

ICAEW



CENTRAL EASTERN AND SOUTH EASTERN EUROPE REGIONAL CONFERENCE
26–27 January 2012 – Sinaia, Romania

**THE ROLE AND STRUCTURE OF PROFESSIONAL BODIES:
CURRENT AND FUTURE CHALLENGES**

A roundtable discussion prepared by ICAEW and hosted by CECCAR



BUSINESS WITH CONFIDENCE


icaew.com

On 26 and 27 January 2012, over 20 professional body accountancy organisations from Central and South Eastern Europe came together in Sinaia, Romania, for an interactive discussion on the current and future roles and structures of professional bodies.

The roundtable, designed and chaired by ICAEW, was generously hosted by CECCAR and also benefitted from the input of senior representatives from the World Bank, IFAC and FEE.

It aimed at generating discussion on the strategies which professional body accountancy organisations can pursue in order to address current and future challenges.

The key overriding question addressed by the roundtable was:

 How can professional bodies develop strategies to ensure their continuing relevance and contribution to markets and the public interest?

In contrast to many recent debates on changes in the profession, the roundtable placed the professional bodies themselves at the very centre of the discussion. It highlighted that proactive strategies are essential for professional bodies to overcome external challenges and retain and enhance their current roles.

This document summarises the key elements of the discussion with the intention of encouraging feedback and facilitating take-up by the participating professional body accountancy organisations of the ideas raised during the roundtable. The document is also designed to inform other professional body accountancy organisations which have an interest in the issues raised and which may wish to submit views and participate in the follow-up. All feedback received will be considered in the planning of a second roundtable in 2013.

Comments on this document and on the planned 2013 follow-up roundtable should be addressed to the ICAEW Europe Region Office.

Martin Manuzi
ICAEW Europe Region
Rue de la Loi 227
1040 Brussels
Belgium

T +32 2 230 32 72
E europa@icaew.com

OVERVIEW: AIMS AND OUTCOMES

The roundtable was designed on the basis that professional bodies cannot remain passive observers of external change but must both actively adapt to and try to shape change. A culture of 'strategic planning' is needed to do this. Professional bodies are not businesses, yet they must adopt a more 'business-minded' approach to defining and implementing strategies if they are to continue to fulfil their economic and societal roles.

To this end, discussion focused on the benefits to professional bodies of defining a strategic vision for their longer term development, analysing structural trends and outlining steps to take to meet the changing needs of practitioners, markets and regulators. Governance reforms, implementation of effective resource planning and investment in the development of infrastructure are also needed. Without sufficient attention to such matters, it was concluded that professional bodies will struggle to maintain relevance and credibility.

The roundtable was designed to allow professional bodies from different countries to share experiences – both positive and negative – on how they are adapting to current and anticipated future challenges. Formal presentations and interventions provided examples of significant 'success stories', where professional bodies had proactively taken steps to overcome challenges. But participants also explored initiatives

which had failed to achieve some or all of the anticipated objectives, and identified on-going challenges which have not received sufficient attention to date. The discussion also brought out the benefits of greater cooperation between national bodies to share technical resources and take advantage of greater economies of scale.

The discussion covered four areas.

1 STRATEGIC DIRECTION

What are the most serious strategic challenges facing professional bodies today which, if not addressed, could undermine their current relevance and long-term future?

2 REGULATION

How can the profession retain an appropriate regulatory role and relationship with oversight authorities?

3 EDUCATION AND TRAINING

How can professional bodies continue to attract the quality intake of students which is critical to the profession's future?

4 TECHNICAL AND OTHER SERVICES TO MEMBERS

How can professional bodies develop relevant technical and other services to assist members to work to the highest professional standards?

In these areas, the roundtable identified specific challenges and generated ideas to address these challenges.

KEY OBSERVATIONS AND CONCLUSIONS

A number of key observations and preliminary conclusions can be drawn from the discussion. These are intended to provide a stimulus for professional bodies to consider the development of strategies which fit their own environments and needs, which can be discussed at the planned 2013 roundtable.

- The degree of external change is such that professional bodies will struggle to maintain relevance unless they engage in proactive, medium-term strategy development encompassing internal organisation, member base, products and relationships with other market actors and public authorities.
- The development of new services, building on the core strengths of the profession, is needed to address the trend towards reducing requirements for statutory audit and to maintain the relevance of professional bodies to the market and public interest. Broader engagement of the professional bodies and their members in wider economic activities, including the public sector, can enhance the perception of the relevance of bodies and help to attract and retain new entrants to the profession.
- A wider remit for bodies currently focused on statutory audit, or the cooperation or merger of such bodies with other professional bodies operating in distinct service areas, can result in a more sound financial basis from which to invest in medium-term strategic development.
- There is potential for professional bodies to cooperate more internationally to mutual benefit in a range of different domains, from sharing regulatory experience, education and training expertise to the development of technical services, as well as in the positioning of professional bodies towards market stakeholders, oversight bodies and governments.
- Investment in infrastructure for carrying out regulatory responsibilities is essential to maintaining the confidence of oversight authorities in their ability to delegate to professional bodies.
- Securing and retaining high quality entrants into the profession requires investment in syllabuses, new technology, flexibility, interaction with universities and an appreciation of student expectations and the skills required by the market.
- Investment in the provision of technical services and related areas is essential to maintain the relevance of the bodies in the eyes of members and external parties.

As an overall theme, it was noted that while cross-border interaction between professional bodies can be enhanced in a number of areas to achieve economies of scale, the development of national capacity remains important because of the jurisdiction-specific nature of many of the activities of the profession.

1 STRATEGIC DIRECTION

“ What are the most serious strategic challenges facing professional bodies today which, if not addressed, could undermine their current relevance and long-term future?

This question set the context for the roundtable discussion as a whole. A number of critical challenges resulting from regulatory trends and other market developments were identified which have already had, or are expected to have, a major impact. As illustrated in the intervention by FEE, the professional bodies have different traditions which continue to influence how they view their future role and structure and how they react to external challenges.

The concept of what a professional body could or should do was frequently raised by participants as a key strategic challenge, for example, in relation to the scope of a professional body's activities and what it can legitimately achieve in the wider economy and society.

Internal perceptions – what the leadership of professional body itself thinks – as well as external perceptions and legislative constraints were identified as key determinants in the development of strategy. In some cases, internal perceptions may be too limiting and could be reviewed in the light of broader international practice.

Exchanging experiences across countries can also provide a stimulus for bodies to develop innovative solutions and structures to address challenges in their own national contexts. Interaction with users of the profession's services could also help the development of such strategic plans.

A number of specific challenges were identified during discussion.

- The regulatory trend in many countries towards removing the audit requirement for small companies which most directly impacts bodies with a statutory audit remit.
- The consequent decline in the number of registered auditors in many countries, through the de-registration of auditors and/or the reduction of new admissions to the audit register, in some cases causing a severe demographic challenge for professional bodies.
- The growing role of oversight bodies in regulating and monitoring the profession, assuming roles previously undertaken by professional bodies.
- In some cases, there is an excessive fragmentation of the profession and separation along functional lines is difficult to sustain given the limited market size.
- A widening resource challenge to maintain and develop infrastructure leading to a potential decline in the perceived relevance of professional bodies, particularly on the part of the largest firms and broader market participants.

- Competition from other actors, in relation to provision of services to the market as well as in the recruitment of ‘new talent’.
- The very diverse needs and interests of practitioners working in Small and Medium Practices (SMPs) which constitute the majority of membership in all countries represented.

A number of ideas were identified during the discussion.

- The remit of professional bodies may be wider than statutory audit: support for and registration of members could be pursued in the broader sphere of accountancy, noting the market opportunities in relation to the preparation of financial statements, tax and business consultancy.
- Where national legislation currently restricts the remit of professional bodies, broader international practice can be used to encourage discussion with governments and oversight authorities on reviewing such legislation with potential benefits to markets and the broader public interest.
- Where a broader remit is not possible or desirable, for instance due to the existence of other sector-specific professional bodies, the potential for mergers or formalised co-operation between professional bodies to achieve economies of scale could be considered.
- Specific new products drawing on the core strengths of the profession could be developed, for example in relation to assurance for audit-exempt companies and new forms of reporting such as sustainability.
- Public sector financial management is a key area which would benefit considerably from greater professionalism and financial expertise: professional bodies could usefully develop strategies for engagement with national governments in this sphere, for example in relation to providing specialist qualifications and training tools.
- While requiring investment, a broadening of the remit of professional bodies could help address the demographic challenge of declining numbers of auditors where this is pronounced and ultimately place professional bodies on a more secure financial footing.
- Professional bodies need to invest in promoting and maintaining high quality of service by the membership in both statutory and non-statutory areas.
- Investment in the regulatory functions of professional bodies is necessary to ensure oversight authorities continue to have confidence in the delegation of monitoring and other regulatory responsibilities.

- Pursuing strategies to protect members against competition through restrictive measures on membership from new or non-national entrants would be self-defeating.
- Engagement on key policy issues from a public interest perspective, on regulatory matters as well as broader economic and societal issues, can enhance the perceived relevance of the professional bodies in the eyes of key stakeholders, including the largest accounting firms.
- Professional bodies can proactively seek to contribute to economic growth even under difficult conditions through an advisory role for business and governments, thereby also helping market confidence and the achievement of government policy objectives, for example with regard to fiscal sustainability.

2 REGULATION

How can the profession retain an appropriate regulatory role and relationship with oversight authorities?

This question was pursued in the context of significant regulatory changes that have recently taken place, prompted in particular by EU legislative requirements and the constitution of public oversight bodies in all countries represented at the roundtable. These developments have resulted in a re-shaping or reduction of the roles carried out by many professional bodies, particularly in the quality assurance sphere.

Uncertainty about the direction of new proposed EU legislation has created new challenges. Many professional bodies are seriously considering their 'self-definition' and their overall purpose and role in the regulatory domain. But the starting point is that the profession has a major role in regulation and the public interest. Maintaining this position is a key strategic aim.

Different forms of cooperation across countries with public oversight authorities were discussed – both in relation to the authorities' oversight of quality assurance monitoring by professional bodies and in respect of broader activities, such as education

and training and the provision of technical guidance to members.

In addition to presentations providing different national perspectives, IFAC outlined the broader international developments outside Europe, as well as the expectations IFAC has of its member bodies. The World Bank emphasised the importance of trust and confidence in the operation of markets and the key role that the profession can play.

A number of specific challenges were identified during discussion.

- There are considerable differences in style and approach across countries in relation to the constitution of oversight bodies, the degree of delegation of competences to professional bodies and the involvement of the profession in regulatory design and implementation.
- In some instances, the regulatory architecture is in place but practical implementation lags significantly, due to financial and technical constraints as well as broader political changes.
- In a number of cases, the working relationship between oversight authorities and professional bodies could be improved by a better understanding of the public interest role that professional bodies carry out or could carry out.

- Without clear evidence that the professional bodies are effectively discharging their regulatory activities in the public interest it is likely that the delegation of responsibilities from oversight authorities will ultimately be discontinued.
- The maintenance of high quality monitoring by professional bodies requires investment and in turn a sustainable funding basis which is lacking in some cases at the current time.

A number of ideas were identified during the discussion.

- Professional bodies can position themselves as a more efficient and effective mechanism for quality assurance than the direct involvement of oversight bodies or government authorities, at least for the non-PIE sector.
- High quality monitoring by professional bodies and appropriate reporting and communication can enhance relationships with oversight bodies and build confidence in the continuing delegation of tasks to professional bodies.
- In order to achieve efficient and effective monitoring, a balance needs to be achieved between cyclical and risk-based approaches. Investment in the selection and on-going training of high quality reviewers is also crucial, not least to reinforce the perception of independence.

- Monitoring can be a most effective driver of quality where an appropriate balance is struck between rigorous assessment and the provision of support, detecting difficulties early and seeking to prevent problems where possible. Including an educational component in monitoring visits can be beneficial, using findings to provide learning outcomes to improve quality, as opposed to relying solely on disciplinary mechanisms.
- Monitoring outside statutory areas can also strengthen the credibility of the profession's provision of services and can enhance the market position of the profession towards other market actors.
- Sharing of broad expertise on monitoring and regulation across borders could provide significant benefits to the development of regulation in some countries, particularly those where resources are limited. However, regulation does need to reflect national circumstances: capacity development ultimately has to take place at a national level.

3 EDUCATION AND TRAINING

“ How can professional bodies continue to attract high quality students who are critical to the profession’s future?

This question was addressed on the basis that high quality people are critical to the profession’s future. Without strategies to ensure the continuing inflow of appropriate entrants to the profession, the relevance, standing and role of the profession will suffer. Professional bodies need to take account of the considerable competition across market sectors for the best students.

The demographic challenge faced by the profession in some countries is severe: the number of entrants is insufficient to replace the number of members approaching retirement during the next 10–15 years. This demographic challenge could be exacerbated further by regulatory trends – notably the tendency to remove the audit requirement for small companies.

In light of the broader external challenges to the professional bodies, participants shared experiences on the war for talent with other market participants and other career paths, noting the significant evolution in student expectations. An international perspective was given by IFAC, with reference also to International Education Standards and developments taking place beyond Central and South Eastern Europe.

Among the key questions raised in this session were: How can the profession draw from a wider pool of talent? How can entry qualifications to the profession be made accessible while maintaining quality? In seeking to address these questions, participants identified potential actions which are either within the direct remit of professional bodies or which require agreement with other parties, including universities, national governments and oversight authorities.

The discussion also addressed the appropriate balance between practical experience and assessment of knowledge in the qualification process, the importance of ethics, and the relationship between professional bodies’ requirements and university curricula. Looking forward, participants considered new forms of partnership working between professional bodies and the adoption of new technologies, in light of changing student expectations.

A number of specific challenges were identified during discussion.

- The war for talent is very different today compared to 10 or 20 years ago. There have been changes to student attitudes towards forms of learning and their relevance, expectations of international mobility and life-long career prospects. There has been a notable move away from making life-long career choices in favour of seeking qualifications which give greater career options and flexibility over time.

- Financial reward is a driver in shaping student choices, but the perception of everyday professional activity is also important: sectors which are seen as becoming more bureaucratic and less market and judgement-based are becoming less attractive.
 - There is a risk that the pool of potential entrants to the profession is becoming too small due to conditions such as pre-qualification entrance requirements, originally conceived as supporting quality but which may now be becoming counterproductive.
 - In many cases, the relationship between university courses and the qualification requirements of professional bodies are not as efficient as they could be, with excessive divergences in approach in tuition style, notably concerning the balance between theoretical and practical training.
 - In many cases, the qualification requirements of the professional bodies overlook key skills required in the workplace, including so-called softer skills, such as presentation or IT skills.
 - The regulatory trend in many countries towards greater audit exemptions for Small and Medium Enterprises (SMEs) reduces the core basis for entrance to the professional bodies structured solely around statutory audit.
 - Maintaining syllabuses and ensuring appropriate tuition requires investment and continual management and monitoring at all levels; this can be difficult for professional bodies to maintain independently.
 - Significant investment is also required to ensure appropriate Continuing Professional Development (CPD) given the constant evolution of standards and introduction of new requirements: in some cases the market environment enables professional bodies to leave the provision of CPD to others but this is not the case for most countries in the region.
- A number of ideas were identified during the discussion.
- Strategic collaboration between professional bodies and universities can help provide a more efficient and effective transition for entrants to the profession, for instance in the accreditation of university courses, the development of joint degree programmes and greater interaction with academia.
 - Widening the pool of appropriate entrants to the profession while maintaining quality can be achieved by attracting students who have completed a so-called non-relevant degree or who have not attended university, where the qualification procedures of the professional bodies are sufficiently extensive and robust.

- In a number of cases, qualifications are designed specifically to meet a number of different stakeholder needs, not only legislative requirements for approval as a statutory auditor. This enables the professional body to position itself as offering a qualification which gives students a variety of career opportunities, meeting a key expectation of many students today.
- Balancing technical knowledge and broader skills within a syllabus, for example through the use of case studies to assess the capacity to implement technical knowledge, can enhance the perceived relevance of the professional qualification.
- By adopting a broader strategic approach to education and training, professional bodies can significantly enhance their roles and relevance: for example, meeting the need for improved public sector financial management by developing an appropriate public sector qualification or cooperating internationally to source core elements for such a qualification.
- E-learning for the entry qualification to professional bodies and for CPD courses could constitute a key development in the future, allowing for cooperation and economies of scale across professional bodies in different countries, in turn enhancing the international mobility of potential members.
- Professional bodies can benefit from actively communicating their business and policy making roles on issues of broad economic relevance, thereby enhancing their attractiveness to potential students.

4 TECHNICAL AND OTHER SERVICES TO MEMBERS

“ How can professional bodies develop relevant technical and other services to assist members to work to the highest professional standards?

This question was addressed in the knowledge that maintaining the reputation of the profession is ultimately dependent on members working to the highest professional standards in an increasingly complex environment. The constant evolution of standards, in addition to changes to legal and other requirements, pose a particular challenge to members working in SMPs and SMEs – a majority of members for all the professional bodies represented at the roundtable. Meeting the needs of these members is a key strategic concern as it is central to members’ perception of the relevance of the professional bodies. More broadly, the performance of professional bodies in this area is critical to the external reputation of the profession.

Providing access to technical updates, best practice guidance, advice on ethical matters and broader services including assistance on soft skills ultimately raises the quality of service provided by members in the marketplace. Ensuring the regular and

accurate provision of such services is critical. Professional bodies can benefit by being seen to provide an appropriate balance between support functions through member services and monitoring and disciplinary functions.

Key questions addressed by participants during this session included: what specific technical materials, advisory services and guidance are currently provided? Where are the gaps? How can they be dealt with? Participants also considered areas of likely future demand from members and the market and the steps that are needed to turn these challenges into opportunities. Attention was directed, in particular through the IFAC contribution, to areas where there are common standards and international reference points which generate expectations regarding consistency across countries.

Other issues raised included the capacity of professional bodies to harness new technologies to disseminate materials more effectively and how professional bodies could source the expertise to generate and provide services. Staff development programmes and the potential pooling of technical resources between different professional bodies were raised as possible ways forward.

Finally, participants looked at how contributions to policy making and broader communications activities can strengthen the market recognition of professional bodies and their members

– thereby strengthening the association between them.

A number of specific challenges were identified during discussion.

- In many cases, the role of professional bodies is currently focused on providing a secretariat function to support the work of volunteers, rather than specialist technical expertise.
- Current funding models prevent many professional bodies from enhancing their technical work and provision of services, at least on a stand-alone basis.
- In many circumstances, appropriate channels for hearing and acting upon the needs of members, particularly SMPs, either do not exist or do not function properly.
- The capacity and willingness of SMPs to pay for additional technical services is uncertain in many cases, acting as a barrier to the development of new services.
- Despite knowledge of broad regulatory trends, in particular regarding audit exemption for small companies, many SMPs in particular remain defensive, preferring professional bodies to seek to protect existing statutory services rather than exploring potential opportunities for new services.

- Attitudes within the broader market, in particular among SMEs, have a significant impact on the openness of the profession to explore potential new services.

A number of ideas were identified during the discussion.

- Strategies to broaden the membership of bodies, or to explore alternative ways to involve other market participants in the work of the bodies, could be beneficial and help widen the funding base.
- Structured and regular discussion with business organisations and other market and investor stakeholders could increase understanding of the value provided by the profession, and act as a channel for developing and launching new services, for example in the area of assurance.
- Subsidising some or all of the costs to adapt or translate key guides and programmes, such as IT programmes for SMEs could raise members' appreciation of the services provided by professional bodies.
- Investment in new communications tools, including social networking and apps, will enhance access to new services and position the bodies as forward-looking in the eyes of members and external audiences.

- Proactive and constructive engagement by professional bodies with government on broad policy issues as well as detailed regulatory matters of direct concern to the profession can enhance perceptions of the role of the bodies. Developing a reputation as a serious adviser, working from a public interest perspective, can bring significant benefits in the medium and longer term.
- Cooperation between professional bodies across borders to find synergies can represent a more cost-effective route to develop technical and other services for members. For example, professional bodies could focus on tailoring services to meet specific national requirements while drawing on a core based on international standards. This could reduce the need to recruit technical staff and so reduce additional costs.

Europe Office

T +32 (0)2 230 3272
E europa@icaew.com
icaew.com/europe

Greater China Office

T +86 10 8518 8622
E china@icaew.com
icaew.com/china

Hong Kong Office

T +852 2287 7277
E hongkong@icaew.com
icaew.com/hongkong

Middle East Office

T +971 (0)4 408 0000 (ext 710000)
E middleeast@icaew.com
icaew.com/middleeast

South East Asia Office

T +65 6407 1554
E southeastasia@icaew.com
icaew.com/southeastasia

Malaysia Office

T +60 (0)3 2171 6022
E malaysia@icaew.com
icaew.com/malaysia

ICAEW is a professional membership organisation, supporting over 138,000 chartered accountants around the world. Through our technical knowledge, skills and expertise, we provide insight and leadership to the global accountancy and finance profession.

Our members provide financial knowledge and guidance based on the highest professional, technical and ethical standards. We develop and support individuals, organisations and communities to help them achieve long-term, sustainable economic value.

Because of us, people can do business with confidence.

ICAEW

Chartered Accountants' Hall
Moorgate Place London
EC2R 6EA UK

T +44 (0)20 7920 8100
F +44 (0)20 7920 0547
E info@icaew.com

 linkedin.com – find ICAEW
 twitter.com/icaew
 facebook.com/icaew