

AuditFutures

*SHIFT*BASE*

A large, vibrant red letter 'A' is the central focus. A metal compass is positioned across the top of the 'A'. The background is a light gray with various faint, technical diagrams, including a DNA helix, a globe, and various geometric shapes and lines.

Navigating the future

RESOURCES FOR REIMAGINING THE FIRM

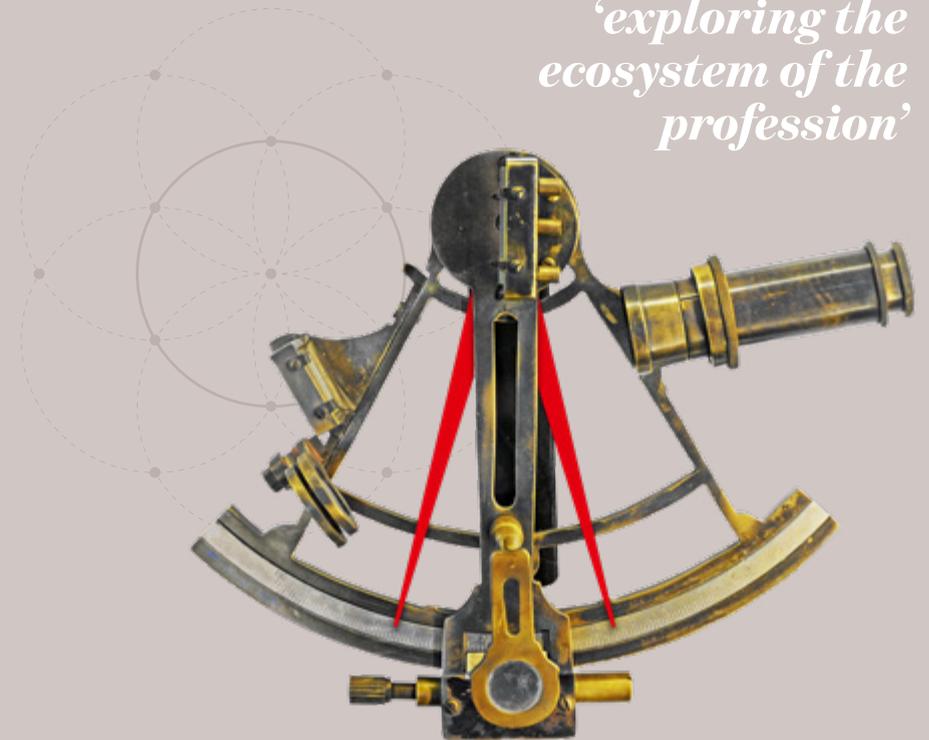
www.AuditFutures.net

About the authors

AuditFutures sprouted as an innovation and foresight programme within ICAEW, seeking to reimagine the profession for the 21st century society. It uses interdisciplinary thinking, design-led processes and participatory meetings. By proactively responding to evolving social needs, technological disruptions and key concerns about the changing nature of professional work, we offer fresh alternatives.

SHIFT*BASE is an insights organisation that delivers analysis, tools, and models to help organisations address the practical challenges of digital transformation and new ways of working. We are dedicated to helping firms of all sizes to create more resilient and adaptable business structures for the 21st century. Our goal is to help reform organisations for the betterment of business and society.

We would like to thank the more than 200 ICAEW members for their support and contributions that have made this project possible. We are delighted that people from a range of firms have taken part in the project, including: BDO, Crowe Clark Whitehill, Deloitte, EY, Grant Thornton, Haines Watts, KPMG, Mazars, MHA MacIntyre Hudson, Moore Stephens, Price Bailey, PwC, RSM, Saffery Champness, Smith Williamson and UHY Hacker Young – and this list is still growing!



‘exploring the ecosystem of the profession’

How would you reimagine your firm?

How can we begin to think about the shape, nature and role of the future firm when there are so many elements to consider: organisational design, ways of working, new technology, data and changing customer expectations?

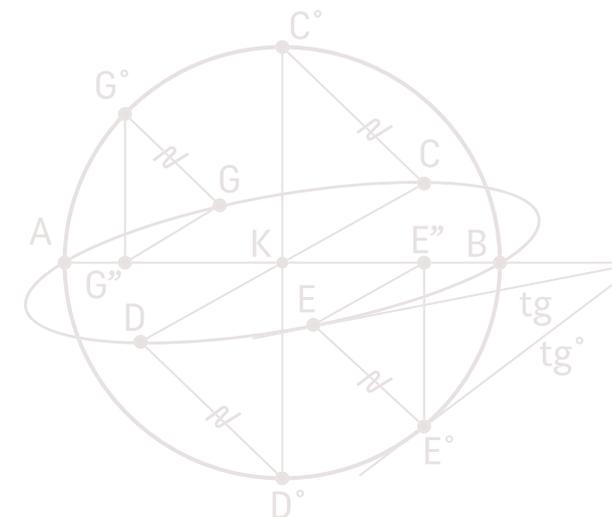
Too often, predictions for the future of the firm over-emphasise a single dimension such as technology or culture at the expense of the other aspects of what makes a firm. With this toolkit, we aim to encourage conversations around all the dimensions of the firm, with an emphasis on the interactions between them. We believe this can help you develop your own narrative and strategy.

With more than 150,000 members worldwide and thousands of accounting firms, ICAEW is committed to creating a world of strong economies. With this project, we are exploring the ecosystem of the profession. We recognise that firms are already innovating and diversifying their thinking using their unique strategies. However, we see this

collaborative project as a practical way of further helping firms reimagine their future by also considering the firm as part of a broader community and professional ecosystem.

As a research tool, stimulus to dialogue and innovation map, the Future Firms Framework can help in two aspects:

- 1) by challenging the existing compartmentalisation of knowledge within the firm; and
- 2) by reimagining the role and position of the firm within the wider ecosystem of the profession.



Our workshops have shown the value of using a multi-dimensional framework in mapping and analysing the key internal factors which are changing the nature of the firm. It is important that this is done with consideration to the wider societal factors and evolving expectations of the workforce. This approach can advance our understanding of the issues facing future firms, and allow individuals and organisations to focus on those dimensions that they think are most relevant to their work.

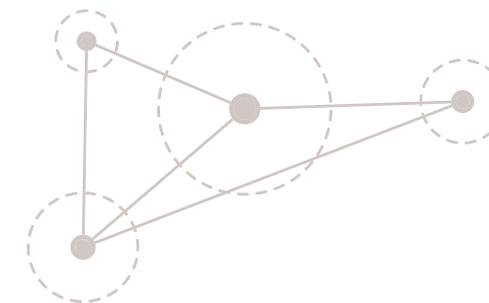
Introduction

There are more and more discussions within the profession about the future of accountancy firms, but many of these debates focus on one particular aspect of change – typically technology, culture or regulation – as the principal lens through which to consider the future. The starting point for this project was to acknowledge the complex interplay between various dimensions of the future firm, and to recognise that there was unlikely to be a single template for what future firms might look like. Therefore, we decided to take a multi-dimensional perspective to facilitate in-depth dialogue around the shared challenges firms face, and create a framework to visualise this multidimensionality, addressing the question in a more holistic way.

Looking back, professional services firms have a long and rather conservative history, which has contributed to maintaining reliable, legal and trusted business environments in which companies and other institutions can cooperate and trade freely. From Mesopotamia to medieval Europe, Pacioli and the formalisation of double-entry bookkeeping, accounting helped people make informed decisions about business and economics, long before the rise of the chartered accountant and modern professional accounting in the 19th century. While the early history of accounting had seen huge societal shifts, from the adoption of settled agriculture, the rise and fall of empires and civilisations, the spread of literacy and the growth of independent companies, the conduct of business in 1980 was arguably not that different from

a century earlier at the foundation of The Institute of Chartered Accountants England and Wales (ICAEW).

Yet by 1980, the TCP/IP protocol that underpins the internet had already been invented, and after its publication the following year, the foundations of a global internet were laid during the 1980s. Although it may not have been clear at the time, this new network of networks would change business in fundamental ways and as a result, the digital economy and society it enabled now looks set to disrupt the practice of accounting in a way that no previous technology since the written word has done. Even the shift from paper to PCs posed less of a challenge to the way accounting is practised – it just replicated documents and ledgers on a screen and helped with the



arithmetic – than the thorough digitisation of business that we see today, the rise of big data, artificial intelligence and new business models.

Most attempts to predict the future begin with conclusions already in mind, assuming that the future will all be about technology, culture, or new ways of delivering services. But in a profession that spans a multitude of sole traders and small firms to 200,000 people behemoths, there is probably no single, simple answer to what the future firm will look like. Since accounting firms are not the only sector being disrupted and changed by digitisation, there are also lessons to be learned elsewhere in various aspects of a firm's structure, culture and practice.

Some commentators, such as Richard and Daniel Susskind, believe the professions will slowly be automated and commoditised before they fade away to be replaced by intelligent systems, peer-to-peer platforms and other sources of advice and analysis. Others believe the professions will continue, but working in tandem with automation and machines, implying that there will be fewer professionals who focus on high value-added activities that firms and the people who make them up will continue to need.

Regardless of the eventual future of the profession and practice overall, what do all these changes mean for accounting firms themselves? How will they need to adapt, and how can they avoid being dragged into commoditised markets where computers have the advantage? How will the future firm differ from what we see today? The American philosopher Robert Pirsig famously said that if a factory is torn down, but the rationality and systemic patterns that produced it are left standing, they will simply build another similar factory.

Professional services firms have evolved to aggregate analytical power and develop a platform to extend their value proposition both internally and externally, developing strong brands and service delivery models that clients trust. While this has contributed to their

historical resilience, it is unlikely that this model and associated ways of working will continue unchanged, especially if it does not take into account external challenges, or if the firm does not add sufficient value to the work of individual professionals.

We have tried to come up with a multi-dimensional framework that describes the dimensions of a firm that we think will be subject to most considerable change, and then to discuss these elements with professionals to see which they are most interested in, concerned about and also have a sense of how they might change. By gathering ideas and inputs into the individual dimensions, we wanted to validate the framework as a way of having conversations about change. We are making our research and insights available to firms to adapt and use in whatever way makes sense according to their own view of the future.

We invite you to explore the framework and engage your firm in a multi-dimensional narrative about the future.

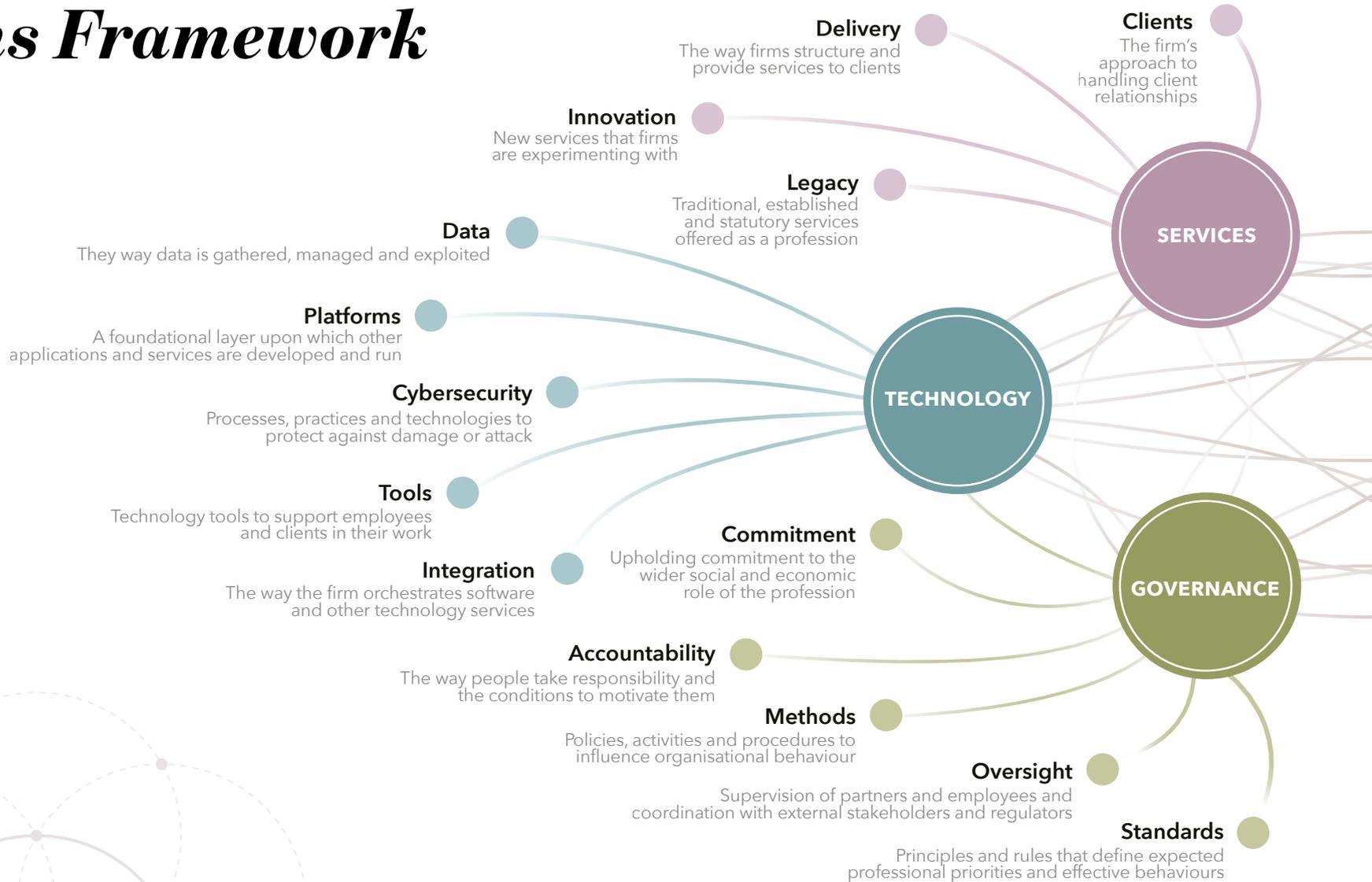


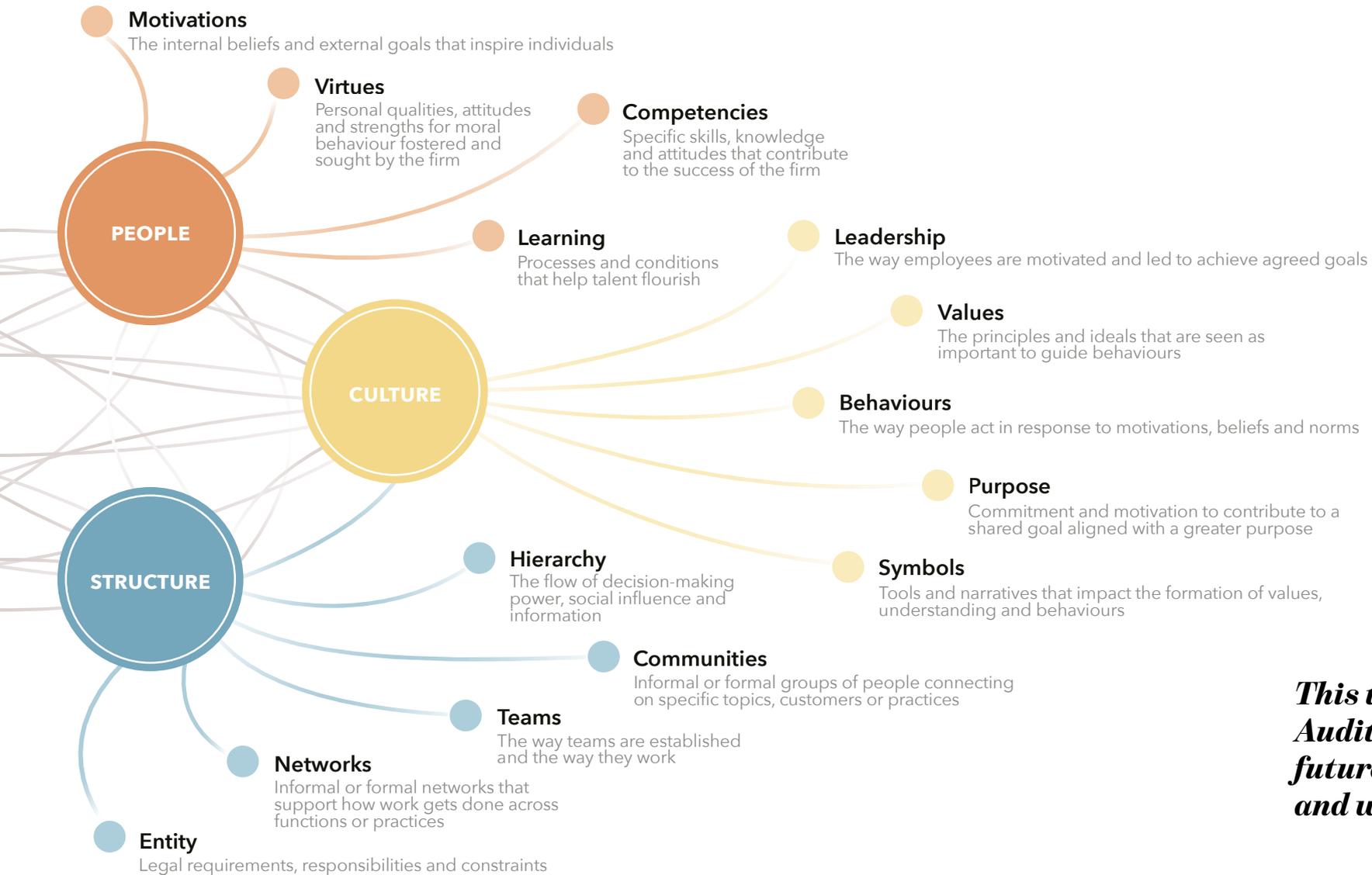
‘The goal of this project was to come up with a multi-dimensional framework to describe the dimensions of a firm’

Future Firms Framework

The Future Firms Framework aims to facilitate a systemic discussion about the interrelatedness of key dimensions of the modern firm. We believe it can help firms to better visualise the complex relationship between dimensions, and through this to enable people to explore new opportunities and to plan and design ideas for innovation.

We invite you to explore the framework and engage your firm in building a multi-dimensional narrative about the future.





This toolkit is part of a broader AuditFutures initiative on the future of professional firms and we invite you to join us

Will we even need firms in the future?



The digital economy and society have not only changed the products and services people buy and use, but also the very nature of the firm and the way we work within it. New virtual goods and services are able to generate vast amounts of revenue, while even the seemingly most mundane services such as taxis and room rentals have been turned into multi-billion-dollar businesses as a result of connected platforms, networks and the scale they are able to achieve.

Ronald Coase famously argued that a fundamental purpose of the firm is to minimise transaction costs by making it cheaper and easier to galvanise resources within the company than to go outside and procure and coordinate them on the open market. But if you look at most large companies in various sectors today, the opposite is often the case. They have become so cumbersome and bureaucratic that everything takes too long and is significantly more expensive than its equivalent on the open market of the internet. Many of the structures, practices and processes that made firms reliable and created barriers to entry or

competitive advantage are now holding them back. Start-ups without this legacy and with a modern, connected work culture can defeat even the best funded large firms because they move faster, work cheaper and are more productive.

But while software and startups are lauded as the future, we probably still need the experience, skills and heritage of traditional firms in many areas of the economy. 'Fail fast', agile methods are great for software that is released every day, perhaps even in separate versions that enable a developer to alpha/beta test alternative solutions; but this approach is not so good for conducting audit and assurance work. In accounting, big data, real-time analytics and other new developments will give us amazing new superpowers to work with, but an experienced professional has intuition and might find that ostensibly perfect numbers fail the 'smell test'. In addition, their ability to empathise and understand what a client is telling them, and why they are telling them, can focus their advice in a way that machines still cannot match.

As Demis Hassabis explains when speaking about Google's Deep Mind system (which defeated the world's best Go player – a game previously thought impervious to the brute force of computer simulation given its almost limitless permutations), a great Go player using Deep Mind will always beat Deep Mind or a similar system on its own. This vision of using computing power, artificial intelligence (AI) and data to augment human intelligence, rather than replace it wholesale, is a compelling one and perhaps gives us some hope that we are not all becoming entirely obsolete.

So, while all existing firms are unlikely to be replaced by technology platforms and startups, there is an urgent need to upgrade them and find clever ways to combine traditional strengths and experience with the new affordances that technology makes possible.

Much of what we think of as 'work' inside companies does not create value but rather it seems to exist for political or habitual reasons. Think of the endless

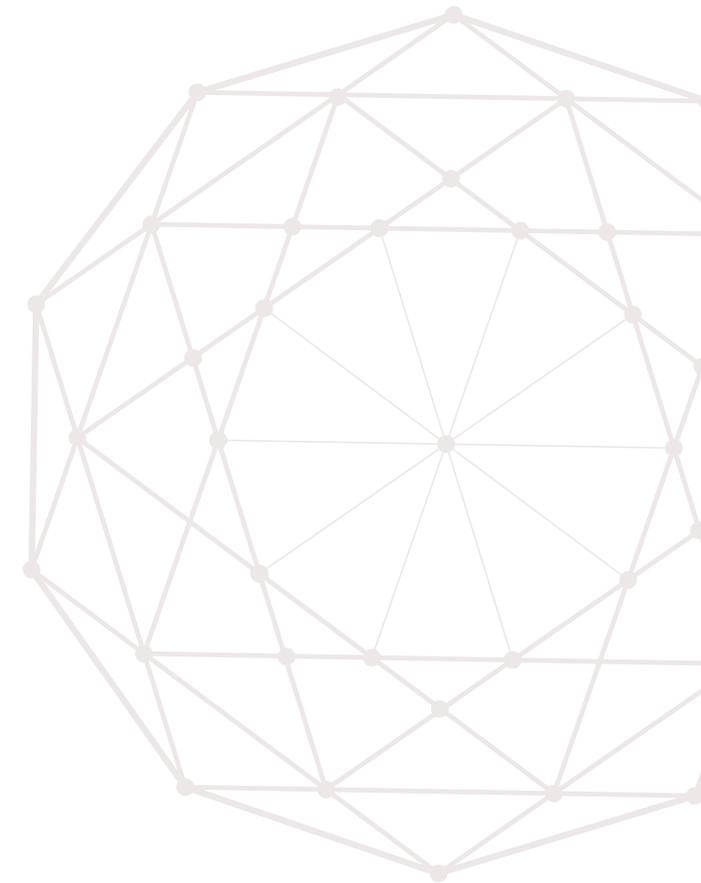


conference calls, grandstanding meetings, the project plans that are little more than polite fiction, the rituals around promotion of sharp-elbowed colleagues, the reams of process controls that make the company feel that they are minimising risk, or perhaps the organisation chart that implies work can still be neatly specialised and divided up as if we are working on Henry Ford's first production line. Start-ups don't suffer from these impediments and try to remove anything that gets in the way of actual work getting done.

The current 'operating system' of most firms is a management hierarchy that is operated largely by email or telephone communication up and down the chain of command and the exchange of documents. Where this intersects with the lateral, connected world of networks in the outside world, it feels pedestrian and out of date. The rise of social business tools, collaboration and knowledge sharing platforms have begun to change this way of working over the past decade, but the bureaucratic operating system is so central to the functioning of most organisations that it

persists even when most participants agree it makes little sense.

Across many sectors, companies are involved in digital transformation initiatives to become better suited to a world of rapid digitisation. But while much of this effort is aimed at adding new tools or services to the customer-facing surface of the organisation, such as shiny new apps or online tools, the real challenge lies inside the firm itself. Digital transformation is not just about digital tools or services. It also has huge implications for new digital business models and customer and employee engagement. In short, it requires a thorough re-think of a firm's structure, culture and practices to be fit and ready to compete in a digital world.



What might the operating system of the future firm look like?



One pattern that is evident in innovative high-tech organisations is their shift towards operating more like software, for example by organising internal functions as discrete services that can be accessed by employees through an online platform, and by continuously improving them through feedback data. Like other types of firms, many professional services have already experimented with agile methods in small delivery teams, which comes from being in the world of software, but the benefits of being agile are limited within a traditional, bureaucratic organisational structure.

The use of software platforms to coordinate work significantly reduces management overheads and can also give teams much more autonomy and freedom to get their work done in the most effective way. In accounting, various basic services and activities are highly repeatable and ripe for automation, but many opportunities to add value exist in terms of how they are packaged, combined and delivered to clients. Rather than build platforms to provide client access to

existing services, some professional services firms are already grasping the nettle to become more service-oriented and automated internally, rather than wait for startup competitors to commoditise whole areas of their service offering.

Another area of technology that leading firms are already exploring is data, analytics and machine learning, which could potentially transform the audit business in years to come, and also have a major impact on other areas of accounting, advisory and technology services. Collaboration, knowledge sharing and team working tools are also rapidly improving in accounting firms as in other sectors, so we can expect to see these playing a more important role in the firm of the future.

But the future is not just about technology. In addition to the internal changes to the firm, clients are also changing, both in terms of how they select and buy services, how they want to experience them, and also the business problems they need help in solving.

Their needs may not fit neatly into accounting practice areas or standard projects, and this will be a major factor dictating the nature and speed of change that the firm of the future will need to undertake.

Firms are not factories with production lines. Motivating and engaging people is essential. The old model of leadership managing employees is not enough for the modern firm. How will employee goals and motivations change, and what might that mean for how firms try to train, engage and retain them? There is a lot of discussion about millennials and generation Z and how their career and life goals differ from previous generations, but until they make up a larger proportion of the workforce, and until the workplace becomes more responsive to their needs and preferences, we can only speculate. What will their changing culture of work mean for the notion of a trusted professional, and how can we find more efficient ways of ensuring compliance with regulations and adherence to ethical standards than we have today?



The wider ecosystem in which firms operate plays a vital role in shaping their culture, structure and services. Firms don't operate in a vacuum. Changes in society and its expectations of business in general, and accounting firms specifically, will also be a factor in influencing the future firm. What role will the firms be asked to play in regulating markets, and what kind of regulatory methods will govern their own work? These factors alone could be drivers or constraints for change. Traditionally, firms have played an important role in educating professionals who go on to work in a variety of sectors. How might that change if the profession broadens out to include more non-accountants, and also what would be the impact if technology and automation dramatically reduce the number of people the firms need to employ?

These questions and challenges are in no way unique to accounting firms, and so it can be helpful to look around at how other professions and other sectors are addressing similar challenges in trying to future-proof their organisations. And, of course,

different firms might have different answers to the same questions.

Finding innovative answers will require working across silos and de-bureaucratising existing ways of working. Accounting firms, and the broader family of professional services firms, have evolved by building intricate divisions and departments around specific technical knowledge domains: advisory, consultancy, tax, accounting, legal, and so on. Quite often, recruitment, talent management, incentives and structures promote further this very siloed format. Collaboration across the firm usually happens at the top level where KPIs and strategic priorities can sometimes conflict.

Innovation and change should ideally be a priority for everybody. Setting up a centre for innovation, a lab or a skunkworks department might seem a logical first step; but it can also set a dangerous precedent by creating a silo for innovation, owned by a privileged group. At the same time, there is so much complexity

in organisational systems that they can appear to be beyond change. Having a framework to cut through this complexity is the great challenge of systems thinkers and innovators.



What are the possible futures for your firm?

Predicting the future is difficult, but we need to try. Even if we can't make out the exact contours of the future firm, there are a few plausible scenarios worth considering, which we have tried to summarise below. But first, what do we know about the general direction of travel for firms of all kinds, and how is technology changing the way we design and run our companies?





SCENARIO A: THE TRADITIONAL FIRM EVOLVES

History would suggest that the most likely scenario for most firms is that they do not undergo substantial change, but largely continue with the current model, perhaps responding to client demand in areas such as online delivery or use of data-driven strategies, but without proactive investment in new technology and ways of working.

One key factor that makes this scenario likely is the partnership structure, which acts against long-term change and inhibits the kind of investment horizon that shareholder-owned firms are more likely to operate within. The short-term interests of individual partners are not always best served by creating and growing a firm that exists beyond them as a group of individuals, even if the longer term rewards are more substantial.

The inherent risk in only innovating as fast as your current customers demand is that traditional firms could find themselves completely blind-sided by technology disruption that finds better ways to deliver much of what they do today. A good example of this is the use of big data in audit work. In reality, very few clients manage their data in a form that can currently support real-time big data audit or machine learning, but the large firms recognise this will happen in the future and so are investing in building this capability ahead of market demand.

SCENARIO B: THE INTANGIBLE FIRM

Another potential scenario that can be extrapolated from current trends is that we might see the traditional firm, with its offices, overheads and employee structure, begin to dissolve in favour of networks of practitioners who come together as and when required to get work done.

We have already seen a rise in offshoring, outsourcing and flexible sourcing in professional services over the past decade, and perhaps this trend will reach its logical conclusion with entirely remote teams and organisations that are able to achieve better work-life balance, while reducing costs, but still able to deliver on complex work for clients due to better use of technology for the coordination of work.

In software development, this model is now quite common, and lots of lessons have been learned about how to make it work at scale. But this model requires much more focus on self-management and self-reliance among professionals than we are currently used to in firms that provide administrative support, IT and all the other non-accounting functions that support the work of professionals.

Although clients may welcome the lower cost options for delivery this model can offer, it is unclear whether large firms would trust their accounting and related work to a network, rather than a fixed firm with a recognisable HQ and a strong traditional brand.

A hybrid version of this scenario might involve a technology-led 'firm as a platform' strategy augmented by a flexible network of individual practitioners for more complex matters that can't be handled online.

SCENARIO C: THE TECHNOLOGY-AUGMENTED BOUTIQUE FIRM

While the rise of technology and automation is likely to reduce the overall number of accountants and related professionals that firms need in order to deliver services for clients, the value of human insight and experience is likely to be valued at a premium.

Firms (or networks of professionals) that can truly harness technology to do the basic leg-work of accounting more efficiently will be well-placed to occupy a variety of market niches where high-touch advisory and related accounting work commands a high value. Instead of paying for low-end book keeping and accounting work, clients with complex needs are likely to continue placing a high value on the strategic input that experienced accountants can offer.

This model of technology-augmented traditional advisory work could be a great way to combine whilst the new affordances of technology with the traditional value of the profession, and while it may not be able to absorb the numbers of graduates and trainees currently entering the profession, those who succeed could be very well remunerated. It could also lead to more fluid, customer-centric forms of customer engagement, where advisers work on common technology platforms that might be inside or outside the client's structure, rather than work as traditional external advisers.

If this type of firm is too small to maintain dedicated technology functions, they might enter into partnerships with tech firms to use their platforms on an exclusive basis.

SCENARIO D: DIGITAL FOLLOWERS

Many existing firms are already working hard to understand technology changes and to acquire the skills and capabilities needed to embrace it, especially in the mid- and upper-tier of the accounting profession. There is, understandably, a fear that these skills are too far outside the core competence of the firm, and trying to compete with pure technology firms could be a risky idea. But it is worth remembering, in the technology field at least, that second mover advantage is often a better business strategy than seeking to be the first mover who takes the biggest risks and incurs the biggest cost.

Many of the success factors of technology adoption are not technical. When startups have developed a product, they seek what is called 'product market fit' – in other words how to make the technology relevant and usable by people in potential customer segments. This requires market and customer knowledge, proximity and understanding. There are many examples of pure technology companies inventing new products that over-estimate the readiness of customers to adapt, or just lacking the sector knowledge to connect their product to real-world use cases.

This is where existing firms might have some advantages. If they know their customers, and if they are aware of the complexities that underpin their customers' own use of technology, then they could have a lot of value to offer pure technology firms in partnership to gradually transform the accounting sector. In non-technology sectors, accounting firms may be ahead of many of their clients on the journey to digital transformation, and so perhaps they can help them along the way as part of a gradual transition from old to new ways of managing their accounts and related matters.

SCENARIO E: DIGITAL DISRUPTORS

For bold, ambitious firms, the goal is not just to protect against disruption by startups and technology firms, but to actively embrace technology and new ways of working to disrupt others, both inside and outside the accounting field.

These firms may have already set revenue goals for the digital business, and are perhaps looking at a combination of hiring talent, acquiring startups and growing new lines of business built on digital technology. Perhaps they are already building elements of their own digital platform that embodies their unique intellectual property.

Within the accounting sector, they might seek to disrupt competitors in a number of ways, from deliberately commoditising some of their existing service areas to achieve higher scale at lower margins, to combining previously separate offerings into new and imaginative packages designed around customer needs rather than internal practice areas.

But perhaps they are also thinking about how to use their position of trust as business advisers as a bridgehead that can be extended to include related areas such as consulting, law, procurement or M&A adviser. If they can occupy the strategic high ground of trusted adviser with direct access to financial and operational data, the opportunities in the future might be greater than we can yet imagine. To achieve this, however, they will need to quickly make digital and technology capabilities a core part of their own DNA, rather than being seen as a bolt-on to a traditional, manually-run people and process business.

What have we heard so far?

In this project, we have focused on unpacking and understanding the complexity of firms. Professional services firms have evolved as complex systems to aggregate analytical power and develop a platform to extend their value proposition both internally and externally, and to develop compelling brands and service delivery models that clients trust. While this has contributed to their historical resilience, it is unlikely that they will continue with the current model or way of working if it does not reflect on external challenges or add sufficient value to the work of individual professionals.

The goal of this project was to come up with a multi-dimensional framework to describe the dimensions of a firm that we think will be subject to greatest change, and then to discuss these elements with professionals to see which they are most interested in, concerned about and also have a sense of how they might change. By gathering ideas and inputs into the individual dimensions, we validated the framework as a way of having conversations about change. We are making all research and insights available to firms to adapt and use in a way that makes sense to their particular culture and view of the future.

METHODOLOGY

The research adopted a mixed methods approach, which comprised questionnaires, interviews and

network analysis. About 200 ICAEW members from 17 firms took part in our research.

FRAMEWORK

For the first stage of our project, we created an initial framework, based on a number of discussions with ICAEW stakeholders, which captured the most important aspects of the firm in their view.

SEMI-STRUCTURED INTERVIEWS

In the second stage, we tested this framework by publishing it along with further reading and links on our website, inviting input and feedback from practitioners from both industry and professional service firms, across all levels of their organisations.

Next, we arranged a series of seminars at specific firms, and invited practitioners who expressed interest in contributing. We conducted semi-structured interviews, based on the initial framework and key questions that guided the dialogue about the future of their firm and firms in general.

In order to consult with a wider group of people from all levels of organisations, and to engage in more creative and open discussions, we also organised salons at ICAEW in London. At these salons, we were able to run interviews and discussions with multiple smaller firms at the same time.

SURVEYS

Using an online platform called Polinode, we surveyed around 100 professionals and mapped their inputs and views onto the framework.

ANALYSIS

Based on the qualitative data that we gathered from interviews and surveys, we calculated the most popular dimensions that professionals raised and discussed, which we then clustered and analysed according to these categories. These contributions have been summarised in the main dimensions that we discuss in each section of the report.

LIMITATIONS OF THE STUDY

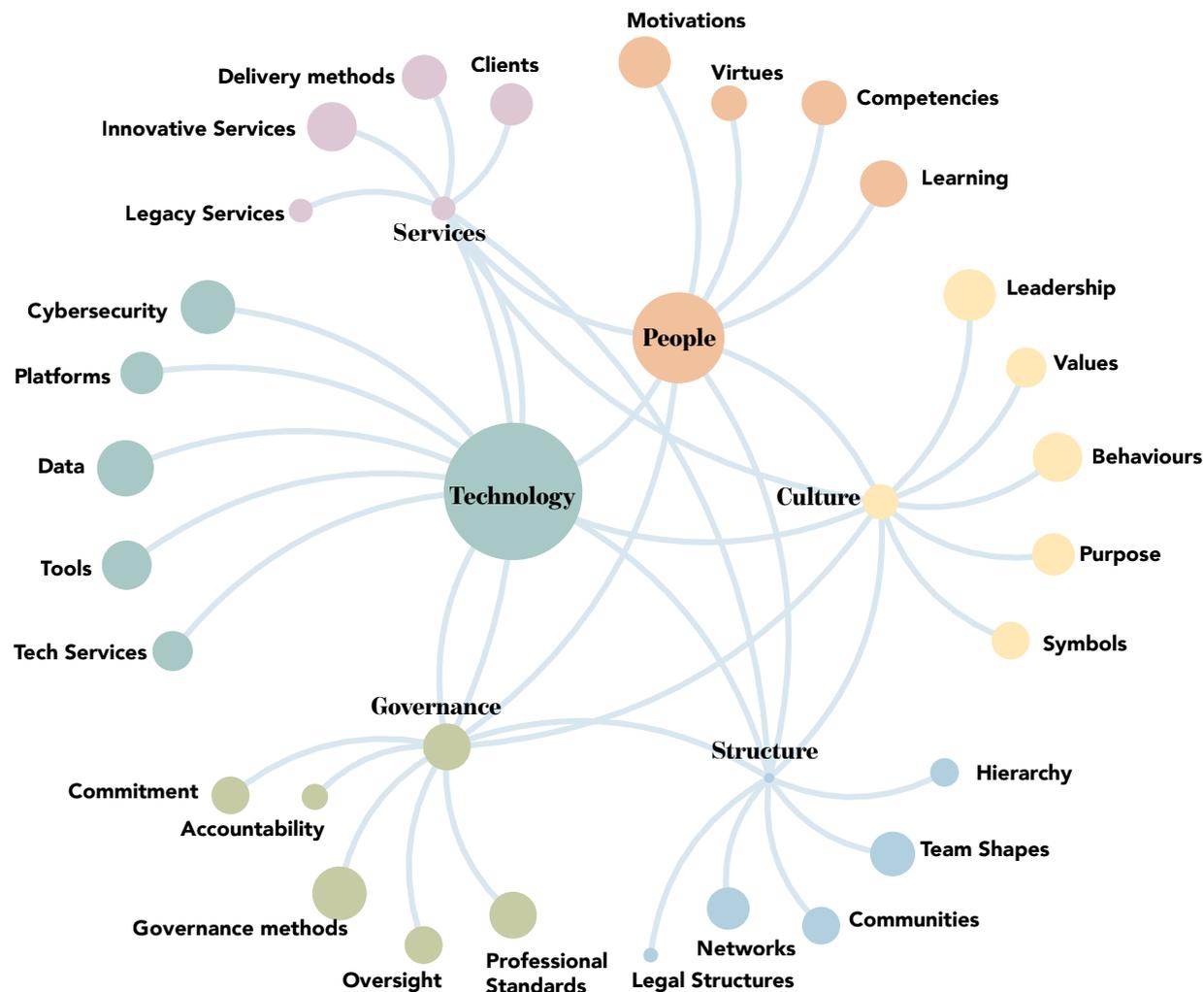
The study was cross-sectional, aiming to gather the views from practitioners at different levels, as well as views from both small and large firms, and businesses. As participation in the study was voluntary, this meant that only those participants with some interest in the topic might have responded. Consequently, the survey and interviews represent the views of a self-selected group of people and not a perfectly representational sample of firms and businesses.

Key insights

There is great interest in how accounting firms can adapt quickly enough to thrive in a digital world at all levels of the firm.

The most important dimension of the future firm in the view of our participants is technology, and while the basic need to adopt new technology more rapidly is clear, there is widespread doubt that firms have the skills or knowledge internally to do this quickly enough to avoid disruption from technology firms.

The most important intersection of dimensions is the relationship between technology and people, notably around the question of how the impact of technology will change types of people the firm needs and also the work they do. Other important intersections are the impact of technology on governance (and vice versa) and on the culture of the firm. There was a consensus that technology will also change the nature and form of services that firms provide.



Structure

Firms of the future could become more resilient if they start working as multidisciplinary hubs under common brands and should explore approaches to collaboration that can support multi-disciplinary teams and projects. Monolithic teams, confined by bricks and mortar workplaces are a legacy of history. Firms must find new ways to quickly assemble talent across department silos, with strong digital and client skills. The current partner structure may not be fit for the future firm as the advancement of technology and changing workforce patterns will diminish the importance of single-track partners and will promote value creation by experienced generalists and new hybrid professional roles.

One of the foundations of a prosperous economy is the diverse range of business entities, with the limited liability company being considered as a creation that enabled the growth of the profession. While participants in the project believe it has served us well over the past century or so, some question whether it should have such a dominant role in the future and whether legal reforms might usefully promote new enterprises. There are open questions about how to encourage the formation of new networks of people and whether the society of the future is likely to demand more flexible forms of enterprise. Would one form of business be more trustworthy than another?

Reflecting on how other industries and sectors are growing and innovating, professional services firms could learn from other businesses that have undergone digital transformation already or perhaps faced strong threats from startups. What techniques have worked for them in re-organising to meet these challenges? How did they manage to reduce management bureaucracy and become more agile and connected to work more effectively?

HOW IS THE ORGANISATIONAL STRUCTURE OF THE FIRM CHANGING?

Participants felt that the current partner structure may not be fit for the future firm, for a number of reasons. The partner track promotes an up-or-out hierarchical culture, and the separation between fee-earners and business support services is blurring. We may soon see business support specialists such as data scientists being paid more (and generating more value) than some partners, for example. Furthermore, with large numbers of young people still entering the profession but with reduced opportunities to make partner, many talented people are choosing to leave the firm or even the profession rather than make the life-balance sacrifices needed to reach the top.

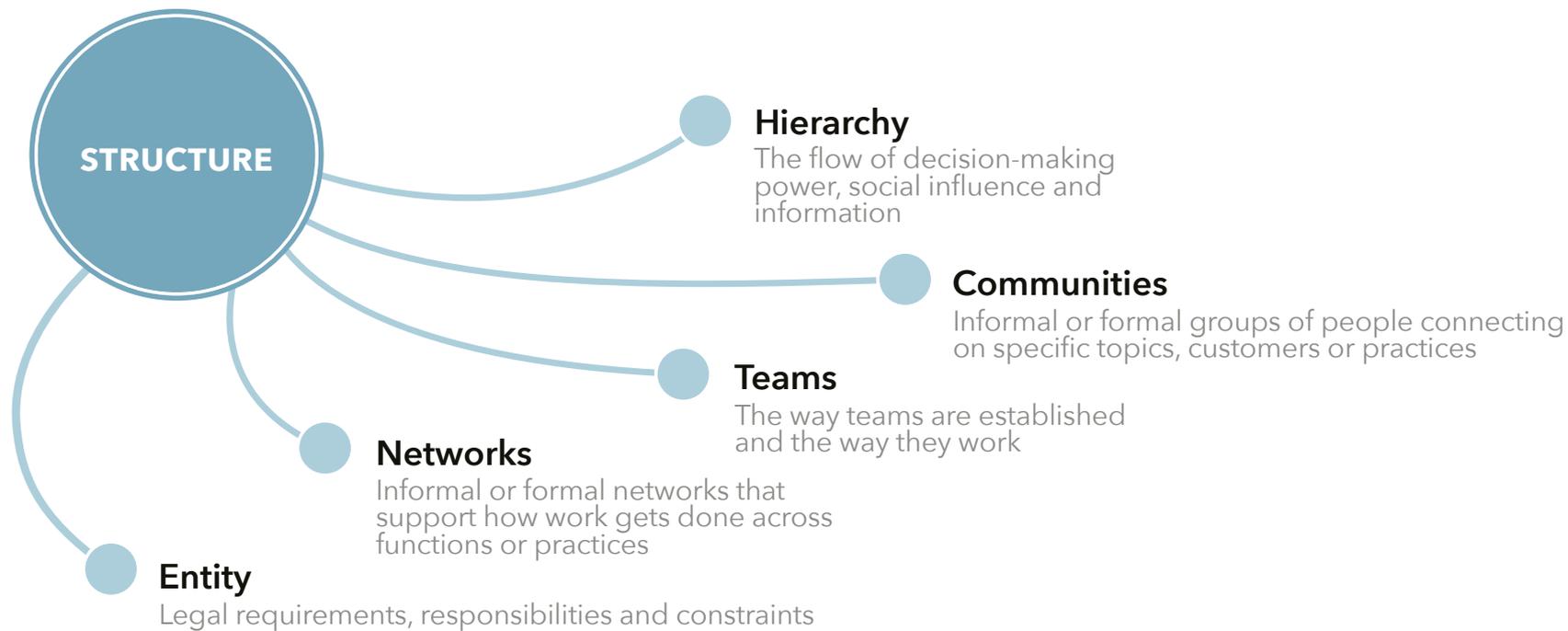
Organisational structures and the culture they promote are seen as key barriers to innovation in accounting practices today. Many consider that advancement of technology will diminish the importance of the single-track partners and will promote value creation by experienced generalists. Currently, partners specialise, and many partners feel

that their positions in the firms are justified because they hold the main client relationships. Views were expressed about alternative routes to partner, perhaps through business services, or through the creation of new senior roles running lines of business, much like a CEO or divisional leader in larger companies.

The traditional structure of an accountancy firm is already being changed by the acceptance of flexible and remote working. We heard comments that firms need to adapt faster to retain and attract new talent whose expectations of working life are different and who demand more flexibility. However, some tensions are created since culture tends not to change as quickly as new practices emerge.

THE BENEFITS OF COLLABORATION ACROSS SILOS

Firms of the future could become more resilient if they start working as multidisciplinary hubs under common brands, according to some of our participants. We need to invest and explore collaborative approaches that could integrate more specialised departments through a network of internal and external specialists. More networked structures would allow collaboration between experts in different parts of the business. But breaking down silos is difficult while everyone is specialised. Although firms are considering partnerships with technology companies, there is a fear that they might just give away all their knowledge to them.



TEAMWORK AND FLEXIBILITY IN THE ORGANISATION

The consensus among our participants was that monolithic teams, confined by bricks and mortar, are a legacy of history. Firms must find new ways to quickly assemble multi disciplinary expert teams across department silos, with strong digital and client skills. Firms will face a stronger need for ‘cross-selling’, and so they need a culture that bridges the gap between different departments. More networked structures would allow collaboration between experts in different parts of the business.

Departments need to work together to provide an all-round service (accounts/tax/financial advice) that is accessible to the client. The changing needs and expectations of stakeholders need to be listened to, including their expectation of quality service. How this service is provided is more likely to warrant adaption of new technologies and meeting individual clients’ needs. There will likely be less of a ‘formulaic’ approach to the services offered.

The team dynamic is an important factor for people’s willingness to work at a firm. On the one hand, it is great because investing in a team and people is a way to retain them; but, on the other hand, one central person leaving can have a ripple effect on another team.

INTERSECTIONS WITH OTHER DIMENSIONS

- What role can new technology play in creating more agile, responsive organisational structures in the future firm?
- If the future firm is able to create new and innovative value propositions for clients based on its underlying services, what does this mean for how the firm is organised internally?
- An agile firm needs an agile culture, but current education and training for accountants does not prepare them well for this – how can the future firm bridge this gap?
- In addition to traditional training, the future firm will need a more sophisticated approach to continuous learning and development, investing in people to attract and retain talent
- If people in the future firm are able to move between teams and practice areas to meet market needs, what will this mean for governance?

SOME IDEAS FOR TAKING THIS FORWARD

- Engage proactively with technology teams and innovators to consider the implications for future tools, platforms and uses of data
- Encourage employees to report broken processes or systems that could be improved
- Analyse the new organisational capabilities which will be needed in the future firm to address disruption of competition, and then consider how to develop them
- Study new emerging organisational design ideas and look for areas of the business that could benefit from more connected structures



Services

We had some very interesting discussions about how future services might change. Right now there is a lot of hype around technology and automation, but the real differentiators may continue to be human services that help meet very specific needs, but with AI and automation helping people deliver smarter insights.

This further leads to the question – how can firms become more innovative, and what would this mean for the skills that professionals might need to have? Would this require re-skilling of the profession to be able to provide for better and more differentiated services? It is recognised that the future impact of technology would not only impact services, but the nature of relationships and how teams work and engage with clients.

LEGACY SERVICES

Participants felt that process-driven legacy services will be rapidly commoditised and automated, and so firms of the future need to focus on the additional value-added human-centred services that they can build to create differentiation.

Several participants expressed concern that more and more existing services face commoditisation or automation thanks to technology and the rise of new technology-enabled

startups. Also, client expectations about how existing services are delivered are changing, and this is creating pressure for more innovation in service delivery and customer experience.

INNOVATIVE SERVICES

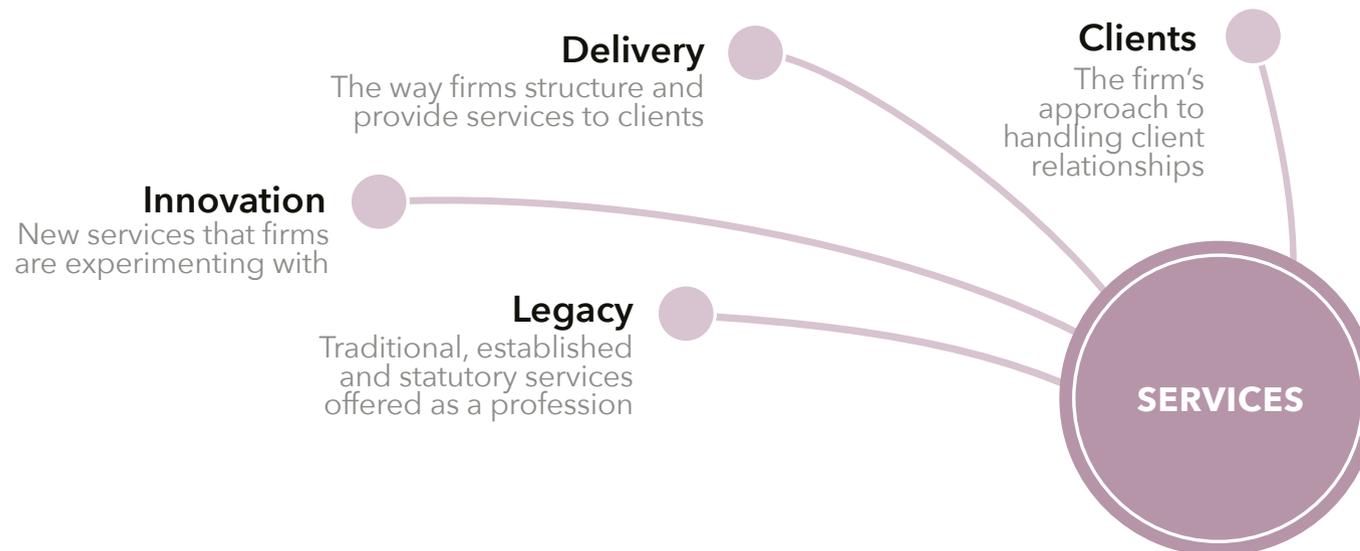
It is broadly acknowledged that technology will disrupt the accounting practices, but it is hard to imagine the specific implications and how firms can accelerate this innovation. Some clients have a higher demand for real-time data and analytics compared to others. Consequently, different partners might have different views on the need to innovate. Some participants view assurance as the need to improve but are uncertain about who will drive the innovation. The anecdotal evidence suggests that some firms believe there is too much risk in investing heavily in technology or new services until they are proven, and perhaps also until they are better placed to exploit them.

It was brought to our attention that, in order to think and design new approaches to audit, the questions that auditors ask might also need to change. A key challenge in discussing the nature of technology (especially self-service) platforms is to ensure that clients use them correctly. But also, firms cannot take on the same risk with innovation, so there may be a need to find a way to share that risk more transparently between firm and client. Some predictions are that there will be increased audit thresholds, which will affect traditional markets, and require firms to promote alternative service lines. We need to look at this in a positive way, where diversification and increased breadth of services lines will lead to greater opportunities for growth.

As one participant put it: ‘Specifically for audit, there needs to be a clearer articulation of the value of audit, and what an audit focuses on needs to change – the idea of integrated reporting is an important one as currently an audit does not necessarily report on what the real drivers of value are for all companies. The focus on the numbers is important but no longer the thing that matters – the key thing is internal controls. Investors need to understand this much better, and the profession needs to do a better job explaining this.’

THE IMPACT OF TECHNOLOGY ON SERVICE PROVISION

Even today, technology is already changing how teams work and engage with clients. Because of technology-based audit systems, there is a tendency for managers to stay in the office and send more junior staff to the client to gather data. The managers can perform their data analyses from the office and thereby avoid travel time. From a strategic perspective, it may be more beneficial for firms to shift to advisory instead of audit services. However, for small and medium-sized firms, this will require re-skilling if they are credible as management consultants. The communication technology that auditors and clients use is seen as something that will also change in the coming years. While some clients will only accept formal emails, others are starting to use instant messaging and online chat. Some firms have even experienced cases of Snapchat communication and emoji use. However, there is a significant question about how these types of communications should be treated or whether they should even be allowed. Technology is a game changer for our profession. It will change the way we operate, and it will



change how our clients want us to deliver to them. Clients will most likely want more digitalised deliverables and more use of data and analytics to provide insightful output.

As systems become more automated and client records become more reliable as a result, there will be a shift in what is seen as valuable to clients. One view is that by taking more advisory roles, firms will provide the specialist advice that will be increasingly seen as more valuable to clients. An increasingly important question is whether employees' relationships with clients will be more or less instrumental to firms as they adapt to become platform businesses.

'Firms have to decide between targeting audit and tax clients, or developing IT and consulting-based practices. Increasingly there will be a split between the commercial return and risk appetites of undertaking compliance work or

higher margin/return work in other areas (with the associated increased risk).'

CLIENT MANAGEMENT

It is unlikely that firms can move to only having self-service platforms because clients don't know what they need in every situation. Always-on technology also means that some clients expect employees to be continuously available, which has been reported as having negative impacts on employee life quality. It is acknowledged that it is unhealthy for employees to be on-call seven days a week, but the risk of eroding or damaging client satisfaction (if employees do not respond quickly enough) is also high.

To deliver a consistent and valuable experience for clients across both specialist and emerging new areas of practice, it is perhaps the firm rather than the individual partner who

should own the client relationship. A shared expectation is to see more firms taking on this approach as technology platforms take centre stage in the day-to-day interaction with clients.

INTERSECTIONS WITH OTHER DIMENSIONS

- How can technology platforms enable firms to deliver innovative new services to compete with new startups?
- Future firms will need a culture of innovation to build new value propositions on top of the basic activities they perform for clients – how can they develop such a culture?
- Which new hybrid roles will the future firm need to hire people for if they are to make the most of new developments in service delivery such as data, analytics and AI?
- If the future firm is providing real-time, smart services such as big data audit platforms, what challenges will this create for governance and compliance and how can firms deal with them?
- Connected services need a connected firm - how can the future firm organise its internal structure to be able to deliver seamlessly across multiple service and practice lines?

SOME IDEAS FOR TAKING THIS FORWARD

- Ask each internal department and practice area to create a service catalogue of the individual services they provide (internally or to clients), and define them as if they were already technology-enabled
- Share the service catalogue within the firm and consider how these services might be combined into a shared service platform for the firm
- Consider applying some portfolio analysis to these services to see which will grow, decline or become obsolete in the face of digitisation
- Experiment with business model innovation techniques to discover new offerings and packages using existing services, products or data
- Engage clients and client-facing partners with service design and design thinking exercises to imagine new service packages that make use of existing assets and knowledge



Culture

Features of culture have been a significant element of our discussions. By exploring the changing context, expectations and needs, we refocus our attention to the aspects of culture beyond 'results', which give purpose and meaning to employees. In the face of a rapidly changing society and an evolving workforce, the culture of the firms requires further consideration for issues such as equality, fairness and inclusiveness; corporate citizenship and stewardship; sustainability and human flourishing.

In thinking about how to innovate within accounting practices, aspects of culture and structure appear to be of particular concern and importance to participants. A conversation about what it means for firms to embrace a more entrepreneurial culture might also be fruitful, drawing on lessons from FinTech startups and social enterprises. A few suggestions focus on aspects of the challenge that might improve communication and adhesion between departments, such as disrupting existing silos.

A shared concern among participants is – How can firms' culture cultivate ethical behaviour? Can it be taught on the job? How should we shape culture to encourage ethical and engaged employees? Participants report that in the

face of high turnover of qualified staff, maintaining the right culture is problematic and challenging, and requires further planning and discussions.

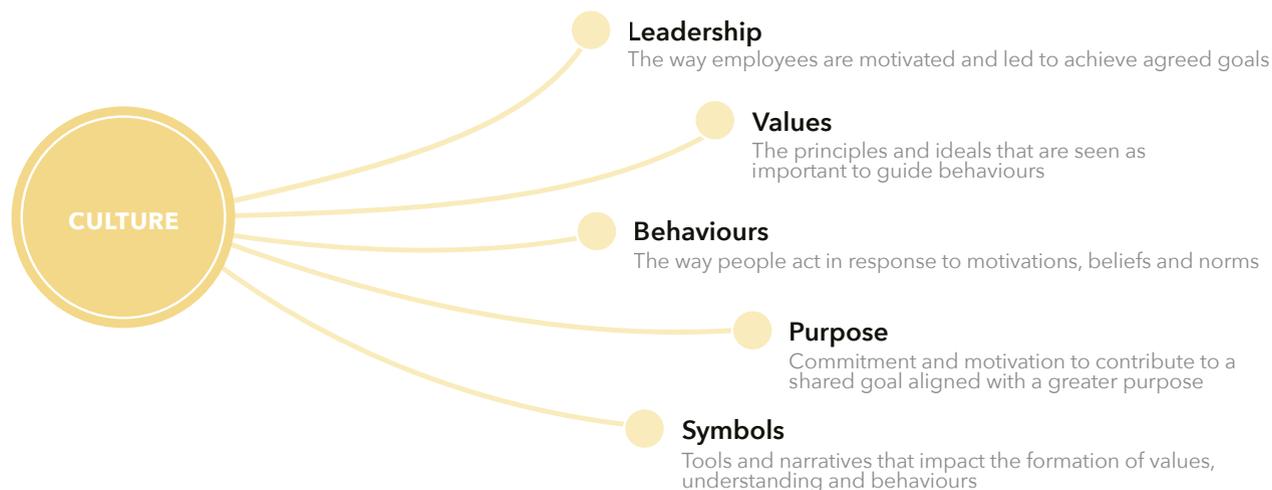
THE ROLE OF CULTURE

The current rapidly-changing context presents interesting challenges and opportunities for the firms. As the firms become more diverse in their recruitment processes, become more global and take on new responsibilities, it is important to think about how these might impact the professional ethos and values that shape the culture within a practice. Our participants have raised the importance of investing more in understanding and developing values beyond boilerplate 'value/mission statements'. Refocusing attention to engaging employees in critical reflections about purpose and practices, as well as hiring and retention practices, has shown to foster personal commitment and shared values, as well as promote genuine motivation in staff.

Culture could also be stifling. Participants in the project see particular elements of culture and structures as the key barriers for firms to engage in new practices, such as innovative accounting practices. The reportedly 'hierarchical structures' are seen by many participants to be promoting a culture of deference, where individuals are 'waiting to be told what to do'. Instead, participants have suggested that to alleviate this and improve productivity, more open and networked structures might be more appropriate, as they promote a culture of collaboration and 'getting things done'.

Our discussions point to the challenges that firms face in recruiting new trainees and staff, as they try to maintain the right culture in the face of a high turnover of qualified staff. Firms will continue to face challenges in the face of changing societal needs and the perceivably different expectations of the next generations. For many participants, change is in the air. They see in most firms that the culture is already becoming more informal. As the workforce is expanding to host three generations with reportedly different expectations of the workplace's culture, the firms should open themselves to reflect, respond and engage in proactive conversations. These shifts might have a disruptive impact on behaviours and culture within the firms, which will require a renewed attention to purpose, processes and relationships.

There have been some changes already. The public interest role of the profession now includes interaction with wider stakeholders, beyond investment and pension funds. There is a broader stakeholder base that cares more about issues around governance, citizenship, corporate stewardship, and the environment, rather than results. There is a renewed attention to the intangibles – such as culture and ethical principles. Stakeholders expect the profession to have a stronger voice and opinion about these issues.



The business ecosystems in which firms operate have an impact on the overall culture and expectations. The growing expectations of clients are intensified by the rapid developments of technology, where clients now expect faster turnarounds and a 24/7 contact culture. At the same time, there are tensions between increasing customer demands and employee demands for new flexible models of work (ie, flexi-time, part-time work). Questions arise about the need for offices in the current scale, and on how firms should bridge home-working and flexible-working with client meetings and ‘touch down’ pods for efficiency.

One participant summed up the discussion very well, stating that firms need to ‘create a collaborative and diversified culture; listen to younger generation’s expectations; be more proactive to change rather than reactive; invest in

technology and innovative thinking; promote and implement flexible working.’

REAL VALUES THAT MOTIVATE, INSPIRE AND RETAIN PEOPLE

A firm is only as good as the people working for it. There is a general agreement that people look for a good working environment and respond to being treated well and valued in the workplace. Having core values that are shared by staff and who have similar ambitions and vision for the future of the firm is critical. This is why key importance is given to attracting the right people, with the right mindset and retaining them. All participants shared this as a growing concern.

Some participants raised concerns that the industry has been over-optimised for traditional practice. Mechanisms and

processes are in place to make the firms work smoothly, but sometimes these emphasise ‘process over people’ a little too much, both inside the firms and in dealing with clients.

An existing concern is that people might start with the right beliefs and principles, but performance measures and leadership models could easily erode these by encouraging actions that contradict these beliefs and ethics. What processes could help people to internalise values better? Could technology and training platforms facilitate these efforts?

Attracting and retaining talented people has been raised as a potential challenge for many firms. Longer working hours makes it harder and less appealing to more junior staff, who report to struggle in seeing the appeal of partnership roles, especially with the demands that they have on personal lives.

Reported views from the younger generation point to their expectations of more flexible working options, which firms must respond to. These perceivably different expectations and values call for deeper and more meaningful ways of engaging staff. What practices might empower, motivate and retain different levels of staff? Could more staff involvement in the management of firms provide for improved outcomes and motivation?

In the future, 'brand loyalty' will become a key factor, where the employer(s) gain more power (vs governments or consumers, for example). Our discussions bring attention to that importance of values and virtues of a company - focusing on how it is run, how it looks after its employees and what principles it stands for. Values and virtues could be said to be predictive about the success and future of the firm. Therefore, it is important for firms to recognise and nurture their talent, from junior levels all the way to senior management. Firms are ultimately communities made up of people who contribute to a shared purpose, and this is why we want to bring attention to culture and practices that improve engagement and sense of value.

COLLABORATIVE BEHAVIOURS - EMPLOYEES AND LEADERSHIP

One challenging proposition we heard was for organisations to nudge the company and employees to be comfortable with transparency and frequent changes. Could this be productive? It is fair to say that firms need to lead in such a way that inspires employees and promotes clients' trust. Could one way of doing this be through breaking silos? Some have argued that culture should promote bridging of different departments in order to improve communication and adhesion.

Entrepreneurial culture might be the key. What can we learn from the lessons of fintech startups and Uber? In theory, firms could make the same leaps with projects outside existing structures and cultures. For example, firms could initiate startups that offer micro-services.

Flexible working arrangements have in some ways provided for a more productive culture, which has valued and enabled individuals to have reasonable work-life balance (such as, women being able to remain in employment after extended maternity leave). This said, firms would need to continually reassess these in order to stay relevant and attractive.

INTEGRITY AND ETHICAL BEHAVIOUR IN AN AGILE ENVIRONMENT

Society's trust in the firms stems from their legacy. However, this trust could be potentially at risk, in the face of automation and the rising dependency on technologies. Who would trust technology? Trust further relies on professional ethos and the commitments that firms have to society. Will the increasingly diversified intake of practitioners challenge the existing ethos within the firms, and the accountancy profession at large? Would employees have the right ethics and values that the firm needs? What kind of training and education should foster the 'right' values and ethics? How can firms' culture cultivate ethical behaviour? How can we design smarter recruitment practices that select for particular behaviours and values, as for attracting the right individuals?

In connection with the importance of ethics and judgement, participants have noted that compliance teams are most critical about the new communication platforms and styles. One dilemma is that any member of a firm can communicate with a client without oversight or sign off. As this trend seems

to be inevitable, firms might need to build cultures that guide employees towards acquiring the 'right' judgement in what to say, how to say it and when to ask for senior peers' input.

THE IMPACT OF CULTURE AND HOW WE MOTIVATE PEOPLE

Firms are, at their heart, a group of skilled people who need to work together to deliver the best outcome for themselves and their clients. Culture is critical to achieving this, as without the right culture, fast, rapid, organic and credible development and innovation cannot happen. We must continue to think ahead; and be proactive and not simply reactive.

Ensuring diversity (in the broadest sense) in recruitment and progression, while maintaining a meritocratic culture, is a part of how firms can address this challenge. Also, ensuring that individuals with deep specialist skills (such as cyber-security and technology) can find a place in the firm will bring new cultural attributes that stretch the traditional accounting mindset and behaviours. But overall, continued focus on how we connect with people's innate intrinsic motivation and a sense of purpose, and how we can reward the right behaviours and help internalise good values will all remain important for the development of the future firm.

INTERSECTIONS WITH OTHER DIMENSIONS

- How can firms create the right culture for a more technology-focused future firm without losing what makes them successful today, and without losing their professional ethics and standards?
- How can the future firm develop a more customer-centric and outside-in culture to improve service delivery for clients?
- As the future firm adjusts its hiring, learning and training practices for its people, how can it define the cultural attributes required to support new and better ways of working?
- With governance becoming more complex and difficult in fast-moving firms reliant on technology and data, what is the role of culture in ensuring good behaviours and transparent reporting?
- As the structure of the future firm becomes more networked, what is the role of culture in holding the structure together and ensuring common purpose?

SOME IDEAS FOR TAKING THIS FORWARD

- Consult with the firm on the kinds of behaviours and values they believe are important for the future firm
- Work with volunteers in the business to craft and communicate a 'culture deck' that can encapsulate these behaviours and values in an interesting way
- Consider how culture and behaviour are underpinned by beliefs and assumptions about the nature of the profession and the firm; check these are still relevant in the future firm
- Consider how hierarchical and process-driven ways of working impact on culture, and consider what systemic or structural changes might improve the firm's culture
- Think about the new culture of work and the small behaviours this can promote (eg, seeking problems, fixing things, sharing more, Working Out Loud), and introduce these into training and learning



Governance

Governance is largely perceived as driven by regulatory and legal frameworks. Instead, it should be driven by openness and internalising the purpose of the firm and linked to upholding the ethos and the public interest of the profession. As firms grow, the diversification of their structure and service lines will introduce greater risk to trust and ethical judgement. There is a growing consensus that firms need to invest not just in compliance, but also in cultivating a culture of trust by rethinking the role of HR and leadership with their associated responsibilities.

The questions and provocations that we heard deal largely with the balance of power and ownership within the firm. How does the balance of power shift around a professional service firm? When ownership and authority are diffused among a larger group of professionals, how does power become concentrated among a smaller group of senior managers?

Some participants indicated that their firms are already thinking about the implications of changing forms of governance for issues such as the strength of financial performance, quality of client service, and how the firm is run. It is essential for the delivery of customised professional services to expect and require independence and a degree of autonomy from managerial control. It is ultimately a matter of enabling professional discretion. More autonomy and discretion also open up questions of risks and managing internal challenges.

In reality, however, most changes are seen to be driven by external pressures. According to the revised FRC governance code, the audit firms' transparency report must explain what the board and the NEDs have done to make sure an appropriate culture exists throughout the organisation. The FRC also requires firms to explain how NEDs serve the public interest by helping to ensure audit quality, and how they worked during the year to fulfil the code's purpose. We have heard critical comments that this could be a challenge for smaller firms. Some also said the provision could act as a barrier to adoption of the code internationally. At the same time, many see the establishment (by all major firms) of new boards with non-executive directors (drawn from outside the profession) as a good thing for making firms more transparent and accountable.

Good governance requires the right processes and structures to be in place, in order to enable fast and efficient decision-making while still ensuring appropriate engagement with partners and employees, as well as balancing stakeholder needs and the public interest. An interesting question that emerged in discussions was whether we can achieve this by process control alone, or whether new technology and more highly networked firms might give us new possibilities in terms of social governance and the internalisation of 'good' behaviours.

REDEFINING PROFESSIONAL STANDARDS FOR THE FUTURE OF AUDITING

While using technology might get easier and easier, innovation in regulations and legal frameworks might not, and so it is difficult to see how everything can become

automated. There is a divide in opinion within and between the firms. Some believe that technological innovation and the proliferation of data and information will improve quality and standards. At the same time, others see that regulation is best placed to decide the future of auditing. It is of concern that if regulation becomes as strict as in the US market, more UK firms are likely to drop their auditing services.

The fear of 'what if?' is leading firms to move towards advisory services and drop their audit services altogether in the face of increased regulation, as firms have a duty to the profession and society. Calls for greater oversight of the financial industry will also have a knock-on effect on how company audits are carried out – with greater emphasis on stronger controls over independence. The wider public is a large stakeholder in the work of auditors – by its very nature, the work is designed to ensure that the public can have confidence in financial statements. We will most likely see a greater pressure on the clarity of wording and transparency of the work undertaken as part of audit reports. This will most likely lead to increased disclaimers and growth in legal claims and challenges.

The challenge ahead is to rethink standards so they can set the speed and the extent to which services can be innovated. The rise of internal service platforms that orchestrate or perhaps automate basic accounting and audit tasks might mean that firms can embed governance directly into work systems, making it harder for people to complete work in a non-compliant manner.



THE EFFECT OF REGULATION ON BEHAVIOUR

New legislation may be a major factor in changing the governance context for future firms, including new audit regulations and new ethical standards. Firms may need to operate within narrow governance frameworks prescribed by the regulators. On a professional level, compliance is likely to become more onerous, as penalties become higher and applied more rigorously. On a firm level, these may have an impact on attracting and retaining ‘top talent’. While regulations have a legitimate purpose, they can also have unintended consequences.

Participants expressed that there is an ongoing concern within firms about where and whether to invest in areas that are likely to be subject to new regulations. For example, if regulation might at some point require audits on whole data sets instead of samples, should firms invest in new solutions ahead of time or not? This type of uncertainty discourages innovation.

Meanwhile, there is an increased focus on governance from the media and government agencies, as well as a drive for public accountability. Reported public perception of the roles and responsibilities of accounting firms are changing. Ideally, governance should be forward thinking as opposed

to responsive and should help, not hinder, attempts to encourage employee progression, recruitment and retention. The nature and normative aspects of governance should be rethought to consider ways to attract and maintain good employees, and encourage value-added service (to attract and maintain good clients).

A lack of sufficient governance will lead to a greater chance of falling foul of the increasingly complex rules and regulations and the pitfalls they can bring. However, with ever-increasing regulation, will we reach a point where audit firms can only offer traditional audit and nothing else?

The point being made by many is that not only the firms, but also the regulators need to adapt and be more dynamic. Regulators are not seen as keeping pace with the rate of technological innovation, and therefore, the firms can find themselves stuck between a desire to try and improve and make positive changes, and a need to stay 'on the side' with the regulator(s) and other stakeholders. It might be that the present system of lobbying is not achieving the rate of progressive change that is needed. Things are obviously complex – increased technical detail and red tape compliance, coupled with an expectation (from clients) for firms to 'know everything' in a world with increasingly complex legislation. As the internal standards are getting higher and training is becoming tougher, the pressure and demands of work create signals that might drive people out of the profession, once they qualify.

Some participants feel that increasing thresholds are making audits of smaller firms redundant. Yet, these are the types of entities who would benefit most from having a professional adviser to review their records, as well as to provide guidance and advice. It was pointed out that the EU audit reform and audit rotation might increase costs significantly, and so ensuring quality for existing clients is paramount, while so much focus is given to 'winning new work'. Uncertainty is growing in relation to the future that Brexit promises, which might change the regulatory context once again.



The diversification of people in the firms will introduce greater risks to trust and ethical behaviour. Firms need to invest not just in compliance but in cultivating a culture of trust. This would include rethinking the role and responsibility of HR and leadership, in addition to alternatives to the hierarchical structures that do not offer opportunities for growth in varied career paths.

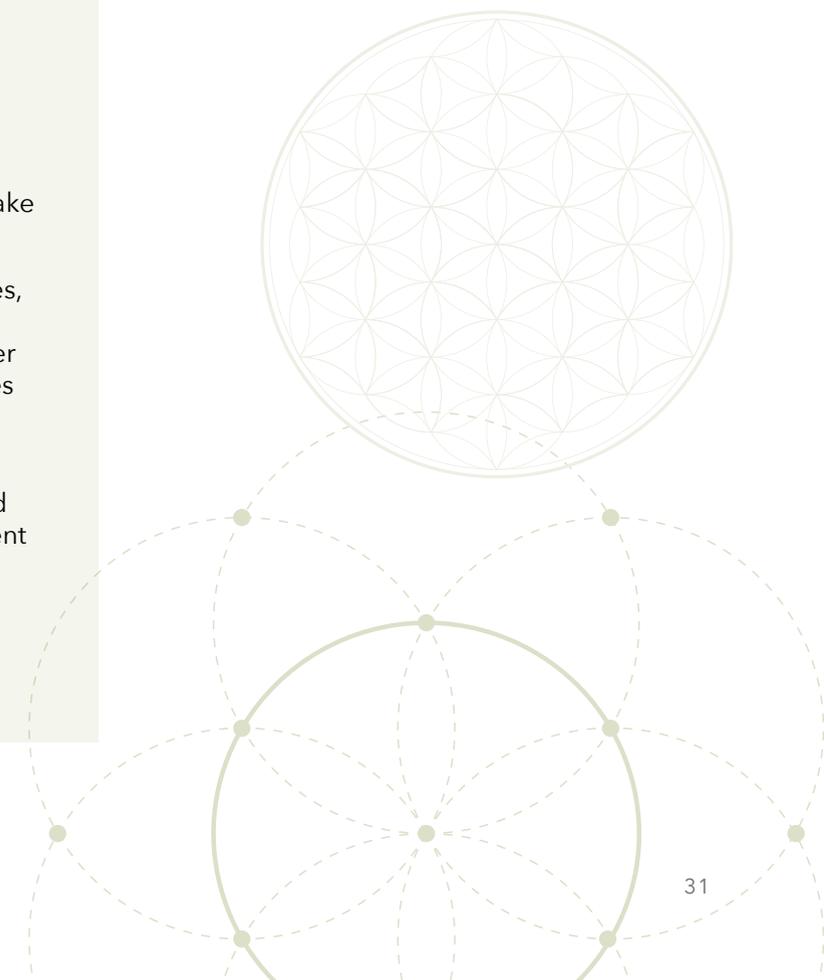


INTERSECTIONS WITH OTHER DIMENSIONS

- What is the future for algorithmic governance of technology in the future firm, and how can we ensure that rules of the road are intrinsic to new tech, not applied after the fact?
- If the future firm involves more intimate, real-time working as part of modern client services, how can the firm maintain oversight and good governance?
- Given that regulations and governance are often lagging behind practice, how can we create a culture of compliance and good behaviour, rather than relying on a retrospective action?
- With a more diverse workforce, how can we take governance right back to the hiring, onboarding, learning and developing of people in the future firm?
- In a future firm with more networked structures and less hierarchical management, how can governance also adapt to become networked and distributed?

TAKING THIS FORWARD

- To avoid polarising public opinion, connect with personalised communications, replacing caution with candour. Become more accessible and dispel the mystique that surrounds the profession by engaging and educating members of the public
- Establish a proactive leadership position that will gain the trust of society by taking a more open, transparent and reflective position. This would require firms to reflect seriously on the feedback that they receive and, if appropriate, take corrective action
- Review the goals or aims of governance measures, and consider different ways to achieve them by embedding desired behaviours and values, rather than just through processes and control measures
- Consider how distributed communication and transparency can play a role in achieving governance goals, and work with technology and communication functions to create an environment where less enforcement is needed



People

What are the reported challenges in attracting, educating and retaining talent and what can we say about the future of work in accounting firms? It takes a long time to develop a professional identity and to become an expert. It is a long-term process that builds gradually through stages of education and is later reinforced through meaningful professional practice and lifelong learning development opportunities.

Professionals are not simply competent technicians who follow the rules, but people of moral and intellectual qualities that enable them to achieve the good that they have committed to in their roles. Also, the changing nature of work and the threat of automation have raised questions about the nature of professional judgement and practice. In this section, we bring attention to these challenges and offer ways for how to think about these.

By changing some of their entry requirements, firms have championed social mobility and signalled the value of diversity, as well as the need for more individuals with backgrounds in technology. However, this has presented some ambiguities around the impact of diversity on the professional ethos and culture of the firms. Should firms focus on specialised training that can foster common values and culture, beyond mere compliance?

While predictions have become fashionable about the impact of AI on professions, accounting practice is still about humans, rather than algorithms, making judgements. As audit becomes more automated, there will be more demand for technology and data skills, but also for young employees to learn the basics of the business. Discussions about the impact of technologies have obviously led the conversation, but what has been missing from these talks is the role of character and ethical judgement of professionals. It is harder to predict individual behaviours, and it is even harder to understand how to foster and attract individuals with specific values and attitudes. Nevertheless, a number of our conversations pointed to the need to put more emphasis on enabling character virtues, ethical judgement and discretion in individuals, instead of focusing on compliance.

Similarly, participants expect that younger employees might want opportunities to grow into alternative career paths, outside of the existing hierarchical structure, which requires us to discuss different work models and explore how firms could better invest in human capital.

EMPLOYEE EXPECTATIONS AND MOTIVATIONS DRIVE COMMITMENT AND ETHICAL CULTURE WITHIN ORGANISATIONS

Despite the traditional career path being geared towards the hierarchical pursuit of partner status, more employees today report seeing better opportunities in other sectors and are less likely than before to work their way up the social pyramid patiently. They are interested in business services and seek opportunities to grow into alternative career paths. Are current positions and role expectations maximising the full potential of young people (eg, their fluency with technology)?

WHAT ELSE COULD BE DONE?

For example, some firms are experimenting with new 'rotational' formats, which allow graduates to go through different departments (eg, business strategy and business systems) in the early parts of their career. As people's needs, ambitions and expectations change, firms will have to learn to adapt to meet those needs, accepting that a one-size fits all approach is no longer applicable. Such changes are already seen in the way firms champion social mobility.

Some participants argued that learning and training tracks need to expose trainees to more aspects of the business than just audit. Younger generations relate their expectation for more alternatives than just a path to partnership, which has largely given them a reputation of entitlement, and certain reputation when they join the firms. Employees in the



millennial generation are perceived as people who value variation in experiences, developmental opportunities and more rapid promotion prospects. This signals a widening gap between their expectations and what firms need from younger employees. As a result, our participants have witnessed the high level of turnover of staff, and argue that the causes are the unattractive work-life balance and remuneration, compared to similar roles in the industry.

It is a common agreement that the profession needs to recruit high-quality people with a genuine long-term interest in the profession. This is why it is important to bridge the gap between what is advertised and the reality of the job, especially in the first five years. New entrants' initial experiences of bookkeeping and substantive audit

testing can be boring. What can we do to inspire them? One idea we heard was to engage junior employees in shadowing more senior colleagues in order to help them envision and encourage accountancy as a long-term career. In this way, employees will feel like they belong, and their career prospects could be made clearer, attainable and more attractive. Such strategies could give good sense of progression, particularly after qualifications. Also, the misconceptions about the entrance requirement (eg, the idea that a business degree or even a degree at all, is required) might deter some promising candidates from entering the profession. Additionally, salaries for qualified staff in practice remain poor compared to the rest of industry, where high-value skills are worth more in the market than some firms can pay.

There is a general concern that to attract the right calibre of people into the profession, a more positive narrative is needed from the firms and the profession. Firms are already starting to pick up and bring on the positive, the challenging and diverse nature of the work, in order to be more attractive to new talent. Ensuring a healthy work-life balance is key to retaining people, as well as flexible working hours. It is our understanding that graduates might not want to commit to three-year contracts since they believe they can earn more and have the same status from taking an alternative career path that does not require additional study and long hours. It is the opinion of some that accountancy firms need to be much better at selling the opportunities that they can offer to staff on a long-term basis, whether through internal secondments, international work or through supporting staff

with additional training and qualifications. Most accounting firms will not be able to compete with industry when it comes to basic salary, and so this means that firms will need to be more creative with the total packages they offer to staff.

PEOPLE ARE THE MOST VALUABLE 'INTANGIBLES' OF A FIRM

Accountancy is a service profession, so the quality of people is fundamental – this is what our clients buy. We tend to offer services, not products, so we need to design an environment that gives those people a reason to want to offer great quality and client service. How firms invest and train their people to understand and use technology will be another decisive factor. A few have argued that people may need to become less specialised, and more willing to embrace an ever-changing landscape, in every sense. One way to provide for this diversity and interdisciplinarity of work is through recruiting a diverse group of people. This is currently thought to be key to the future success of an organisation. Without good people at the right levels, it will be very difficult for a firm to give the best service to a client.

CREATIVE AND SOCIAL INTELLIGENCE ACCOMPANIED BY PRACTICAL WISDOM IS KEY!

As mentioned throughout the report, the changing nature of work and the promise of AI has brought firms to increasingly consider different skills, in particular, those that have more technology orientation. Currently, to qualify as an accountant, people have to have certain hours of audit training, but should the time be better invested in building a broader skill set? At the same time, there are increasing reports that the firms are looking for individuals that are charismatic, influential and good communicators, who can be client facing, sell and operate in a new environment of networked teams and tech-savvy people. At the same time,

they also report to be looking for people who can implement technology, design and optimise business processes. These characteristics are not usually found in a single individual, which means that the profile of a 'typical' accounting firm employee is open to changes, and more emphasis is put on the creation of multi-disciplinary teams who can get work done. Participants suggested that a one-size fits all approach to career planning no longer works and that there are perfectly good 'mature' candidates who would make ideal accountants, but who are excluded on the grounds of age or other factors (eg, career path flexibility for returning mothers or people switching careers).

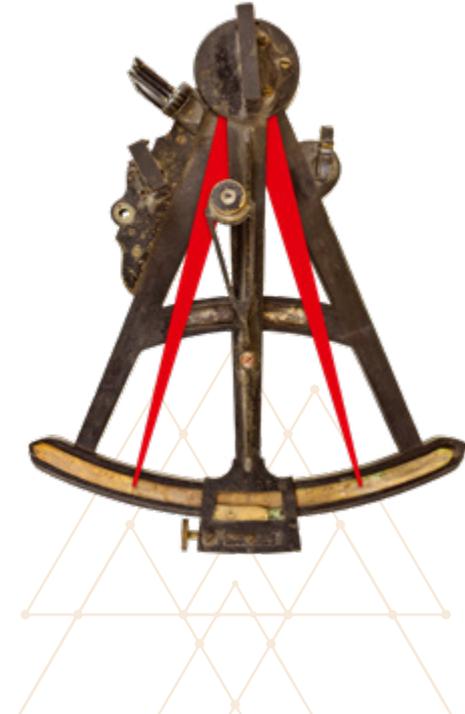
TECHNICAL KNOWLEDGE MUST BE AUGMENTED, CONTEXTUALISED AND CRITICALLY APPLIED

In the age of big data, might professionals need to use statistical methods in their everyday job? What would be the implications of this on the knowledge base and background of accountants? The nature of technical knowledge has been raised in our discussions as open to change. However, the nature and relevancy of 'soft skills' has also been raised. For example, associates might need to improve their social skills in order to be efficient in networks (eg, building trusted relationships online and offline). Participants were particularly concerned with how people can be trained in audit if many of the basic tasks become automated. Too much communication via tools threatens to remove face-to-face communication. For many employees, face-to-face communication is how they learn best, and how they develop relationships with colleagues.

The importance of interdisciplinary was raised again. It is our understanding that while firms will need experts in specialised areas, they will also need people who can take on hybrid roles. What these roles encompass has yet

to be explored. As audit becomes more automated, and as bookkeeping and accounts production work becomes more outsourced, there may be less need, but also less opportunity, for young employees to learn the basics of the business, and this could be a problem. There is a gap between graduate expectations to quickly advance in the business and the knowledge and experience required to understand its complexity.

Participants also argued that training for all disciplines needs to be technology-enabled: 'At the moment, in audit, we train people in how to audit and then try to persuade them to use data and analytics, but we should be embedding technological capability in what we teach people from the start.'



INTERSECTIONS WITH OTHER DIMENSIONS

- How can technology support more autonomy and creativity in the workplace?
- What new skills and attributes will be needed to support changing client services delivery in the future firm, beyond just specialist accounting knowledge?
- How will culture change in the future firm, and what does this mean for hiring, learning, development and also the assembly of multi-disciplinary teams?
- In the future firm, looser and more heterogeneous organisational structures will require adaptable people, with enough self-motivation and self-discipline to make the most of new ways of working
- Assuming the future firm will include more non-classically-trained accountants, how can governance methods and professional standards be adapted to work with a more diverse workforce?

TAKING THIS FORWARD

- Engage with schools more constructively to inspire and motivate students to better engage with the accountancy profession, and seek how to shape the vocational routes to the profession
- Bridge the gap between academia and practice by engaging with professional degree programmes in more depth and challenge students by asking them to problem-solve future trends. Enter into constructive collaboration with academics to question and inform the value of professional degrees that are currently at risk
- Engage novice professionals in induction activities and critical thinking workshops that motivate and commit to a higher purpose. Promote targeted/ tailored lifelong learning opportunities
- Introduce design tools to enable creative and social intelligence in designing new services; to motivate and engage novice professionals to design and think about their future within the firm



Technology

Technology is already impacting the profession. As the larger firms are increasingly using big data and analytics, this will further filter down to affect firms at all levels, in the coming years. Cloud-based software has already changed how firms interact with clients and this will continue to evolve. Innovative auditing techniques, such as data mining, are promising to increase the efficiency and quality of auditing. Participants in our project shared the need to engage leadership into normative discussions about the long-term impact of technology, and strategic planning beyond short-term 'solutionism'. Is efficiency value neutral? Should firms provide training to up-skill existing employees to improve retention and morale?

DIGITAL DISRUPTION WILL CONTINUE TO SHAPE THE FUTURE OF THE FIRM

It is broadly acknowledged that technology will disrupt accounting practice. It can be hard for individual firms to imagine the specific implications and how they can harness or counter this innovation. Technology is ever-changing, and firms must embrace it, but the current wave of change appears to herald a new chapter that will significantly change the way we work. Also, since technology is impacting all industries, this means that as service providers who can potentially work together with any industry, we need to

be abreast of key changes that can make our work more effective and efficient and help us understand the changes our clients are facing.

Technology is significantly impacting the audit profession already, but this impact will also extend to other areas of accounting and advisory work. Although technology might automate or commoditise some tasks firms currently undertake for their clients, accounting practice is likely to remain anchored in the realm of human judgement. Nevertheless, accounting firms need to continuously question their relevancy and evolve to maintain a competitive advantage.

Our participants believe it is clear that technology will be a huge driver of competitive advantage in future. Although they also realise that it is more about using technology in the right way, rather than using technology for the sake of using it. People will continue to look for people's services, but they will probably have to pay more for people armed with the right technology. That being said, if firms make poor investment decisions, they will incur additional risks and costs.

THE DIGITAL WORKPLACE

Technology can change the way that existing work is performed, increasing efficiency and supporting flexible working arrangements and distributed teams. Collaboration tools, enterprise social networks, real-time chat, wikis for documentation and document sharing are tools used in a greater or lesser extent in medium to large-sized firms. Many smaller firms are also making good use of these cheap

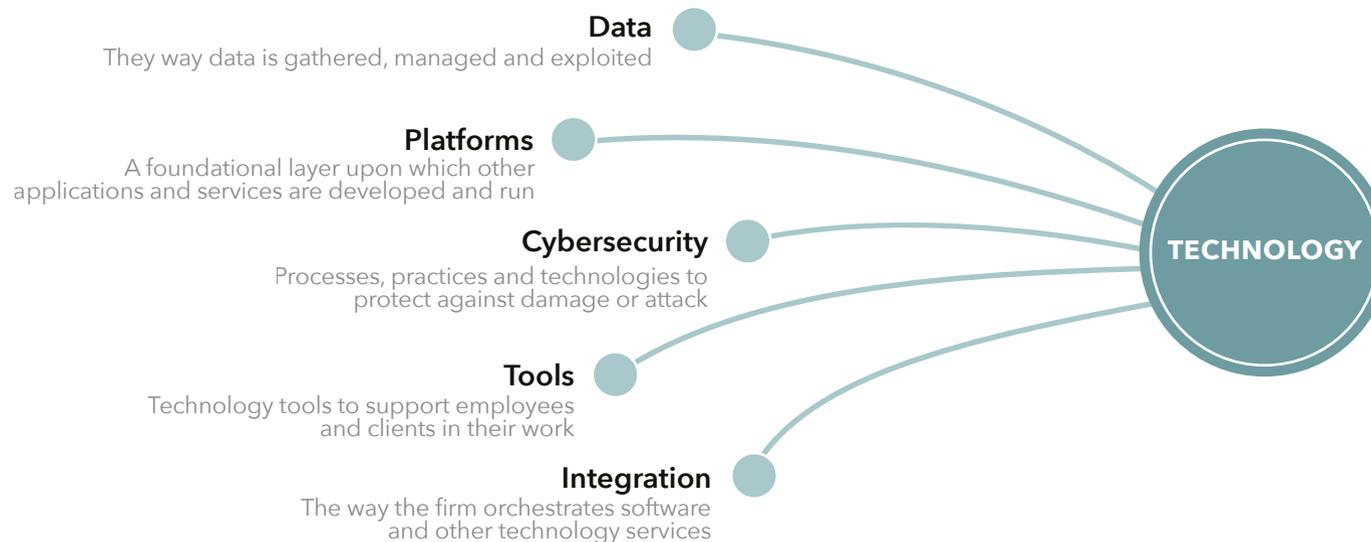
consumer tools. As some participants acknowledge, the main challenges to enabling greater use of social business or collaboration tools are regulatory (eg, chat), cultural (senior partners may not be comfortable working in this way) or structural (where collaboration and networks bump up against hierarchy or practice area silos). This will change only if tools become more culturally accepted and prove their efficiency benefits.

CLIENT ENGAGEMENT

Some firms report to be using external social media to engage with clients, staff and third parties, and in training and staff development workshops. Some firms also use client extranets or collaboration spaces, which are seen as more effective in their work with clients than using email and document transmission. These emerging technologies like Chatbot concierge services or tools for live video advisory conversations might form the basis of self-service platforms for clients in the future.

DATA, ANALYTICS AND ARTIFICIAL INTELLIGENCE

Big data, analytics and AI are the most popular technology category that participants expect to have a major impact on their firms. These could dramatically change the way we do audit work but also practise accounting more broadly. Intelligent accounting software and automated auditing software will mean that the profession needs to rethink everything, from how they analyse accounts to the relevancy of the pyramid structure of the firm itself. It is clear that firms will continue to need a large pool of trainee accountants to



undertake routine work. However, there is a clear need to reassess the level at which this work is undertaken and billed. Right now, it is not entirely clear how this type of work will be commercialised and how firms could move away from ‘a time and materials basis of revenue and billing’.

The first audit data platforms are already on the market. However, they continue to support traditional audit methods and have not yet changed the business model of audit as such. It is predicted that with the right audit tools, it might be possible to audit 80% of a company’s activities, rather than just the 20% represented on the balance sheet. One firm that has been experimenting with an automated data processing platform finds that while it does not yet increase the speed of tasks, it does enhance the quality of the audits.

Eventually, the final output of audit and possibly accounting might change completely, so it may no longer be enough to provide balance sheets or base audits on samples. Participants felt that data platforms and real-time analysis would soon lead to a shift in the balance between software services and people-services in larger firms. However, a limiting factor might be that most clients seem a long way away from being able to provide the data these newer systems require. As audit becomes less a routine tick-box exercise, and more emphasis is put on computer-assisted techniques to analyse whole datasets as opposed to just samples, there will be an increasing need for people who have the ability to interpret data. Nevertheless, this is a skill, which needs to be learned and requires special training or education. Finding the optimum

combination of technology and human oversight will be a key challenge.

Overall, the promise of technology has excited and concerned participants in equal measure. There is a consensus that even larger firms might not yet have the in-depth technical knowledge and capacities that are needed to prove they are leaders in the field of applying data and AI to accounting. What needs to happen in order for firms to lead the conversation rather than react to new technology firms entering their market? It is anticipated that the competition between technology and accountancy firms will be decided on which can create the most trust in the marketplace. It is likely that automated processing will start as part of doing internal audits – potentially offered through platforms owned

by large cloud players such as Google or Amazon – and only later will external audits become automated. This poses a risk for accounting firms - as technology companies start to offer solutions for internal audits and potentially provide external audits as services, accounting firms could lose market share.

The question is whether buyers will trust the technology companies in handling their financial data. Or would they continue to trust the profession that has historically been responsible for ensuring a reliable business environment? This uncertainty calls for careful deliberation on the value of firms, and the processes and structures that ensure trust and responsibility to its clients.

BLOCKCHAIN AND CRYPTOCURRENCY

There has been a recent hype in discussing the disruptive nature of blockchain and distributed ledger technology. They could profoundly change the way businesses transact and contract with each other. This could open up new categories of risk and fundamentally change our ability to demonstrate the accuracy and completeness of financial reporting. By using irreversible encryption in a distributed ledger, blockchains promise to create immutable records of transactions, agreements and other events. The technology underpins virtual currencies such as bitcoin but is also being used to create smart contracts and even entirely algorithmic organisations (known as Distributed Autonomous Organisations). At present, despite the potential of the technology, bitcoin and blockchain are in something of a ‘wild west’ phase, where unforeseen vulnerabilities or unintended consequences pose huge risks for early adopters.

In theory, however, if blockchain creates an open ledger environment with an equivalent of double-entry recording for a transaction between two different parties, it could



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effectively remove the need for accounting systems as they stand today. From an audit perspective, all these transactions will be available on an open, transparent network, which counterparties can verify. So, what would be the role and value of the auditor in making these non-judgemental transactions?

While participants could see the potentially radical impact of blockchain technology on the profession, it was clear in our discussions that this technology is still embryonic and not yet ready for real-world markets.

MOVING FROM TOOLS AND SERVICES TO INTEGRATED PLATFORMS

Developing new technology solutions will require building solid platforms and providing access to a large collection of data. There is a concern that it will be more difficult to retain clients, as firms commoditise their services into platforms. However, a firm that provides a client’s financial data platform may enjoy a high level of lock-in. In the long-run, regulations

and technological developments will most likely make it easy for clients to change between different platforms and take their data with them.

‘Cloud-based software’ means that basic outsourced bookkeeping services could be delivered to the client ‘live’, instead of as a snapshot at the end of each month/quarter. Cloud accounting, which is reflected in HMRC’s plans for Making Tax Digital, will have a major impact on the profession. Over time, cloud accounting may become the main way accounting is performed. Due to many factors of uncertainty and risk, many clients might not buy into these. It is still a question whether the new generation of business people will entirely embrace this in their work. Most are hopeful that cloud accounting and online document storage will broaden the potential client base (typically clients are currently local) and also increase the need to offer value-added services, above and beyond the basics.

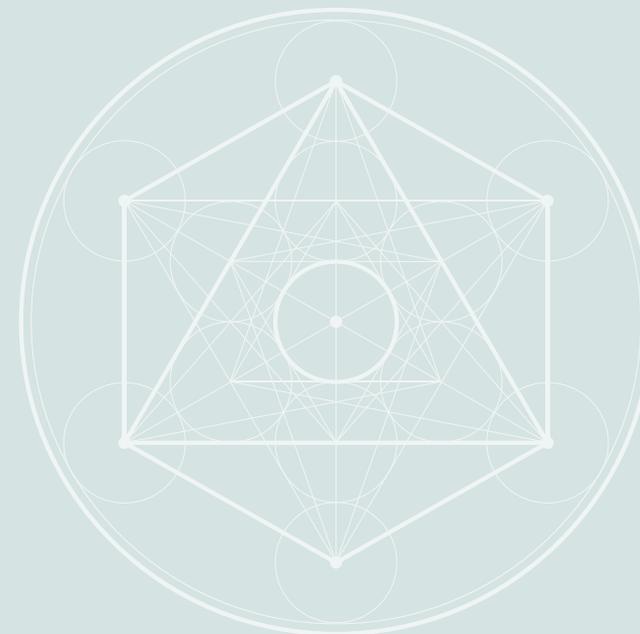
Rather than relying entirely on third-party tools, some larger firms have started putting together the building blocks of their platforms. This could give them the chance to design and define the right customer experience, and the services they want to offer online. Some challenges relate to the increasing nature of client requirements. To meet these requirements, online platforms are one way to deliver a consistent always-on experience. However, being able to orchestrate services and to offer them through an online platform requires changes to the way firms think of their work internally. They will need to become more service-oriented. For example, core teams could engage in delivering repeatable basic services by using technology automation. Others, perhaps fee earners and partners, could be engaged in creating innovative new packages of multiple basic services which are targeted to meet specific client needs.

The continued development of cloud-based technology and big-data analytics will change the way in which accountancy firms operate from both an accounting standpoint and a tax standpoint.

RECRUITMENT AND SKILLS DEVELOPMENT

Participants expect to see firms recruit more students with technology backgrounds rather than business and mathematical backgrounds. IT training will become a core part of any training contract, and existing managers and partners who do not adapt will run the risk of becoming obsolete. Some predictions argue that junior level positions might be significantly reduced in the coming years. As the industry becomes more technology-driven, firms might respond by putting more value on different types of skills that could perform higher-level operations.

In order to tackle such predictions and plan proactively, many recommend that firms start to invest in training and development of their current staff. Providing such in-house training that builds skills for current staff will ultimately make firms more resilient and attractive. While many firms are doing this already, it is important to critically reflect on how their current training practices are offering the experience and skills that are needed to retain and motivate staff. What practices show staff that they are valued and are part of the long-term vision of the firm?

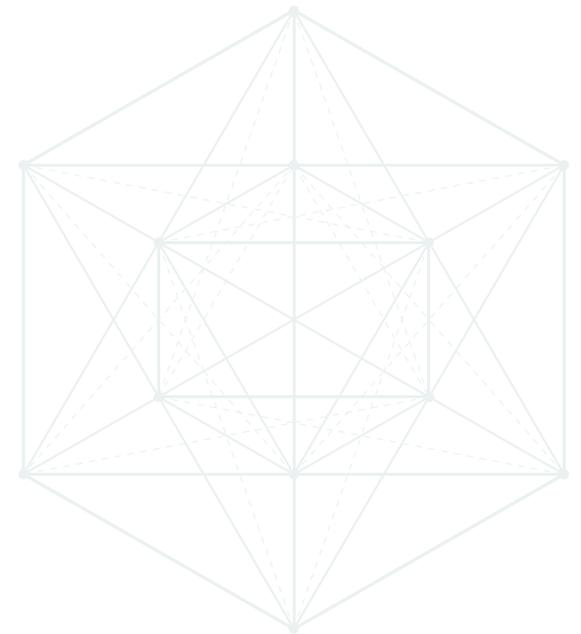


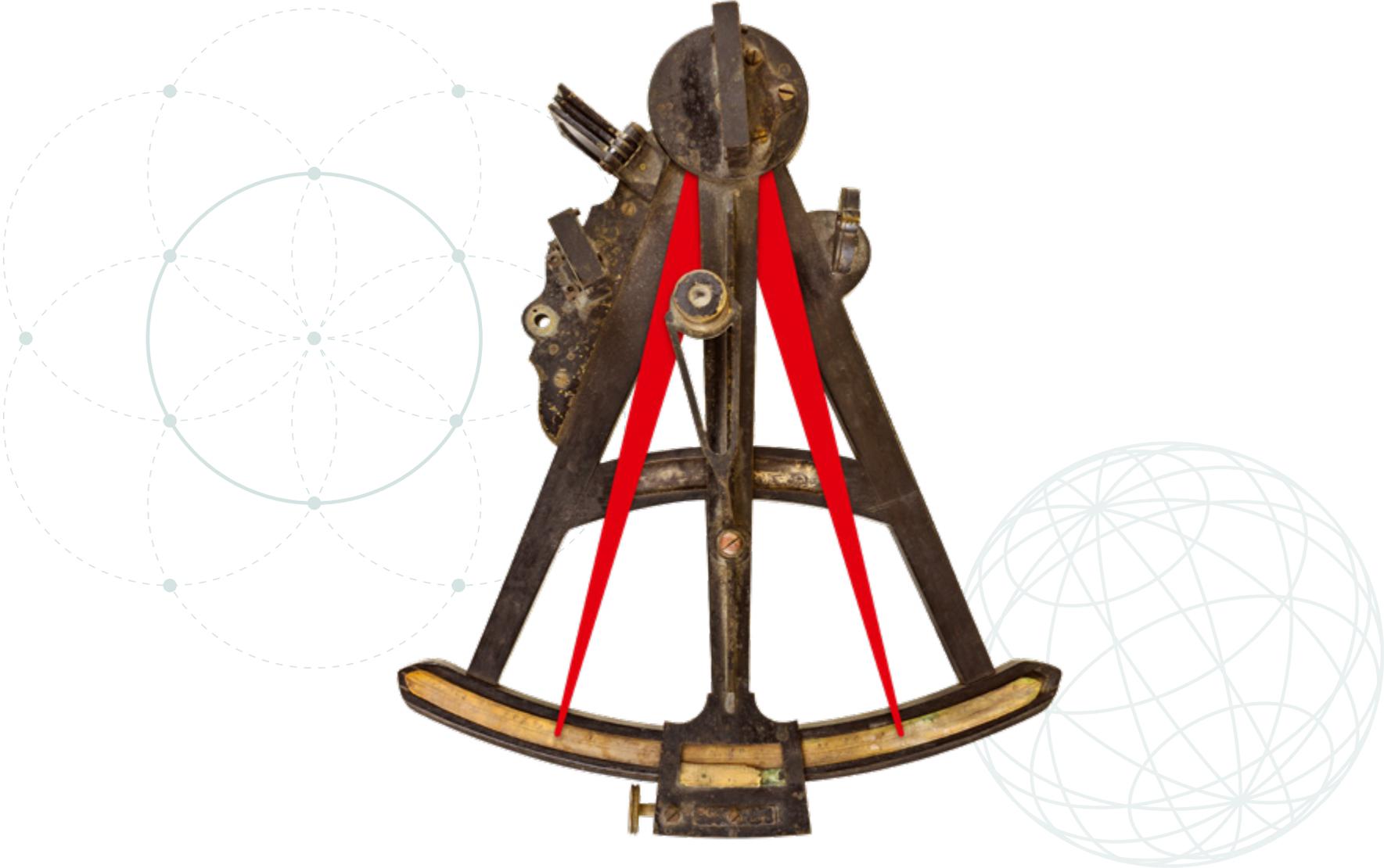
INTERSECTIONS WITH OTHER DIMENSIONS

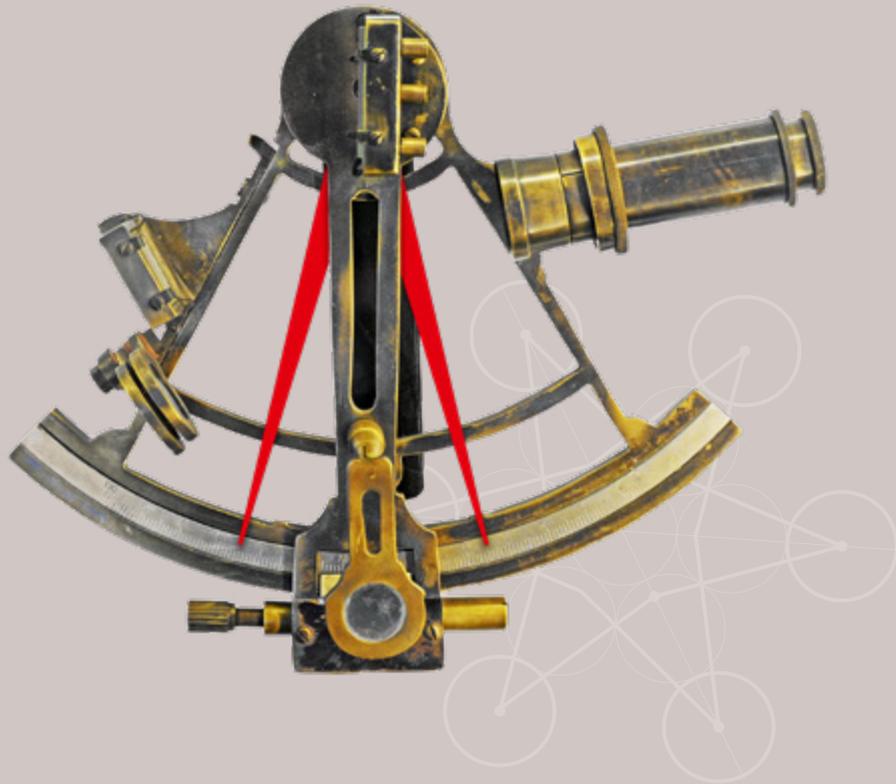
- How will the rapid pace of social technology adoption change client expectations about how we deliver services and how we communicate with them? For example, we already see some groups using unofficial 'shadow IT' tools like Slack or WhatsApp to have real-time conversations and interactions with clients, despite the fact that this is not formally covered by compliance rules
- How will increasing use of real-time and collaborative technology change the culture and management of firms?
- What new competencies and skills will people in the future firm need to operate in an increasingly 'smart' technical landscape? How will this impact on the attributes firms look for in hiring accountants?
- If we imagine a future firm that is much more technologically advanced than today, perhaps also using more data analytics and AI, what will this mean for its structure? Will networks and communities become more important for coordinating work than hierarchy and management reporting lines?
- How can we maintain manual governance methods in a world of real-time data? What smart new approaches to governance are possible with new technology?

SOME IDEAS FOR TAKING THIS FORWARD

- Consider how internal service lines can be automated or packaged as micro-services that others in the firm can use
- Consider what features and services could become part of a future firm platform to be used by employees and clients
- Map existing digital initiatives and understand what organisational capabilities they provide for the firm
- Map existing data sets and sources and consider how they could create analytics or AI capability in the future
- Review digital workplace tools and platforms to create a more connected company
- Review digital skills development and consider what new skills need to be supported
- Engage the partnership in digital transformation, but allow the whole firm to contribute ideas for new capabilities





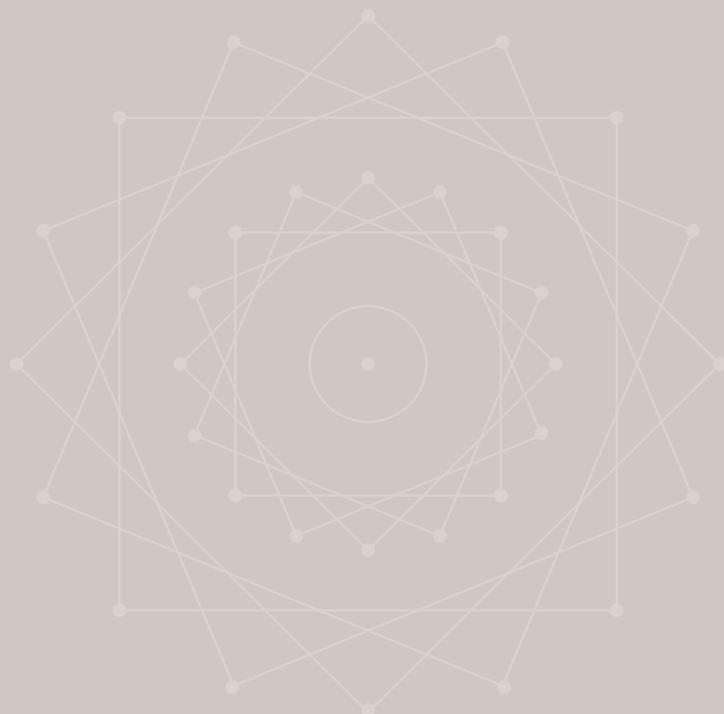


With this research, we aim to unpack and understand the various dimensions of what makes up a firm in all its complexity.

Professional services firms have evolved as complex systems to aggregate analytical power and develop a platform to extend their value proposition both internally and externally, and to develop compelling brands and service delivery models that clients trust. While this has contributed to their historical resilience, it is unlikely that they will continue with the current model or way of working if it does not reflect on external challenges or add sufficient value to the work of individual professionals.

The goal of this project was to come up with a multi-dimensional framework to describe the dimensions of a firm that we think will be subject to greatest change, and then to discuss these elements with professionals to see which they are most interested in, concerned about and also have a sense of how they might change. By gathering ideas and inputs into the individual dimensions, we validated the framework as a way of having conversations about change.

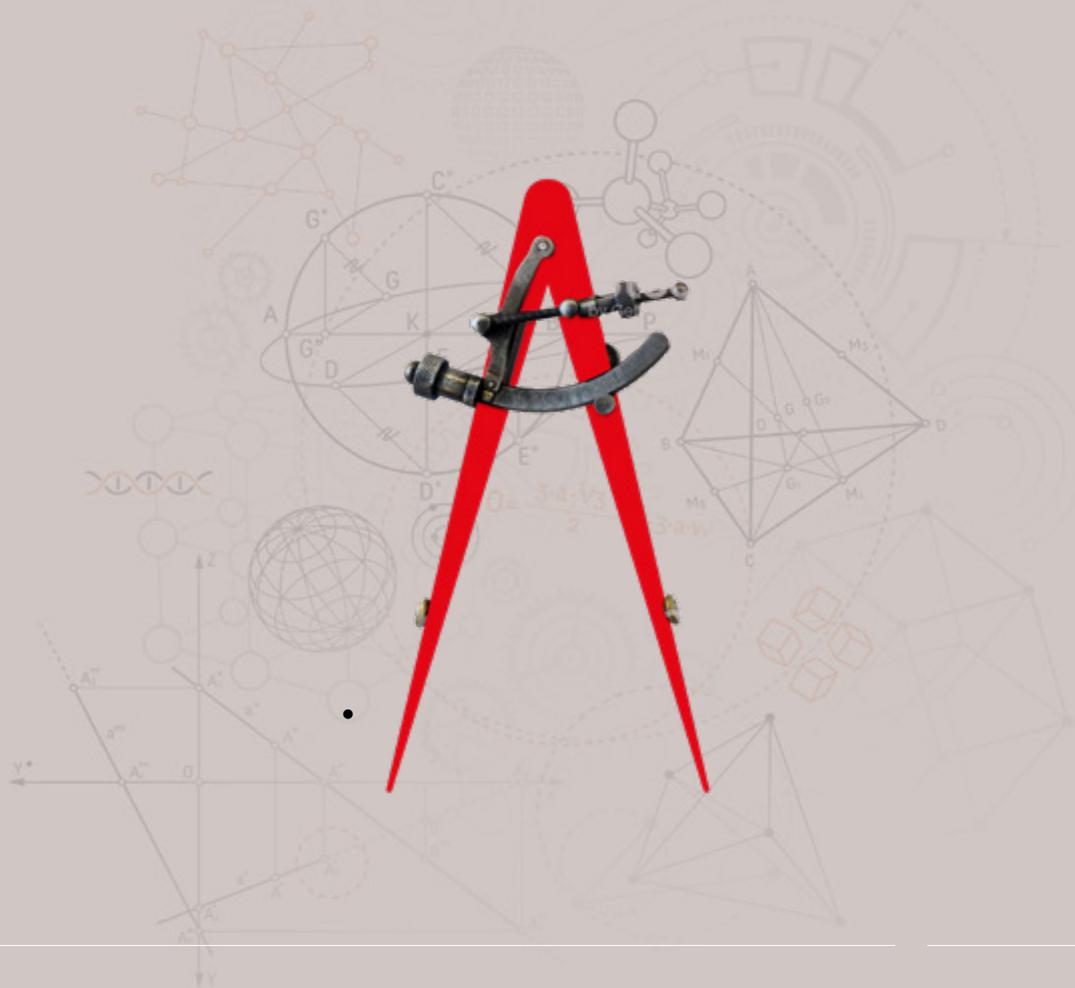
We are making all research and insights available to firms to adapt and use in a way that makes sense to their particular culture and view of the future.



Can firms adapt?

The challenge for firms is to keep abreast of technological changes, continued regulatory scrutiny and the pressures of greater competition. Future firms will need to develop their technological capabilities, rather than risk seeing technology firms commoditise their offerings. This will bring its own challenges regarding culture, skills development, service design and even the structure of the firm. It is a common agreement that firms need to:

- 1) focus on fostering more collaborative and diversified culture, which genuinely addresses expectations and values, and
- 2) seek to attract and retain talent by focusing more on offering flexibilities and a sense of purpose. If audit and accounting are not seen as glamorous enough, technology-focused or innovative, then they will need to improve their employer brand and identity to overcome these obstacles.



AuditFutures

AuditFutures is a foresight, innovation and collaboration initiative of ICAEW to reimagine the profession.

Our ambition is to **motivate and empower** professionals by creating a more positive and creative vision of auditing and accountancy. We hope to **catalyse innovation** within institutions by challenging current practices and providing tools for thinking systemically. By **creating spaces** for dialogue, collaboration and experimentation, we invite a wider range of participants who share our passion and aspirations.

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- Speaking with us over the phone or in person.