



Professional accountants – the future:

# 50 drivers of change in the public sector



## About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants, offering business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its **198,000** members and **486,000** students in **180** countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of **101** offices and centres and more than **7,291** Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. It believes that accountants bring value to economies in all stages of development and seek to develop capacity in the profession and encourage the adoption of global standards. ACCA's core values are aligned to the needs of employers in all sectors and it ensures that through its range of qualifications, it prepares accountants for business. ACCA seeks to open up the profession to people of all backgrounds and remove artificial barriers, innovating its qualifications and delivery to meet the diverse needs of trainee professionals and their employers.

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Part of our ground-breaking *Professional accountants – the future* series, this is one of a series of country reports, following on from our global report *50 drivers of change in the public sector*. It focuses exclusively on identifying the 50 drivers of change in South Africa, that are expected to have an impact on the public sector and the likely timing of these. It also assesses how professional accountants will need to continue to play a pivotal role in the decade ahead.



The public sector is as complex as it is diverse and it is not the same in any two countries; what is considered to be part of the public sector often varies from one country to another.

The global public sector is changing, with the landscape being reshaped by a combination of factors: a growing and ageing population, the need for better infrastructure and increasing concerns over sustainability and consumption. At the same time demands are growing for greater transparency and accountability for public funds. These challenges are heightened by advances in technology and by economic and political uncertainty. As the social and economic environment shifts, all these factors will have serious consequences for public sector organisations and their finance professionals.

The public sector is as complex as it is diverse and it is not the same in any two countries; what is considered to be part of the public sector often varies from one country to another. For example, in some countries, such as the UK and Scandinavian countries, healthcare is deemed to be a public sector function, while in some others it is a hybrid between the public and private sectors.

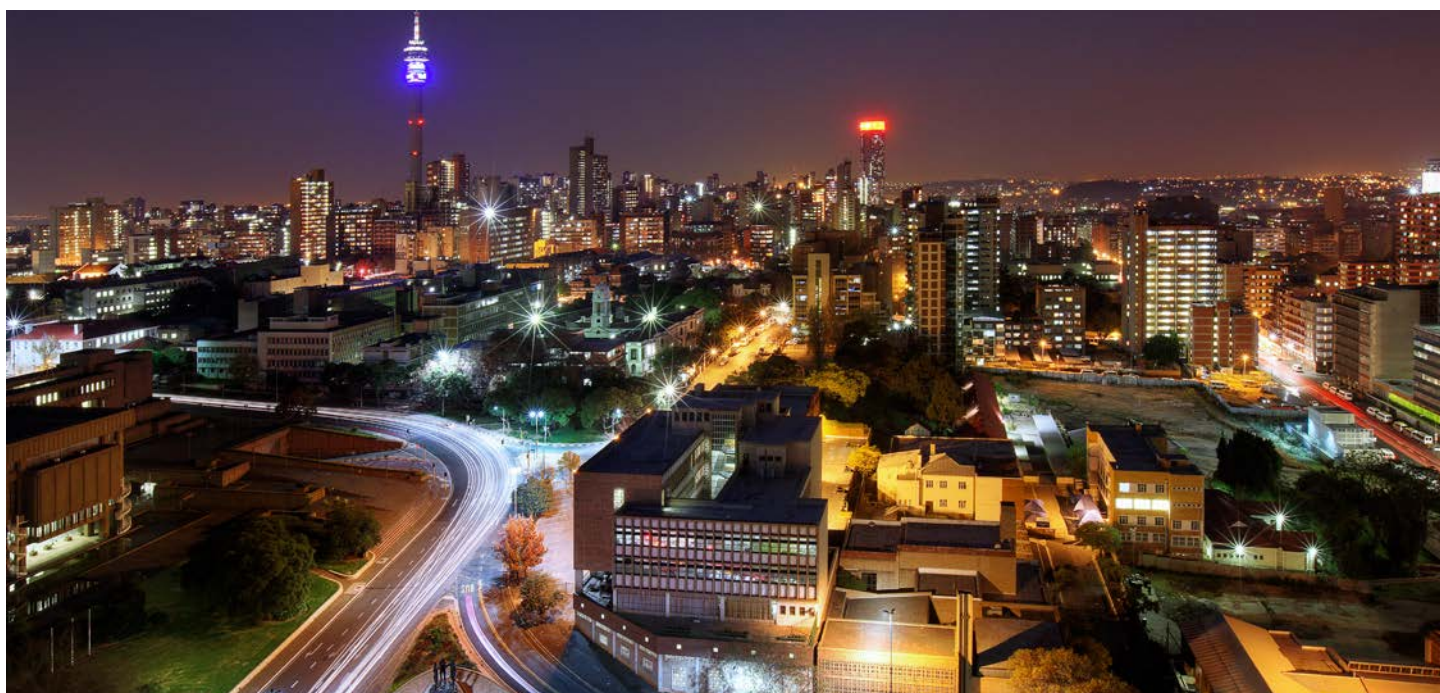
For professional accountants working in the public sector, the challenge is twofold. First, they need to understand the key forces shaping the future and how these could affect public sector organisations and the country they serve. Secondly, they need to provide support and influence financial decisions that will ensure that public funds are deployed cost-effectively and efficiently.

To help professional accountants and leaders in the public sector prepare for an uncertain future, ACCA undertook a global study to explore which emerging drivers of change could have the biggest impact and to highlight the skills that will be required over the period to 2026.

The recently launched global report, *50 Drivers of Change in the Public Sector*, is part of our ground-breaking *Professional accountants – the future* series. It is the first report to focus exclusively on identifying the 50 factors that will impact the public sector, the likely timing of these and how they will shape the future.

The global study draws on a survey of ACCA's global forum for the public sector, ACCA members and members of other professional accountancy bodies working in the public sector. This was complemented with a series of roundtable events held across 12 countries, from the US in the west through to China in the east, and high-level interviews with key public sector figures.

This particular report is focused specifically on the results from the global report for South Africa and also follows a recent roundtable held in the country to discuss these key issues. In this report we explore the drivers of change that are impacting South Africa's public sector in particular. These include the level of economic growth; political instability; societal diversity; the use of public private partnerships; technology; climate change and the accountancy profession's changing role.



South Africa's changing economic environment, political environment and societal norms – including a growing younger population – affect the public sector and the level of related services required.

The particular challenges facing South Africa that are highlighted in this report include: economic and financial instability; the rate of democratic transition; increasing diversity; technological changes – which promise benefits and propose threats; skills shortages; and climate change.

All of these factors have an impact on the challenge to effectively deliver the right level of public service. Delivery channels are changing with the use of public private partnerships (PPP) and digitisation – and professional accountants have a key role to play in managing the risks that these new models bring.

**Table 1:** Ranking of the top 50 drivers of change for the public sector for South Africa

The drivers of change are categorised into eight key themes: Economy; Politics and law; Society and demographics; Business of government; Science and technology; Environment, energy and resources; The practice of accounting and The accountancy profession.

RANK	DRIVER OF CHANGE	THEME
1	The level of economic growth	Economy
2	Use of public private partnerships (PPPs)	Business of government
3	Quality and availability of the global talent pool	Business of government
4	Business leader responsiveness to change and disruption	Business of government
5	Big Data: the development and exploitation of large organisational databases, data mining and predictive analytics	Science and technology
6	Non-financial information and integrated reporting	The practice of accounting
7	Cyber security challenges for the government	Science and technology
8	Accounting skills capacity in transitional economies	The accountancy profession
9	Stability of the global economic infrastructure	Economy
10	Competition for limited natural resources	Energy, environment and resources
11	Spread of diversity in society and the workplace	Society and demographics
12	Extent of foreign direct investment in developed and developing economies	Business of government
13	Flexibility, suitability and cost of accountancy training	The accountancy profession
14	Level of international political volatility	Politics and law
15	Size and complexity of the CFO's remit	The practice of accounting
16	Manageability of national and international debt	Economy
17	Global climate change	Energy, environment and resources
18	Workforce age structure	Society and demographics
19	Cost and ease of access to higher education	Society and demographics
20	Stability of national revenue bases	Economy
21	Rate of democratic transition	Politics and law
22	Pressure to manage reputation as part of business strategy	Business of government
23	The digitisation of work	Science and technology
24	Defining the scope of the accountants' role	The practice of accounting
25	Adoption of globally accepted accounting standards	The practice of accounting
26	Governance and delivery of outsourced public services	Politics and law
27	Societal expectations and definitions of accounting	The accountancy profession
28	Balance between external financial accounting and internal management accounting	The practice of accounting
29	Enterprise risk management capability	Business of government
30	Scale of take-up in alternative energy by business	Energy, environment and resources
31	Scale and distribution of global population growth	Society and demographics

RANK	DRIVER OF CHANGE	THEME
32	New industries and production models	Science and technology
33	Focus of global governance institutions	Politics and law
34	Consideration of alternative economic perspectives	Economy
35	Speed and duration of business cycles	Business of government
36	Scope and diversity of expectations of external stakeholders	Business of government
37	Carbon tax and other environmental market mechanisms	Energy, environment and resources
38	Opportunities arising from adoption of global regulation	The practice of accounting
39	The workplace expectations of Generation Y, Z and beyond	Society and demographics
40	Public perception and attractiveness of the accountancy profession	The accountancy profession
41	Level of entrepreneurial skills in the accountancy profession	The accountancy profession
42	Total scale and distribution of global inequality and unmet needs	Economy
43	Adoption of integrated systems-thinking to manage business complexity	Business of government
44	Evolution of corporate governance regulation and practice	Business of government
45	Clarity in financial reporting and defining the audit function	The practice of accounting
46	Level of investment required to maintain national physical infrastructure	Economy
47	Crowd sourced funding for innovation: the consumer as investor	Business of government
48	Experimentation with and adoption of new business models	Business of government
49	Broadening measurement of public sector value and progress	Economy
50	Advances in genetic science, impact of nanotechnology advances and robotic science across business sectors	Science and technology

‘The Minister of Finance’s budget speech referred to South Africa’s unhealthy reliance on borrowing. The country is borrowing more than it can afford. Debt servicing deprives other key areas of resources.’

South Africa Roundtable participant

The top three (ranked) drivers of change for each of the eight categories identified were:

#### ECONOMY

- 1 The level of economic growth
- 9 Stability of the global economic infrastructure
- 16 Manageability of national and international debt

South Africa’s **level of economic growth** as measured by GDP has fluctuated from a high of 5.4% in 2007 to a contraction of -1.5% in 2009 following the global financial crisis. Growth in 2017 is predicted to be lower than 2% (African Economic Outlook 2016).

Skills shortage has a significant impact on economic growth, but it is not the only factor acting as a constraint. A particular restriction is the **stability of the global economic infrastructure** such as trade and financial flows; these are dependent on a range of key agreements, standards, systems, checks and balances, and governance frameworks. Shocks to this infrastructure could have a profound

impact on the government of South Africa, affecting its ability to both manage the wider effects and to continue providing the desired level of public services. Curbs on economic growth are also driven by low productivity of manufactured goods, which holds back international competitiveness, and failure of critical infrastructure – where inefficient supply of energy is seen as a key obstacle. However, financing large infrastructure projects would also spark a high increase in public debt. State-owned enterprises (SOE) also require reform: greater private participation and effective regulation could help improve SOE performance and free up resources for investment.

**Managing national and international debt** is also crucial to long-term economic health, yet while the fluctuations between government revenue and expenditure can be managed in the short-term, in the long-term deficits are unsustainable. South Africa borrows 90% (Kumwenda-Mtambo 2017), of its public debt in local currency from well-established domestic markets; however, more than one-third of this domestic market debt is from foreign investors (World Bank 2016), – exposing South Africa to financial risks and capital fluctuations. The country has improved the management of its public (World Bank 2016) debt through a model – designed in

‘Recent studies propose that by 2020, 60% of the workforce will comprise people born in the year 2000 and after.... Access to education is therefore as key as creating job opportunities.’

South Africa Roundtable participant

partnership with the World Bank – to analyse costs and risk factors, which has helped to define benchmarks that South Africa has followed. However, government debt is still increasing due to low growth and South Africa’s current account deficit is among the highest in emerging markets. A further key issue here is that credit rating agency Standard and Poor’s (S&P) downgraded South Africa’s rating to junk status (Brand and Wallace 2017), as the country’s currency continued to slide following a major cabinet reshuffle in Q2 of 2017. This could reduce levels of inward investment.

### Governance and delivery of outsourced public services continues to evolve.

Good governance is essential to strengthen public confidence in the procurement process. This includes legislation, policies and frameworks as essential prerequisites to minimise governance failures. One example of this evolution is that South Africa is beginning to experiment with crowdfunding as a means of driving innovation – particularly in health, education and economic development. If this financing is to take root a high level of transparency and accountability will be required.

## POLITICS AND LAW

14

Level of international political volatility

21

Rate of democratic transition

26

Governance and delivery of outsourced public services

## SOCIETY AND DEMOGRAPHICS

11

Spread of diversity in society and the workplace

18

Workforce age structure

19

Cost and ease of access to higher education

### Levels of international political volatility

have a direct impact on South Africa. For instance, Brexit’s economic impact on Africa (Silke 2016), and particularly sub-Saharan Africa (SSA), could be damaging to the continent’s development. The direction of the likely policies of the new US Administration also adds to the level of global instability. Political events, such as resignations can have a potential influence on portfolio investment and foreign direct investment. And, internal political volatility could change the overall suitability of South Africa as a destination for future investment.

However, South African democratic institutions at both national and sub-national levels, which are linked to a progressive and largely accepted constitution, appear to broadly work well. Since 1994, the country has made significant progress on the path to democratic consolidation. Nonetheless, there remain on-going challenges in terms of societal division partly due to a legacy of years of discrimination. This is why the work on the **rate of democratic transition** is continuing. Measures are now required to mitigate social inequalities – with a focus on the unemployed and marginalised groups.

### The spread of diversity in society and the workplace is also a key driver of change in South Africa,

which has an inherently diverse culture. Significant changes are happening; the population is increasingly urbanised and the proportion over 60 is currently 8% and rising (Stats SA 2017). How an ageing population will be supported is an emerging challenge for public services though. South Africa also experiences significant internal and external migration; it is a destination for migrants from the African (Meny-Gibert and Chiumia (2016) continent in transit to other destinations in Europe and North America. In terms of gender diversity, in the corporate landscape the number of women in senior management positions in South Africa is still relatively low (International Labour Organization (ILO) 2015); a 2016 survey found only 23% of senior positions in South Africa were held by women – down from 27% in 2015. However, South Africa is still considered to have some of the most progressive employment equity laws in the world.



‘Governance is a key issue that needs to be addressed with regard to outsourcing public services.’

South Africa Roundtable participant

The **workforce age structure is shifting** in South Africa – while the percentage of the population who are over 60 increases, at the same time one third of the population is estimated to be under the age of 15 (Stats SA 2017). This will generate different pressures on, and tensions in, the workplace. Achieving intergenerational equity and fair outcomes across the age spectrum is increasingly essential for ensuring economic productivity as well as social cohesion.

Since South Africa has so many citizens under the age of 15, **cost and ease of access to education** is also a key influencing factor. Education is an important tool to raise economic growth and has a multiplier effect on wider society (Winthrop, Bulloch, Bhatt and Wood (2013). It is increasingly recognised as one of the best areas to invest donor funds to achieve the greatest long-term benefits for a country. The prevalence of women in higher education in South Africa is also on the increase (Council on Higher Education (CHE) 2016), although this is not the case for black women: 23% of black South African women still have had no formal education (Penn Graduate School of Education 2017).

#### BUSINESS OF GOVERNMENT

2 Use of public private partnerships (PPPs)

3 Quality and availability of the global talent pool

4 Business leader responsiveness to change and disruption

Government activities and strategies are clearly of major importance in driving change in the public sector. **Public private partnerships** are seen as a key lever for change in South Africa. Many see the future role of the government is to form partnerships with the private sector to meet the needs of citizens. These programmes can extend from complete in-house (public sector) provision to fully delivered services from the private sector, and can include collaboration, integration, outsourcing and public finance initiatives (PFIs). Each of these provides a credible option to deliver public services.

**Quality and availability of the global talent pool** is also a concern. The country has a talent capacity need in order to respond to complex and dynamic demands, which means that there is a need for skilled and rewarded professionals. The public sector is often unable to compete with the private sector in terms of talent for a variety of reasons such as remuneration. Stumbling blocks such as poor pay result in the public sector failing to attract and retain the people it needs to help modernise public services.

**Business leaders’ responsiveness to change and disruption** is absolutely critical here. Enabling and managing change is a skill in its own right and building the state requires innovative business leaders. The complexity of government, and the short timescales in which change should happen, magnifies the risk that mistakes can be expensive and, in the worst cases, cause reputational damage.

#### SCIENCE AND TECHNOLOGY

5

Big Data: large organisational databases, data mining and predictive analytics

7

Cybersecurity challenges for government

23

The digitisation of work

Advances in science and technology lie at the heart of developments that will shape the public sector landscape – including the work and role of finance teams – over the next decade in South Africa. The pervasive effect of technology is changing the skills and activities required from professional accountants in the sector. Nowhere is this more evident than in the growing area of Big Data, particularly **the development and exploitation of large organisational databases, data mining and predictive analytics**.

In September 2016 the government approved a National Integrated ICT Policy White Paper (DTPS 2016) to prepare South Africans for participation in the digital economy. The government is the largest procurer of ICT goods and services. It encourages competition through support

The finance professional in the public sector has a role to play in preparing business cases with robust option analysis to support decisions on different approaches to managing all these natural resources.

for new entrants in the market, and supports companies to develop technologies and applications locally. E-commerce is also growing fast: in 2014 the sector was worth R2bn, in 2016 (BusinessTech 2015) it was set to reach R9bn, around 1% of total retail sales.

**Digitisation of work** is now a reality for many countries, and this may be why it is seen as less of a driver for future change than other areas in this category, which are possibly less familiar and less well understood. In any event, digitisation is increasingly becoming a non-negotiable 'must-have' for the country. Yet technology brings its own difficulties too, particularly **cybersecurity challenges**.

Cybercrime has become a powerful force countering South Africa's efforts to develop and grow – with 32% of South African organisations having experienced cybercrime (PwC 2016) while 57% believe they will be victims in the future. The issue isn't just about the risk of financial loss – public sector organisations in particular must be aware that there is reputational impact relating to loss of data. Citizens, for example, can lose their trust in public authorities over issues such as managing their taxes. The South African Banking Risk Information Centre estimates citizens lose in excess of R2.2bn to internet fraud and phishing attacks every year. South Africa has the third highest number of cybercrime victims worldwide. The government is responding by introducing privacy legislation in the form of the Protection of Personal Information Act, and is announcing a Cybercrimes and Cybersecurity Bill (Michalsons 2017).

## ENVIRONMENT, ENERGY AND RESOURCES

10 Competition for limited natural resources

17 Global climate change

30 Scale of take-up in alternative energy by business

South Africa is in **competition for limited natural resources**. The war for resources is an underlying driver of insecurity that does not respect national boundaries. Resources such as water are key to life yet are under severe threat in South Africa as a result of burgeoning industry demands, poor agricultural practice, desertification and drought.

South Africa's resources have been poorly managed while wealth generated from the sale of these resources has not been equally distributed, and has been siphoned off by corrupt practices (GAN Integrity 2015). Funds available for development have consequently reduced, exacerbating poverty and socio-economic problems; the number of South Africans living below the poverty threshold increased from 20% (2010) to 21.5% in (2014) (News24 2015).

The looming water crisis has been highlighted on both a national and industry level. It will materialise gradually, and will not be as immediately visible as 'load shedding' that arises from electricity shortages. There are signs, however, that the crisis started after 'water shedding' (planned restrictions or outage of supply) started in parts of the country. The finance professional in the public sector has a role to play in preparing business cases with robust option analysis to support decisions on different approaches to managing all these natural resources. Governance understanding is also crucial here to strengthen the frameworks for monitoring and controlling South Africa's resources.



South Africa is leading the way in non-financial information and integrated reporting <IR>. Listed companies in the country are required to prepare integrated reports.

As part of the fight against **global climate change**, South Africa is a signatory to the Paris Agreement (COP21), which countries are required to adopt into law. South African climate change planning is amongst the most advanced and ambitious on the continent; the country has significant investment in renewable energy, public transport, energy efficiency, waste management and land restoration initiatives.

Recent research indicates global warming will cost the world economy more than £1.5 trillion a year in lost productivity by 2030 (Johnston 2016) as it becomes too hot to work in many jobs, particularly in the warmer areas of the globe. Costs of climate change adaptation are expected to rise well beyond Africa's ability to cope. South Africa is contributing finance towards adaptation strategies – with these expected to reach US\$961m by 2029-2030 (UN 2011) – but will need international financing to bridge the gap.

South Africa has great potential in the **scale of take-up in alternative energy by business**. The government has been given credit for 'creating one of the world's most progressive alternative energy plans' (Barbee 2015). Solar, biomass and wind energy systems are being developed across the country, supplying energy to the electricity grid. Renewable energy offers significant opportunities to encourage rural communities out of poverty, for example by offering job opportunities and increasing good health outcomes. South Africa still has a long way to go, however, to significantly reduce its dependence on coal.

## THE PRACTICE OF ACCOUNTING

6

Non-financial information and integrated reporting

15

Size and complexity of the CFO's remit

24

Defining the scope of the accountants' role

South Africa is leading the way in **non-financial information and integrated reporting <IR>**. Listed companies in the country are required to prepare integrated reports. The King Committee (Institute of Directors in Southern Africa NPC (IoDSA) 2016) published the King IV Report on Corporate Governance for South Africa 2016, further enhancing <IR> by suggesting reporting is principles-based and outcomes-based rather than emphasising rules (Deloitte (2016).

Another key change that is happening in South Africa's public sector accounting is the introduction of International Public Sector Accountants Standards (IPSASs), although issues remain with achieving full compliance (Dhliwayo 2016). Challenges also remain in making the transition towards new expectations and demands of the CFO as the **size and complexity of the CFO's remit** develops. In South Africa accruals accounting was implemented in parts of the public sector a number of years ago. But some organisations are still facing challenges here.

Many municipality accounts in South Africa fail to gain clean audits, although the trend appears to be improving (Mojapelo 2016). The number of qualified audit reports is sometimes ascribed to a shortage of 'high-end' skills and management leadership. A serious challenge is the lack of key financial management skills, with some municipalities having no designated CFOs (Mail & Guardian 2015). Due to budget constraints, municipalities find difficulty offering competitive salaries to good candidates – who seek better pay in the private sector and/or in major cities.

As demands grow for a more integrated and holistic approach to accounting, professional accountants in the public sector need to ensure that they develop the skills and capabilities to interpret data.

### THE ACCOUNTANCY PROFESSION

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Accounting skills capacity in transitional economies

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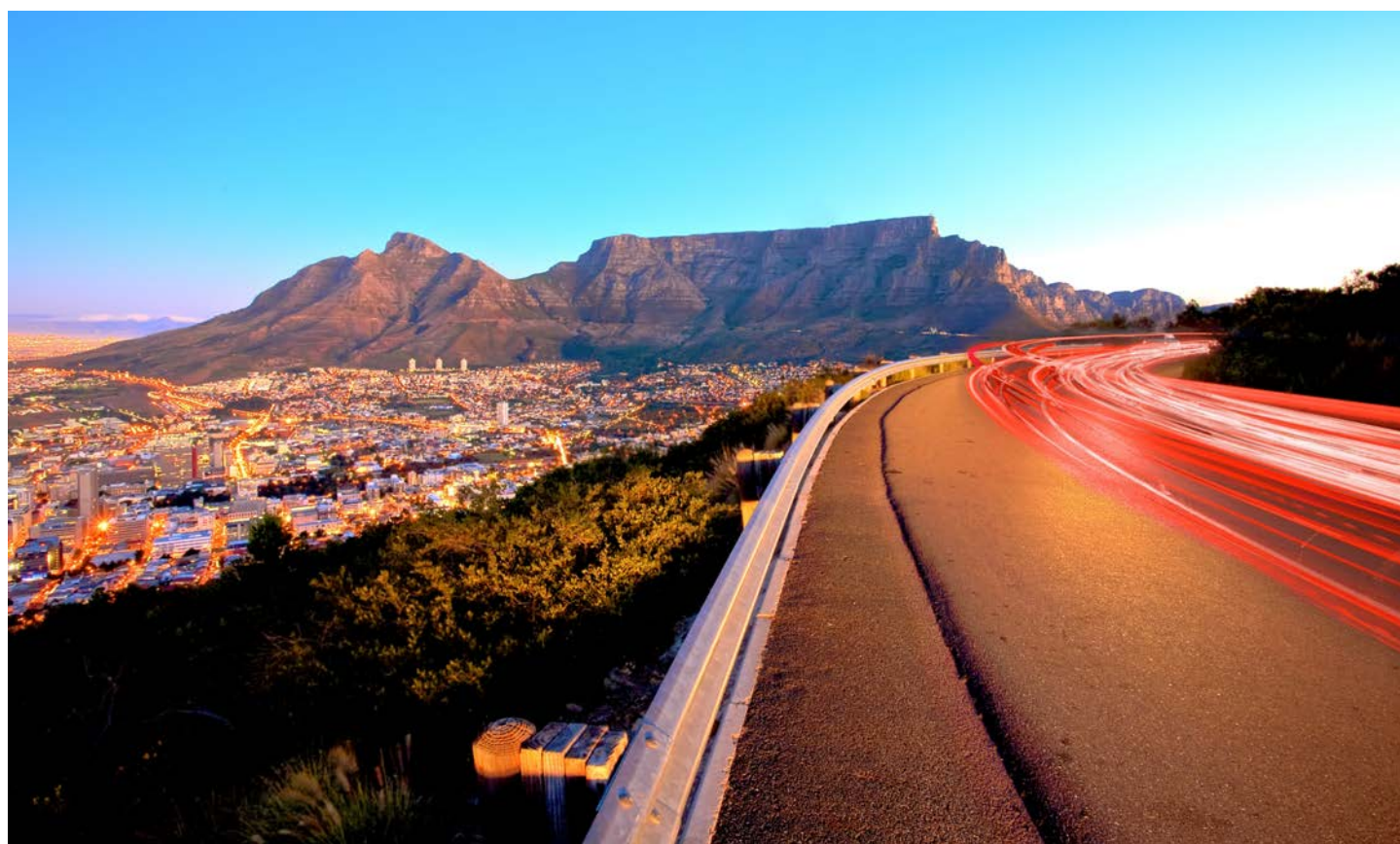
Flexibility, suitability and cost of accountancy training

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Societal expectations and definitions of accounting

The accountancy profession in the public sector in South Africa is still evolving. With stagnant economic growth, the accounting and auditing sector could present a skills deficit of up to 35% by 2018 (PRNewswire 2016). Skills shortages and **accounting skills capacity in transitional economies** are always a key risk, which is identified as an issue in South Africa. More generally, migration is a key factor impacting the economic growth rate: emigration of high-skilled workers; and immigration restrictions for high-skilled foreigners. The education system is seen as unresponsive to the needs of the workplace and skilled positions remain unfilled despite an unemployment rate of 26% (Trading Economics 2017).

As demands grow for a more integrated and holistic approach to accounting, professional accountants in the public sector need to ensure that they develop the skills and capabilities to interpret data. They should look to add value regardless of whether they are preparing financial statements or monthly management accounts. The increasing professionalisation of the finance function in the public sector requires more professional accountants and highly trained finance staff. Therefore, the **flexibility, suitability and cost of accountancy training** will be at the forefront of both public sector leaders and individuals seeking to train as accountants. One of the big long-term questions for the profession is that **societal expectations and definitions of accounting** may change over the next decade or so. The evolving scope and nature of accounting and the role of the accountant are being shaped by changes in multiple influencing factors. These include how the global economy is regulated, political motivations, disruptive technology developments and evolving societal and business expectations.



South Africa's public sector needs professional accountants now, more than ever, to improve public services to meet the needs of the citizen, and to ensure good public financial management and confidence in the system. This needs to be done sustainably, to meet the needs not only of the current generation but, importantly, future generations too.

Financial professionals in the public sector in South Africa face a complex web of challenges. To provide greatest value they need to ensure that they are fully aware of the factors that are driving changes in the sector. They need the skills to be able to rise to the challenges and/or maximise opportunities.

South Africa faces political and economic uncertainty at home, as well as having to deal with challenging global forces. At the same time the country is also dealing with legacy issues – such as lack of opportunities in education and business and financial mismanagement – while trying to solve new challenges such as climate change and dealing with variations in the population.

Public service delivery channels are also changing through increased collaboration with the private sector and use of digital technology. While these create an opportunity to rethink existing service models, the risks associated must also be managed. For example, South Africa faces the threat of high levels of cyber-security breaches. Such risks will need careful management to ensure that public funds are protected and used effectively, efficiently and economically.

The practice of accounting and the accountancy profession is also changing – for instance, the adoption of accrual accounting in South Africa's public sector and its far-sighted adoption of integrated reporting. The professional accountant must therefore continue to meet professional development requirements to remain up to date with current accounting practices and respond to future changes. Another critical challenge here is the development in technology and the opportunities posed by Big Data for finance professionals in the public sector. To be fully effective, qualified public sector accountants will need to develop new professional skills with a strong ethical core. They must exercise

care and judgement, fully considering all aspects of the relevant information and apply their professional skills and business knowledge via an understanding of their operating environment.

Public sector professional accountants need to have a vision for South Africa as well as an awareness of the specific challenges. They have a unique and enormous opportunity to serve their communities in making a tangible, lasting difference to people's lives through better financial management – helping to provide fully costed, valued infrastructure (schools, roads, utilities, hospitals, transport etc.) and public services (education, welfare support, health care etc.) that are key to the country's economic growth. To perform their roles well, they will need to be able to navigate all the drivers of change to ensure that the best value is obtained for public funds.

South Africa's public sector needs professional accountants now, more than ever, to improve public services to meet the needs of the citizen, and to ensure good public financial management and confidence in the system. This needs to be done sustainably, to meet the needs not only of the current generation but, importantly, future generations too.

## **A PLATFORM FOR ENGAGEMENT**

The aim for this global project is to provide a platform for engagement between South Africa's public sector organisations, professional accountants and the wider community of stakeholders. No future-oriented work of this type can ever hope to be definitive, but this report provides an important input into the development of a future public sector strategy. It hopefully provides accountancy professionals, and the organisations in which they work, with a starting framework for preparing for, adapting to and influencing change.



**ACCA would like to thank those participants who participated in the South Africa Drivers of Change roundtable which helped produce the global report *50 Drivers of Change in the public sector*.**

**These insights have also been extremely valuable in producing this report specific to South Africa.**

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## ECONOMY

### 1. Stability of the global economic infrastructure

The global economy, trade and financial flows are dependent on a complex underpinning infrastructure that comprises a range of key agreements, standards, systems, checks, balances and governance frameworks.

### 2. The level of economic growth

Growth expectations influence business confidence, consumer spending, government planning and budgeting, and management of the micro and macro economy.

### 3. Consideration of alternative economic perspectives

The financial crisis has offered a chance for nations to explore new economic perspectives and models traditionally neglected by mainstream economic thought. A serious examination of these perspectives could help reformulate the global economic system along more environmentally sustainable and equitable lines.

### 4. Total scale and distribution of global inequality and unmet needs

Higher income inequality, (as noted by OECD) within countries correlates with higher unemployment, higher crime rates, lower average health, weaker property rights, limited access to public services, lower social mobility, more social unrest, and less trust within and across the society, leading to more fragile democracies. This presents huge challenges for public sector and how it develops policies to meet these challenges.

### 5. Broadening measurement of public sector value and progress

How we assess value, progress and performance for government is expanding rapidly to take account of non-financial measures of development encompassing everything from innovation to happiness.

### 6. Stability of national revenue bases

The stability of national revenue bases is considered a prerequisite for the economic well-being of countries as it affects governments' ability to provide public services. Generally, government revenues are derived from direct taxes paid by households (mainly personal income tax) and corporations; and indirect taxes, social contributions and revenues from state owned assets and enterprises.

### 7. Manageability of national and international debt

The manageability of national and international debt is important for macroeconomic stability, business confidence and future economic development prospects. Levels of public debt also have important ramifications for citizen well-being, unemployment levels and the provision of social welfare services. Globally, the economic outlook is increasingly influenced by the views of policymakers, central bankers and financial institutions on the sustainability of sovereign debt.

### 8. Level of investment required to maintain national physical infrastructure

Physical infrastructure forms the economic backbone of all economies. The quality and resilience of a national infrastructure has a direct influence on the growth, competitiveness and attractiveness to inward investment of a nation's economy. The standard of economic infrastructure, encompassing water, waste, transport, energy and communications, affects the quality of life for citizens as well as the ability to meet objectives and commitments regarding sustainability and reducing carbon emissions.

## POLITICS AND LAW

### 9. Focus of global governance institutions

A network of governance institutions such as the World Bank, IMF, World Trade Organization (WTO) and the UN could face intensifying pressure to adapt their structures to the reality of the changing world. There is, however, still a belief among developing nations – such as the G77 grouping – in particular that they need a stronger voice in the wider set of global governance institutions.

### 10. Rate of democratic transition

The rate of democratic transition is changing the global landscape. Political changes may open up the economy, attract foreign investment, create business opportunities and drive the growth of domestic segments but swift changes in power can be violent and disruptive – creating political and economic instability.

### 11. Level of international political volatility

The level of political volatility caused by popular uprisings or the actions of hostile nations and terrorists groups can pose a threat to both the physical and economic integrity of a state. Such fluctuations can affect inward investment and spending in a country thus seriously affecting the state's economic performance, and reduce confidence of global financial markets.

### 12. Governance and delivery of outsourced public services

The way in which public services are managed, funded, supplied and consumed is changing fundamentally, in line with the financial struggles that nations face. In order to meet higher demands with smaller public funds, it is likely that 21st century public services will look radically different in the future and from what was seen in the 20th century.

Public sector provision is increasingly moving to the private sector raising questions around governance and risk.

## SOCIETY

### 13. Scale and distribution of global population growth

A number of key trends are shaping the world's demographic landscape. The global population is expected to continue to grow at least until 2050, forecast to reach 9.3 billion. At the same time, overall fertility levels are declining. These global trends mask marked differences at the national and regional levels. There are numerous cultural, social and economic factors that both affect and are affected by global demography.

Rapidly growing populations also present economic and capacity-building challenges for governments seeking to provide public services.

### 14. Spread of diversity in society and the workplace

Greater mobility across the globe has a great impact on the level of diversity. Cultural diversity and Increasing levels of female participation in the workforce is seen as both an important social goal and a vital way of maximising the use of available talent to maintain or bolster economic development.

### 15. Workforce age structure

A downward trend in global fertility coupled with an ageing society means that each future generation could be smaller than the previous one. Although the global population is still growing the average age is also rising.

With the abolishment of the default retirement age and workers staying in senior positions longer, organisations have to factor in increased salary and healthcare costs. As existing retirees re-enter the workforce owing to a combination of low pensions and removed barriers, organisations will have to consider how to attract, retain and integrate older talent.

### 16. The workplace expectations of Generation Y, Z and beyond

One of the biggest challenges faced by organisations today is how to understand and respond to the expectations of generations coming into the workplace.

### 17. Cost and ease of access to higher education

The economics of education is changing as public budgets shrink and institutions have to compete for funds, raise fees and cut unprofitable courses. Rising cost of higher education has important ancillary impacts for the level of personal debt for students and their equality of opportunity.

Online channels for delivering education are also changing the nature and delivery of professional development. The uptake of online learning may increase in emerging economies.

## BUSINESS

### 18. Use of Public Private Partnerships (PPPs)

Governments have been and are increasingly looking to partner with private sector to help fund large scale public infrastructure programmes. This has led to significant growth in the adoption of PPP/PFI initiatives. However the perception that any risk of failure lies with public sector and reward is with the private sector.

### 19. Business leader responsiveness to change and disruption

Momentous economic and social forces are currently reshaping the world. At the same time, disruptive advancements – often enabled by technology – are affecting everything from industry structures, through societal governance to the nature of human interaction. The ability of organisations to adapt to new challenges and opportunities created by change and transformation is becoming a key determinant of success or failure in a turbulent operating environment.

### 20. Quality and availability of the global talent pool

Access to talent at all levels is consistently identified as a critical future success factor for all organisations. The challenge of securing a suitable flow of talent is increasingly becoming a top priority for leaders who are finding growth and development ambitions hampered by talent shortages. The quality of education itself seems to be a critical talent issue.

### 21. Extent of foreign direct investment in developed and developing economies

Foreign direct investment (FDI) flows are an important source of investment and economic growth for many countries. In an uncertain and highly competitive global economy, ensuring that a destination is seen as a safe location for FDI is becoming an increasing priority for many countries and their governments.

### 22. Speed and duration of business cycles

As technologies such as the internet compress time and distance, organisations are under pressure to adapt their structures, processes and systems on an almost continuous basis. As a result, there is a growing emphasis on the need for speed, flexibility, adaptability and responsiveness. These in turn demand rapid decision making and shortening cycles for execution of change. Public sector organisations will need to factor this in policy development and implementation.

### 23. Experimentation with and adoption of new business models

In an uncertain economic climate, the pace of introduction of new business models could accelerate. These new models have the potential to disrupt and reinvent industries. As pressure on public finances increase the need to develop new models of financing and alternative revenue and pricing models.

### 24. Crowd sourced funding for innovation: the consumer as investor

The internet has facilitated the emergence of new finance models that allow organisations to fund product development and service delivery in advance via crowdsourcing using online platforms. The public sector needs to be able to respond to such rapid changes.

### 25. Adoption of integrated systems thinking to manage business complexity

The perceived shortening of business cycles is creating major challenges in terms of how we design, manage and change highly complex, globally interconnected and rapidly evolving businesses. While the timescales for action are shortening, the perceived complexity of the task of making change happen is growing.



#### **26. Enterprise risk management capability**

There is growing concern and increasing uncertainty over the nature and scale of risks to which organisations are – or could be – exposed. At the same time, new risks and sources or concepts of risk, such as resource wars, are emerging. The ability to effectively manage this is increasingly important.

#### **27. Evolution of corporate governance regulation and practice**

Traditional structures of corporate governance stem from legislation, regulation and institutional best practices. They are intended to oversee the conduct of business and the management of relationships among and between internal and external stakeholders. These governance rules should improve accountability, reduce corruption and avoid conflicts of interest. A general push for greater transparency for public spends has driven increased expectations for accountability and demonstration of robust risk-management policies.

#### **28. Scope and diversity of expectations of external stakeholders**

The range of stakeholders for public sector organisations and the breadth of their concerns and expectations are increasing in the wake of a period of enormous economic turbulence and systematic failures. As a result, regulatory, transparency, ethical and performance demands of this growing range of external stakeholders are expanding for the organisation, the finance function and the accountancy profession.

#### **29. Pressure to manage reputation as part of business strategy**

The public sector has always had challenge of corporate reputation management which has been compounded by the instantaneous nature of the internet and social media in particular. The challenge is to manage long term government priorities whilst managing short term 'shocks'.

### **SCIENCE AND TECHNOLOGY**

#### **30. The digitisation of work**

Increasing digitisation is transforming the nature of work and working practices in almost every sector. It is reasonable to assume that task automation will extend to ever-more knowledge-intensive, analytical and judgement-based work activities over the next decade and beyond.

#### **31. Cyber security challenges for government**

The increased reliance on computers in our daily lives and digitisation of financial services has opened up individuals and organisations to threats from cyberspace. Threats and attacks are typically conducted by groups and individuals who hack systems to attain both ideological and financial goals.

#### **32. Big Data: the development and exploitation of large organisational databases, data mining and predictive analytics**

There is a growing interest in how organisations can exploit 'Big Data' – the large and growing databases of customer and transactional information being generated through daily activities. The challenge is to create new toolsets that enable the management and manipulation of these large datasets and to generate powerful predictive insights about future customer behaviour. As governments are usually the largest collector of data, increasing use of data mining and predictive analytics should help to spot possible future opportunities, shocks, issues and challenges.

#### **33. New industries and production models**

Advances in science and technology are yielding radical new industrial processes that could be the basis of major industries of the future. In many cases, these industries are also introducing new business models and distribution approaches.

#### **34. Advances in genetic science, Impact of nanotechnology advances and robotic science across business sectors**

Advances in science have revolutionised humankind's understanding and control over the natural world. Opportunities are being created through nanotechnology and rapid progress in robotic science has led to the development of sophisticated machines that perform a wide range of industrial and domestic tasks. In medicine, a major field of study is the development of miniature robots that can be ingested and then repair damaged cells and organs in the body. This places great pressure on governments to ensure there is regulatory rigour to address ethical concerns raised and simultaneously explore opportunities to manage better healthcare provision.

### **ENVIRONMENT, ENERGY AND RESOURCES**

#### **35. Global climate change and**

There is increasingly widespread agreement that the planet faces a real and growing risk from dangerous climate change and their impacts are unpredictable. New environmental risks – such as heretofore unforeseen extreme weather events place significant pressure on public funds to manage the aftermath and develop robust preventative measures such as effective flood defences.

#### **36. Competition for limited natural resources**

Increasing demand for finite resources places pressures on governments to promote ethical resource consumption and maintain economic growth.

#### **37. Carbon tax and other environmental market mechanisms**

There is a growing move by governments to use taxation and market mechanisms to encourage more environmentally sound behaviour and provide the funds to finance environmental protection and clean-up costs.

#### **38. Scale of take-up in alternative energy by business**

Governments are evaluating and encouraging the greater use of alternative energy sources as one route to reducing dependency on carbon-based fuels. Increase of alternative forms of green energy, such as solar, wind and bio-gas, has given organisations a wider range of options for fulfilling their energy needs.

## THE PRACTICE OF ACCOUNTING

### 39. Defining the scope of the accountant's role

Definitions of the accountant's role vary around the world. Common features include maintaining a record of an organisation's assets, transactions and financial activities, carrying out audits and ensuring compliance with financial and tax regulations.

The evolution towards becoming a more strategic partner within a business or as an external supplier may allow accounting to become a more integrated part of organisations.

### 40. Size and complexity of the CFO's remit

Organisations face a series of threats including macro-economic instability, consumer uncertainty, market volatility and increasing administrative complexity. At the same time, rising energy prices and a reconfiguration of the global landscape towards the emerging economies also present prominent and persistent challenges. As such, the role of the CFO is changing rapidly in line with constantly evolving expectations, demands and operating contexts.

### 41. Non-financial information and integrated reporting

The challenge of providing a total picture of organisational health is driving the move to communicate both financial and non-financial performance data in an integrated reporting format. Non-financial information is increasingly recognised to be as important as financial information as a driver of business value and risk. In response to demands for a holistic picture of organisational health, the model of integrated reporting is increasingly being adopted.

### 42. Clarity in financial reporting and defining the audit function

The goal of financial reporting is to present shareholders and regulators with a clear picture of an organisation's financial health.

The role of the audit function is to ensure that the accounts have been prepared in accordance with the regulatory framework, verify that the underlying procedures are robust and that the organisation's financial position has been clearly represented

### 43. Balance between external financial accounting and internal managerial accounting

A constant challenge for accountants is striking the right balance between external financial reporting requirements and internal managerial accounting. Both are expected to become more demanding and complex over time. Furthermore, as demands grow for a more integrated and holistic approach to external accounting, so the distinction between the two may reduce.

### 44. Opportunities arising from adoption of global regulation

As business globalises beyond traditional boundaries and more economies open up to adopt global practices and norms, the need for global regulation increases. Both opportunities and challenges arise from the implementation of global regulatory systems.

There are a number of significant factors for governments, firms and accountancy practitioners trying to implement global regulations. These include the rate of change, the distance between practitioners and those defining and implementing legislation, the operational context, and the complexity of regulations required to deal with the range of issues.

### 45. Adoption of globally accepted accounting standards

The introduction and global adoption of international accounting standards is seen by many as a desirable but unachievable goal. Others argue it is an essential prerequisite of true globalisation. In accountancy, steps towards global norms have been achieved with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and International Public Sector Accounting Standards (IPSASs) that are being aligned to IFRSs to ensure greater comparability between public and private sector financial reporting.

## THE ACCOUNTANCY PROFESSION

### 46. Societal expectations and definitions of accounting

One of the big long-term questions for the profession is the extent to which the definition of what accounting is, and what it entails, may change over the next decade or more. The evolving scope and nature of accounting and the role of the accountant are being shaped by changes in multiple influencing factors. These include how the global economy is regulated, political motivations, disruptive technology developments and evolving business expectations.

### 47. Flexibility, suitability and cost of accountancy training

In a changing world, the spotlight inevitably falls on the capability of the education system to respond to the continuously evolving training needs of businesses and the professions. Economic changes, new business models and evolving regulatory demands will continue to create new and additional strategic, accounting, compliance and reporting requirements. The profession must demonstrate its ability to operate in a state of 'continuous evolution'.

### 48. Accounting skills capacity in transitional economies

Many developing economies are now producing significant numbers of well-trained professional accountants. Others, however, may have to undergo a fundamental transformation of their accountancy education system. Such a transformation process would include bolstering higher education course design and teaching methods.

### 49. Level of entrepreneurial skills in the accountancy profession

CFOs are increasingly expected to adopt a broader strategic and entrepreneurial role across the organisation. A greater emphasis on basic entrepreneurial skills such as business leadership, creativity, team-building, communication, negotiation and sales literacy could be integrated into accountancy training and continuous professional development.

### 50. Public perception and attractiveness of the accountancy profession

The public standing of and trust in accountants are critical to the effective functioning and attractiveness of the accountancy profession. Any issues could hamper the ability to recruit and retain top talent to the profession. Another key consideration for would-be entrants is the level of remuneration a big issue for the public sector where salary tends to be lower.

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