ACCOUNTING TALENT INDEX

May 2024

Smithink

advancetrack®

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Foreword

Smithink is proud to be associated with AdvanceTrack's ground-breaking research into the talent shortage afflicting the accounting profession globally. The inaugural Accounting Talent Index is the first iteration of what will become a longitudinal study of factors affecting the recruitment, creation and development of professional accountants. In a business landscape marked by pandemics, pending climate catastrophe, accelerating technological advances and economic uncertainty at a global scale, change is now the only constant. Understanding and adapting to root causes, rather than visible symptoms, are crucial capabilities for organisations striving for success in an increasingly competitive marketplace.

From our position within Smithink, and as a chartered accountants for more than 40 years, we are witnessing first-hand the remarkable and troubling transformation of the profession driven by the increasingly acute shortage of qualified accountants. Technological advancements, a shifting educational terrain and the relentless march of globalisation continue to radically reshape the accounting landscape, presenting unprecedented challenges not only for firms but for the entire profession. Nobody remains untouched. It is in this context that AdvanceTrack's research assumes such significance, shedding light on the intricate dynamics and emerging patterns that make the shortage so complex, challenging and urgent.

Our primary interest in supporting this research is to help point our clients, colleagues and the wider business community not just to valuable information, but to actionable insights on how to respond to the changes occurring around them. An old mentor of ours told us something many years ago that we have never forgotten: 'There are three kinds of people in this world. Those that make things happen; those that watch things happen; and those that ask "what the hell just happened?!" Try and make sure you're in the first group.'

By examining the accounting shortage through a wide lens and by tracking performance indicators over time – including several not included in other research – we are confident this knowledge can help better equip firms with the predictive perception necessary to navigate the shifting currents successfully and either stay in or get into that first group.

We urge you to delve into AdvanceTrack's research with an open mind, embracing the transformative power of knowledge and insight. Let these insights help act as a compass, inform your decision-making processes, guide your strategic endeavours, and empower you and your people to thrive.

Good luck!

Mark Holton
Director, Smithink

David Smith
Director, Smithink

Welcome

Welcome to the inaugural Accounting Talent Index. This ground-breaking research by AdvanceTrack and thought leaders Smithink has been launched to dissect the causes and ramifications of the worsening shortage of professionally qualified accountants worldwide. The acute lack of accountants has emerged as a critical bottleneck; impacting businesses, institutions, and economies on a global scale.

Our study aims to examine the dynamics driving the scarcity of skilled accountants and the cascading effects rippling through diverse sectors. From multinational corporations and small businesses through to the thousands of accounting firms around the world servicing them, the talent shortage is posing significant challenges to financial stability, transparency, and governance.

The research that underpins our index, in itself, provides great detail about the thoughts and attitudes of senior accounting practitioners to a global talent shortage. But alongside it we have pulled together information about macroeconomic trends, labour market dynamics, educational pathways, and regulatory frameworks. In total, this will help inform a better conversation on the root causes underpinning the ever-widening chasm between demand and supply of talent in the accounting profession.

In appreciating the interwoven dynamics, I hope accounting firm leaders feel empowered to devise informed strategies and interventions aimed at alleviating the shortage and fostering a robust, resilient ecosystem of accounting talent. Through rigorous data analysis, interviews, and stakeholder engagement, this global research initiative aspires to drive actionable insights and collaborative solutions to address one of the most pressing challenges facing the global economy today: the shortage of professionally qualified accountants.

Vipul Sheth
Founder and Managing Director, AdvanceTrack

OUR RESEARCH

AdvanceTrack and Smithink undertook research between February and March 2024 of representatives from more than 270 accounting firms across the globe. These representatives hold senior positions, with more than half serving as managing partner and a further 20% in a partner role. The majority of responses come from Australia, the UK and the US. The firms represented are predominantly small and medium size, with a third containing more than ten partners. Post-survey interviews were undertaken with selected respondents.

Further details on demographics and representation can be found on page 27. All graphs/charts credited to the 'AdvanceTrack Accounting Talent Index 2024' unless stated otherwise.

Backdrop

Government, business and professional firm leaders are increasingly alarmed by the downward trend in one of the most important forward indicators of the talent shortage; the undergraduate and postgraduate accounting enrolment pipelines. Between 2010 and 2023 domestic student enrolments into tertiary accounting programs declined by an average of 56% across the UK, US (61%), Canada (54%) and Australia (51%).

The Covid-19 pandemic exacerbated the global shortage of accountants in several significant ways. First, it accelerated the retirement of older accountants who opted for early retirement due to health concerns or the pressures of adapting to new work modalities, such as remote work. This sudden decrease in the workforce intensified the existing shortage. Furthermore, the pandemic disrupted education and professional training, delaying the entry of new professionals into the field. Many accounting examinations and certifications were postponed or cancelled, creating a bottleneck for fresh graduates ready to enter the workforce.

Paradoxically, the pandemic simultaneously increased the demand for accountants, as businesses sought more financial guidance to navigate the economic uncertainties and complexities of pandemic-related financial assistance programs. This surge in demand, coupled with a constrained supply of qualified professionals, significantly stressed the accounting sector, leading to increased workload and further compounding the already chronic recruitment and retention challenges across the profession.

Against a backdrop of unrelenting economic uncertainty, political instability, technological advancement and ever-present cybersecurity threats, the following five risks to corporate revenues stand out in 2024:

1. Firms and people are suffering from a multi-dimensional, cross-generational problem that will get worse before it gets better – if it gets better.
2. Significant downstream impacts including reporting and filing delays are already threatening public and social programmes.
3. Undergraduate and post-graduate accounting enrolments are in freefall and show no signs of reversing.
4. Technology, automation and process improvement are providing partial, stop-gap solutions but cannot replace the vital human element.
5. AI is being viewed by some as a panacea, but cross-jurisdictional complexities will present major challenges, and the solution may well in the long run prove to be worse than the problem itself.

To call the talent crisis an existential threat is far from shrill overstatement. Accountants and the accounting profession underpin the trust which sits at the foundation of global capitalism. Without them it is more than possible that the entire system could collapse.

Key Findings

The insights and data from firms at the coalface revealed some disheartening truths, unfortunately indicating an ominously hastening downward trend with little good news on the immediate horizon:

45% of firms report the effects on them as severe or very significant. 44% rate the effects as moderate or significant. Only 9% are not particularly bothered;

67% and 54% of business and tax divisions respectively were either severely or very significantly affected;

74% of respondents said the shortage was significantly worse for them than three years ago;

88% reported that their increased working hours were significantly harming their work-life balance, with 30% describing that harm as severe;

55% of firms reported at least 10% CAGR in non-billable partner and manager-level hours because of the lack of junior-level staff. 48% reported that their write-offs had increased by similar proportions since 2020, reflecting difficulty in persuading clients to pay higher rates for what they perceive as low-value, compliance tasks;

2/3 of firms are having efforts to take on more clients or bill more to existing clients constrained by the inability to find enough or enough of the right people; and

81% of respondents have seen their firm's salary costs 'significantly' or 'moderately' increase over the past three years.

"BUSINESS AND ACCOUNTING IS NO LONGER OFFERED AS A SUBJECT IN MOST OF THE HIGH SCHOOLS IN OUR REGION, THEREFORE YOUNG PEOPLE DON'T SEE THEM AS A CAREER PATHWAY."

"THE COST OF RECRUITING STAFF IS LARGE AND THE TIME IT TAKES PUTS PRESSURE ON CASHFLOW."

How Bad Is It Really?

The word 'crisis' is much overused in an age where so much communication – particularly in the public domain – is based on sensationalism and fear-mongering. But it's hard to see how any reasonable examination of the available data and research on the current accountant shortage could conclude that it was anything but a genuine crisis. Many practitioners, industry bodies and even regulators are going further, describing it as an existential crisis for the profession globally.

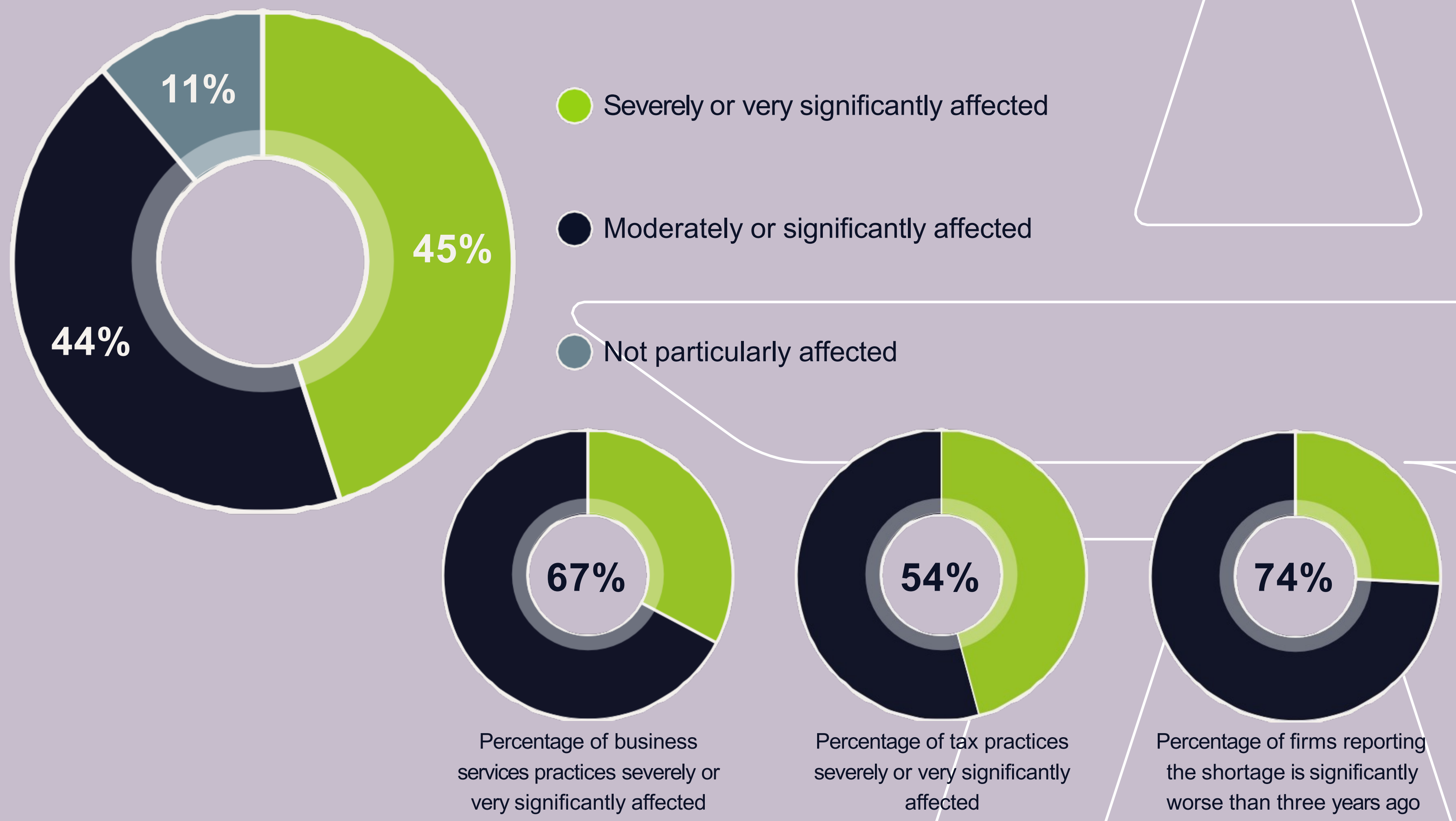
Our research captures those fears. Nearly half of senior practitioners said they were being 'severely' or at least 'significantly affected' by their inability to recruit and/or retain staff. Only 11% reported feeling no particular effect.

Business services and tax divisions within firms are feeling the brunt of the pain, with 67% and 54% respectively reporting being severely or very significantly affected.

Three quarters of firms now report finding it significantly more difficult than three years ago to find people.

With the exception only it seems of India, no country is immune to the inexorable downward spiral, according to our survey.

HOW HAS YOUR FIRM BEEN AFFECTED BY YOUR INABILITY TO RECRUIT OR RETAIN STAFF?



Source: Accounting Talent Index Global Survey Feb-May 2024

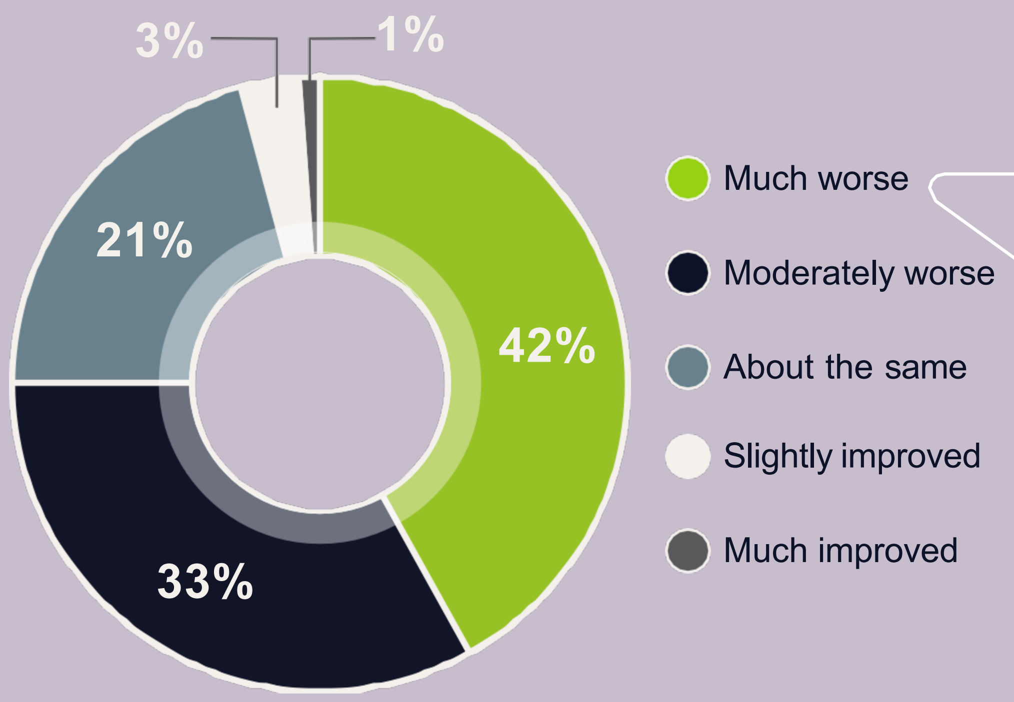
Impact Of The Talent Shortage

Three-quarters of practice leaders reported that they were feeling the impacts of the talent battle either 'moderately' or 'much worse' now than they were three years ago. Smaller firms especially are bearing the brunt, largely unable to compete against the salaries and prestige offered by the mid-tier and Big Four. These bigger firms are also struggling to compete against other career options.

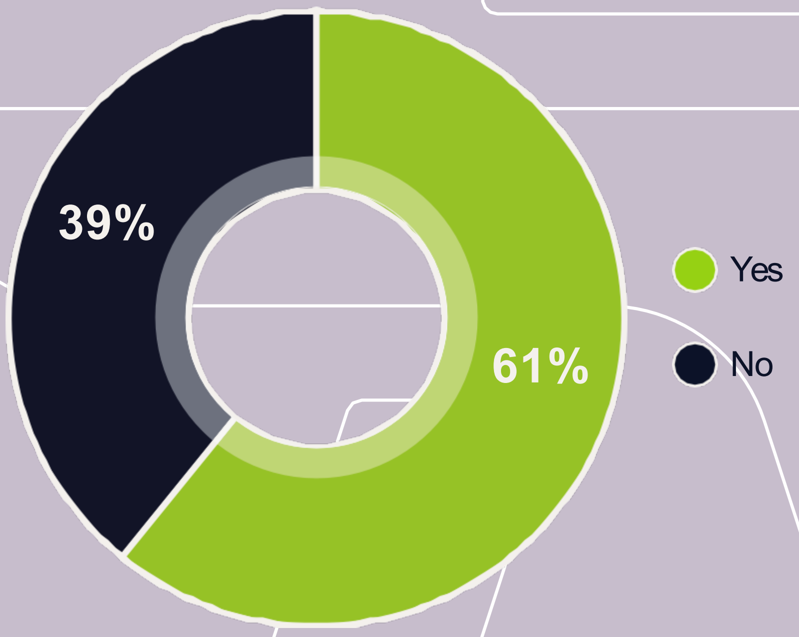
Most respondents believe that the Covid pandemic contributed heavily to the current situation, but many felt that it merely accelerated trends that were well under way before the world shut down in early 2020.

Flexible work arrangements (aka WFH) are a phenomenon largely brought about by COVID, but even when offered by accounting firms, are no longer proving persuasive. They are, however, annoying a lot of partners and managing partners.

HOW WOULD YOU COMPARE THE CURRENT IMPACTS OF THE TALENT SHORTAGE ON YOUR FIRM WITH THREE YEARS AGO?



DO YOU THINK THE COVID PANDEMIC MADE ANY APPRECIABLE DIFFERENCE TO THE TALENT SHORTAGE?



Source: Accounting Talent Index Global Survey Feb-May 2024

Partner Utilisation

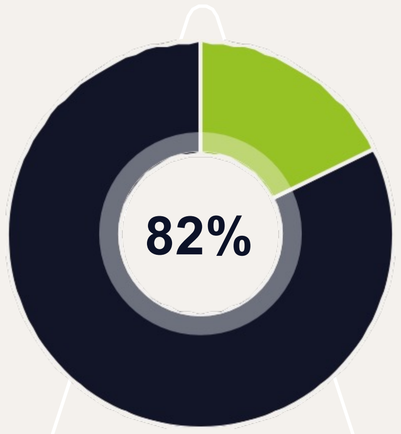
'It's tough at the top,' so they say. Well, according to the responses and interviews underpinning this index, it's never been harder to be a partner in an accounting firm. Three quarters of the firms who responded reported partner hours had increased and in 42% of cases by more than 20%. In other words, another day per week.

Unsurprisingly, firms with fewer than five partners were over-represented in the 'increased by >20%' category.

Perhaps the most worrying insights coming out of the index are the warning signs around work-life balance, stress levels and mental health – not just for staff, but for partners. It's worth remembering that when facing stress and pressure, employees can vote with their feet, which young accountants seem to be doing. But it's much more difficult – and sometimes impossible – for a practice owner to simply walk out and turn off the lights.

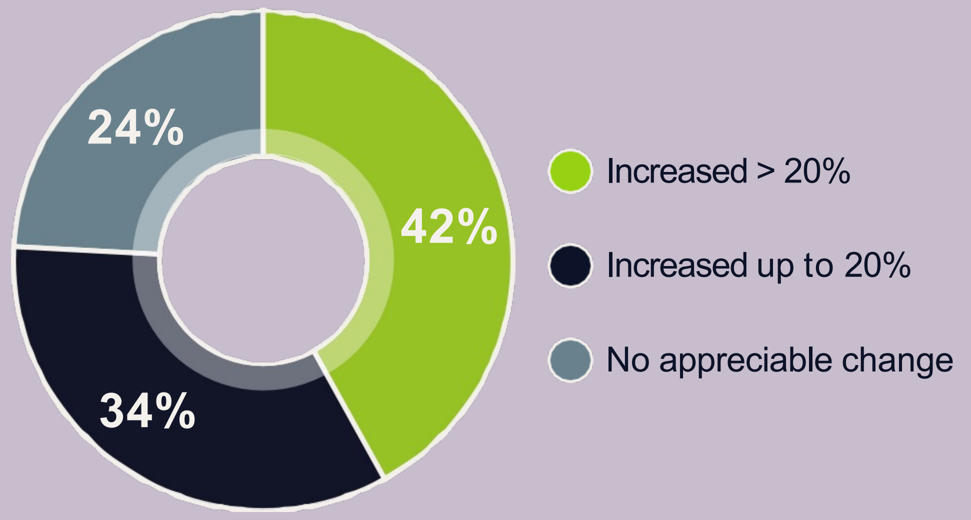
Two-thirds of the index's respondents report at least observing moderate effects, with one-third labelling them as 'severe' or 'very significant'.

The ICAEW-affiliated charity Caba recently published an analysis of mental health in the accounting profession across the UK. It reported that more than half (56%) of accountants are suffering with stress and burnout, with workload, long hours and complexity cited as the main reasons. Ironically, few seek help because they're too busy.

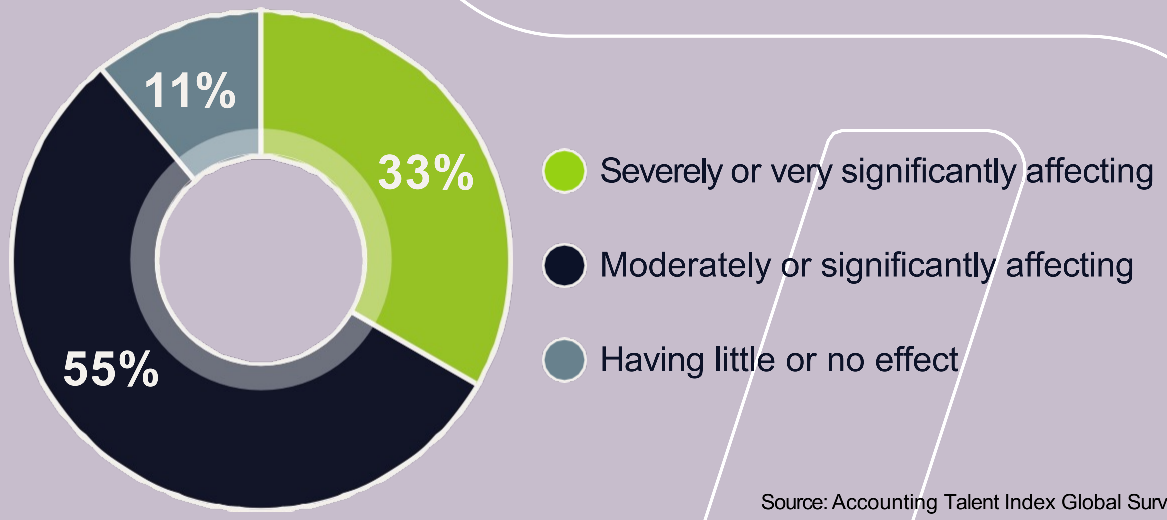


Percentage of firms attributing increases in partner hours to the talent shortage

PARTNER UTILISATION & BILLABLE TIME



WORK-LIFE, STRESS & MENTAL HEALTH



Source: Accounting Talent Index Global Survey Feb-May 2024

Recruitment/Retention Concerns

Our index shows a multitude of threats to their talent management strategies. One partner who spoke with us said it felt more like being in a room where the walls, floor and ceiling were all closing in at the same time.

The service-based business model relies on selling people's time, which is finite and therefore difficult to scale. This is exacerbated when people are also a finite resource. Facing heightened competition for people from adjacent industries who don't face those constraints, firms struggle to go toe-to-toe on salaries.

Accountants must charge and recover enough time to cover those increased salaries; overheads which are also inexorably rising while investing in technology and innovation before they even get to what's left over for the partners. Competing for talent against more scalable and profitable businesses is a losing battle. The fee-for-time model becomes a sea-anchor from which there is no easy escape.

Professional firms have always leaked good people to commercial roles, but the leak has now become a torrent.

WHICH OF THE FOLLOWING ARE AFFECTING YOUR EFFORTS TO RECRUIT AND RETAIN ACCOUNTANTS?

Source: Accounting Talent Index Global Survey Feb-May 2024

Talent Shortage: The Specifics

While poorly positioned to compete by offering higher salaries, most have little choice but to do so. Salaries at all levels of experience have increased. And yet, the steady flow of people out of accounting continues.

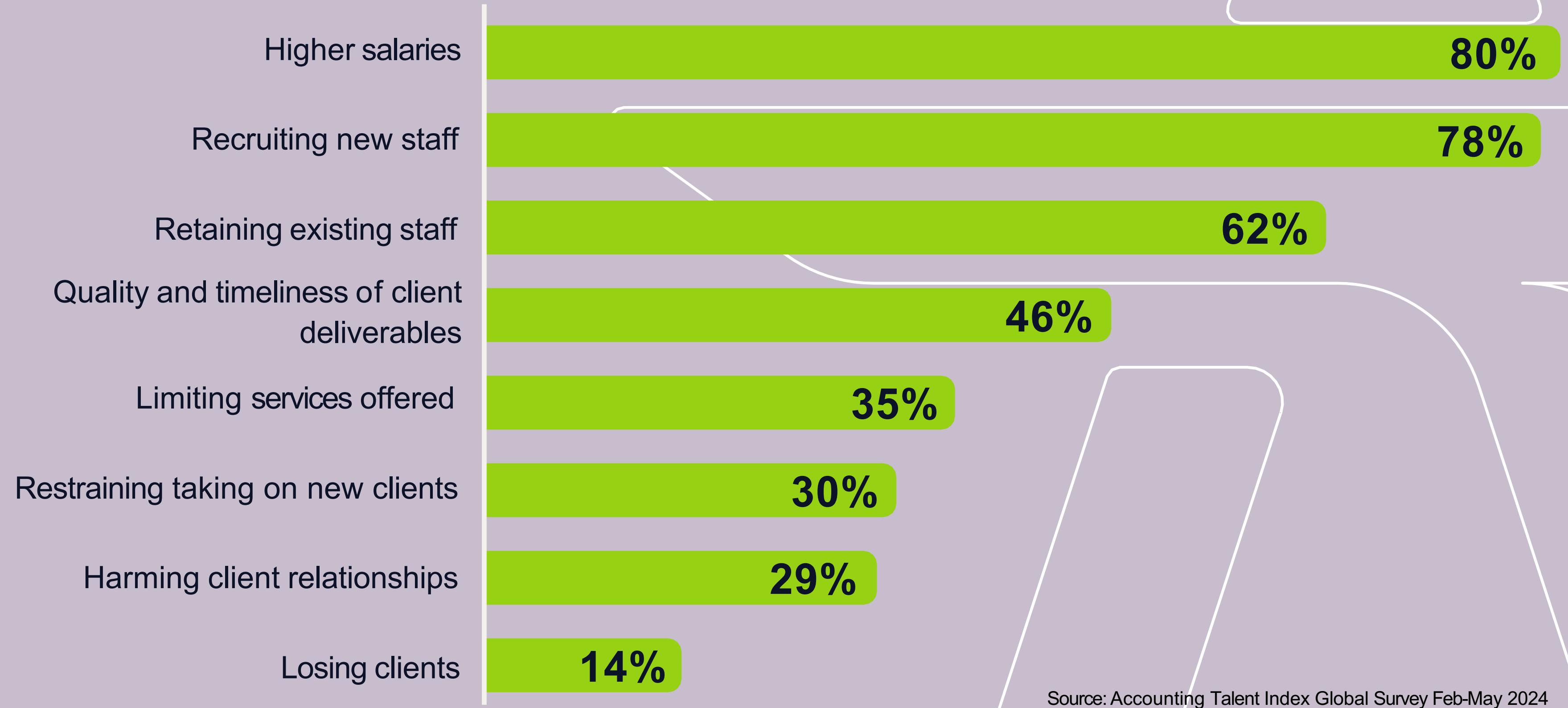
According to the Chartered Accountants Australia & New Zealand's (CA ANZ) most recent annual pay survey, 45% of their members with experience of five years or less won pay rises of 7.6% or above in 2023, far outstripping the next most successful cohort. Across all age groups, just 29% received a pay bump of that magnitude.

Those numbers sound impressive, but its research only compared chartered accountants with each other. Even with apparently impressive increases in pay levels, accountants are a long way from catching up to their peers in just about any comparable analyst roles, and even further removed from salaries and incentives being offered in any field starting with the word data.

This year's survey did not ask firms to quantify the increases in their salary levels. During interviews however, stories of individual salary bumps of more than 30% and overall salary increases of 15% were not uncommon. Occasionally, to no avail, when staff members left anyway, using the offer of an increase in negotiations elsewhere.

Perhaps the loudest canaries chirping, however, are the impacts starting to be felt around the quality and timeliness of deliverables to clients and resulting harm to client relationships and their businesses. Featuring in 47% and 30% of responses to our index, the downstream effects to reporting, tax collection and commercial cohesion can't be underestimated.

WHAT SPECIFIC EFFECTS HAVE YOU SEEN IN YOUR FIRM AS A RESULT OF THE TALENT SHORTAGE?



Source: Accounting Talent Index Global Survey Feb-May 2024

Clients At The Sharp End

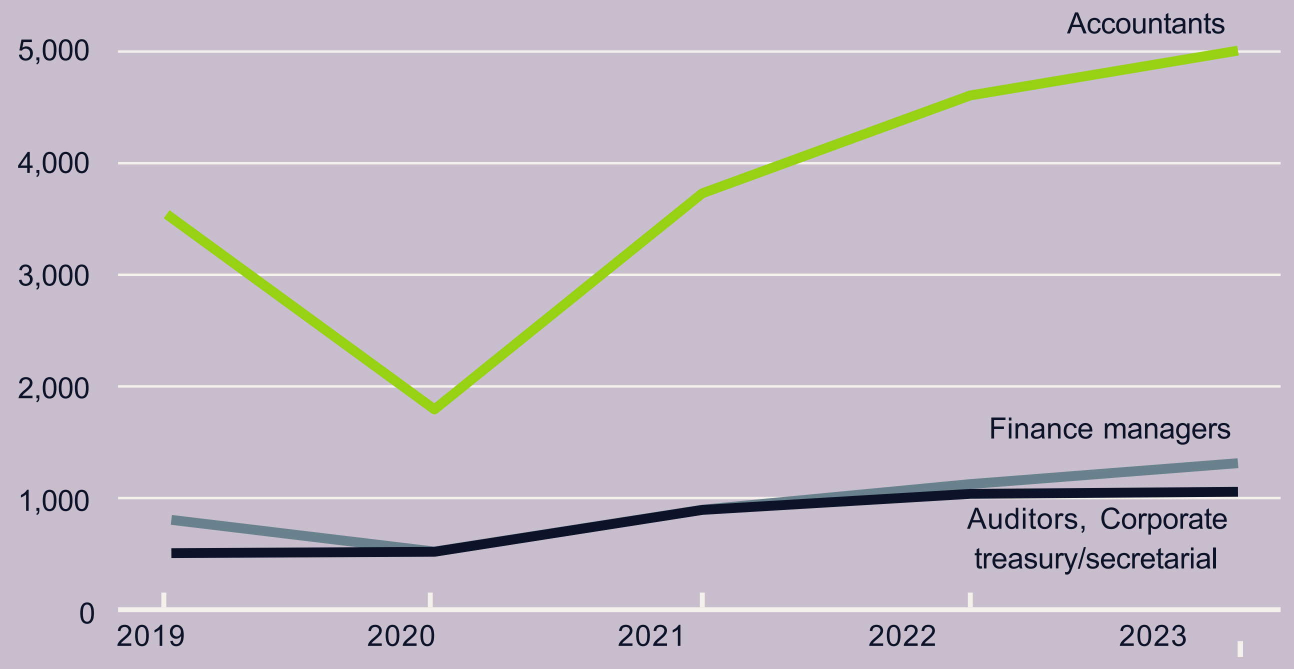
The index confirms a wealth of anecdotal evidence highlighting a growing desperation among accountants in professional practice resulting directly from inability to source suitably qualified accounting talent. The scarcity of certified public accountants (CPAs) in the US and accountants in the UK has already impacted various industries, particularly local communities attempting to enhance their infrastructure. Many US municipalities have struggled to hire enough certified auditors, leading to delayed financial disclosures and jeopardising their credit ratings.

In the US, S&P Global Ratings withdrew ratings for 91 municipalities and utility systems due to late financial submissions, significantly affecting their ability to fund essential infrastructure projects through municipal bonds.

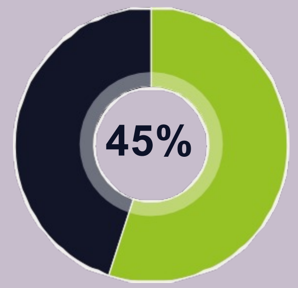
The shortage has also exacerbated the risk in financial reporting quality, increasing the likelihood of errors in financial statements and the potential for corporate fraud to go undetected. This situation has led to a rise in warnings from large companies about weakening internal financial controls. The lack of timely and accurate financial reporting can have severe implications, including stock price declines and increased litigation risks against company directors and officers.

Moreover, the shortage has forced many companies to delay filing essential financial reports, exemplified by Tupperware's recent delay in its annual report due to significant attrition in its accounting department. This operational challenge reflects a broader crisis within the accounting profession, characterised by high retirement rates among seasoned accountants and difficulties in attracting new talent to the field. The profession's reputation for long hours and unfulfilling work, coupled with relatively uncompetitive starting salaries, has deterred new entrants, doubling down on the talent shortfall.

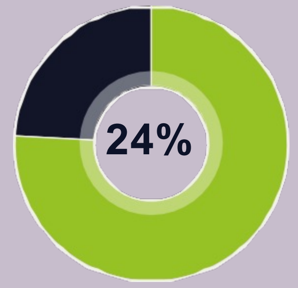
ADVERTISED VACANCIES FOR ACCOUNTANTS & FINANCE PROFESSIONALS, 2019-2023



Source: Australian Federal Department of Employment and Workplace Relations (2023)



Percentage of UK accounting job candidates expecting to look for a new role within the next 12 months



Percentage of UK accounting job candidates that have moved within the last 12 months

Source: Austin Rose Salary Guide 2024

Show Me The Money!

An accounting career, once a reliable pathway into the upper middle class for millions globally, is increasingly seen as less advantageous. The median inflation-adjusted pay for young accountants has remained stagnant, a trend identified by government agencies, recruiters, and professional bodies.

In regions such as North America, the UK, Europe, Australia, and New Zealand, top tertiary-level accounting programmes are reporting double-digit percentage declines in enrolment and the number of undergraduate majors. The consequence is a heightened workload for the remaining accountants, compounded by reports from the US Bureau of Labor Statistics that ***over 300,000 accountants exited the profession between 2019 and 2021***.

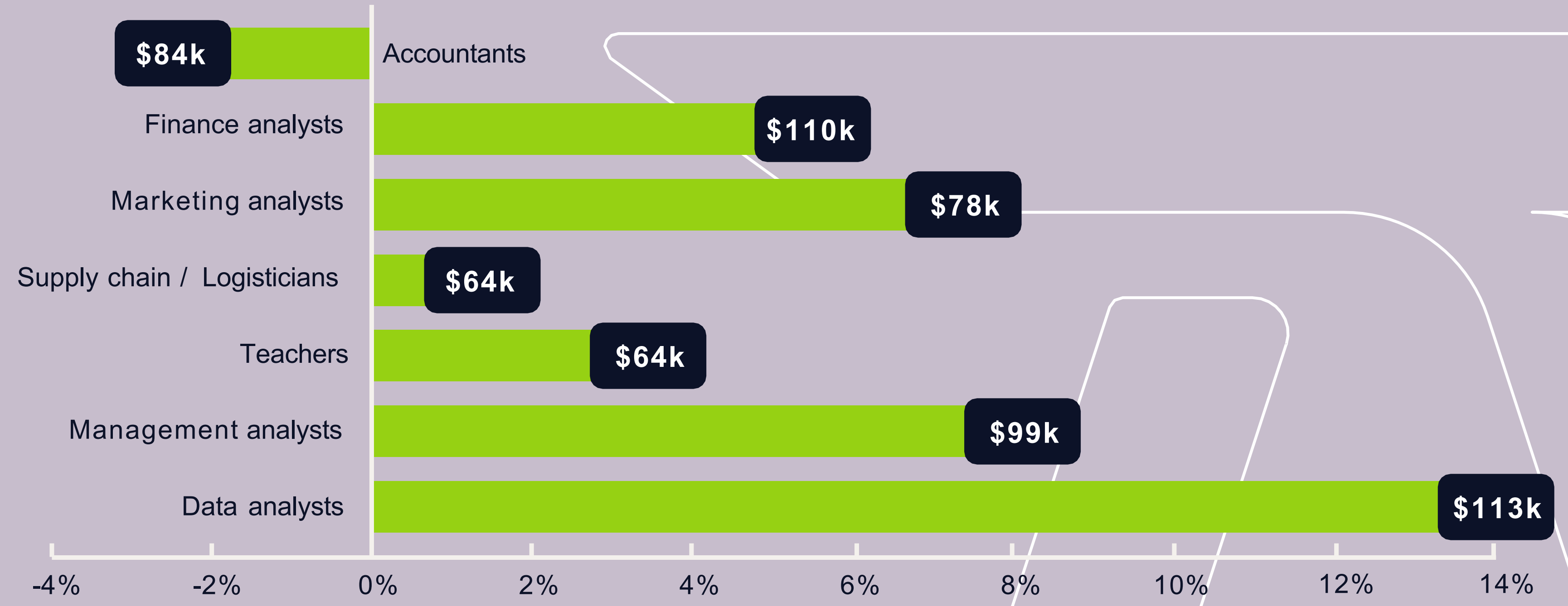
As the industry faces these challenges, the overall recruiting advantage that once favoured drawing students from economically disadvantaged backgrounds into accounting is diminishing. An analysis of federal earnings data has shown that salaries for accountants in their twenties have stagnated to the region of $56,000 (£44,661) since the financial crisis of 2008.

In response, some smaller accounting firms express concerns about their profitability and remain hesitant to raise client rates. Some who have tried to do so have met vocal resistance from clients. A recent survey by the Centre for Audit Quality led commentators to suggest higher starting salaries in other majors are a primary reason why students who might have considered accounting ultimately choose different fields.

300,000

accountants exited the profession between 2019 and 2022

25-29-YEAR-OLDS' CHANGES IN MEDIAN ANNUAL SALARY BETWEEN 2016-2022



Source: AICPA & CIMA (2023)

Perspectives On The Problem

While varying in many respects, responses from and discussions with managing partners and CEOs tended to be consistent when it came to one thing. They believe that much of the responsibility for the collective difficulty of firms to attract and retain younger people lay with the attitudes of those younger people to work in general: 'They don't want to work'; 'They want to run the joint after five minutes'; 'They can't be told what to do'; 'They're not prepared to put in their time'. and a host of variants along these themes were posited as we put the index together.

Younger representatives who spoke to us had, perhaps unsurprisingly, a different viewpoint.

Some were 'unimpressed' by what they perceive as poor governance within both corporates and the largest accounting firms. One current Year 12 student we interviewed said: 'Who would ever want to work for people who behave like that?'

"THERE NEEDS TO BE A CHANGE IN THE INDUSTRY TO ATTRACT YOUNGER TALENT. THE KEY WORKFORCE IN THE INDUSTRY IS AGEING WITHOUT NEW TALENT ENTERING THE INDUSTRY."

Most, if not all, of the graduates and undergraduates we spoke with pointed to the disparity between accounting salaries and those of adjacent career options, particularly those in analytics and data. Since 2016 the average remuneration of a professional accountant aged between 25 and 29 years old fell in real terms by 6%-8% depending on geography and whose analysis is being referenced. Those figures are reasonably consistent across North America, the United Kingdom, Australia and New Zealand.

It's always difficult to get a precise bead on partners' remuneration because it varies so wildly, and there seem to be as many ways to calculate it as there are accounting firms. Remuneration can also vary by seniority, area of expertise, size and nature of client bases etc. There are also salaried partners and equity partners, and the calculation models in each case differ markedly.

Having so qualified the following, at the level of the Big 4 average equity partner earnings tend to range between and around AUS$700,000 (£369,000) and $800,000.

"THE WORK ETHIC AND ATTITUDES OF THIS GENERATION PRESENTS A SIGNIFICANT CULTURAL CHALLENGE."

Stepping down into the mid-tier firms, and again variability between firms can be quite dramatic, but the number is reportedly between $500,000 to $700,000. When you multiply those numbers by the number of partners in these firms, you get big figures.

At the same time, comparable salaries in financial analysis, marketing analysis, management analysis and risk analysis increased by 6%, 8%, 8% and 12% respectively, and any field preceded by the word 'data' shot up by as much as 20% year-on-year.

Smaller suburban and regional firms are much harder to quantify, and average partner earnings can range from $300,000 up to well north of $1M.

Perspectives On The Problem

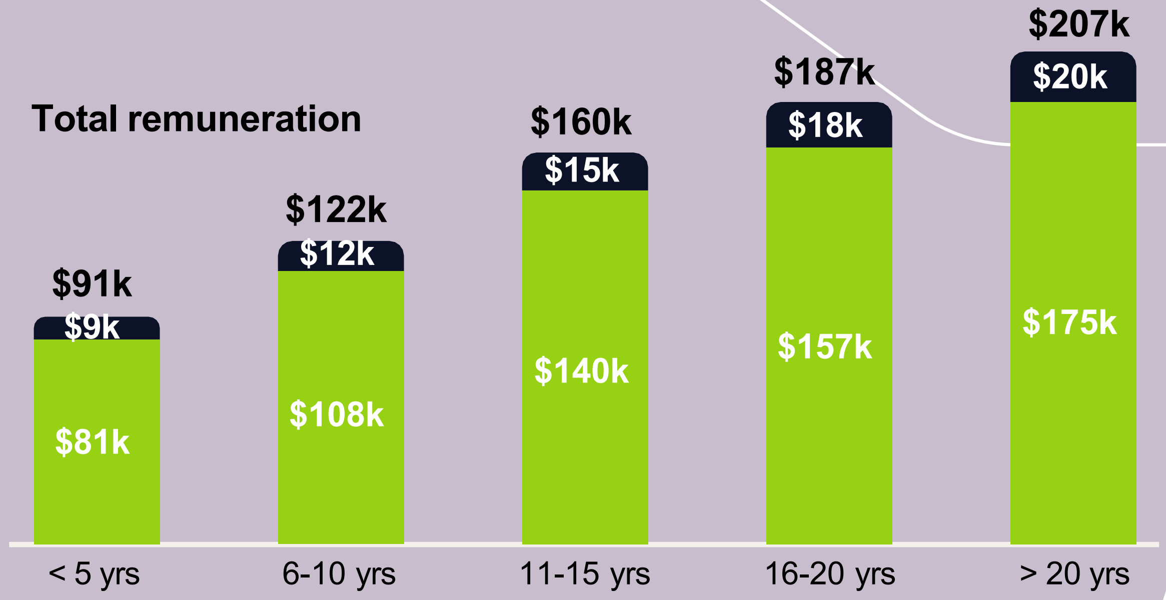
Using the Australian mid-tier firms (i.e. firms ranked five to 20 in the annual Australian Financial Review analysis of the top 100 accounting firms) as a basis for calculation, to level the playing field salary-wise with the financial, marketing, management, risk and data analysis industries, the average annual salary for accountants aged between 25 and 29 years old would currently need to increase by 20% to reach the average of those five industries and 22% to reach the median. Assuming other firm operating costs i.e. non-salary costs remain constant, average annual income per partner would fall from $600K to $480K – assuming net fee revenue also remains constant.

To compete effectively with industries attracting the bulk of younger accountants away from accounting firms, partners in the mid-tier would need to be willing to earn $480K (on average) compared with $600K. Many equity partners particularly, will argue – correctly – that those income levels are not only reasonable but necessary in light of the risks associated with equity partnership in a professional firm. And those risks are real. But so too are those facing school leavers and university students when it comes to choosing a career.

Regardless of the relative rights and wrongs on this issue, one conclusion is inescapable. Unless someone can come up with a means of more adequately compensating young people to attract them back into the profession, then the profession – as we currently know it, is probably doomed. If that turns out to be the case then, ultimately, equity partners in firms will pay the highest price in the long-term. And that future price may well be much higher than the one on the table at the moment.

A 2023 survey of its membership by CA ANZ found that three in five Australian accountants, or 61%, received a pay rise in the previous year but expectations and sizes of the increases gradually diminished for more experienced professionals. Of the most experienced – those with more than 30 years of work under their belts – 50% received rises of between 2.6% and 5%, and just 15% won pay rises of more than 7.6%.

MEDIAN FULL-TIME CA REMUNERATION IN AUSTRALIA BY YEARS OF EXPERIENCE



Source: 2023 CA ANZ Member Remuneration Survey Report

CENTRAL LONDON (GENERAL PRACTICE) SALARIES

	Mid-tier	Independent
Salaried partner/director	£92k+	£90k+
Senior manager	£72k-£88k	£70k-£84k
Manager	£62k-£74k	£60k-£72k
Assistant manager	£54k-£62k	£54k-£60k
Senior	£49k-£55k	£45k-£53k
Semi-senior	£30k-£42k	£27k-£38k

Source: Austin Rose Salary Guide 2024

Who Wants To Be An Accountant?

Exacerbating the already chronic shortage of qualified accountants is the even more alarming decline in the numbers of high school and university students wanting to be accountants. The decline in enrolments is attributed to several factors that deter potential students from pursuing accounting as a career.

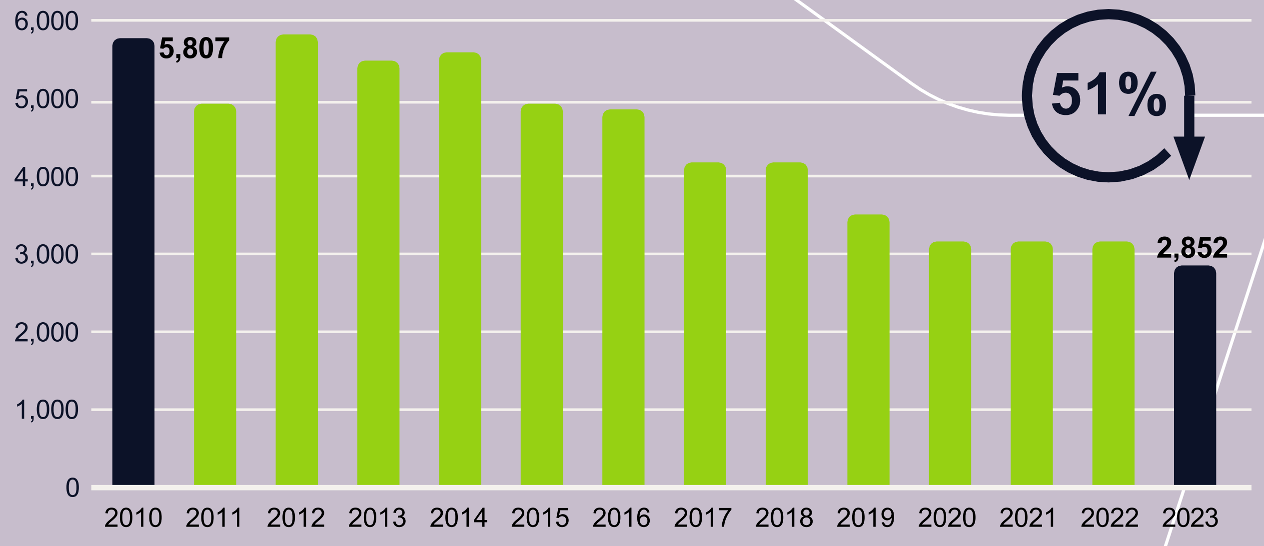
Firstly, the perception of accounting as a demanding profession with unappealing long hours and high stress is a significant deterrent. This image is compounded by the evolving job market where other professions may offer more attractive benefits, work-life balance, and perceived career fulfillment. For example, roles in technology and consulting are seen as more dynamic and innovative, drawing interest away from traditional fields like accounting.

Moreover, the rigorous educational requirements for becoming a chartered accountant or certified public accountant, including the need for an additional fifth year of collegiate study for the latter in the US, further discourage students. This extended educational pathway not only increases the financial burden on students but also delays their entry into the workforce, making accounting less attractive compared to other professions that require less academic investment for entry-level positions.

In the context of rising tuition costs and student debt, the return on investment for an accounting degree appears less favourable, leading potential students to pursue degrees that promise higher starting salaries and quicker job placement.

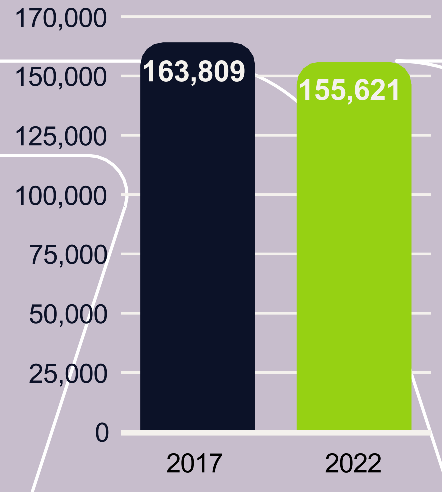
Various studies also highlight that the number of accounting graduates has seen a notable decline. For instance, during the 2021/22 academic year, there was a significant drop in the number of students earning bachelor's and master's degrees in accounting. This reduction in graduates is worsening and in doing so setting off alarms across the accounting industry and government.

AUSTRALIAN DOMESTIC STUDENT ENROLMENTS IN HIGHER EDUCATION ACCOUNTING PROGRAMS



Source: CA ANZ submission to the Australian Universities Accord Panel – Dec 2023

NUMBER OF UK AND ROI ACCOUNTING STUDENTS



Source: Key Facts and Trends in the Accountancy Profession 2018 and 2023

Firm Responses And Their Effectiveness

According to our research, firms offered higher salaries and increased the use of non-financial benefits in remuneration packages (74% and 64% of firms respectively) in a bid to mitigate a talent shortage.

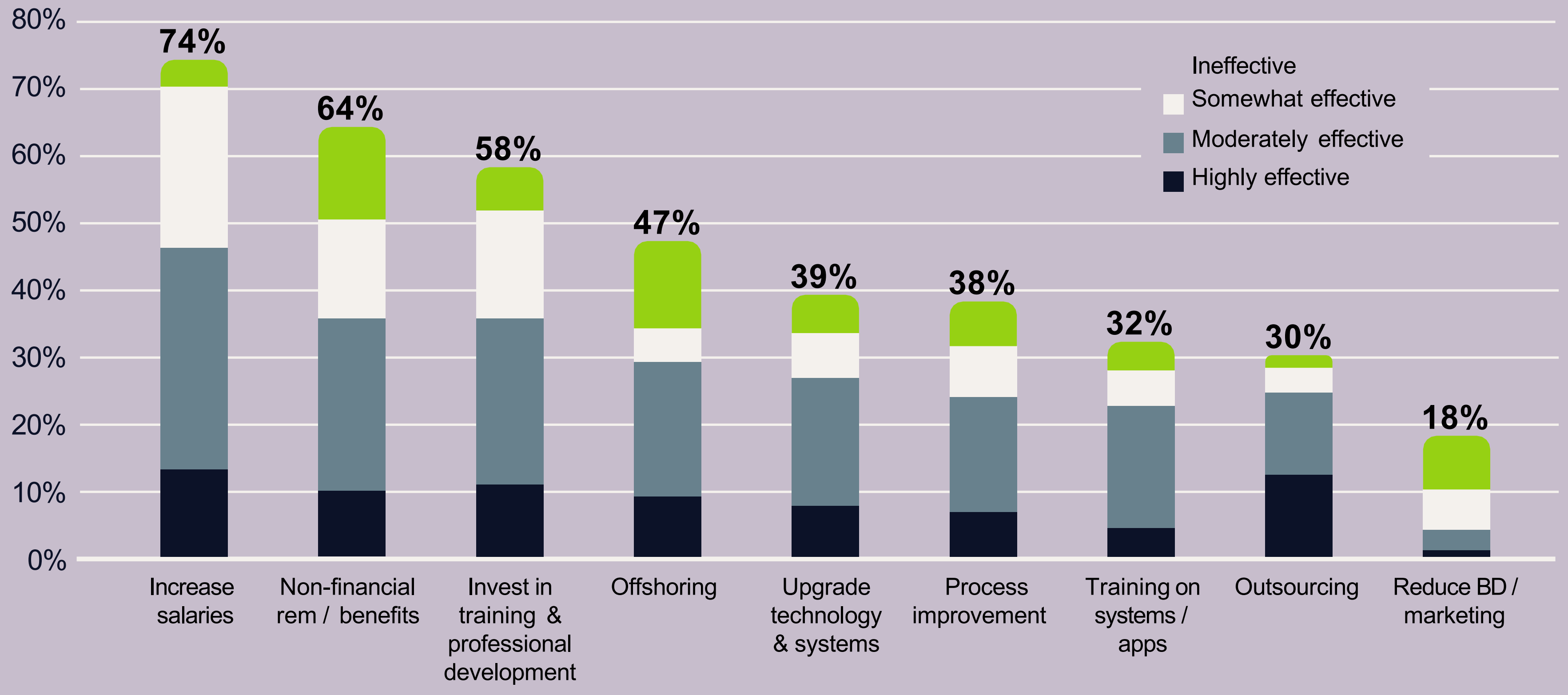
Since 2019 the average increase in salaries across the firms who responded to the index was 12%, with the highest reported increase being 18%. Only 13% of firms felt that strategy had been highly effective in either attracting new staff or retaining existing people. A number of firms reported their higher recruitment offers were being used as bargaining chips to entice even higher offers from competitors – frequently outside the profession.

Others told us that people's decisions to leave for more remuneration were almost never reversed by matching or counter-offering.

The most popular non-financial benefits were additional leave and flexible working arrangements, although post-pandemic the latter are increasingly viewed as a minimum requirement.

Several firms were in various stages of piloting four-day working weeks, although only offered outside busy periods. A little more than half of the firms deploying non-financial rewards reported find them 'highly' or 'moderately effective'. Anecdotally, we heard this might have been because the profession was playing catch up with other industries where benefits such as these have been standard for quite some time, and so receiving them was not viewed as necessarily a significant point of differentiation.

WHAT STRATEGIES HAS YOUR FIRM IMPLEMENTED OR TRIED TO IMPLEMENT IN RESPONSE TO THE TALENT SHORTAGE?



Source: Accounting Talent Index Global Survey Feb-May 2024

Artificial Intelligence and Accounting Talent

The jury that is the global market has well and truly delivered its verdict on the future of AI and chatbots like ChatGPT. It seems to be almost a case of: 'AI is the answer. What was the question?' The take-up of AI in businesses around the world has been nothing short of astonishing.

In the accounting domain however, the hype appears more subdued, relatively speaking. Our conversations with partners and managing partners point to a healthy scepticism (as opposed to rejection), and a preference to wait for demonstrable proof of impact and/or benefit before deciding which direction to jump – and how far.

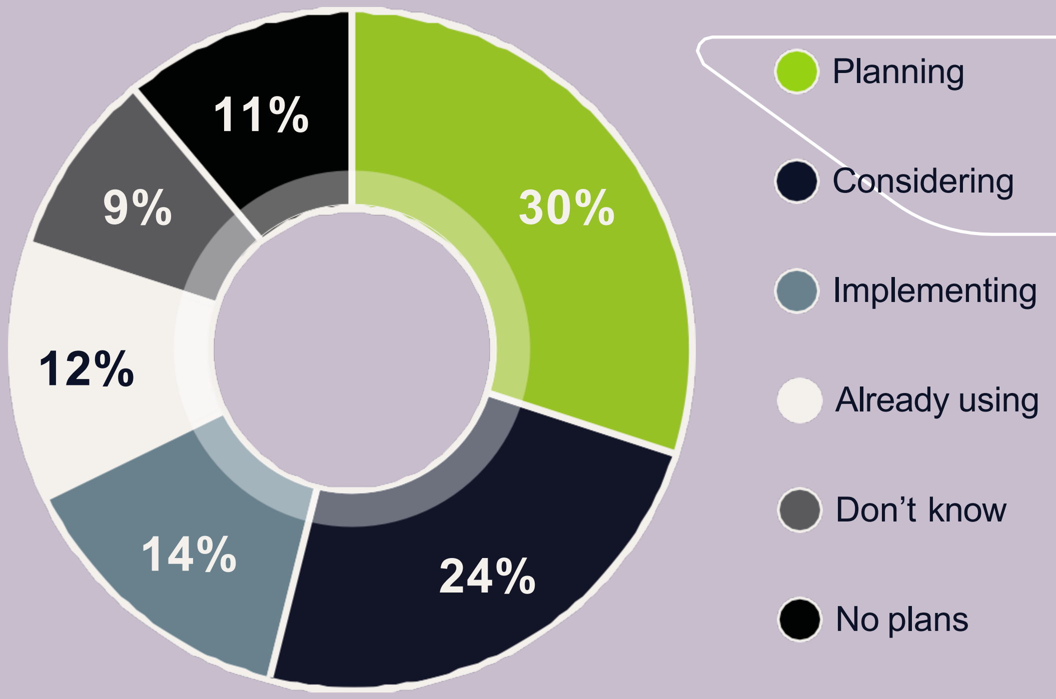
The bigger-picture discussion around AI is whether, and to what extent, it will replace accountants. It is quite literally a multi-billion-dollar question.

Accountants may work with numbers, but they deal with humans. –Your clients are people. This is whether business executives in the case of large companies, or owners in the case of the majority or small-medium businesses. When discussion moves beyond compliance, then people start requiring personalised attention – often intensely personal and ongoing.

Partners, directors and other senior people in accounting firms are continually reaching out to and interacting with their clients, arranging face-to-face or online meetings, responding directly to their questions and concerns, and providing continued guidance on a host of issues critical to the viability of their businesses. Truth and trust are absolutely critical.

At the moment, 'truth' and 'trust' do not sit comfortably alongside 'AI'. As recently as last week, famed theoretical physicist and one of the world's leaders in quantum computing Michio Kaku told Joe Rogan that while chatbots and other AI tools might appear to be intelligent, they are in fact only capable of regurgitating what humans have already produced.

WHAT IS YOUR FIRM'S STANCE ON THE ADOPTION OF AI?



"THE POTENTIAL BENEFITS OF AI FOR THE ACCOUNTING PROFESSION ARE ENORMOUS. BUT SO ARE THE DANGERS."

David Smith
Smithink

Source: Accounting Talent Index Global Survey Feb-May 2024

Artificial Intelligence and Accounting Talent

The AI threat to accounting is far from a new phenomenon. One of the earliest landmark studies dates back to early 2015 when Oxford University and Deloitte published a white paper which posited that up to 95% of accountants will face some level of threat from AI. While that paper and many since have tempered the sense of alarm by pointing out that it will be the high-volume, low-value compliance type work that would be most susceptible to replication and replacement by robots, nearly all those documents overlook two important things:

- By far the bulk of mainstream accounting – and bookkeeping work consists of those high-volume, low-value compliance type tasks; and
- It is by mastering those high-volume, low-level compliance type tasks that accountants develop their skills, including the ability to deal with more complex problems and challenges.

"TOO MANY PEOPLE SEEMS TO BE FIXATED ON TECHNOLOGY AND AI. TECHNOLOGY REGARDLESS OF WHAT IT IS, IS ONLY EVER AS GOOD AS THE QUESTIONS IT IS BEING ASKED. AI CANNOT ASK ITSELF THE RIGHT QUESTIONS. IT CERTAINLY CAN'T TELL WHEN THE ANSWERS ARE CORRECT OR NOT."

"AI WILL TRANSFORM MUCH IN ACCOUNTING AND OTHER PROFESSIONS, BUT IT WON'T REPLACE AS MANY JOBS AS PEOPLE ARE SAYING."

"THE ACCOUNTING 'BRAND' IS NO LONGER ATTRACTIVE, AND THE THREAT FROM AI IS JUST TOO MUCH TO FIGHT AGAINST."

The AI/Accounting Paradox

The accounting shortage has been exacerbated by an ageing workforce and evolving financial regulations which demand more expertise and manpower. Concurrently, advances in artificial intelligence (AI) are reshaping perceptions of the accounting profession, presenting a paradoxical scenario where the solution to the shortage could be fuelling it.

AI technologies, including machine learning and automation, have been integrated into various aspects of accounting, such as data entry, audit processes, and compliance monitoring. These tools can analyse large volumes of data with greater accuracy and at a speed unattainable by human accountants. AI offers the potential to reduce errors, lower costs, and improve efficiency, allowing accountants to focus on more strategic, advisory roles rather than routine number-crunching.

However, many young people considering careers are deterred by the fear that AI will eventually make them obsolete. This concern is not unfounded, as headlines often emphasise the capabilities of AI at the expense of human roles, painting a picture of a future where machines dominate the profession.

This perception problem creates a self-reinforcing cycle: as fewer individuals enter the accounting profession due to fears of automation, the shortage of skilled accountants worsens, increasing the burden on existing professionals and potentially compromising the quality of financial oversight and innovation.

Rather than viewing AI as a replacement for accountants, the narrative needs to shift towards AI as a tool that enhances the accountant's role. Education and training programs must adapt, emphasising the evolving nature of accounting work where analytical skills, strategic thinking, and advisory capabilities are more valuable than mere computational ability. Universities and professional bodies need to highlight how AI can augment the profession – as a partner rather than a threat.

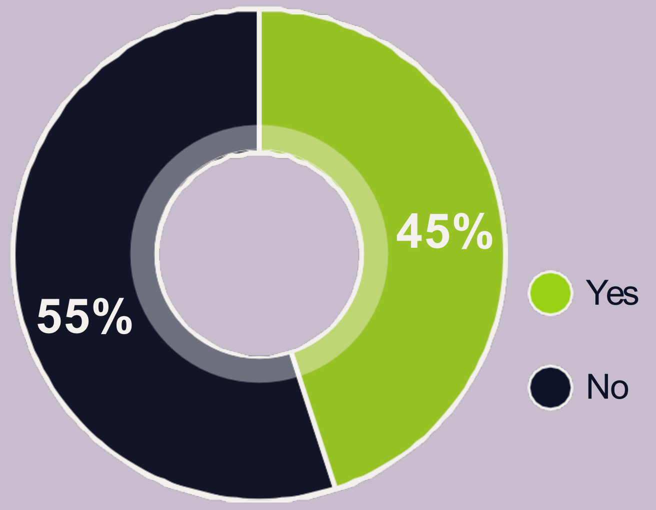
Moreover, the accounting industry must actively engage in outreach and education to demystify AI's impact and showcase the new, enriched roles that professionals will undertake in an AI-integrated future. By promoting the enduring relevance of human judgment, ethical oversight, and interpersonal skills, the industry can attract a new generation of accountants who are equipped to work alongside AI, leveraging its capabilities to foster a more robust and dynamic field.

Offshoring

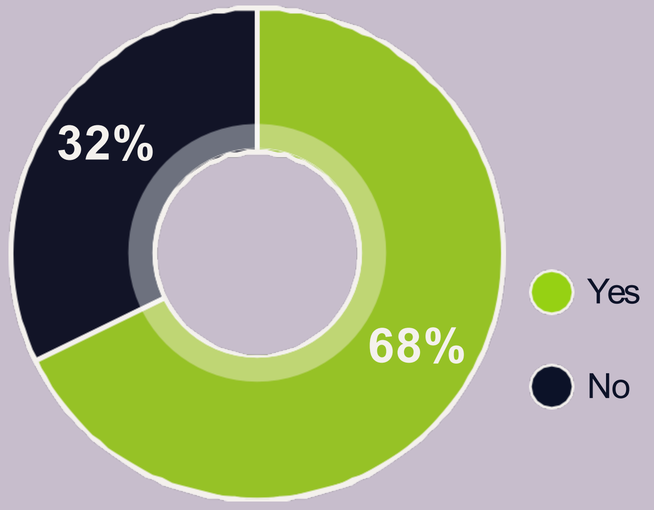
Offshoring in the accounting context refers to the practice of relocating various accounting tasks and processes from one country to another, typically from a high-cost to a lower-cost region. This move seeks to capitalise on cost advantages via salary arbitrage, access specific skilled labour pools unavailable domestically, while enhancing operational efficiencies and consequent savings. By offshoring accounting tasks such as payroll, tax preparation, bookkeeping, and low-level financial analysis, firms reduce labour and operational costs while maintaining service levels.

The concept is underpinned by the globalisation of workforces and advancements in technology that facilitate communication and data transfer across borders. Firms can manage their in-house operations remotely without compromising the quality and timeliness of client deliverables. The real essence of offshoring versus outsourcing (see following page) is that it is based around recruiting and employing people in another country – whether directly by the firms themselves or indirectly via an interposed third-party provider, rather than locally. In other words, offshoring is fundamentally recruitment, except for the people are over 'there' rather than 'here'.

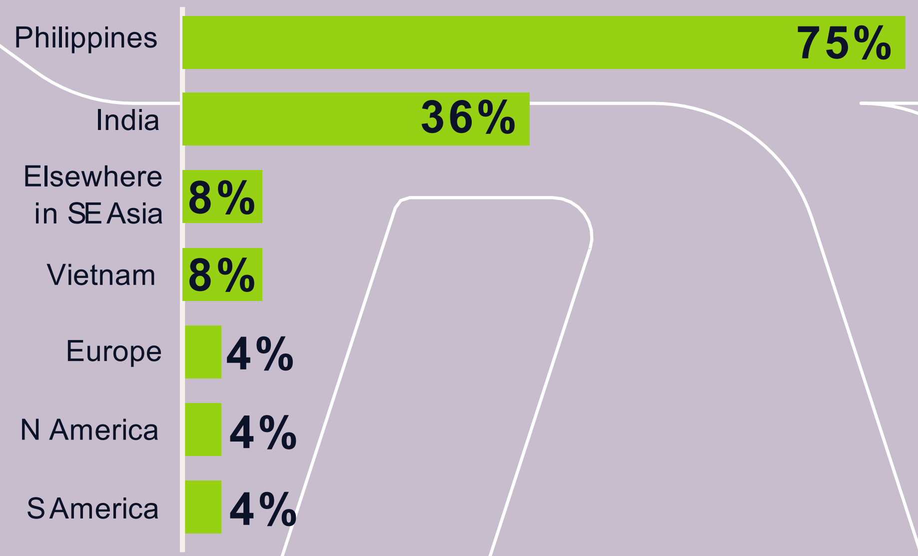
PERCENTAGE OF ALL FIRMS CURRENTLY OFFSHORING



PERCENTAGE OF FIRMS WITH LESS THAN FIVE PARTNERS CURRENTLY OFFSHORING



MOST POPULAR OFFSHORING COUNTRIES



Source: Accounting Talent Index Global Survey Feb-May 2024

Outsourcing

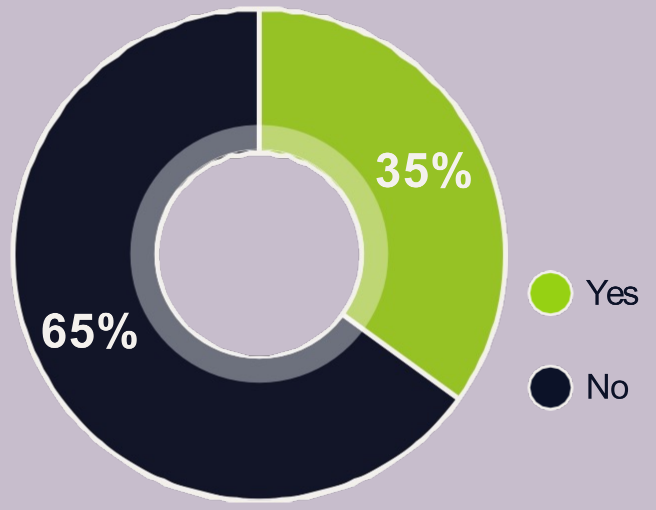
The words outsourcing and offshoring are frequently used interchangeably. They are, however, quite different. Outsourcing, in the context of accounting firms, refers to the strategic delegation of whole functions and tasks to external service providers, often specialised in specific accounting activities.

While rarely so simple in practice, outsourcing is about having someone else somewhere else take over whole functions. Whereas, offshoring is about employing people somewhere else.

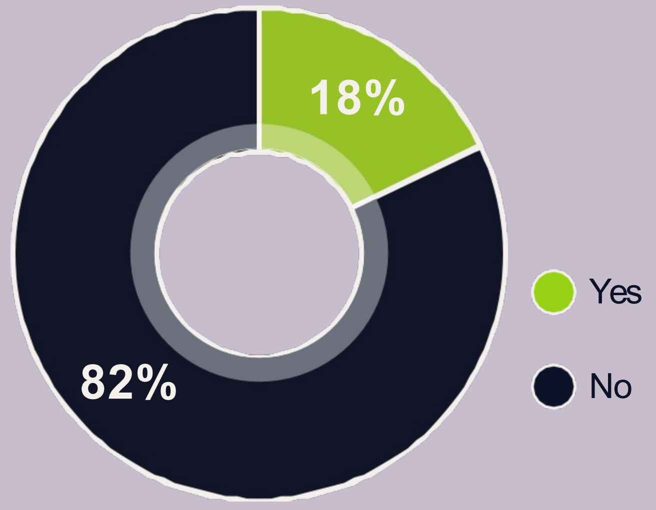
In a sense, the practice of outsourcing transcends mere cost savings; it is increasingly seen as a vital element in driving business agility and innovation. Technology plays a crucial role in this transformation, enabling seamless integration and communication between the firm and its outsourcing partners. This ensures that despite geographical distances, the quality and reliability of accounting processes are maintained and may even be superior.

Additionally, outsourcing allows firms to scale their operations quickly and flexibly in response to client demands and market changes without the constraints associated with sourcing, recruiting, training and managing people.

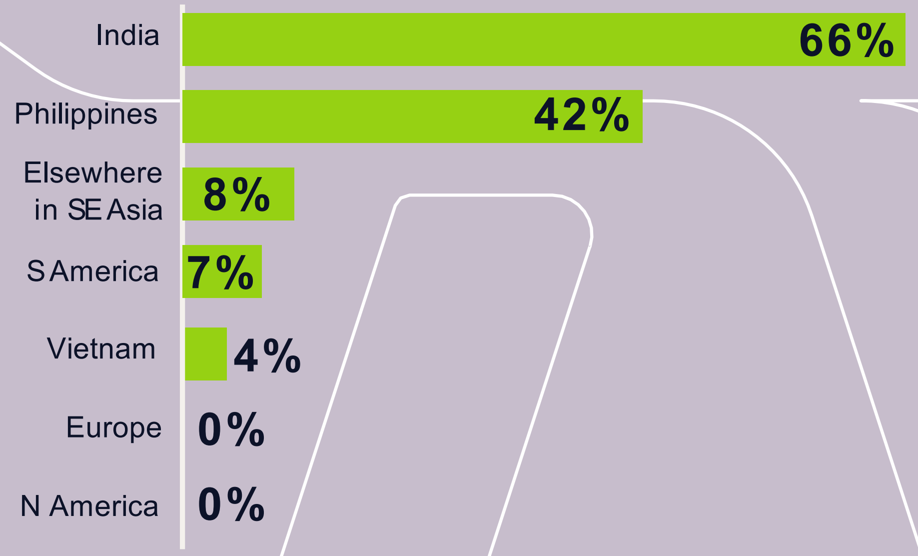
PERCENTAGE OF ALL FIRMS CURRENTLY OUTSOURCING



PERCENTAGE OF FIRMS WITH LESS THAN FIVE PARTNERS CURRENTLY OUTSOURCING



MOST POPULAR OUTSOURCING COUNTRIES



Source: Accounting Talent Index Global Survey Feb-May 2024

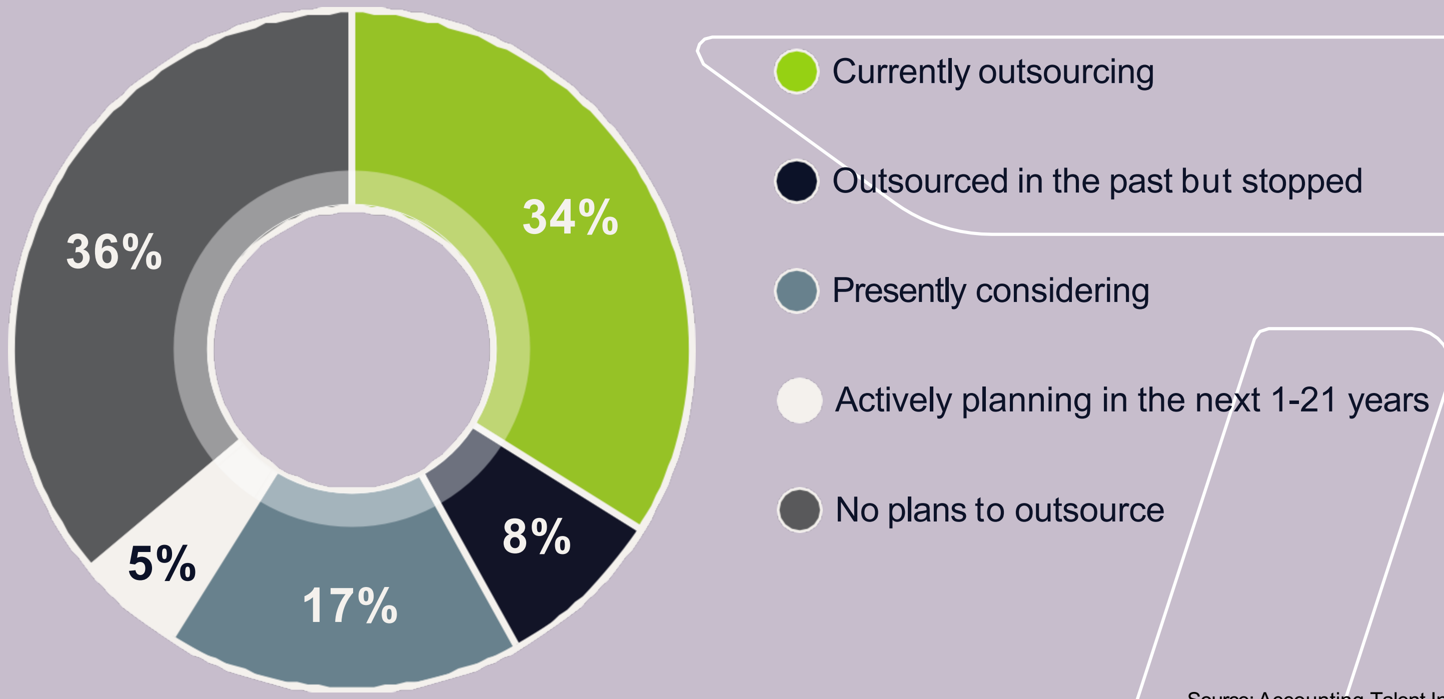
Outsourcing

Regardless of where they come from, people are a finite resource – eventually, as firms with offshoring arrangements in the Philippines are beginning to experience. Outsourcing introduces technology and process improvement into the equation and, while still exposed to the people constraint, far less so than in the case of offshoring.

Notwithstanding the compelling short-term cost reduction arguments so often mounted in favour of it, none of the partners interviewed for the Talent Index liked the idea of outsourcing their firm's services to foreign countries. Not one. But they conceded that outsourcing at least some services was inevitable.

While there has doubtlessly been an increasing shift on the part of firms desperate for people towards outsourcing, the index does not support the notion of an 'explosion' in demand, as has been claimed in numerous articles and reports recently. Offshoring is certainly much more common. While firms appear to be more comfortable with hiring individual people or even small teams of people and having them work from overseas, they are nowhere near as relaxed about handing over responsibility for an entire function to a third party. Whereas, 75% of firms report generally or very positive offshoring experiences, far fewer appear to be seriously considering outsourcing.

HAS YOUR FIRM EVER OUTSOURCED ANY OF YOUR ACCOUNTING COMPLIANCE OR TAX COMPLIANCE WORK TO AN EXTERNAL PROVIDER OR PROVIDERS?



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Even The Philippines Isn't Immune

So far in the short history of the global accounting talent crisis, the two standout locations for offshoring have been the Philippines and India.

Aside from the obvious benefits of access to a plentiful supply of qualified people, the economics have also been compelling. Salaries for comparable levels of education, qualification and experience can be as much as 75% less than employing an equivalently qualified local, whether in North America, the UK, Australia or New Zealand.

Those sorts of economics are hard to argue with but, as demand increases for qualified people from those relatively low-cost countries, the cost advantages of employing those people diminish as the salaries required for offshore people increase. Since the pandemic, accounting salaries for CPAs in the Philippines have increased by as much as 350% – depending on whose statistics are being examined. According to David Smith from Smithink, it won't be too much longer before accountants in the Philippines will cost the same as they do in Australia.

The primary driver of that increase in Filipino accounting salaries is an increasing shortage in supply. More and more qualified Filipinos are leaving the Philippines to work internationally, leaving a smaller local pool available for offshoring from elsewhere. Exacerbating that already shrinking available talent pool is that some of those remaining want to move their career forward.

US and Australian firms in particular have shifted heavily into offshoring out of the Philippines, pushing that market to near-full capacity.

The Philippine Institute of Certified Public Accountants (PICPA) said local accounting firms hit a tipping point between 2022 and 2023; hiring non-certified public accountants to fill the widening gap between supply and demand. Like many aspects of this crisis, it's apparent that the writing was well and truly on the wall well before Covid, even though the pandemic has received much of the blame.

According to the PICPA, the Philippines produced approximately 199,000 CPAs in the last century.

19%

Current pass rate for CPA exams in the Philippines

'That's a big problem now of the profession because several of the CPAs here in the Philippines are migrating abroad, or they are working online for foreign companies,' PICPA national president Erwin Alcala, recently told the Manila Times.

To make matters worse, pass rates for CPA exams in the Philippines have reached their lowest levels in recent history and continue to trend down. Between 2019 and 2022 across five examinations only 6,847 out of 35,918 applicants passed, representing a pass percentage of 19%. By comparison historical pass rates for the AICPA exams in the US average between 45% and 55%.

India alone bucks the trend

For the time being at least, India is an entirely different story, with more than 400,000 chartered accountants already qualified; more than 180,000 qualifying since 2021 and 66,992 freshly minted CAs graduating in 2023 alone – up by 11% on 2022. It's sobering to compare a system that produces 180,000 chartered accountants in three years with a total registered membership of CA ANZ of 135,000 and PICPA of 200,000.

Is Outsourcing Inevitable?

The investment in accounting outsourcing has surged by an impressive 40% over half a decade, a trend highlighted by AdvanceTrack, which has seen its inquiries more than double in just one year.

In a move as ground-breaking for the profession as the advent of generative AI has been for business generally, firms globally are rapidly embracing the outsourcing of accounting services. According to David Smith from strategy consulting firm Smithink, this shift is driven by a relentless pursuit of quality services at a cost that aligns with firms' financial strategies. This comes against a backdrop of a deepening talent drought across North America, the UK, and Australia, propelling the outsourcing model to the forefront of options for consideration.

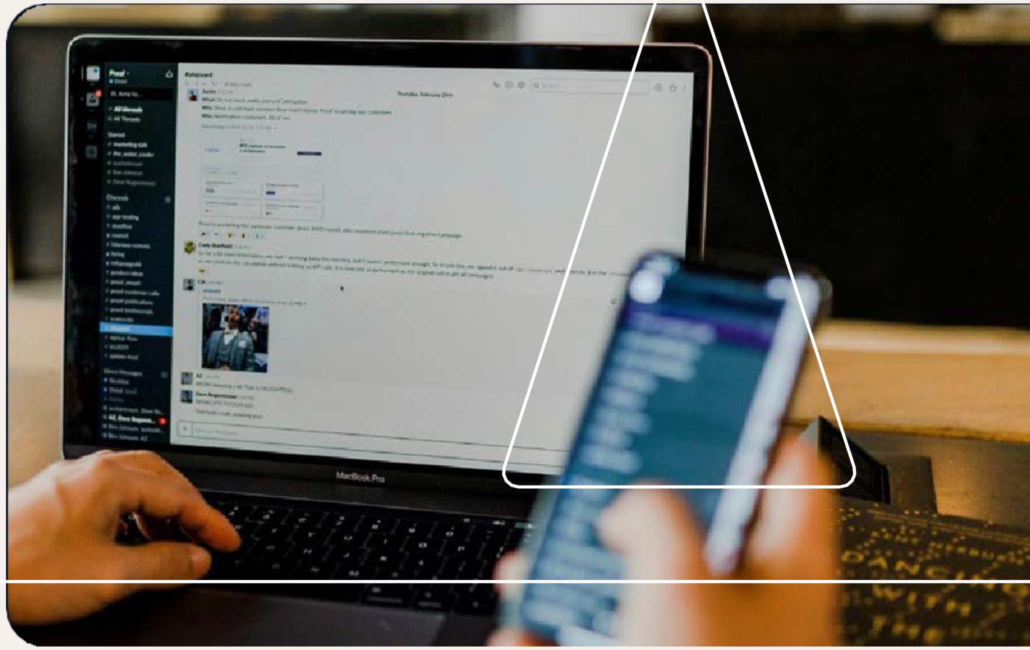
The Institute of Chartered Accountants in India has welcomed a wave of over 180,000 new Chartered Accountants within two years—a figure that overshadows the membership of CA ANZ, signalling a seismic shift in the industry's global talent landscape.

The index supports the notion of an increase in outsourcing's popularity – at least directionally. Anecdotal evidence exists of surging demand for outsourcing, but the index's data is more tempered, balanced perhaps against the profession's innate conservatism towards radical changes of any kind.

The narrative around the sector's alleged boom, however, is underscored by reports such as the one by accounting reviewer Clutch in January 2023, which pointed out that 37% of small businesses had adopted outsourcing for their accounting or IT needs, drawn by the lure of enhanced efficiency. A strategic choice, it offers a mix of heightened expertise, flexibility, and the freedom for in-house teams to pivot to other strategic tasks.

Cost savings are among the top advantages, as outsourcing taps into global talent pools that offer high skill levels at lower operational costs. This strategy is not just about cutting corners—it's about enriching the business with specialised expertise and fostering a symbiotic relationship between in-house and outsourced talent.

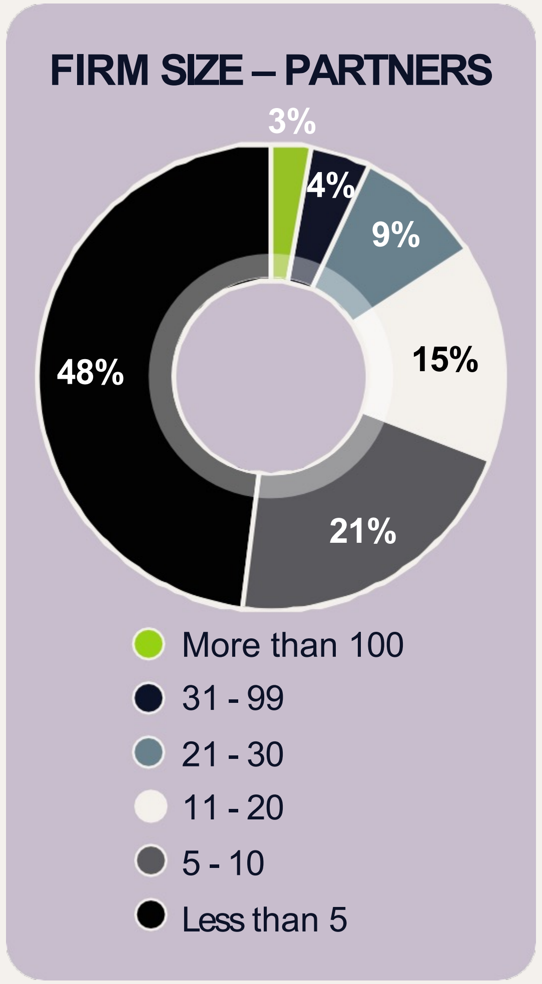
However, this shift is not without its challenges. Data security, communication hurdles, and quality assurance are legitimate concerns. Firms are, however, learning to navigate these challenges by implementing stringent security measures, fostering clear communication, and adhering to strict quality control protocols.

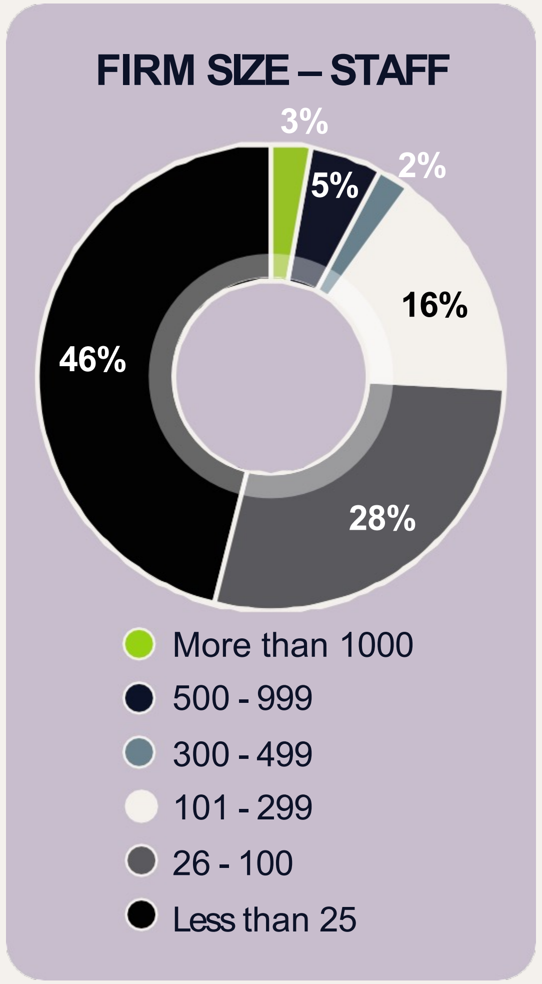


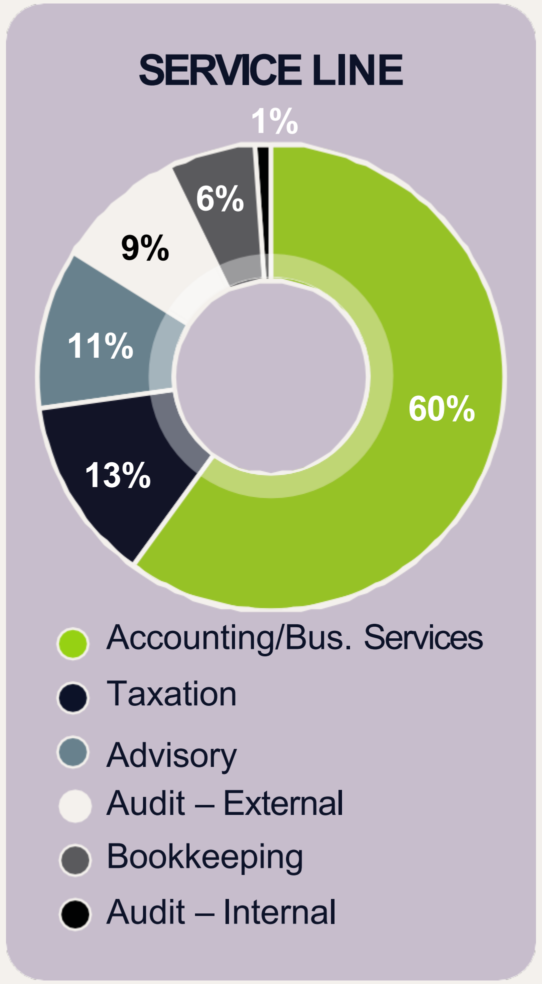
The evolving narrative around outsourcing in accounting is becoming increasingly positive. As the industry grapples with a tight supply of graduates and rising labour costs, outsourcing stands out as a strategic avenue to harness specialised skills and secure a competitive edge.

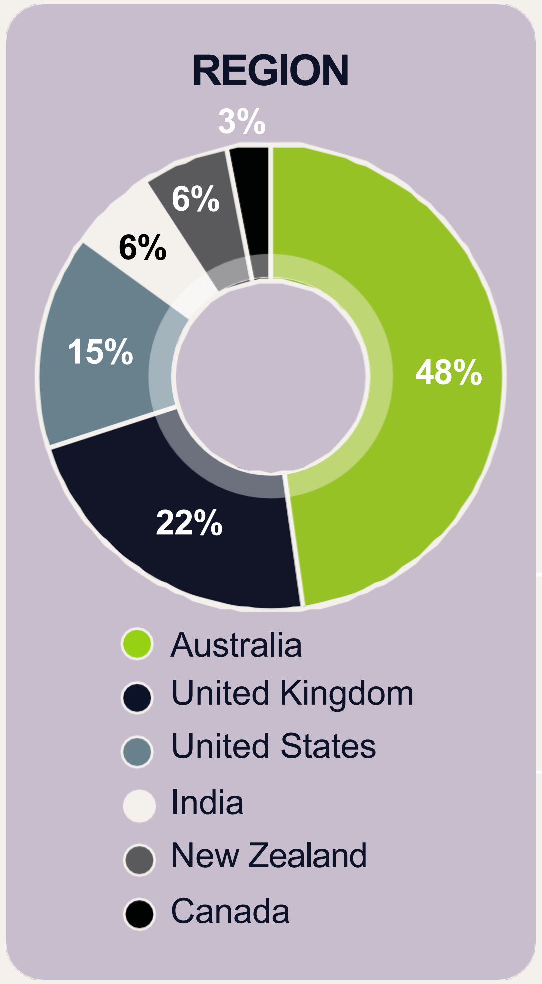
Forward-thinking firms are now adopting a hybrid workforce model, amalgamating in-house and outsourced talents, to propel efficiency and growth despite the headwinds.

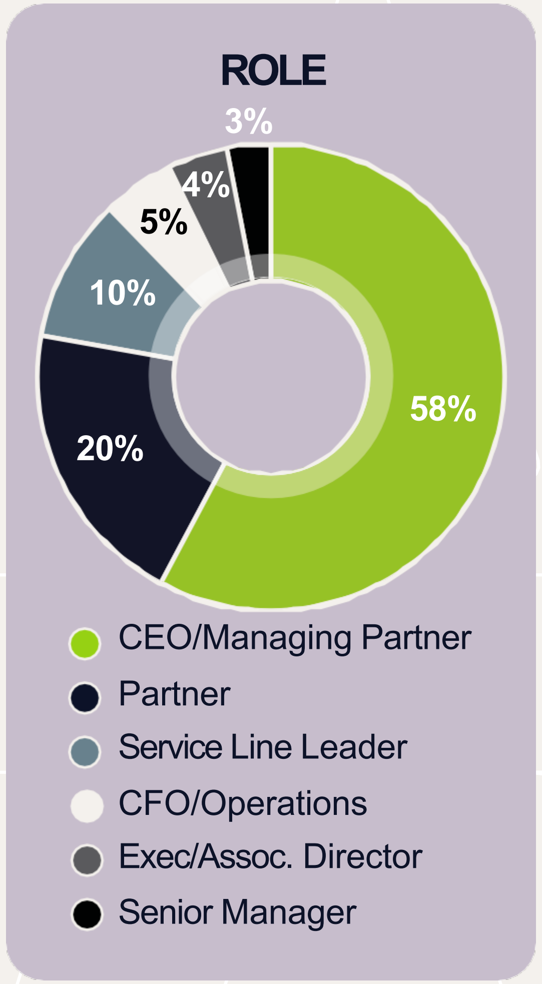
Demographics And Representation











The data in this report is based on a unique survey conducted by AdvanceTrack and Smithink between February and March 2024. Respondents included 280 individuals from 6 continents, with the majority from the United Kingdom and Australia. Post-survey interviews were also conducted with selected respondents.

Results:
The survey questions and calculation are not a perfect science and could impact results. However, a pre-test was conducted to ensure the best opportunity to gain insights.

Analysis:
All data provided was collected, calculated and included in this report. The analysis is based on our best understanding and assumptions (including from expert opinion). Other reasons/rationale may also exist.

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