Bridging the gap
Accountants can be super-connectors, improving outcomes for public infrastructure projects

Strength in numbers
New alliances are countering the US-China trade war

Fit for the future
John Reidy, CFO of Diabetes Canada, on taking tough decisions

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Think Ahead
Welcome

The power of connections is the key ingredient in enabling both finance professionals and the organisations they work for to thrive and move up to the next level.

Connections are the threads that weave their way throughout our personal and professional lives. They keep us grounded while offering opportunities to soar; they enable us to advance while forging our own history; and they help us to share our experiences as well as learn from them. Regardless of how many connections we might have – from a tight-knit group to a vast number of links – we, and the businesses we work for, have the potential to thrive through the alliances that we make.

This month marks the start of ACCA’s latest theme, ‘the power of connections’, and in this edition and the next you’ll find a selection of articles that explore the various roles that connections, networks and partnerships play in business and in our careers.

The cover feature looks at the findings of an ACCA/CPA Canada report on bridging the ‘infrastructure gap’ and argues that professional accountants are perfectly placed to act as the super-connector between all parties in major public sector projects. See page 36.

We also have an article on the web of trading blocs that continue to connect many of the world’s economies despite US-China tariff tussles (page 40). And in his regular column on page 44, our careers expert Dr Rob Yeung warns of the lure of vanity metrics, arguing that it isn’t the number of connections you have that matters but how you nurture those in your circle.

We also explore the state of the economic and business environment in Russia nearly 30 years after the dissolution of the Soviet Union. ACCA has recently launched a Russian language pathway that should help ease a shortage of professionally qualified auditors and accountants (page 18).

Our main interviewee is John Reidy FCCA, CFO/COO of Diabetes Canada. Having switched to the not-for-profit sector after a long corporate career, he talks about the difficult decisions he has had to take to bring the charity back to financial health (page 13).

Annabella Gabb, international editor
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July/August 2019 Accounting and Business
Corporate
25 The view from Olga Kuznetsova of ICBC, Canada, plus corporate news
26 Transfer pricing Rewriting the rules to prevent tax base erosion and double taxation
28 Golden oldies High growth rates are not the exclusive preserve of startups

Practice
16 The view from Basanta Tripathi of Brontide, US, plus practice news
22 Vanessa Richards The link between election upsets and performance measurement
23 Alnoor Amlani Africa’s plastics industry will have to innovate rather than imitate
24 ACCA president Robert Stenhouse on the infrastructure gap
26 It takes two CFOs should work with the marketing team

Comment
30 The Italian job Exploiting Italy’s diverse business opportunities
32 Target inequality Wealth redistributors look to the tax system
35 News in infographics Customer experience is crucial in a digital age
36 Across the divide Finance professionals can help bridge the public infrastructure gap

Insights
30 The Italian job Exploiting Italy’s diverse business opportunities
32 Target inequality Wealth redistributors look to the tax system
36 Across the divide Finance professionals can help bridge the public infrastructure gap

Careers
44 Close encounters Maintaining relationships in your network is vital

Management
42 Adapt to survive Audit must keep up with the tech wave
46 It takes two CFOs should work with the marketing team

Technical
48 Fair value A look at IFRS 13 and user and preparer responses to the IASB consultation
52 Technical update The latest on audit, tax and reporting
54 Conceptual framework The IASB has given its conceptual framework a makeover

Tax
56 Transparency Finance sector feels the pain of international tax data exchange rollout with Common Reporting Standard initiative

People
58 In-Ki Joo IFAC president’s aims to build the global body

ACCA
61 Screen test With proper planning and practice, you can give your virtual meetings an Oscar-worthy edge

ACCA Caribbean
64 Office celebrates its 20th anniversary
65 Practising certificates The experience form and how to complete it
66 Update The power of connections

Basics
61 CPD Screen test With proper planning and practice, you can give your virtual meetings an Oscar-worthy edge

Accounting and Business July/August 2019

“A connection to the cause is essential when working in an organisation of this kind”
‘A connection to the cause is essential when working in an organisation of this kind’
The recent death toll on Everest has increased concerns that overcommercialisation of the world’s highest mountain is leading to dangerous levels of overcrowding as climber numbers surge.

Jay-Z has been named the first billionaire rapper by Forbes magazine. The US star’s assets include a US$75m music catalogue, a US$70m art collection, stakes in Armand de Brignac champagne, D’Ussé cognac and Uber, and a property portfolio.

Activists in Kenya marked World Environment Day on 5 June by protesting against China’s proposal to build the first coal-fired power station in the country. The planned site on the coast at Lamu is a Unesco World Heritage site.

South Korean director Bong Joon-Ho’s social satire won the Palme d’Or at the Cannes Film Festival in France. *Parasite* is the first Korean movie to win the coveted title – doing so as the country celebrates a century of filmmaking.
Vietnam is Asia’s rising star

Vietnam’s economy is the ‘rising star’ of Asia and could be bigger than Singapore’s by 2029, finds a DBS Bank report. Strong foreign investment inflow and productivity growth in the coming years are expected to underpin GDP growth in the 6%-6.5% range over the next decade, following the 7.1% growth of 2018, the second fastest among all Asian economies. More importantly, notes the report, Vietnamese policymakers are now focusing on longer term economic stability and sustainability, rather than the pace of growth per se.

CEO turnover record

CEO turnover hit a record high last year, according to PwC. Over the past 19 years median tenure at the largest 2,500 public companies has been five years but there was a 17% churn rate last year, PwC reports in the 2018 CEO Success study. One in five CEOs remains in post for at least a decade. CEOs are more likely to stay longer in North America than in Europe or Asia. There was also an increase in the proportion forced out on ethical grounds.

Autonomy conviction

Former Autonomy CFO Sushovan Hussain has been convicted in the US of fraud, relating to the sale of the software company to Hewlett Packard for US$11.1bn in 2011. He was sentenced to five years in prison and required to forfeit US$6.1m he gained from the deal, and was fined an additional US$4m. He was already convicted last year on 16 counts of wire and securities fraud. Hussain has indicated his intention to appeal the verdicts. The UK’s Financial Reporting Council has stayed proceedings against Hussain, and also against Autonomy’s former vice president of finance, Stephen Chamberlain, until criminal proceedings in the US have concluded.

Mazars wins audit

Mazars has been chosen by Goldman Sachs to audit its European operations, in a major win for a firm outside the Big Four. PwC is unable under audit rotation rules to continue in the post after 2021, while Deloitte, EY and KPMG are all reported to be unable to bid because of consultancy work for the bank. Mazars takes over in 2021. PwC will continue as Goldman Sachs’ auditor in other jurisdictions.

All change at IAASB

Tom Seidenstein is the new chair of the International Auditing and Assurance Standards Board (IAASB), serving a three-year period. He succeeds Professor Arnold Schilder, who has led the IAASB since 2009. ‘Tom will skilfully navigate the IAASB through a period of change and transformation with his flexible and pragmatic approaches,’ said Ryozo Himino, the IAASB’s interim nominating committee chair. ‘Being a collaborative leader and a natural consensus builder, he will continue to realise the potential of both the IAASB and its support in, and for, the global community.’

Renjen re-elected

Punit Renjen has been elected to a second, four-year term as Deloitte Global CEO. He is now in his 32nd year with Deloitte.

New partnership

EY has entered into an alliance with Thomson Reuters to use the latter’s Onesource tax technology. Onesource is designed to provide solutions for businesses dealing with tax obligations on a multi-jurisdictional basis. Kate Barton, EY’s global vice chair, tax, explained: ‘With the rapid rise in platform-based technology in the form of cloud and other secure access platforms, tax departments are beginning to solve problems, source business solutions and interact with tax authorities in a whole different way.’
Fossil fuel subsidy
Governments provided subsidies to fossil fuel production worth US$5.2 trillion in the year 2017, estimates a report from the International Monetary Fund (IMF). The largest subsidy, at US$1.4 trillion, was from China, which was followed by the US (US$649bn), Russia (US$551bn), the EU (US$289bn) and India (US$209bn). The subsidy was calculated as the difference between actual prices and those that would be warranted by the inclusion of supply, environmental and other costs. Coal and petroleum account for 85% of global subsidies. Removing subsidies would lower global carbon emissions by 28% and deaths from fossil fuel air pollution by 46%, while increasing government revenues by 3.8% of GDP, calculates the IMF.

Audit stagnates
Initial public offerings by start-ups in Japan have reportedly hit a snag as auditors take more time checking the books at big clients following the 2015 accounting scandal at Toshiba. Nikkei Asian Review reported that an ensuing slew of investor lawsuits has promoted auditors to examine their big clients more closely. This has cut into the number of accountants allocated to audit start-ups planning to go public, and ‘risks turning more such companies into “audit refugees” and dampening enthusiasm for starting new businesses at a time when Japan is struggling to catch up to China and the US in the number of unicorns [start-ups worth over US$1bn]’.

Edging to digital tax
France's upper legislative house – the Senate – has given its approval to the introduction of a 3% digital services tax. This is subject to it being in place for only an interim three-year period until there is a global agreement for digital taxation. The new tax is known as ‘GAFAM’ – standing for Google, Apple, Facebook, Amazon and Microsoft. It would be applied on transactions conducted with service users in France and on tech companies with global revenues of €750m (US$842m) and revenues in France of €25m (US$28m). Finalisation of the proposal requires further detailed negotiation between the Senate and the lower house, the National Assembly.

Tax amnesty offered
Pakistan’s government has launched an amnesty for taxpayers who failed
to declare all their assets, under an agreement with the International Monetary Fund (IMF) to unlock a new bail-out. At present, only one million out of 200 million residents pay income tax. Pakistan has promised the IMF it will cut its primary budget deficit – the budget less debt-servicing costs – to 0.6% of GDP. At present it is about 2%. Achieving this will require additional tax revenues of US$5bn a year, or equivalent spending cuts. In return, the IMF is to lend US$6bn to the country.

### Divestment plans
Over four-fifths (81%) of Indian companies plan to undertake divestments in the next two years, a survey by EY has discovered. Most – 63% – of those surveyed have already conducted some divestments in order to streamline their business model, while 70% said that a motivation was to address a weak competitive position. EY found that advanced analytics are being used during buyer negotiations to create more value for the seller. Naveen Tiwari, a partner at EY India, explained: ‘Companies today are broadly better at identifying assets that should be divested, but are increasingly slower in launching the process.’

### Tobacco losses
Russia and other countries in the Eurasian Economic Union (EEU) lost an estimated US$1bn in tax revenues through illicit tobacco trade, KPMG has calculated. Illicit cigarette consumption has grown rapidly in the EEU between 2015 and 2018, rising from 0.6% to 6.8% of total consumption. Most of the production is in Belarus, with Russia the largest market. Illicit cigarettes produced in Belarus are also sold illegally in the UK, Germany, France and Poland. Kyrgyzstan is another large producer, whose illicit cigarettes are sold in Russia and Kazakhstan.

### Carbon emissions fall
Carbon emissions covered by the EU’s Emissions Trading System fell by 3.5% in 2018 from 2017 levels, according to the ICIS Market Insight report *The Impact of Higher Carbon Prices on Utilities and Industries*. This was despite the size of the economy in the six EU countries studied growing last year – showing that carbon use and economic growth have decoupled. Emissions from energy-intensive industry and power generators fell by 3.9%. The report concluded that reduction in use of fossil fuels is not the result of higher CO2 prices but rather from other factors, such as the lower cost of renewables and stronger regulation.

### Base rate cut
The Reserve Bank of Australia has cut its base rate by a quarter percentage point to 1.25% – the country’s first interest rate change since August 2016. The bank’s governor Philip Lowe said the ‘decision was taken to support employment growth and to provide greater

### Billionaires drop
There are 2,604 billionaires in the world, according to the Wealth-X Billionaire Census 2019, and more than a quarter of these ultra-high-net-worth individuals (705) live in the US. China, the country with the second-highest number of billionaires, has 285, Germany 146 and Russia 102.

In 2018, the global billionaire population fell 5.4% from a year earlier to 2,604 and their worth declined by 7% to US$8.6 trillion. The report attributed the decline to heightened market volatility, global trade tensions and a slowdown in economic growth.
Singapore has ranked as the world’s most competitive economy for the first time since 2010, according to the IMD World Competitiveness Rankings, toppling the US from the top spot, while economic uncertainty took its toll on conditions in Europe. Singapore’s rise to the top was driven by its advanced technological infrastructure, the availability of skilled labour, favourable immigration laws and efficient ways to set up new businesses. Hong Kong held on to second place, helped by a benign tax and business policy environment and access to business finance.

<table>
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<th>2019</th>
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<td>Hong Kong</td>
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<td>Switzerland</td>
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<td>+1</td>
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<td>5</td>
<td>UAE</td>
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<td>+2</td>
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**Gains through reform**

Stronger governance in African economies could boost the continent’s economy by US$23bn a year, according to PwC’s latest Global Economy Watch. The study argued that treating Africa’s 53 countries as a single entity ‘does Africa a disservice’ as it overlooks the vast differences, variations in economic growth and governance performance. For example, while Ethiopia and Côte d’Ivoire have experienced annual per capita growth rates above 5% for five years, Equatorial Guinea’s economy has shrunk by 9% and the Central African Republic’s by 5.2% in the same period. Countries with the strongest performance are those that have implemented institutional reforms, explained PwC.

**Debt needs a rethink**

Low-income countries in Africa need more flexible debt arrangements, a conference convened by the African Development Bank (ADB) and the World Bank has been told. Adama Koné, minister of finance for Côte d’Ivoire, praised the World Bank and the International Monetary Fund for their financial assistance, but appealed for more ‘innovative and strategic sources of funding’. The call was made in response to the worsening debt situation of several African nations. The ADB said that at the beginning of the year, 17 African countries were classified as being in debt distress.

**Tax officials arrested**

Kenya has arrested 75 of its tax agency staff as part of an investigation into allegations of corruption. In a statement, Dr Francis Muthaura, chairman of the Kenya Revenue Authority Board, said: ‘The board treats incidences of tax evasion as serious crimes that demand resolute action against both taxpayers and staff members who may abet such practices, and therefore wishes to reaffirm its resolve to continue the fight against corruption within the authority.’

**Cloud promotion**

Microsoft has launched its Africa Development Centre (ADC), with two sites – in Nairobi, Kenya, and Lagos, Nigeria. This follows the opening of Microsoft’s first ‘hyper-scale datacentre’ in South Africa to promote innovation in the cloud. The ADC will develop and promote African talent, said the company. Phil Spencer, executive sponsor of the ADC and executive vice president at Microsoft, explained: ‘The ADC will be unlike any other existing investment on the continent. It will help us better listen to our customers, develop locally and scale for global impact.’

**IAS non-compliance**

Most companies listed on the Zimbabwe Stock Exchange (ZSE) have had adverse opinions from auditors on their financial statements, because of non-compliance with International Accounting Standards. ZSE issued a statement explaining that it recognised the adverse opinions were the result of companies ‘complying with the obtaining laws of the country’ and were not of their own volition. ZSE has waived the requirement for special listing committee meetings to consider individual companies’ IAS non-compliance.

Paul Gosling, journalist
Is it time to regain control?

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Think Ahead
Necessary medicine

As CFO of Diabetes Canada, John Reidy FCCA has had to make tough decisions to bring the Toronto-based not-for-profit’s finances back to health

A

n Irish native, John Reidy FCCA, martial arts teacher and self-proclaimed hockey nut even though he can’t skate, isn’t just committed to sport, he is also passionate about his job. After a varied and high-powered international career in both large companies and small startups, Reidy is now at the financial helm of a large Canadian not-for-profit.

As CFO/COO of Diabetes Canada, a registered charity headquartered in the heart of Toronto’s financial district, his mandate has been anything but easy – optimise the systems and processes, retrench (downsize) the organisation and reverse the cash bleed to ensure long-term survival.

Reidy’s move to Diabetes Canada was unexpected to say the least. How he landed there was a matter of coincidence.

‘I never intended to be a not-for-profit guy,’ says Reidy. ‘My wife is the one that was always fundraising for charities and volunteering, whereas I was definitely a finance guy in the corporate sector. However, one day a friend of mine said: “I’ve got this charity that needs some help with their CFO position.” I was planning to be there on a short three-month stint – that was three and a half years ago.’

As Reidy learned more about diabetes he became consumed with trying to help the organisation out of a very difficult spot. ‘Diabetes is really, really important and it’s massively underrepresented in the market, so people don’t realise how insidious a disease it is,’ he says.

According to Statistics Canada, in 2017, 7.3% of Canadians over the age of 12 (around 2.3 million people) had been
diagnosed with diabetes. Between 2016 and 2017, the proportion of males who reported being diagnosed with the disease increased by 7.6% to 8.4%, while the percentage of females, at 6.3%, remained the same. Other statistics present a more alarming scenario, reporting that the number of people living with pre-diabetes or type 1, and type 2 diabetes, could be as many as 11 million, or roughly one in three Canadians.

Once Reidy understood the scope of the problem, he was hooked. ‘You wouldn’t join an organisation of this kind unless you felt a connection to the cause. I became driven by the need to deliver what is actually not a particularly attractive message to the Canadian public, but one they absolutely need to hear.’ Reidy’s ACCA Qualification and an MBA from Manchester Business School gave him a broad understanding of business. But it was his tenures in large public corporates and Canadian private equity that provided the range of skills he needed for his new role, even though a large charity would prove to be quite a different animal. ‘I had a lot of experience retrenching and restructuring, and fixing IT projects that had gone wrong,’ he says. ‘Technology, handled well, can transform a business, but handled badly it can destroy it. I have seen far too many wildly over ambitious projects.’ (So great was his interest that at one point he considered following in the footsteps of his three siblings, who are all in IT.)

Like many companies and charities, Diabetes Canada, Reidy explains, had invested in systems but hadn’t done it properly. ‘We had poor processes and we were also suffering revenue challenges,’ he says. ‘I spent a huge chunk of my career remediating badly implemented processes and systems.’

Over the preceding years the competition for donation dollars had become fierce. And, as he explains, one of the most challenging aspects of being CFO of a charity is allocating the spend equitably between important projects. ‘Being the finance person puts you in the difficult position...
Diabetes Canada is one of Canada’s largest charities, with annual revenues of C$42.3m (2017). Headquartered in Toronto with offices across the country, it is committed to partnering with Canadians to end diabetes through:

- providing resources for healthcare professionals to care for people with diabetes using best practices
- advocacy to governments, schools and workplaces
- funding world-leading Canadian research to improve treatments and find a cure.

Clothesline is a programme that collects ‘gently used’ clothing, small household items and electronics. Proceeds from the programme, which in 2017 amounted to C$8.7m, support the charity’s work. It diverts 100 million pounds of textiles and household items from landfill each year through the collection and sale of items.

The financially based, broad understanding of business that the ACCA Qualification provides confers status very early in your career, especially if you show a modest understanding of the other aspects of the issue at hand and don’t go all in on just the numbers.’

‘Try to gain an understanding of IT and management information. If the IT is not doing what the business needs it to do, it’s no use, however much elaborate engineering is involved.’

‘I’ve learnt a lot about people. You can have all the data you want, but if you give it to people the wrong way, or you ask them to do too much, you’re bound to fail.’

‘Take account of people’s perceived capabilities plus their perceived appetite, if you don’t you will burn them out.’

‘It’s really important to have work-life balance. If you haven’t got balance it all adds up to zero.’

Ramona Dzinkowski is a Canadian economist and president of RND Research Group.
The view from

Basanta Tripathi FCCA, senior auditor, Brontide, Washington DC, on following his dream

When I was at school in Kathmandu, Nepal, a teacher told us about a chartered certified accountant who had been helping him with the audit of his business. I did some research and was impressed by what ACCA had to offer. I started my ACCA journey in 2007 and passed all the exams in 2010.

In Nepal, the accounting and audit profession is still developing. The market needs to catch up with modern auditing and advanced accounting software. There is also a need to increase public awareness of the advantages of assurance.

My first job was at Kuber & Company, one of Kathmandu’s oldest professional accounting firms. I learned everything from basic accounting and auditing to advanced skills. I then spent three years in the internal audit department at Laxmi Bank where I learned how corporate business operates.

The ACCA Qualification has certainly opened doors for me. I always wanted my career to land in a country with big opportunities. Hence, I moved to the US, chasing my dream to work in an established industry and culture, while seeking a better standard of living.

Brontide specialises in assurance services, mainly for government contractors providing IT-related services. I enjoy travelling and meeting new people, learning and sharing my experiences with them. It’s completely different from a corporate role, where knowledge is limited to a single company or department.

My ACCA Qualification keeps me up to date with all the latest developments. It also helped me to pass the US CPA exams because of the depth of knowledge and skills required.

My biggest career achievement was getting a scholarship for the Oxford Brookes University MBA programme. I was up against ACCA members from several countries.

I love to explore new places. I also practise transcendental meditation, which I find reduces stress, keeps me focused, boosts happiness and improves productivity.

I enjoy hanging out with friends and watching movies – all great ways to relax after work.
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Russia reinvented

While Russia’s economic and business environment has undergone a transformation in the post-Soviet era, more finance professionals are needed to maintain progress.

In 1989, the Soviet Union, then the world’s largest country by land mass, stood on the brink of collapse following the fall of the communist regimes in its Eastern European satellites in that year. Thirty years on is a good time to take stock of a no longer restricted business environment in Russia (which emerged as the largest of the Soviet Union’s successor countries), and an accountancy and audit profession that used to be tools of state control.

After transitioning to a market economy, Russia suffered a long depression and then a period of rapid growth in the late 1990s. The boom ended with the 2008 financial crash, followed by the instability of 2014 and subsequent recession. Today, though, the economy is picking up; the World Bank’s GDP forecast for Russia predicts 1.5% growth in 2019. In 2017, exports were worth US$353bn, with petroleum and petroleum products the biggest contributors. Imports were US$238bn, with machinery leading the way.

The fastest-growing sectors include retail, tourism and e-commerce. Energy businesses continue to top the list of largest Russian companies by revenue (Gazprom, Rosneft and Lukoil ranked as three of the four largest companies in 2018), and 219 companies are listed on the Moscow Stock Exchange.

During the Soviet era, from 1917 to 1991, the country’s accountancy world was very different. ‘In the late USSR, all accounting was based on rules, not on principles,’ says Yury Borovskiy FCCA, freelance consultant and former chief accountant at Nefteprombank. ‘Accountants acted as government agents in businesses to prevent fraud. Balances were not made public.’

There was also an image problem. ‘Accountancy was one of the least popular professions, considered as bookkeeping, very limited in use and not respected,’ says Oxana Losevskaya FCCA, partner at SL Partners.

Market economy

With the return to a market economy, new Russian Accounting Standards (RAS) were introduced in the early 1990s, to fill the gaps and create a proper regulatory framework. ‘Legislation has become more systematic, and relations between accounting and tax authorities have become more organised,’ says Daria Bakulina, shared service centre chief accountant at the Russian office of car parts manufacturer Valeo.

Today, all limited companies and financial institutions must undergo an audit. The same applies to businesses with an annual turnover of more than RUB400m (US$6m) or total balance sheet assets of more than RUB60m (US$920,000) in the previous year.

Company annual reports must include a balance sheet, a profit and loss account and notes.

Since 1998, the Russian Ministry of Finance and the Central Bank have been bringing RAS into line with IFRS Standards. ‘In the 2000s, the situation changed dramatically as more Russian companies went public, not only in Russia but on the London Stock Exchange, Nasdaq and other exchanges,’ says Losevskaya. ‘The market required more IFRS specialists to raise funds in global financial markets.’

She adds that since the late 2000s Russian banks have been ‘required to prepare and disclose annual audited IFRS financial statements’.

In 2012, IFRS Standards became obligatory for domestic and international companies filing consolidated financial statements. But significant differences between IFRS Standards and RAS remain – RAS, for example, has no equivalent of IAS 37, Provisions, Contingent Liabilities and Contingent Assets.

The opportunities attracted the Big Four, which moved in during the early 1990s. But while their strength is evident – their combined income amounts to 46% of the revenues of all audit organisations in the country – as in other countries, they cater for a specific client group. Larisa Kosholkina, director for quality and professional standards at FinExpertiza Global, says: ‘The Big Four have not achieved a dominant position in the Russian audit market. There are situations in which not only medium-sized businesses but also large companies and holdings prefer to see’
Russian-language advanced diploma
ACCA has launched a Russian-language advanced diploma in finance and business, offering new opportunities for young professionals in Russian-speaking regions where there is growing interest in ACCA, but limited English-language capability. The diploma is available to people based in Armenia, Azerbaijan, Belarus, Estonia, Kazakhstan, Kyrgyzstan, Georgia, Moldova, Russia, Tajikistan, Ukraine and Uzbekistan, with the first exam sitting set for December 2019. ‘The new pathway will make an important contribution to the accountancy professions and economic sustainability of these countries,’ says Vera Starodubtseva, head of ACCA Russia.

Capacity constraints
There are now more than 10,000 ACCA members and students in a country with five million accountants and bookkeepers, for a population of 147 million. Kosholkina says the first 15 years of the post-Soviet era saw a rise in the number of certified auditors but that there are still not enough. Local training courses are also, according to Borovskiy, generally of poor quality. ‘There is a lack of highly qualified accountants in the former USSR,’ he adds.

At the turn of the millennium, a professional accountant’s certification conferred prestige. But within 10 years, the local certificate had almost entirely lost its appeal because it was not mandatory. ‘Instead of domestic additional professional qualifications, foreign-based equivalents were available – for example, ACCA,’ explains Kosholkina. ‘But learning and passing exams in English is a real obstacle for many accountants and auditors.’ (See panel above.)

Industry experts also warn that too few younger people are coming into the accountancy sector in Russia. ‘The profession is ageing and young people are not willing to become auditors,’ says Kosholkina. ‘Individuals need to use a lot of their own resources to maintain skills. Young people come to the profession, as a rule, to gain a little experience, and rarely stay for a long time.’

The Russian accounting sector will by no means be immune to new technologies such as blockchain. ‘The accountancy/audit profession will be digital in the future, not in full but to a major degree,’ says Losevskaya. And Bakulina predicts: ‘The number of accountants in Russia will decrease, but qualifications will increase.’

David Creighton, journalist
Great expectations

What does the general public want from audit today and into the future? New research from ACCA explores how the profession could evolve.

The audit profession has suffered from an expectation gap for almost 50 years. In fact, the earliest reference to it dates back to 1974, when Carl Liggio, the chief legal officer for Arthur Young (one of the firms that later merged to form EY), defined it as ‘the difference between the levels of expected performance as envisioned by the independent accountant and by the user of financial statements’.

Fast forward several decades and the expectation gap persists as a result of some major corporate failures. In particular, the collapse of UK contractor Carillion in 2018 triggered a number of reviews into the operation and regulation of the audit profession, with a focus on the expectation gap. In Australia, a 2019 report of the parliamentary joint committee on corporations and financial services observed: ‘There is a series of expectation gaps between what investors and the public expect of gatekeepers such as auditors, and what those gatekeepers are legally obliged to do, and what their roles involve in practice.’

Recognising the significance of the expectation gap to the future of the audit profession, ACCA surveyed 11,000 members of the public in 11 countries. The findings of the research have been written up in a report, Closing the expectation gap in audit, which looks at the issue from the public’s point of view rather than the audit professional’s.

The report suggests that the expectation gap has three components:

- **Knowledge gap**: The research found a vast knowledge gap when it comes to audit (see box). Just 34% of all respondents correctly identified the auditor role as being to provide an opinion that the financial statements of a company give a true and fair view and do not include material mistakes due to fraud or error.

  Worryingly, given that the UK is at the centre of much of the public debate around audit right now, the UK ranked bottom of the 11 countries surveyed in terms of public knowledge of audit, with just 25% of respondents properly understanding what an auditor does.

  More than half of all respondents (55%) believed companies would not fail if auditors did their job properly; among Malaysian respondents, the figure was 75%. The public does not appear to understand that avoiding corporate failure is primarily the responsibility of a company’s management team.

  While an audit may identify factors that could result in corporate failure, such as material uncertainty around going concern and internal control deficiencies, it is not designed to address market-related factors such as sustainability of the business model.

- **Performance gap**: This is the gap between what auditors do and what they are supposed to do.

- **Evolution gap**: This is the gap between what auditors do now and what the public wants them to do in future.

ACCA believes each of these gaps must be addressed separately if the overall expectation gap is to be narrowed.

Knowledge gap

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What respondents in 11 countries considered the auditor’s role to be

- An auditor gives an opinion whether the financial statements of a company give a true and fair view and do not include material mistakes due to fraud or error
- An auditor verifies the accuracy of a company’s financial statements
- An auditor verifies that a company’s financial statements have no mistakes due to error or fraud
- An auditor verifies that a company’s financial statements have no material mistakes due to fraud or error

Performance gap

To identify where auditors are not living up to performance expectations, ACCA studied the most recent internal inspection findings from the International Forum of Independent Audit Regulators. The areas of audit with the most findings for the years 2014–17 were accounting estimates, including fair value measurement, and internal control testing, although consistent improvement in auditor performance was also identified, with only findings on group audit worsening.

It seems that in practice the performance gap is already narrowing, although the public may not realise this. ‘Many people think that the expectation gap can be defined as the performance gap, but that is not the case,’ explains Antonis Diolas, ACCA’s audit and business law manager. To address the performance gap, the report recommends that audit firms should act on the inspection findings they receive, that regulators should steer firms towards a culture of quality rather than a compliance mentality, and that standard-setters should revise accounting standards to be clearer and offer enhanced guidance.

The public does not appear to understand that avoiding corporate failure is primarily the responsibility of a company’s management team

Evolution gap

The research makes it clear that the public wants auditors to play a bigger role in detecting and reporting fraud. Over a third (35%) of all respondents expected auditors to achieve the impossible and ‘always identify and report any fraud’, while 70% thought audit should evolve in a way that enables it to prevent company failures.

The challenge with the evolution gap is that it cannot realistically be addressed unless the knowledge and performance gaps have already been narrowed. ‘Otherwise, there is a high chance that we will end up with overregulation because the public and the profession are not at the same starting point,’ Diolas explains.

The way forward

To close the expectation gap, the audit profession needs to collaborate with its key stakeholders – regulators, standard-setters, professional accountancy bodies, audit firms, audit committees, investors, governments, media and the public. Communication with the public is critical to closing the knowledge gap while a focus on audit quality is key to closing the performance gap.

While the research identifies potential areas for evolution in audit, it advises policymakers to be mindful of the link between the knowledge and evolution gaps when implementing new policies and regulations to satisfy public demand. ‘We hope standard-setters and policymakers consider the link between the three different components of the expectation gap and recognise that lack of performance is not the only issue,’ says Diolas. ‘There is also a knowledge component. We want to have a discussion around evolution while being realistic about what can be achieved.’

Sally Percy, journalist

The public does not appear to understand that avoiding corporate failure is primarily the responsibility of a company’s management team
A right metric mess

A run of election upsets ushered in by consistently inaccurate polling forecasts holds a key lesson for corporate performance measurement, as Vanessa Richards explains.

Australia’s federal election in May was another in what has been a global series of recent election upsets. Opinion polls had roundly predicted a win for the Labor Party; instead, the incumbent government was re-elected.

Elections now regularly confound the expectations of pollsters and commentators for reasons that will be familiar to those who work with performance indicators in other fields.

The first issue is data accuracy. Pollsters tend to ring landline phones, which are increasingly rare and no longer reflect the demographics of the Australian population. In the corporate world, similar issues can arise with the non-financial metrics that increasingly influence performance assessments.

How do you define and measure culture or community sentiment? Even the more established metrics of customer satisfaction and employee engagement can be suspect – respondents tend to hold views on the outer edges of the bell curve, skewing results.

The next issue is that old certainties have gone. In the Australian election, 8% of sampled voters were undecided – almost double historic numbers. Entrenched voter loyalty is giving way to an electorate that is constantly shifting.

Anyone who has dealt with last-minute developments in the final stages of a reporting period will know how that feels. Perhaps your company announces a merger, or a shareholder resolution hits your desk right on deadline, or a rival announces a game-changing new technology. Change is the only constant.

There is also evidence of unconscious manipulation of results to align with expectations. Australian pollsters dismissed data that fell outside their expectations as outlier figures and ‘smoothed’ them. The 16 polls in the lead-up to the election all came back with almost identical results. The odds of that happening without manipulation are greater than 100,000 to one.

If your management reporting follows similar practices, you may be caught short when the noise turns out to be a signal. New data indicating a drop in demand for a product line may be a blip, but it may also be the start of a trend. Capturing, tracking and reporting on weak signals can be critical to avoiding nasty surprises.

Finally, there can be a false sense of precision with poll results. Hard numbers are comforting: the complexity of interrelated and shifting factors is exchanged for a nice, clear metric. Many an investor has come a cropper by relying on reported numbers without taking into account the estimates and judgments that lie behind them.

The truth is that reality is messy. As the use of big data and artificial intelligence in performance management grows, we need to maintain a healthy scepticism about what it really tells us. Simple metrics of corporate performance should be treated with a great deal of caution and tempered with clear-headed insights into less measurable factors such as vision, leadership and culture. Otherwise, the illusion of certainty may leave you flat-footed.

Vanessa Richards is a corporate communications and governance consultant in Australia.
One size doesn’t fit all

Africa’s plastics industry will have to innovate rather than imitate to generate regionally appropriate solutions for coping with the recycling challenge, says Alnoor Amlani

Kenyan CEOs in the plastics industry along with a delegation from the Kenya Association of Manufacturers visited Denmark earlier this year to observe the latest technologies and approaches to plastics recycling. Denmark will recycle just over 200,000 tons by 2025 – almost 2% of the EU’s overall recycling target of 10 million tons of plastics. That is quite an achievement for a small country that leads by example in the way it collects and manages plastic waste.

In support of the global call by the United Nations Environment Programme to clean up the oceans, 34 African countries have now banned or introduced heavy taxes on plastic bags; 31 of them are in sub-Saharan Africa – the poorest region in the world.

An estimated 270,000 tons of plastic are produced in Kenya annually, solely for packaging. Only about 50,000 tons of that – 15% – is recycled, mainly because there is no good system of collection and sorting in place.

The situation is similar in many African countries, which poses big questions for the continent’s well-established plastics industry. Some of the large corporations involved have been in business for half a century, employ thousands of people and are listed on the major African exchanges. But many are experiencing lower profitability and stock prices than their counterparts in developed markets. The trailing 12-month price/earnings ratio for the industry is 13.45 in South Africa, for example, compared with 17.07 in Denmark.

Innovation will certainly be required to ensure Africa’s plastics industry can cope with the change that is coming while continuing to grow and profit. African industry executives recognise this and have already begun exploring best practice in recycling and producing biodegradable plastics that do not affect the oceans or land quality.

But unlike IT innovation, industrial innovation almost always begins in developed markets and is usually relatively expensive to deploy in smaller African markets – for which it may not always be appropriate anyway. For example, plastic waste in Denmark is collected and sorted by robots; in Africa this would make less sense given the high levels of unemployment.

Also, behaviour change is more effective at reducing waste. Danes, for example, use an average of four plastic bags per person per year, whereas Americans use one per person per day. Plastic bottles are the next recycling priority because of their proliferation and effects on the environment. Coca-Cola has announced that it intends by 2030 to be recycling 70% of the 250 million plastic bottles a year it makes in sub-Saharan Africa. It has already set up a recycling plant in Uganda.

Johannesburg-listed plastics company Nampak recently revealed plans to develop aluminium tins and paper cartons as an alternative to plastic bottles for the drinks market. With South Africa currently consuming 600 million plastic bottles a year for water alone, it’s innovation that can’t come soon enough.

Plastic waste in Denmark is sorted by robots; in Africa this would make less sense given the high levels of unemployment.

Alnoor Amlani FCCA is a director with the CFOO Centre in Nairobi, Kenya.
A place at the table

With their connections, insights and knowledge, accountants are ideally placed to help close the global infrastructure gap, says ACCA president Robert Stenhouse

Infrastructure is critical for economic and social development around the world – from the transportation networks that enable people and goods to move around safely and effectively, to the utility systems providing power and services essential to survival. These systems and processes rely heavily on investments and funding. They also rely on something that is perhaps less tangible: connections.

Our global research report with Chartered Professional Accountants Canada, How accountants can bridge the global infrastructure gap, is our focus in this issue of AB (see page 36). The term ‘global infrastructure gap’ is a means of identifying the difference between infrastructure investment needed and the resources available to meet that need. In 2018 alone, the investment gap increased by over US$400bn, and it is set to grow to a staggering US$14 trillion by 2040.

Our report surveyed 3,611 professionals across 118 countries, who identified three major barriers to meeting infrastructure needs in their countries: 52% cited a lack of political leadership; 49% quoted a lack of finance or funding; and 40% said it was down to planning and regulatory barriers.

Not only do we gauge opinions about the challenges and opportunities ahead; we also offer recommendations to close the gap. For example, governments should enforce effective whistle-blowing legislation and professionalise the public sector finance function to allow public servants to challenge unethical behaviour that can disrupt projects.

Accountants have the power to close this gap. Our connections, insights and knowledge mean we are ideally placed to advise on the distributional impact and regional growth outcomes of selecting particular projects, which is crucial to achieve a better, more sustainable future.

Our theme for July, August and September is the power of connections – from networking and establishing partnerships when setting up a small business, to the future of global trading. ACCA’s reach and global footprint means we can work together to close gaps across a range of other areas – such as mentoring, advocacy and fostering great business relationships.

There’s a power and indeed a responsibility in all this that is often overlooked. But these connections and our ability to forge them need to be recognised and celebrated, and this ‘connected’ edition of AB gives us all a chance to really think about the connections we have, to review and reassess where the gaps are and invest in change where necessary.

Robert Stenhouse is ACCA president and a director, national accounting and audit, at Deloitte in the UK.
The view from

Olga Kuznetsova FCCA, director of financial planning and reporting, ICBC, and ACCA Canada’s Advocate of the Year

The accounting profession has fascinated me since my university days. I started out in audit with KPMG in Kiev, Ukraine, and stayed with the firm when I emigrated to Vancouver, Canada. After more than a decade with the Big Four firm, I moved into the healthcare sector, where I was a director of financial reporting. After five years I made another big switch, to the insurance industry. My current role is director of financial planning and reporting at the Insurance Corporation of British Columbia, one of Canada’s largest car insurance companies.

I lead a team of 25 professionals. I work closely with the executive team, the board and the government on implementing our strategic priorities.

ICBC provides car insurance in a competitive market as well as non-insurance services. I believe that the interests of our customers must be at the forefront of our minds, and every decision considered through the lens of the impact on all British Columbians.

The insurance business is complex and subject to significant volatility. In this environment, the finance function has to be agile and quick thinking; it must be on the leading edge of change and look beyond the numbers.

I greatly enjoy collaborating with other leaders, engaging with my teams and seeing the pride they take in their work. Accounting and finance is far more than just the numbers. It’s the glue that binds business decisions and the corporate strategy together.

The ACCA Qualification is a critical success factor in my career. It has opened many doors for me. Over the years my mentors made me realise that, truly, the sky is the limit. My biggest achievement is my reputation – my personal integrity, reliability, knowledge and resiliency.

Over the years my mentors made me realise that, truly, the sky is the limit.

Outside of work, I find great satisfaction in volunteering and am a member of the ACCA Canada network panel. This is my way of giving back to the organisation that has been the foundation of my success. I was honoured to be voted ACCA Canada’s Advocate of the Year in 2018. I’m also an avid gardener and aspiring home chef, and enjoy creative pursuits, such as dance and fashion design.

Leaders’ pay soars

Senior corporate leaders in the US benefit from pay increases at twice the rate of other workers, according to the annual Equilar survey for The New York Times. The highest paid US executive last year was Elon Musk, who was awarded a US$2.3bn package, substantially more than any other US executive. Second was David M. Zaslav, CEO of entertainment channel Discovery, at a more modest US$129.5m. Newly appointed chief executive of cybersecurity provider Palo Alto Networks, Nikesh Arora, was reportedly paid US$125m, while Oracle co-chief executive Safra A. Catz was the highest paid woman, at US$108m.

Execs not managing risk

Most senior executives admit that operational risk events affect shareholder value, but few use advanced technologies to manage it, according to a Deloitte survey. Only 40% of polled executives use advanced analytics to manage operational risk and a mere 6% use emerging technologies such as cognitive computing and machine learning. What’s more, 39% of respondents said their risk teams offered only backward-looking analyses and reports on operational risk.

Source: 2019 Deloitte Millennial Survey

55% of millennials globally believe that businesses have a positive impact on society – compared with 61% in 2018.
Agreeing new transfer pricing rules for a world of global business and tax-hungry nations is a fiendishly tough juggling act, says the man responsible, Tomáš Balco FCCA

The rules on transfer pricing for transactions between different members of a multinational enterprise (MNE) group have a dual objective: to protect national tax yields and to prevent corporate double taxation. The rules have evolved over the past 100 years and have recently come under heavy pressure from the growing integration and interconnection of the global economy and tax jurisdictions.

The Organisation for Economic Co-operation and Development (OECD) has been the leading institution in the process of developing the rules and assuring their consistent use and application globally. It is currently working on the drafting of new guidance on financial transactions to align global practice and establish a common approach. Driving the initiative is a team of experts led by the head of the OECD’s transfer pricing unit, Tomáš Balco FCCA, formerly head of the international tax division at the Slovak Ministry of Finance.

He is optimistic that the project, attempted several times in the past, will be successful this time, and that the guidance will deliver on the twin objectives of preventing double taxation and reducing the risks of tax base erosion and profit shifting in this area.
He acknowledges that the arm’s length principle may not provide sufficient protection against all the profit-shifting risks that may arise. For example, where one subsidiary of a group is overcapitalised and another undercapitalised, the former could lend or guarantee capital to the latter, generating tax-deductible interest payments or guarantee fees. The remaining risks, which may not be effectively addressed by transfer pricing rules, may require special measures – such as those based on the recommendations found in Action 4 of the OECD’s Base Erosion and Profit Shifting (BEPS) project, which provide for limitations of interest deductibility.

Whether the new guidance will be finalised soon remains to be seen, but it is clear that MNEs may need to revisit and develop intragroup policies to head off ambiguity over how tax authorities interpret their intragroup financing transactions.

Consistent approach
Balco and his team have been putting in the hard yards not only to reach agreement on the new guidance with jurisdictions but also to assure consistent application of the existing rules. He cites Brazil as an example of a jurisdiction that currently does not follow the OECD guidelines: unlike other major economies, it has comparatively simple transfer pricing rules, with no comparability analysis, no special rules on intangible property and hardly any rules on intragroup services, and it provides for fixed profit margins, which may actually diverge from economic activity. ‘We’ve started a policy dialogue project between Brazil and the OECD to see what the effects of differences between the rules are, and how we can bridge these gaps,’ he says. Some countries started to introduce unilateral measures to address the remaining challenges in transfer pricing – whether from BEPS concerns or to target digital business models. ‘You could argue the pros and cons of the arm’s length principle, but it has been embedded in the transfer pricing rules in the vast majority of countries around the world and also in other frameworks such as accounting,’ Balco points out. ‘If countries start applying unilateral measures that don’t follow international standards to address those remaining challenges, this could create double taxation or double non-taxation. This is not a desired tax policy outcome.’

Addressing the particular issues posed by digital business is a key priority for the OECD, and Balco says it is making progress. Earlier this year, its 129-member Inclusive Framework on BEPS released a policy note and a public consultation document on the proposals under consideration.

Following the public consultation, in May the Inclusive Framework agreed a work plan to transform these proposals into a consensus-based solution by 2020. ‘Reaching consensus will be challenging,’ says Balco. ‘But there is value in agreeing and adhering to common international standards and principles. It prevents chaos in form of unilateral and uncoordinated measures, which may disrupt international trade and investment.’

Emilie Boyer King, Keith Nuthall and Philip Smith, journalists

The transfer pricing guidelines
The OECD first published guidance on transfer pricing in 1979, issuing a substantially revised version in 1995 as the OECD transfer pricing guidelines. These guidelines contain comprehensive guidance for tax administrations as well as multinational enterprises on the pricing of transactions carried out within MNE groups. The guiding arm’s length principle is that transactions are priced and accounted for in a way that independent enterprises would have agreed to in an open market.

The most recent edition of the guidelines, issued in 2017, incorporates the outcomes of Actions 8, 9 and 10 as well as Action 13 (transfer pricing documentation and country-by-country reporting) of the OECD’s Base Erosion and Profit Shifting project. It was recognised then that follow-up work would be needed on the transfer pricing aspects of financial transactions as well as other areas, hence the OECD’s current work on new guidance.

The new guidance will seek to take on board the results of the public consultation on the discussion draft, published in July 2018, and address issues relating to the pricing of financial transactions made within MNEs involving the treasury function, intragroup loans, cash pooling, hedging, guarantees, captive insurance and other special arrangements existing only between related MNE parties, as well as the accurate delineation of financial transactions – areas that have arguably been open to exploitation by MNEs to gain a tax advantage.

‘If countries start applying unilateral measures, that could create double taxation or double non-taxation’
Growth springs eternal

Mature companies may lack the vaunted agility of startups but some have achieved remarkable growth figures. Tobias Kutzewski FCCA and Surja Datta ask how they do it.

Growing a company is a challenge. To some fortunate startups and companies in thriving markets, it may come naturally, as part of a rising tide. But how can a mature company in a saturated market grow profitably?

This question inspired our research on the growth factors of manufacturing companies in mature markets. Based on an annual league table published by corporate finance adviser CFI Netherlands (you can find the 2018 list at bit.ly/CFI-2018), we identified a group of manufacturers in the Netherlands that have enjoyed annualised average growth of almost 9%. These companies have achieved extraordinary levels of turnover and profitability (based on annualised average EBIT and the return on invested capital).

These results are even more remarkable given that they were achieved during the early 2010s, in the aftermath of the sub-prime financial crisis. While the rest of the Dutch economy stood pretty well still, with an annualised industry growth rate of 0.84%, our selected companies clearly did not accept limited growth prospects as a given, posting average growth of 8.9%.

To find out how companies grow, we took a two-step approach. First, we interviewed advisers and private equity investors with experience of mid-market companies to find out what they perceive as relevant growth facilitators. Second, we developed six detailed business cases from interviews with senior executives and management team members and publicly available data on high-growth manufacturers.

Three drivers

We expected our research to reveal three general drivers for achieving growth: innovation, internationalisation and leadership.

We separated innovation into three categories: product, process and organisational. An example of product innovation is a new and advanced product within an existing production line; process innovation relates to changes in the production process; and we defined organisational innovation as strategic alliances, joint ventures and outsourcing.

We separated internationalisation into global production and international...
sales activities. Leadership was separated into two variations: the behaviour of an individual key executive, and the collective behaviour of a group of senior executives.

The advisers to mid-market companies and private equity investors who we interviewed stressed the importance of product innovation in achieving growth. This should come as no surprise, since manufacturing companies in general are product-driven. Some companies may provide additional services, but production capabilities dominate their business model.

External advisers generally emphasised the potential benefits of organisational innovation, such as the development of new business models and improvements in production processes – a strategy that found little support among the manufacturing businesses in our case selection.

Advisers and investors agreed that an internationalisation strategy involving countries in close geographic proximity was frequently used. However, little evidence emerged that cultural proximity plays any significant role when considering markets for expansion.

The senior executives of high-growth manufacturing businesses differed in two significant ways about how they thought growth could be achieved. First, although they agreed that product innovation is pivotal in growth, they saw process innovation principally as a cost-cutting response to price competition – a move that becomes relevant only under external market pressure.

Second, they identified internationalisation as important to growth, primarily through increased sales activities in geographically close countries and after careful analysis of market entry conditions.

Business advisers and investors generally emphasised the importance of leadership capabilities in achieving growth. Company executives, however, stressed the relevance of collective efforts and general market conditions. The combined efforts of the company tend to come together eventually under favourable conditions. It seems that where preparation meets opportunity, executives understand that a little luck truly helps a company’s growth ambitions.

Untapped areas of growth
Surprisingly, the research uncovered areas for further growth that remained untapped. Organisational innovation, expansion into countries with strong cultural similarities and developing leadership capabilities beyond the level of the executive team were all identified as avenues for further growth.

One senior executive described his company’s efforts as ‘a continuous struggle with the idiosyncratic nature of growth’. Achieving growth through a set of distinctive tools is not a certainty but, with careful monitoring and orchestration, it is possible.

Coordinating growth is not a leadership task performed in isolation. Our research reveals that to be successful it needs to be orchestrated across multiple levels of a company. Production, sales, research and development and finance need to coordinate their efforts to maximise the likelihood of success.

Where growth is achieved from more than one source, this coordination of efforts forms a natural arena for the finance department to contribute its particular skills and abilities.

As our research shows, a detailed growth strategy is not a prerequisite for growth. Some high-growth companies do not follow any growth agenda. However, all companies in our research perceive and address the need to define and carefully monitor any potential growth paths and to align efforts where necessary to new business opportunities.

The doom myth
High-growth companies have always fascinated practitioners and scholars alike. Jim Collins and Verne Harnish, for example, have explored company growth and the scaling of businesses in depth. And as far back as 1959, in her book *The Theory of the Growth of the Firm*, Edith Penrose declared she had found no evidence for the assumption that a growing company is doomed ultimately to develop into an unmanageable behemoth.

Our research extends this view. Coordination of company activities and resources may even contribute to efficiency and profitability when performed as part of a structured monitoring framework – a strategy that ultimately involves all organisational levels and facilitates the exploitation of new growth paths. Growing a company remains a challenge, but it is, we believe, a manageable one.

Tobias Kutzewski FCCA is an interim manager and part-time researcher in entrepreneurship at Vrije Universiteit Amsterdam. Dr Surja Datta is a senior lecturer and researcher at the Business School of Oxford Brookes University.
Viva l’Italia

TMF Group, in association with ACCA, looks at how Italy’s diverse economy presents many opportunities to businesses looking to invest in Europe.

Italy is the fourth biggest economy in Europe, with a population of around 60 million. While famous for its luxury fashion sector, Italian agriculture, ceramics, food, manufacturing, renewable energy and tourism also make it an attractive destination for companies that are looking to expand their operations into new markets.

The first thing you need to be aware of when setting up a business in Italy is the country’s regional diversity. This not only includes accent and cuisine, but also the economic activities taking place across the country. The north and centre of Italy have world-renowned industrial manufacturing facilities; the south is a hotspot for agriculture and tourism. Regional variation is also evident in education, healthcare and regulation.

As Italy is an EU member state and benefits from the customs union, goods can be moved freely between it and other EU members. Customs duty is applied to goods imported from outside the EU. At 24% Italy’s corporation tax rate is lower than most of the other G20 countries. However, businesses are subject to a regional production tax known as imposta regionale sulle attività produttive (IRAP), which has a standard rate of 3.9%, but can vary according to region and the nature of the business.

Real estate draw

For businesses looking to invest in Italy, real estate values are a significant draw. Residential, office, retail and industrial real estate prices are still below what they were at the market peak of 2005–06, according to PwC’s 2018 real estate market overview. The fact that transaction levels have not fully recovered from the financial crisis, although they are growing and accelerating, means that banks are willing to finance both companies and individuals. As a result, opportunities exist for companies looking to invest in hotels in tourist destinations, offices and manufacturing premises.

Infrastructure presents further opportunities for overseas investors looking to enter the Italian market. Following the collapse of a motorway bridge in Genoa in 2018, Italy plans to invest in infrastructure, with the aim of making motorways, bridges and schools safer. It has also agreed to cooperate with China on its global infrastructure plan, the Belt and Road initiative. This ambitious project aims to tie
Top tips for doing business in Italy

1. Be strategic. Before you start a business in Italy, find out if there is a market for your product and the workforce you need to be successful. Meet with potential customers, suppliers and partners.
2. Find out about any immigration restrictions that may affect your ability to relocate key staff.
3. Make sure you understand the tax considerations, especially on transfer pricing.
4. Shake hands with everyone, when you meet and when you say goodbye. Remember that Italians will often greet people they know with a warm embrace.
5. Learn some Italian. It shows you are serious about doing business in the country and want to learn more about the local culture.

Some turbulence

The past decade has been comparatively turbulent for Italy. It suffered a deep recession in the wake of the financial crisis, with GDP shrinking by 5.5% alone in 2009. Despite the country’s efforts to get back on its feet economically, GDP is expected to grow by just 0.1% this year, according to the International Monetary Fund. Italy has the highest proportion of public debt to GDP in the eurozone after Greece.

Italy is wrestling with political uncertainty. A populist coalition government formed following the general election of 2018 has been in almost constant conflict with the EU about the national budget deficit, prompting concerns that Italy may end up leaving the eurozone. The government has also brought in controversial immigration policies.

In addition, Italy is facing a skills and an unemployment crisis. According to a recent study by Confindustria, an Italian employers’ federation, a lack of skilled workers will result in 193,000 unfilled job vacancies between 2019 and 2021 in the food, technology, mechanical, textile, chemical and wood-furniture sectors. Meanwhile, the country has a comparatively high unemployment rate of 10.7%. The problem is much greater in the south than in the north. In 2018, the southern regions of Calabria, Sicily and Campania all had unemployment rates above 20%. By contrast, the unemployment rate in the northern border region of Trentino-South Tyrol was just 3.8%.

Other challenges to doing business in Italy include its complex bureaucracy and regulations, slow judicial system and well-publicised problems with corruption.

How to succeed in Italy

Like any other market, Italy presents business opportunities and challenges. However, the opportunities far outweigh the challenges. Companies can increase their chances of success by conducting thorough research into the area of Italy where they want to invest and taking appropriate professional advice. There are valuable tax incentives, including the patent-box regime, which provides corporation and regional tax exemptions on income from activities that make direct use of the qualifying intellectual property. Taken as a whole, Italy has plenty to recommend it as an investment destination and is very much open for business.

Roberto Bisi, TMF Group

Regardless of sector companies can usually derive huge value from being able to draw on the powerful ‘made in Italy’ brand.
Redressing inequality

As OECD statistics confirm the growing inequality between the world’s richest and poorest, how far can a well-designed tax system be used to redress the balance?

Taxing the wealthy is back on the agenda in many parts of the world, reflecting rising concerns over inequality. In the US, several high-profile Democrats have expressed support for measures to raise extra revenue from the rich. Member of Congress Alexandria Ocasio-Cortez wants to hike the rate of income tax to 70% for those earning over US$10m a year, while presidential contender Elizabeth Warren has proposed a ‘wealth tax’ for people with assets of more than US$50m. Across the Atlantic, the UK Labour Party’s platform includes a proposed rise in income tax on top earnings, higher taxes on capital gains and tightening the inheritance tax regime.

The average disposable income of the richest 10% of the population is now around 9.5 times that of the poorest 10% across the Organisation for Economic Co-operation and Development (OECD) nations, up from seven times 25 years ago. The disparity in the stock of wealth is even more pronounced, with the top 10% holding half the wealth and the bottom 40% holding just 3%.

‘Such inequalities risk entrenching privilege among the rich, reducing social mobility and corroding the political system,’ says Robert Palmer, executive director of Tax Justice. ‘A fair tax system can help redress the balance.’

Yet designing a tax system that redresses inequality in wealth poses both political and economic difficulties. ‘It is not easy to forge a consensus on how much of the burden should fall on the rich and how to give to the poor,’ says Dan Powers, global head of tax at Grant Thornton International. ‘The challenge is to raise revenue with the greatest efficiency, while minimising adverse economic side effects – like discouraging work or investment.’

Balance is the key to achieving this goal, he adds, since all forms of taxation have different drawbacks. Governments seeking to raise contributions from the well-off have four main options to choose from: taxes on high earnings, taxes on the stock of wealth, taxes on the transfer of wealth through generations, and taxes on the returns on wealth – such as capital gains, dividends or corporation tax.

So, what are the pros and cons of various ways of taking from the rich to give to the poor?

* Raise income taxes on high earners. This can be the easiest form of redistribution to explain politically, since most people pay income tax. However, it is not typically the best way of extracting more revenue from the rich. ‘This is because much of the reason for rising inequality has come through increases in wealth through investments, not earnings,’ explains Michael Förster, an OECD economist who focuses on inequality. For example, in the UK, the stock of wealth is now seven times larger than the annual income of workers – up from three times in the 1970s. The distribution of wealth is now significantly
In the US, presidential contender and Democrat Elizabeth Warren has proposed a wealth tax on people with assets worth more than US$50m.

more unequal than the distribution of income. This point was recently underlined by Microsoft founder Bill Gates, who argued that raising marginal income tax rates was a ‘misfocus’, since returns on investment were a bigger generator of wealth. OECD governments have tended to agree; the average marginal rate of tax on high earners has fallen from about 65% in the 1980s to 42%.

* Wealth tax. The idea of taxing the stock of wealth through a ‘wealth tax’ has been declining in popularity. The main reason is that assessing individuals’ net worth is not straightforward, says Chris Morgan, head of tax policy at KPMG. ‘The wealthy often hold illiquid assets that can be complicated to value – from art and antiques to private equity stakes and land,’ he says. Auditing such estates can be a bureaucratic headache, with tax returns reaching several feet high and valuations subject to endless debate. As a result, only three of the 36 OECD nations now levy a wealth tax, down from 12 in 1990. France eliminated its wealth tax in 2017. But there are forms of taxation on the stock of wealth that are more efficient. Taxes on property and land are less burdensome to collect and less susceptible to avoidance strategies. Unlike capital, this form of wealth is immovable. Morgan sees particular merit in taxation on land, since it does not penalise owners who make improvements to their property – thus boosting its taxable value.

* Inheritance tax. Inheritance taxes (IHT) are much maligned. A 2015 poll in the UK found that 59% of respondents opposed levying an inheritance tax, making it the nation’s most hated tax. This is despite the fact that only 4% of estates in the country were subject to IHT last year. A wide range of exemptions – including assets on agricultural land and unlisted shares – mean that the very richest generally end up paying little. But inheritance tax can be a highly effective means of limiting the power of wealthy dynasties. David Willetts, executive chair of the Resolution Foundation, argues for replacing inheritance tax with a ‘lifetime receipts tax’ – with each person getting a £125,000 (US$158,722) lifetime tax-free allowance for gifts and inheritances and paying a relatively low rate on anything above that.
* Taxes on the generation of wealth. These tax capital gains, dividends and other investment income. ‘Rates of taxation on capital in particular have declined since the 1990s in rich nations, which has contributed to making tax systems less redistributive,’ says Förster. This has partly been driven by a desire to encourage investment, along with the fact that capital can flee high tax countries. The wealthy have also benefited disproportionately from a fall in the average corporate income tax rate across the OECD from 32.5% in 2000 to 23.9% in 2018, since they typically have more extensive investments. But the balance may now have shifted too far away from taxes on wealth creation, argues Palmer. While taxing the rich involves tough choices, so does boosting the income of low earners. Simply cutting taxes is usually not the answer. The simplest approach is cash transfers. This appears to have worked well in Brazil, through the Bolsa Familia Program, which was introduced by President Luiz Inácio Lula da Silva in 2003 and contributed to a 27% fall in poverty. And despite criticism that it discourages work, studies by the World Bank found no evidence that this is the case.

This approach, however, would be unlikely to gain political traction in many richer countries. ‘A key challenge for governments is to assist lower income groups without discouraging them from work,’ says Förster. This can often be best achieved through in-work benefits – refundable tax credits that can be gradually phased out as wages rise.

A well-designed tax system does have the potential to reduce inequalities. But it is not the only tool that governments should use to foster a fairer society, argues KPMG’s Morgan.

‘Inequality can be exacerbated by a range of problems, from flaws in employment law and union representation, to poor lifetime training opportunities for displaced workers,’ he says. ‘Redesigning the tax system should not be a substitute for asking tough questions about how the broader economy is working.’

Dijana Suljovic, journalist
Beware of the buyer

Consumers’ embracing of technology has given them the digital tools to bestride the global economic chain and dictate the terms of trade with businesses.

Customer satisfaction alignment
Companies should measure return on customer experience (ROX) as well as return on investment, says PwC, to help them understand their earnings on investments in the parts of the company directly related to how people interact with the brand. The firm’s research has found that consumers are putting digital at the centre of their lives, and acquiring tools that let them demand a tailored, channel-agnostic and social media-powered experience. Companies delivering superior consumer (and employee) experiences are able to charge a premium of up to 16%.

Purchasing’s online pull
Consumer behaviour is increasingly digital-focused, with online shopping becoming a more regular default.

How often consumers buy products online

- Daily: 6% (+2 percentage points)
- Weekly: 25% (+3pp)
- Monthly: 36% (+1pp)
- Few times a year: 23% (~2pp)
- Once a year: 3% (unchanged)
- Never: 7% (~3pp)

Mobile-first for payments
Mobile payment services are gaining widespread acceptance, especially in emerging economies. Globally, 34% of consumers paid for purchases in-store in 2018 by using their smartphone or mobile, up from 24% a year earlier.

Growth in mobile payments is highest in emerging economies

Financial sector struggles
The need for personalisation and explanation makes it hard for financial services to acquire customers online.
Could finance professionals be the key to filling a potential US$14 trillion global infrastructure gap set to appear by 2040? That is the premise of a recent joint research project from ACCA CPA Canada.

The report, How accountants can bridge the global infrastructure gap, argues that finance professionals are best equipped not only to measure the gap – and there are a number of ways to do that – but also to reduce it so that everybody can enjoy the benefits of a well-planned, well-designed and well-built infrastructure system, wherever in the world they are.

The report calls on finance professionals to help remove the barriers to closing the infrastructure gap. They need to be on
the team when projects are selected, when they are financed, when they are built and when they are operated. The report points out: ‘The particular skills and perspective of the finance professional can mean the difference between success and failure.’

Often described as the plumbing that makes economies and societies work, infrastructure provides the foundations on which entrepreneurs can build their businesses and people can live their lives. Where would we be without road and rail networks, without energy and water supplies, without means of communication? But equally, where could we be if all these areas, and more, provided better, more reliable and more easily accessed services and support?

This insight is the driving force behind the report, which defines and investigates the infrastructure gap, analyses the causes behind the gap, and then sets out a way forward, one in which the finance professional will be key.

Two approaches
First, the definition. The term ‘global infrastructure gap’ refers to the difference between the infrastructure investment that a country needs and the resources that are made available to address that need. The report suggests two possible approaches to understanding the global infrastructure gap: a notional, quantifiable investment gap, and a subjective, needs-based service gap. Together, these approaches establish the size and nature of the overall challenge that frames this report.

In the first approach, the infrastructure investment gap is the difference between what is actually spent on infrastructure and an aspirational target that governments would like to spend to improve infrastructure in their country. The smaller the gap, the better the performance, runs the argument.

In the second approach, the infrastructure service gap focuses on what a country aims to achieve through the development and maintenance of its infrastructure. It moves away from a notional investment figure and looks at needs instead.

It is more qualitative – and therefore subjective – approach.

‘Finance professionals are well placed to not just measure these gaps but also provide a discipline throughout the life of an infrastructure project so that the gaps can be reduced,’ says Alex Metcalfe, the author of the report.

The big barriers
The report highlights major barriers to meeting service needs and reducing the investment gap. The big barriers identified by ACCA and CPA Canada members (see graph below) include lack of political leadership (52%), lack of finance or funding (49%), and planning and regulatory barriers (40%).

A lack of political leadership affects a country's ability to select projects, a lack of finance and funding clearly impedes

The particular skills and perspective of the finance professional can mean the difference between success and failure’

Biggest barriers to meeting infrastructure needs

- Lack of finance or funding
- Lack of political leadership
- Skills and talent shortage
- Planning and regulatory barriers
- Corruption
- Lack of competition
- None

Source: How accountants can bridge the global infrastructure gap; all respondents (3,611)
the effective financing of projects, and planning and regulatory barriers speak to the interface between the public and private sector in the delivery of infrastructure. The report argues that finance professionals can play a vital role in breaking down each of these barriers.

The survey reveals regional variations, although the underlying themes remain the same. For example, corruption is seen as a particularly serious challenge in South Asia, Africa, Central and Eastern Europe, and the Caribbean, but was cited by 10% or fewer of respondents in North America and Western Europe. In comparison, a lack of political leadership ranks consistently high as a barrier across the world.

Yet the research found that all too often the finance professional is the missing member of the infrastructure project team. In too many cases, the harm has been done before the accountant is brought in.

‘By involving finance professionals from the very beginning, costly mistakes can be avoided,’ says Metcalfe. ‘This means asking the finance professional to provide the necessary discipline even before a project has been selected. Accountants can put numbers on ideas and concepts, by applying a consistent methodology to ensure they are evaluated against other options for meeting policy goals.’

Once a project has been selected, accountants can then cast a critical eye over the financing options, ensuring financial sustainability and viability, and taking a holistic, total lifecycle view of the project. And when it comes to the delivery phase, accountants are well placed to provide the crucial financial oversight to ensure that the project is successfully commissioned.

Action plan
CPA Canada and ACCA tested these views with a series of roundtable discussions across seven countries – Canada, Jamaica, Malaysia, Nigeria, Sri Lanka, Trinidad and Tobago, and the UK. The discussions helped in the formulation of an action plan to ensure finance professionals do not remain the missing member of the infrastructure team, but play a central and vital role. The plan sets out the following key steps to promote the inclusion of finance professionals on the infrastructure team:

* Increase awareness of the accountant’s qualifications as a strategic business adviser and as an essential member of the professional infrastructure team, alongside the engineers and architects.

* Enable accountants to voice arguments that are compelling to political leaders and to the general public.

* Offer elected officials the opportunity to gain financial training from accountants so that they understand the true costs of an infrastructure project and are better equipped to act as financial ambassadors.

* Establish an accountant-informed certification process for project selection.

* Develop and implement clearer governance structures and decision-making processes that involve the finance function.

* Institute whistleblower protection legislation for accountants internationally.

Get these steps right, and the finance professional will be in a perfect position to help reduce that US$14 trillion infrastructure gap. Fail to do so, and that gap could very easily stretch even wider.

Philip Smith, journalist
Tricks of the trade

As the US tariff war with China ratchets up, other nations are keeping the free trade faith and forging commercial alliances that scrap tariffs on imports and exports.

Today’s global trade landscape has some contrasting features. On the one hand, the US is displaying increasingly protectionist tendencies, exchanging blows with China in the form of rising import tariffs and apparently set on frustrating the activities of the World Trade Organization (WTO), which sets the trade rules. On the other, free trade agreements are proliferating.

‘The US has moved away from trade blocs to purely bilateral approaches to maximise leverage,’ says Stephen Woolcock, associate professor of international relations at the London School of Economics. ‘After Trump this may change, but is likely to be replaced by a greater emphasis on pluralistic approaches, in which the US will seek to negotiate with like-minded countries.’

Meanwhile, the UK may (or may not) be about to leave the world’s largest free trade bloc – the European Union. One of the drivers for that departure is the UK’s desire to strike its own trade agreements. ‘Brexit is unlikely to result in protectionism in the UK – more likely the opposite,’ Woolcock says.

Trade blocs and free trade agreements in most regions of the world are still developing. ‘Generally, preferential trade agreements will become more important as other countries seek to keep the trading system functioning despite US and Chinese disruption,’ Woolcock says.
Friction-free: regional non-tariff blocs
Most of the world is now divided up into a mosaic of often overlapping trade blocs. They range from preferential trade agreements and free trade areas to customs unions and full-blown economic and monetary unions.

**EU**
The European Union has a single internal market of 28 countries, with no tariffs, quotas or taxes on trade, allowing free movement of goods, services, capital and people. It also has the largest web of preferential trade deals worldwide – around 70.

**CPTPP**
The Comprehensive and Progressive Agreement for Trans-Pacific Partnership covers 11 countries in Asia Pacific: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. The agreement has been signed by all countries, although four (Brunei, Chile, Malaysia and Peru) have yet to implement it. Once CPTPP is fully operational, 99% of tariff lines among members will be duty-free.

**AFTA**
The initial agreement on the Association of Southeast Asian Nations Free Trade Area was signed in 1992. The six original members (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand) were subsequently joined by Cambodia, Laos, Myanmar and Vietnam. The bloc has removed most export and import duties on goods traded between members and has struck deals with other nations, including China.

**USMCA**
The US-Mexico-Canada Agreement is an updated (signed, but not yet ratified) version of the 1994 North American Free Trade Agreement (Nafta) between the same countries. Changes include tighter country of origin and labour rules for cars, and new provisions for the digital economy (eg duties are prohibited on e-books).

**Mercosur**
The Southern Common Market is a customs union and free trade area with four full members: Argentina, Brazil, Paraguay and Uruguay. Member countries have agreed to the free movement of goods and services between each other, and citizens have the right to work in Mercosur countries without a visa.

**TFTA**
There are numerous free trade zones in Africa, but the biggest (prior to AfCFTA) is the Tripartite Free Trade Area. Agreed in 2015, it has 27 member countries stretching from Egypt to South Africa, and a combined GDP of more than US$1.5trn.
For example, the world’s biggest ever free trade agreement – between the EU and Japan – came into force in February. It covers 635 million people and almost a third of the world’s economy. In addition, 11 countries (see box) have formed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), despite the US pulling out. Phil Brown, senior trade adviser at PwC, suggests that the initial objective of most participating nations was to gain access to the US market. ‘The fact they took the decision to go ahead anyway is a strong signal [in favour of global trade deals],’ he says.

Another 16 countries (including China, Japan and Australia) are trying to reach agreement on the Regional Comprehensive Economic Partnership (RCEP) this year. ‘If that happens it will be a truly mega deal,’ says Brown. ‘China has not been in a big regional trade agreement before. Previously most trade deals have been anchored around the US or the EU, so this would represent a geopolitical shift towards the China market.’

Meanwhile, after 22 countries ratified it (another 27 intend to), the Africa Continental Free Trade Area (AfCFTA) agreement came into force on 30 May this year. Members are required to remove tariffs from 90% of goods, but much work remains to be done before goods and services will actually cross borders tariff-free under the new regime.

Revenue loss
Marc Bunch, partner and leader of EY’s global trade team, says there is ‘a lot of positive noise’ about AfCFTA, but warns that countries can find it difficult to deliver on their free trade commitments. One reason for the difficulties in implementing agreements is that customs duties remain important revenue generators for many developing countries, with customs officials setting performance targets even as governments agree to drop duty rates. ‘So you tend to find that customs officials, at least initially, tend to react quite negatively,’ Bunch says. ‘In terms of enforcement, if you have not dotted an i or crossed a T, they will deny you the benefits of the agreement. It also takes a while for an agreement to mature and interpretations to be understood.’ He says it can take up to five years before businesses can confidently look at making strategic decisions based on a new free trade agreement.

Traditional free trade agreements have also tended to focus on eliminating tariffs, without properly tackling non-tariff barriers such as regulatory requirements. However, tariffs account for a relatively small proportion of total trade costs – perhaps only 10%. ‘Tariff levels are low for most economies, so if free trade agreements are to contribute to trade growth, they will have to go deeper,’ Woolcock says.

‘Non-tariff barriers such as regulatory issues are harder to deal with in trade deals,’ Brown points out. ‘That’s because there are regulatory agencies and professional bodies with their own autonomy. There needs to be coordination.’

Services
Another challenge is that services are typically excluded. ‘Professional services is one of the fastest growing areas of global trade, but it is highly regulated by strong professional bodies,’ Brown says. ‘It’s one of the more protected areas of trade. Trade deals have made only limited progress on recognising qualifications that are fundamental to enabling cross-border services trade.’

Bunch wonders whether, in a post-Brexit world, professional services such as accountancy and the law might be covered in any free trade negotiations between the UK, Australia and New Zealand, for example. The main factor in favour of reaching such an agreement is the contrasting nature of the three economies. Australia, for example, is particularly strong in mining and agriculture, whereas the UK is services-based. ‘That means there’s not a lot of tariff conflict,’ Bunch says. ‘What they are selling to us we don’t mind having as low duty, and vice versa, so negotiating those agreements is easy.’ For the same reason, it’s more challenging to negotiate agreements where two countries are selling similar goods and have similar industries they want to protect.

As the world changes, so trade agreements will need to evolve and take into account the growth in e-commerce and rise in importance of data. ‘Potentially we are moving to a place where the value is in data more than in physical goods crossing borders,’ Brown says. ‘At the moment there are no standardised global rules around that. Ideally we would have global rules developed in the WTO and then a standardised approach that means data is given sufficient protection and the rules are clear and enforced. As soon as you have new policies and regulations developed by individual countries and agreed in small groups, you risk fragmentation.’

Sarah Perrin, journalist
Follow the tech trail

With businesses increasingly sophisticated in their use of technology, auditors need to keep pace if they are to scrutinise operations properly and offer true assurance.

What will be the human impact on auditors as technology dramatically shifts business models and how they are audited? This is just one of the questions answered in an ACCA report that investigates the impact of technology on audit. The report sets out what has changed and what will change for auditing and auditors, what the driving forces behind the technological shift are, how digital developments will affect audit, and the human impact of all these changes. The report also highlights the importance of client-side adoption of new technologies, which will have equally important consequences for how auditors carry out their work, irrespective of whether they are required to do so under existing regulations and audit guidance.

The focus of the report is primarily on the external audit, although many of the observations will be equally applicable for internal auditors. Drawing from conversations with experts in the large audit firms, clients and regulators, the report...
shines a light on the significant upheaval that technology is forcing the audit profession to face.

**Five catalysts**

The report identifies five catalysts. The first is the increase in the volume of data. Forbes estimates that 90% of the world’s data has been generated since 2016. Auditors are increasingly dependent on the latest technology to deal with this rise.

The second catalyst is the changing landscape of business models. Auditors might expect the complex audit challenges to emerge from large multinationals, but even small startup companies can have a complex, technology-based business model. So whether or not they are constrained by regulation, auditors need to adapt their processes so that they can understand the client-side technology.

Third, clients are already adopting advanced technologies such as blockchain and increasingly sophisticated data analytics. To get a clear understanding of the business, auditors need to understand the technologies behind them.

The fourth catalyst is the drive towards an audit process that is far more proactive and forward-looking. Technology promises to help create an audit that is able to answer this pressure. This ties in with another recent ACCA study, *Closing the expectation gap in audit*, which also highlights the public’s expectations from an audit, such as preventing corporate failure and assigning more responsibilities to auditors for identifying and reporting fraud. Such expectations imply the need for more forward-looking audits; expanding the use of technology could go some way to satisfying this demand.

The fourth and final driver is the well-documented shift to greater automation in the finance function on the client side – although there is an opportunity for greater automation in the audit process as well. Automation can help remove repetitive, time-consuming tasks and free up auditors to concentrate on the issues that require the application of more judgment.

Different technologies will have different impacts on audit, both in terms of the systems that need to be audited and the tools available to auditors. Much has been said and written about artificial intelligence and machine learning, and there can be little doubt that these technologies will have an even more significant effect on auditing in the future.

The report highlights other technologies as well. For instance, robotic process automation is already affecting the finance function, again helping to eliminate repetitive, time-consuming tasks. Already in place on the client side, it is set to have a wide-ranging impact on the audit side too.

Data analytics has been touted for some time as a significant contributor to the audit process, allowing the analysis of whole data sets without the need for sampling. This will create more accurate and in-depth investigations and help identify outliers, although of course only what is in the data set can be reviewed – if some transactions are simply not there, then there will still be the need for human intervention.

Deep learning (sometimes known as artificial neural networks, a subset of artificial intelligence) is also set to revolutionise audit processes. Its application goes far wider than pitching a machine against a human in a game of chess.

Natural language processing, another subset of artificial intelligence, will also allow for a greater interaction between machines and the real world. Unstructured data will be subject to greater scrutiny and again allow the removal of the human element.

**Human impact**

But the most important part of the report concerns the impact this will all have on auditors themselves. While much has been written about how auditors will be replaced by machines, the report highlights a number of areas where the auditor skillset will remain in demand.

The skillsets of auditors will change. The report expects auditors to take on far more of a project management role. Wide technological expertise will be required, but the auditor will be needed to guide and direct this expertise. A clear understanding of the technology available will be important, but a mix of skills will help create a balanced team. That said, all auditors will need to know the basics.

It should be remembered that technology, in all its forms, is still a tool. Auditors will remain in demand, as their judgment will be highly prized. The relationship between client and auditor will be key – the human element will be hard to remove.

It should also be remembered that technology will keep evolving; it doesn’t stop here. Likewise, auditors will need to be adaptable and retain the ability to change.

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Philip Smith, journalist
Getting to know you

It’s not the size of your network that matters, but how you go about nurturing relationships among your contacts. Dr Rob Yeung explores the latest research

A recent study confirmed the importance of networking in building a successful career. Researchers led by Purdue University’s Caitlin Porter monitored 371 employees over two years and found that employees who spent more time building, maintaining and using relationships with people outside of their own organisation tended to receive more job offers.

Given that the vast majority of job offers come with higher salaries, I suspect most people would judge that a desirable outcome.

However, an effective network is not merely large. Research by Rob Cross at the University of Virginia and Robert Thomas at Tufts University identified a slight inverse relationship between the size of people’s networks and their work performance.

The strength of each relationship may matter more than the sheer number of relationships when it comes to networking. It is relatively easy to go to a conference and introduce yourself to a dozen people. But weeks after the event, how many of them would be genuinely pleased to take your call or meet you for an informal drink – let alone agree to a request for a favour? High performers focus more on longer, deeper conversations with the aim of developing a small number of genuine relationships or even friendships.

Cultivating closeness

When seeking to capitalise on your network of contacts for career gain, consider that your warmth and friendliness may be more important than your skill and knowledge. In a classic series of studies, Tiziana Casciaro from the University of Toronto and Miguel Sousa Lobo from INSEAD in France collected data on patterns of collaboration in both the private and public sector. Based on their data, the research duo concluded that employees ‘consistently showed a preference for people they liked but considered mediocre at the task over competent but unpleasant people’. In other words, your colleagues may want to work with you based more on your interpersonal skills than your intellect. The implication: ensure that you build a reputation throughout your interactions with others as someone who is likeable as well as smart.

Other people are likely to seek you out for projects and advice when they enjoy your company. However, research suggests that in at least one situation, you should probably not rely too heavily on this strategy for yourself. Michael McDonald and James Westphal at the University of Texas at Austin gathered data on the advice-seeking behaviour of 241 chief executives as well as the subsequent financial performance of their companies.

When faced with poor company performance, CEOs who sought advice from either colleagues with a similar background or friends tended to achieve lower performance improvements for their companies. That suggests that people with too similar
Dr Rob’s talent clinic

Q I’ve been reading profiles of business leaders and many of them get up incredibly early in the mornings to exercise and start work. Quite a few only sleep for around four or five hours too. I changed my lifestyle to emulate theirs but I’m exhausted – it doesn’t seem to be working for me. What am I doing wrong?

A One problem with profiles of successful leaders or celebrities is that we cannot know whether any given behaviour causes their success or may just be an effect of it. Indeed, it is often implied that rising early causes people to be more successful. But it is also possible that their wealth is the cause which enables them to rise early – perhaps they can afford to hire chefs and other home help to do chores for them each evening which then allows them to go to bed early and rise early. A behaviour and success may genuinely be correlated – but not necessarily in the implied direction of the behaviour causing success.

Another issue is that just because one or even several successful people have a belief that a behaviour helps them does not mean that it will generally be beneficial. For example, I have come across more than a few leaders who believe that instilling fear and a sense of competition in employees is the best way to get high performance from them – despite much employer and business school data showing that this style of leadership is less effective than inspiring employees and creating a challenging yet positive atmosphere. People often have idiosyncratic beliefs that are not backed by facts.

Instead, my advice would be to adopt behaviours or techniques that have been shown through academic or employer research to deliver benefits for many or most people. For example, plenty of research demonstrates that most people do benefit from interventions such as mindfulness practice or writing and reflection exercises that are drawn from, say, cognitive behaviour therapy.

Tips for the top

Emotions can be categorised in more complex ways than simply either positive or negative. Negative emotions can be subdivided into low-arousal or high-arousal. Low-arousal negative emotions are characterised by low physical energy and include tiredness, boredom, sadness and depression. High-arousal negative emotions such as nervousness, guilt, irritability and outright hostility are often accompanied by a higher heart rate and more physical movement. A new University of Rochester study found that solitude was a significantly effective way of dissipating high-arousal negative states. However, it defined solitude as time away from not only other people but also devices that enable communication with others. So the next time you feel jittery or anxious, consider leaving both your colleagues and your devices behind for at least a while.
At the sharp end
CFOs should invite marketing teams in for a chat so they can provide a more valuable service than merely ‘colouring in’, urges Jason Bal

Here’s a scary fact: in a global study by Fournaise Marketing Group, 80% of CEOs were either unimpressed or simply did not trust their chief marketing officers (CMOs), compared with just 10% who felt the same about their CFOs and chief information officers. The reason is clear: 78% of CEOs believe marketers have lost sight of what they are in the business to do.

Meanwhile, marketers feel demoralised from trying to convince the CFO to release budget for new tools and campaigns even though, in reality, most budget holders are happy to do so if it can be shown the business will make money, save money or achieve its objectives.

So where did it all go wrong? Part of the problem is that the concept of ‘marketing’ varies between companies: CMOs may be solely strategic thinkers in one company and purely executional tacticians in another. Meanwhile, CEOs often have no marketing experience to make the distinction themselves. And then there are problems with communication: marketers just aren’t speaking the same language as CFOs and CEOs.

Research by the Harvard Business Review splits CMOs into three main types: 31% focus primarily on growth strategy (positioning, new product development, customer insight); 46% focus on commercialisation (marketing communications, demand generation, sales support); and 23% span both, with an enterprise-wide remit. The commercially-focused types are more common in companies where marketing is not seen as crucial to business success (a typical situation in many B2B organisations, which are often either sales or engineer-led).

But these silos limit the possibility for marketing to encompass a wider range of value-creating activities, including end-to-end demand generation, pricing, distribution, customer experience, innovation, talent acquisition, investor relations, customer insight, vision and values, culture development and more.

That opportunity is lost if marketers are not having the right conversations with the CEO, CFO, head of sales and head of human resources – conversations that allow them to view business strategy from different angles and contexts.

The CMO must justify how it will support the business’s key objectives.
vantage points, to identify what success looks like and whether everyone is aligned.

A CFO has a uniquely granular view of what drives business success and will be able to model and map out the trajectory of different products and solutions. With that insight, marketers will get a valuable perspective. Without it, they may be forever characterised as the ‘colouring-in’ department – the people you go to for brochures, events, that web stuff. What a waste.

This conversation is now more important than ever, as the increasingly widespread adoption of zero-based budgeting is a game-changer. This begins each year with a marketing budget of zero. From there, the CMO must justify why they need investment and how it will support the business’s key objectives. This is entirely a good thing, as it aligns marketing with overall business strategy while helping CMOs defend against pointless reactive requests.

Around the table
Here are some tips for how to have a better conversation with your CMO:

* **Don’t simply focus on the financials.** When talking about company goals (eg, we want to become a US$100m organisation), paint a picture of what success looks like. How many people will it employ? Where will it compete? How will the mix of products and services change? What will the wider market be like in five years’ time? This helps the CMO create a persona for the business – one that includes its hopes, dreams and world view.

* **What is needed to get there?** Again, not a marketing question but a business one. Perhaps the business needs to expand into new geographic markets, buy or merge with a competitor, or hire new and different people.

* **What are the major obstacles that may hold us back?** What will stop us getting to where we want to be, and what will we need to overcome along the way? Once marketers understand these obstacles, the CEO/CFO should then rank them in order of importance to the business.

* **What timescales are we working to?** While yearly performance objectives are the norm, it is just as common to operate quarter-by-quarter from a sales point of view. Yet many businesses have sales cycles that span quarters (sometimes whole years), and brand development is often a multi-year effort. So it’s not difficult to see where tensions between the C-suite and marketing can blow up. If CMOs focus on the long term and the CEO is sweating over the next quarter, marketing could be highly successful on their own terms and an abject failure in the eyes of senior management.

* **What return on investment can we expect?** Surprisingly often, the C-suite has no preconceived ROI expectations but will have sales targets linked to marketing in a ‘marketing-generated leads’ column. Yet, when budgeting for marketing, the basic formula is to assign X% of last year’s budget. Some marketers may view this as a good thing, as it gives them room to do what they want with less accountability. They are wrong. Without the rigour that comes from ROI accountability, marketers are simply left vulnerable to subjective opinion. CMOs think marketing is delivering impressive results, while the CEO and CFO – who have the power – think it’s a significant cost. It is critical that marketers can place what they do firmly in the objective value-creation side of the balance sheet.

If finance and marketing can get around the table, the results will benefit everyone.

Jason Bal is founder of Considered Content, a B2B marketing specialist that has worked with Grant Thornton, EY and Bain & Company.
The use of fair values has always been contentious. Adam Deller looks at IFRS 13, and user and preparer responses to IASB consultation on disclosure requirements

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In addition, IFRS 13 sets out a framework for measuring fair value and provides guidance on the required disclosures about fair value measurements.

One of the key aspects of IFRS 13 is that it utilises a fair value hierarchy across three levels, as follows:

* **Level 1 inputs.** These are the most reliable way to measure fair value. Level 1 inputs are quoted prices in active markets for identical assets or liabilities.

* **Level 2 inputs.** These are inputs that can be observed directly or indirectly but are not quoted prices on an active market. This can include quoted prices for similar assets or liabilities, or other inputs that are observable such as interest rates and yield curves.

* **Level 3 inputs.** These are unobservable inputs and are therefore the least reliable measurement of fair value. They use the best information available, often utilising valuation techniques or the entity’s own data.

The International Accounting Standards Board (IASB) is in the process of constructing guidance for the development and drafting of future disclosure requirements. As we have written numerous times in the past year, the central theme to the work of the IASB is ‘better communication in financial reporting’. A key part of this is the disclosure project, looking at the use of fair values.
problems communicating information in financial statements to users. Part of this process involves testing ideas for guidance on two existing IFRS Standards, one of which is IFRS 13.

Which disclosures to value? According to IFRS 13, entities must disclose the valuation techniques and inputs used in calculating fair value, which level in the hierarchy the measurements are categorised in and any transfers made between levels. As level 3 inputs carry more subjectivity, much greater disclosures are required with these. This can include amounts recorded in profit or loss (or other comprehensive income), the valuation processes used and an element of sensitivity analysis, particularly regarding the unobservable inputs.

Most users who responded to the IASB were broadly happy with the information they receive, and said that the improvements suggested were not critical. While disclosures could often be lengthy – and a number of users stated that they did not actually examine closely the disclosures – some respondents were nervous about eliminating some of them.

The IASB is finding this a common theme in its testing. While users accept that there is probably a lot of information disclosed that they don’t need, they still often prefer to have the information available. They would support better application of judgment in eliminating information that is not material from the financial statements.

The most common finding among users was that detailed disclosures were only provided for level 3 assets and liabilities. Some users believe that standard-setting could help by requiring additional disclosures for level 2 items similar to those needed in level 3.

Some feel that level 2 is currently a ‘black box’, and that additional information about the inputs, techniques and amounts underlying level 2 would be very useful. Some users noted that level 2 items are often significant for banks. A similar request for additional disclosures in level 2 has arisen in the US, but the Financial Accounting Standards Board heard that such additional disclosures would be extremely costly to prepare.

Juventus shows Cristiano Ronaldo as valued at €115m, whereas Barcelona values Lionel Messi at €0
Almost all users said that a tabular breakdown of specific items within each level of the fair value hierarchy would be useful. This would help them understand the nature and characteristics of items measured at fair value, and provide more information such as a breakdown of which specific types of derivative the entity holds. Many users also said they found it difficult to understand how the entity has assessed which level items belong in, particularly in relation to differentiating between level 2 and level 3 items.

While information is provided about this, it is often a simple duplication of the definitions in IFRS 13. Users believe that an entity-specific explanation, together with the above tabular breakdown, would allow them to better understand the nature and characteristics of the items measured at fair value. It is unlikely that such information would be costly for preparers and users.

The IFRS taxonomy team undertook a comprehensive common practice review of IFRS 13 in 2018. It found a diversity in whether the reported effect is before or after tax. It also found that some entities report absolute changes in inputs and others report relative changes in terms of the sensitivity analysis.

This neatly brings us to the topic of sensitivity analysis, which appears to be a constant theme in relation to the disclosure project. A number of users would like to see a sensitivity analysis that shows the effect on fair value of changing multiple inputs simultaneously.

Preparers commented that the current level of sensitivity analysis required by IFRS 13 was already costly to prepare and that the provision of further such analyses would require even more effort. Given the lack of appetite previously shown by the IASB for increasing the disclosures around sensitivity analysis, it’s unlikely this will be taken any further.

So in this project, there will not be any changes to whether items can be recognised at fair value or not, meaning Ronaldo is still worth more than Messi.

The topic of sensitivity analysis appears to be a constant theme in relation to the disclosure project

It appears that the next step will be for the IASB to develop specific disclosure objectives, focusing on what the aims of providing specific information would be. The IASB will review any information required by either of these standards that cannot be linked to a specific objective, in addition to areas identified through the feedback process, which is not currently covered by existing requirements.

One of the IASB’s concerns is that financial statements contain too much irrelevant information. Part of the disclosure project was to see if the clutter could be reduced. In fact, from the initial feedback, it seems users would like more entity-specific information. The project may not take the direction initially expected.

Adam Deller is a financial reporting specialist and lecturer.

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Think Ahead
New ethics code
The International Code of Ethics for Professional Accountants – including International Independence Standards – has been completely rewritten to make it easier to use, navigate and enforce. The new code, developed by the International Ethics Standards Board for Accountants, brings together substantive revisions to ethics and independence provisions and clarifies how professional accountants should apply the conceptual framework to comply with the fundamental principles of ethics, and where applicable, be independent. The new code became effective on 15 June. More at bit.ly/ethics_code.

Technical update
A monthly update of the latest developments in financial reporting, taxation and legislation from international regulators, the EU and elsewhere

International

IASB responds to IBOR
The International Accounting Standards Board (IASB) has published an exposure draft, Interest Rate Benchmark Reform, containing proposed changes to financial instruments standards IAS 39 and IFRS 9 to reflect reforms of interest rate benchmarks, including the interbank offer rates (IBORs). The proposed amendments would provide relief from specific hedge accounting requirements that could have resulted in companies having to discontinue hedge accounting solely due to the uncertainty arising from interest rate benchmark reform. It is intended changes will be in place before the end of the year.

Public sector measurement
The International Public Sector Accounting Standards Board (IPSASB) has released a consultation paper, Measurement, that considers how measurement bases should be determined in the public sector. It includes proposed guidance for measurement bases for the assets and liabilities most commonly used by public sector entities when applying IPSAS. It proposes the development of a single standard for the main measurement bases. Comments are requested by 30 September. More at bit.ly/ipsasb_measure.

Pension plan reporting
The European Financial Reporting Advisory Group (EFRAG) has published a discussion paper on accounting for pension plans with an asset-return promise. The paper considers three alternatives for accounting for pension plans in the scope of the project: capped asset return approach; fair-value based approach; and a fulfilment value approach. The discussion paper is available at www.efrag.org.

SEC lifts audit requirements
The US Securities and Exchange Commission has proposed amendments to accelerated and large accelerated filer definitions. Under the changes, smaller reporting companies with less than US$100m in revenues would not be required to obtain an attestation of their internal control over financial reporting from an independent outside auditor. The proposals are out for comment until early July. More at bit.ly/SEC_filer.

Disclosure improvements
The US Securities and Exchange Commission has proposed rule amendments to improve the information that investors receive regarding the acquisition and disposition of businesses. The proposed amendments are intended to facilitate more timely access to capital and to reduce complexity and compliance costs.
of these financial disclosures. The proposals are out for comment until early July. More at bit.ly/SEC_disclosure.

Accounting for goodwill
The US Financial Accounting Standards Board (FASB) has issued an accounting standards update that reduces the cost of accounting for goodwill and measuring certain identifiable intangible assets for not-for-profit organisations. This update extends the scope of the two private company alternatives to not-for-profits, enabling organisations to recognise fewer items as separate intangible assets in acquisitions and to account for goodwill in a more cost-effective manner. The standard is effective immediately.

Transitional relief
The US Financial Accounting Standards Board (FASB) has issued an accounting standards update that eases transition to the credit losses standard by providing the option to measure certain types of assets at fair value.

Income tax simplified
The US Financial Accounting Standards Board (FASB) has issued an accounting standards update intended to reduce the cost and complexity of accounting for income taxes.

National

Canada consults on strategy
Canada's Public Sector Accounting Board has issued a consultation paper on its international strategy. The paper provides four options on shaping the future of public sector accounting in Canada and considers its approach to International Public Sector Accounting Standards (IPSAS). The four options are for Canada to continue using its own conceptual framework and principles; adapting IPSAS to Canadian standards, while maintaining Canada's board as the domestic standards setter; endorsing IPSAS except where a departure is needed; and adopting IPSAS in full.

New Belgian corporate code
Belgium is introducing Corporate Governance Code 2020, replacing Code 2009. Under the revised code, public limited liability companies will be able to opt for a 'two-tier' governance model, comprising a supervisory board and a management board. Code 2020 requires companies to make an explicit choice once every five years between the one-tier and two-tier models. The new code also places greater emphasis on sustainable value creation, climate change and long-term strategy.

GASB revises debt standards
The US Governmental Accounting Standards Board (GASB) has revised its standards to provide a single method for government issuers to report conduit debt obligations and related commitments. The enhanced guidance is designed to eliminate diversity in the way these are accounted for. Conduit debt obligations are debt instruments issued by a state or local government to provide financing for a third party, which is primarily liable for repaying the debt instrument. The GASB's existing standard, Interpretation No 2, Disclosure of Conduit Debt Obligations, allowed variation in reporting practice. The revised standard clarifies definitions and how to report the obligations.

South Africa tax changes
The South African Revenue Service has announced changes ahead of the start of the 2019 tax season. The biggest of these is that taxpayers who earn below SAR500,000 (US$33,650) no longer have to submit returns. This is up from the previous threshold of SAR350,000 (US$23,490).

Nigeria agrees common reporting with OECD
Nigeria has agreed with the OECD the adoption of the Common Reporting Standard for the automatic exchange of information between tax authorities. It has committed to making its first exchange this year. See also ‘The road to transparency’ in this issue’s tax section.

Paul Gosling, journalist
Conceptual reframing

In the first of two articles on the IASB’s conceptual framework, Dean Hezekiah assesses the key changes, including new definitions of reporting entities, assets and liabilities.

In March last year, the International Accounting Standards Board (IASB) published a revised conceptual framework for financial reporting (effective for preparers from 1 January 2020). It sets out the financial reporting concepts that guide the development of IFRS Standards and the preparers of IFRS-compliant financial statements. One of its key objectives is to ensure that financial reports help users assess management’s stewardship.

The new framework makes little fundamental change to the characteristics of useful financial information, but clarifies the role of prudence, which it defines as: ‘The exercise of caution when making judgements under conditions of uncertainty. Prudence does not allow for overstatement or understatement of assets, liabilities, income or expenses.’

It also clarifies that hard-to-measure information, while not worthless, may not be as useful as less relevant but more definite information that is easier to measure.

Other than this there is little change to the qualitative characteristic guidance: useful information must still be relevant and faithfully represented; and its usefulness can be enhanced by making it more comparable, verifiable and understandable, and by presenting it in a timely manner.

New definitions

For the first time, the framework provides a definition of a reporting entity – that is, an entity that is required or chooses to prepare financial statements. It also contains guidance on how to define the reporting entity’s boundaries, including situations where it is not a separate legal entity or forms part of a group of entities connected through a parent-subsidiary relationship. An important idea in this determination is that the boundaries of the reporting entity are set with reference to its economic activities, and with a focus on the information needs of the primary users of its financial reports.

Significant changes have also been made to the definition of assets and liabilities – see box below.

The most important change to the definition of an asset in the revised framework is that it is now a right. This new definition provides a much clearer basis for approaching recognition and measurement. Importantly, the revised framework departs from viewing the asset in terms of an expectation of future economic benefit in preference for the view that an asset is defined by its potential to produce. We are entering a new era where we define assets by their inherent qualities and not by our subjective expectations.

The main changes to liabilities are in wording and emphasis. As with the asset

### Assets and liabilities redefined

The new definitions remove the underpinning of subjective expectations.

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<thead>
<tr>
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<th>Previous definition</th>
<th>Revised definition</th>
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<tr>
<td><strong>Asset</strong></td>
<td>An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.</td>
<td>A present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits.</td>
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<tr>
<td><strong>Liability</strong></td>
<td>A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.</td>
<td>A present obligation of the entity to transfer an economic resource as a result of past events. An obligation is a duty or responsibility that the entity has no practical ability to avoid.</td>
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definition, there is now less subjectivity in determining what is within scope. While it is debatable whether the wording ‘no practical ability to avoid’ provides meaning beyond the ordinary sense of the word, it certainly places emphasis on the present nature of the obligation.

True, the revised framework stresses the need for prudence and management stewardship, and it now defines the reporting entity, but it is the new definitions of assets and liabilities that are most significant.

Trickling through
We are already seeing this new thinking reflected in the more recent IFRS Standards. For example, in IFRS 15, Revenue from Contracts with Customers, revenue recognition is based on contractual performance obligations. Of course, this presupposes that contracts should be viewed as divisible, and that performance obligations are an ideal basis for the separation.

This focus on identifying performance obligations makes IFRS 15 far more able to cope with the complications that arise in recognising revenue (especially when dealing with complex contracts) than its predecessors, IAS 18, Revenue, and IAS 11, Construction Contracts.

Under the older, superseded standards, recognition was inconsistent with the defining attributes of the elements.

As the IASB looks to align its other existing standards with its revised framework, we are likely to see more of rights and obligations in how recognition criteria are articulated. Examples of standards that lend themselves to these changes are IAS 19, Employee Benefits, and IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, both of which involve reporting requirements that can be reduced to obligations and rights.

These changes are not expected to have much impact on the actual amounts recognised under the elements. However, as the IASB revises and creates other standards, we’re likely to slice and dice those amounts in more useful ways.

The second part of this article will explore the new thinking around recognition and measurement of the elements. We’ll also consider some clarifications regarding derecognition and the new chapter on presentation and disclosure.

Dean Hezekiah ACCA is a technical writer at Darlo Higher Education.
The road to transparency

Financial institutions and taxpayers have been forced to set out on a gruelling global tax transparency journey that is churning out oceans of data.

It is five years since the Common Reporting Standard (CRS) opened the way for global tax transparency. So far it has generated more heat than light.

In 2014, 47 countries agreed on a standard, developed by the Organisation for Economic Co-operation and Development (OECD), to enable banks to automatically exchange account information with foreign tax authorities. They included all 34 OECD member countries together with Argentina, Brazil, China, Colombia, Costa Rica, India, Indonesia, Latvia, Lithuania, Malaysia, Saudi Arabia, Singapore and South Africa. At time of writing, this number has swelled to 105 jurisdictions including various offshore nations and most major countries.

The one glaring exception is the US. This is ironic because the CRS initiative had its origin in the so-called Fatca (Foreign Account Tax Compliance Act) legislation in the US. Following the 2008 financial crisis, the US introduced Fatca to bring in tax revenue from US citizens who hold their wealth abroad to avoid US taxation. Fatca required overseas financial institutions to automatically file returns with the US Internal Revenue Service on accounts held by US citizens. Fatca was passed in 2010, and the UK government brought in its own copycat version. Both laws took effect on 1 July 2014. Now, CRS facilitates the exchange of account information across a great many more jurisdictions, although the US chooses not to take part.

The information to be exchanged includes name, address, date of birth and tax identification number for individual account holders. Other reportable details include account balances or value at the end of the calendar year or reporting periods, and, depending on the type of account, information about capital gains, dividends and interest. This data generated by financial institutions is then compared with the tax returns held by the tax authorities in the jurisdiction where the account holder should be paying tax. If they don’t match up, the account holder may find themselves under investigation.

Alien technology

The result has been the collection of massive amounts of data by financial institutions to feed to the tax authorities. ‘It has been extremely labour-intensive’, says Ed Shorrock, a director in the Channel Islands compliance and regulatory consulting practice of Duff & Phelps. ‘The principal challenge has been technology. Banks may have legacy systems in place with bits of data in different places. You may have anti-money laundering information in one place, which identifies controlling persons and beneficial owners, and that has been used as a basis for CRS platforms to identify the people they need to report on. Then there’s account information that might sit in another system.

‘There has been a fair amount of expense from technology and labour perspectives. The CRS guidance notes run to 174 pages. People have had to get to grips with alien technology. They’ve also been dealing with Fatca, which involves different processes.’

To date, CRS has produced very little in the way of investigations, not least because of difficulties in interpreting its rules, and many tax authorities lack the technology to analyse the data supplied to them. But it is early days. The first date for the early-adopter jurisdictions to receive tax information was June 2017, with another wave due a year later. This is a very tight timeframe in which to carry out the work. Moreover, in the UK for example, account holders have been given extra time to correct any anomalies in their reported tax data. This was due by 30 September last year, and in some cases this deadline was relaxed. The UK tax authorities are now turning their attention only to CRS data received from overseas.

The successes and risks

It’s a bit early to call it a success, says Gary Ashford, tax partner at London law firm Harbottle & Lewis. He calls the process, of which CRS is just a part, ‘the journey towards transparency’. The goal is for everyone – individuals, businesses, trusts – to pay their taxes where and when they should be paid.
In one respect the OECD has achieved success, says Shorrock. ‘Technically, it has achieved what it set out to do, which was to get jurisdictions to implement local legislation and to get over 100 jurisdictions, including all the major economic players. To implement such a system of automatic exchange of information, is, I think, in the OECD’s view, a success.’

Security risk
There are some outstanding issues to address, though. Law firm Mishcon de Reya is among those concerned about data safety. Its website reports that a number of European data protection agencies have raised concerns about the broad nature of the new rules and their requirement for a generalised exchange of information that is automatic and independent of the existence of any actual risk of tax evasion. It sees clients living in high-risk jurisdictions as particularly vulnerable, while the nature of the information exchanged could expose millions of individuals with a bank account abroad to the risk of hacking and data theft.

Fiona Fernie, partner at accountancy firm Blick Rothenberg, adds: ‘The more data is recorded and exchanged, the more opportunities there are for it to be hacked. The numerous leaks of data in the past 10 years make it clear that use of IT has not only assisted in easy record-keeping, transmission and storage; it has also made it much easier for information to be stolen.

‘Clients who have been subjected to enquiries have experienced increased costs and stress associated with such enquiries, which can be very intrusive and expensive. In addition, most with offshore assets have seen an increased cost of compliance, as the trustees/banks and other fiduciaries have had to carry out significant additional administration in relation to CRS, Requirement to Correct – the corporate criminal offence [in the UK].’

The CRS initiative has so far called for the exchange of a vast amount of data and caused a similarly massive amount of extra work for financial institutions. There is no evidence yet that it has led to more tax being paid in the right jurisdictions and less tax evasion, but CRS is a work in progress. The future will show if this hugely complex exercise in global tax cooperation will fulfil the OECD’s grand vision of transparency and fairness. ⬠

Richard Willsher, journalist

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Giving it his all

We ask Dr In-Ki Joo, president of the International Federation of Accountants, about the focus of his tenure, to build the profession’s global body

Q What do you think IFAC has achieved in your time on the board?
IKJ Our members have told us that speaking out on public interest issues adds significant value. Since joining the board in 2012, I’ve seen IFAC work meticulously to expand the profession’s presence in, and engagement with, major policy-setting groups. This has been particularly important as the profession’s skills evolve to meet the demands of businesses large and small, and at a time of record low levels of public trust in institutions.
IFAC has also worked hard, in partnership with our member organisations, to develop the accountancy profession’s capacity in 10 countries in Africa and Asia, through a seven-year programme.

Q What do you see as the key role of IFAC?
IKJ To best represent its members, IFAC consults them widely on its strategic plan. The 2019-20 plan reflects our shared desire to support a dynamic, future-focused global profession. Key to success will be working with and leveraging the efforts of our members.

Q In what key areas does IFAC want to bring influence to bear?
IKJ As the first IFAC president to come from academia, I think there is much the profession and academics can do together to advance a future-ready profession. We must prepare both personally and professionally, and uphold and demonstrate our code of ethics – our professional foundation. We must work to encourage good governance: how organisations tell their growth and prosperity story, or declare the challenges they face, is critical to long-term value creation.

Q What is the key risk to IFAC?
IKJ The monitoring group review of standard-setting arrangements is obviously something that continues to occupy management time. IFAC fully supports a standard-setting model that is effective and transparent, and operates in the public interest. We will continue to work constructively with the monitoring group and key stakeholders to bring this review to an end after many years.
The biggest challenge for the profession is also our biggest opportunity. Technology is already liberating accountants from their more mundane tasks.

Q How do you see the work of IFAC progressing in different sectors?
IKJ In the public sector, accrual reforms are set to accelerate in the next five years. By the end of 2023, 65% of governments will report on an accrual basis, mainly through International Public Sector Accounting Standards. Greater transparency in the public sector is essential in fighting corruption, increasing citizen trust in governments and unlocking wealth.
In the audit sector, the UK is not alone in conducting a review – so are Japan, the Netherlands and South Africa. In my opinion, audit is increasingly important as part of a broader conversation on good governance. To challenge and probe management, auditors must draw on a range of specialists – from big data professionals to experts in taxation, forensics, fraud and valuations. However, the multidisciplinary model isn’t enough in itself. A high-quality audit stems from a consistent culture of ethics and integrity throughout the entire firm and its service offerings. Above all, standards and regulation can never be the entire answer: mindset and commitment to doing the right thing enable truly effective governance. This is where our profession must play a crucial role.
In the tax sector, the joint ACCA, CA ANZ and IFAC G20 2019 Trust in Tax survey showed that in many countries the public has great trust in professional accountants, although strong distrust remains in others. As a global profession, we must work to build trust in tax systems across the globe.
In the risk sector, the reality is that risk management remains underdeveloped in many organisations. Given today’s landscape of great change – and a future full of uncertainty – accountants must take advantage of their strategic,
central role within organisations to drive better enterprise risk practices. In the SME sector, support for accountants in practice working with small businesses remains a key IFAC focus, and we continue to publish research, guides and thought leadership on issues of importance.

Q What value do bodies such as ACCA and CA ANZ give to IFAC?

IKJ IFAC’s members drive the global accountancy profession’s future. ACCA and CA ANZ have deep and wide networks and decades of experience that contribute greatly to the overall profession. Their efforts to support capacity building in developing countries, their thought leadership contributions on IFAC’s global knowledge gateway, and their engagement with IFAC on important studies and reports all add up to a stronger global profession.

Q Why did you want to be president?

IKJ It is a great honour to be president of IFAC, not least because I get to work closely with the brightest minds in our global profession. My accountancy students in Korea were, however, my biggest inspiration.

Q How will you personally cope with the challenges/stresses of the presidency?

IKJ There is always more to do, and I am motivated by the great opportunities ahead for the accountancy profession. There is more that unites everyone interested in the profession – including the regulatory community – than divides us. As the profession’s ambassador for the next two years, I am too energised by the opportunity and too humbled by the position to do anything other than give it my all!

Peter Williams, journalist

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Star quality

Giving an Oscar-worthy performance isn’t just for actors, but making a positive impact in a virtual meeting requires planning and plenty of practice, says Helena Brewer.

Technology has opened up a new world of virtual meetings, training sessions, webinars and job interviews, giving us the freedom to join in from the office, home or elsewhere.

You may be working with a team spread across the globe whom you rarely meet face-to-face, so it’s important to ensure you have the skills needed to go live on the small screen. Here are some suggestions to help you.

Check all your kit works

If you are using unfamiliar software to deliver a presentation or run a meeting, ensure that you make time for a trial run-through to help avoid any glitches; there are free tutorials with most software. In addition, you may want to record the meeting and share with colleagues unable to attend; again, practise using the technology in advance.

Handle interaction

If you will be handling audience questions, decide how the attendees will interact with you. Will people unmute to ask a question? If so, you need a strategy for handling those who talk for too long. Most packages have a text-based option so you can see questions coming in. Looking at these while presenting is a challenge; consider having a colleague on hand to review the questions as they arrive and to identify themes. You can also pause for questions as you complete a key section to confirm participants’ understanding.

Choose words carefully

In most situations, particularly work meetings, the professional and in-company jargon will be understood by everyone involved. However, if clients or contractors are joining the meeting you may need to watch your language. Make sure your choice of words is appropriate for the audience: avoid quirky expressions that may require you using up time giving an English lesson.

I once listened to an important meeting, which started with the FD giving a project status update to staff and contractors around the world. Her cricketing metaphor confused the Latin Americans and a particularly old-fashioned saying had everyone under 30 scratching their heads.

Watch your body language

You could well be sitting in the same chair for a while, so make sure you are comfortable; good back support will help. Also, check the position of your laptop or camera in relation to where you are sitting so you are aware how much of you can be seen.

Movement is tricky: if you lean forward towards the camera, the audience will receive an unexpected close-up. Small habits, such as rubbing your ear or flicking your hair, will be magnified and very distracting. If you haven’t watched yourself before, it’s a good idea to do so now.

Using notes can be difficult. Ideally, you want to look natural, and reading from a screen is most likely to make you look robotic. Be as familiar as possible with what you need to say; if it helps, put a few bullet-point reminders on the edge of your screen that you can see at a glance.

Get the lighting right

How well lit is your room? If you are sitting in near darkness, all that your audience will see is your face, which will look ever so slightly sci-fi. If there’s bright sunlight shining at you, it may have you screwing up your eyes or creating a shadow figure behind you. This can be distracting for those watching, so you may need to close the blinds and adjust the lighting.

Welcome participants

Providing a brief introduction about you and the purpose of the event helps settle attendees. If you have more than 20 attending, it may not be possible to allow time for them to introduce themselves. However, if it is a business meeting, a small conference or an interview, it is definitely worth knowing who else is there.

Allow time for introductions as simple as name, position and company. This will assist you in knowing if all key stakeholders have joined the session and, if not, whether they have sent a representative instead.
Top tips for an award-winning performance

1. Make sure you are familiar with the software you’ll be using. You don’t want to be fumbling on the day.
2. For Q&As, where lots of questions will be typed in, you should ideally have a colleague to help you manage the process.
3. Watch your language. Avoid colloquial sayings that may confuse your global audience and waste time.
4. Check your body language. If you are sitting comfortably with the camera positioned correctly, you are most likely to look your best and come across professionally.
5. Adjust the lighting so that you don’t look like a sci-fi creature emerging from the gloom or are washed out by bright sunlight.
6. Plan introductions appropriate for the size of audience and type of event. You may want everyone to introduce themselves – if so, make sure you have the time.
7. Be ready for problems with the audio and make a back-up recording in case some participants have major problems.
8. Have a blank wall behind you if possible and, whatever happens, make sure you don’t have confidential information visible.

Ensure the sound is good

This is the biggest issue when delivering on the small screen: you need to check in with your audience and determine that they can actually hear you. When joining virtual meetings, there are sometimes surprisingly loud background noises.

If you can control attendee muting, then do so. If not, then encourage them to mute themselves while they are listening. There may be times when, despite all the checks, the signal just isn’t good enough.

Be prepared to redeliver key points at the end of the session. It’s also good to reassure people that a recording will be made available.

What are you sharing?

While you are focusing on the camera you may forget to check behind you. A clean background is best.

If you work in an office with glass screens, walls and doors, it can be distracting for your audience to see people walking past. Also remember to clean away any confidential information that might be on a whiteboard behind you.

Someone walking into your room is worse, as political analyst Robert Kelly found when on air from home, when his toddler, older child and wife unexpectedly joined him. (It’s worth looking online.)

By following the suggestions above, you will improve your performance on the small screen and become more comfortable delivering in this way. As a result, you will undoubtedly increase your future opportunities to be a star.

Helena Brewer is from Toastmasters International, a not-for-profit organisation that has provided communication and leadership skills since 1924 through a worldwide network of clubs.
Performance update

 Ahead of the publication of ACCA's latest integrated report, we share some of the key results for the year ended 31 March 2019

Over the 2018-19 financial year, ACCA has seen member growth of 5%, student/affiliate growth of 4.8% and a 0.6% increase in market share among key international competitors, to 20.3%. Preference for ACCA has strengthened markedly among key employers, while member and student satisfaction, at 79.1%, remains at strong levels.

ACCA had planned for a pre-tax deficit of £14.8m in 2018-19, which has increased to £35.2m for the year ended 31 March 2019 due to:

* a one-off accounting adjustment relating to ACCA's defined benefit pension scheme, amounting to £12.5m
* timing of investment in IT infrastructure and digital transformation, amounting to £6.1m
* a combination of smaller items, including the adoption of IFRS 15.

ACCA’s balance sheet remains healthy. It has access to liquid funds and expects to return to pre-tax surplus in 2019-20. To view more details of ACCA’s strategic performance update, see bit.ly/ACCA-strat-report19.

Celebrations

Year-long package of activities for members and students marks ACCA Caribbean 20th anniversary

ACCA celebrates the 20-year anniversary of its national office in the Caribbean this year.

Although it has been active in the region for more than 50 years, with many established relationships across the English-speaking Caribbean, the ACCA Caribbean office first opened its doors to the public in August 1999 at the Tatil Building in Port-of-Spain, the capital of Trinidad and Tobago. At that time, there were 10,700 students and 1,900 members managed by a small team of four at the national office.

Now responsible for 5,400 members and 15,000 students, the ACCA Caribbean office oversees the 18 Caribbean markets with a team of nine.

Future focus

‘By keeping the future in view we will be paying close attention to the issues that will impact the profession in years to come,’ says Shelly Mohammed, head of ACCA Caribbean. ‘Issues such as digital technology, employability, and ethics and corruption will be included in our focus for 2019/20.

“We will also be working hand in hand with our partners in both the public and private sectors on capacity-building initiatives throughout the region to assure sustainable and continued growth.’

The team has drawn up a full year of activities on the theme ‘Our heritage, our future’, recognising work that has been done with the office’s partners over the years as well as ensuring members and students are fully equipped to face the demands of tomorrow’s world.

Plans include a dedicated microsite, an open day at the ACCA Caribbean office, an inaugural annual member conference, a students’ conference and a stakeholder gala, to be held in September.

ACCA Caribbean will also launch a Go Green pledge and a plant-a-tree initiative to focus on its commitment to reduce its use of plastics and its carbon footprint. Visit the microsite at accaglobal.com/caribbean20.
Practising certificates

Practising Certificate Experience Forms were launched in January. Members recording their training are encouraged to complete these, explains Stefan Pegram.

In January 2019, ACCA launched Practising Certificate Experience Forms (PCEF) for members recording their training towards an ACCA practising certificate (PC) or an ACCA practising certificate and audit qualification (PCAQ).

Completion of PCEF builds on experience gained for membership, using a similar format to the Practical Experience Requirement (PER). ACCA has received positive feedback from members who are now using PCEF and welcome this aligned new format.

We encourage all members to consider completing PCEF in order to be able to apply for a PCAQ in the future.

In our previous articles (AB, November/December 2018 and January 2019) we drew attention to the transition guide to assist members who have already started completing their Practising Certificate Training Record (PCTR). It explains the best course of action for the transition period between 1 January 2019 and 31 December 2020. The guide includes comparison tables to help members and training principals understand the PCEF framework.

Members should be aware that they cannot combine PCTR and PCEF – they will need to complete a single document (either PCTR or PCEF) to evidence their complete period of relevant experience. All completed PCTRs need to be submitted and approved by ACCA by 31 December 2020. After this date only PCEF will be assessed.

PCEF is in three parts. Part 1 contains the mandatory areas, the principal reviews and the time summary. Part 2 contains the optional areas. Part 3 contains the audit area. A member training towards a PC must complete parts 1 and 2; a member training towards a PCAQ must complete all three parts.

Members training towards a PCAQ must also undertake at least 44 weeks of audit experience in a three-year period, with at least 22 of these weeks being in statutory audit. As a guideline, 44 weeks of audit experience in three years equates to 1,540 hours.

The PCEF documentation, Practising Certificate Experience Requirement (PCER), guidance notes including examples, transition guide and training principal guidance pack can be found on the practise and licences section of ACCA’s website at bit.ly/ACCA-PCEF-PCER.

ACCA also ran a live Q&A webinar in February to support the bite-sized webinars, which are also available on the website.

To further support practising members, ACCA will be running a second live webinar on 11 September. It will include information on all aspects of the PC process.

Go to bit.ly/ACCA-webinar11Sept19 to register your interest.

Stefan Pegram is ACCA’s head of licensing.

After 31 December 2020, only Practising Certificate Experience Forms (PCEF) will be assessed.

Register of practitioners

ACCA members intending to practise (or continuing to practise) outside the UK (including the Channel Islands and Isle of Man) and/or Ireland must, as previously, apply to be placed on ACCA’s register of practitioners. You can register or update your practitioner status at bit.ly/ACCA-PC-form.
Winning links

The power of connections is the latest topic in our series of themes affecting the accountancy profession

Connections are good for business and career development. Connections get you places and move the world forward. And through our connections we create wider opportunities.

The power of connections is being explored over the next three months as the latest in ACCA’s series of themes affecting the accountancy profession.

ACCA will be addressing the topic through articles in AB, research, videos, case studies, quizzes, tips and social media events in the coming weeks. And on 12 September (‘Connections day’), ACCA will be celebrating the benefits of networking and connections through a series of webinars featuring experts in the topic, and members and others who have leveraged their connections for the benefit of their career and their business.

ACCA has an empowered community that speaks a common finance language to help shape the accountancy profession. Find out more about how ACCA resources can help you realise your goals, at accaglobal.com/connections.
Discover the power of connections

Connections are good for business. Connections are key for career development. Connections get you places. Through our connections we create wider opportunities.

Find out more about the power of your ACCA connections at accaglobal.com/connections

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