Power of connections
Joining a network can help firms access all areas

Keeping the faith
Nations continue to forge trade alliances despite global headwinds

Global grandee
Arnold Schilder, former IAASB chair, on what tomorrow holds for audit

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

On page 68, we look at how small and mid-tier firms are banding with peers to expand and reap the benefits of joining alliances and networks. 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 that matter but how you nurture those in your circle.

Of course, the debate around the future of audit continues to rage, and we consider what the public wants from audit today and in the future via an ACCA report, Closing the expectation gap in audit (see page 64). Jane Fuller also gives her perspective on a few of the key questions arising from this research, on page 20.

And while on the subject of audit, our main interview this month (on page 12) is with Arnold Schilder, who last month stepped down after 10 years as chair of the IAASB. He shares some reflections on his tenure and what the future might hold for audit.

Jo Malvern, editor
joanna.malvern@accaglobal.com

About ACCA
ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. It offers business-relevant, first-choice qualifications to people of application, ability and ambition who seek a rewarding career in accountancy, finance and management. ACCA supports its 219,000 members and 527,000 students in 179 countries. accaglobal.com
‘The audit expectation gap is changing all the time. How you deliver on that is the question’
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.

An Edinburgh family unwittingly owned one of the missing medieval Lewis Chessmen. Bought for £5 in 1964, the 8.8cm piece was due to be auctioned by Sotheby’s in early July, with an estimated price of £600,000 to £1m.

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’Usse cognac and Uber, and a property portfolio.

Second World War landmarks along England’s south coast – including replica landing craft installations at Braunton Burrows in Devon – have been listed to mark the 75th anniversary of the D-Day landings.
Rita Ora’s accountant jailed
The accountant for singer Rita Ora has been jailed for five years and eight months following his conviction for defrauding his celebrity clients of £3.4m. Andrew Munday was employed by Northampton accountancy firm Blue Cube Business, which is no longer trading. Munday took the money from Ora and other clients to pay for a gambling addiction, executive membership of Tottenham Hotspur FC and luxury personal items. Munday pleaded guilty to six counts of fraud and three counts of money laundering.

High CEO churn
CEO turnover hit a record high last year, according to PwC analysis. While five years has been the median CEO tenure at the world’s largest 2,500 public companies over the past 19 years, the firm’s 2018 CEO Success study also reports a 17% churn rate last year – three percentage points higher than 2017. One in five CEOs has been in post for at least a decade. CEOs are more likely to stay in post longer in North America than in Europe or Asia. There was an increase last year in the proportion of CEOs forced out for ethical lapses.

Wales vs Scotland
Some employers in Wales have mistakenly been using Scotland’s devolved income tax codes. As a result, some individuals paid the wrong rate of tax in April, the first month in which Wales operated its own devolved income tax system. In a letter to the chair of the Welsh Assembly’s finance committee, Jim Harra, deputy chief executive of HMRC, wrote: ‘We have been made aware that some employers have not correctly applied the C codes that HMRC has provided.’ The C code is for Cymru (Wales) while an S code is used for Scotland; all but the lowest earners face higher tax rates in Scotland than in Wales. Harra added: ‘There is a limit to what HMRC can do to ensure employers correctly apply the codes they are given.’ The codes are based on residency, not place of employment.

CRS triggers nudges
HMRC has begun issuing ‘nudge letters’ based on the Common Reporting Standard (CRS) international information exchange, reports BDO. CRS was developed by the Organisation for Economic Co-operation and Development and the G20 as a global standard for the automatic exchange of tax information. More than 50 countries, including the UK, use it to share information. BDO said: ‘As a result of this increased exchange of information, it is clear that HMRC has begun to act on the information received…’

If an individual receives [a nudge] letter, it does not necessarily mean that their UK tax position is wrong. We expect this to be one of many batches of letters that will be issued based on the CRS international information exchange.’

FRC transitioning
The Financial Reporting Council has committed itself to a pathway to its replacement by the new regulator, the Audit, Reporting and Governance Authority. The transition will take place alongside the already agreed extensive audit market reform programme (see also page 20). The FRC’s latest budget includes investment in audit and corporate reporting supervision and enforcement, which will now include all of a company’s annual report – as recommended by the Kingman review of the FRC. The Department for Business, Energy and Industrial Strategy is consulting on 48 of the Kingman recommendations.

PwC reforms
PwC has announced plans to transform its audit business but has stopped short of...
Finance skills back on top for CEOs
The number of CEOs with a finance background has increased from 40% in 2018 to over half (52%) in 2019, according to recruitment firm Robert Half UK’s latest FTSE 100 CEO tracker. The figure reverses a trend towards decline – from 55% in 2016 to 43% in 2017. The number of FTSE 100 CEOs with a background in technology has also risen – from 11% to 14% of CEOs in the past year. The average CEO age is 55. Other findings include:

18% attended Oxbridge
6% are female
46% were internal appointments

Meanwhile two senior women have resigned from KPMG after complaining that allegations of bullying behaviour by a partner, who has now left the firm, were not dealt with appropriately. KPMG did not respond to a request for comment.

No to audit split
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At risk of AML
Forty two businesses have been identified as money laundering risks, following action by regulatory bodies including ACCA, the Law Society and HMRC. Joint action was co-ordinated by the National Economic Crime Centre (NECC), leading to 250 visits and compliance reviews. ‘Virtually all high-end money laundering schemes, and several cash-based ones, are facilitated by the abuse of legitimate processes and services,’ said Rick Kent of the NECC. The NECC is hosted by the National Crime Agency, which has warned of an escalation in the activities of organised crime. Ava Lee, senior campaigner at the NGO Global Witness, said: ‘As the National Crime Agency reports, professional enablers like accountants, solicitors and those working in the financial sector are increasingly part of the problem. They help launder the money that keeps serious criminals in business.’

Call for PAYE reform
The Office of Tax Simplification (OTS) has called for reform of the PAYE system. It said that the current regime, which requires employers to deduct tax and national insurance before the payment of wages and pensions, places too great a burden on small and new businesses. The OTS recommended that startups should be given clear and helpful guidance on dealing with tax. It called for a review of real-time information (the process by which employers update HMRC about tax and other deductions from employee salaries) and consideration of how the PAYE and real-time information system can be simplified and streamlined. The OTS also asked HMRC to review tax payment processes across core taxes and regimes, to align and streamline them.

Big Four cyber surge
KPMG and PwC have become the UK’s biggest recruiters of cybersecurity experts, followed by EY and Deloitte, according to analysis from recruitment website Indeed. Positions for cybersecurity professionals jumped 15% last year. ‘By definition, accountancy firms need to store lots of sensitive financial information and they therefore require robust cyber defences,’ said Bill Richards, Indeed’s UK managing director. ‘Nevertheless, it’s striking that the Big Four dominate all four top spots in our league table of the UK’s most prolific cyber hirers.’ He said it was also significant that companies ‘now talk of critical infrastructure rather than IT infrastructure’.

Pensions hit soars
Changes to IFRIC 14 – the accounting guidance that applies for defined benefit pension schemes and their minimum funding requirement – could take as much as £100bn off FTSE 100 balance sheets, according to the latest Accounting for Pensions analysis from pensions advisory firm LCP. This is the twice the amount previously predicted. ‘With the Pensions Regulator

Billionaires dented
There are 2,604 billionaires in the world, according to Wealth-X’s 2019 edition of Billionaire Census. Over a quarter of the ultra-high-net-worth individuals (705) live in the US. In second place is China with 285, followed by Germany with 146. The UK ranks fifth with 97.

The global billionaire population fell (for only the second time in the census’s six editions) by 5.4% year on year in 2018, and their cumulative worth dropped 7% to US$8.6 trillion. The decline is attributed to heightened market volatility, global trade tensions and a slowdown in economic growth.

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The UK has become the most expensive country in the world for businesses to send workers, overtaking Japan. Average pay packages for expats in the UK rose by £44,688 (only £160 of which was salary) in 2018. The overall annual cost of sending an expatriate middle manager to the UK is now £311,240, 82% of which represents tax and essential costs, according to ECA's latest MyExpatriate market pay survey. ‘The value of an average pay package for an expat in the UK saw a huge increase in 2018,’ said Oliver Browne, remuneration manager at ECA International, which compiled the analysis. He said the main factors were rising costs for home rental and school fees.

Worker directors
Capita’s appointment of two employees as non-executive directors makes it the first FTSE 250 company since the late 1980s to put workers on its board. Lyndsay Browne is a professional accountant and finance manager in Capita’s insurance services, and Joseph Murphy is a civil engineer and a project manager in real estate and infrastructure. As non-executive directors they will be expected to offer employee perspective and expertise, as well as provide the same level of input into strategic decision-making as the other eight directors.

Returns to fill gap
Deloitte is targeting women and others who have taken career breaks and are interested in a new career as a software developer. Its returners programme offers digital skills retraining in the form of a 12-month software developer apprenticeship, beginning with a three-month training course at Makers Academy in London. Successful participants will join Deloitte in permanent roles. Emma Codd, managing partner for talent at Deloitte, said: ‘This retraining programme is a new and exciting way of bringing talented individuals back to work and filling the growing skills shortage in software development.’

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

New IAASB head
Tom Seidenstein is the new chair of the International Auditing and Assurance Standards Board, serving a three-year period. He succeeds Arnold Schilder, who has led the IAASB since 2009. See our interview with Schilder on page 12.

Paul Gosling, journalist
A life in audit

Professor Arnold Schilder, retiring chair of the IAASB, reflects on his decade-long tenure and considers what the future may hold for audit and assurance

After 10 years at the helm of the International Auditing and Assurance Standards Board (IAASB), Professor Arnold Schilder stepped down last month. It has been a decade of great change and upheaval for the audit profession, with the IAASB at the forefront of the movement to create and maintain a set of globally recognised, high quality standards that serve the many stakeholders in today’s audits.

But it is also a time to look forward to the developments that will have an impact on the future of auditing and assurance: wider stakeholder interest, developments in emerging economies, shifting expectation gaps and the increasing use of technology will all continue to figure on the agenda for IAASB meetings in years to come.

Back in 2010, a year after Schilder had taken on the role of chairman at the IAASB, he told an ACCA Council meeting that the expectation gap was real, and that as auditors had to deal with many users and regulators, it was important to discover what those users and auditors expected and how those expectations changed over time. So, a decade on, how much has changed?

‘We were always educated in awareness of the expectation gap, and that we need to make clear what auditors can do and what auditors cannot do,’ Schilder says. ‘That is one half, but the other half is that auditors have to deliver. There are reasonable expectations, but speaking to colleagues in the IAASB around the world some would say the gap has narrowed, while others would say it has stayed the same, or increased. So, the expectation gap is a dynamic concept, one that is changing all the time. How you deliver on that is the key question.’

Schilder, however, points to a number of initiatives implemented during his time in office that have gone some way to reducing that gap. ‘We have developed new audit reports, including key audit matters, which are a complete step change from previous audit opinions,’ Schilder explains. This has, in turn, created more transparency around the audit process while helping to explain what is expected of an audit. ‘This transparency is also helped by reports on audit quality from individual regulators, which can be critical but also positive.’

But Schilder also observes that advances in technology have contributed to a widening expectation gap – now that whole data populations can be interrogated, there should be far better testing methods. At the same time, stakeholder pressure has required the auditing of non-financial information, which can be open to far wider interpretation, presenting greater difficulties in validation.

Distinguished service

Schilder joined the auditing profession in 1972 when he enrolled with a predecessor firm of PwC in the Netherlands. From 1998 he was a board member of the Dutch Central Bank, where he served until 2008, before taking up his current position at the IAASB the following year. During his time at PwC he earned a PhD in business economics with a thesis on auditor independence, a distinction that would have stood him in good stead as he took on the IAASB role.

The achievements over the past 10 years are probably too many to list, but Schilder points to a number of areas...
‘The audit expectation gap is changing all the time. How you deliver on that is the question’
where he believes there has been significant progress during his time with the board.

The first is the work on auditing estimates. The revised ISA 540, *Auditing Accounting Estimates and Related Disclosures*, is, Schilder says, a very important contribution to auditing. ‘It goes to the heart of every audit, so strengthening it was a major move,’ he explains. The revisions ensure that the standard continues to keep pace with changing markets and fosters a more independent, challenging and sceptical auditor mindset. ‘The standard is asking auditors to always ask what lies behind the assumptions.’

It is this scepticism that is constantly reinforced throughout the work of the IAASB, and indeed national regulators around the world. This sits alongside another area of progress, the suite of proposed quality management standards, which were released in February 2019. These standards will change the way professional accountancy firms are expected to manage quality – for audits, reviews and other assurance and related services. ‘The fundamental change here is it shifts from a backward-looking quality control system to a more preventative, proactive approach so that auditors are sure they will have done the right thing,’ he explains.

The final area is non-financial reporting, with the release of a consultation paper in February 2019 on emerging forms of external reporting (EER) assurance. EER encapsulates many different forms of reporting, including integrated reporting, sustainability reporting and other reporting by entities about environmental, social and governance matters. ‘It is about exploring new ways and linking concepts, but it is also a major area of development for reporting, driven by a fundamental interest in the global environment,’ Schilder says.

A further key area where audit is rapidly evolving, and will continue to do so into the future, is the use of technology in the audit process. ‘I am very impressed with all the possibilities that new technology allows auditors to apply to the process, but the question is, how will this impact auditing standards?’ Schilder asks. Already, the IAASB’s technology group is assisting with the revision of some auditing standards, but feedback suggests that the issue is not so much that the standards are broken, as that they were written at a time of less rapid technological progress.

‘We are now in the initial phase of a project addressing the audit of the future. But auditors will always be required to help reduce uncertainty about financial reporting with their expertise and judgment. Society is relying on the auditors to deliver, and the challenge has not decreased,’ Schilder says.

There is, however, one big question that Schilder does not yet know the answer to. It is a philosophical question, but nonetheless one that needs to be asked as auditors are required to delve into more financial and non-financial areas. ‘How much is enough?’ he asks. ‘The interactions between the many stakeholders means we need everyone round the table. Public interest has moved forward so much in the last 10 years.’

And Schilder has no doubt that it will continue to do so into the future.

Philip Smith, journalist
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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.
Tear down the walls

When it comes to the mindset needed for steering strategic business alliances with third parties to drive growth, finance professionals are naturals, says Peter Williams

Faced with existential challenges on four fronts – economic, technology, societal and environmental – businesses of all sizes across the globe are working hard to come up with viable plans to fend off potentially insolvency-inducing disruption.

How these critical risks will play out over time is unknown and will be different for every business depending on its sector and size. But even in this fog of uncertainty, companies are formulating a variety of responses to ensure a profitable future.

According to KPMG’s 2018 global CEO survey, the top five strategies to drive medium-term growth are (in reverse order) outsourcing (10%), joint ventures (13%), mergers and acquisitions (16%), organic growth (28%) and strategic alliances with third parties (33%).

While the other strategies could be described as business as usual, the emphasis CEOs are putting on teaming up with others is intriguing. With digital technology allowing disrupters to enter markets almost at will, organisations are starting to think about embracing what were once deadly rivals.

One of the motives is to develop more rounded products and solutions for customers by pooling market-leading expertise. But the overriding objective is to ward off threats to market share and profits.

The key question at the outset of any potential strategic tie-up is to decide who will do what, how they will do it and what measures will be put in place to check if it is working. Partners also need to agree upfront to revisit the deal as events unfold.

Companies have to do much more than rush into the possibly equally hapless arms of a rival business to ensure that the future looks promising for stakeholders. Flexible thinking is required and an acceptance that there is no longer a single road to success. Strategic alliances are likely to cause some pain, as all involved must re-adjust culture and thinking.

Tricky as these new business models may be to kickstart, such collaboration could be a key way to solve seemingly intractable problems.

Increasingly, effective corporate leadership is going to be about working across traditionally defined corporate boundaries to proactively address the challenges, moving from good intentions and pretty words to pragmatic, realistic action.

The strategic alliance – if it really is set to become a significant corporate trend – requires a shift in mindset, with leaders able to reimagine a future of working together and connecting in unexpected ways to achieve innovation and sustainable growth.

Finance professionals have a strong hand to play here. It may be second nature to compete hard on the business front, but in a different context – standard-setting, say, or lobbying on tax – collaboration comes just as easily. Accountants have an undoubted agility to work effectively with new partners at a strategic level and to adapt quickly when circumstances threaten to blow alliances off-course.

Peter Williams is an accountant and journalist.
It’s the people, stupid

While the introduction of new regulations following financial crises is important, ultimately human behaviour drives poor practice, says Robert Bruce

We were visiting friends in Shropshire the other weekend, and instead of going off to see a stately home or a spectacular garden, we went underground – truly underground. We went to a nuclear bunker, preserved and dating back some 60 years, and looking pretty anonymous on the edge of a village.

But once we descended we felt the chill. There was a whole world of survival services preserved down there. Here was the BBC studio where the announcer would broadcast to the country after a nuclear attack. They wouldn’t know who was still alive on the surface. This was the era of the Cuban Missile Crisis, a time when the young, as ever, worried over their imminent destruction. It may be climate change and Extinction Rebellion now; it was eve of destruction and nuclear winter then.

It is a long time ago, but I can recall exactly where I was, mid-afternoon in the art room at school, as we all waited to discover, perhaps in the red arc of the end of the world, whether the Russians would heed the US ultimatum and halt the warships carrying nuclear missiles to Cuba, or not. We had all read the booklets, delivered to every household in the land, so we knew where to shelter (in the cupboard under the stairs). My father, managing a bakery at the time, was bread officer for Warwickshire, tasked with maintaining the supply of bread to whoever remained of the surviving populace after the attack.

But the crisis was averted. Millions upon millions did not die and five years later the hippie generation were celebrating, ‘peace, man’ at Woodstock and other freewheeling festivals. And now, unless you visit a nuclear bunker, people are oblivious to that very real threat to mankind.

This is important. As we enter that part of the summer when, on beaches, back gardens and in contemplative places generally, we take some sort of stock and plan ahead, we should remember that great crises are often of their time, reaching resolution and moving to the backs of our minds. Fashion also plays its part. Today, vegan diets are seen as conquering the world. But who now remembers that back in the days when I was a student it was macrobiotic diets that were expected to revolutionise our eating habits? Avocados are now revered; in the macrobiotic days they were reviled.

Forgotten lessons

Fashions rise, and fall, and are forgotten. This year people look back 10 years to the last great financial crisis (see also page 24). All the signs are that lessons have not been learned and have also been forgotten. A huge amount of regulation has been put into place and banks are, particularly in the US, more stable and solid. But the basic underlying problem remains. And that is people.

Regulation is theoretical and, the regulators hope, logical. People are not. All this was played out at the time of the Wall Street Crash, as the great...
The blame game

The economist JK Galbraith had this to say in his book The Great Crash, 1929: ‘No one was responsible for the great Wall Street crash. No one engineered the speculation that preceded it. Both were the product of the free choice and decisions of thousands of individuals. The latter were not led to the slaughter. They were impelled to it by the seminal lunacy which has always seized people who are seized in turn with the notion that they can become very rich.’

economist JK Galbraith recalled in his classic book about it. ‘This notion that great misadventures are the work of great and devious adventurers, and that the latter can and must be found if we are to be safe, is a popular one in our time,’ he wrote. And instead of asking: ‘What has happened?’, everyone clamours for an answer to the question: ‘Who has done this to us?’

We saw this again this summer with the crisis over the fashionable stockpicker Neil Woodford and his investment funds. The immediate response was not to say that the investors were foolish to have put all their eggs in one basket but instead to ask why the regulators had not saved them.

In the long term it is worth remembering what we worried about in past decades and what we might worry about in the years ahead. With the wildness of the politicians we currently have and the chances of disaster, from climate change to collapsing financial institutions, it is ever more important that we focus on practical issues rather than the noise around them.

Robert Bruce is an accountancy commentator and journalist.

July/August 2019 Accounting and Business
At last the UK is getting down to fundamental questions about audit. Sir Donald Brydon has boiled down his independent review into the quality and effectiveness of audit into three questions: what is audit, who is it for and does it meet requirements? ACCA’s recent report, *Closing the expectation gap in audit* (see also page 66), sorts the answers into three components, (lack of) public knowledge, auditors’ performance and the need for audit to evolve.

Closing the performance gap is crucial. Auditors should do what they say they have done in their report to shareholders: check the truth and fairness of the accounts and the company’s compliance with the Companies Act, confirming their independence of the company.

If they applied the proper materiality test, based on matters that might alter the economic decisions of accounts users, that would help too. It also serves as a reminder that it is not just shareholders who have skin in the game. So do all creditors, including suppliers.

This brings us to the scope of audit and its evolution. Scope is widening in at least two ways. First, the nature of modern businesses and balance sheets means that auditors increasingly have to look at management’s cashflow forecasts because that is what drives the value of intangible assets such as goodwill. There is no escape from assessing management’s view of the future.

Second, the revised International Standard on Auditing (UK) 570, on the going concern basis of accounting, increases demands on auditors significantly. For example, assessing the risk of a business model means watching out for tipping points such as the one that has affected government contractors. This work used to be very profitable, but intense competition, coupled with cost-cutting by clients, made it a curse to be a winner.

A third way in which scope is likely to broaden is in inspection of information beyond the financial statements. A bank’s risk-weighted assets and the use of adjusted profit numbers are just two examples. This extension should focus on financial information. Auditors are not best placed to check social and environmental impact.

It would also be a step too far to regard the primary audience as the public. They might expect auditors to prevent company failures, but they need to be told that this is not possible. It would mean public appointment of auditors via the government and its agents.

Which brings us to the knowledge gap. Auditors must not hide behind this, but nor should they be scapegoats. The main responsibility for the numbers lies with company boards, and those who invest or lend money should do so advisedly, using the wealth of financial and other information available.

Jane Fuller is a fellow of CFA Society of the UK and co-director of the Centre for the Study of Financial Innovation.
The view from

Chengai Ruredzo ACCA, financial controller at Open Energy Market, and former national hockey player

As a top student at school in Zimbabwe, I was encouraged to consider a career in medicine. However, after Deloitte & Touche visited our school, I joined the firm in the audit department at the age of 18. With Zimbabwe experiencing a period of political and economic difficulty, my family moved to the UK and I joined them in 1998. However, I was headhunted by IBM, and the offer saw me return to Zimbabwe within the same year. During my time there I won awards for debt collection in the region as the accounts receivable team leader.

Several multinational companies pulled out of Zimbabwe in 2000, so I returned to the UK, where my student visa restricted me to working 20 hours a week. The next 12 years saw me do various jobs including working as a cleaner for four hours a week. My first accountancy role was working for a technology company in Mayfair.

When my family applied for permanent residency in the UK, our file was lost and it took seven years to obtain my British citizenship. I lost my job and received my indefinite leave to remain in the UK while I was homeless.

After two years I secured a full-time role as a finance manager for a group of companies where I improved the cashflow position by 350% in 12 months. I was then a senior finance business partner at a global charity before joining a technology company as finance manager.

The company has grown, and I have been promoted to financial controller. My responsibilities include the financial accounts and managing the audit process.

The ACCA Qualification is a robust qualification. It is very thorough and prepares you to work in any industry with confidence. I have been contacted by ACCA students from around the world asking me to mentor them, which has been very rewarding.

I won a silver medal in 1997 representing Zimbabwe at the Under 21 World Cup Hockey Qualifying Tournament. After 19 years, I returned to play the sport in the Masters World Cup Hockey Tournament 2018 held in Spain. My faith plays an important role in my life. I have been attending the same church for 17 years.

55% of millennials globally believe that businesses have a positive impact on society – compared with 61% in 2018.

Source: 2019 Deloitte Millennial Survey

Apprenticeship levy

The government is a long way short of meeting its targets for new apprenticeships, the House of Commons public accounts committee (PAC) has reported. Apprenticeship starts fell by 26% after the apprenticeship levy was introduced in spring 2017. The committee concluded that while the level is now recovering, the government will not meet its target of three million starts by March 2020.

‘The way the programme is evolving is out of kilter with the Department [for Education]’s objectives: opportunities for people with lower skills are diminishing and apprenticeship starts in disadvantaged communities has fallen,’ said PAC chair Meg Hillier.

Director probes go up

The Financial Conduct Authority (FCA) has more than doubled its number of investigations into company directors over the past two years. Last year the FCA conducted 58 investigations into directors, up from 24 in 2016. Of last year’s investigations, 27 were for alleged culture and governance failings. There has also been a big increase in reports of complaints of improper behaviour, including sexual harassment, homophobia and bullying.
Climate challenge

Better corporate reporting on climate issues will help business, investors and the planet. Barbara Davidson explains how to become a disclosure warrior

Gone are the days when only ‘socially responsible’ investors focused on environmental and social issues. Scientific evidence, such as the special report from the Intergovernmental Panel on Climate Change (bit.ly/IPCC-SR), along with the financial and social consequences of climate disasters and stranded assets, highlight the need to understand the risks and opportunities across all portfolios.

While investors appreciate the importance of allocating capital towards a more sustainable economic system, the lack of adequate, comparable corporate disclosures often makes it difficult to do so. Positive strides have been made, such as the recommendations of the Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD) and the EU’s Non-Financial Reporting Directive (NFRD) (bit.ly/TCFD-report and bit.ly/non-fin-rep-dir, respectively), but more work is needed.

So how might accountants help? Here are some ways to tackle the corporate disclosure challenge.

**Getting started**

Determine if the company’s published reports and local requirements already address material climate risks and the strategic opportunities that the company faces. What are the gaps? For context, the Climate Disclosure Standards Board (CDSB) and the CDP (formerly the Carbon Disclosure Project) discuss gaps, in their First Steps review (bit.ly/CDSB-CDP).

Speak with investors or your investor relations team to understand stakeholder concerns. Investor surveys (such as the one at bit.ly/inv-survey-2019) and papers such as Investor Agenda for Corporate ESG Reporting (bit.ly/inv-agenda) provide further insight into expectations and needs, including determinations of materiality.

While numerous frameworks, standards and guidelines are available, the mass of overlapping information may leave you confused and frustrated.

If you’re unsure where to begin, use the landscape map from the Corporate Reporting Dialogue (CRD, bit.ly/CRD-map) to navigate financial and non-financial reporting resources. Some CRD participants are working on the Better Alignment Project to reduce redundancies across frameworks (bit.ly/CRD-alignment). For industry or sector-specific materials, turn to the...
Given the anticipated financial impact of climate change on companies, many investors expect boards to oversee these issues. So, if possible, get buy-in from senior management; their support will underline the importance of gathering and disclosing this information.

Get collaborating
Collaborate internally: many departments still work in silos, recreating the same data that others need but in different formats. Collaboration can also identify risks that need managing and allow strategic business possibilities to be shared.

Externally, networking events provide chances to speak with experts and others undergoing a similar process. Some regulators are considering mandating what are currently voluntary disclosures, such as the TCFD recommendations. Others have started beefing up requirements. The UK, for example, recently issued streamlined energy and carbon reporting regulations (bit.ly/Streamlined-ECR). Preparing material using the same rigour that you would for an audit is a good management tool that could give you a head start on future requirements.

Recommendations from the First Steps review may provide a glimpse into future policy discussions. Keep an eye on other relevant projects such as proposed changes to the International Accounting Standards Board’s (IASB) Management Commentary Practice Statement (bit.ly/IASB-man-com) and the FRC’s UK Stewardship Code (bit.ly/stewardship-code).

For reporting progress towards the UN’s Sustainable Development Goals (SDGs), see the online platform developed by the GRI (bit.ly/GRI-SDG-reporting). The SDG Compass (sdgcompass.org) and various ISO standards (eg ISO 26000 and the 14000 family) can help. You can find frameworks mapped to SDGs in CRD’s report The Sustainable Development Goals and the future of corporate reporting (bit.ly/CRD-SDGs).

Providing investors with decision-useful climate-related disclosures may create an additional, unwelcome burden, but it won’t go away

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All too much?
To some, this iterative process that takes time (and money) may be an unwelcome addition to the day job, but it’s not going to go away. Don’t despair. Although companies face a significant task in providing investors and other stakeholders with decision-useful climate-related disclosures, better information assists in allocating capital to sustainable business activities.

By understanding the risks companies face, such as water shortages, rising resource prices or future regulation, investors can adjust their valuations and formulate more efficient engagement strategies. Knowledge of future planning, such as new product lines, can create value. So use the resources available, collaborate when possible, and embrace the opportunity to help bring about positive global change.

Barbara Davidson has 20 years’ experience in international financial markets and was formerly head of investor engagement at the IASB.
On shaky ground

With the aftershocks of the financial crisis being felt to this day and economic stability still a distant dream, finance professionals can be forgiven for feeling a bit unsettled.

In 2009 the G20 met in London’s ExCeL Centre to agree a package of reforms to deal with the financial crisis. A decade on, and that crisis doesn’t feel particularly ‘dealt with’ at all.

‘There is a real sense that there is something broken in the world economy,’ said economic historian Adam Tooze, speaking at the same venue at the annual conference of the CFA Institute in May.

But while the G20 only partially endorsed then prime minister Gordon Brown’s plan for a massive global stimulus, they did agree to increase the International Monetary Fund’s funding capacity to more than $1 trillion to stabilise economies. Authorities on both sides of the Atlantic bailed out banks, while economies such as Russia and China, with large foreign exchange reserves, self-insured. The Federal Reserve provided liquidity on ‘an unprecedented scale’ to New York banks and offered ‘unlimited overdraft facilities’ to the European Central Bank and the Bank of Japan.

‘This set the stage for a rapid stabilisation, above all in North America and the US,’ according to Tooze. ‘What the participants could not know was the drama that was going to unfold around UK and Europe from spring 2010.’

The ensuing eurozone crisis and double-dip recession led to what Tooze calls ‘the protracted agony of the eurozone all the way down to today’. European banks are still fragile today, having failed to adequately recapitalise, and politicians have not fixed the problems with the eurozone.

Tooze calls for structural reform, pointing out that ‘the euro is politically indispensable, but there a complete absence of political leadership to push it towards the changes needed’.

Although the US now looks more stable, with bigger banks that have a less risky profile and that are now more insulated from European banks, there is still the threat of the ‘doom loop’: the deep connection between sovereign finance and bank finance. ‘And this is not just anywhere,’ says Tooze, ‘not somewhere like Greece, which is small enough to manage, but in the country that was and always will be too big to fail and too big to save: Italy’.

All eyes on China

Tooze points out that emerging markets got away relatively lightly. ‘What did not happen was the aggregating event that could actually tie everything together into a general calamity,’ says Tooze. ‘And the reason for this is China. In the US we have a relatively stable economic system and politics. In Europe we have deadlock. China is the story where the economics are most dramatic.’

China remains a giant anomaly: it has an overhang of excess debt, which mirrors that seen in places such as Thailand and Denmark just before a major crisis, but without the high levels of per-capita GDP and the sophisticated financial systems of those countries. Despite having undergone a major restructuring of its banking system, Tooze points out that China’s financial system still lacks transparency, making it hard to assess the risk.

Should a new crisis occur, he says, there is a further problem – the ‘populist syndrome’, which has struck Western politics and disrupted the policy agenda, and may hamper future interventions. ‘People on the left and on the right are unwilling to buy in to the notion that there is an alignment

Professionals and an uncertain future

Speaking at a panel session at the CFA Institute’s annual conference, which saw the launch of its Investment Professional of the Future report, ACCA chief executive Helen Brand talked about how professional bodies can support their members through the coming period. ‘There are a number of attributes – intelligence, creativity, digital competence – that people are going to have to dial up and dial down during their careers,’ said Brand. ‘The growth mindset is going to equip us to flourish.’

But she emphasised that of equal importance is the global mindset. ‘Generation Next are very values-driven,’ she said. ‘They want to know that they are doing something worthwhile for an organisation’. In addition, Brand cited ACCA research that found 80% of Generation Next members are planning to start their own businesses. ‘The entrepreneurial mindset is very strong and that’s the one that we have to harness,’ she said. ‘They are using the ACCA Qualification to help them go out and create wealth in a different way or have a different kind of career, and that’s a societal good that we have to support.’
of interests between the national economy and private corporations,’ says Tooze.

In addition, with relations between the US and China escalating from a regular trade war to a systemic confrontation, Tooze says ‘you can find yourself, as an actor in a financial corporation, caught up in a geopolitical situation, and this is profoundly destabilising. That’s the world that we’re all struggling to come to terms with. More and more finance professionals tell me they simply can’t believe how much time they have to spend reading the political and the geopolitical news right now.’

Mick James, journalist
Independent collaboration

The challenges internal auditors face to strike a balance between being independent scrutineers and trusted advisers were explored at ACCA's Internal Audit Conference.

Standards exist to provide a reliable basis for people to share the same expectations about a product or service. For internal auditors, the most important of these are independence and objectivity.

The Institute of Internal Auditors defines these as ‘freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner’ and ‘an unbiased mental attitude’ that allows them to believe in their work product and ensure ‘no quality compromises are made’.

So can those standards be met? Generally speaking, the answer is yes, according to portfolio non-executive director, Geraint Davies, who spoke at this year’s ACCA Internal Audit Conference. However, he observes that doing so ‘can be less of a Holy Grail’ and ‘more of an unholy alliance’.

For organisational independence, there has to be in place an internal audit charter, risk-based audit plans, and an audit budget and resource plan,’ he says. Line management has to be clearly defined and there should be ‘no no-go areas’, as these could threaten independence. ‘Once you have to manage something, your independence is impaired,’ he says.
Davies challenges auditors to consider being invited into all areas of the business, and all meetings and strategy days. ‘If it’s not happening, ask yourself why not? And then push for it.’

The person to look to for support, as a ‘trusted adviser’, is the company secretary, because of their role in ensuring the board’s probity and efficacy. ‘The company secretary should have a primary role in ensuring the head of internal audit can go where the risks dictate and not be influenced by those in the executive,’ says Davies.

Trusted adviser
Paul Mills, head of financial risk and governance at the Financial Ombudsman Service, also speaking at the conference, was clear that alongside independent assurance, the insights, experience and recommendations that internal auditors can offer a business are both wanted and needed. ‘Of course, you can take an absolutist viewpoint and say that you provide independent assurance and that’s it,’ he says. ‘But the insights you get from other clients, backed by evidence, is something businesses want to tap into.’

He emphasises that it’s vital to engage with the people being audited and work out what they’re trying to do and how, as is the rigour and objectivity that internal auditors can bring to this process. ‘Give an honest view of what you think is really going on and avoid being sucked into being too emphatic,’ Mills adds. ‘There are definitely pitfalls to avoid – group think and blind-spot biases among others – so ask yourself the hard questions if you think you’re getting too involved.’

Mills acknowledges that there will always be times when internal auditors must stand back and say to others in the business: ‘I really want to help you, but I’m not going to be able to because it’s not my role.’ In these cases, hopefully the internal auditor can point them in the right direction to get help.

Derek Anderson, head of internal audit and assurance at the Northern Ireland Education Authority, and a fellow speaker, agrees. When the going gets tough and businesses get in trouble, he says, organisations want more than compliance monitoring from their internal audit service. ‘They want an understanding of the business and the provision of advice and guidance. If they are up to their middle in the sticky stuff, it’s not very effective if I cite independence and objectivity as a reason that I can’t help. That’s not really assisting the organisation, and it’s the argument for riding a coach and horses through the independence argument.’

However, Anderson does feel it’s his job to put in controls and processes that stop businesses getting into the ‘sticky stuff’ again, and then stand aside. ‘I can’t be permanently doing that – it’s sticky stuff, it’s not very effective if I cite independence and objectivity as a reason that I can’t help. That’s not really assisting the organisation, and it’s the argument for riding a coach and horses through the independence argument.’

Internal Audit Network Panel
ACCA UK’s Internal Audit Network Panel, which organised this year’s ACCA Internal Audit conference, also works with ACCA to develop resources for internal auditors, including webinars, an e-bulletin published three times a year and an internal audit online hub. The hub contains guides and resources for those working in internal audit, as well as those thinking of moving into internal audit. Visit bit.ly/accaiahub.

It’s generally agreed that if internal audit is to add value to an organisation, there needs to be an investment in relationships with the board, audit committee, senior management and business stakeholders. For Anna Newcome, presentation and communication coach at CTS Presentations, who also spoke at the conference, getting the most out of these relationships is about listening.

‘Failing to listen carefully means you can’t know how to respond,’ she says. ‘It immediately creates frustration and sets up a negative relationship. On the other hand, if someone feels they’ve really been heard, they will be much more inclined to comply with any suggestions that you make. Giving solutions, jumping to conclusions, judging and interrupting are all barriers to good listening, and create a wall between two people.’

Newcome also draws attention to good communication: for someone trying to create an impact and ensure the listener is clear about the message being communicated, an awareness of body language and tone of voice are more crucial than what’s being said.

So, given that getting close to businesses and the people in them is part of the role of most internal auditors, is independence really possible? Davies sums it up: ‘Yes, it is – the private sector is getting there, but the public sector is a way behind. Is it easy? No, it’s not. It’s a journey, not a destination.’ ➤

Jill Wyatt, journalist

‘If organisations are up to their middle in the sticky stuff, it’s not very effective if I cite independence and objectivity as a reason I can’t help’
Missing in action?

Accountants find themselves in the crosshairs as the money laundering scandal surrounding the Estonia branch of Denmark’s biggest bank rumbles on.

Before the acquisition, it had been warned by the Russian central bank about what looked like ‘criminal activity in its pure form, including money laundering’ at Sampo. Given this warning, the fact that the bank did not subject customers to ‘politically exposed persons’ checks or screen incoming payments against sanctions or terror lists is hard to understand.

Accountants have clear anti-money laundering (AML) responsibilities. Where they suspect there may be laundering, they must submit a suspicious activity report. They don’t have to worry about proving their suspicion or finding where any dirty money has gone – that is up to law enforcement. Accountants don’t even have to be certain that suspicious activity is going on – they can report on the basis of an inkling. After the scandal broke, it emerged that the Estonian branch had filed reports of suspicious activity by 653 non-resident customers between 2007 and 2015 without ringing alarm bells at Danske or the auditors.

‘Ultimately, both the bank and the auditor are responsible for identifying and reporting suspicious activity and the failure of one does not exonerate the other,’ says Juan Gomez, senior manager – AML, at ACCA. ‘It is crucial that banks and accountants are aware and understand their responsibilities and how to discharge them.’

Gomez says accountants are key gatekeepers for the financial system and have a significant role to play in preventing and detecting money laundering. ‘Accountants should be alert to the red flags of money laundering and read the signs,’ he says. ‘However,
accountants take a twin-track approach: ‘They should take advice on reliable emerging technology to screen their customers and initially identify who could be deemed risky. This keeps time and cost to a minimum. If they have suspicions, they need a trained in-house team or external advice to help them decide who they are willing to onboard and who needs a closer look.’ He stresses, though, that technology and advice are only so ‘they can flag it – it’s not their job to investigate whether there is in fact criminal activity’.

Low rates of compliance
Whether or not the auditors got it wrong, Danske’s situation indicates a broader problem with AML compliance, particularly in banking. A 2017 Thomson Reuters survey found that only 47% of UK banks had taken action to implement all AML regulation, which is itself becoming more layered and wider in scope. So what does the future hold?

Banks in particular can see they are only a handful of failed checks away from a serious fine or being caught up and implicated in a terrorist incident. Compliance is not optional. However, these businesses are hugely complex, with thousands of clients, hundreds of thousands of beneficiaries and millions of transactions. A recent paper by Consult Hyperion points out that each AML-necessary know-your-customer (KYC) check costs between £10 and £100. The paper also reveals that KYC checks have a high rate of failure due to reliance on manual processing and poor-quality third-party data sources.

There is hope that technology may help banks and their auditors with compliance and testing. The growing adoption of electronic identification across the EU, as well as more powerful tools to comb and connect transactions, means that businesses are swiftly gaining the capability to check on prospective and existing customers. Charles Blackmore of Audere International, a private intelligence firm, suggests businesses and their accountants take a twin-track approach: ‘They should take advice on reliable emerging technology to screen their customers and initially identify who could be deemed risky. This keeps time and cost to a minimum. If they have suspicions, they need a trained in-house team or external advice to help them decide who they are willing to onboard and who needs a closer look.’ He stresses, though, that technology and advice are only so ‘they can flag it – it’s not their job to investigate whether there is in fact criminal activity’.

Gomez agrees. ‘It’s not about asking accountants to do additional work hunting for criminal activity when providing services to their clients, but about them understanding their responsibilities and recognising the red flags,’ he says. ‘Accountants must keep their eyes open and report anything that becomes suspicious or does not make sense. However, without relevant intelligence from law enforcement, red flags will be missed,’ he warns.

Felicity Hawksley, journalist
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.** This 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.

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Regardless of sector, companies can usually derive huge value from being able to draw on the powerful ‘made in Italy’ brand. It is associated with a high level of quality, specialisation and differentiation, and is closely connected with Italy’s luxury goods industry.

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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.

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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
The X files

The world’s financial markets are gradually crossing the digital divide, and taking listed company annual reports with them.

Every day, advances in digital technologies are increasing the volume and variety of available data and the ease with which we can collect, extract, manipulate and use it to enhance decision-making in our personal and our professional lives. But so much more is possible – particularly with the financial data that listed companies make available in their annual reports and compliance filings.

Technology exists to allow investors, regulators and other stakeholders to automatically assemble and analyse comparable financial data from listed companies across the globe. The Securities and Exchange Commission (SEC) in the US has been experimenting with the possibilities for decades and was an early adopter (see ‘Born in the USA’ box); other regions and regulators have shown less pioneer spirit.

There have been voluntary and mandatory financial filing initiatives using eXtensible Business Reporting Language (XBRL) by regulators in Australia, Denmark, Japan, the UK and other countries, and more are coming. Suruhanjaya Syarikat Malaysia, the country’s business regulator, recently adopted XBRL for the annual and financial filings of over a million companies, and big changes are on the way in Europe too.

For annual periods beginning 1 January 2020, the EU requires listed companies to report annual financial statements in the European single electronic format (ESEF). ‘It will make financial statements more accessible and more easily comparable for investors, improving transparency and contributing to increased investor protection,’ says Steven Maijoor, chair of the European Securities and Markets Authority (ESMA).
Born in the USA
The SEC, began collecting documents electronically in 1984 to help investors access information. From 2009 it required companies to provide their financial statements in the XBRL structured data format, and from June 2019 it will start shifting to iXBRL to provide content readable by machines and humans in a single XHTML file.

The idea behind XBRL also originated in the US, in 1997, when accountant Charles Hoffman started exploring how XML (eXtensible Markup Language) could be implemented for financial data.

‘The single electronic format allows the analysis of large amounts of financial information without extensive and burdensome manual processing, and will provide users with financial information that can be easily compared and transformed to other formats,’ he says. ESMA specified the use of ESEF – with its inline XBRL (iXBRL) in an XHTML file – as a result of the EU transparency directive.

Readers who need to know what these abbreviations mean, or understand the tags and taxonomies, can learn more from ACCA and ESMA (see the ‘More information’ box) and from specialists such as audit and accountancy firms and software suppliers. Most accountants simply need to know that XHTML with iXBRL embedded will allow filings to be read by humans (on screen or in a printout) and software alike.

Some aspects of ESEF are not yet finalised and are waiting on decisions in individual EU countries. Even so, annual report production processes in affected organisations will probably need to change. Currently most annual reports are custom-designed paper documents (and PDF representations of them), so moving to an e-document is not insignificant.

‘It’s quite a big shift in the way that companies prepare and produce their annual reports,’ says Thomas Toomse-Smith, who leads the digital corporate reporting project for the Financial Reporting Lab of UK regulator the Financial Reporting Council, which has published a helpfully non-techy report on XBRL, prompted by the prospect of ESEF.

Some preparers expect ESEF to add cost and complexity, if they create XHTML documents and retain PDFs, or are dual-listed in the EU and US. ‘Some bits of the process will need to be done once for each jurisdiction,’ says Andi Wood, senior director of data modelling for audit software supplier Workiva, but there may be efficiencies because SEC and EU requirements will be using iXBRL and IFRS Standards.

Learn from the pioneer
Widespread multijurisdictional adoption of XBRL (in its human and machine-readable iXBRL form) has the potential to make financial statements more accessible, more transparent and more easily comparable for investors and other stakeholders. But national regulators will need to avoid some of the problems the SEC encountered as a pioneer (and grapple with new challenges too). The SEC discovered the hard way, for example, that the flexibility of XBRL can result in too much customisation, which then reduces rather than increases comparability.

A world view on XBRL may be key to its success. The FRC Lab report on XBRL urges collaboration, innovation, leadership and support among regulators, standard-setters, the technology community, preparers and investors. ‘The potential for XBRL to truly deliver for preparers and consumers of corporate reporting will need a sustained focus from all those concerned,’ it states. The benefits are not guaranteed.

Lesley Meall, journalist

Get CPD units by answering questions on this article at accaglobal.com/abcpd.
Find ESMA resources on ESEF, XHTML and XBRL (including video tutorials) at bit.ly/ESMA-ESEF.
Read the FRC’s XBRL deep-dive report, Digital future of corporate reporting, at bit.ly/FRC-XBRL.
Is it time to regain control?

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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

<table>
<thead>
<tr>
<th>Frequency</th>
<th>2019</th>
<th>2018</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daily</td>
<td>6% (+2% pp)</td>
<td>25% (+3pp)</td>
<td></td>
</tr>
<tr>
<td>Weekly</td>
<td></td>
<td>36% (+1pp)</td>
<td></td>
</tr>
<tr>
<td>Monthly</td>
<td></td>
<td>23% (−2pp)</td>
<td></td>
</tr>
<tr>
<td>Few times a year</td>
<td></td>
<td>3% (unchanged)</td>
<td></td>
</tr>
<tr>
<td>Once a year</td>
<td></td>
<td>7% (−3pp)</td>
<td></td>
</tr>
<tr>
<td>Never</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Region</th>
<th>2019</th>
<th>2018</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>86%</td>
<td>86%</td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>67%</td>
<td>48%</td>
<td>+19%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>64%</td>
<td>42%</td>
<td>+22%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>61%</td>
<td>37%</td>
<td>+24%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>47%</td>
<td>38%</td>
<td>+9%</td>
</tr>
<tr>
<td>Singapore</td>
<td>46%</td>
<td>34%</td>
<td>+12%</td>
</tr>
<tr>
<td>Middle East</td>
<td>45%</td>
<td>25%</td>
<td>+20%</td>
</tr>
<tr>
<td>Philippines</td>
<td>45%</td>
<td>31%</td>
<td>+14%</td>
</tr>
<tr>
<td>Russia</td>
<td>45%</td>
<td>27%</td>
<td>+18%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>40%</td>
<td>23%</td>
<td>+17%</td>
</tr>
</tbody>
</table>

Financial sector struggles
The need for personalisation and explanation makes it hard for financial services to acquire customers online.

Financial services purchasing and decision-making via digital channels

<table>
<thead>
<tr>
<th>Service</th>
<th>2019</th>
<th>2018</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal loan taken out</td>
<td>13%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance bought</td>
<td>15%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial planning decision made</td>
<td>12%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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
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 particular skills and perspective of the finance professional can mean the difference between success and failure.

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 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.

By involving finance professionals from the very beginning, costly mistakes can be avoided

Philip Smith, journalist
The leaders of Japan and the EU meet after the world's biggest free trade agreement came into force, scrapping nearly all customs duties between Japan and the EU.

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.
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 (e.g. 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.

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.
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

‘Tariff levels are low for most economies, so if free trade agreements are to contribute to trade growth, they will have to go deeper’
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 on how to get the most out of building a network at bit.ly/ACCA-playlist.

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 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

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

People with whom you have genuine social relationships may be unable to give you the kind of guidance and criticism you need
a background or people with whom you have genuine social relationships may either be unable or unwilling to give you the kind of guidance and criticism that you may need.

The kinds of people you network with will also determine your success. A study led by Zhongfeng Su at Nanjing University in China looked at the networking behaviour of Chinese entrepreneurs. Engaging in political networking – attempting to cultivate links with government officials – was correlated with poorer business performance. In contrast, engaging in business networking with buyers, suppliers and competitors was associated with better business performance.

I mention the study by Su’s team not to imply that everyone must network more with buyers, suppliers and competitors and never with government officials. Instead, the point is that there are likely to be marked differences in the kinds of networking that will be appropriate and effective for people in different roles, industries and countries.

Perhaps the best advice on networking is to identify and learn from high-performing individuals with strong, effective networks who are in your line of work and industry. What do they do – and how might you emulate it for yourself?

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 perspectives.
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.

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.

### More information

Get CPD units by answering questions on this article at accaglobal.com/abcpd

### 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.
Level of detail

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.

In previous editions, AB has looked at how accounting standards such as IAS 38, Intangible Assets, have failed to adapt to the world of fair value measurement, where they state that intangible assets can only be revalued with reference to an active market.

An active market is one in which transactions take place with sufficient frequency and volume to provide pricing on an ongoing basis, but such markets are uncommon for intangible assets. This means that intangible items are often held at historical cost, with no reflection of a more ‘up-to-date’ value included.

The result of this is that many entities’ internally generated assets go unrecorded, shown as valueless. In the eternal Messi-Ronaldo debate, accountants have long known who is the most valuable. Cristiano Ronaldo is shown at the cost of €115m in the books of Juventus, whereas Lionel Messi is valued at €0 in the books of Barcelona. That may not settle many debates on radio phone-in shows, but it is enough to satisfy the auditors.

The use of fair values has always been contentious in the accounting world. There are some who firmly believe that such figures can be unreliable and even dangerous. Extreme examples such as the 2007 US housing bubble only serve to further this argument.

In 2011, IFRS 13, Fair Value Measurement, was introduced in an attempt to provide further guidance for holding items at fair value. It does not determine when an item is measured at fair value, as this is covered by the applicable rules outlined in other standards, as shown in our Messi-Ronaldo comparison.

IFRS 13 seeks to provide preparers with guidance by defining fair value. If you ask most people what an item’s fair value is, they will probably conclude something along the lines of it being what another party is willing to pay for it. While that is a seemingly sensible response, realistically it falls some way short of the practicalities of how values should be derived in respect of some of the modern, complex instruments held by entities today.

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
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.

More information

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Technical update
Glenn Collins, ACCA UK's head of technical advisory, provides a roundup of the latest developments in audit, reporting, tax and law

**Audit and reporting**

**Investment reporting**
As highlighted last month (bit.ly/update-jun19), the Financial Reporting Council’s (FRC) Consultation on revising Standards for Investment Reporting is open until 26 July. It is important to note that new EU-wide prospectus rules are effective from July 2019, and the proposed changes are required to reflect this.

**Amendments to FRS 102**
After consulting earlier in the year on amendments, the FRC has issued the changes for multi-employer defined benefit plans. Early adoption is permitted, with the amendments effective for accounting periods beginning on or after 1 January 2020. As highlighted by the FRC, the change is to ‘respond to a current financial reporting issue regarding where to present the impact of an employer’s transition from defined contribution accounting to defined benefit accounting; it shall be presented in other comprehensive income’. You can view the revision at bit.ly/frs102-amend and see the FRS 102 standard at bit.ly/frs102-pub.

**FRC priorities**
The FRC has set out its strategic priorities for 2019/20. The headline priorities are to:
* support the transition to the new Audit, Reporting and Governance Authority
* drive a step-change in audit quality in the UK, using its supervisory and standard-setting powers
* increase the planned number of corporate reporting reviews, and work to address the independent review’s recommendations that it should cover the whole of a company’s annual report
* use its expanded enforcement resources to manage an increasing caseload and accelerate decisions
* promote high-quality corporate governance and investor stewardship, including through a new Stewardship Code.

The plan also highlights that the FRC will increase its reviews. The following paragraphs from the report indicate the FRC’s areas of scrutiny: they will expand ‘work on the quality of that part of an audit conducted overseas, preparing to extend the scope of our reviews of corporate reports to cover the whole annual report, and broadening our work on oversight of the accountancy profession.’ We are increasing the planned number of corporate reporting reviews we undertake, concentrating on the main issues that we believe boards and preparers need to address. We will also work to address the independent review’s recommendations on the impact and visibility of this work, and that it should cover the whole of a company’s annual report.

‘We introduced a new UK Corporate Governance Code in 2018, to apply from 1 January 2019. As an important part of our work in 2019/20 we will extend our monitoring of practice and reporting on corporate governance, and of how effectively companies are implementing the new Code.’ More at bit.ly/frc-transition.

**Charity examinations**
The CC32 checklist provides guidance to support independent examiners of charity accounts. It highlights, and provides guidance on, each direction the examiner must follow:
* **Direction 1:** check whether the charity is eligible to have an independent examination.
* **Direction 2:** check for any conflict of interest that prevents the examiner from carrying out their independent examination.
* **Direction 3:** record your independent examination.
* **Direction 4:** plan the independent examination.
* **Direction 5:** check that accounting/records are kept to the required standard.
* **Direction 6:** check that the accounts are consistent with the accounting records.
* **Direction 7:** if the accounts are prepared on an accruals basis and one or more related-party...
transactions took place, the examiner must check if these were properly disclosed in the notes to the accounts.

* **Direction 8:** check the reasonableness of the significant estimates and judgments and accounting policies used in accounting for the types of fund held and in preparing the accounts.

* **Direction 9:** check whether the trustees have considered the financial circumstances of the charity at the end of the reporting period and, if the accounts are prepared on an accruals basis, check whether the trustees have made an assessment of the charity’s position as a going concern when approving the accounts. Where accruals accounts are prepared, the examiner must ensure that the disclosures about going concern required by the applicable Statement of Recommended Practice (SORP) are made and that the trustees’ assessment of going concern is reasonable given the available information. In particular, the examiner must check if any material uncertainties related to events or conditions that cast significant doubt on the charity’s ability to continue as a going concern are disclosed in the notes to the accounts. Where receipts and payments or accruals accounts are prepared, the examiner must consider whether the trustees have assessed what invoices, bills and commitments remain outstanding at the end of the reporting period and whether the trustees have identified if they can settle these as and when they fall due.

* **Direction 10:** check the form and content of the accounts.

* **Direction 11:** identify items from the analytical review of the accounts that need to be followed up for further explanation or evidence.

* **Direction 12:** compare the trustees’ annual report with the accounts.

* **Direction 13:** write and sign the independent examination report. Under each of the directions it is highlighted what the examiner ‘must’ do. These are legal requirements, such as under direction 4, which states that “In order to plan the specific examination procedures appropriate to the circumstances of the charity, the examiner must review:

- the charity’s constitution
- the way the organisation is controlled and managed

whether action has been taken on any previous recommendations for improvement

- the accounting records and systems

- the charity’s structure, its funds and how fund balances changed in the year

- the charity’s activities in the year and spending and the financial risks the charity faces.”

The guidance is clear on obligations, stating that:

* ‘must’ means something is a legal or regulatory requirement or duty that the independent examiner must comply with or must follow in the conduct of their examination.
* ‘should’ means guidance that is good practice that the commission expects the examiner to follow when carrying out their examination.

* ‘recommended’ or ‘may’ mean a recommendation or practice that the commission believes that independent examiners may find helpful in carrying out their independent examination. The examiner has discretion to exercise their own judgment and follow different practices where they consider that these are more suitable for the charity’s circumstances.

You can find the guidance at bit.ly/gov-guide-cc32.

Tax

Intangible property
The technical consultation on the (draft) Income Tax (Trading and Other Income) Act 2005 (Amendments to Chapter 2A of Part 5) Regulations 2019 that amends the offshore receipts in respect of intangible property (ORIP) is open for comment until 19 July. The Finance Act introduced the legislation and it came into effect on 6 April 2019.

The ORIP legislation imposes income tax on amounts received by persons resident in low tax jurisdictions for intangible property (such as brands, patents and copyrights) where those amounts are referrable to the sale of goods or services in the UK.

There is an exemption from charge for those who do not have UK sales in a tax year of more than £10m. However, the meaning of a person’s UK sales is very widely defined, and includes the person’s UK sales combined with that of any person connected to them.

The guidance states that ‘UK sales includes amounts that have been received, or to which there is an entitlement, whether of a capital or revenue nature. The amount can be wholly, or in part, and directly, or indirectly, relating to the provision of services, goods or other property constituting UK sales. Note that this will include the revenue from UK sales made by connected persons (as well as those through third party resellers). The measure of the UK sales threshold is the total sales revenues of the group and is not calculated by reference to UK-derived amounts. Connected persons follows the ITTOIA definition in Part 2 Schedule 4 (s993 of ITA07).’

You can read the guidance, legislation and explanatory information at bit.ly/gov-draft-orip.

HMRC toolkits
If you use the toolkits as a reminder, or utilise the checklists, note that the 2018/19 toolkits are being updated. They include the Chargeable gains for companies toolkit. Visit bit.ly/agent-toolkit.

Employment allowance
Most eligible businesses will have claimed the allowance, but it is important to remember that, where circumstances change during the
year for a business, or where a support worker/carer is employed, claims can be made. Find out more at bit.ly/gov-emp-all.

VAT sponsorship

Sponsorship (VAT Notice 701/41) has been updated for the treatment of mixed sponsorship and donations and the claiming of input tax on the prizes from competitions. The notice also contains a section on crowdfunding.

HMRC states: ‘Whether a recipient of crowdfunding is liable to charge and pay VAT depends on the facts in each case. For example:

* where nothing is given in return for the funding, it will be treated as a donation and not liable to VAT – the position is the same where all that the funder receives is a bare acknowledgement, such as a mention in a programme or something similar
* where the funder receives goods or services that have a real value associated with them (for example, clothing, tickets, DVDs, film viewings), VAT will be due
* where the payment is for a combination of the two examples, if it’s clear that the donation element is optional then that part of the sponsorship can be treated as a non-taxable donation
* it might be that the funding takes the form of an investment where the funder is entitled to a financial return such as interest, dividends or profit share – in these cases, any payment due to the funder will not be liable to VAT, unless the arrangement is more by way of a royalty based on a supply of intellectual property or some other benefit – in these circumstances the “profit share” is likely to be consideration for a supply, the reason why most of these arrangements are outside the scope of VAT is that the provision of capital in a business venture is not seen as a supply for VAT purposes.’

Gift with reservation

HMRC ITM 4000 states: ‘Most lifetime gifts to non-exempt beneficiaries are Potentially Exempt Transfers (PETS) (IHTM04057) and so become chargeable only if the transferor dies within seven years of the transfer. If the transferor survives the transfer by seven years, the PET becomes an exempt transfer.

Off-payroll working: have your say

In last year’s Budget the Chancellor announced plans to roll out the public sector off-payroll working rules to the private sector. Mirroring the rules introduced to the public sector in 2017, the legislation would place the liability for deciding a worker’s employment status for tax with the end client.

In June, with member input, ACCA submitted its response to HMRC’s latest consultation on new rules for off-payroll working (bit.ly/ACCA-opr-response). ACCA members using off-payroll workers were concerned about the continued availability of highly skilled workers for short-term, flexible projects. Meanwhile, 96% of members that identified as off-payroll workers said they would have to increase their fee if an employment status determination required PAYE taxes to be deducted at source. ACCA’s response recommended a delay to 2021, to ensure businesses have time to develop staff training and internal infrastructure; this is particularly important at a time when many businesses’ resources have already been stretched to cover contingency planning arising from Brexit uncertainty, changes to business reporting systems and resourcing pressures.

The survey remains open and ACCA will continue to use your feedback to brief policymakers and influencers as the legislation emerges over the summer. Please give your opinions at bit.ly/ACCA-ir35-survey.

To find out more, visit bit.ly/gov-sponsorship.
This result was considered unsatisfactory on policy grounds if the transferor continued to receive a benefit from the gifted property (IHTM04030) – for example, where the transferor gives their residence to their children but continues to live in it for at least seven years until their death. In the absence of special provisions to the contrary, in that example the house would not be taxable on the transferor’s death:

* as part of the death estate even though for practical purposes the transferor had continued to treat the property as their own until their death, or

* as a PET if the transferor survived the gift for seven years. Accordingly special rules were necessary to protect the Inheritance Tax (IHT) death charge. They are designed to stop taxpayers decreasing the value of their IHT estates by making gifts while effectively leaving their basic situation unchanged. A gift with reservation is one:

* made by the deceased
* of property subject to a reservation
* which was made on or after 18 March 1986
* which was not an exempt transfer (IHTM04026).

The function of the gift with reservation rules is to ensure that tax is charged:

* if on the transferor’s death there is property subject to a reservation (as in the above example), that property is treated as part of the death estate (IHTM14303), or
* if within seven years before the death of the transferor the property ceased to be subject to a reservation, the transferor is treated as having made a PET (IHTM04064) at that time.

The rules are supplemented by regulations to cover the possibility of a double tax charge (IHTM04072) if the gift is also a chargeable transfer.

Law

Companies House reforms
As highlighted last month (bit.ly/update-jun19), the Companies House ‘Improving the accuracy and usability of data on the register’ consultation contains a number of reforms, including some that ACCA members, and ACCA on your behalf, have been highlighting to Companies House.

Please look at the consultation and the reforms, as it is open until 5 August. Please send your comments to advisory@accaglobal.com with the subject ‘Companies House consultation’. You can find the consultation at bit.ly/cons-corp-trans.

GDPR – one year on
A report from the Information Commissioner’s Office (ICO) that reflects on the first year of GDPR (bit.ly/gdpr-reflect) highlights that the ‘focus for the second year of the GDPR must be beyond baseline compliance – organisations need to shift their focus to accountability with a real evidenced understanding of the risks to individuals in the way they process data and how those risks should be mitigated.’

Understanding intestacy rules
Intestacy rules apply where there is an absence of a will. The rule in England and Wales provides that where there are surviving children, grandchildren or great-grandchildren of the person who died and the estate is valued at more than £250,000, a surviving spouse or civil partner will inherit a fixed sum of £250,000, together with the personal chattels and half the remaining estate. Where there are no surviving children a surviving spouse or civil partner will inherit the estate.

The rules of intestacy have a rigid order of who should benefit from the estate of an intestate person. This is spouse or civil partner; children/grandchildren; parents; brothers and sisters; grandparents; and uncles and aunts. However, exclusions in intestacy do exist, with cohabitants or unmarried partners, ex-spouses or civil partners and step-parents or stepchildren not included in the above.

ACCA’s probate factsheets are available by emailing supportingpractitioners@accaglobal.com.
Well-supported and resourced DPOs [data protection officers] are central to effective accountability.

The ICO highlights that SMEs have faced a number of challenges in becoming GDPR compliant. ACCA recognised these challenges and made available guidance and policies and procedures, which could be adapted: see bit.ly/ACCA-data-sec.

The ICO report highlights that it is establishing ‘a one-stop shop for SMEs, drawing together the expertise from across our regulatory teams to help us better support those organisations without the capacity or obligation to maintain dedicated in-house compliance resources’. It also highlights that it undertakes investigations into organisations of all sizes.

Many of you will have seen its action against HMRC and the use of voice recognition software. The ICO stated that ‘HMRC failed to give customers sufficient information about how their biometric data would be processed and failed to give them the chance to give or withhold consent. This is a breach of the General Data Protection Regulation.’ See bit.ly/ico-hmrc.

The ICO is also ensuring that businesses are registered, noting that up to 30 April 2019, it issued more than 3,800 penalty notices of intent to fine for failure to pay the data protection fee. As a reminder, charities and organisations with 10 or fewer staff or a maximum turnover of £632,000 pay a fee of £40; those with staff numbers between 11 and 250 or not exceeding a turnover of £36m pay £60; large organisations with over 250 staff or with a turnover over £36m pay £2,900. More at bit.ly/ico-dp-fee.

Apprenticeship funding gets a boost

The government has implemented changes to its apprenticeship funding policy. This means that apprenticeships are even better value and can save you even more money.

The government now pays 95% of apprenticeship training costs. This means small businesses only have to invest 5% of the apprenticeship training cost. And, with our Accounting Technician Level 4 apprenticeship band now at £8,000, you would only have to pay £400 to train a technician or £1,050 to train a professional accountant with our Level 7 apprenticeship.

You can also receive a funding transfer from a levy-paying business to facilitate your apprenticeship training needs. A levy-paying business can now transfer up to 25% of their annual apprenticeship funds straight to you.


Buying and selling a practice

If you are currently looking to grow – or dispose of – your practice, help is at hand. Take a moment to browse our guidance on buying and selling a practice; in addition, In Practice looks at why digital is changing the value of all practices and why selling your practice could be an alternative to MTD.

In Practice lists ACCA firms that are looking to acquire practices to support their growth plans. If you would like to be included, email us at supportingpractitioners@accaglobal.com. (Please ensure you include your ACCA membership and firm details.)

Support for SMP members

ACCA strives to equip our SMP members with resources to help them support their clients. Last month we highlighted some of the services:

* MTD Tracker
* free practical guide to MTDfV bridging
* 1GB of free document storage with IRIS OpenSpace
* 40 free digital technical webinars
* insights into how you can digitalise your practice
* Xero accreditation available to all members and students
* award guidance
* apprenticeship support
* technical insights and support.

More at bit.ly/ACCA-smp-resources.
Framework refined

In the second of a two-part series on the conceptual framework, Dean Hezekiah ACCA explores the IASB’s angle on recognition, measurement, presentation and disclosure.

The International Accounting Standards Board’s (IASB’s) revised framework, published in March 2018, requires assets and liabilities to be recognised when doing so results in relevant information that can be faithfully represented – that is, where they meet the qualitative characteristics of useful information.

The main considerations for what is deemed ‘relevant’ are that the asset/liability is of economic benefit and can be measured reliably. The idea is that preparers should consider the operating environment’s inherent uncertainties when deciding what to recognise.

The revised framework discusses the difficulties of using estimates and measuring uncertainty when making a faithful representation. It may not be possible to make a faithful representation where the best estimate is too uncertain. This is not dissimilar to the existing framework’s requirement that recognition must have a ‘cost or value that can be measured with reliability’.

As with the existing framework, the revised framework states that recognising assets and liabilities effectively results in recognising equity, income and expenses, due to the way these elements are related. The definitions of income and expenses have been updated to reflect the refinements in the definitions of assets and liabilities, from which they are derived, but their meanings are essentially the same.

For the first time, the framework provides guidance on when to derecognise assets and liabilities.

For assets, this occurs when control of a resource is lost. Liabilities are derecognised once the entity no longer has a present obligation to fulfil. In both cases, derecognition can be partial.

Measurement

The new framework goes into some detail as to the different measurement models. They fall into two broad categories: cost and current values.

In an active market, current values are referred to as fair values. Outside an active market, valuation techniques are adapted to the entity’s specific needs, to arrive at a ‘value in use’ for an asset, or a ‘fulfilment value’ for a liability.

Of course, the new framework does not offer recommendations for what to recognise and which measurement approach to adopt. This might be present instead in current standards, which take precedence over the framework.

The framework introduces the ‘unit of account’ concept for grouping rights and obligations meaningfully to facilitate recognition and measurement.

Because the framework reduces assets and liabilities down to rights and obligations, it may be unclear how to account for them monetarily, especially where several rights derive from one object, or several duties stem from a single contract. This is not uncommon. For example, a motor vehicle that is owned presents the rights to use, sell or rent, to name a few.

Although these rights conceptually are assets, each representing a unique benefit, it is not practical (or necessary) to recognise and measure them individually, as they all relate to the same object. Hence the need to group them into a unit of account.

Presentation and disclosure

A long-awaited inclusion in the revised framework is a chapter on presentation and disclosure. It emphasises that the income statement remains the primary source of information on the entity’s financial performance and that it is just as important as the statement of financial position.

The concept of comprehensive income (or loss) is brought into the revised framework to cater for instances where assets and liabilities are measured using current values and are therefore subject to future changes in value. Such changes are generally referred to as unrealised gains and losses. In these situations, the IASB believes that reporting current value changes in the income statement would not constitute useful information, so it instead advocates adjustments.
changes in equity reserves. And as equity reserves are specific in their use, users can get precise insights into the effect of current market trends from the statement of changes in equity.

Events leading up to the global financial crisis of 2008 underscored the need for more robust reporting that reflects the effect of current costs, where relevant. Indeed, much of the reporting regulation that has come in response to it has focused on financial instruments – an area where the need to explore current cost trends is greatest.

Prior to the OCI regime, the effects of current costs were either not accounted for, subsumed into the income statement, or recognised directly in reserves. With OCI, regulators can now adapt reporting provisions more specifically to users’ needs.

Except for the definitions of assets and liabilities, the changes to the conceptual framework are more like refinements than sweeping reform. Much effort has been made to bring ideas that are already reflected within existing standards into the fold, and by so doing, bringing the framework into the present day.

Dean Hezekiah ACCA is a technical writer at Darlo Higher Education.
If the cap doesn’t fit...

With the consultation now closed on the government’s proposed changes to tax relief for R&D, a cap on its benefits could hit SMEs just when they need most support.

Following an announcement in the 2018 Budget, the Treasury and HMRC issued a consultation document on research and development (R&D) tax relief for small and medium-sized enterprises (SMEs) in March this year. The proposals aim to prevent what chancellor Philip Hammond described in his Budget speech as ‘our generous R&D tax credits system being abused’ by reintroducing a PAYE restriction for the SME scheme.

The Budget red book (the document containing all the Budget statistics and small print – it’s at bit.ly/redbook-2018) spelt it out in more detail. From 1 April 2020, the amount of payable R&D tax credit that a qualifying loss-making company can receive in any tax year will be restricted to three times its total PAYE and NIC liability for that year.

This, the government hopes, will ensure the relief is not susceptible to abuse, including fraud, following HMRC’s own work in fighting £300m of fraudulent claims by companies set up to claim the cash available through the payable tax credit, even though they had no R&D activity. HMRC also identified structures deliberately set up to claim the payable tax credit despite the companies engaging in little employment or activity in the UK.

Up for discussion

However, the government said it would consult on the detail to determine the likely impact – a move welcomed by tax professionals. Gareth Peters, R&D tax credit specialist at MHA MacIntyre Hudson, says: ‘Most tax changes since the financial crisis have been about raising additional taxes, but R&D credits have been improved over time and corporation tax rates have fallen. The result has been the UK becoming a more attractive place for companies to place their high-skilled R&D activities, so it is pleasing to see the consultation to ensure the proposed changes do not unduly damage the competitiveness of the UK’s tax regime.’

For some time, companies investing in developing and improving their products have been able to exchange their tax losses for a payable tax credit from the government. Uncapped since 2012, the proposed reintroduction of a cap would limit companies’ ability to claim the credits without committing to R&D activities in practice. Peters accepts that at three times the level of payroll taxes paid, the proposed cap would still allow innovative companies with smaller staffing levels to commit resource to R&D, with effective support from the government.

However, the government is aware that capping the amount of payable tax credit will add some administrative burden for businesses. It is therefore considering applying the cap only to payable tax credit claims above a certain threshold so that the smallest claims would be unaffected.

Behold the threshold

To prevent abuse from groups making many small claims at or below the threshold, the government intends to allow only one sub-threshold payable tax credit claim per year for any given group of companies under common control.

While the consultation document suggested a £10,000 threshold, Peters argues it could be set at £20,000. ‘A fixed threshold at which the rules start to be applied should be considered to avoid undue burden on small companies,’ he says. Likewise, the Chartered Institute of Taxation believes £10,000 is too low and has also called for a £20,000 threshold.

Other experts are critical of the move to align tax credits with PAYE and national insurance contributions, which could be an issue for startups where the directors do not take a salary or defer doing so. It could also be problematic for companies unable to find staff in the UK with the required skills or at a cost-effective rate – using contractors will reduce their PAYE and NIC tax bill.

‘In an increasingly global market, and certainly with the uncertainty of Brexit, this could be a very real scenario for a number of businesses,’ says James Tetley, head of R&D tax at RSM.
The business sector accounts for around 65% of total UK spend on research and development.

Although HMRC is understood to estimate that only around 5% of R&D claims would be affected in this way, this is still a sizeable figure and includes companies that would be penalised for trying to run their business along ‘commercial’ lines, according to RSM.

The consultation suggests the possibility of carrying forward the benefit of a cash credit until a later period when there would be sufficient PAYE/NICs for a payment to be made. However, this carry-forward is proposed for only two years, so companies that defer salaries for a number of years could still lose out.

This is clear from the examples given in the consultation document itself (it is available at bit.ly/tax-credit-consult): while one company with an R&D spend of £100,000 and PAYE/NIC bill of £40,000 can claim £33,350 in payable tax credit, another company with the same R&D spend but with a much lower PAYE/NIC bill of £3,000 would get only £10,000 (ie no more than the threshold).

To get its full R&D tax credit entitlement, the company would need to increase its PAYE/NIC bill to £11,117. To get more cash back, the company would have to carry out less R&D in the following year or increase its wages bill.

‘At the very least, it would be welcomed if the carry-forward was not time-barred, giving the company peace of mind that there may be a benefit in the future,’ Tetley says.

Philip Smith, journalist
Firms’ poor SEO

Accountancy firms are poor in their use of social media, according to a report from consulting group ReBoot, with more of a quarter of firms analysed not using social media. ReBoot found that common search-engine optimisation issues on accountancy websites included poor backlink quality and slow page speed. It also found that many firms use large amounts of content cut and pasted from other websites. One in five of the firms in the ReBoot survey had not secured their websites with an SSL certificate, creating the risk that visitors’ sensitive information could be hacked.

Haines Watts merger

Top 15 firm Haines Watts has merged with Gateshead-based RHK Accountants. Two of RHK’s four partners will be retiring. RHK partner Bradley Thomas will join Haines Watts as a tax partner. Haines Watts’ regional managing partner Donna Bulmer said: ‘RHK is an established practice whose culture, values and strengths complement our own. As a private client specialist, Bradley brings a vast expertise of strategic, structural and personal tax planning, which will bolster our tax offering in the region.’

The view from

James Plumbly FCCA, partner at GBP Associates, coaching his team to respond to young, startup clients

My father was a lawyer and I knew I wanted to go into a profession. I chose accountancy because I enjoyed numbers at school, and after university I took up a training contract with a practice in Norwich.

Working with and visiting local businesses in Norfolk gave me a good initial grounding. After spells at AIM-listed Vantis and then Moore Stephens, I met my current business partner, and in 2011 we established GBP Associates.

Our 400-plus clients span the worlds of entertainment, fashion, sport and social media influencers. Many are startups that are creative but know nothing about accountancy. Historically, some have compared visiting their accountant to going to the dentist – we are focused on changing this perception!

Good communication skills are crucial. Around 80% of our clients are under 35 and they expect quick replies. A priority in 2019 is to push staff to pick up the phone more – it can often result in a more meaningful conversation and help clients better understand why we charge for the advice we provide.

Our firm’s culture is changing to better support client relationships. We’ve moved to a WeWork office. People want a café in the basement and to wear what is appropriate for each work day – jeans can be OK.

We also reviewed our internal processes and learned that 70% of email traffic was internal. Now, internal communication is via Slack, and email has been de-cluttered for clients. We encourage staff to multitask and be proactive (two qualities that accountants are not always trained in) and to hold conversations with clients, which can be more meaningful than an email.

The best piece of advice I can offer clients is that I too have been in their situation. Being a business owner puts me on the same footing as them. The advice I give is 100% better because of the experience I have of running my own business.

I like to keep active outside of the office. I used to play a lot of rugby. Now it’s five-a-side football occasionally, when I can squeeze it in alongside being a parent to two children (aged two and four).
Is mentoring right for you?

Did you know:
Mentors are six times more likely to be promoted.
Mentees are 78% more engaged with their organisations.

Develop yourself and other members. Join at:
www.accaglobal.com/mentoring

Think Ahead
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** (the gap between what auditors do and what the public thinks they do)
- **performance** (the gap between what auditors do and what they are supposed to do)
- **evolution** (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

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

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
Long live the accountant, the new Bank Manager

High street banks have closed almost 3,000 branches across the UK between 2015 and 2018, leaving thousands of SMEs isolated from their usual source of financial products.

Today, it isn’t the case. SMEs have to navigate through a complex market of over 300 lenders resulting in a “paradox of choice” for business owners who end up overpaying for inappropriate funding solutions.

“It used to be simple to go to the bank about a business loan. It was probably the same bank where you had your personal account, mortgage, savings accounts and even investments.”

says Capitalise.com CEO, Paul Surtees.
While the bank manager may have closed the door on SMEs, the opportunity for accountants to take their place has arisen

Lloyds Banking Group, Royal Bank of Scotland and Barclays have recently opened the UK’s first “business banking hub” to address SMEs demand for physical branches for cash services. However, they fall short of providing a long term solution to replace the roles filled by the banking relationship manager.

WHERE DO SMES TURN FOR HELP?

Capitalise interviewed over 1,000 SME business owners in December as part of the 2018 Capitalise.com Small Business Survey.

- 98% of business owners answered that they had no idea who their bank manager even was.

- Nine out of ten of those surveyed rated their bank manager as having no impact on their business.

- Three top sources for funding guidance were: No-one, friends and family and, perhaps more worryingly, the internet.

It is unsettling to think that SMEs ability to access services which are most suitable to their business, is left namely to the strength and effectiveness of a financial institution’s marketing campaigns.

THE OPPORTUNITY FOR ACCOUNTANTS

“We as accountants simply need to look for better ways to deliver a better client experience,” says Will Farnell, Founder of Farnell Clarke.

This gap in guidance and the absence of high street bank branches across the UK provides an opportunity for accountants to step in as the access point to financial services.

Accountants are uniquely positioned to be the new gatekeeper for their SME clients’ financial needs.

DO MORE THAN REFER AND BUILD A SERVICE

Rather than referring clients to unknown lenders or brokers, keeping the funding process within the accounting firm allows accountants to be part of the growth journey. Opportunities around this growth journey - from forecasting to business plans - create additional revenue and the chance to review the retained services offered to the client.

If you would like to fund a client, sign up for free on Capitalise.com and you can explore the 100+ partners they have on their website.

To read more about building a funding service line in your firm check out the Playbook Intro at capitalise.com/playbook
There have been very significant changes in firms’ membership of associations and networks both nationally and internationally over the last few years.

The dramatic changes, brought about by the acquisition of principal members in various countries, have raised the question as to the value of an accounting association: does membership provide merely a networking opportunity, or does it bring buying-power benefits, improve access to skills and raise the profile of an individual practice beyond its geographic footprint? (I should point out this article isn’t referring to profit-sharing associations that prevail in certain geographic areas with firms such as Mazars. The focus is on UK national and international membership associations and networks.)

The UK market has had a number of associations for smaller independent accountants. The two most prominent are CharterGroup and UK200Group. These were originally set up to provide training and professional indemnity insurance. New joiners needed to meet a ‘quality hurdle’, particularly in audit. These grouped services have brought together some strong independent practices that originally sought benefit in the buying power of the association.

This buying power has diminished over the last 15 years, with training firms and brokers willing to negotiate directly with individual practices at a far more competitive rate than was perhaps possible in the 1990s and 2000s.

The problem with these associations is that membership changes. UK200Group has around 70 member firms and CharterGroup around 40. As members are primarily regional firms, many have been acquired over the years by consolidators and/or have become part of larger firms that have been acquiring and merging.

It would seem that the major benefit now is not only the technical exchange...
together around another, larger firm that has a strong identity.

Looking at the value of associations and networks, much depends on the closeness of cooperation between the member firms and the time invested in building relationships. This hinges on linking successful firms of similar size, which may have specialisations but are generally working with similar clients in different geographic areas. Internationally, key considerations include the network/association’s brand overseas, its referral potential and the quality of member firms in key locations.

In the UK there have been two recent changes at international networks occasioned by acquisition and merger: Baker Tilly adopted the RSM identity and name in the UK, releasing the firm from its membership of Baker Tilly International and thereby swapping one valuable international asset for another; and MHA MacIntyre Hudson, formerly a member of the association Morison KSi, picked up the Baker Tilly International representation in the UK. Another recent change took place at the network Moore Stephens International. A number of its UK offices were absorbed into BDO, but some of its other firms were locally owned and not part of the BDO merger. Kingston Smith, which was linked with Morison, picked up the Moore Stephens association and is now a UK representative for Moore Stephens International. Of course, Moore Stephens has the other branded firms across the UK.

The fundamental changes to some of the networks’ and associations’ identities brings into question the value of being a member and whether joining up should merely be regarded as transitory – a useful vehicle during a particular stage in the development of a practice – or something more lasting, evolutionary and sustainable as part of a restructuring.

Identity crisis

The issue that has always dogged associations is identity and branding – how firms should use the association branding alongside or instead of their own. Having a single brand has an advantage when dealing with banks and other institutions, but the change of identity in a local market may be seen as a risk and a perceived loss of independence. In some associations (eg PKF), member firms are required to use the brand name; in others (eg UK200Group), the brand can be used in conjunction with the firm’s original name.

Networks and alliances, on the other hand, tend to be independently owned businesses that have national coverage and benefit from a stronger branding than offered by CharterGroup or UK200Group. Examples include MHA MacIntyre Hudson, UHY Hacker Young, Moore Stephens and Haines Watts. Networks and alliances also tend to consist of firms that have grouped together with Morison, picked up the Moore Stephens association and is now a UK representative for Moore Stephens International. Of course, Moore Stephens has the other branded firms across the UK.

Regional change

In the past, associations and networks were often centred around US and European firms, but we are now seeing new networks developing in South-East Asia, South America, Japan and India. These operations are looking for members in other territories, particularly the US and Europe, and are being led by the strength of the demand for accounting services in certain countries.

Bearing in mind the projected growth of accounting services in those countries over the next few years, large independent firms will certainly emerge, and will have the scale and money to make acquisitions in the traditional accounting regions of the US and Europe. We might well see the Big Four become the Big Six (again), with firms emerging out of the Asian marketplace. This is perhaps another reason why membership of an association is merely a transitional branding benefit, which can be changed to meet wider commercial opportunities in the accounting marketplace.

Keith Underwood is managing director of Foulger Underwood Associates.
Laws of attraction

In order to attract and retain the next generation of accountants, practices need to create a culture of collaborative thinking and ongoing learning.

As Bob Dylan would say, the times they are a-changin’. More and more accountancy firms are embracing robotic process automation, artificial intelligence and cloud-based computing to stay relevant, to be faster, smarter and less costly, and to shift even further towards advisory.

Technology, however, is only an enabler for digital transformation – we need a diverse and broad range of skills to make it happen, the skills likely to be found in the next generation of accountants, or Generation Next, as ACCA calls it. ‘Ideally, we need people with data analytics and computer language skills, technical accounting and communication skills, business acumen and an appetite to learn,’ says Alastair Barlow FCCA, co-founder of accountancy practice Flinder.

But competition for such well-rounded young professionals is tight, so what can accountancy firms do to win them over? Many now recognise and accommodate Generation Next’s need for flexibility and a good work/life balance, in addition to competitive pay and attractive perks.

Connections for careers

Professional accountants need to be able to collaborate, seek out partnerships and develop networks if they are to develop their careers to the max. There are a number of ways to do this – visit accaglobal.com/connections to find tips, quizzes, social media events, webinars, member stories and case studies.
'We offer flexible working because we know that people want a certain amount of freedom and to be trusted to work when they are at their best,' says Barlow. Flinder’s team also benefit from an annual skiing trip and unlimited holidays.

‘Generation Next are entrepreneurial, so you also need to offer opportunities for innovation and creativity,’ says Sharon Critchlow FCCA, ACCA Council member and director at consultancy Newgrange Developments.

Meanwhile, new recruits at RA Accountants contribute their ideas from the get-go. ‘This could be anything from new work procedures to staff incentives and days out,’ says partner Riz Akhtar. ‘It’s one of our avenues to kick-start and days out,’ says partner Riz Akhtar. ‘It’s one of our avenues to kick-start fresh thinking in the rest of the team and also our way to acknowledge them as an integral part of the firm.’

Self-curated learning
Young accountants also want opportunities to learn and develop skills to progress their careers. In fact, according to ACCA’s Generation Next research, this is the single most important factor for attracting new talent to small and medium-size practices. ‘They particularly favour on-the-job learning and coaching, and mentoring from inside and outside of the organisation,’ says Critchlow.

Increasingly, though, the next generation want to have more choice, and to have a say in what and how they learn. ACCA’s Learning for the future report finds that, as training opportunities and methods are now more varied, there’s a growing trend towards self-curated learning. The next generation are taking control of their own development, actively seeking out and acquiring new skills rather than waiting for employer-led training.

‘We offer an immense amount of training – from presenting, facilitating and consulting in workshops to writing Python code and learning to work with complex data,’ Barlow says. ‘But we are also open to our team making their own decisions and seeking additional learning. In fact, we encourage this to develop all-rounded professionals who are happy and engaged.’

But even though practices should embrace this new trend, it makes sense to educate learners as to what activities they can undertake. ‘Although we trust our people to do the right thing, we help steer them in the right direction so that they satisfy their personal learning journey but also work towards meeting our wider business objectives,’ says Barlow.

ACCA’s report also warns that one size no longer fits all. It’s now outdated to assume that a structured course can be rolled out at organisational level, and that all learning should take place at a prescribed time and place.

‘As a professional grows with the firm, we begin to understand and take into account their learning preferences,’ says Akhtar. ‘Some prefer online training that they can do in their own time, whereas others want a more hands-on seminar approach or guided mentoring.’

Culture of openness
The report points out that embracing continuous learning requires both a certain mindset and a paradigm shift for many accountancy firms. Practice leaders need to ensure that they foster a culture of openness to learning by incorporating their learning and development strategy into their overall business strategy. ‘We make it very clear that continuous development is fundamental at Flinder and that everyone is on a learning journey,’ says Barlow. ‘It’s not just the next generation; I have a mentor outside the firm.’

Flinder employees are also encouraged to share knowledge and learn from one another. ‘I often listen to podcasts and webinars and read business books religiously, then I share the lessons learnt with the team; we’re actually trying to get a book club going,’ says Barlow. ‘And we regularly ask our team for feedback and welcome their input into the strategy of the business.’

Practice leaders must also actively market their firms to potential candidates. ‘You need to ensure that your proposition to the next generation reflects that you support and encourage the acquisition of skills and new experiences,’ says Tim Prizeman, director at public relations agency Kelso Consulting.

It’s outdated to assume that all learning should take place at a prescribed time and place

Also, make sure that your online presence reflects your dynamic and progressive business culture. ‘These young people will do a large amount of online research and will be put off by firms that look out of date,’ Prizeman says. ‘If all the photos on your website are of stuffy-looking baby boomers, they will draw conclusions you don’t want them to. And if you have a Twitter feed with two posts a month or a cringey Facebook page, they will judge you accordingly, too.’

Iwona Tokc-Wilde, journalist
The view from
Anne Taylor FCCA, CEO of social housing and social care charity Thorngate Churcher Trust (Thorngate Living)

Every day is a mix of operational and regulatory challenges, while keeping the organisation moving forward strategically. It’s like trying to keep a train on the tracks. I know the destination, but sometimes I must slow down to deal with the ‘stuff’ that is trying to derail us. I work closely with my board and senior managers. I am also a director – and for four years I was chairman – of a social housing property developing consortium and the chairman of an industry care benchmarking group.

I believe strongly in management by walking about, meeting residents, colleagues and looking at our housing and care properties. This enables me to understand the operational challenges my colleagues and our residents face day to day. I combine this with reviewing key performance indicators and management accounts, and writing and reviewing reports. Every day I make lots of small and some larger decisions.

Operationally our biggest challenge is recruitment. What limits expansion is the shortage of pockets of suitably priced land for additional supported housing. We have a very long waiting list for our housing. I would like a resolution of the way social care is funded.

I came to the ACCA Qualification late – I wanted that depth of expertise you get only with a professional qualification. My varied commercial career – I previously worked in pharma – is an advantage, as you automatically apply lessons from one sector to another. My ACCA Qualification was my route into this role, and the training gave me a laser-like focus on costs and income. They have made a huge difference to my organisation.

Winning Finance Team of the Year at the Housing Association Finance Awards a few years ago was great, as was being shortlisted last year as Woman of the Year in the Women in Housing Awards. Recently I was invited to become a leadership fellow at St George’s House Windsor Castle. I am also a director – and for four years I was chairman – of a social housing property developing consortium and the chairman of an industry care benchmarking group.

I believe strongly in management by walking about, meeting residents, colleagues and looking at our housing and care properties. This enables me to understand the operational challenges my colleagues and our residents face day to day. I combine this with reviewing key performance indicators and management accounts, and writing and reviewing reports. Every day I make lots of small and some larger decisions.

My varied commercial career is an advantage, as you automatically apply lessons from one sector to another.

I am passionate about designing and making clothes. I enjoy the woodland to the rear of our house that we acquired last year, and yoga. I also chair a small local grant-giving charity trust2000.org.uk.

WGA qualified
The Whole of Government Accounts have been qualified by outgoing comptroller and auditor general Sir Amyas Morse in one of his final acts before standing down at the end of May. However, he did conclude that they give a true and fair view of the state of affairs and expenditure. In a statement, the National Audit Office said: ‘While government is improving the financial information that forms the WGA, further progress is necessary. HM Treasury will need to carry out significant work with other government bodies to make further improvements.’

Councils face £52bn deficit
Research by PwC for the County Councils Network has concluded that English authorities face having to make substantial cuts to services to avoid a £52bn deficit over the next six years. It said that even if English authorities raise council tax by 2.99% a year between now and 2025, they will still have to deal with a funding gap in excess of £30bn. Meanwhile, a report from the Institute for Public Policy Research argued that the council tax system in London is unfair and should be reformed. In particular, it criticised the banding system and use of outdated property prices.
Who cares?

An ageing population is posing a social care conundrum for policymakers. A green paper has been two years in the making, but does it offer any solutions?

Social care is a problem in need of a policy fix. But policy is difficult to formulate, as proven by the two years spent waiting for government to produce the latest social care green paper (see box). Much of the costs are borne by local government, whose income has been stripped back by austerity and which has little capacity to cope with existing, let alone expanding, demand.

Analysis in the King’s Fund’s recent Social care 360 review shows the scale of the challenge. With more adults living into old age, the number of over-75s is set to double in the next 40 years from the current level of 5.3 million. And medical advances enable more people to survive into adulthood with complex conditions that require ongoing social care support, at a high cost to councils. In addition, public discourse on disability and mental ill-health may have increased understanding of, and demand for, support services.

Councils have been forced to restrict service availability, often rationing it so that only the poorest or most assertive receive it, leaving other costs to be met by self-payers. The burden does not fall only on local
government; costs are rising for central government too. ‘The most obvious example is that the number of carers supported by local government has fallen over the past four years while the number receiving Carer’s Allowance, a national benefit, has nearly doubled,’ the King’s Fund reports.

Damian Green was responsible for social care policy in his previous role as first secretary of state before leaving government at the end of 2017. He has now produced his own radical vision, Fixing the Care Crisis, published by the Centre for Policy Studies. He argues that the current system is financially and politically unsustainable, opaque, unfair and actively discourages councils from investing in social care.

‘It is vital the government uses the social care green paper and forthcoming spending review to set out how it plans to tackle this crisis’

Green concludes that social care should be remodelled in the manner of the pensions system, via what he proposes would be the Universal Care Entitlement. ‘This would involve moving from the existing system – in which the state provides care via local authorities – to a nationally funded model, where the state pays this [flat-rate] set amount for each week or month that an elderly person needs support,’ he says.

Basic state provision would be topped-up by individual payments, financed from savings or personal housing wealth. State costs could be partly met by taxing the over 65s’ winter fuel allowance and imposing a 1% national insurance surcharge on those over 50. Councils would have the incentive to build more care homes and retirement housing.

Councillor Ian Hudspeth, chairman of the Local Government Association’s community wellbeing board, gives the report a cautious welcome. He stresses that something must be done: ‘The current system of adult social care is at breaking point, and faces a £3.5bn funding gap by 2025 just to maintain existing levels of provision,’ he says. ‘It is vital the government uses the social care green paper and forthcoming spending review to set out how it plans to tackle this crisis and ensure that there is a sustainable funding solution that can deliver the prevention, care and support that people need.’

Market approach
It looks inevitable that individuals will have to spend more to meet their own care needs in later life. Several insurers are keen to create a market approach, offering policies and building demand.

Steve Ellis, CEO of Legal & General’s retail retirement living solutions division, believes that the key is to use money locked up in home ownership. ‘Property wealth could have a potentially significant role to play in addressing the care crisis,’ he says, ‘and the lifetime mortgage market is already well placed to help people unlock the £1 trillion of housing wealth owned by “last-time buyers”. This equity can be mobilised to help individuals cover the costs of social care, as well as giving older homeowners the opportunity to remain in their homes and maintain their independence for longer.’

Former pensions minister Steve Webb, who is now director of policy at pensions provider and insurer Royal London, is another developing future options. In the paper Is it time for the care pension?, he argues that people should be able to access their pension fund to buy care insurance.

Webb explains: ‘When it comes to paying for care, it will always be the case that the state will pick up those with nothing, and those at the top will simply pay the bills as they arise. But a large group of people in the middle might benefit from an insurance product. Government could help to get such a market going by allowing tax relief on premiums into such a policy. A huge side-effect is that far more work would be done to delay and reduce the need for expensive residential care.’

Paul Gosling, journalist

Potted policy history
* **Now:** Government considering more generous means-testing; lifetime cap on social care charges; an insurance and contribution model; a Care ISA; and tax-free withdrawals from pension pots.

* **2017:** Green paper promised, but repeatedly postponed.

* **2011:** Dilnot report proposes lifetime cap on social care costs. Not implemented.

* **2009:** Green paper proposes National Care Service; white paper proposes two-year cap on social care charges, with free social care from 2015. Not implemented.

* **1999:** Royal Commission recommends more generous means-testing, free personal and nursing care. Partly implemented.

Source: House of Commons Library
Panels join up

A recent Members Engagement Conversation saw a great sharing of experiences and tips on how to help ACCA members contribute to and shape their professional body.

ACCA member panels across the UK are seeking increasingly creative and imaginative ways to reach out to members. The steps for doing so were laid out at ACCA’s Members Engagement Conversation event in May, when UK members gathered at ACCA headquarters in London.

Ensuring members can engage in the work of the ACCA – generating ideas and shaping the future activity of their professional body – is the crucial remit of the UK’s 39 regional and six sector panels. So the day was designed to be a conversation, allowing the different panel representatives to share their experiences of what has worked and to swap tips on how to create momentum and community.

Panels have always worked hard to come up with programmes and sessions that attract members. While that remains a constant, it is clear that the ways in which this can be done are evolving to take advantage of modern digital platforms.

In years past, an event was most likely to take place in the evening, in the function room of a hotel, with a speaker as the centrepiece. While that format will continue, future initiatives are more likely to embrace live and ‘watch again’ digital events, blogs, tweets and Facebook posts. In fact, events can adopt any format to allow like-minded professionals to share their concerns and interests, and connect and collaborate, unrestricted by the need to assemble physically in the same place at the same time.

While the panels may take advantage of social media to ensure that members can reach out to one another and stay in contact after an initial meeting, the personal invitation to an event or to join a panel remains central to attracting and engaging members.

Panels are not exclusively member-focused. They also bring together students, employers and those thinking about finance careers, demonstrating the reach of the ACCA brand and its role as a connector.

The guts of the work of the day’s conversation came in breakout sessions, where panel members sat around a table and delved into the detail of how they operate, while learning from one another about how to reframe how panels could...
engineer their activities in the future. This work will be helped by a clearly stated revaluation of the role and purposes of the panels within ACCA’s vision and strategy.

The day underlined the potent mix of diversity and experience in member panels. ACCA members from different sectors are contributing energy and enthusiasm to engaging with others through panel work. Being committed ACCA advocates, they invest time and effort in enhancing ACCA’s brand and reputation and in working for fellow ACCA members.

At the same time the day showed how panel members derive satisfaction and personal professional development from their work, as they see the difference that individually and collectively they make.

If you’d like to learn more about the work of panels with a view to becoming involved, contact england.events@accaglobal.com.

Peter Williams, journalist
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 PCA(AQ) 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 practising certificates 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.

Tips for members completing PCEF

* Members need to ensure they have downloaded the latest version of Adobe Reader DC in order to use the built-in functionality of PCEF.
* PCEF must be completed and submitted in the electronic format. Members are no longer required to print, physically sign and scan the forms prior to submission.
* The statements of achievement and principal reviews contained within PCEF should correspond to the period of experience recorded in the time summary.
* PCEF has been designed to enable a member to demonstrate their development and progression during the period covered. It is expected that a member would therefore achieve the required elements on an ongoing basis throughout the period.
* Members should make full use of all available guidance including our PCEF examples and regular webinar series.

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

Accounting and Business July/August 2019
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, Revenue from Contracts with Customers.

ACCA’s balance sheet remains healthy. We have ready access to liquid funds and expect to return to pre-tax surplus in 2019-20.

Find out more on this and on all performance measures in the integrated report, to be published on 31 July, at bit.ly/ACCA-IR19.

Look out for AB Direct

All the latest news and technical updates handpicked for finance professionals in your weekly email bulletin – along with a wealth of CPD opportunities

If you aren’t already receiving yours, sign up at accaglobal.com/subscribe

Think Ahead
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.
Join the innovation conversation
What does innovation in the public sector mean to you? Could it be new technology that saves lives, predicts the future or changes our thought process? ACCA believes it covers all these areas – including the emotional aspects of change. But what do you think?

Join us for a conversation around innovation in the public sector in London on 28 November, at ACCA’s Public Sector Conference 2019. It offers sessions designed to equip you with knowledge and fresh thinking to inspire innovation.

Hear top tips from inspirational speakers and leading ACCA members, take home free reports and information from ACCA, and benefit from great networking opportunities.

Save the date and book before 24 October for the early-bird price of £159 + VAT. For more information, visit bit.ly/ACCA-innov-PS.

More information
For information about further professional courses events and to book online visit events.accaglobal.com
Winning links

The power of connections is the latest topic in our 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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