

Building Future Skills in Accountancy

November 2011

Foreword

The challenge of stimulating growth in tough economic times affects us all. As a part of the Government's growth review, the UK Commission for Employment and Skills (UKCES) was asked to investigate whether the accountancy profession has the skills it needs to support current and future economic growth. Accountancy contributes to economic growth, not only through specialist accountancy firms but also through the contribution accountants make to businesses across industries. Ensuring the profession is able to secure the best talent and the right workforce skills is essential for this to continue.

This report was produced as a result of several months of evidence gathering and collaboration from those working in specialist accountancy firms and across wider industry and I would like to thank all of those who contributed to this review.

We wanted to understand how the accountancy profession is adapting to secure its future workforce skills; we found that there is much to celebrate in terms of collaboration and innovation. The case studies in this report illustrate how employers have created new ways to secure the skills they need, often through collaborating with stakeholders, sharing expertise and developing solutions to meet the workforce needs of the sector.

However, in order to secure future workforce skills there is no room for complacency. The accountancy profession will need to continue to respond to future challenges. These include changes to higher education policy, the development of new routes into the profession, challenges to the attractiveness of the profession, margin pressures and the need for wider skills.

The Steering group believes that the profession can achieve many of the required changes. But a key request for Government is to play a supporting role, by allowing Higher Apprenticeships to be designed to meet the advanced skills needs of employers and individuals. We propose specific recommendations on how this can be achieved in the report.

Through this support, the accountancy profession can continue to build upon the good practice which it has shown to date and play a key role in supporting future economic growth.

Jeremy Anderson CBE

Chairman of Global Financial Services, KPMG
UK Commission for Employment and Skills

Executive Summary

As part of the 2011 Plan for Growth (BIS), the UK Commission for Employment and Skills (UKCES) was asked to investigate whether the accountancy sector:

- Has the skills it needs for future growth
- Is able to attract a wider pool of talent into the profession
- Would benefit from an Apprenticeship route to fully qualified status.

The Steering Group was chaired by UKCES Commissioner Jeremy Anderson, Chairman of Global Financial Services KPMG, and included representation from large accounting firms, medium-sized firms, industry and the Financial Skills Partnership (the Sector Skills Council for the sector).

The research focused on the following questions:

- Does the accountancy profession currently have the right skills?
- What are the future challenges to secure workforce skills?
- What does the sector need to secure future workforce skills needs?

The accountancy profession is important to the UK economy. The UK profession also has a comparative competitive advantage over many other countries. UK specialist accountancy firms are successful and the UK professional bodies, which are responsible for ensuring quality and standards in the profession, are well regarded. As a part of the professional and business services sector, accountancy is forecast to be a key area of growth in employment in the future. Securing the right quality and quantity of skills will be essential to delivering the potential growth.

The case studies in this report show that the profession has a good track record of innovating and responding to anticipated challenges. Specialist firms, professional bodies, training providers and wider stakeholders have all demonstrated they can respond, individually and collectively, to a dynamic financial and policy environment to secure the necessary skills for economic growth.

Notable examples of how the profession is proactive in engaging with a wide range of stakeholders in all parts of the skills system include:

- Working with schools to raise awareness of the profession and show what opportunities a career in accountancy can offer.
- Online tools and resources to provide information, advice and guidance to support people who wish to pursue a career in accountancy.
- Providing resources to help individuals develop employability skills which will support entry to the profession and progress in their careers.
- Professional bodies partnering with higher education institutions to develop more responsive higher education qualifications which meet the business needs of smaller employers.
- Specialist accountancy firms working with higher education institutions and professional bodies to develop bespoke vocational training programmes which merge classroom-based training with on-the-job experience to prepare students for the world of work.

However there is no room for complacency. Ongoing innovation, and expansion of the existing initiatives, will be needed to respond to the increasing recruitment and retention challenges which would otherwise hinder accountancy from supporting wider economic growth.

During the review employers and stakeholders identified multiple challenges to the profession, specifically:

- It is unclear to what extent the changes to higher education policy will have an impact on the traditional recruitment pools of professions. Employers and stakeholders have already responded by strengthening other channels into the profession, but must be prepared to act further if required.
- Whilst new routes into the profession present the opportunity to secure a wider pool of talent, current restrictions on the Specification of Apprenticeship Standards in England (SASE) and Wales (SASW) need to be addressed if Higher Apprenticeships are to become a mainstream route into the profession and enjoy full take-up across the sector.
- Increasing regulation, complexity and level of technical requirements are making audit a challenging area for recruitment and, in particular, for retention. This is of importance to wider economic growth and the profession needs to work collaboratively to address this challenge.
- Constant pressures to improve the efficiency of businesses, the increase in off-shoring and technological advances have seen demand for lower skilled posts decline. This may present a challenge for supporting lower skilled posts to act as a progression route to higher skilled jobs.
- For accountancy to continue to act as a launch pad for individuals to take up senior business positions across industry, the profession needs to continue to develop the wider entrepreneurial and business skills of its members so that they can make the maximum impact on business and the economy.

Whilst the profession has been able to come up with its own solutions to meet skills needs hitherto, the frameworks for collaborative, cross-professional, development of skills need to be strengthened further if alternative routes into the profession are to provide the quality and quantity of skilled resources necessary in this changing landscape.

The primary recommendation of the project group is therefore to ask the Joint Apprenticeship Unit to adapt some of the criteria for Higher Apprenticeships so that this route can become more main stream for entry into, and full progression within, accountancy. The current requirements of SASE should be revised to:

1. Support progression to professional or chartered status (Level 6) and beyond.
2. Allow a wider range of higher level qualifications offered by professional bodies and higher education to be part of Higher Apprenticeship frameworks.
3. Make key skills or GCSEs in English and Maths at grade C and above a mandatory requirement for entry to Higher Apprenticeships, rather than part of the requirements of the framework.

This should enable the profession to take full advantage of the Government's Apprenticeship focus and secure the necessary additional skills to ensure future health and contribution of the accountancy profession.

Beyond this there is a need for the profession itself to continue to drive its current collaboration mechanisms. Given the pace of change, within both the economy and the education and higher education systems, sharing of best practice is likely to become even more imperative in the future if the profession is to respond to a changing landscape. With the need for the whole of the profession to be effective at all points of the value chain, from outreach into schools right through to achievement of professional qualifications and subsequent development and retention in the profession, this best practice collaboration is an area that needs to be continuously monitored to ensure its effectiveness.

Acknowledgements

The UK Commission for Employment and Skills would like to thank all of the people who have contributed to this review. Specifically, the UKCES would like to thank the members of the Operational and Steering group.

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1 Introduction

Background & Remit

As part of the 2011 Plan for Growth (BIS), the UK Commission for Employment and Skills (UKCES) was asked to investigate whether the accountancy sector:

- Has the skills it needs for future growth
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The Steering Group was chaired by UKCES Commissioner Jeremy Anderson, Chairman of Global Financial Services KPMG, and included representation from large accounting firms, medium-sized firms, industry and the Financial Skills Partnership (the Sector Skills Council for the sector).

The research focused on the following questions:

- Does the accountancy profession currently have the right skills?
- What are the future challenges to secure workforce skills?
- What does the sector need to secure future workforce skills needs?

Scope

We have defined the scope of the review to include accountants who are employed in specialist accountancy firms and other companies who employ accountants but whose primary business is not accountancy.

The specific focus of the review is Chartered Accountants, Management Accountants and Accounting Technicians rather than lower skilled roles such as Wage Clerks and Book Keepers which could also fall within a broad definition of the profession.

Methodology

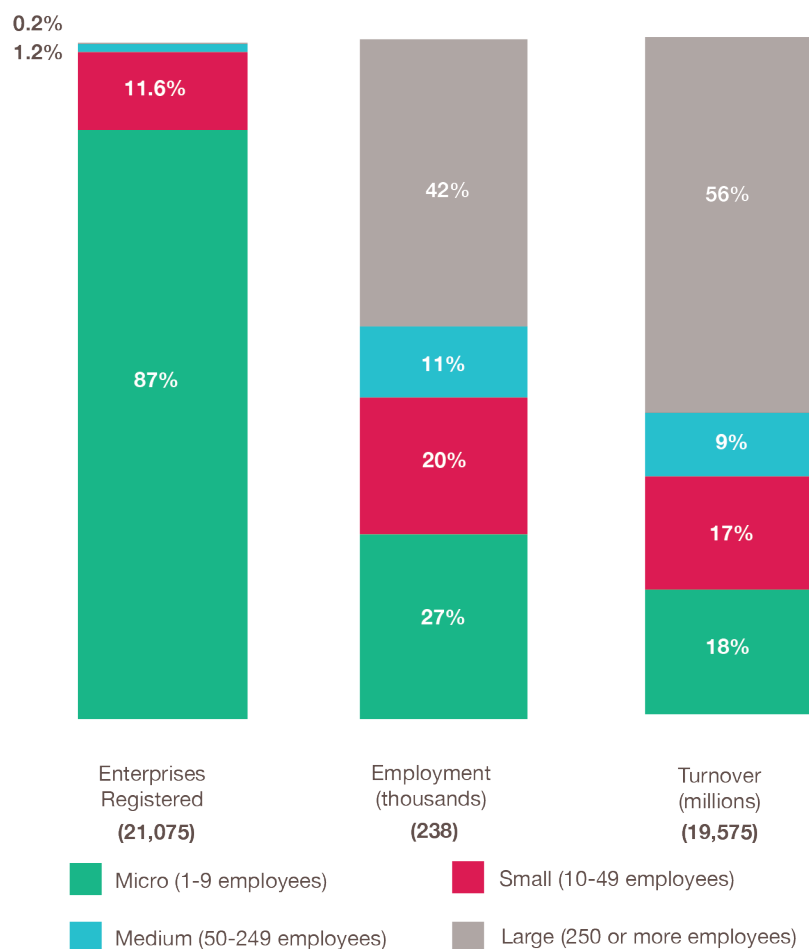
We have used core Labour Market Information and combined/ tested this understanding with consultations through the review. Annex two provides the definitions of accountancy used in this report along with detail of the sources and methods used.

2 The importance of accountancy to the UK economy

Accountancy drives economic growth not only through specialist accountancy firms, but also through its role across all parts of industry. Specialist accountancy firms provide over 230,000¹ jobs (around 1.25% of the total workforce in the United Kingdom), produce over £1 billion in exports of services² and contribute £14.4 billion in Gross Value Added³ to the UK economy. Accountancy firms in the UK have a global reputation for leadership and quality and hold a relative comparative advantage over competitor nations⁴.

The specialist accountancy part of the sector comprises of many micro-businesses (see diagram one) which is above the national average (82%). However, large employers currently provide the lion's share of employment (42%) and deliver the largest proportion of overall turnover (56%). This compares to 41% and 51% respectively for the whole economy.

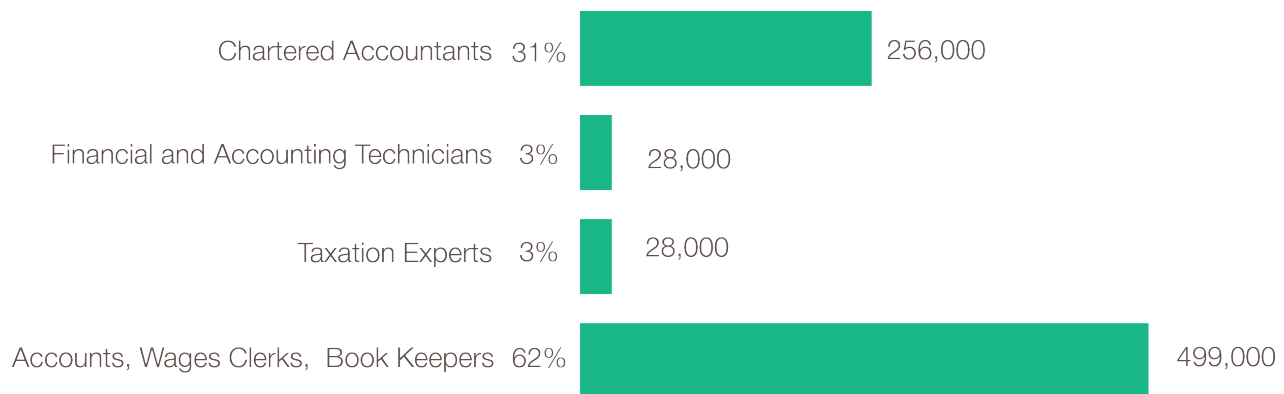
Diagram 1: Specialist accountancy firms by number of enterprises registered, employment and turnover 2009/10⁵



Outside the specialist firms, there are over 550,000⁶ people working in accountancy across all areas of industry.

The diagram overleaf shows that across all areas of business, accountancy is mainly made up of people in lower skilled posts although there are significant numbers of Chartered Accountants.

Diagram 2: Composition of the accountancy profession across all areas of industry⁷



The technical skills gained through accountancy provide an excellent basis for a career in business. A recent survey showed that 67% of CEOs of the FTSE top 100 companies have a financial background⁸. It is a common trait in many sectors that smaller businesses report difficulties with business acumen among their staff more often than large firms⁹. However, this seems not to be the case with specialist accountancy firms despite 87% of accounting firms being micro enterprises. This is perhaps because the nature of accountancy provides a level of business acumen which supports good decision making in business.

The importance of skills to enable accountancy to deliver economic growth

Like other professions in the knowledge economy¹⁰, accountancy has a more highly skilled workforce than the national average¹¹. The accountancy profession demands that accountants are technically competent and also possess a range of skills to support decisions in business.

As a part of the professional and business sector, accountancy is forecast to be a key area of employment growth in the UK¹². Diagram three shows that over the past decade, there has been an increase in the number of higher skilled posts and lower skilled posts have diminished. This may restrict opportunities for progression for individuals entering at the lower end of the profession. The expansion of high level occupation is a wider trend across the economy and is forecast to continue in the future¹³.

Accountancy requires skilled individuals at a time when high level skills are most in demand across the economy¹⁴. A key issue for accountancy is the competition for skills from other sectors. Traditional competitors for recruitment of graduates, such as financial services, have re-emerged in 2011 creating challenges not only for large accountancy firms, but for all employers in the sector. Increasingly, employers are faced with looking for new ways to find and recruit talent to secure workforce skills needs.

Diagram 3: Change in the number of posts by occupation in accountancy 2001-2010¹⁵



The Role of Professional Bodies

Technical skills for accountants are delivered and monitored by five professional bodies¹⁶. Although each professional body has a different focus, they all offer student and full membership to individuals and have remits to support their members by providing examinations and continuing professional development.

For specific parts of the profession, (e.g. tax, accountancy technicians and book keeping) there is a wider network of professional bodies which look to ensure standards in each specific profession¹⁷.

There is an independent regulator, the Financial Reporting Council, with responsibilities that include the monitoring of examinations in line with the Companies Act (2006), with a particular focus on auditing.

3 Does the profession currently have the right skills?

As a whole, the accountancy profession has shown that it is highly adept at securing the workforce skills it needs. The skills profile of the profession is higher than the national average (60% have level four qualifications and above compared to the UK average of 32%)¹⁸ and those who have worked in the profession are less likely to be unemployed¹⁹.

Research carried out in this review has shown that the profession is adept at innovating and responding to wider challenges to secure and develop the workforce skills it needs. The skills ecosystem in accountancy is summarised in the diagram below.

Diagram 4: The accountancy skills ecosystem



Pre-employment: attracting the right talent

Employers and stakeholders invest heavily in raising awareness of the accountancy profession. Some stakeholders felt that potential new recruits to accountancy are put off by its “less exciting” image and that they have a responsibility to promote the value of a career in the profession. A range of activity is carried out to address this as described below.

Information, advice and guidance (IAG)

There are websites which provide information, advice and guidance on the profession. The Financial Skills Partnership²⁰ (FSP) worked with employers and training providers to develop the “Directions” website²¹. This is tailored specifically to encourage individuals to enter into finance, accountancy and financial services.

School visit programmes

Multiple partners deliver a range of school visit programmes (see case study one). Many employers offer work experience placements to provide individuals with an insight into being an accountant, the skills required and how to gain employment in the profession. Stakeholders felt that recent changes to IAG policy²² in compulsory education presented an opportunity for employers to take a more active role in raising awareness of the profession in schools.

Case Study 1: School Visit Programmes

Employer led model: PKF use their school visit programme to benefit both staff and schools. For example, they target the school of someone who has recently joined them through a vocational route and ask the individual to liaise with his/her previous school to arrange a visit. This recognises the importance of the staff member to the organisation and provides a role model for the school. These visits also raise awareness of the business and employability skills needed to succeed in the world of work and provides an insight into what a career in accountancy involves.

Training provider led model: Kaplan Financial has a school liaison team to raise awareness of the training offer to young people in schools. Young people attend specific careers fairs from multiple schools. Its website is accessible to young people and links with events such as the National Apprenticeship Week. It also distributes brochures about its offer to teachers so that teachers can disseminate these to pupils.

Professional body led model: A number of the professional bodies have school visit programmes. For example, ICAEW runs a series of business games aimed at students from Year 9 up to those at university as well as organising a ‘Business, Accounting and Skills Education (BASE)’ National Business Game competition in schools.

Sector skills council led model: The Financial Skills Partnership (FSP) works in partnership with employers and professional bodies to arrange school visits. The FSP organises school visits to raise awareness of the accountancy profession, holds interviews with people who are employed in the profession and runs a business challenge which looks to introduce basic employability and business skills.

Training

Accountancy attracts individuals with non-related as well as related²³ qualifications which employers feel help to generate a diverse workforce. Where qualifications are related, awarding or professional bodies make sure the qualifications content and assessment prepares individuals appropriately for a career in the profession.

Schools and colleges continue to offer GCSEs and A Levels in accountancy and related business subjects and these are increasing in popularity. Participants in A Levels in accountancy have increased by 4.5% between 2008/09 and 2009/10²⁴. Entrants to related university degrees have also increased over time, with numbers taking accountancy based degrees growing by 11% between 2006 and 2010.

Accountancy draws heavily on new graduates for initial recruitment and in total 2%²⁵ (25,000) of all higher education leavers (excluding those whose occupation is not known) enter a job in accountancy each year. Given the choice of careers open to new graduates, this shows that a significant proportion of graduates are choosing careers in accountancy. The vast majority of chartered students (over 80%) are graduates²⁶.

Increasingly, employers are asking for graduates to be more prepared for work by possessing 'employability skills'. Employability skills are the set of characteristics which increase the chance of somebody remaining and progressing in work²⁷. As the case study below shows, employers are devising interventions to address this issue. Stakeholders felt that the profession may benefit by having a common language to describe what employability skills are for accountancy and by coordinating efforts to encourage the development of these skills in compulsory, further and higher education.

Case Study 2: Delivering employability skills: PWC

PWC has identified the importance of employability skills in securing a workforce with the skills that it requires and supporting continuing professional development (CPD). The foundation of this activity is a defined set of employability skills²⁸ which are used in its recruitment process and as a part of CPD support, offering a consistent approach for people to get in and get on in work.

PWC runs a series of activities to promote the development of employability skills to undergraduates and young people in compulsory education. These include: delivering drop in one- to-one employability coaching for undergraduates in 30 universities; running business champion competitions in schools; and offering the opportunity for undergraduates to meet current employees and discuss the world of work.

Developing workforce skills

Vocational training is valued by the accountancy profession and accountancy has long established accredited technical competencies²⁹. These are regulated by the umbrella professional bodies for accountancy and other professional bodies focused on specific parts of the profession (e.g. technician positions for accountancy and tax each have their own professional body).

Many accountancy firms are proactive and innovative in developing vocational routes into the profession. Professional bodies, training providers and other stakeholders play an important role in supporting these processes, in accountancy firms and across industry. These processes are described below.

Work experience and internships

Work experience allows individuals (mainly those still in full time education) to gain an understanding of the world of work and supports them to make decisions on future training and employment. It also provides an opportunity for employers to promote accountancy as a career and attract the best talent into the profession. For example, KPMG is working with schools to develop a work experience placement scheme for year 12 and year 13 pupils; this will be launched in 2012.

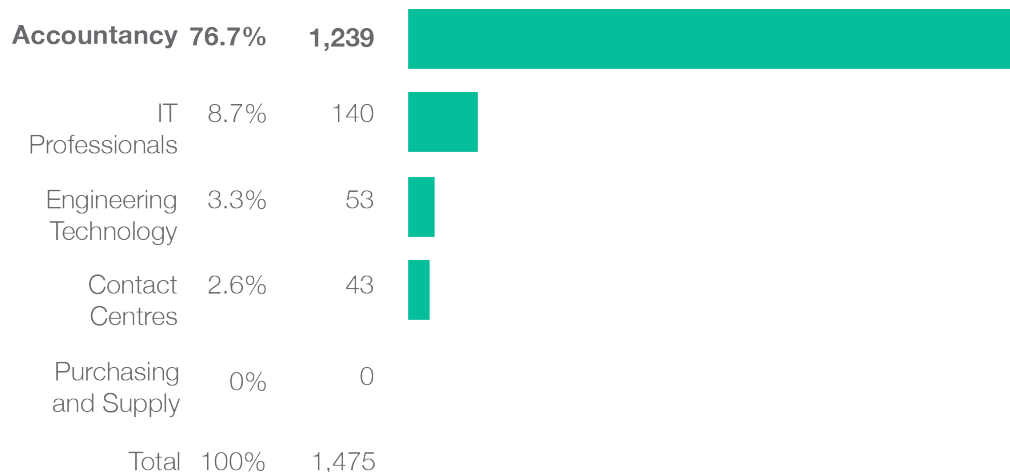
Internships are considered a mutually beneficial process for individuals and employers. Individuals are able to participate in a formal, structured process where they will carry out work which will directly support the business. This helps them develop the skills and experience to find employment, as well as giving them a taste of the type of work in the profession. Employers consider internships a useful recruitment approach as they provide employers with an opportunity to see how an individual operates in the workplace.

The profession as a whole has committed to ensuring that internships are paid, supporting access to them for all, but there are still currently a number of reported instances where internships are unpaid. An ACCA survey of its members reported that 18.5% of respondents who had qualified in the last four years underwent an unpaid internship compared to 8.6% of those who qualified over ten years ago³⁰.

Intermediate, Advanced and Higher Apprenticeships

Apprenticeships are well established in accountancy. In England, the current accountancy Apprenticeship across all levels had 6,140 starts in 2010/11 and this number has more than doubled since 2002/03³¹. Most accountancy Apprenticeships are at Advanced or Higher levels (56%). Of the small number of Higher Apprenticeships available in sectors, the current framework is the most successful, attracting 76.7% of all current Higher Apprenticeship starts (see diagram five).

Diagram 5: The accountancy skills ecosystem³²



Changes to Government policy in England and Wales have resulted in changes to those entitled to develop Apprenticeship frameworks. Employers, awarding organisations and providers have the opportunity to develop new Apprenticeships to respond to specific needs. Case study three below illustrates how employers are planning to take a leading role in developing a new, more broadly-based Higher Apprenticeship. PwC proposes to lead work across the professional and business services sector to establish a new Higher Apprenticeship in professional services working with employers and professional bodies.

Case Study 3: Proposal for an employer-led Higher Apprenticeship in Professional Services.

PwC proposes to act as a lead in the development of a new Higher Apprenticeship programme in Professional Services. This will create a credible, additional, route to careers at the highest levels in professional services occupations. The new framework will include distinct occupational routes in assurance, taxation and management consultancy, closely aligned with existing professional development pathways and standards maintained by the Association of Taxation Technicians (ATT), Management Consultancies Association (MCA) and the ICAEW.

Over time there is potential to expand this framework to other occupations within the sector including law and human resource management. Such a programme will enable the sector to tap into a wider and more diverse talent pool, including those who do not wish to follow a traditional higher education pathway.

PwC and involved stakeholders will work with schools, colleges and welfare-to-work providers to raise awareness and encourage participation in the programme. To secure active employer engagement PwC will work with employers in their own supply chain, alliance and alumni networks as well as the existing networks maintained by ATT, ICAEW, MCA, the FSP and other employers.

Developing bespoke vocational training programmes

Accountancy firms work with higher education to design a curriculum that meets the requirements of the firm, the university and confers professional recognition. The case study overleaf shows how KPMG links with Durham, Exeter and Birmingham Universities and both ICAEW and ICAS, to recruit students (encouraging those from diverse backgrounds) on a six year programme. The firm offers a job, a full honours degree and a professional Chartered Accountancy qualification, as well as paying a salary to the student and tuition fees to the university.

Case Study 4: KPMG School Leaver Programme

In January 2011, KPMG announced the launch of a ground-breaking new school leavers' programme for September 2011. This was the result of a partnership between the firm, Durham and Exeter Universities, and the professional accountancy bodies. These university partners played a key role in developing a tailored and embedded degree programme and the ICAEW and ICAS worked collaboratively to develop an innovative structure for their qualifications which met the needs of individuals and the employer.

The programme offers students a job and salary from day one, while also giving them a degree and a professional qualification at the end of six years. KPMG pays the full university and professional tuition fees, accommodation and travel expenses for each student in addition to a starting salary of around £21,000 (in London).

KPMG has worked with several schools in disadvantaged areas to raise aspirations and encourage applications from those students. The first intake of school leavers in September 2011 saw over 90 students gaining places on the scheme. For the 2012 intake, Birmingham University, working with ICAS, has also been added as another university partner.

KPMG envisages that in due course school leaver schemes of this type may account for the majority of its annual trainee Chartered Accountant intake.

4 Does the profession have the skills to deliver economic growth?

The case studies in the previous sections show that employers and stakeholders have a good track record of innovating and responding to the anticipated challenges. However, continued innovation, and expansion of the existing initiatives, will be needed to respond to the increasing recruitment and retention challenges which would otherwise hinder accountancy from supporting wider economic growth.

The challenges may differ somewhat between the specialist firms themselves, which have historically recruited primarily from the graduate pool, and organisations across industry which have a wider recruitment pool. The more pressing challenges facing the specialist firms and accountancy across industry are outlined below.

Changes in higher education

Historically the audit and accounting profession has recruited large numbers of graduates and then trained them to achieve Chartered Accountancy status. Employers are still evaluating the potential impacts of changes put forward through the Higher Education White Paper in England which frees up the market for other universities to award degrees. It also requires undergraduates taking out loans to pay the cost of their higher education fees (up to £9,000 per annum for some universities) to begin to repay these loans once their income is above the £21,000 repayment threshold.

It is too early to assess the effect of these policy changes on three-year full-time degrees in universities. But, if this has a major impact on either the quality or quantity of graduates coming into the labour market, then it may prove challenging to meet graduate recruitment targets.

Previous examples in this report (see case study four) have shown that the large firms have already started initiatives to support new recruits through university and thereby secure a supply of high quality graduates. These schemes are still in their early years of implementation. Monitoring of their

Case Study 5: Professional Accounting Course (Manchester Metropolitan University)

This course was launched in July 2011 with its first intake due in January 2012. The course was designed by Manchester Metropolitan University in conjunction with the AAT and the ICAEW, who surveyed their members in order to ensure that the course would meet employer needs. The course will be a flexible modular programme which will incorporate an AAT and ICAEW qualification with undergraduate and master's degree progression options.

The course is designed to be flexible to fit around the needs of both the individual and the employer. Whilst the programme has been designed for those who are working within a finance or accountancy role, the university also has a placement team for those who wish to use this course to enter into the profession. The course is aimed at local employers. However larger national firms have expressed an interest in this programme to support their local offices.

The course is attractive to employers as it incorporates professional body qualifications which will help save the employer staff time and training costs. The course is attractive to individuals as it offers a fully flexible modular format which will allow them to tailor their learning to meet their career and academic goals. The ICAEW is looking to expand this model of delivery further throughout other universities to support other regions.

early success will be essential to determine whether they can be scaled to meet any potential shortfall in recruits.

It is less clear whether or not smaller firms have the capacity to respond in the same way, so courses based on an agreed national standard may be needed to help firms of all sizes remain successful. Case study five shows an example of how Manchester Metropolitan University has worked with relevant professional bodies and training providers to create a course tailored to the needs of both employers and employees, beginning with the local business area.

New routes into the profession

The last two years have seen the profession develop numerous initiatives in order to draw from the widest possible talent pool and introduce alternative routes into the profession. The rationale behind these initiatives includes:

- Providing alternative entry routes for those who might historically have gone to university but are no longer able to do so
- Recruiting from areas of population that may not be attracted to a traditional university route, either due to family history or the desire to undertake vocational training
- Attracting as diverse a cross-section of society as possible, to ensure that the profession mirrors the society and economy which it serves.

The various programmes have originated across all the stakeholder groups – employers, professional bodies and the training community. They fall under the broad headings of:

- *Bespoke employer vocational training programmes:* a number of firms have existing (small-scale) bespoke employer vocational training programmes. Each approach to this is different and there is evidence that these are being expanded for entry both into the accountancy and advisory divisions of the professional firms
- *Internships:* internships are an invaluable route for individuals to experience the world of accountancy and gain skills which will help them into employment. The profession as a whole has recently committed to ensuring that internships are paid and adhere to a newly published code of best practice, the “Common best practice code for high quality internships” produced by the Gateways to the Professions Collaborative Forum, which involved multiple stakeholders from the accountancy profession.
- *Higher Apprenticeships and similar courses based on an agreed national standard:* Professional bodies offer vocational training routes to skilled posts in accountancy. However, under current arrangements, a seamless progression route to the higher skills which accountancy employers demand is not possible.

Higher Apprenticeships and similar frameworks

Accountancy has been the most successful of all the Higher Apprenticeship frameworks in England. However, even with this level of success, still only a small proportion of accountants start their careers through Apprenticeships. Employers and stakeholders have identified that more needs to be done to strengthen the progression route from Higher Apprenticeships to fully chartered status.

The vocational training routes to the higher skills which employers require exist already. For example, the new Foundation in Accountancy course offered by the ACCA seeks to attract individuals with no previous experience into accountancy and provides a pathway up to fully qualified status. In Apprenticeships themselves, the Association of Accounting Technicians (AAT), the main professional body offering Apprenticeships, reports that 30% of their Level 4 students progress onto professional body membership. However, there is consensus from stakeholders that there is scope and demand from employers to strengthen this progression route.

A key challenge is presented by the Specification of Apprenticeship Standards in England (SASE)³¹. Developed in April 2011, the SASE was introduced to replace the ‘Blueprint for Apprenticeships’ as the definition of Apprenticeships in England, including Higher Apprenticeships. There was extensive

consultation in developing and agreeing the SASE. It specifies what the content of an Apprenticeship needs to include: competence-based qualifications (the level of this qualification determines the level of the framework and the maximum level is Level 5); technical qualifications included on the Qualifications and Credit Framework (QCF); GCSEs in English and Maths (for those lacking these qualifications) or Functional Skills; employee rights and responsibilities; personal learning and thinking skills; and specified volumes of taught time (guided learning hours).

A clear definition of the brand is important. However, some of the requirements of the new SASE are not helpful for Higher Apprenticeships in accountancy. Specifically:

- The restriction of qualifications to those on the QCF means that many valued professional qualifications (offered by the professional bodies for accountancy), and provision delivered by higher education, are excluded from Higher Apprenticeships.
- The upper limit of Level 5 for vocational qualifications is unhelpful for the profession, because the level required to reach chartered status is Level 6. This means that learners taking a Higher Apprenticeship cannot reach chartered status without taking additional courses and qualifications.
- The inclusion of Functional Skills or GCSEs in English and Maths, personal learning and thinking skills, and even some of the parameters relating to guided learning hours, can imply that Higher Apprenticeships are really about remedial education, and achievable with very little off-the-job learning. This will put off suitable learners who are more academically able and will not help to establish the Higher Apprenticeship brand as a strong “earn as you learn” alternative to a full-time three year degree course and chartered status.

To address this, Higher Apprenticeships need:

- Increased flexibility of the courses and qualifications available under SASE: By allowing the use of a wider range of professional qualifications and courses, Higher Apprenticeships would become more valuable and responsive to the needs of a variety of employers. They would allow access to qualifications which employers value and recognise, and also open up the opportunity for employers to design Higher Apprenticeships based on degrees.
- GCSEs in English Maths at Grade C or equivalent should be a mandatory entry requirement: For Higher Apprenticeships in accountancy to be recognised as a credible vocational alternative to full time higher education, English and Maths need to be part of the entrance requirement, wherever possible, freeing up employers and providers to include broader education components that are useful in business (management and leadership, entrepreneurship, for example).

By doing this, Higher Apprenticeships would form a better basis for maintaining the standards which have made accountancy in the UK globally renowned. It is also hoped that by having an established alternative to higher education, it will attract a wider pool of talent which will ensure the profession has the right workforce to deliver future growth.

Attractiveness of the profession

Whilst the standing of accountancy as the “University of Business” continues to attract people into the profession, the issue of retention is causing increasing concern, particularly for the audit discipline. Audit has become a highly complex, very specialist and demanding technical area, making it less attractive to those who want to focus on a wider range of business issues. This is exacerbated by underlying pressures of “professional skepticism” and a regulatory inspection regime which has an increasingly intrusive and personal focus. This creates a career risk / reward equation which has changed substantially from previous generations.

Anecdotal evidence from stakeholders in the profession suggests that it is becoming increasingly difficult to retain the best talent for a career within audit because of the relative attractiveness of other areas.

The accountancy profession has always placed great emphasis on career progression and retention. This will become even more important in future and there is some risk that, if not successful, this

could lead to a shortage of the world-class skills we need if the UK accountancy profession is to play a leading role in the global economy.

Organisations and businesses in the private sector and public sector which recruit new entrants for accountancy training report fewer issues at present. They have been able to secure their annual graduate intake and applications have increased over recent years, though several employers have flagged concerns over the skills of the current graduate intake³⁴.

Margin pressures

As with all businesses there is intense pressure on profitability and this is increasingly leading businesses to seek more efficient ways to deliver their services. Several employers have cited that lower skilled work is being replaced by technology, or off-shored, which is consistent with wider changes across the workforce³⁵. This may have further impact upon entry routes into the profession as it leads to there being fewer opportunities to follow a vocational training route through occupations to full chartered status, where the future growth is predicted.

Demands for ‘wider skills’

Development of wider skills in accountancy is not only important for the profession, but for the wider UK economy. Accountants are an important source for future leaders in business and therefore need a wider range of skills outside the technical competence required by the profession. Since the global financial recession began in 2008, this has been emphasised by the need for improving the transparency and accountability of business and public services, meeting the needs of compliance whilst remaining competitive, embedding financial risk management into wider business decisions and adopting responsible growth strategies. These skills needs have been identified as priority³⁶ for the economy.

During our review the following additional skill sets were mentioned most prominently:

- **Effective leadership and management skills:** Accountants have an important role in providing business leadership. Currently, 67% of CEOs of the FTSE top 100 companies have financial backgrounds. Accountants need to be able to apply their technical competency to the wider strategic vision in businesses. In light of the current global economic climate, accountants need to be able to ensure business activity leads to financial stability as well as identifying opportunities for growth.
- **Entrepreneurialism:** Several large employers have cited ‘entrepreneurial’ skills as vital for business. Accountants need to be able to generate new ideas and products and develop strategies on how to engage with existing and potential future markets.
- **Communication and interpersonal skills:** The ability to create and maintain relationships was cited as a key skill across all areas of business. In addition, accountants were called upon by employers to translate complex financial information into clear business advice, either to clients or within their own organisation.
- **Transparency and risk management:** Reflective of the current global economic climate, there is a demand for greater transparency and management of potential financial risk in businesses. This was identified as an issue in the delivery of public services.

Clearly these wider skills are important to accountancy but they are also important for many roles in today’s labour market³⁷. This is demonstrated by the premium that employers are willing to pay for them³⁸.

At present there is a wide range of training offers to meet these wider skills needs, provided by private training providers, professional bodies and by employers themselves. Whilst large employers felt able to address skills issues internally, or arrange additional support from private providers or the professional bodies, there were concerns about whether smaller employers received sufficient support to address these issues.

One way to take this forward would be for professional bodies to assume a larger role in addressing these wider skills needs for smaller businesses by embedding wider skills into the core technical offer. The advantage of this approach would be to develop a 'work ready' labour force in as short a time as possible. All of the professional bodies have a syllabus which attempts to place accountancy in the context of business and the growth of areas such as professional ethics reflects demand from employers.

However, some employers felt that these wider skills should be gained through work experience and there was a concern that through attempting to address a wider remit, professional bodies could compromise the standard of their technical qualifications. One employer commented:

"The core elements [within accountancy] never change. Unfortunately, we went through a period when some professional bodies thought that accountants need to do a wider variety of things at an earlier stage within their career and this came at the cost of the core principles of accountancy... In my view, other skills will be gained through experience in work, but the core building block is to produce people who can account. Once you have this, you can build on the other elements".

It was felt that the most practical way forward would be by a variety of collective actions where there are common needs. This could be stimulated by the professional bodies where they see common demand, or by collective action from employer groups, such as that initiated by the NHS in the North West of England.

Case Study 6: Developing Leadership Skills across the finance community (NHS North West)

"We wanted directors of finance who think like chief executives".

Within the NHS North West, it was recognised that established fully qualified finance staff did not need large amounts of additional financial training. However, it was recognised that there was a skills need to develop leadership skills, understand cultural change and improve abilities in developing strategic vision. The ambition was that through addressing these skills, individuals could have a greater influence on shaping the direction of the organisation and improving overall service.

This was addressed through establishing the North West Leadership Academy. The Academy attracted senior staff from various backgrounds within the organisation and not just finance. Past activities of support from the Leadership Academy included study programmes from world class academics in Stamford, Tuck Business and Harvard. Current activities include a range of development programmes such as leading as peers, understanding organisational complexity and leading change.

5 Conclusions and recommendations

The accountancy profession has much to celebrate. Specialist firms, professional bodies, training providers and wider stakeholders have all shown examples of how they respond, individually and collectively, to a dynamic financial and policy environment to secure skills; skills to drive economic growth for specialist firms and those working across industry.

However there is no room for complacency. The challenges to workforce recruitment and development will continue. Whilst current activity suggests that the profession has been able to come up with its own solutions to meet skills needs hitherto, the frameworks for collaborative, cross-profession, development of skills need to be strengthened further if alternative routes into the profession are to provide the quality and quantity of skilled resources necessary in this changing landscape.

The existing networks of employers, professional bodies, the Financial Skills Partnership and the academic and vocational training networks should have the ability to accomplish many elements of this strengthening. However, if we wish to put some of the Government's mainstream initiatives at the centre of the alternative routes into profession, then some Government support for policy changes will be required, particularly for Higher Apprenticeships.

Higher Apprenticeship frameworks need to evolve to support full progression

Although the profession has been successful in establishing Higher Apprenticeships, policy changes to higher education may make this an even more important route into the profession in future. However, to ensure that the Government's commitment to the evolution and expansion of Higher Apprenticeships delivers its potential (as being attractive to young people from diverse backgrounds and providing direct progression to chartered status or equivalent professional level) changes are needed to overcome the barriers highlighted in section four.

In particular, employers are looking for a single means of progression within the Apprenticeship framework which goes up to the full chartered status. Such a development would also demonstrate greater parity between vocational training and traditional academic routes.

To achieve this, the following actions are needed:

- Remove the requirement that Higher Apprenticeships can only contain qualifications from the Qualifications and Credit Framework up to Level five. This change will allow valued professional qualifications or degree level courses to be part of Higher Apprenticeships and supports progression to professional or chartered status at Level six.
- Higher Apprenticeship frameworks should allow a broader range of wider skills (outlined in section four) and should only be eligible for those who already have GCSEs at grade C and above in English and Maths. This will support the increasing need for wider skills for those in the profession and recognise the potential trained accountants have as business leaders.

Actions within the scope of the profession's existing collaborative networks

Given the pace of change, within both the economy and the education and higher education systems, it was felt that sharing of best practice is likely to become even more of an imperative in future if the profession as a whole is to respond to a changing landscape.

The professional bodies and other institutions in accountancy (such as the Financial Skills Partnership) already put considerable effort into communicating new initiatives throughout the entire profession,

from the largest to the smallest businesses. These can encompass both those initiated by professional bodies and those emerging from the larger and medium sized businesses.

However, with the need for the whole profession to continue to be effective at all points of the value chain, from outreach into schools right through to achievement of professional qualifications and development and retention in the profession, it was felt that this was an area that needs to be continuously monitored to gauge its effectiveness.

Given the existing fora for sharing and communicating both challenges and solutions, the review team is reluctant to propose specific additional mechanisms. However, it does want to charge those responsible for making these important channels effective to review regularly the completeness, quality and usability of the best practice ideas and solutions communicated.

Wider best practice sharing

It was also felt that there could be scope to share some initiatives more widely with other similar sectors. A number of the recent initiatives, for instance those mentioned in case studies three (Higher Apprenticeships), four (school leavers' programme) and five (modular university programme) were felt to be sufficiently leading edge to be applicable to similar challenges in other professional and business services sectors. We would encourage the professional bodies to maintain an energetic dialogue with their counterparts on such developments, both bilaterally and through bodies such as the Professions Collaborative Forum facilitated by BIS.

Endnotes

1. Annual Business Survey (see Annex one for SIC definition), 2010
2. International trade in services, ONS, 2009
3. Annual Business Survey, 2009
4. BIS, Economic Growth: Economics Paper No. 9, 2010
5. Annual Business Survey 2009/10
6. Labour Force Survey 2010
7. Accountancy Age, April 2011
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10. See Glossary
11. Labour Force Survey 2010
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14. UKCES (2010) Skills for Jobs: Today and Tomorrow. The National Strategic Skills Audit for England
15. Labour Force Survey 2001-2010
16. Association of Chartered Accountants (ACCA), Chartered Institute of Management Accountants (CIMA), Chartered Institute of Public Finance and Accountancy (CIPFA), Institute of Chartered Accountants in England & Wales (ICAEW), Institute of Chartered Accountants of Scotland (ICAS)
17. E.g. The Association of Accounting Technicians (AAT), the Association of Tax Technicians (ATT) and the International Association of Book Keeping (IAB).
18. Labour Force Survey, 2010
19. Claimant Count by occupation, 2010
20. The Financial Skills Partnership is the employer-led Sector Skills Council representing finance, accountancy and financial services
21. www.directions.org.uk
22. Under current government proposals, a national all age careers service is due to be launched in 2012-13 and BIS have announced a funding commitment for the delivery of adult careers services. However, the Department for Education (DfE) have yet to announce a similar commitment for schools and local authorities.
23. Related qualifications include Accountancy and Finance degrees.
24. www.education.gov.uk
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27. "Employability Skills: A Research and Policy Briefing", UKCES, April 2010
28. Brochure available at www.pwc.com/uk/employability
29. "A Review of Occupational Regulation and its Impact", Casey et al. October 2011
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33. A similar framework also exists in Wales, the Specification of Apprenticeship Standards in Wales (SASW)
34. This will be explored in detail in a forthcoming research report by ICAEW.
35. "Lousy jobs and lovely jobs", Goos and Manning, 2003
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38. Ibid
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Annex 1: Abbreviations and acronyms/ Glossary of terms

AAT: Association of Accounting Technicians

ACCA: Association of Chartered Certified Accountants

Apprenticeship: Apprentices are employed and follow a SASE compliant framework consisting of on and off the job training. The off the job training includes a competency qualification, a technical knowledge qualification and Key Skills or Functional Skills and can be taken at Intermediate, Advanced or Higher levels.

BIS: Department for Business, Innovation and Skills. Central government department with responsibility for skills and training

CIMA: Chartered Institute for Management Accountants

CIPFA: Chartered Institute for Public Finance and Accountancy

FRC: Financial Reporting Council

HESA: Higher Education Statistical Agency

HEIs: Higher Education Institutions such as universities

ICAEW: Institute of Chartered Accountants in England and Wales

ICAS: Institute of Chartered Accountants of Scotland

Internships: Where an individual works to gain relevant professional experience before embarking upon a career. Internships can vary in length but generally last no longer than a year.

Knowledge Economy: Where the generation of wealth is created through the generation and application of ideas and knowledge rather than natural resources, physical capital and low skilled labour. The Work Foundation has considered the scope of the knowledge economy⁴⁰

LFS: Labour Force Survey

NVQ Level 4: Competence that involves the application of knowledge in a broad range of complex, technical or professional work activities performed in a variety of contexts and with a substantial degree of personal responsibility and autonomy. Responsibility for the work of others and the allocation of resources is often present.

Off shoring: The relocation of a business process from one country to another. A subset of outsourcing which seeks to obtain a service from an outside supplier in place of an internal source.

QCF: Qualifications and Credit Framework

Social Partnership: a multi-partite arrangement between employers, professional bodies, public authorities (relevant departments and agencies) and training organisations with the commitment to address specific skills challenges which have an impact upon sustaining economic growth.

Sector Occupational Classification: This provides a national standard for categorising occupational information. SOC forms the basis of occupational classification in a variety of national surveys that collect statistical information such as the Labour Force Survey and New Earnings Survey.

Sector Industrial Classification: a way of classifying businesses by economic activity

Skills gaps: where employers report having employees who are not fully proficient at their job.

Skills shortages: occur when organisations cannot recruit sufficient people who are appropriately qualified, skilled or experienced to fill the vacancies they have.

Work Experience: Work experience is mainly unpaid and primarily targeted at those in compulsory education. It aims to provide an insight into the world of work which cannot be obtained from other sources.

Annex 2: Sources

We have used core Labour Market Information and combined/tested this understanding with consultations through the review. These included:

Detailed Interviews carried out with over 30 stakeholders. These interviews included large and small businesses from within accountancy practice and across industry.

The **Annual Business Survey** (formerly the Annual Business Inquiry) samples UK Businesses, and other related establishments, according to their employment size and industry sector. The statistics produced help to improve the overall quality of national accounts and the measurement of gross domestic product (GDP).

The **Annual Survey of Hours and Earnings** (ASHE) is used to provide information about the levels, distribution and make-up of earnings and hours paid for employees within industries, occupations and regions. The ASHE was used within this project to understand the distribution of earnings of those within the accountancy profession and in comparison to other professions.

The **Claimant Count** is a monthly count of Job-seekers Allowance claimants collected by the Department of Work and Pensions. It collects information on the usual occupation of the claimant and can give us an indication of how many people who are trained within accountancy are currently unemployed which would indicate a skills mismatch.

The **Destination of Leavers from Higher Education Survey** provided by the Higher Education Statistical Agency collects information on what leavers from Higher Education programmes are doing six months after qualifying from their HE course. This was used to understand the volume of students entering into the accountancy profession, what posts they are occupying and which subjects they enter from.

The **Employer Perspectives Survey (EPS)** is also carried out by the UK Commission and it is a UK wide survey of 13,500 employers.

Every two years the UK Commission carries out one of the largest surveys of employers in the country. The **Employer Skills Survey for England (ESS)**, Scotland and Wales surveys around 80,000 employers across England. The ESS was used within this report to identify any current skills shortage vacancies within the accountancy profession.

The **Labour Force Survey (LFS)**, provided by the Office of National Statistics, provides quarterly updated information on the UK labour market. It was used to understand the changing trends in employment across the accountancy profession.

The **Register of Regulated Qualifications provided by Ofqual** provides details of Recognised Awarding Organisations and Regulated Qualifications in England, Wales and Northern Ireland. Data was available to identify the number of achievements for regulated qualifications within the accountancy profession which provides a greater understanding of how Vocational training is supporting the accountancy profession.

The **Statistical First Release (SFR)**, published by the Skills Funding Agency provides details on the take up and performance of Accountancy Apprenticeship Frameworks within England.

Working Futures provides a review of the implications of technological change, change in government policy and legislation, and changes in other economic and social drivers for the UK labour market. It provides detailed analysis by industry and geography of the changing demand for labour.

The **Universities and College Admissions Service (UCAS)** provide information on the applicants for Universities. This information is used to understand the flow of applicants to HEI's across the United Kingdom.

This project will look to interrogate a variety of data sources throughout the course of this review. For the purposes of consistency, the following definitions will be used when accessing survey data provided by the UK Commission for Employment and Skills and the Office for National Statistics (ONS).

SIC classification: In line with the scope of this report the following SIC (2007) codes have been used for Accountancy.

69.20: Accounting, book-keeping and auditing activities; tax consultancy

69.20/1 Accounting and auditing activities

69.20/2 Book-keeping activities

69.20/3 Tax consultancy

It is important to note that the SIC code relates to specialist Accountancy Firms only and therefore data analysis using this code should be considered within these parameters.

SOC codes: For the purpose of this report, we have used the following SOC (2000) codes to define the accountancy profession.

2421 Chartered and Certified Accountants

2422 Management Accountants

3537 Financial and accounting technicians

These occupations are located across the economy and not just in specialist accountancy firms.

Annex 3: Governance Arrangements

A steering group was assembled to provide advice and guidance on how the aims and objectives of the report should be met. The group brought together a range of stakeholders from across the accountancy profession and across Government. The steering group was led by Jeremy Anderson, Chairman of Global Financial Services, KPMG. The membership of the steering group is provided below.

Steering Group

Name	Organisation
Jeremy Anderson (Chair)	KPMG
Matthew Bird (Project lead)	UKCES
Simon Brown	BIS
Judith Compton (Senior Responsible Officer)	UKCES
Martin Hagen	Past President ICAEW/ Gateway to the professions collaborative forum
Iain McLaughlin	KPMG
Mark Ogden	NHS NW
Sonja Stockton	PWC
Sarah Thwaites	FSP
John Watkins	PKF

To support the overall running of the project, an operational group was assembled to ensure the project is meeting its objectives and within the agreed timescales. The operational group was led by Iain McLaughlin of KPMG.

Operational Group

Name	Organisation
Jenny Barber	FSP
Matthew Bird (Project lead)	UKCES
Judith Compton (Senior Responsible Officer)	UKCES
Alison Heron	KPMG
Iain McLaughlin (Chair)	KPMG
Sarah Thwaites	FSP

The UK Commission for Employment and Skills is a social partnership, led by Commissioners from large and small employers, trade unions and the voluntary sector. Our mission is to raise skill levels to help drive enterprise, create more and better jobs and economic growth.

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