

**EDUCATION
COMMITTEE**

July, 1992

DISCUSSION PAPER

SPECIALIZATION IN THE ACCOUNTING PROFESSION

ISSUED BY THE

INTERNATIONAL FEDERATION OF ACCOUNTANTS

The broad objective of the International Federation of Accountants (IFAC) is the development and enhancement of a coordinated world-wide accountancy profession with harmonized standards. The Education Committee of IFAC was formed to develop pronouncements on both the prequalification education and training programs of accountants and on continuing professional education for members of the accounting profession. This discussion paper is one of these pronouncements.

It is hoped that this discussion paper will encourage a dialogue on specialization within and among member bodies. Any comments received on this paper will be reviewed by the Education Committee and will influence further activities.

While the approved text of this paper is that published by IFAC in the English language, member bodies are encouraged to translate and otherwise make this paper available to their individual members.

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FOREWORD

1. The purpose of this paper is to encourage discussion within member bodies on the question of specialization in the accounting profession. The paper outlines some trends and forces which are operating to lead the profession towards specialization, it suggests possible approaches to the question, and discusses some of the advantages and disadvantages associated with formal specialization.
2. For the purposes of this paper, specialization is taken to mean the formal recognition by a member body of a group of its members possessing distinctive competence in a field or fields of activity related to the work of the professional accountant.

THE ENVIRONMENT

3. Specialization is a reality

There are many factors which would suggest that specialization within the profession is inevitable. Indeed, already, it is a fact of life.

Specialization on a de facto basis is widespread among professional accountants, whether they are working in public practice, in industry, commerce or the public sector. Market forces will continue to seek further specialist services from the profession which should recognize that already there are formidable competitor specialist qualifications in the market. It is a matter for each member body to determine whether further specialization should be market led outside its control or led by the profession and under its direction.

4. Specialization is a necessity

The profession operates in a dynamic environment, characterized by change. Recent years have seen a significant expansion in the body of knowledge required by the professional accountant. This knowledge encompasses not just matters relating to accounting but includes knowledge of other related disciplines, e.g., taxation, information technology, company legislation, etc. Continuing change and the growing complexity of the business environment will extend even further the body of knowledge required of the professional accountant. In such a context, continuing mastery of the overall body of knowledge will be beyond the capacity of the individual.

5. A market demand for specialization

The complex business environment of the 1990's makes many new demands on the professional accountant. Users expect a breadth of competence of the profession, a breadth that can only be satisfied through some form of specialization. In the face of the long established and successful operation of specialization within other leading professions, hesitancy by the accounting profession to be pro-active in this area may reflect adversely upon it. Continued inaction could provide opportunities for competitor organizations to take initiatives in this area which would be outside the control of member bodies. Furthermore, outside agencies, such as regulatory bodies, might feel it necessary to impose requirements upon the profession. Already there is a trend in that direction, e.g. insolvency, financial services, auditing.

6. Other matters relating to specialization

There are many other reasons why specialization should be examined by member bodies. Some are factors which would serve to enhance the expertise of the professional accountant and hence the service to business and the public at large. These are listed briefly below:

- To improve and maintain the skills and competence of members who operate as specialists in a fast changing and vibrant business community.
- To provide guidance for those who may wish to operate in a specialist area.
- To create a framework for the interaction of members who share a common professional interest.
- To facilitate further education, research and publication within existing and developing specialist areas in the work of the accountant.
- To lessen the danger of fragmentation within the profession.

Other pointers to the desirability of specialization within the profession would be ones which might improve market opportunities for, and the public perception of, the profession:

- To develop a leadership role for the profession in a rapidly changing business community, thus maintaining the status of the profession.
- To assure the public of the competence of members in areas of specialist professional work.
- To assist the user of accounting services to identify individuals who are equipped to deal with problems of a highly specialized nature.
- To enable members to recognize the specialist skills possessed by other members.
- To give formal recognition to the existing de facto situation.

RISKS AND LIMITS OF SPECIALIZATION

7. Risk is inherent in change. The recognition of specialization by a member body is not without potential dangers. Some of these are identified in the paragraphs that follow. (8-12 inclusive)

8. Additional costs to member bodies

The introduction and putting in place of any specialist system would be a significant administrative task. While in the longer term the operation of a system of specialization might be self financing, the member body embarking on specialization would undoubtedly encounter significant introductory costs.

9. Increase in cost to the user

The cost to the user of the services of the professional accountant might increase under a system of specialization. This would be particularly so if specialists tended to perform work at a level beyond that required by the task.

10. The unified identity of the profession

To a certain extent, the introduction of specialization by any profession could be seen as making an implicit statement about the non-specialist. Members of the profession who did

not elect for specialist status might come to be regarded as professionals of a lesser quality in the eyes of an uninformed public.

A thorough educational process, both within and without the profession, about specialization and its status and significance would be a prerequisite for the introduction of specialization and the avoidance of misunderstandings and possible tensions.

11. Perception of the basic qualification

The introduction of specialization could do some damage to the existing perception of the qualification as a professional accountant as a desirable business qualification. Potential entrants to the profession might be deterred if it were perceived that specialization was desirable, even necessary, in addition to their basic qualification as a professional accountant.

12. The image of the profession

There are always risks involved in tampering with the public perception of a profession. In assessing these, member bodies should recognize that other leading professions, membership of which also involves mastery of a complex body of knowledge and acceptance of a strict ethical code, have successfully adopted systems of specialization and these have now become the norm world wide.

THE OBJECTIVES OF SPECIALIZATION

13. Underlining the special competence of some members of the profession

For specialization to be effective, it must be perceived by the users of the services that the specialists' competence has been assessed by the professional body and that steps are taken to ensure their continuing competence. High profile activity by the profession in this area will heighten the awareness of potential users of the range of services available from these highly qualified professional accountants.

14. Assisting members to gain or develop a specialist qualification

The recognition by a member body of specialization will encourage the development of a framework in which it can develop training, research and publications relating to specialist areas. (Par. 6) The development of peer groupings within the profession will facilitate the interaction of members who share a common professional interest. (Par. 32)

15. Maintaining the cohesion of the profession

The issue of specialization presents a challenge to the accounting profession. Failure to meet that challenge may lead to the void being filled by other agencies outside its influence. Persons gaining specialist designations from such agencies might present themselves as more specialized and knowledgeable than members of the accounting profession.

Given the global nature of the business environment and of the accounting profession, it would appear that the best interests of the profession worldwide would be served by a general parallel approach to the emerging, but inevitable, issue of specialization. Minimum disparity would appear to be the optimum outcome for the profession as a whole.

TYPES OF SPECIALIZATION

16. Possible approaches to the categorization of specialization

The division of professional activity into specialist areas is necessarily subjective. Thus, the approaches set out in the following paragraphs are simply some possibilities and are in no way exhaustive.

17. Specialization is evolutionary

The accounting profession operates in a world of change. In itself, in different countries, it is at different stages of evolution. Thus, the question of determining where specialization begins cannot be answered in a definitive fashion. The response will vary with the economic and social climate of each country, with the technical knowledge needed in order to operate as a professional accountant and with the state of evolution of the profession within individual countries.

18. Specialization based on functional areas

While the techniques and knowledge used are the factors which determine the intervention of the professional, specialists tend to organize themselves with regard to their functional areas. The most common such areas in which specialist would tend to group within the sphere of the accounting profession include financial accounting and reporting, taxation, finance, information systems, etc.

19. Specialization based on business sectors

Where the competence of an individual professional is essentially founded on specific knowledge relating to a certain sectoral activity, he or she may wish to specialize in this area. Common examples of this approach would be in banking, financial services, insurance, health services, etc.

20. Specialization based on professional activity

The work carried out by professionals operating in different fields varies significantly. The tasks performed by professional accountants will vary depending on whether they are within a public accounting firm, in industry or commerce, in the public service or in education. The knowledge and skills being applied in each of these areas obviously differ and hence, to an extent, there is already de facto specialization.

21. Specialization and the work of the non-specialist, e.g., the general practitioner

The function of the general practitioner is a particular form of specialization. This is a situation not unique to the accounting profession. The role of the general practitioner is vital to the business community. Members in general practice should not see themselves as either menaced or devalued by specialization. Quite the contrary. Specialization should be seen as complementary to their activity.

RECOGNITION OF SPECIALIZATION

22. The recognition of one or more forms of specialization may result de facto from the reputation of professionals with existing or potential users of their services. It is thus a market mechanism which determines de facto recognition.

More formal recognition may also be effected de jure by procedures introduced by professional organizations. This latter approach is more in accordance with the philosophy of a profession with social responsibilities.

23. Who can be recognized as a specialist?

This question is posed to address the issue of whether formal recognition of specialization should be granted solely to individual members or it might be extended, for instance, to an accounting firm as a whole.

The former approach would appear to be more in line with the general concept of the specialist and with the approach adopted in other leading professions.

In this context, it may be appropriate to refer to the fact that, in every country, there will be persons who are not members of a member body but who are working in areas relevant to the work of the profession. Some of these persons might wish to avail themselves of particular services being developed by member bodies for those whom they would designate as specialists. While member bodies might be prepared to extend services to persons such as this, it would appear inadvisable for them to extend formal recognition as specialists to persons who were not members of their organizations.

TIMING OF SPECIALIZATION

24. The accounting profession has built its reputation on a wide ranging and high level of education corresponding to market demands. This should not be put at risk.

It is unlikely that, at the outset of their pre-qualification education and training, young persons aspiring to the profession would possess adequate knowledge or experience upon which to choose a specialist area. Specialization prior to the attainment of the basic primary qualification would represent a fundamental change in the common base of the qualification and could undermine one of its existing strengths (see IEG No. 9). It would be counter to the approach adopted in many other professions which are experienced in the area of specialization.

For these reasons, it would appear to be preferable for specialization to come after access to the profession and after completion of a general wide ranging program of education and experience.

25. Study and/or experience necessary for specialist recognition

The previous paragraph suggested that specialization should follow after formal qualification. The actual process of recognition of specialization might be based on one or a combination of the following approaches:

- Evaluation of demonstrated experience in the specialist area.
- Assessment in a specialist examination organized by the profession or on its behalf by an outside agency.
- Submission of a thesis in the specialist area.
- Nomination by a group of specialists constituted for this purpose within the profession.

The choice of one or more of these approaches will depend on the circumstances of each particular member body and may change or evolve over a period and as experience develops.

26. At what time in their careers should professional accountants have the right to specialize?

In paragraph 24 it was indicated that specialization should follow formal admission to the profession. Subject to that recommendation, it would appear that there should be no prescription relating to the timing of admission to specialization. The environment is changing, as is the body of knowledge in various subject areas. Because of this, it is felt that the option to specialize should be open to all professional accountants throughout their careers on the basis of some of the approaches suggested in the preceding paragraph.

27. Continuing recognition of specialization

Recognizing the pace of change within the profession, member bodies should take steps to ensure the continuing competence of those to whom they grant specialist recognition. This would be important from the point of view of continuing user confidence in the specialist designations. The ongoing periodic assessment of competence might be based on an appraisal of current knowledge and/or on evidence of continuing significant experience in the specialist area concerned.

In the light of the results of such periodic appraisals, member bodies may find it appropriate to review their education, experience and assessment requirements for those to whom they will be giving specialist status in the future.

28. Should there be a limit on the number of specialist areas in which an individual is recognized?

It will be a matter for each member body to determine the maximum number of areas in which a member may specialize. This number, which could be limited to one, may vary from one body to another and may change as experience develops within member bodies of the concept and operation of specialization.

29. Should specialization be optional?

Not all tasks undertaken by the profession necessarily correspond to clearly identifiable specialist areas. Furthermore, there may be many members who may wish to make their careers as professional accountants providing a general professional service and who may not wish to specialize in any particular area.

For these reasons, it is suggested that specialization should remain an option for the individual member.

SPECIALIZATION AND THE ORGANIZATION OF THE PROFESSION

30. May specialization be identified and publicized?

Members of the profession, who have been recognized as specialists by their member body (individual members only as suggested in paragraph 23 above) may identify themselves as having specialist recognition on all documents supplied by them to the public as long as there is observance of the relevant regulations governing publicity in the profession such as the Guideline on Ethics for Professional Accountants.

31. Does specialization create a monopoly in the provision of services?

There are many areas in which the professional accountant, based on his/her basic qualification and experience, will be able to provide a competent service without the need to seek specialist assistance. Because of this, it would not be the intention that the creation of recognized specialist fields should create reserved areas within the work of the profession. There may, of course, be certain areas wherein constraints have been

imposed by outside regulatory agencies. Subject to these, members of the profession should feel free to continue to practice their skills in the normal way, based on their general qualification.

32. Should specialization create membership divisions in professional organizations?

This will be a matter for each member body to decide for itself in the light of its own circumstances. Where member bodies are responsible for specialist recognition (see paragraph 22), for its promotion and further advancement, such membership divisions might well be appropriate. These would reflect spheres in which significant numbers of members were making their careers and in which there would be substantial interest. They would provide a focus for contact between persons working in particular areas and might provide facilities relevant to the particular interests of those working in the specialist area.

CONCLUSION

33. The question of specialization presents a challenge to the accounting profession. With that challenge comes an opportunity. Already agencies outside its control are taking advantage of the apparent absence of a significant positive response to the challenge presented by specialization. Based on the traditional high quality of its technical and professional standards, the accounting profession is held in high esteem by the public. The possibility of specialization, as defined in this discussion paper, offers member bodies an opportunity to enhance even further the services provided by their members to the community.

It is hoped that this paper will encourage and assist member bodies to examine the question of specialist accreditation and the challenges and opportunities which it presents to the profession.