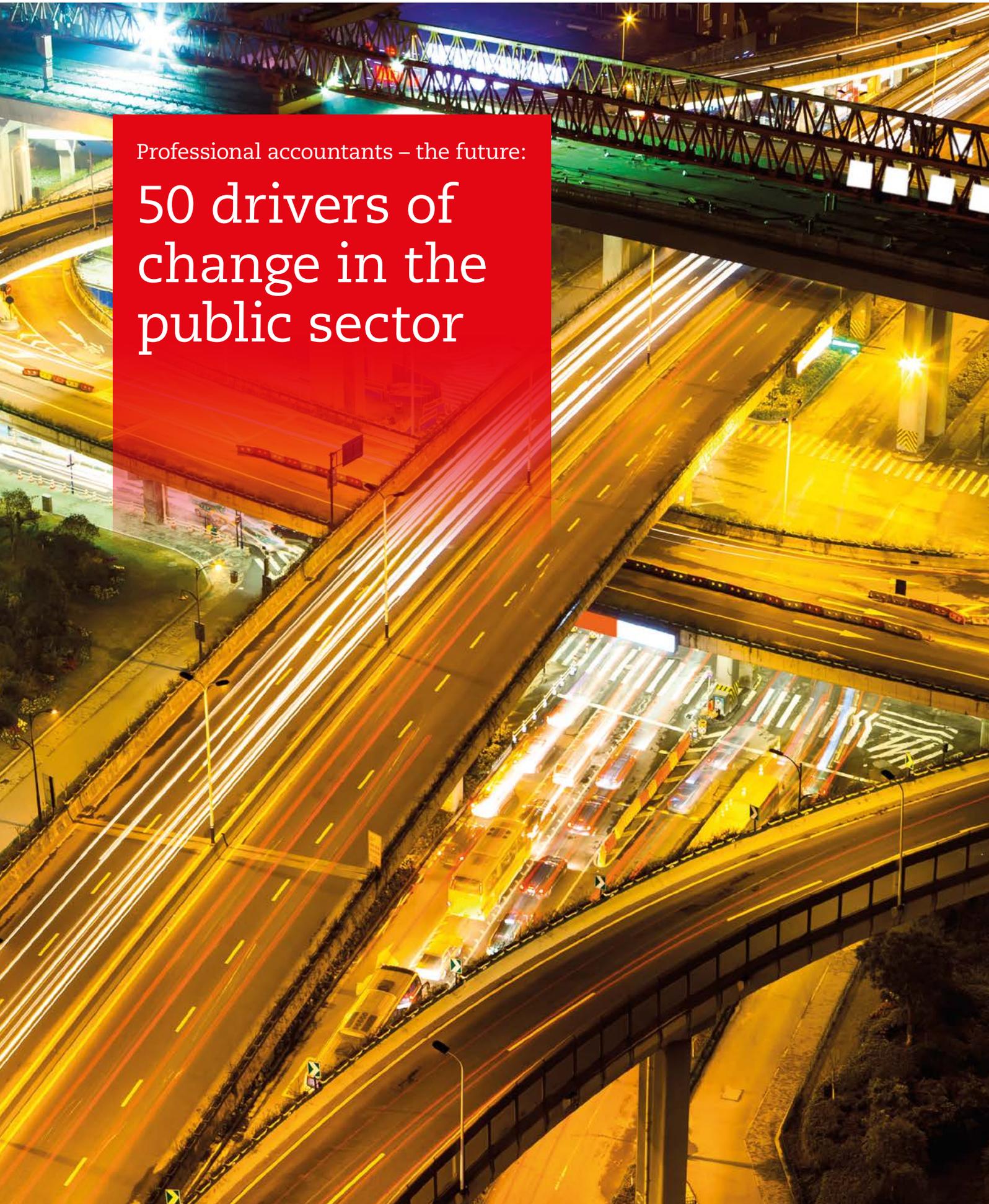


Professional accountants – the future:

50 drivers of change in the public sector



About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. It offers business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

ACCA has **188,000** members and **480,000** students in **178** countries – **64,000** currently working within the public sector. ACCA supports all its members and students to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of **100** offices and centres and more than **7,110** Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. It believes that accountants bring value to economies in all stages of development and seeks to develop capacity in the profession and encourage the adoption of global standards. ACCA's core values are aligned to the needs of employers in all sectors and it ensures that, through its range of qualifications, it prepares accountants for business. ACCA seeks to open up the profession to people of all backgrounds and remove artificial barriers, innovating its qualifications and delivery to meet the diverse needs of trainee professionals and their employers.

In June 2016 ACCA formed a strategic alliance with Chartered Accountants Australia and New Zealand (CA ANZ). The alliance represents the voice of 788,000 members and future professional accountants around the world, who share the commitment to uphold the highest ethical, professional and technical standards.

More information is available at: www.accaglobal.com



Part of our ground-breaking *Professional accountants – the future* series, this is the first report to focus exclusively on identifying the 50 drivers of change that are expected to have an impact on the public sector and the likely timing of these, and assess how professional accountants will need to continue to play a pivotal role in the decade ahead.

The public sector is as complex as it is diverse and it is not the same in any two countries. What is considered to be part of the public sector often varies from one country to another.

The global public sector is changing. The public sector landscape will continually be reshaped by a combination of factors: a growing and ageing population, the need for better infrastructure and continuous concerns over sustainability and consumption. There is also increasing demand for greater transparency and accountability for public funds. These challenges are also heightened by advances in technology and by economic and political uncertainty. In a shifting social and economic environment, all these factors will have serious consequences for public sector organisations and their finance professionals.

The public sector is as complex as it is diverse and it is not the same in any two countries. What is considered to be part of the public sector often varies from one country to another. For example, in some countries, such as the UK and Scandinavian countries, healthcare is deemed to be a public sector function, while in some others it is a hybrid between the public and private sectors.

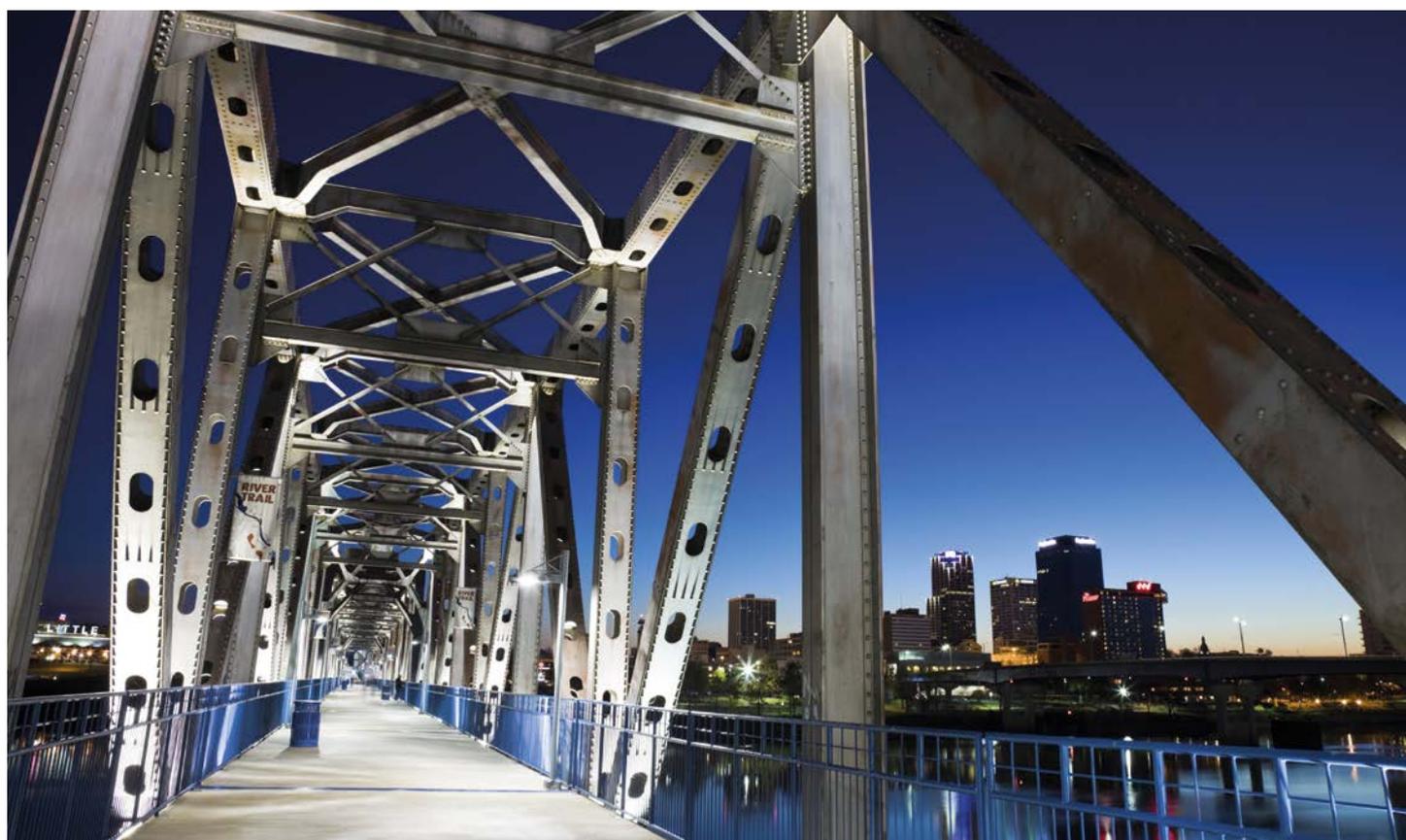
For professional accountants working in the public sector there is a twofold challenge. First, they need to understand the key forces shaping the future and

how these could affect public sector organisations and the country they serve. Secondly, they need to provide support and influence financial decisions that will ensure that public funds are deployed most cost-effectively and efficiently, not just at present but also in the future.

To help professional accountants and leaders in the public sector prepare for an uncertain tomorrow, ACCA undertook a global study to explore which emerging drivers of change could have the biggest impact and to highlight the skills that will be required over the period to 2026.

This report is part of our ground-breaking *Professional accountants – the future* series and is the first report to focus exclusively on identifying the 50 factors that will impact the public sector and the likely timing of these, and to assess how they will shape the future.

This study draws on a survey of ACCA's global forum for its public sector, ACCA members, and members of other professional accountancy bodies working in the public sector. This was complemented with a series of roundtable events held across 12 countries from the US in the west through to China in the east and high-level interviews with key public sector figures.



Governments have a crucial role in seeking to understand what will drive change and assessing the potential impact that global changes will have in a local context.

There are many drivers influencing change. Some of these changes are caused by the increasing and ageing population, which will generate a need for better infrastructure and enhanced public services. Other drivers are linked to the availability of public services and the opportunity, created by advances in technology, to transform public services to be more citizen-focused. Collectively, they are making the public sector environment fluid and forcing it to innovate and evolve.

The 50 drivers of change are ranked on Table 1 and the top three drivers are identified for each of the eight categories of relevance: the economy; politics and law; society and demographics; business of government; science and technology; environment, energy and resources; the practice of accounting; and the accountancy profession, are identified.

The top three (ranked) drivers of change for each of the eight categories identified were:

ECONOMY

- 1 The level of economic growth
- 7 Stability of the global economic infrastructure
- 9 Stability of national revenue bases

Most public sector leaders and managers have been accustomed to a period of strong economic growth, but growth is now slowing. There is a real question as to whether the world is entering a new phase where low growth will become the norm. Therefore it is unsurprising that the level of economic growth was ranked the top driver of change. Indeed the top 10 drivers featured three were identified from the category.

The global economy, trade and financial flows are dependent on a complex infrastructure that comprises a range of key agreements, standards, systems, checks,

balances and governance frameworks. Shocks to these will have a profound impact on government, affecting its ability both to manage the effects in the wider environment and to provide public services. This was ranked 7th in the top 50 drivers of change.

Given the interconnectedness of economic growth and the stability of national revenue bases it is predictable that this should be ranked in the top ten drivers (9th). Stable national revenue bases are considered a prerequisite for the economic well-being of countries, as this stability affects governments' ability to provide public services. Generally, government revenues are derived from direct taxes paid by households (mainly personal income tax) and corporations; and indirect taxes, social contributions and revenues from state-owned assets and enterprises.

POLITICS AND LAW

- 22 Governance and provision of outsourced public services
- 24 Level of international political volatility
- 26 Focus of global governance institutions

The public sector is evolving to deliver services in the most effective way within the constraints of available public finances and outsourcing is increasingly being used. One of the challenges in outsourcing public services is ensuring that there are suitable and adequate governance arrangements for contracts and contract management.

Over 70% of survey and roundtable participants identified the continuous volatility of global politics as a driver of change. A similar number agreed that global institutions such as the World Bank, World Trade Organization (WTO) and United Nations (UN) could influence the emerging new world order and its response to the pace of global change.

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50 drivers of change in the public sector

Table 1: Ranking of the 50 drivers of change for the public sector

RANK	DRIVER	CATEGORY
1	The level of economic growth	Economy
2	Quality and availability of the global talent pool	Business of government
3	Business leaders' responsiveness to change and disruption	Business of government
4	Use of Public Private Partnerships (PPPs)	Business of government
5	Big data: the development and exploitation of large organisational databases, data mining and predictive analytics	Science and technology
6	Non-financial information and integrated reporting	The practice of accountancy
7	Stability of the global economic infrastructure	Economy
8	Cybersecurity challenges for government	Science and technology
9	Stability of national revenue bases	Economy
10	Spread of diversity in society and the workplace	Society
11	Workforce age structure	Society
12	Experimentation with and adoption of new business models	Business of government
13	Balance between external financial accounting and internal managerial accounting	The practice of accountancy
14	Clarity in financial reporting and defining the audit function	The practice of accountancy
15	Competition for limited natural resources	Environment, energy and resources
16	Defining the scope of the accountant's role	The practice of accountancy
17	Speed and duration of business cycles	Business of government
18	The digitisation of work	Science and technology
19	Accounting skills capacity in transitional economies	The accountancy profession
20	Flexibility, suitability and cost of accountancy training	The accountancy profession
21	Global climate change	Environment, energy and resources
22	Governance and provision of outsourced public services	Politics and law
23	Extent of foreign direct investment in developed and developing economies	Business of government
24	Level of international political volatility	Politics and law
25	Scale and distribution of global population growth	Society
26	Focus of global governance institutions	Politics and law
27	Level of entrepreneurial skills in the accountancy profession	The accountancy profession
28	Public perception and attractiveness of the accountancy profession	The accountancy profession
29	Manageability of national and international debt	Economy
30	Societal expectations and definitions of accounting	The accountancy profession
31	Scale of take-up in alternative energy by organisations	Environment, energy and resources
32	Rate of democratic transition	Politics and law
33	New industries and production models	Science and technology
34	Carbon tax and other environmental market mechanisms	Environment, energy and resources
35	Adoption of integrated systems thinking to manage business complexity	Business of government
36	Evolution of corporate governance regulation and practice	Business of government
37	Size and complexity of the CFOs remit	The practice of accountancy
38	Broadening measurement of public sector value and progress	Economy
39	Cost and ease of access to higher education	Society
40	The workplace expectations of Generation Y, Z and beyond	Society
41	Opportunities arising from adoption of global regulation	The practice of accountancy
42	Consideration of alternative economic perspectives	Economy
43	Enterprise risk management capability	Business of government
44	Level of investment required to maintain national physical infrastructure	Economy
45	Scope and diversity of expectations of external stakeholders	Business of government
46	Adoption of globally accepted accounting standards	The practice of accountancy
47	Total scale and distribution of global inequality and unmet needs	Economy
48	Crowdsourced funding for innovation: the consumer as investor	Business of government
49	Pressure to manage reputation as part of business strategy	Business of government
50	Advances in genetic science, impact of nanotechnology advances and robotic science across business sectors	Science and technology

The challenges of managing and addressing the needs and expectations of a multicultural, global and age-diverse workforce and the wider population will become ever more complex.

SOCIETY AND DEMOGRAPHICS

10 Spread of diversity in society and the workplace

11 Workforce age structure

25 Scale and distribution of global population growth

The spread of diversity in society and the workplace, whether it be increased female participation in the workforce or the rapidly ageing population and financial pressures making people work on into their late-60s, 70s or 80s (particularly in Western countries), and the resulting implications for workforce age structure, were highlighted as the top two drivers under the 'society' category. ACCA's *Generation Next* report highlights the particular challenges for the public sector as 76% want to leave the sector but only 14% want to work in the sector.

Expectations of the scale and distribution of global population growth is also emphasised as a critical social driver for the

public sector. The challenges of managing and addressing the needs and expectations of a multicultural, global and age-diverse workforce and the wider population will become ever more complex.

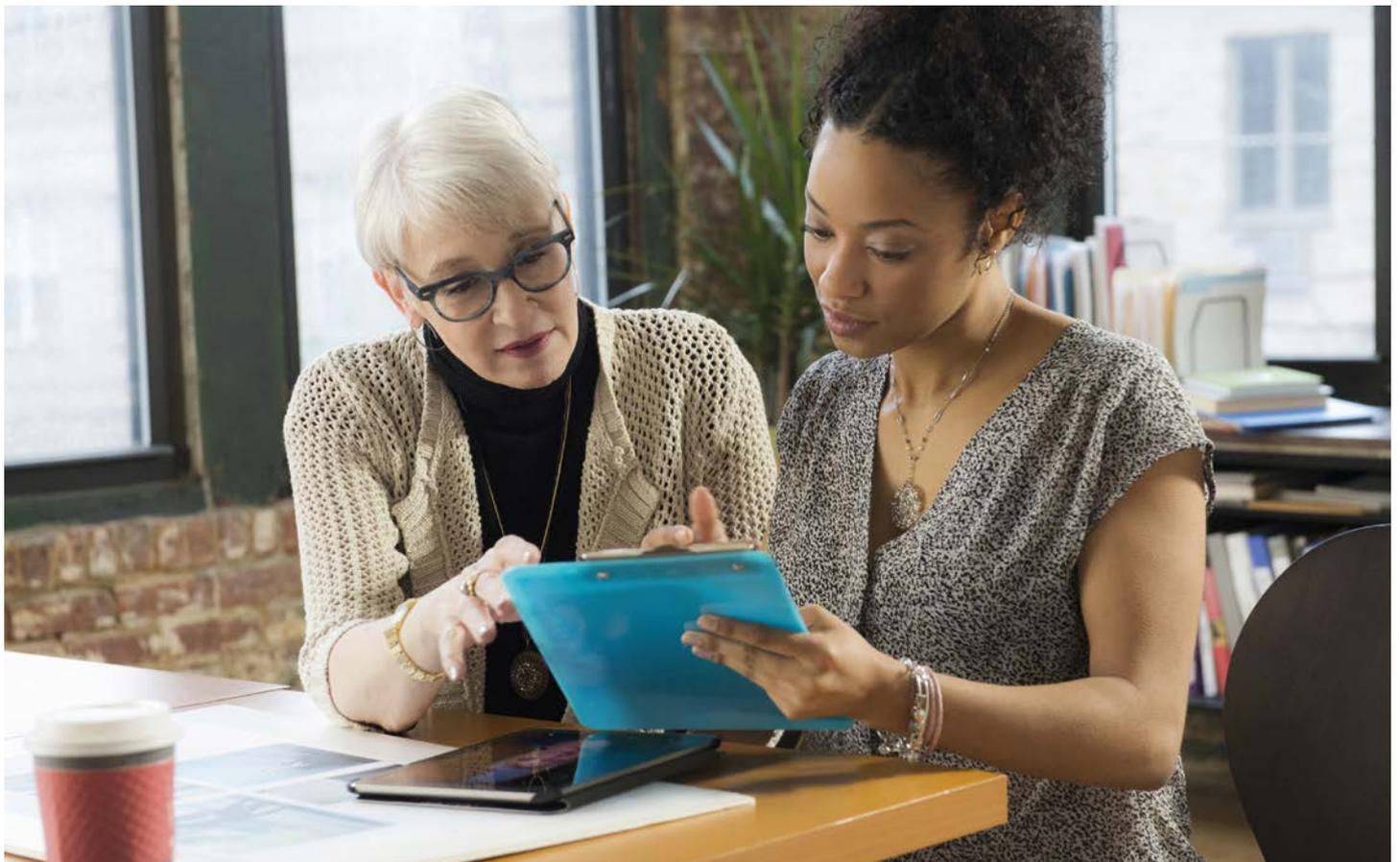
BUSINESS OF GOVERNMENT

2 Quality and availability of the global talent pool

3 Business leaders' responsiveness to change and disruption

4 Use of Public Private Programmes (PPPs)

The three drivers that relate to the ways in which government organisations conduct their business take the second, third and fourth ranks among the critical drivers. Respondents considered the global talent pool to be the second most critical driver for the public sector for the period 2017–2021 and there was also a clear emphasis on the critical role of public sector leaders' attitudes to change and the level of business complexity, followed by the use of PPPs.



With the vast volume and variety of data that governments hold and the speed with which it accumulates, they will need to ensure that they have adequate measures in place to deal with the evermore sophisticated and unrelenting nature of cyberattacks.

SCIENCE AND TECHNOLOGY

5

Big data: large organisational databases, data mining and predictive analytics

8

Cybersecurity challenges for government

18

The digitisation of work

Technological advances offer huge opportunities for government. Big data analytics allow governments to map demographic changes, allowing better preparation for the services required in the future. Predictive analytics is increasingly used to influence behaviour, both to prevent problems and to anticipate change. With the vast volume and variety of data that governments hold and the speed with which it accumulates, they will need to ensure that they have adequate measures in place to deal with the evermore sophisticated and unrelenting nature of cyberattacks. At the same time, digital advances also present opportunities for governments to design services that are citizen-focused. Both cybersecurity and the digital services will require significant investment and a rethink of the traditional functions of government departments, which will need to come together and assess how public services are provided in a more holistic and technology-enabled way.

ENERGY, ENVIRONMENT AND RESOURCES

15

Competition for limited natural resources

21

Global climate change

31

Scale of take-up in alternative energy by organisations

The need to sustain rising populations and fuel economic growth must be balanced against the planet's finite resources. There are two impacts that the public sector needs to consider.

First, it will need to consider the impact of increased population and economic growth on the environment and the citizen, and to put mitigations in place. Environmental concerns will also mean that budgeting and accounting within the public sector will increasingly have to take into account factors linked to natural capital.

Second, the public sector will need to consider the environmental impact of public services. This may involve factoring extra costs into government budgets for new areas, areas such as stronger flood defence mechanisms and research into the impact of rises in temperature on the country's eco-systems.

At the same time, governments worldwide are grappling with the potential of renewable sources of energy and have been exploring the potential of diversifying away from heavy reliance on fossil fuels. This is a complicated area for governments and one that requires an integrated approach involving engagement between government and industry and between governments around the world.

THE PRACTICE OF ACCOUNTING

6

Non-financial information and integrated reporting

13

Balance between external financial accounting and internal managerial accounting

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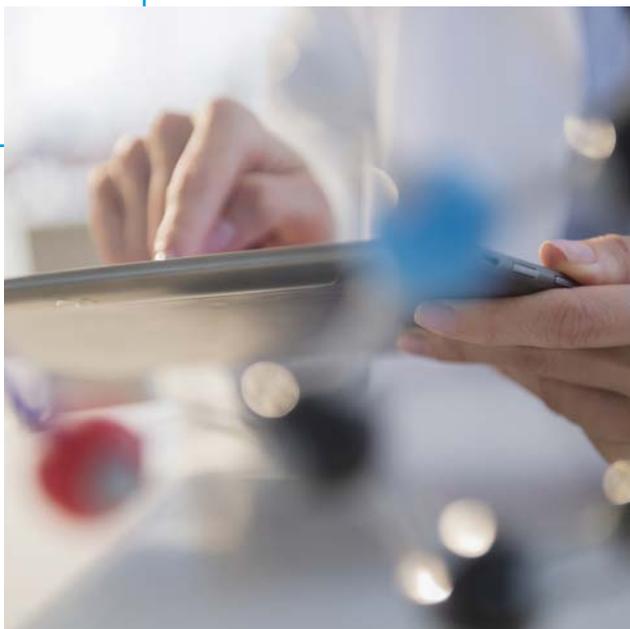
Clarity in financial reporting and defining the audit function

Financial reporting in the public sector varies globally. Some countries meet global standards of advanced financial reporting while others are grappling with reporting the cash position (cash accounting.) High-quality financial reporting is a prerequisite to building and maintaining trust and ensuring that limited funds are used economically, efficiently and effectively.

There has been growing realisation that traditional financial reporting provides insufficient information for decision-making. Integrated reporting (<IR>) goes

A constant challenge for accountants is striking the right balance between external financial reporting requirements and internal managerial accounting.

further than assessing the financial resources previously captured on the balance sheet to include other resources that are less easy to measure, such as human, natural, and intellectual capitals, which have a bearing on the value of an organisation. As a result of these considerations, <IR> is being championed by many accountancy bodies and public bodies as the way forward.



A constant challenge for accountants is striking the right balance between external financial reporting requirements and internal managerial accounting. Both are expected to become more demanding and complex over time. Respondents often cited the level of complexity and expense (especially in countries where there are constant challenges with capacity and capability in this area) as a big challenge, and questions were raised as to the value of the information gleaned from it.

As the practice of public sector accounting evolves, it is important to note the distinction between the audit function and the financial reporting function. Both have a crucial role in providing greater accountability to the citizen: the preparation of the accounts is enhanced by having an independent audit review conducted on them.

THE ACCOUNTANCY PROFESSION

19

Accounting skills capacity in transitional economies

20

Flexibility, suitability and cost of accountancy training

27

Level of entrepreneurial skills in the accountancy profession

The adoption of either International Financial Reporting Standards (IFRS) or International Public Sector Accounting Standards (IPSAS) by countries is an important step in demonstrating transparency to citizens and other stakeholders.

Accounting skills, however, vary from country to country, particularly in the public sector. To implement IFRSs or IPSASs (either cash or accruals), the public sector requires finance people of the right calibre with professional accountancy training (or to build the capacity and capability to develop them) and an understanding of the public sector landscape and how government works.

There is an overwhelming case that the public sector will require more accountants, but they will now be required to fulfil the growing need for accountability and transparency, as well as providing better financial insights to help public sector organisations to meet future needs that will arise as a consequence of lower economic growth, continued commercialisation of public services (through the use of PPPs or public finance initiatives (PFIs)) and population growth.

With these changes in mind, public sector accountants are being asked to take on a broader strategic and entrepreneurial role – as they are now becoming the bridge between the public and private sectors.

In a constantly evolving global landscape, the public sector finance function will need to play a pivotal role. It must lead the public sector in managing challenges – both current and those on the horizon.

In this constantly evolving global landscape the public sector finance function will need to play a pivotal role. It needs to help lead the public sector to effectively manage both the challenges of the day and those on the horizon.

TECHNOLOGICAL ADVANCES

Will replace routine low value activity and give the finance function more time to focus on greater interpretation and understanding of the numbers, and to identify trends and their impact.

A SMALLER FINANCE FUNCTION

The level of economic growth, which respondents ranked the top driver for change, will continue to impact the public sector. In many parts of the world public sector spending has been reducing, resulting in lower staff numbers. As part of this trend, the finance function will become lean too.

GREATER COMMERCIAL FOCUS.

Increasing collaboration between public sector and the private sector (through outsourcing or PPPs) will require governments to be more commercial in their outlook and approach. The finance function will be at the heart of this.

QUALITY AND QUANTITY OF INFORMATION

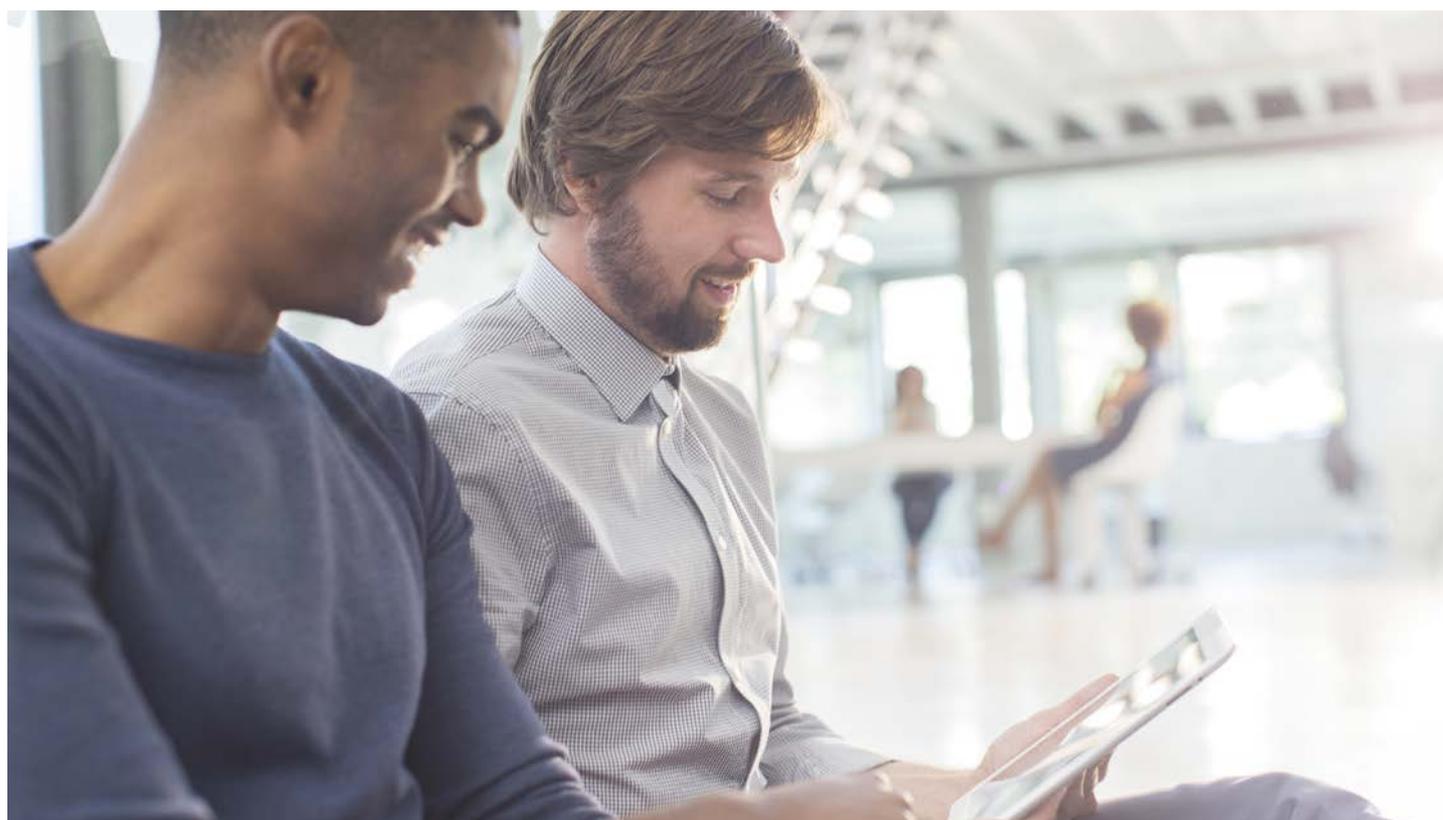
The citizen is becoming more demanding of the availability and quality of public services delivered. There is a thirst to understand where and how public funds are used. This is a key area for finance professionals to add value.

GREATER AGILITY

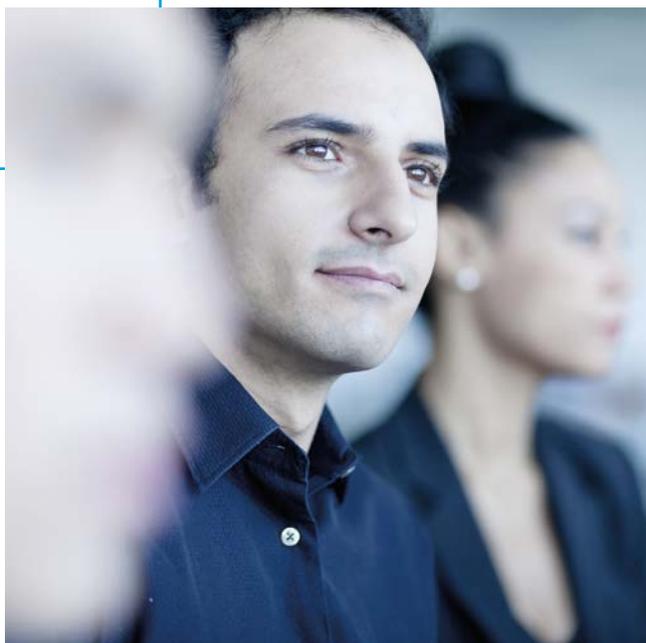
In an ever changing often ambiguous environment, the public sector and finance function will need to become more agile and adept at operating effectively. This is not an easy task given government legacy structures and bureaucracy.

VISIONARY, MORE RESPONSIVE AND LESS REACTIONARY

The unique perspective provided by a deep understanding of the organisation through visibility of the funds flow, gives finance a big advantage. This, together with the breadth in the training required to become a qualified professional accountant, makes them ideally suited to step outside the narrow 'number-crunching' role sometimes associated with the finance function. Active risk management and broader understanding of the link between financial data and operational performance will also be increasingly needed.



New disruptive thinking is required that allows for modern models of service delivery that are scalable, while placing the needs of citizens at the core.



INNOVATIVE AND CREATIVE THINKING

The finance function will need to be more innovative in its approach to managing public service delivery. Operating in a period of reducing public spending will need innovative and creative thinking to continue to provide public services that best meet the needs of the citizen. The typical approaches of efficiencies via budget cuts

is not enough. New disruptive thinking is required that allows for modern models of service delivery that are scalable, while placing the needs of citizens at the core.

ACHIEVING A BALANCE BETWEEN THE SHORT TERM AND THE LONG TERM

There will always be short term pressures in the public sector that will have to be managed. But these should not be at the expense of long term strategic thinking. The finance professional can add value by providing information to help decision makers gain a sense of perspective. This ensures that focus and energy is devoted on macro-issues that are of the highest importance.

Therefore the finance function in the public sector will become leaner but more focused delivering high value insight that draws together a broad range of data. It will need to be responsive to short term pressures but focus on long term strategic (macro) value. It needs a forward-looking learning culture, remaining on top of the professional accountancy best-practice as well as embracing insights across sectors (eg commercial skills from the private sector) and regions.

FINANCE SKILLS IN THE FUTURE

The professional accountant working in the public sector will need to upskill in the evolving public sector landscape. They will require a mix of technical and behavioural skills.

Strong technical skills

Strong technical accounting skills will remain the foundation for the professional accountant. These range from technical financial reporting knowledge to forecasting, operations management, budgeting and planning including scenario planning, to driving enhanced performance management and many others acquired through the qualification.

Professional Judgement

The professional accountant will need to demonstrate good judgement in the analysis and interpretation of data (financial and non- financial) and to convert this into meaningful insight for the organisation. In a public sector context this is even more of a challenge where it is not as easy to assess the impact of government spending in a linear or strictly numeric way.

Communication Skills

Traditionally, professional accountants have not always been seen as good communicators. The ability to explain complex financial issues clearly and concisely is an increasingly important skill. In a time-poor environment the professional accountant will need to embrace modern media to present complex information in an engaging and compelling way.

Leadership skills

Good leadership skills such as influencing, persuasion, building networks, emotional intelligence, and greater self-awareness are required now and in the future.

The professional accountant is part of a team and the importance of good and effective team-working must not be underestimated. To become an effective 'business partner' the professional accountant will need to influence and persuade a range of stakeholders.

Vision

The successful professional accountant of the future will need to be able to see interconnections and explain the 'big picture'. Having a professional accountancy qualification provides a unique lens that the professional accountant can use to navigate their way through complex data sets and to turn this into insight that can drive the organisation forward.

The public sector needs professional accountants now, more than ever, to improve public services to meet the needs of the citizen, and ensure good public financial management. This needs to be done sustainably, to meet the needs not only of the current generation but, importantly, also for future generations.

The professional accountant in the public sector needs to ensure they are equipped with the right mix of awareness of the factors that are driving changes in the sector and skills to be able to successfully rise to the challenges and/or maximise opportunities.

The changing economic environment, political landscape, societal changes such as the rising and ageing population all impact on the public sector. These will invariably impact the level of public services required. The public professional accountant will need to be alert to macro issues and be able to consider these in the finance advice.

Public service delivery is changing too through increased collaboration with the private sector and digital agenda. These create an opportunity to rethink existing public service delivery models but the risks associated must be managed. For example the threat of cyber-attacks and risk that public services are not delivered to the appropriate standards. Such risks will need careful management to ensure public funds are used effectively, efficiently and economically. The practice of accounting and the accountancy profession is also changing and will have an effect on the professional accountant. The professional accountant must maintain their continuing professional development requirements if they are to remain up to date on current and future changes such as integrated reporting.

It is also important for employers and professional accountancy bodies to provide the infrastructure to support the development and training of public sector professional accountants.

To be fully effective the public sector professional accountant will need to develop new skills. At the foundation they will need to have good professional skills with a strong ethical core running through all their professional interactions. They must exercise great care and judgement, fully considering all aspects of the relevant information and apply their professional skills as an accountant and business knowledge via an understanding of their

operating environment. They will need to have excellent communication skills, sifting the golden nuggets from masses of data and presenting this in a clear concise way that connects with the audience. Proper planning and preparation for these meetings will be crucial to achieve the desired outcomes. They will need to demonstrate leadership and management skills – learning to operate as a wider team of professionals each with unique core skills and to lead in often challenging circumstances. In summary, the public professional accountant of the future will need great vision to be able to fully support the organisation today and steer it through the changing landscape on the horizon.

The professional accountant in the public sector has a unique opportunity to serve the community they live in and make a tangible difference to people's lives through better public financial management to provide: schools, roads, hospitals, transport links and public services: education, welfare support and health care support. To do this well the public professional accountant needs to be able to successfully navigate through all the drivers of change to ensure public funds deliver value for money public services. The public sector needs professional accountants now more than ever to help deliver better public services that meet the need of the citizen, delivers value for money and provides good public financial management. This needs to be done in a sustainable way, not only for the current generation but for future generations too.

A PLATFORM FOR ENGAGEMENT

The aim for this global project is to provide a platform for engagement between public sector organisations, professional accountants and the wider community of stakeholders. No future-oriented work of this type can ever hope to be definitive, but this report provides an important input into the development of future public sector strategy. It provides accountancy professionals, and the organisations in which they work, with a framework for preparing for, adapting to and influencing change.

