The Institute of Chartered Accountants of India

4th ALL REGION JOINT CONFERENCE

Calcutta, 9th August, 2014

Speech on “Educating Young Chartered Accountants”

The theme of this conference is CA Profession at 75. I congratulate the Institute for organising this conference on this theme of looking ahead. The world around us is changing very fast. This accelerating rate of change imposes on us the task of continuously looking ahead and anticipating the future. When India was celebrating its 60th anniversary of independence by organising the Festival of India at 60 in New York, Professor C. K. Prahlad, the eminent management guru said in his speech that the best way to celebrate India at 60 was to plan for India at 75. From this idea of Dr. Prahlad, the India at 75 vision document was born and thinktanks across the country are now engaged in envisioning India at 75. As the Institute of Chartered Accountants is currently celebrating its 65th anniversary, I feel that the best way to do so will be to plan for the 75th anniversary. I am very happy that by organising this conference the Institute has taken up this task and I congratulate the conference organizers once again for their vision and foresight.

One of the key pillars of preparing the profession for the future is revamping the education and training system. In order to do so one has to understand the needs of the profession, understand the needs of the users of the profession, understand the aspirations of the young boys and girls who will enter into the profession and understand the internationalisation of the profession that will take place. In order to do these not only does one have to analyze the trends that are visible but one also has to do a lot of forecasting and crystal gazing into the future. But before we start
looking into the future, I must share a few hard facts with you. Where does the profession stand today? Out of 2,16,459 members of the Institute as on 1st April, 2013, members in whole-time practice were 94,386. This means that 43.6% of the members were in whole-time practice. This percentage was 60.67% as on 1st April, 1999 and if we track this percentage over the last 14 years, we find that year on year, the number of members in whole time practice as a percentage of total numbers has gone down. What does this indicate? This indicates that the profession of being a chartered account in practice no longer attracts young people. This indicates that larger proportions of chartered accountants prefer to be in employment and have given up on the task of carrying the profession forward.

Friends, does this indicate a healthy trend for the profession? Does this indicate that the profession is vibrant, growing and in good health? The clear answer is no. I will not go into the details of why I think so as I do not want to step into the topic allotted to my friend, Mr. Ramesh in the next session but one thing is very clear. The education system of chartered accountants is clearly to blame for the decline in the number of those practising the profession of accountancy.

Let me share a second statistics. According to the Economic Survey of India, the services sector in India has grown at a compounded annual growth rate of 9% since 2001. As compared to this, the growth in number of chartered accountants from 01.04.1999 to 01.04.2013 is from 90,366 to 2,16,459 – a compounded annual growth rate of 6.45%. The growth rate of chartered accountants in full time practice is even more dismal. The compounded annual growth rate of chartered accountants in practice from 01.04.1999 to 01.04.2013 is only 4% which is less than half of the rate of growth of the services sector in our GDP. What does this mean? This means very clearly that other services have left the chartered accountancy profession far
behind. Again I blame the education of chartered accountants for this sorry state of affairs. Let me share a third statistics with you. The students who appear for the final examination of the Institute of Chartered Accountants of India, do so after being screened twice. There is screening at the graduation / CPT level and again there is screening at the IPCC level. After this multiple screening, why is the pass percentage in the CA Final Examination so pathetic? In November, 2013, the pass percentage of those appearing in group-I of the final examination was 5.67%, in group-II was 7.35% and in both groups was 3.11%. In May, 2013, the percentage for those appearing in both groups of the final examination was 10.03%. I do not wish to shock you with more such statistics but since November, 2009 when the final new syllabus examination was held for the first time, the highest percentage for those appearing in both groups has been 21.85% and there are quite a few instances of the pass percentage falling below 10%.

Friends, what does this indicate about the C.A. education system? It is quite clear that the multiple screening of students has failed. It is quite clear that the practical experience of three years which students have gained has not prepared them adequately for the examination. If we compare other professional examinations held in the fields of engineering, management, medicine etc. by reputed institutes such as IITs or IIMs or the leading Medical Colleges such a failure rate in the final year is unthinkable. If the failure rate is high in the final year in such institutions the Director of the Institute is taken to task and is asked to explain why the education system has failed. In the C.A. institute we interpret the high failure rate to indicate that our examination standards are quite high and not that our education system has failed. This high failure rate not only puts a stigma on our education system but also puts a
stigma on the students who failed and they carry this stigma for their entire careers. This high failure rate discourages many young aspirants from joining the profession. There is also one more fact that I would like to share with you. When the profession of chartered accountants was being organised, the origins of the profession being in the United Kingdom and in Europe, it was always envisaged as a distance learning exercise. In 1949, when the Institute of Chartered Accountants was set up it maintained the tradition of setting up the education of chartered accountants as a distance learning exercise. This meant that students did not have to attend classes to qualify for the examination but could go through a process of self-learning and practical training. Our Institute has been a glorious and successful example of running the biggest distance learning effort in the country much before the open universities and other distance learning centres came up and generations of chartered accountants have been successfully created by this model.

Friends, what is the present state of this model? Today, almost every student in the Institute goes for tuition class. Almost every student puts more value on learning in the coaching class to the learning during the articleship training and tuition classes have sprung up across the country. What does this mean? This means that our distance learning model has collapsed and class room teaching has taken its place. Unless we understand this phenomena, unless we analyze why this has happened it will be very difficult to reform the education system for chartered accountants. Also we must understand what goes on in the coaching class. The coaching teachers are excellent in imparting skills to the students on how to pass the exam. This becomes the top priority, not practical understanding of the business world, not absorption of knowledge.
What is the result of this weakness in our education system? The results are, clearly, for all of us to see. As I said earlier, young chartered accountants do not wish to go into the profession because they are not sure of success. In spite of the fact that the Indian economy is growing, in spite of the fact that opportunities are plenty for young chartered accountants the reality is that they do not have skills and the training to grab these opportunities. For those chartered accountants in employment the salary offered to new entrants also tells its own story. Today, an MBA from a medium level business school will not accept a placement offer below Rs.5.00 lacs a year – I am not talking here of the top business schools the students of which get much higher starting salaries. As compared to this, today new chartered accountants are willing to take up their first employment for lower salaries. Another anomaly is that the career prospects of a chartered accountant improve significantly if after qualification he manages to get himself into a top business school and acquires an additional MBA degree.

Apart from this dismal picture, it is a fact that across the country a large number of young chartered accountants are either unemployed or under employed or have taken up jobs which are not commensurate with their professional qualification.

There is no doubt that our education and training needs major overhaul. But before I come to what the specific reforms should be if we want to look ahead, we have to ask ourselves what are the global trends for change which will affect the Indian economy, what are the trends for change which will affect the Indian corporate / business scenario, what are the trends for change which will affect our profession and what are the trends in general for change in higher education which are bound to have an impact on our professional education.
Let me start with some published information. A study recently prepared on higher education in India by the UK India Education Research Initiative predicts an explosive growth in the number of students enrolling for higher education. The study predicts that by 2022 four crore students in India will enrol for higher education. It is also predicted that a very large number will be from rural and semi urban areas and many will be from lower income groups. It is obvious that the higher education infrastructure including the set up at the Institute of Chartered Accountants will not be able to cope with this large demand for higher education. So structural changes will be necessary.

The first change I see is the impact of social media on education. Today the top 25 social media platforms have 6.5 billion users across the world. Already the universities in the United States are creating learning groups on the social media through which students and educators collaborate and exchange learning experiences. This methodology will have to be adopted by our Institute so that dialogues between students and educators become possible, new technical developments are shared instantly and students are not treated just as consumers of a static syllabus — they also become creators of knowledge.

The second change that is inevitable is the use of technology and online training to create long outreach for education. Interactive portals for education will not only disseminate knowledge but also take care of student queries. The development of Massively Open Online Courses (MOOCs) in the United States is changing the landscape of education. While this was an innovation started by some entrepreneurs and venture capitalists, today mainstream universities such as Harvard, MIT, Princeton, Michigan, Columbia, Cornell etc. have all introduced MOOCs on a diverse
range of subjects. IIT Bombay is the first educational institute in India which is about to introduce MOOCs. The Institute of Chartered Accountants will have to adopt such technologies to increase its outreach and cater to larger numbers. In the future most of education will be available through satellites and on handheld appliances. We have to prepare for this.

The third change will be in what will be taught and how examinations will be conducted. A professional institute like the ICAI has to impart those skills which are currently in demand by the users of our services and nothing else. The Institute must conduct periodic surveys to find out from business and corporates what skills are missing among chartered accountants and what skills are needed. Unfortunately such surveys have not been done and are not available even with other thinktanks or policy groups. However based on available trends certain indications are clear:

- Chartered accountants must be able to understand business better. Today they have a partial view. They understand accounts, taxation and some elements of finance and regulatory requirements. They cannot, generally, take a strategic or holistic view because their education and training does not equip them. This has to change.

- Secondly, chartered accountants must understand business risks and operational risks better and not just control risks. In the days to come the investing public and the regulators will demand that the profession of accountants gives an opinion on business risks. Our education system must change to accommodate this.

- Thirdly, today the chartered accountancy course does not teach the techniques of data mining or predictive analysis. Many young entrants to the profession are also unfamiliar with intelligent data systems. In this area the business schools
have gone far ahead and our syllabus needs to be not only changed but also continuously upgraded as technical developments overtake us.

- Fourthly, as business become international, as funds across borders flow in greater amounts our syllabus must be reoriented to create better understanding of international business and global trends.

- Fifthly, much of the compliance emphasis of the present system of C.A. education will have to be reduced. In future technology will take care of a major portion of regulatory requirements. As Govt.s adopt more and more e-governance, as online filling and compliance becomes commonplace, technical improvements will cater to business needs on a much larger scale and human interventions will be required to a lower extent. Also many of the lower skilled jobs that chartered accountants do today will be taken over by technology and there will be less demand for those without higher skills. The education system for chartered accountants must change in order to cope with these.

- Lastly the communication skills of Chartered Accountants must improve. The GMCS courses run by the Institute have been a failure and it is a fact that many fresh chartered accountants can neither speak nor write. Chartered Accountants are losing out to competition on this vital weakness.

- The examination system also needs major overhaul. The entry requirements and screening at IPCC level have to be strengthened so that pass rates in the Final examination dramatically improve and failure becomes an exception. More objective type questions are needed. Students should not only be judged on examination results but should also be graded on case studies they write and projects they undertake throughout the training period.
The next issue to be tackled is the issue of articleship training. Unfortunately those undergoing the C.A. course are mostly not treated as articled students by their employers. They are treated as either articled clerks or only as clerks or even as bonded labour by some employers. There is no onsite review of how effective the articleship training is. It is because of this that many students who do not take interest in their articleship training are still able pass the examinations. It is because of this that students prefer to spend more time in coaching classes than with the employers. This system has to change. Articleship training has to be structured, regulated and supervised to become a real learning experience. It should be divided into specific time periods and learning outcomes for each term should be predetermined, monitored and measured. Those employers who cannot impart articleship training in a structured and effective manner should not be allowed to take articled students.

Another issue that needs to be tackled is the matter of specialisation. Should there be one chartered accountancy qualification or should there be multiple specialisations at the C.A. stage? Today the Institute has specialised courses which can only be taken up after qualifying as a Chartered Accountant. Unfortunately these courses have not become popular and have not gained acceptance by corporate India. This has created a vacuum and the need for specialization, especially in areas such as finance, banking and insurance is being filled by other professions.

As the Indian economy grows and integrates more with the global economy the Institute will have to introduce specialised course options at the Chartered Accountancy level. In doing so it will be essential for the Institute to collaborate with other Institutes of higher learning. I see a future in which some of the courses of the
Institute of Chartered Accountants are jointly run with global leaders in education, are co-branded and joint certification is given.

A discussion on education can never be complete without thinking of research. Hardly any original research on accounting or finance takes place in India. We are driven by accounting and auditing standards that are of international origin. At best some interpretation work is taking place here. This has to change. Our education system must create research capabilities that do not look to international publications for inspiration but are customized for application in Indian business. There is hardly any accounting research on important areas of economic activity in India such as agriculture and allied sectors, marketing and trade in commodities or even on small and medium enterprises. This is a grave weakness in the education system of Chartered Accountants.

Friends, to achieve these objectives the infrastructure of the Institute has to undergo transformation. We must have more whole time faculty who are educationists. The work of education of C.A. students and of continuing professional education of chartered accountants is too important to be left to those who are not career educationists.

Friends, what kind of Chartered Accountants will the future education system create? I see the future in which chartered accountants will be entrepreneurial, creative --- strategic thinkers. He will rise above making narrow technical interpretations and will be able to take an overall view of business. He will be able to deal with change and increasing volatility in the business world and will not be bound to the narrow confines of his past knowledge. If we want Chartered Accountants like this is the near future, we have to start rebuilding our education system from now onwards.