing and standing in front of many opportunities and challenges of the changing world. Accordingly, this paper briefly outlines a few of the key trends the accounting profession has witnessed in the recent years while emphasizing the challenges the profession has experienced in adopting to the changing environment to better serve the business world and the society at a large, as the sustainability of accounting profession depends upon how well it serves the public interest through its work to maintain the credibility in the eyes of all stakeholders. The paper therefore highlights some of the trends that will impact or continually evolve in the ensuing years and concludes emphasizing the importance of accounting profession being proactive and adding value in response to the ever changing environment which will shape the profession and its sustainability in the future.

## Evolution of the accounting Profession

Significant changes have taken place in the accounting profession over the years. History of accounting spans at least 10,000 years dating back to the first human settle

ments in ancient times of Babylon, Assyria, Mesopotamia and Sumerian. Before the double-entry system was formalized in the 1400s, very little had been written about the theory underlying accounting practices. The era before emergence of double entry system has a certain historical interest but very little relevance to current accounting issues.

The modern double-entry bookkeeping system was first codified by the Italian mathematician Luca Pacioli, in his *Summa de arithmetica, geometrica, proportioni et proportionalità* (Everything about Arithmetic, Geometry and Proportion) in 1494. Luca Pacioli is widely regarded as the 'Father of Accounting'. Pacioli began his theories stating that a successful merchant needs three things: sufficient cash or credit; good book keepers; and an accounting system, which allows him to view his affairs at a glance. His bookkeeping system was based on three books: the memorandum, journal and ledger.

For 300 years (1450 - 1750) following Pacioli's treatise, the developments in accounting concentrated on refining the practice. This period is referred to as 'pre-theory period.'

The period 1800 - 1955 is often referred to as the 'general scientific period.' During this period most theory developments were concerned with providing explanations of practice. The emphasis was on providing an overall framework to explain and develop accounting practice. The theories developed during this period were labeled as 'general scientific' because they were aimed at providing a framework for all accounting issues and they were developed empirically.

The period 1956-1970 is labeled as the 'normative period' as during this period accounting theorists attempted to establish 'norms' for 'best accounting practice.' In this period, the accounting researchers were less concerned about what actually happened in practice but more

concerned with developing theories that prescribed what should happen in practice. Two groups dominated the normative period - the critics of historical cost accounting and proponents of the conceptual framework for accounting.

The end of normative period (1970 - 2000) led to the shift of accounting theory development to a new form of empiricism, which operates under the broad label of 'positive theory.' This 'specific scientific theory' or the 'positive era' in fact is not new as it was also based on general scientific theory.' Positive theory sought to provide a framework for explaining the practices, which were being observed.

During the span of history of accounting, there were many different approaches to theory construction in accounting. These approaches differed from each other based on the assumptions they relied on, how they were formulated and their approaches to explaining and predicting actual events. Some of these approaches are pragmatic, syntactic, semantic, normative, and positive [1], [2], [3] & [4]. These theories were the basis for the new developments in accounting profession.

#### **Trends that impacted the accounting profession in the recent past**

Some of the key trends that have impacted the accounting profession over the years and will continue to impact the profession in the years to come in our view, based on experience and information gathered from various sources over the years as professionals who are in practice are discussed in detail and summarized below :

- Technological advancements and digitalization;
- Shared services, outsourcing and emergence of Business Process Outsourcing (BPO);
- Integrated reporting;
- Balancing compliance and business risk through internal control and risk management;
- Continuing Professional Development (CPD); and
- Continuous revision and updation of financial reporting, auditing pronouncements and regulatory framework.

#### **Technological advancements and digitalization**

If someone was asked 30 to 40 years ago "What would be the impact or the changes technology will bring about on the accounting profession in ensuing years?" the answers may not be so obvious as technology and its pace of development was not at the same speed as what we have experienced in the last decade or so and continue to experience. Contrary to this, in today's context, the technology revolution which is taking place essentially defines every single feature of the modern world and economies and as such technology generates a pervasive effect across all economies. We are going through an era of Digital-

Darwinism where the technology and the customer behaviour are constantly changing at a pace faster than the pace businesses could adapt naturally. However, businesses need to revisit their leadership styles, business models, value creation activities and adapt and invest in digital transformation to outperform their peers. The accounting profession has a greater role to play as guardians of wealth of various stakeholders and to serve the public interest. In other words, the development of technology has been the driving force for all aspects of the human initiatives/lives and it continues to have a greater emphasis on all aspects of our life. Therefore, it is rational to conclude that the accounting profession too has not escaped this influence. The best businesses are always forward looking and consistently keep their technology radars switched on and critically evaluates the pros and cons of the emerging and upcoming technologies that can unearth opportunities to create sustainable value. Agnes Ann Pepe pointed out that "towards the ending of the twentieth century, the accounting profession initiated to take on a whole new look. Computer technology has changed the industry completely. With programs such as Microsoft Excel, the accountant is enabled electronic worksheets. With the use of these technologies, the accountants could make statistical analyses, financial forecasts and calculations with greater efficiency. Accounting technology has allowed the accountants to move from a desk, covered with papers making calculations that took hours to complete, to more dynamic ways of performing and, it has allowed the accounting professionals to find novel challenges and much more to offer than in the past"[5].

Accordingly, with continuing advancements in technology which has come in the form of specialized accounting software spanning from basic off-the-shelf book keeping software to fully pledged Enterprise Resources Planning (ERP) software, tools for mining business intelligence, data modelling & analysis and knowledge management have automated many functions that were used to be performed manually. This has helped to eliminate layers of staff that were once used to complete tasks. Transactions and data processing can now be performed with few steps and few people.

**“ WHAT WOULD BE THE IMPACT OR THE CHANGES TECHNOLOGY WILL BRING ABOUT ON THE ACCOUNTING PROFESSION IN ENSUING YEARS? ”**

Migiworldwide.com article on the topic "The impact of technology on the public accounting profession" states that "the technological advances have contributed to the reduction and transformation of accounting departments. The accounting departments disappear from the organizations in the same proportion in which the organizations acquire integrated information systems, reducing the time invested in transcribing data and placing before company management, updated information of their operations. Nowadays, "book-keeping" can be done from outside the company, thus increasing the possibility for more accountants to work under their own initiatives. Many accountants even work from their own homes. Simultaneously, organizations have reduced the accounting work per se, transferring this task to more economical and efficient places. Such changes undergone at the organizations have converted the accountant into a financial specialist, increasing his/her capacity to analysis and interpret data, thus improving the quality of the financial information reported in the entities' financial statements" [6]. Technology and software in accounting is not considered as just a useful tool anymore, but it is considered as an essential part of the accounting profession. As the speed of information increases, so do the demands for a timely and up-to-date information for decision making.

Whilst this automation has greatly enhanced the efficiency and savings in the form of cost reductions, it has also posed threats on the accuracy and validity of financial data and information processed as with most of the activities/functions being performed within an automated environment it has been challenging to keep key duties segregated with appropriate checks and balances inbuilt within the financial reporting environment. This potentially compromised internal controls and increased the likelihood of risk of potential fraud. Accordingly, new safeguards were developed and continue to be refined in response to changes in the way the business activities are conducted and transactions are structured. Such safeguards have helped to increase efficiency whilst ensuring effectiveness of internal controls.

#### **Shared services, outsourcing and emergence of business process outsourcing (BPO)**

Often many confuse the purpose and the differences between shared services and outsourcing as they appear to be the same. Outsourcing is the act of contracting with a third party to perform some service. In contrast, shared services outsourcing allows an entity or a group of entities to outsource functions allowing it to focus on its core business while keeping such outsourced functions under its direct control as opposed to outsourcing, as some entities may feel uncomfortable outsourcing to a third party due to various issues ranging from confidentiality,

flexibility, lack of direct control etc. Both shared services and outsourcing build economies of scale and leverage operational efficiencies around basic, non-controversial services resulting in cost reductions while allowing for freeing management teams in businesses to focus on their core competencies directed to drive business performance.

### ***"The accounting departments disappear from the organizations in the same proportion"***

Scott Furlong pointed out that over the last fifteen years, outsourcing for businesses has grown from traditional outsourcing of facilities management (janitorial services, security, cafeterias and etc.) to outsourcing more administrative support functions like Information Technology, Finance and Accounting including Human Resources [7]. In Sri Lanka context too in the last 10 years or so there has been a tremendous increase in outsourcing and establishment of shared services centers for delivery of accounting and data processing functions. As a result, many group companies either have set up or are in the process of setting up shared services centers and have commenced outsourcing their accounting and data processing functions.

Sri Lanka has also been one of the key destinations for off-shore Business Process Outsourcing (BPO), which entails the management and optimization of business functions that have a predefined set of performance metrics, for global entities. There are many global entities in various industries, particularly in banking and insurance industry, which have outsourced their support functions primarily accounting functions under various service level agreements entered into and with standard operating procedures agreed upon. There have been many instances that these so called BPOs initial capital requirements have been financed partly by such global entities and operating with local and foreign ownership whilst sharing the associated risks. This form of ownership in equity has allowed such global entities to exercise control over the functions as opposed to pure outsourcing as described earlier and such structuring could be termed as a hybrid model of outsourcing and shared services.

Whilst the finance function has benefited significantly from shared services and outsourcing, yet there are challenges and issues still present to fully realize the benefits and uncover opportunities in finance transformation though shared services and outsourcing. A precondition for professional accountants or CFOs in today's global economy is how they can reengineer and continually

reshape the finance transformation process to come up with an optimal finance model to drive sustainable business performance. One has to keep in mind that this is a dynamic process and a model which is well functioning today may not be the best model for tomorrow's business requirements so the professional accountants or CFOs are expected to be agile and proactive in this journey. In addition, finding and retaining top talent had been another challenge which the accounting profession continues to face in a shared service or outsourcing environment and is one of the major causes for organizations inability to realise their full potential. To this end the challenge for development of appropriate skills and capabilities among existing and prospective employees have been a great concern.

### Integrated reporting

The International Integrated Reporting Council (IIRC) defines integrated reporting as "a process that results in communication by an organization, most visibly a periodic integrated report, about how an organization's strategy, governance, performance, and prospects lead to the creation of value over the short, medium and long-term." [8]

Conceptually, integrated reporting shapes on the current financial reporting model to present added information about a company's strategy, governance, and performance. It is expected to provide a complete portrait of a company, including how it demonstrates stewardship and how it creates and sustains value.



Most of the stakeholders are probing companies to provide clear information about emerging external drivers (e.g., political, social, and environmental) affecting their businesses, their approach to governance and managing risk, and how their business models work. In response to this increasing demand for an extensive information set, the IIRC has developed an integrated reporting framework to guide companies in sharing the information expected by stakeholders to evaluate organizations' long-term prospects.

## “ Investors are also looking for insights on factors that influence the business ”

Stakeholders increasingly expect companies to disclose environmental, social, and governance information through reports or other means, such as websites. Accordingly, mandatory sustainability disclosure requirements have been adopted or proposed in many countries, including requirements on topics such as carbon emissions.

Investors are also looking for insights on factors that influence the business. Depending on the sector in which the company operates, these factors may include human resource issues, such as talent attraction and retention, intellectual capital, and environmental or social matters.

This increasing demand for more transparency is also an added opportunity for organizations. Voluntary disclosure is increasing, as companies recognize that enhanced reporting of non-financial information can create financial value, motivate innovation, and enhance their reputation for transparency.

Integrated reporting is adopted or explored by companies all over the world. An increasing number of social reporting requirements driven by local regulators have made a key role in continuing this momentum. Most countries have enacted or proposed instructions on integrated reporting and on incorporating corporate responsibility into a company's external reporting.

The main challenges in adopting integrated reporting are (i) costs related to gathering information and preparation, (ii) lack of knowledge and guidance on how to prepare an integrated report, (iii) lack of connectivity within organizations to enable implementation of Integrated Reporting, (iv) inadequate information systems to produce information required for Integrated Reporting (v) fear of divulging market or price sensitive information (vi) lack of support from management and (vii) fear of litigation given uncertain outcomes of forward looking information.

Organizations are benefited of exploring integrated reporting in many ways. Key among them are (i) improved transparency and governance reporting, (ii) constructive communication with external stakeholders, (iii) promoting integrated thinking through breaking silos within an organization (iv) easier access to capital (v) increased share price and (vi) lower cost of capital.

Corporate reporting will continue to evolve with the changing business environment and stakeholder expectations. Adding integrated reporting to management's agenda and to board strategy sessions may help companies determine how to meet these evolving expectations. The integrated reporting concepts may provide companies a useful framework when considering how to best disclose environmental, social, and governance substances that they have decided to report. Companies may also expand their access to capital and achieve strategic business benefits from integrated thinking [8].

### **Balancing compliance and business risk through internal control and risk management**

Organizations face a wide range of uncertain internal and external factors that potentially have an impact over achievement of their objectives whether they are strategic, operational, compliance or financial. The effect of this uncertainty on their objectives can be a positive risk or a negative risk.

Risk management focuses on identifying threats and opportunities, while internal control helps to mitigate threats and take benefits of opportunities.

Evaluating and improving risk management and internal control is an essential competency of professional accountants and, within organizations, many are partnering with various functions to design, plan, implement, execute, and monitor controls. Further, professional accountants are responsible for delivering of objective, accurate, and timely information and analysis to support these activities.

Professional accountants play a major role in confirming that risk management and internal control form an integral part of an organization's governance system. With an integrated, organization-wide approach, professional accountants can also inspire treating risks in a more holistic, comprehensive way, confirming that business decisions are grounded on risk assessment and management that describes the effect of uncertainties on the organization's objectives.

Even though there are advantages in an effective internal control system, accounting professionals should keep in mind that there are limitations such as (i) a good internal control system cannot turn a poor manager into a good one(ii) the system can only provide reasonable assurance regarding the achievement of objectives - all internal control systems are at risk from mistakes or errors.(iii) internal control systems can be by-passed by collusion and management override, (iv) controls are commonly designed to cope with routine transactions and events and

(v) there are resource constraints in provision of internal control systems, limiting their effectiveness.[9] and[10]

### **Continuing professional development**

Continuing Professional Development (CPD) is the means by which members of respective professions develop, maintain, improve and broaden their knowledge and skills and develop the personal qualities required to uplift their professional development.

CPD is a platform which provides continuous development of professional knowledge, in the form of skills, values, ethics and attitudes, and the competence necessary to improve the knowledge required in career development.

CPD enables professionals to ensure that their knowledge, skills and practices are current, complete and adequate for the roles being performed. CPD is also a way forward to ensure personal career development through more advanced learning activities.

CPD is a careerlong process that should be planned by considering both current and future skills required in those respective professions.

The main advantages of the CPD are as follows, (i) CPD helps to enhance knowledge and skills and be up-to-date, (ii) CPD improves and broadens knowledge and skills and supports future professional development. (iii) CPD develops personal qualities and skills necessary to execute professional and technical duties [11].

### **Continuous revision and updation of financial reporting, auditing pronouncements and regulatory framework**

Over the decades, the global financial landscape has undergone a significant transformation. Such transformation have been attributable, in part, to dramatic changes in the business and political climates, increasing global competition, the development of more market-based economies, and rapid technological improvements. At the same time, the world's financial centers have grown increasingly interconnected, with globalisation of business and knowledge workers.

A sound financial reporting system, supported by high quality accounting and auditing standards and supported by a solid regulatory, ethical framework and governance, is a pre-requisite for economic development. Investors do not rely on reported financial information unless they have resulted with such support and in the absence of such support economic activity and prosperity will be limited.

Investors and lenders are prepared to do business across borders if they are able to trust in financial information based on a set of standards familiar to them. This was the whole purpose of the introduction of International Financial Reporting Standards (IFRS) which creates a common financial reporting language across the board with standardized guidelines on recognition, measurement, presentation and disclosure of financial transactions and balances which has helped to harmonize the accounting practices. Sri Lanka too has fully converged its accounting standards to IFRS effective for financial statements covering periods from 1st January 2012 and since then the Institute of Chartered Accountants of Sri Lanka continues to adopt new accounting pronouncements in line with global changes. As an example, SLFRS 15: Revenue from Contracts with Customers and SLFRS 16: Leases were adopted with same effective date as on the dates corresponding IFRS were adopted.

The goal of the IASB and the IFRS Foundation is to develop a single set of global financial reporting standards that bring transparency, accountability and efficiency to financial markets around the world. Those standards serve the public interest by fostering trust, growth, and long-term financial stability in the global economy.

***“ A sound financial reporting system, supported by high quality accounting and auditing standards and supported by a solid regulatory, ethical framework and governance, is a pre-requisite for economic development ”***

#### Enhancing the value of audit

The IAASB developed a Framework for Audit Quality: Key elements that Create an Environment for Audit Quality that describes the input-, process- and output factors that contribute to audit quality at the engagement, audit firm and national levels, for audits of historical financial statements.

Through this Framework, the IAASB aims to raise awareness of the key elements of audit quality, encourage key stakeholders to challenge themselves to do more to increase audit quality in their particular environments, and facilitate greater dialogue between key stakeholders on the topic.

The responsibility for performing quality audits of financial statements rests with auditors. However, audit quality is best achieved in an environment where there is support from and appropriate interactions among participants in the financial reporting chain.

A quality audit is likely to have been achieved by an engagement team that: [12]

- Exhibited appropriate values, ethics and attitudes;
- Was sufficiently knowledgeable, skilled, and experienced and had sufficient time allocated to perform the audit work;
- Applied a rigorous audit process and quality control procedures that complied with law, regulation and applicable standards;
- Provided useful and timely reports; and
- Interacted appropriately with relevant stakeholders.

#### The new auditor's report

The IAASB has recently introduced the new and revised Auditor Reporting standards that are designed to improve auditor's reports for investors and other users of financial statements.

The most vital enhancement is the new requirement for auditors of listed entities' financial statements to communicate "Key Audit Matters" being those matters that the auditor views as most important, with a description of how they were addressed in the audit. The IAASB has also taken steps to increase the auditor's attention on going concern matters, incorporating disclosures in the financial statements, and add more transparency in the auditor's report about the auditor's work.

The key intended benefits from new and revised audit report can be summarized as follows:

- Enhanced communication between auditors and investors, as well as those charged with governance;
- Increased user confidence in audit reports and financial statements;
- Increased transparency, audit quality, and enhanced information value;
- Increased attention by management and financial statement preparers to disclosures referred to in the auditor's report;
- Renewed auditor focus on matters to be reported that could result in an increase in professional skepticism;
- Enhanced financial reporting in the public interest [12] [13] [14] [15] and [16].

In addition to the development of ifrss and auditing standards there have been many changes in the regulatory framework across the world which has resulted in revising the existing laws and regulations in response to current requirements and global trends and introducing new laws and regulations. In Sri Lanka context too there have been amendments to listing Rules of Colombo Stock Exchange incorporating corporate governance. Further, many changes in industry specific laws and regulations have been made either in the form of amendments or new laws and regulations particularly in the banking and financial services and insurance industries. Accordingly, the accounting profession has to focus on these new regulatory requirements and ensure compliance by relevant business and other organizations.

### Conclusion

Today businesses are operating in a fast-changing and globally integrated environment, one where risks are as much about missed opportunities as about unforeseen events. Uncertainty and constant change have become the normal phenomenon in our day to day life and the accounting profession is not an exception to this. The accounting profession has always embraced new trends and had been forward looking and is in the forefront of new and emerging trends to realise the full potential of such trends and changes while overcoming the related challenges and issues. Key success factors that would be critical for the profession are wide ranging, some of which are discussed below:

**“ critical competency demanded from successful accountants today is to possess the skills to be more analytical and make predictions rather than purely focus on the profits or loss ”**

Firstly, It will be necessary that the professional accountants both in Practice and in the industry to enhance and keep up to date their knowledge and understanding of accounting and auditing standards as these standards are continually revised/upgraded in response to ever changing business environment and complexity of transactions. The technology is the buzz word today and as with any industry the technological advancements and evolution will be the key trend that would have a greater emphasis on the accounting profession. The impact of these emerging technologies will have far reaching effects on the profession and will re-shape the accounting profession and business landscape radically in the near future.

The Accountancy Futures Academy of the Association of Chartered Certified Accountants (ACCA), the global body for professional accountants, compiled a report in May 2013 titled “Technology trends: their impact on the global accountancy profession” [17] which indicated the top ten technological trends that will affect the accounting profession in the decade ahead. The study identifies as the top 10 trends that would have greater impact on the profession as Mobility, Cloud, Social Collaboration, Digital Service Delivery, Big Data, Payment Systems, Cyber Security, Educational and Artificial Intelligence and Robotics. Astonishingly, sound knowledge and adaptability to new and emerging technologies would be a must in addition to hands on experience of accounting software and other business and finance applications, if professional accountants are to be efficient, effective and competitive in their work and sustain their position in the work place. The lack of skills and competencies would put them at a risk of losing their competitiveness and in turn be a potential to be forced out of jobs.

Another very critical competency demanded from successful accountants today is to possess the skills to be more analytical and make predictions rather than purely focus on the profits or loss (historical view of the organization) which was the traditional role the accountants were supposed to play in a stable environment with not many trends or changes being experienced. However, this does not mean that the primary roles of accountants have disappeared over time but rather it emphasizes the new skills that had to be developed to serve better the requirements of the businesses today. Accordingly, they must be able not only to produce financial and management reports and perform standard calculations, but also critically identify, analyze and articulate what is meaningful in their data or findings for decision making of business leaders.

Therefore, Continuing Professional Development (CPD), education, including the courses to develop the analytical skills, technology and research shall be key for professional accountants and auditors to overcome these challenges and be competitive. Hence the course curriculums of academic and professional courses should provide more attention on these aspects in addition to subjects/courses that enhance core competencies of professional accountants.

Further, the adaptability of professional accountants to varying and different environments is a critical skill and competency that an accountant must possess in today's ever changing global landscape. Talent itself is not sufficient but it should be a global talent as today's businesses source from a global pool of resources. The global talent equips professionals to work equally well anywhere in the world without limiting them to their home country.

The knowledge and application of international accounting standards together with the requisite skills and competencies of accounting professionals makes accounting today a truly international and comprehensive service which can be delivered from anywhere for the purposes of cost savings or any other considerations that an entity may have. The standardization of accounting too contributes to enhance the quality of the accounting professionals with the right level of skills. Therefore, as with rightly equipping the accounting professionals with requisite skills and competencies, talent management and succession planning should take a prominent place in the corporate agenda. The identification and managing talent, developing new and different skills, retention and managing the retirement of senior management would be key success factors of the profession. Given the global mobility of professional accountants in a global environment the organizations should pay more attention to retention of their staff. Hence the career aspirations and remunerations packages including opportunity for growth and coaching should be inbuilt into performance appraisal systems thereby to attract, develop, reward and retain the best people.

Another important dimension that would hold the sustainability of the accounting profession in the future is to maintain a higher level of integrity and ethics in the accounting profession which is more relevant today than ever before. This underscores the importance that accountants must attach to integrity and ethics. It is paramount that the accountants and practicing professionals must strictly adhere to codes of conduct issued by their employers and professional bodies. However, self-discipline and adherence to fundamental principles of codes of conduct issued by professional bodies in all aspects undertaken by the accounting professional are vital than developing various codes of conduct and ethical guidelines, as with all such mechanisms in place we continue to hear of accounting blunders failures which have forced some organizations to be out of business landscape despite the fact that such organizations have been very profitable and had been in the industry for years with high reputation.

Therefore, professional bodies and professionals need to make conscious efforts in order that ethics and the importance of ethical practices are incorporated into all types of educational programs with mandatory fulfillment to grant and renew membership. In addition, at organizational level too their class room or e-learning training should encompass more concentration on this area with sufficient monitoring in place.

The accounting profession has to live up to its standing in the eyes of all stakeholders and serve the public interest

at all times, to sustain the corporate success and serve the society and public as a whole, since the reports and other representations of the professional accountants have been the key sources for decision making. Any gap in meeting the expectations will have compounding effects not only on the accounting profession but also on a wider segment of society and the business landscape. Accordingly, the sustainability of the accounting profession will depend upon how well the profession gets its acts together in a turbulent environment that creates trends over time as we experience now and expect to continue in to the future as well.

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