The future of the accountancy profession

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I was asked yesterday what, if anything, of the accounting profession might survive the fourth industrial revolution. When so much of what so many who currently make a living in accounting, whether as accountants or bookkeepers, might be automated, what is the future of this bedrock of middle class income earning? My answer was that the accountant needs to change what they do. In an age of potential information overload their job will be to anticipate the need of the user of accounting data and explain it for them. Whether the answer was music to the ears of my questioner was open to doubt. I suspect that they shared my concern that many in the profession, from top to bottom, do not have the ability to adapt to this demand.

There are several reasons for thinking that this is the case. First there is professional arrogance. All professions are based on the old trade guilds. They were established to create barriers to entry to markets to preserve monopoly profits. Many of those barriers did in time become institutionalised: the accountancy profession's exclusive right to audit was just a part of that. So too was the exclusivity that Royal Charters, supposedly issued in the public interest, granted. More particularly, the willingness of the accounting profession to create language intended to reduce comprehension by those outside its exclusive fold reinforces this impression of mystery that supposedly justifies income differentials. If you doubt that such mumbo jumbo exists try to understand the incomprehension most non-accountants express when faced with the idea of depreciation.

Second, there is dogmatic incomprehension to overcome. Accountants are now amongst the strongest proponents of shareholder value. As example, when accounting standards were first being discussed in the UK it was suggested that they should be used to enhance the data available to all stakeholders of a company. These included shareholders, the providers of loan capital, employees, customers, suppliers, civil society, regulators and tax authorities. In contrast for more than a decade now the International Financial Reporting Standards Foundation has said (para 1.2) that the principle users of financial statements (as they insist on calling what everyone outside the profession calls accounts) are the suppliers of capital to a company. What is more they also insist that the only decision that the data supplied must inform is whether or not that the supplier of capital wishes to engage or disengage with the organisation, as if the relationship is purely one of base financial consideration. This is, of course the mantra of shareholder value writ large. And they then have the temerity to suggest all other users must make do with this inadequate approach or adapt to see themselves in that role as suppliers of capital which, for example, they think employees have until the day they are paid. This closed mindset, which is now deeply embedded, is not just antagonistic, it also is a massive impediment to comprehension of the alienation that most feel from the resulting data.

Third, there is intolerance to the needs of users. Take for example the recent change to UK accounting standards represented by new Financial Reporting Standards 102, now coming into widespread use for the preparation of accounts in the UK. These do, for example, embrace concept that many users of accounts, including the owners of the vast majority of SMEs will find entirely alien. As example, FRS 102 says that:

When a financial asset or financial liability, ie a receivable or payable, originates from an arrangement that is a financing transaction, that receivable or payable is measured at the present value of the future cash payments discounted at a market rate of interest for a similar debt instrument1 (paragraph 11.13 of FRS 102).

Very politely, whoever dreamt this up had never tried to explain what this meant to the director and shareholder of a company who finds the language alien, the maths of discounting incomprehensible, and considers the fact that this deems part of what they might be paid under a deferred payment arrangement to be interest is just wrong because that is not the commercial agreement that they reached with their customer. And yet despite all this an accountant is required to impose this rule on that director and prepare accounts as if they have done something they quite consciously disagree with, and tell the director in question to sign the accounts which they may well consider incorrect and mis-stated, or decline to provide them with professional services. That is the action of a profession disconnected from the reality of the interests it is meant to serve.

Worse, though, put these factors together and the accountancy profession has clearly acted contemptuously. This has significance. Take, for example, the rise of populist politics. As I told those I was in discussion with yesterday, I can and do in part blame this on the accountancy profession. There is no doubt that one cause of populist opinion is the alienation that people feel from the forces of multinational capitalism that seeks to control such large parts of their lives and quite literally keep them indebted to it whilst doing so. As I explained, I had always seen country-by-country reporting as an answer to this alienation.

Time and again I have written about this being a reporting mechanism for holding global corporations to account locally. So, it explains the value they add to a local community by the sales it generates, the people it employs, the profit it makes, the tax it pays and the capital employs in that place. As importantly, country-by-country reports simply explain how the global corporation can be identified though its local entity names. And country-by-country reporting requires explanation of what those local operations do. All of that is about supplying the information that a society needs to grant a global company the necessary social licence to operate locally, whatever the legal rights it might have. And almost without exception none of this information is available right now. Is it surprising that populist sentiment has been incensed?

But how did the accounting profession respond to country-by-country reporting? First it said it was not possible to produce it. Unsurprisingly that did not wash: even the companies saying this realised that this amounted to an admission that they had inadequate accounting data. Then they claimed it was too costly to produce. But that was obviously just contemptuous: what it said was that the providers of capital had value but everyone else had not. Now the argument, when country-by-country reporting data is actually in the course of production by the world's multinational corporations because it is a requirement for tax purposes, is that the public will not understand country-by-country data.

This too is contemptuous. Primarily this is because country-by-country reporting data is vastly less complicated than full accounting disclosure. It does, after all, only include just two narrative and eight numeric variables at most (assuming there are intra-group sales). In that case if the public cannot comprehend country-by-country reporting data what those in the profession saying that are implying is that the substantially more comprehensive full financial statements must also be beyond the public's comprehension. And apparently the profession does not consider it has any duty to change this state of incomprehension in either case, but would instead rather deny the information a user might desire than make the effort to explain it.

Now bring all of this evidence back to my opening contention that if the profession is to survive, and those within it are to earn a living, then they must adapt to supply the interpretation of data that automated systems will very largely produce unaided in the future for the benefit of those without accounting training. What is the realistic possibility of that change when the profession is at present either imposing incomprehensible data on users that involves the use of language and mathematical concepts that many will not comprehend or is suggesting that if the user has not the wit to understand this data then they should be denied it rather than have it explained? I suggest it's very low indeed.

Let me put this plainly then. Those with expertise in artificial intelligence suggest that accountancy is one of the professions most exposed to risk from it. I agree with them: it is obvious that large parts of the work the profession does at present could be automated with relative ease. But in that case the profession has to adapt and current signs are that it is in a remarkably poor place to do so. It really is time for accountants to stop counting the coffees and smell it instead. Unless they do they're not just in deep trouble; they'll find themselves working as baristas, if they're lucky. But from top to bottom I see almost no sign that the profession knows this. Future shock understates what is coming their way as a result. And I strongly suspect they won't realise it until they're mopping down tables.