

Financial Management, Accounting and Auditing Skills Shortage, a South African Reality

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Special recognition is given to the South African Institute for Chartered Accountants (SAICA) who commissioned this research as part of research into the future demand for accounting financial management and auditing skills in South Africa

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Introduction

A range of different meanings is attached to the terms “skill” and “skills shortages”, often leading to miscommunication and vastly differing views on the extent and nature of skills deficiencies in the labour market. From an economic perspective, skills can best be seen as the quality aspect of human capital (Infometrics, 2006).

Another dimension of the use of the term “skills” that creates confusion is that it is sometimes used to refer to the *number* of people who are needed to perform certain tasks or functions in the economy and, at other times, to refer to the *attributes* required of people who should perform certain tasks or functions.

Because of this focus, skills are expressed mainly in terms of occupations, the number of positions that need to be filled, and the educational levels at which people are required to be qualified. As the performance of financial functions requires a very specific body of knowledge and set of competencies it is assumed, first, that people who perform these functions need education in the field of accounting and, second, that it is very difficult to substitute the required formal education in this field with education in other non-accounting fields of study or with experience or on-the-job training.

This article draws on a study completed on behalf of the South African Institute of Chartered Accountants (SAICA). It addresses part of the research conducted to determine the existing skills shortage in the accounting, auditing and financial management areas in the country. It provides the basis for the additional research conducted to enable SAICA to project future skills shortages based on economic modelling (SAICA, 2009).

Definition and measurement of skills shortages

For the purpose of this study the term “skills shortage” refers to a situation where not enough people are available in the local (South African) occupational labour market to fill the positions available. In this case the positions have been created so that the financial functions required in the economy can be performed.

The main indicators of skills shortages that are used in this study are vacancy rates, together with employers’ perceptions of whether there are shortages in the labour market and whether they are experiencing recruitment and retention problems in respect of financial occupations. The fact that employers were experiencing excessive wage pressures came spontaneously from the interviews and was not systematically investigated.

An International Perspective on Financial Management, Accounting, and Auditing Skills Shortages

The experience of shortages of financial management, accounting, and auditing skills is not unique to South Africa. Internationally, business growth has resulted in a situation in which demand for financial and accounting recruits outpaces supply (Corporate Financing Week, 2006). Competition for talent is a phenomenon appearing worldwide as many companies are bringing accounting and financial management skills back in house. In the United States, the Sarbanes-Oxley Act has also resulted in an overall increase in the demand for accountants (United States, 2008).

A 2007 international survey in 17 countries and covering 5 000 companies found that 56% of these companies had difficulty finding skilled job candidates. Senior financial positions were the toughest to fill, but a staffing need existed as well, in financial analysis, general accountant, and financial controller positions (Gold, 2007). In this survey, Asian countries showed the largest challenges in obtaining

financial and accounting staff. Of the Japanese respondents, 83% indicated that they faced supply-side challenges in finding suitable staff.

New Zealand businesses experienced a 5.3% growth in the demand for accountants from 2002 to 2005. The number of accountants calculated by the numbers registered with the New Zealand Institute of Chartered Accountants increased only by 1.2% during the same period (New Zealand, 2006). New Zealand's Department of Labour concluded that the ongoing disparity between the levels of supply and demand had led to a "genuine skills shortage" (in the accountancy occupation).

In the United Kingdom (UK), the Association for Chartered Certified Accountants (ACCA) has indicated that the UK is "on the brink of a financial professional skills crisis". Findings from the Public Oversight Board in the UK indicate that the Big Four accounting firms are recruiting internationally to meet their unfulfilled demand (Marks Sattin, 2007).

In Africa, Professor Chibuikwe Uche from the University of Nigeria has pointed to a shortage of accountants. According to Uche, the shortage is particularly evident in Nigeria, Ghana, and Sierra Leone (The Accountant, 2007).

The sources cited above are only a few examples of evidence that the skills shortage in the field of financial management, accounting, and auditing is a worldwide phenomenon. Some references point out that the market for these skills has become an international market and that firms attempt to recruit internationally if they experience shortages in their local markets.

Research Question and Methodology

The question to be answered through this research is:

“What is the current skills shortage, measured in terms of the numbers of people required to fill vacancies within organisations in the financial management, accounting, and auditing professions?”

This study consisted of a combination of desk top and empirical research. It comprised a combination of qualitative and quantitative research. Various existing data sources were used, together with surveys conducted by the researchers. The various data sources and the methodology used in the two surveys are described in more detail below.

Utilisation of existing data sources

The determination of vacancy levels, which was at the heart of this study, requires a wide variety of data inputs. For this reason the study drew extensively on national data sources from Statistics South Africa. An example of such a survey is the Labour Force Survey (LFS) a household survey conducted twice a year by Statistics South Africa (South Africa, 2001-2007). At the time of this study 15 LFS datasets were available and were used to construct time-series data on employment in specialised financial occupations.

Furthermore, the study used recent research conducted, the Survey of the Financial and Accounting Services Sector (EE Research Focus, 2008a), which was conducted on behalf of the Sector Education and Training Authority (SETA) for Finance, Accounting, Management Consulting and other Financial Services (Fasset).

Survey of financial divisions within organisations in South Africa

The second component of the study was a survey of the financial divisions of organisations in South Africa. The persons responsible for the financial functions in 750 organisations were interviewed with a view to:

- Establishing total employment in the specialised financial divisions of each organisation;
- Determining the relationship between total employment and employment in the specialised financial divisions;
- Determining the structure of employment in the specialised financial divisions – that is, specifically the educational levels of the staff employed;
- Identifying current skills shortages in the specialised financial divisions, in particular the extent of these shortages, whether they are related to transformational or employment equity goals, and/or what the other reasons for their existence are.

Random samples of organisations were drawn from various databases: McGregor’s database of companies; the Prodder list of non-governmental organisations; public entities listed in Schedule 2 and 3 of the Public Finance Management Act (Act 1 of 1999) (South Africa, 1999); and the list of national and provincial departments (Schedule 1 of the Constitution) and local governments (South Africa, 1996).

The final sample realisation can be seen in Table 1. A total of 53 public sector organisations participated in the study: 15 national departments; 18 provincial departments; and 20 local governments. The responding private sector organisations numbered 686 and were distributed across all sectors of the economy.

Table 1 Final sample realisation

Public Sector	Number of organisations
National Departments	15
Provincial Departments	18
Local Governments	20
Sub-total	53
Private Sector	
Agriculture, Hunting, Forestry and Fishing	33

Mining and Quarrying	19
Manufacturing	188
Electricity, Gas and Water Supply	5
Construction	54
Wholesale and Retail Trade	211
Transport, Storage and Communication	45
Financial Intermediation, Insurance, Real Estate and Business Services	41
Community, Social and Personal Services	90
Sub-total	686
Total	739

Interviews with accounting and auditing firms

An additional 50 interviews were conducted with senior partners of accounting and auditing firms. The main objectives of these interviews were to:

- Obtain these respondents' views on skills shortages in the financial divisions of their client organisations;
- Develop an in-depth understanding of the factors that play a role in the demand for and supply of specialised financial skills.

Although these interviews focused mainly on qualitative information, certain figures were also requested; for example, current employment of professional accountants and CAs.

Employment of financial management, accounting and auditing skills

Before skills shortages can be analysed and future demand for skills forecast, it is necessary to establish current employment of the relevant skills in South Africa as a baseline. For this purpose the Labour Force Survey (LFS) is used, as it provides the most comprehensive information on employment in South Africa.

The total employment of people in financial occupations compared to economy-wide formal sector employment can be seen in Table 2.

LFS	Year	Employment in financial occupations	% of total employment
2	2001	274 855	3.6
1	2002	280 942	3.6
2	2002	273 247	3.4
1	2003	272 059	3.3
2	2003	269 430	3.2
1	2004	259 860	2.9
2	2004	244 787	2.9
1	2005	233 133	2.7
2	2005	259 288	3.0
1	2006	269 737	3.1
2	2006	289 771	3.2

Source: Calculated from LFS 1 of 2001 to LFS 1 of 2007

Throughout the whole period under review, white workers constituted more than half of the people employed in financial occupations. If this proportion is compared to the distribution of the total workforce in the formal sector of the economy, it is clear that black workers and especially African workers are still largely under-represented in the financial occupations, with white and Indian workers over-represented.

Table 3 Racial distribution of workers in financial occupations compared to the total workforce: 2001 to 2007

Financial occupations						Total formal sector workforce			
LFS	Year	African %*	Coloured	Indian	White	African %	Coloured	Indian	White
2	2001	21.7	11.0	12.0	55.3	55.7	13.6	5.8	24.9
1	2002	21.7	10.5	11.6	56.1	55.2	13.3	5.7	25.7
2	2002	22.6	10.0	9.7	57.7	56.5	14.0	5.1	24.4
1	2003	24.0	11.2	8.9	55.8	59.2	14.0	4.6	22.2
2	2003	26.1	11.2	9.1	53.6	58.6	14.3	5.2	21.9

1	2004	25.7	12.7	10.0	51.5	60.1	14.3	4.5	21.1
2	2004	25.2	13.9	8.5	52.4	58.7	13.3	4.6	23.3
1	2005	22.8	14.7	7.7	54.8	59.2	13.4	4.5	22.9
2	2005	24.1	14.5	6.7	54.7	59.9	13.0	4.7	22.4
1	2006	24.2	13.4	6.9	55.5	59.5	13.4	4.6	22.5
2	2006	24.6	13.7	6.3	55.3	60.9	13.0	4.5	21.6

Source: Calculated from LFS 1 of 2001 to LFS 1 of 2007

Percentage distribution obtained from the three-period centred moving average.

Approximately 60% of the people working in financial positions are women. In the formal sector of the economy, less than 40% of the workers are women (Table 4).

Table 4 Gender distribution of workers in financial occupations compared to the total workforce: 2001 to 2007

LFS	Year	Financial occupations		Total formal sector workforce	
		Male	Female	Male	Female
		%		%	
2	2001	39.5	60.5	62.2	37.8
1	2002	40.9	59.1	61.6	38.4
2	2002	40.0	60.0	62.3	37.7
1	2003	40.6	59.4	61.8	38.2
2	2003	41.3	58.7	61.5	38.5
1	2004	42.2	57.8	62.0	38.0
2	2004	42.6	57.4	63.4	36.6
1	2005	40.6	59.4	63.7	36.3
2	2005	40.6	59.4	63.3	36.7
1	2006	42.1	57.9	62.9	37.1
2	2006	44.1	55.9	62.5	37.5
2	2001	39.5	60.5	62.2	37.8

Source: Calculated from LFS 1 of 2001 to LFS 1 of 2007

Percentage distribution obtained from the three-period centred moving average.

Educational qualifications

The LFS uses its own classification of educational qualifications. At the lower levels, qualifications are equated to the school grades. At post-school level the LFS has a category for people who have certificates and diplomas *without* matric (Grade 12) (Level 3) and another category for certificates and diplomas *with* matric (level 4 and 5). It also groups all first degrees (level 6) together and then provides an inclusive category for postgraduate degrees and diplomas (level 7). According to the information provided in the LFSs, the majority of people working in financial occupations have qualifications at matric or matric plus a diploma or certificate. Approximately 13% have first degrees and almost 15% have qualifications at honours degree, postgraduate diplomas, or masters or doctoral degrees (Figure 1).

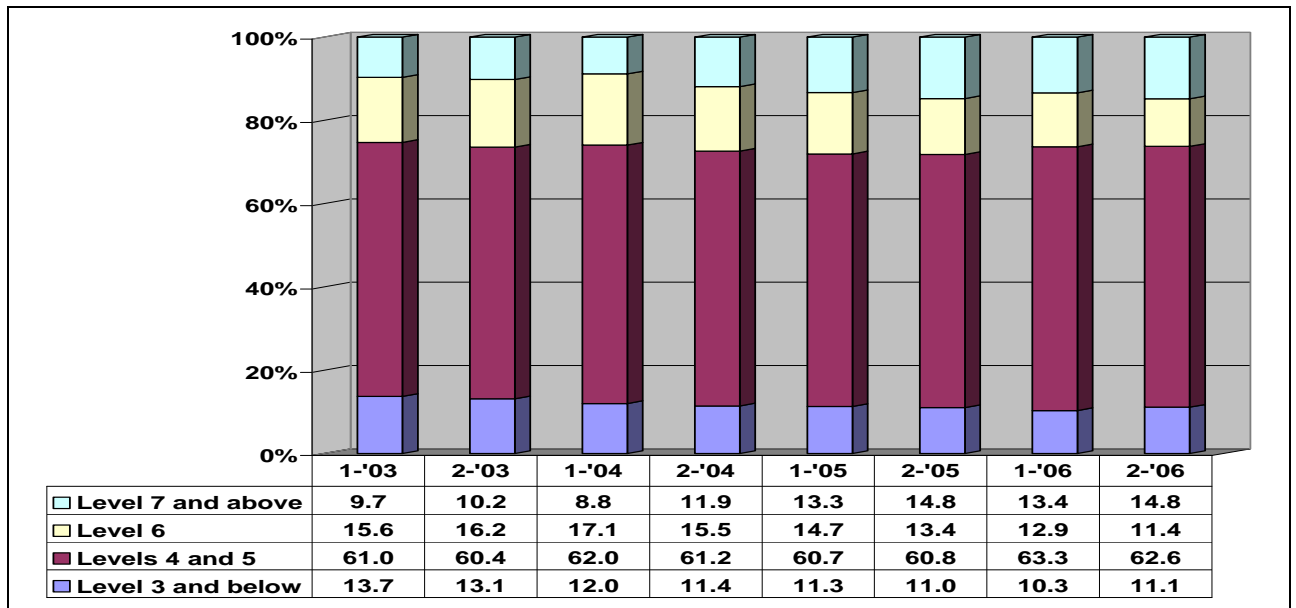


Figure 1 Highest educational qualifications of workers in financial occupations: 2001 to 2007

Source: Calculated from LFS 1 of 2001 to LFS 1 of 2007

Percentage distribution obtained from the three-period centred moving average.

Evidence of current skills shortages

Retention problems

Of the private sector organisations that participated in this study, 18.5% reported that they had problems retaining some of the staff in their financial divisions. This situation was much worse in the public sector than in the private sector (Table 4-1), in that some 62.3% of the public sector organisations experienced such problems.

Table 5 Organisations that experienced retention problems in their financial divisions

	Yes		No		Total ¹	
	n	%	n	%	n	%
Private Sector	82	18.5	361	81.5	443	100.0
Public Sector	33	62.3	20	37.7	53	100.0
Total	115	23.2	381	76.8	496	100.0

The specific occupations in which retention problems were reported are indicated in Table 4-2. Of all the organisations, 50 (10.1% of those with financial divisions) said that they found it difficult to retain accounting clerks and bookkeepers, while 43 (8.7%) found it difficult to retain accountants. A relatively large percentage of the public sector organisations (37.7%) found it difficult to retain financial managers or directors.

Table 6 Occupations in which retention problems were experienced

Occupation	Private Sector		Public Sector		Total	
	n*	%**	n	%**	n	%**
Financial managers/Directors	15	3.3	20	37.7	35	7.1
Supply chain managers	2	0.4	3	5.7	5	1.0
Professional accountants (including CAs)	17	3.7	1	1.9	18	3.6
Information technology and analysis specialists	7	1.5	1	1.9	8	1.6
Taxation experts	5	1.1			5	1.0

Occupation	Private Sector		Public Sector		Total	
	n*	%**	n	%**	n	%**
Accountants	29	6.4	14	26.4	43	8.7
Cost and management accountants	6	1.3	3	5.7	9	1.8
Internal auditors	3	0.7	4	7.5	7	1.4
Accounting clerks and bookkeepers	40	8.8	10	18.9	50	10.1
Financial staff (all levels)	10	2.2	4	7.5	14	2.8

*Number of organisations that reported that they could not retain staff in the particular occupation

** Percentage of organisations with financial divisions and that indicated that they had retention problems

In response to the question asking about the measures put in place to retain employees, 67.8% of the employers who experienced this kind of problem said that they had to pay a premium for financial skills and that, in general, they had to increase salary levels and/or provide additional incentives to the remuneration of financial staff in order to match the upward pressure on salaries occurring in the labour market.

Retention problems in the financial and accounting services sector

Nearly a tenth (9.2%) of organisations surveyed indicated that they found it difficult to retain certain categories of employees. The accounting, bookkeeping, auditing, and tax services firms were particularly affected by this problem. Accounting professionals (accountants, auditors, and trainee accountants) were clearly the group that organisations struggled most to retain. The fact that many organisations reported that they found it difficult to retain black *and* white professionals indicates that there is an overall shortage in the market, and that the shortage experienced is not only related to the need for change in the racial profile of workers in the sector.

Vacancy rates

The filled positions and vacancies in the financial divisions of the organisations can be seen in Table 7. Vacancies in financial divisions constituted 7.5% of all existing positions and 8.2% of employment. However, the vacancy rates reported by the public and the private sectors differed vastly. In the private sector, vacancies formed 3.7% of the positions and 3.8% of total employment whereas in the public sector the respective figures were 19.1% and 23.6%.

These higher figures may indicate that the specific skills sought in the public sector are in short supply, but they are also indicative of other problems related to recruitment in the public sector; for example, long administrative processes or inefficiencies in the human resources departments of public sector organisations, or the fact that the public sector cannot compete with the private sector in terms of remuneration packages and conditions of employment.

Table 7 Filled positions and vacancies in financial divisions

	Positions	Filled positions	Vacancies	Vacancies as % of positions	Vacancies as % of employment
Private Sector	22 657	21 823	834	3.7	3.8
Public Sector	7 577	6 130	1 447	19.1	23.6
Total	30 234	27 953	2 281	7.5	8.2

Employers were also asked to indicate the qualification (NQF) levels at which they would prefer people to be qualified for their vacancies. Although not all the employers could provide this breakdown, the NQF levels of 72% of the vacancies were obtained. The distribution of these vacancies across NQF levels is shown in Figure 2. Almost half of the positions (43.8%) were at NQF Level 6 (degree) and another 19.8% were at NQF Level 7 (honours degree or above). This

means that more than 60% of the positions needed to be filled by people with at least a three-year tertiary degree or diploma.

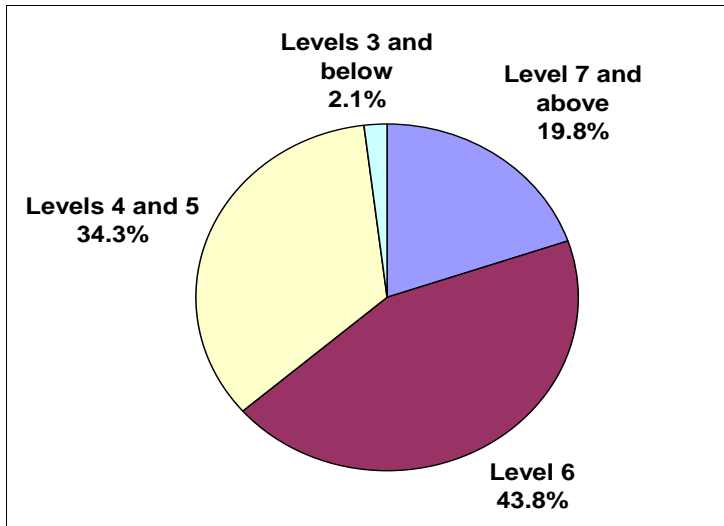


Figure 2 NQF levels of vacancies in financial divisions

Vacancy position in internal auditing divisions

The vacancy position in the internal auditing divisions of organisations is reflected in Table 8. Overall, the vacancy rates were higher than those of the financial divisions. This is probably because the internal auditing divisions contain a higher proportion of professional accountants, who are more difficult to find in the current market than lower-level staff.

Table 8 Filled positions and vacancies in internal auditing divisions

	Positions	Filled Positions	Vacancies	Vacancies as % of total positions	Vacancies as % of employment
Private sector	1 530	1 402	128	8.4	9.1
Public sector	405	319	86	21.2	27.0
Total	1 935	1 721	214	11.1	12.4

Vacancy position for accountants

The largest number of vacancies was for trainee accountants; that is, learners in the professional accounting learnerships. For the accountant positions, most employers would have preferred qualified chartered accountants (CA's), although some employers indicated that they would be able to utilise people with other professional designations or with honours degrees (but who had not passed the qualifying exams for full SAICA membership) in some of the positions. External auditors have to be registered with the Independent Regulatory Board for Auditors (IRBA) and, therefore, only individuals who have passed the stipulated qualifying examinations can fill these positions.

Table 9 Positions that could not be filled readily in the Financial and Accounting Services Sector

Occupation	Positions that could not be filled	% of employment
Articled, audit clerk/trainee accountants	843	6.1
Accountants	827	6.1
External auditors	457	15.9
Internal auditors	48	8.3
Bookkeepers and financial clerks	326	6.5
Total	2 501	7.0

Source: Calculated from EE Research Focus, the Survey of the Financial and Accounting Services Sector, 2008

Recruitment problems: Professional Accountants

As indicated in the first part of this article, skills shortages are typically manifested in recruitment problems. Obviously only organisations that had actually tried to recruit staff could respond to questions pertaining to recruitment. In the survey of organisations, respondents were first of all asked to indicate whether they had tried to recruit professional accountants in the year preceding the survey and, if so, how many professional accountants they had been looking

for. Only 135 organisations (18.3% of all respondents) indicated that they had tried to recruit professional accountants (Table 10). A relatively large percentage (39.6%) of the public sector organisations had tried to recruit professional accountants, whereas only 16.6% of the private sector organisations had tried to hire people at this level. The total number of professional accountants that employers were looking for was 588. More than half (65.2%) of the organisations that had tried to recruit reported that they had experienced difficulties in finding suitable candidates. Relatively more public sector organisations (76.2%) than private sector organisations (63.2%) had experienced problems.

Table 10 Organisations that experienced problems in the recruitment of professional accountants

Type	Organisations that tried to recruit			Organisations that experienced problems		
	n	% of respondent organisations	Number that they tried to recruit	n	% of respondent organisations	% of organisations that tried to recruit
Private Sector	114	16.6	533	72	10.5	63.2
Public Sector	21	39.6	55	16	30.2	76.2
Total	135	18.3	588	88	11.9	65.2

The majority of organisations (77.3%) that experienced problems in the recruitment of professional accountants were looking to employ CAs specifically. Twenty-seven per cent said that they would employ any qualified professional accountant deemed suitable; 17.0% said that they were looking for Cost and Management Accountants (CIMAs); and 8.0% were looking for Professional Accountants SA (previously known as CFAs). Some organisations were also looking for very specific specialists in areas such as internal auditing, taxation, systems and treasury (Table 11).

Table 11 Specific disciplines or areas of specialisation in which recruitment problems were experienced

Disciplines	Number of organisations	%*
Chartered Accountants	68	77.3
Any professional accountants	24	27.3
Cost and Management Accountants	15	17.0
Professional Accountants SA (CFAs)	7	8.0
Internal auditing specialists	4	4.5
Taxation specialists	3	3.4
Other specialists	5	5.7

*Percentage of organisations that experienced recruitment problems. Because organisations could mention more than one discipline, the percentages add up to more than 100

The specific recruitment problems experienced by organisations are summarised in Table 12. At the top of the list was the fact that they were committed to appointing black candidates but could not find any that met the requirements of the specific positions. The second most frequently cited problem was that the candidates that applied for positions did not have enough experience to match the seniority and responsibility levels of the positions that needed to be filled.

Table 12 Recruitment problems identified in respect of professional accountants

Recruitment problems	Number of organisations	%*
Cannot find black candidates	32	36.4
Candidates lack experience	24	27.3
Cannot find people with the required qualifications	20	22.7
Unreasonably high salaries demanded by candidates	18	20.5
Lack of other personal qualities	16	18.2
Location of company unacceptable to candidates	9	10.2
Candidates do "job hopping"	4	4.5

Candidates not willing to accept working conditions	2	2.3
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*Percentage of organisations that experienced recruitment problems. As organisations could mention more than one problem the percentages do not add up to 100

Accounting and audit firms' view on skills shortages

Shortages in client organisations

The senior partners of accounting and auditing firms that participated in this study were almost unanimous in confirming the existence of skills shortages in their client organisations in both the private and public sectors. They also confirmed that the skills shortages existed at all levels, not only at the professional accountant level, and that quantitative deficiencies were also manifesting in the quality of employees who were appointed.

Respondents in the office of the Auditor-General referred specifically to their department's recently published report on the 2006/2007 audits performed in the public sector. According to this report, all national departments submitted their financial statements on time for auditing after the 2006/07 financial year, but only 92% of provincial departments and 64% of provincial public entities were successful in submitting their financial statements on time. Only 9% (three) of the 34 national departments audited by the Auditor-General received unqualified audit opinions. One department received a disclaimer and 56% (19) had "other matters" (previously worded "emphasis of matter") on their reports.

Partners interviewed in the accounting and auditing firms were asked whether they thought that there were shortages of CAs in South Africa. Forty-one (82%) of the respondents were of the opinion that there was a general shortage in South Africa, irrespective of race; six (12%) were of the opinion that there was a shortage only of black CAs; and only three (6%) thought that there was no shortage of CAs.

A qualitative assessment of skills shortages

All the information set out so far substantiates the notion that a shortage of financial management, accounting and auditing skills is a reality in South Africa. It is also clear that this shortage is experienced in all the sectors of the economy and is worse in the public sector. In the accounting and auditing firms there is evidence that the skills shortages are starting to inhibit the growth of such firms. One question remaining to be answered is how many qualified people are currently needed to alleviate the shortage, or what is the numerical extent of this shortage? The most conservative estimate of the current shortage will be obtained by identifying and quantifying vacancies.

In the financial services sector, the total number of vacancies was estimated by applying to the estimated number of people employed at each educational level the vacancy rates reported in the relevant occupations. At the level of matric or matric plus a diploma or certificate (roughly NQF levels 4 and 5), we used the vacancy rates of accounting clerks and bookkeepers reported in the Fasset Sector Survey. Similarly, at the level of first degrees (roughly NQF Level 6) we used the vacancy rate of general accountants and trainee accountants, and at the level of honours degrees and postgraduate diplomas (NQF Level 7) we used the vacancy rate of general accountants, internal auditors, and external auditors that was obtained in the same survey.

In the non-financial services sector, the total vacancy rate was taken as 8%, which is the rate reported by employers who participated in the current study. The distribution of these vacancies across the education levels was the distribution reported by these employers.

It is estimated that at the highest level (NQF Level 7 and above) there is an unsatisfied need for almost 5 400 qualified accountants. This includes fully qualified professional accountants such as CAs as well as people with honours degrees. The table also shows that the vacancy rate at the first degree level is

estimated to be 28%. The fact that the vacancy rate at this level is so high may suggest that employers prefer to hire people with Level 6 qualifications when experienced staff at NQF levels 4 and 5 need to be replaced. But this suggestion remains conjecture.

Table 13 Estimate of vacancies in financial positions: 2007

Qualification/NQF Level	Financial	Non-		Vacancies as % of employment
	Services Sector	Financial Services Sector	Total	
Grade 11/NQF Level 3 and below	0	379	379	1.2
Grade 12 and Diploma or Certificate /NQF Levels 4 and 5	1 012	6 186	7 198	4.1
First Degree/ NQF Level 6	1 166	7 899	9 065	28.0
Honours Degree or higher/ NQF Level 7 and above	1 818	3 571	5 389	12.8
Total	3 995	18 035	22 030	7.8

Conclusion

All the information from different sources presented in this study indicates that there is a marked shortage of financial management, accounting and auditing skills in South Africa. The main indicators of such shortages are:

- Retention problems experienced by employers, not only with regard to black employees but overall;
- Recruitment problems experienced by the majority of employers who tried to recruit in the year preceding this study, and the existence of vacancies that they could not fill owing to the unavailability of people who met all the requirements; and
- Upward pressure on remuneration packages.

Partners in accounting and auditing firms confirmed the existence of skills shortages in their client organisations as well as in their own. In the client firms

and state departments the interaction between quantitative shortages and qualitative skills deficiencies was emphasised by respondents. Owing to specific skills shortages, employees are appointed in positions for which they are not qualified or they are promoted beyond their own levels of functional competency. A conservative quantitative estimate of the skills shortage indicates a need for more than 22 000 additional people to fill financial positions in South Africa. The unsatisfied demand is much higher for people with degrees and postgraduate qualifications than for those with lower-level qualifications, although insufficient numbers also exist at these lower levels.

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