The future of accounting

How to navigate a rapidly changing landscape

Artificial intelligence (AI) has the power to change life itself. It is slated to transform economies, unlock new societal and environmental value and accelerate scientific discovery. And while accounting may be an age-old profession that has weathered uncountable technological transformations, bringing automation into the mix has undeniably changed what clients expect from the services they pay for.

CLIENTS WANT accountants who can deliver a service that is better and faster, and AI is the answer.

So, there is no time for denial, accountants need to learn how to swim as the flood of automation is coming.

While AI may not be a new concept, something 21st century scholars have crafted in an effort to catch up with the artistic brilliance of Ridley Scott, today it is no longer an imaginary threat.

All around us, AI and machine learning are combining with the interconnectedness of global supply chains, providing a range of unparalleled opportunities but also potential perils for businesses.

According to CSIRO, in the past few years alone, 14 of the world's most advanced economies have announced over $86 billion in focused AI programs and activities.

Are you at the mercy of invading algorithms?

The McKinsey Global Institute's latest paper, Australia's automation opportunity, suggests that Australian unemployment could spike by 2.5 percentage points as a result of the automation of up to 46 per cent of jobs by 2030. And that does not account for the impact of COVID-19.

The report continues to say that income inequality could widen by up to 30 per cent without retraining for vulnerable workers, especially administrative and manual workers and those in vulnerable regions.

As for accounting alone, while the percentages vary, it is not uncommon to hear how accountancy is one of the most vulnerable professions, with 80-90 per cent of its workload open to automation.

A few years ago, Accenture predicted that by 2020, 40 per cent of transactional accounting will be eliminated. The UK's Richard and Daniel Susskind added value to the forecast in their book, The Future of the Professions, which stated that within a few years, AI would sweep aside many of the attitudes and jobs of status quo accountants.

So, while it may be easy to think that these intellectuals are feeding the beast, i.e. preying on the robophobic, the fact is that the revolution has well and truly begun.

A new global survey of 450 professionals recently revealed that 90 per cent of financial firms are using machine learning, and all C-suite respondents said it is a core part of their business strategy. The survey, conducted by Refinitiv, found that while machine learning and artificial intelligence are often described as emerging technologies, they are in fact already being widely applied across financial services.

Take PwC as an example.

This multinational's use of tech extends to robo-auditing. How, you ask?

Well, PwC employs an in-house robot RON, capable of analysing millions of transactions, relationships and patterns in moments, even interpreting results and flagging interesting findings for the team to explore.

KPMG has also turned to AI, developing a smart audit platform Clara, which combines digital automation, predictive analytics and cognitive technologies.

Considering these examples, it is clear that while on the one hand AI is lifting efficiency and productivity to new levels, permitting exponential growth, on the other the gap between businesses that have embraced AI versus those that have not is growing, leaving those at the bottom further and further behind.

You have two choices

So, local accounting practices, small and large, really only have two choices – to get on board or remain impartial. If you do decide to choose the latter, ask yourself, does it mean you will face an inevitable demise?

Software giants Xero, MYOB and others are offering tools that are automating the repetitive functions such as document creation, fee reconciliation, portfolio administration and client notifications.

AI accounting is initiating payments and matching purchasing orders, automating data entry, and categorising that data. It is reducing human error and increasing human interaction. And, the truth is, it won't be long until these software companies take automation to the next level and make it even more functional so that there is even less of a requirement for accountants to move data around manually.

So, ask yourself, can your pen and ledger compete?

As we look towards the future, it becomes clear that the accountants that will thrive are the progressive thinkers who are jumping in and finding new ways of being marketable and valuable in a changing workplace.

Accounting professionals who embrace this chance to advance their individual skills and to develop tight relationships with experts across the wealth sector are on track to continue providing value to a profession and an industry that is changing.

So, in a nutshell, the future for accounting means transitioning from auditing and compliance, to advisory and accounting systems management.

> ***"So, there is no time for denial, accountants need to learn how to swim as the flood of automation is coming.***

It means expanding beyond traditional auditing and taxation into consulting and the creation of a one-stop shop for clients as an answer to the growing competency of AI.

Outsmarting the machine

The accountants that have already embarked on this journey have recognised that the chief downfall of AI, and the accountant's biggest opportunity, is that they don't do relationships.

Relationship functions – encompassing tasks like psych profiling and relationship building – cannot be performed by robots, as yet. Robots cannot interpret data within various contexts. This is where human intelligence remains hard to beat, making the integration a best-of-both-worlds scenario.

What does this look like?

Well, by embracing the 'tech stack' – a standardised process to produce the same result every time – accountants finally have the opportunity to move from transactional accounting to building business strategies and helping their clients grow, adapt and thrive. The free time they gain from leveraging automation can be

put towards better understanding the operations of their clients' businesses and pinpointing the possibilities for improvement.

And smart accountants are already onboard.

In their bid to increase their value and shift their characteristics from number-crunching, manual data inputters to wholistic advice givers, accountants are doing one of three things. Some are hiring advisers, others are merging with advice firms, while an equal number are partnering with experts, i.e. building referral relationships.

Let's analyse these three options in more detail.

Transitioning

Yes, transitioning your regular accounting practice into a wholistic advice and accounting firm does involve some work, which can at first seem quite intimidating, but according to experts it doesn't actually have to be a painful process.

Accountants must first understand which technologies are available to help them embrace the role of an advice giver by automating tasks that don't add value.

So, rather than reporting on what happened after the fact, accountants need to provide deeper insights by utilising predictive analytics offered by AI. But besides adopting an awesome tool set that will optimise their capabilities, accountants must work on their soft skills, like communication, teamwork, adaptability, empathy and problem solving.

An accounting practice that has made the transition successfully will usually see its junior staff take care of the more transactional work, while senior staff will be there to consult and advise given their extensive experience.

So, start today and start with the essentials – general ledger software, the sponge – then you can combine software products, the filling or icing, to work together in unison. When you design the stack thoughtfully, it can work as hard for you as another staff member, freeing you up to use your expertise more meaningfully.

And remember to ask 'why' more often.

But if this sounds like too much, let's explore the possibility of mergers and acquisitions.

M&A

In their bid to increase their value and shift their characteristics from number-crunching, manual data inputters to wholistic advice givers, accountants across the world are exploring the benefits of mergers. According to research, mergers and acquisitions activity appear to have accelerated as practitioners look to adapt to industry changes.

Accountants are coming to realise that their convergence with other professionals in the wealth space is inevitable as revenues and profit margins begin to squeeze. By merging with advisory firms, brokerages and others, accountants are cleverly positioning their businesses to maintain profitability and market share.

If you own a larger accountancy practice, you may also consider acquiring a small advisory firm, for example.

But before you sign the paper work, make sure the culture of the firm or firms you are looking to acquire are compatible with your own and that your visions align (and, of course, consult a specialist).

According to recent predictions, mergers and acquisitions are sighted to increase as the accounting sector boosts its focus on clients' best interests. However, many firms are reluctant to embrace the potential.

Relationships

If you're one of them and prefer to keep your business as is, while also ensuring an additional revenue stream, you always have a third, perhaps less painful option. Building referral relationships with experts such as advisers, brokers, lawyers and others is a path that allows you to keep doing what you love – accounting – while making sure your clients are warm and snug.

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Referral relationships are one of the most common ways in which businesses can work together for mutual business benefit. However, it is important that the process of establishing such relationships be approached in a systematic way to increase the likelihood of success for both parties.

The first step is to develop a clear understanding of the reasons you're looking to develop a relationship. In some instances, it's potentially for revenue sharing, in others it's about growing the number of clients you have. The next step is to understand the type of relationship you are looking to establish, whether it be a centre of influence relationship, a more formalised joint venture or potentially for merger purposes down the track.

As you progress further, make sure you establish a personality match as you obviously have to work together and get along with each other. Also, think about suggesting a trial run before you commit to a long-term relationship.

Case study: Partnering with a CFO

Sarah Lawrance, the director of Hot Toast, is an expert in CFO services. She explains that due to the changing nature of work, accountants are exploring a transition to financial officers in a bid to make themselves indispensable.

However, Ms Lawrance warns that while becoming a CFO may sound like a great space to start an advisory journey, accountants need to be aware that this role sits in a slightly different arena to the traditional accountant, as do the expectations and deliverables.

"To be an effective CFO to your client, you need to have extra touchpoints. Yes, your pricing should then reflect this, but so should your depth of involvement in the strategic direction of the business," Ms Lawrance cautions.

"It is one thing to title yourself as a CFO, but another to actually deliver on this title."

Long gone are the days when accountants were pencil pushing bean counters with zero communications skills. The modern CFO understands the value in open lines of communication across all parts of the business' operations. It is in fact these discussions that tend to lead to bigger conversations and insights around the true pulse of a business.

Insights that tend to highlight areas of inefficiency, tensions and also wins that enable you to feed back into management conversations.

Is this all too overwhelming? Does it sound like too much to take on and execute successfully?

Then don't, says Ms Lawrance.

"I'm a big believer in collaboration and doing what you do well! Look for opportunities with CFO firms that speak the same language you do, have the same client approach and ethics," she says.

"Remember to take your time dating any new potential partners and ease into it. They will become an extension of your brand and while you may share their wins, remember you will also share any negative experiences.

"However, get the partnership right and you can extend your service offering and deliver real value for your clients and your bottom line."

Sarah Lawrance
Director of Hot Toast

Expanding horizons

The importance of relationships holds true for any other expert field you are looking to dip your toes in, including broking.

Aussie-based accountant Alexander Laureti, the director of LMS Advisory, explains that in order to safeguard the longevity of his practice, he has forged many close relationships, one of them with bespoke mortgage broking service Finni (www.finni.com.au).

Instead of learning the ins and outs of broking from scratch, Mr Laureti made the executive decision to partner with the best in order to safeguard his business and that of his clients.

"If I've got my clients' affairs under control and the compliance is good, what other services can I offer them to make sure that I'm still important in this picture," he says.

"Being a link in their professional network is the ability to be able to say, if you need a loan, I'm the person that can recommend you to someone like Finni, because they are very professional, they are very good at what they do. I've worked with them in the past and I know that they'll be able to get you results."

Mr Laureti is now equipped to provide any such information to his clients, because he has upgraded his practice well beyond an old-fashioned accountancy firm. He explains that by doing so, accountants suddenly become much more to their clients – an indispensable partner. They maintain their importance by upgrading their relationships.

"Not only are you their accountant, you're also the person who has linked them to a broker who can get them a loan and you might also be the person who recommends them to a lawyer if they need the conveyance, or it might be linking them to a bank manager or anybody else in the professional network," he adds.

This diversification of the accounting role and the rise in the complexity of tasks demanded by clients, is seeing the two sides engage in frequent face-to-face collaboration.

So, while accountants once served to input data into computers, occasionally acknowledging their clients' wants and wishing them luck in their new endeavours, today they need to add value to their interactions by proposing new methods of collaboration, often through referrals.

"By having a partner that you can work with, like Finni, to be able to say 'not only can I give you the idea because I believe in it, I do it myself, and building your own wealth is a way for you to retire earlier or be financially secure. I can provide you with an excellent resource which is the team at Finni who can help you'," explains Mr Laureti.

He advises accountants to recognise that while they can be good at a whole range of things, they can't be experts in everything: "We need to specialise on what we are good at and we need to partner with the experts."

And the success of engaging a broker was recently studied as part of the Consumer Access to Mortgages Report 2020, conducted by independent research firm Momentum Intelligence. According to the report's findings, consumers who engaged a mortgage broker have significantly higher levels of satisfaction. So, why wouldn't accountants jump on board and team up with their wealth industry peers?

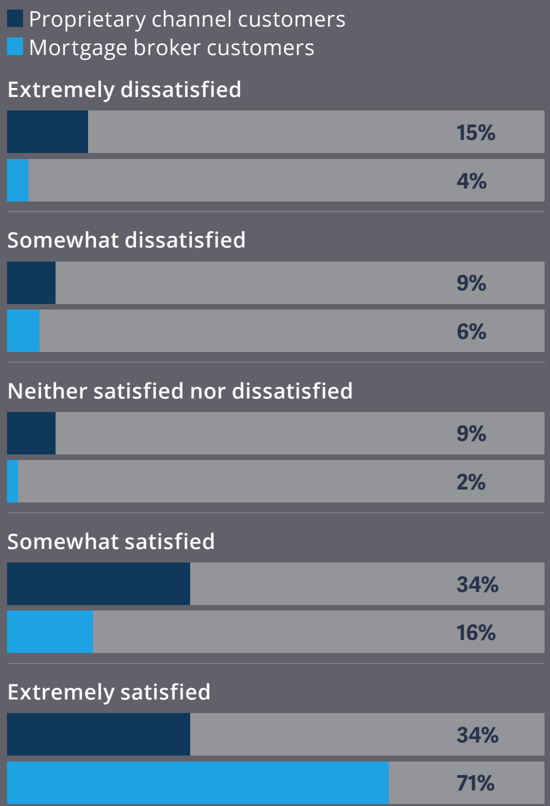
Let's look at the figures in detail:

Consumers agree: mortgage brokers are highly valued

Based on an in-depth study of 2,000 Australian broker and bank customers, The Consumer Access to Mortgages Report highlights consumer sentiment towards how brokers are paid for their services and what their satisfaction levels were with the distribution channel they used.

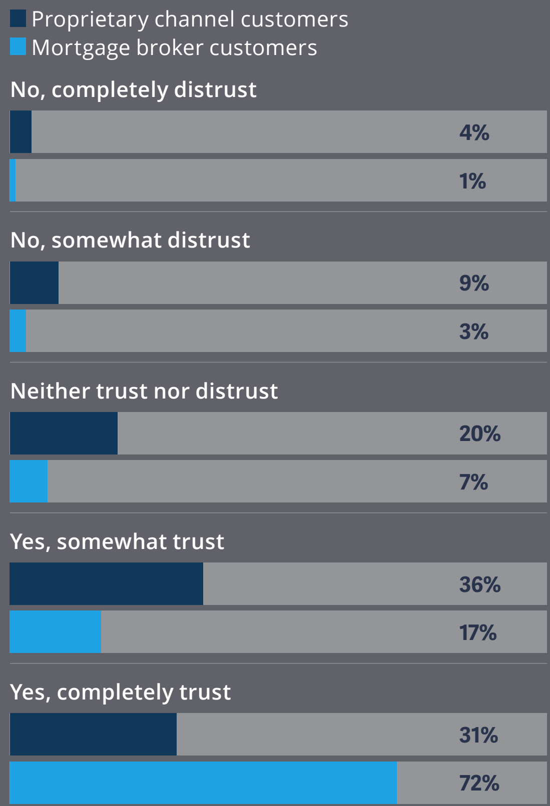
Satisfaction

Q. How satisfied were you with this experience?



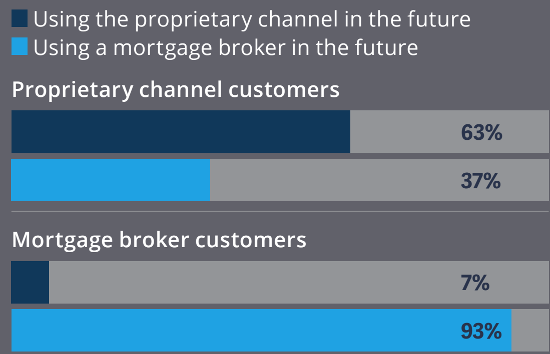
Trust

Q. Do you trust this [mortgage broker/lender]?



Retention

Q. If you were to take out another mortgage in the future, which channel would you choose?



*For borrowers active in the last 12 months

You're in control

So, while it is changing things, AI is forcing firms to come to terms with the truth – that computers are doing a lot of the work that accountants used to charge for.

And besides the client benefits, the underlying plus for accountants is that they're ridding themselves of the basic daily functions that many will admit are quite frankly boring.

While Mr Laureti recognises the fact that not every single firm is going to be making the switch to technology, he warns that the ones that don't will shortly see their client base deplete.

Which is why he advises his fellow peers to choose their path wisely. So, whether it's picking the right type of tech stack or aligning yourself with the right partners, Mr Laureti believes you will see the best results by partnering with firms or individuals that "sync with you culturally, that think the same way you do, and have the same attitude to servicing your clients".

"Surround yourself with people that have skills and knowledge greater than your own and embrace the fact that you can learn from other experiences," he adds.

So, let's recap: while the robots are here, they are not going to force you into the unemployment line any time soon, for now they're here to serve you and your practice. And, remember, this is not exactly the first time accountants have had to adapt and evolve.

The CEO of the Institute of Public Accountants (IPA), Andrew Conway, has some parting words – "AI is just a tool".

"I found a quote from back in 1959 that said the automation and information technology changes will eradicate the accounting profession. That was in 1959.

"Now, that hasn't happened. We've evolved, we've proven time after time that we can evolve and we will," says Mr Conway.

And, while AI may be good, he believes it can't beat human intelligence.

"Yes, AI is good, but emotional intelligence or EI is better. And it comes back to the point of why does a person engage an accountant? Fundamentally they engage them because they are trusted and they engage them to see the whites of the eyes," says Mr Conway.

"When you're sitting opposite a client who says to you, as the accountant, 'What should I do?', they expect an honest response.

"Now, you have all the information at your fingertips in terms of the AI, computer dashboards and all that wonderful stuff, but when it comes back to it, it's a human interaction that no algorithm can replace."

So, be smart when choosing the tech you will pursue. Be smart when deciding which of the aforementioned paths you will take. And consult with the experts – brokers and advisers.

Read widely and stay ahead. While some individuals may choose to shun accountants in the future, turning to AI tech to interpret their financials, the cloud computing software package simply can't replace that all important human touch.

So, remember, this isn't a sprint, it's a marathon that can always change its course and accountants need to be on the front foot to upskill or retrain on the technology that complements the human intellect of accounting.

And, most importantly, recognise and revel in your social value.

Step up, lead and embrace change, remain open-minded, prepare the next generation of accountants and ensure the profession is well resourced for future challenges.

"As a profession, we must own and respect the position of trust invested in us," urges Mr Conway.

"Simply put, there is too much at stake. Our trust position requires us all to step up." f

Helping your clients find the right finance solutions couldn't be more rewarding.

Finni works with our referral partners to help their clients find the finance they need quickly and easily.

Once you've referred your client, we take care of the entire process from there. We work directly with the borrower, assessing their needs and helping guide them through all aspects of the application through to loan settlement.

And once the loan is settled we reward our partners with a 15 basis point fee – a simple, valuable new income stream.

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