INTERNATIONAL ACCOUNTANT

MAY/JUNE 2023

ISSUE 129

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Greenhouse gas accounting and net zero advisory

Whistleblowing: speak up and stop harm

The 55 red flags of accounting fraud


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Editorial Information
International Accountant, the bimonthly publication of the Association of International Accountants (AIA).

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Design and production
LexisNexis,
Quadrant House,
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Sutton, Surrey SM2 5AS
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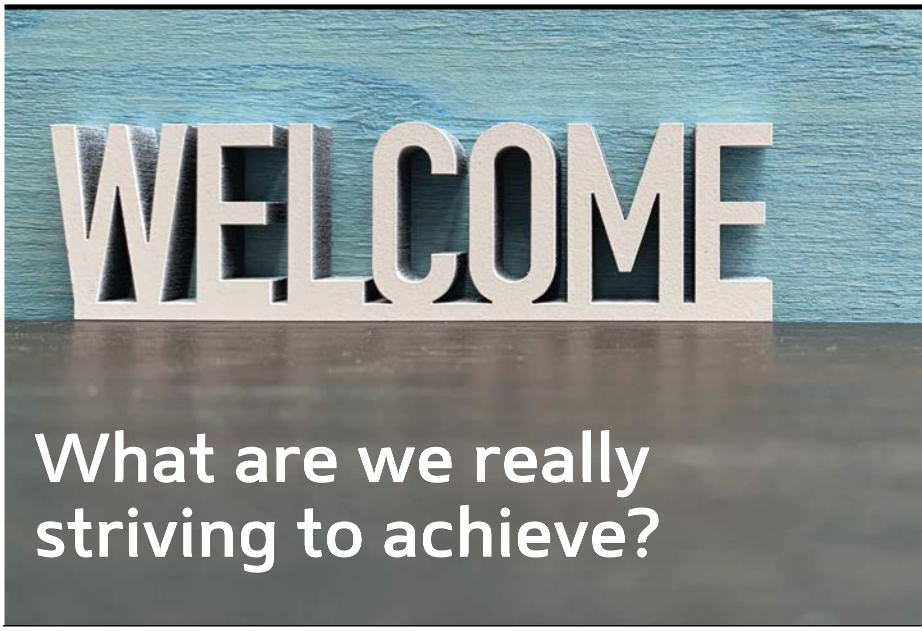
Printed by The Manson Group Ltd,
St Albans, Herts, AL3 6PZ

This product comes from sustainble forest sources.

ISSN: 1465-5144



What are we really striving to achieve?

Will Farnell Farnell Clarke, Guest Editor

I remember when in 2007 I decided I wanted to set up an accounting firm. Like many business owners – that's how I saw myself, rather than as an accounting practice owner – I knew that I needed to have a USP or point of difference. What I realise some 16 years on is that I had more than a simple USP. I had a real clarity of purpose.

Like everything, the business world in which we now operate has changed. Even in the 16 years of running my firm Farnell Clarke, a short period of time, we have seen huge change. Despite this, or perhaps because of it, much of the market is still working out how to keep up. The opportunities for accounting firms – and indeed for any business – to evolve and prosper remains significant.

I spend much of my time today talking to audiences of accountants around the world. These conversations have historically been about technology, process and business change. Interestingly, the needle has shifted and many more of these conversations are now about the human side of what we do as accountants.

In the last couple of years, there has been a growing interest in vision, values, culture and generational shift – and what these things mean for employers and clients alike. Most recently, however, our focus has been centred firmly around purpose. Why do we do what we do? What are we REALLY striving to achieve?

For me, in my own firm, it is only in the last couple of years that I have been able to directly correlate the clarity of purpose for my own firm with the apparent success that we have had as a firm. This was not deliberate – I'm not that clever – but it underlines the power of purpose and the power of clarity of goals, objectives and the things that really matter to us in business beyond profit and shareholder return. My own view is that in the coming years this will be critical for all businesses in attracting and retaining the best talent from a pool of millennial, GenZ and ultimately GenAlpha cohorts.

Since around 2007, I have been hugely excited at the prospect of what technology could do for the accounting profession. That was when we began to look at how we could reinvent our business by blending the best people and the best processes with the right technology. We have lived through the evolution of the cloud accounting world and related app eco-system. AI and tools like ChatGPT are now sparking a debate on the future of our roles.

One thing is for sure. I am as excited today about the power of relationships between humans and the importance of human empathy – all those things that AI cannot yet deliver – as I was about the emergence of cloud accounting 16 years ago. There is no better time to be an accountant!

Contributors to this issue

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FRAUD

Firm facing unlimited fines over failure to prevent frauds

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Companies that fail to prevent fraud by employees because of insufficient safeguards will be liable to an unlimited fine under new measures brought in by the UK government.

The failure to prevent fraud offence – included in the Economic Crime and Corporate Transparency Bill – is part of the government's crackdown on financial crime, as it seeks to better protect businesses and consumers.

Under the new regime, organisations must demonstrate their deterrence measures should fraud be committed by an employee. Failure to do so risks an unlimited fine.

An overall goal is to promote financial crime prevention, encouraging businesses to invest in this area and ensure their own processes are effective in order to minimise incidences and protect consumers, businesses and the taxpayer.

Dr Henry Balani, Head of Industry and Regulatory Affairs for Know Your Customer (KYC) tech specialist Encompass Corporation, said: 'Tackling financial crime should be at the forefront of the government's plans and regulatory developments. Those such as the Economic Crime and Corporate Transparency Bill and Economic Crime Plan 2 are key to protecting the UK's standing as a safe and lucrative place to conduct business, as well as protecting the public from the widespread effects of economic crime. Support from the regulator, as outlined in the FCA's roadmap for the next 12 months, is a crucial aspect to promoting sound practices, boosting both the prevention and detection of illicit activities.

He added: 'Harnessing technology solutions, alongside government and regulatory focus, can empower businesses to play their part in the response to financial crime, and, in doing so, help to ensure the UK maintains its reputation as a leading hub to do business with.'

Security Minister Tom Tugendhat said: 'Our new failure to prevent fraud offence will protect consumers from dishonest and misleading sales practices, and level the playing field for the majority of businesses that behave responsibly. This government is committed to fighting economic crime, as demonstrated by our recently launched Economic Crime Plan 2, which set out how we will give law enforcement more state of the art resources to tackle high level offending.'

INDIA

India's AML rules extended to cover firm's accountants

The Indian government has expanded the scope of its money laundering laws to include individuals representing a company or acting as a director, including their accountants.

The amendments to the Prevention of Money Laundering Act, which apply to chartered accountants, company secretaries and cost and work accountants, requires them to keep records of all financial transactions they undertake for clients. The new rules cover all individuals helping in the formation of a company, including those acting as a director, secretary or proxy nominee director. And it also includes individuals who provide the company with an office or correspondence address or act as a trustee.

'The scope [of the money laundering regulations] has been widened to include every person representing another person for certain activities,' said Rajat Mohan, a partner at tax consultancy firm AMRG & Associates.

The move is part of India's attempt to crackdown on the proceeds of crime and comes ahead of a regular assessment of India's anti money laundering (AML) governance by the Financial Action Task Force (FATF) later this year.

However, some accountants have voiced concerns about the new anti-money laundering regulations, according to a report in the *Economic Times*.

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Amit Maheshwari, tax partner at AKM Global, said: 'The Act is a highly stringent piece of legislation, and complying with its regulations necessitates a significant amount of effort and diligence. Such measures are unnecessary as these professionals are already regulated by professional bodies established under various Acts of Parliament.'

Accountants have been added to a list that also includes people involved in gaming activities, registration authorities, real estate agents and dealers in precious metals and stones.

AIA NEWS

INVESTMENT STRATEGY

AIA supports TheCityUK's call for the UK to adopt a bold new investment strategy

TheCityUK has published a new report, 'Driving UK growth: capturing future investment in a rapidly changing world', in collaboration with Freshfields Bruckhaus Deringer. It calls for the UK to adopt a bold new investment strategy and highlights an opportunity to become more attractive to international investors by recognising the changing drivers of business investment and adapting its strategy to accommodate them.

The UK is the world's second largest exporter of services and boasts competitive strengths in technology, life sciences, education, research, marketing and communications. It has captured a large share of global services investment in recent decades, attracting more financial services investment than any other European country for the last 20 years. However, overall investment flows have declined in recent years and not recovered to pre-pandemic levels.

The report sets out a series of recommendations to deliver a new investment strategy, including mainstreaming green investment, creating a global talent hub and designing the world's best and most efficient regulatory centre. TheCityUK suggests that if these recommendations are adopted, the UK could capture a new wave of investment in high-value services and technology, grow as a global financial hub, and lead the global green transition.

Read the full report and its recommendations at: bit.ly/3q6hFeZ.

STRATEGIC PARTNERSHIP

AIA's sustainable Accountex

AIA attended Accountex London 2023 alongside our sustainability partner Net Zero Now, who joined us on the stand and offered drop-in sessions on becoming Net Zero.

AIA continue to embrace the importance of sustainability across the accountancy sector and creating world class sustainable accountants. AIA's Sustainability Promise is to be committed to ensuring its members have the skills, knowledge and tools to promote sustainable business practices.

AIA Director of Operations David Potts was also live on the main stage, alongside the Institute of Certified Bookkeepers, the Association of Taxation Technicians, ACCA UK, ICAEW and AAT, for the talk 'Survive or thrive: the state of the profession'. The panel, hosted by Steven Cox of Iris Software Group, discussed the size and shape of the UK accountancy and bookkeeping profession, the reasons behind the boom in the profession and the strategies AIA has in place to support members.

AIA Chief Executive Philip Turnbull said: 'We were pleased to be a supporting partner at Accountex and discuss our Sustainability Promise with current and new members. It is important that the accounting world has the skills, knowledge and tools to promote sustainable business practices. We're excited to see more accountancy practices starting to calculate their emissions and get on the road to Net Zero – creating a brighter future for their businesses and for the planet.'

Net Zero Now Managing Director Neil Ross Russell said: 'Net Zero Now were delighted to be at Accountex with the AIA, to demonstrate a dedicated tool enabling accountancy practices to measure and reduce their carbon emissions.'

STRATEGY

AIA welcomes the UK government's updated Green Finance Strategy

As signatories of the green finance education charter, AIA welcome the UK government's updated Green Finance Strategy, with a specific focus on the importance of education and training to reach net zero.

On 3 April, the UK government published the updated Green Finance Strategy, with a greater emphasis on the importance of capacity and capability building to support the UK's net zero ambitions, and its recognition of the key and unique role played by AIA and other UK professional bodies.

Announced in the UK Government's 2019 Green Finance Strategy, the Green Finance Education Charter (GFEC) is a world first. The Charter is designed to build the capacity and capability of the green and sustainable finance sector in the UK and internationally.

The Green Finance Strategy outlines the UK's plan to reach net zero greenhouse gas emissions by 2050. The strategy mainstreams climate and environmental factors as a financial imperative, with an emphasis on mobilising private finance for clean and resilient growth and cementing UK leadership in green finance.

However, as the Sustainable Finance Education Charter reveals in its report on the UK's environmental, social and governance (ESG) skills set in the financial services sector, UK employers, educators and the government need to do more to secure the UK's future as a global sustainable finance centre, and to deliver the commitments made by financial services firms.

Professional bodies are already playing their part as demonstrated in the Sustainable Finance Education Charter Second Progress Report. Signatories are incorporating ESG into initial and continuing professional development programmes. Four key findings of the revised Green Finance are:

- The majority of respondents do not consider their organisations to be highly prepared for future requirements in green and sustainable finance, which is a cause for concern given the UK's net zero ambitions and the sustainability commitments and strategies of many financial services employers.
- The majority of respondents felt their organisation was not targeting training budgets towards training employees in green and sustainable finance to support their organisation's sustainability strategy.
- The green and sustainable finance skills gap is wider than the knowledge gap.
- Capacity and capability building are a higher priority in other countries. The UK may fall behind if this isn't addressed by employers, professional bodies, educators and the UK government.

AIA Director of Operations David Potts said: 'AIA are committed to developing the capability and capacity of the banking, finance and professional services sectors to mainstream green and sustainable finance. We are placing sustainability at the heart of our operations and working with members to deliver sustainable long-term growth.

'AIA is actively working with industry regulators to demonstrate how our operations are sustainable, whilst promoting sustainability through education and learning to our global membership. We are committed to the continual review of our processes, procedures and strategy in line with ESG standards in 2023 and beyond.'

GUIDANCE

AIA welcomes updated EFAA guidance for SMPs on Sustainability Reporting Assurance

As a member of the European Federation of Accountants and Auditors (EFAA), AIA works with other professional bodies across Europe to provide guidance and support to SMPs and SMEs.

The EFAA has published new guidance 'Sustainability Reporting Assurance: how SMPs can build the capacity to support SMEs'. It offers suggestions on how SMPs can respond to the rapid emergence of sustainability reporting, and explains how significant new reporting requirements demand that SMPs and SMEs prepare for their implementation. It also includes useful tips on how SMPs can prepare sustainability reports for their SME clients.

SMPs can help to create a sustainable EU economy in the following ways:

- **Advise on sustainable business practices:** SMPs can advise their clients on how to adopt sustainable business practices and improve their sustainability performance, such as reducing their carbon footprint and complying with health, safety and environmental regulations. SMPs also need to 'practice what they preach'.
- **Adopt sustainable business practices:** SMPs must change their way of working to become more sustainable and embrace sustainable business practices. such as by reducing their carbon footprint and providing a safe place to work. Digital technologies can also help; for example, remote working can reduce carbon emissions.
- **Prepare sustainability reports:** SMPs have traditionally prepared financial information and reports for clients. They can expect increasing numbers of clients to ask them to also prepare sustainability information and reports.
- **Provide assurance on sustainability information:** SMPs sometimes provide audit and other forms of assurance on financial information and reports of clients. An increasing number of clients may seek assurance on their sustainability information and reports.

AIA's Chief Executive Philip Turnbull commented, 'The new guidance has significant value for accounting practices that want to stay up to date with sustainability reporting assurance. We welcome this publication as a tool and encourage our practising members to utilise it.'

Preparing for exams

Here are twelve things you need to know when you're preparing for AIA exams.

> When presenting answers in the exam, be sure to label your workings, so the examiner can give credit where due.

AIA works closely with thousands of students from around the globe on their journey towards becoming a qualified accountant. We understand the work and sacrifice that is required and appreciate the highs and the lows that students often go through on the road to achieving their career aspirations.

To help you on your journey we have outlined twelve things you need to know about preparing for AIA exams:

1. Workings

When presenting answers in the exam, be sure to label your workings. By adopting the correct layout, even if you make some errors, the examiner can clearly follow your workings and give credit where due. Numbers should be labelled so your treatment is clearly demonstrated. For example, computations such as adjustments to profit to find trading income should usually take a columnar format, with labels in the first column, and numbers in a column on the right hand side.

2. Answer all questions

Candidates must attempt all questions and all parts to the question. Even if you do not feel confident about the topic requirement, you may achieve one or two marks which can be the difference of attaining a pass or fail.

3. Time management

Candidates must allocate time specifically to the questions they intend to answer. Allocate your time in the exam across the requirements based on the number of marks available, ensuring time is managed effectively. Use the additional 15 minute reading time to review all questions. Allocating time appropriately is important, as the first marks in a question are always the easiest to collect.

4. Study all topics

Candidates must prepare to answer questions on all of the topics listed in the syllabus – do not just focus on one or two topics. Please read through all the chapters of your e-book and complete each of your study periods within Achieve Academy.

5. Exam technique

Practise your exam technique. Answers must show structure and focus. Read the questions and answer what the question asks for – do not regurgitate the question facts in your answer. Make sure you have answered the question in sufficient depth – discursive questions need extensive answers. Be sure to reference and explain the appropriate regulations and legislation to support your answers. This allows for greater detail and discussion in the question, demonstrating knowledge and understanding of the issues.

6. Independent reading

Candidates are advised to increase their knowledge of the subject by doing independent reading. AIA e-Books for all papers and other suitable texts are recommended in the syllabus reading lists. They contain worked examples and activities to reinforce your knowledge.

7. Examinable standards
Candidates must ensure that they are up to date on current accountancy issues, including International Standards on Auditing and International Reporting Standards/International Accounting Standards defined in the syllabus. Candidates need an understanding of and engagement with appropriate IFRS. Most IFRSs contain definitions, criteria and other requirements which can be learned and applied to the scenarios in the exam paper, thereby demonstrating not only knowledge of IFRS but the ability to apply that knowledge in practice.

8. Audit qualification
Audit students are required to answer based on the UK regulatory background, including auditing and ethical standards issued by the FRC. Information relating to these standards can be found at: www.frc.org.uk

9. Study skills
Learning is a skill in itself, which needs to be developed. The following Palgrave Macmillan books offer support in a user-friendly and interactive format: *The study skills handbook*; *Critical thinking skills: effective analysis, argument and reflection*; and *The exam skills handbook*.

10. Review the syllabus
To understand what is being examined in 2023 and the structure of the exam papers you should refer to the Exam Scheme & Reading Lists.

11. Ethics
AIA places considerable emphasis on the importance of professional ethics for accountants. AIA advises within the syllabus that we examine a candidate's understanding and application of professional ethics at each of the three levels of its syllabus. The AIA Code of Ethics complies with The Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA Code). AIA Code of Ethics is located at: www.aiaworldwide.com/media/2456/aia-constitution.pdf

12. Plagiarism
AIA treats plagiarism very seriously. There is a very fine line between bad referencing and outright plagiarism. Plagiarism is using the work of others without acknowledging your source of information or where your ideas are from. If you are preparing for the exams in a study group, make sure you do not reproduce 'learnt answers or template responses' you have prepared in the group, so it appears your responses are exactly the same as another candidate.

Study skills
There are a number of steps you should adopt as part of your study programme:

- **Effective and directed study:** Follow a realistic study plan. This allows you to plan your work in manageable sizes, avoiding last minute studying.
- **Prepare for exams:** Review the syllabus and the paper structure. Actively engage with Achieve Academy, study the AIA e-books and recommended reading texts, and practise questions under exam conditions. Read the examiner feedback documents and exam articles which are available in Achieve Academy.
- **Make useful notes:** Review the chapters in the AIA e-book, watch the lecture recordings and attend the interactive live workshops, making detailed notes.
- **Discursive answers:** You should practise writing detailed discursive answers which relate to the scenarios, demonstrating your knowledge and understanding of the subject/topic.
- **Time management:** Use your time productively – schedule and follow a realistic study plan which works for you and be strict with yourself in order to achieve your study goals. However, it is also important to reward yourself for accomplishments achieved. This is a good motivator and keeps the study momentum going!

"A realistic study plan allows you to plan your work in manageable sizes, avoiding last minute studying.

The Human Firm

***Will Farnell* examines how digitalisation can provide the foundations for the evolution of accountancy firms, so that we can offer a unique offering to the clients.**

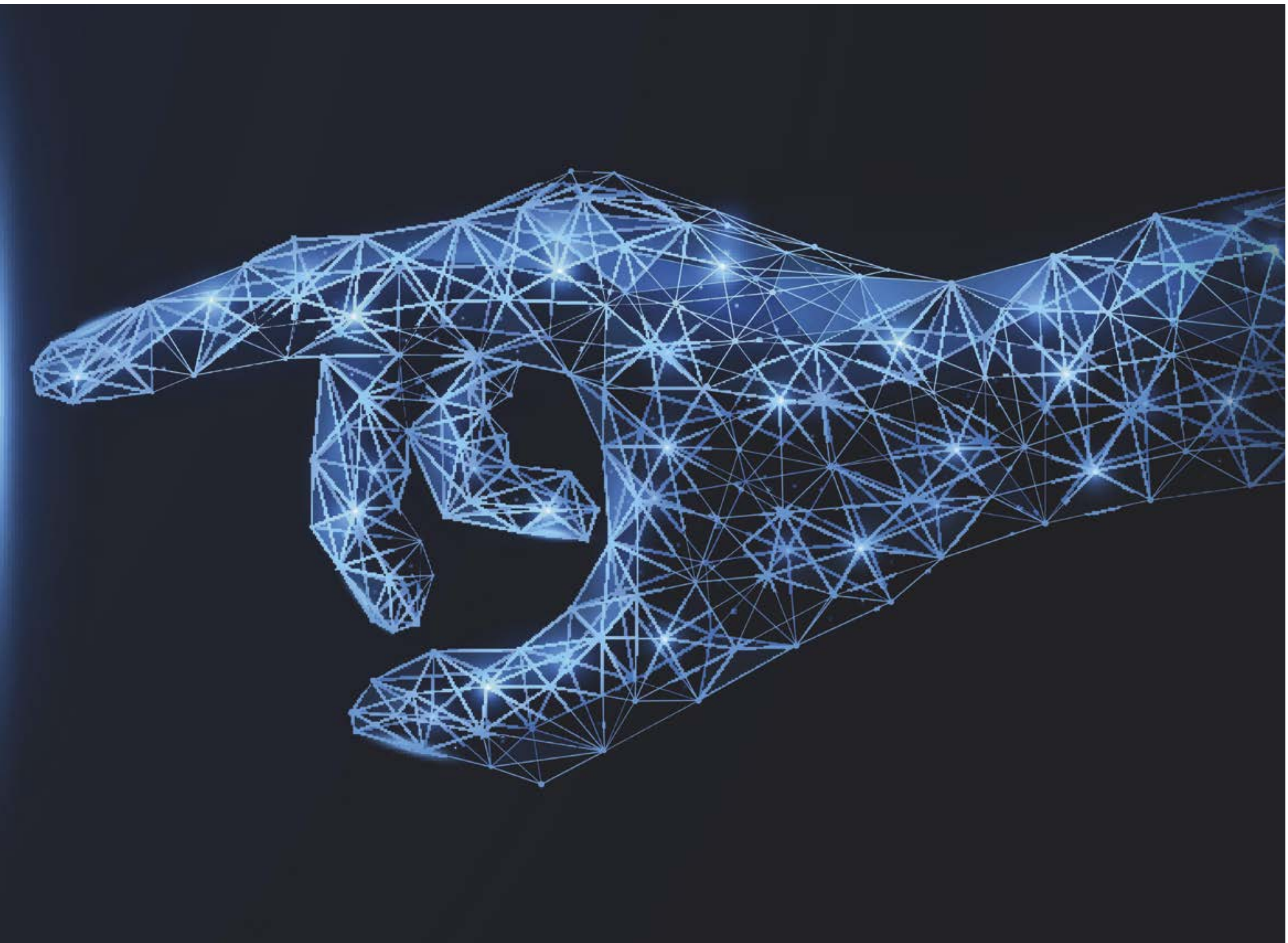
Will Farnell
Founder and director, Farnell Clarke

We are a profession in a rapid period of flux, change, challenge and opportunity, in a digital world that is impacting our lives in all sorts of ways. We are also witnessing technology shifting into areas that risk dehumanising us. In a people business like accountancy, what does this mean for us as firm owners, our clients and our teams?

I am sure many of you will have heard the term 'a digital firm' or 'a digitised firm'. What do these terms mean to you? Like other buzz words we hear in our profession, the likelihood is that they mean different things to everyone. I am perhaps better placed than many to attempt to define at least one of these terms, having written a book in 2018 titled 'The Digital Firm'. This book aimed to be a blueprint for accountants and bookkeepers who wanted to better utilise technology in their business. I defined my view of the digital firm as:

> 'A firm that utilises a blend of digital technology and digitally aware staff to deliver first class client services efficiently and effectively through maximum level of automation.'

This definition can be broken down. Firstly, it is no good using great technology if you have staff who won't use it, can't use or don't want to use it. We must bring our people on the journey with us. The second point is that we must use technology to deliver the best possible experiences for our clients. Finally, if we blend people, process and technology in the right way, we will generate efficiency and effectiveness and find ways to automate more of what we do.



That's all fine, of course, and explains the 'what'. But what about the 'why'? Why should we be interested in building a digital firm?

The why

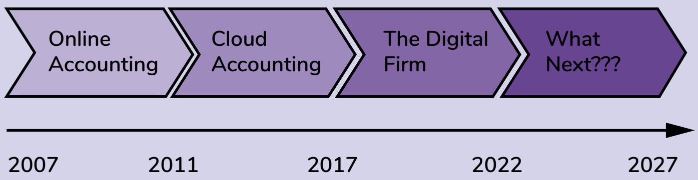
The best way to start with the why is for me to share a little about the evolution of my own firm, Farnell Clarke. I set my firm up in 2007 and I had what I believe was the benefit of not having trained in practice. As a result, I had no preconceptions about how to run an accounting firm, so I put myself in the shoes of a client and asked myself: 'If I was buying accounting services, what would I want?'

I should add that the reason I set up my firm is that I thought I could do it better. I thought that professional services were broken and that my job was to change the way professional services were delivered and perceived by those who used them. Quite a grandiose statement for a one-man band operating from the back of a garage in my garden!

Only in the last few years did I realise that it was this blind faith and belief that led me to build the firm I have today. How does this answer the why though? There are a number of reasons why we should digitalise, not least because digital is such a fundamental part of our lives. Generation Y and Generation Z expect it, as do our team members from those generations. But the most important thing is that without digitalising what we do, we cannot deliver what our clients deserve and need. (Although they might not always know what it is they need – that's our job!).

The diagram above, ***The path to digitalisation***, shows the path that led my firm to becoming probably the first 100% online/cloud practice globally back in 2009.

The path to digitalisation



The components of a digital firm

> **'In today's rapidly evolving digital landscape, staying ahead of the curve is crucial for the long-term success of any accountancy practice. Embracing digitalisation is not just a choice; it's a necessity. By fully integrating digital tools and technologies into your practice, you can unlock a multitude of benefits that will enable you to thrive in the digital age.'**
>
> George Josephakis
> AIA Council Member

This is a diagram that I used following the release of my book in 2018. I talked about what the next evolution of our digital firm might be. I have the answer now in the title of my second book, published in April 2023, 'The Human Firm'. This sets the scene for how we can utilise the foundations laid in the digital firm to significantly impact the lives of both clients and team members in shaping a firm fit for the next decade in the shadow of technological development, particularly around artificial intelligence (AI).

Digital adoption, or the lack of it...

You would not be alone if you felt that technology was firmly adopted and embedded in the accounting profession but I'm here to shatter that myth!

In 2018, I estimated that we were at about 20% adoption of cloud accounting tools in the UK market. It didn't really make any difference if that figure was taken from an end client user perspective or accounting and bookkeeping firm adoption – the number was about the same. I went further in that I predicted less than 2% of UK firms were what I would consider fully digital. This meant in 2018, if you were on the journey to using cloud accounting tools you were in the top quartile of firms in the UK.

But I was wrong in 2018! Despite my best efforts, I still believe there is a 20% adoption rate even in 2023. I would further suggest that only a fifth of the 20% (at best) has made it to digital firm status.

This means that 15 years after my firm started on this journey, in 2023 you are still an early adopter if you are using cloud accounting tools. This means the opportunity is immense for firms ready to take action now.

How do you become a digital firm?

The model for how to become a digital firm, which underpinned the book I published in 2018, is shown in ***The components of a digital firm***. These are the separate components a firm needs to focus on and manage on the transition to being fully digital. The key point is that only 20% of it relates to the technology itself.

There is one key thing to take away from this: any change you need to make in becoming a digital firm should only focus on those things that directly or indirectly impact the lives of your clients and enhance the client experience you deliver.

From a more practical application, technology of course plays a key part. It is essential that we start by deploying technology that provides a mechanism in your firms for input, process and output. Being a digital firm is more than moving clients from a desktop software solution to a cloud based one. We did that in 2009 – and the only reason was because the technology was not there to let us do more.

The absolute minimum for even a cloud accounting firm in 2023 – let alone a digital firm – from a tech perspective is to have a cloud general ledger with a pre-accounting tool for receipt and invoice capture, and bank feeds connected.

The key transition from cloud accounting to digital firm is recognising the need to allow your business model to evolve. The technology at our fingertips allows us to provide up-to-date, meaningful data. That is the bedrock to a truly digital firm in the insight we can deliver to clients.

Why bookkeeping is the key to the digital firm

The penny drop moment occurred for me in 2011, when we adopted Receipt Bank (now known as Dext). As many accountants back then, I did not really offer bookkeeping services. I saw it as low value work, which we could not make a profit on if it was delivered as an affordable servic for our small clients. Of course, I ended up doing bookkeeping anyway as part of the end of year process but I persuaded myself that it was part of the annual accounts package. I therefore delivered it effectively for free!

Dext allowed us to take control of the bookkeeping and in doing so we controlled the quality of the data, the timeliness of the data and how we managed it to deliver better services to clients. Over time, we developed processes and structure in our business that enabled us to deliver daily bookkeeping to our clients, averaging around four minutes per day per client. In doing so, we developed what I refer to as 'live' accounting data. It's not real time – we can't do that yet. But with live data, we are delivering unique insight to our clients, allowing us further scope to deliver new and higher value services.

The evolution to the Human Firm

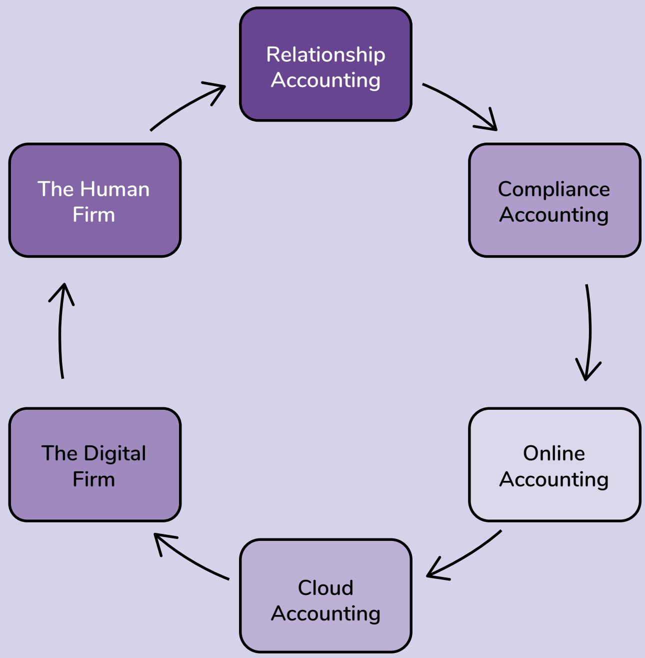
In writing my most recent book, 'The Human Firm', I have stated in the book that to be a Human Firm you first need to be a Digital Firm. 'The Human Firm' sets the blueprint for what a firm fit for the next decade might look like and how it operates. It takes the learnings I have encountered in the last five years, as we have looked to understand more about why we have the business we have today. It helps us to consider how we ensure that we remain competitive in a world where every firm has access to the same technology; and that we can easily replicate the processes and structures I have happily shared so publicly. It's not just me, of course. Many others have done the same and are equally willing to share.

The only differentiator left for us now is our people, our own uniqueness and how we blend these into a unique offering to the clients we serve.

It is here that the importance of the power of regular bookkeeping and the control of the data which we have helped create comes into its own. It allows us to close the loop on the evolution of professional services, leaving it in a better place than where the circle started. This is demonstrated in the diagram above, ***Closing the loop of professional services***.

My linear evolution diagram has become a loop. It ends where we started, before compliance got so complicated. Thirty years ago, accountants had great relationships with their clients but the introduction of regulatory compliance got in the way – and our focus shifted from maintaining those great relationships to keeping clients out of jail!

Closing the loop of professional services



Technology – through the stages of online accounting, cloud accounting and the digital firm – has given us back the time to refocus on those relationships of old.

We are in a better place than we were 30 years ago. Our great human relationships are now superpowered by data. We have the ability to add real value to these relationships by surfacing insights that were not previously available to us or our clients.

Of course, these benefits are only available to us if we have created the foundations built by being a truly digital firm: utilising the best technology with digitally aware staff; focusing on the experience we deliver to our clients; and building processes and structures that enable us to build the best possible relationships with clients through frequent touchpoints. Finally, we must be a firm that has created capacity through automation.

A digital firm such as this is well placed to develop to become a Human Firm, benefiting from the deep personal relationships it has with its clients: underpinned by the understanding of the goals, aspirations and objectives of those clients at both a personal and business level. It will also create a unique culture that enables us to recruit and retain the very best people to support clients in achieving these goals, whilst enabling our own team members to fulfil their own goals and aspirations.

I invite you to join the journey to the Human Firm, building on the solid foundations of being a truly digital firm. ●

Author bio
Will Farnell is founder and director of Farnell Clarke, and author of *The Digital Firm* and *The Human Firm*.

Speak up and stop harm

Elizabeth Gardiner **asks whether it is time to review our legal framework for whistleblowing, as well as the role that workplace culture can play.**

Elizabeth Gardiner
Chief Executive, Protect

Rarely a day goes by without a whistleblowing story in the press – from patient safety concerns in hospitals, to fraud in the meat industry to toxic workplaces in the CBI. What many of the cases have in common is that internal whistleblowing processes are not working. Staff working inside these organisations have been too scared to speak up, have spoken up to the wrong person, or have spoken up only to be ignored. That's bad news for the whistleblowers, but it is also very bad news for employers.

Finance professionals should care about whistleblowing. When their organisations get it wrong, there may be an impact on the bottom line. The consequences can be reputational damage or regulatory intervention, with knock-on effects on the confidence of shareholders and investors. There's a human cost to the whistleblower too, which can result in uncapped damages being awarded at an Employment Tribunal.

On the more positive side, there is evidence that staff are even better than internal audit at detecting fraud – and can act as a vital early warning system for employers. Put simply, whistleblowing is good for business.

Protect is the UK's whistleblowing charity and this year we celebrate our 30th anniversary. We see whistleblowing in the round: from the perspective of those trying to speak up to stop harm – the 3,000 whistleblowers who call our confidential legal advice line each year – and from the perspective of businesses that understand the benefits of whistleblowing.

We know that advising whistleblowers is only half the story. Getting workplace cultures right so that whistleblowers can be heard is equally important. We provide businesses across all sizes and sectors with training, consultancy and benchmarking to help them on their journey to best practice.

There are several reasons why it is timely to review the health of your whistleblowing arrangements.

International perspective

First, from an international perspective, most countries across the European Union have now passed laws implementing the EU's Whistleblowing Directive. Brexit means that the UK is not required to update its whistleblowing laws (but, as explained below, it may well do so). Anyone with a trading subsidiary in the EU should look carefully at the new obligations in each country. However, any organisation trading with the EU would be wise to take note of the very much stricter obligations placed on employers to have detailed procedures in place, as well as the sanctions for breaching whistleblower confidentiality. It is only a matter of time before organisations will expect these higher standards from anyone in their supply chain.

UK government proposals

Second, there are political changes afoot. As the latest economic crime bill passes through Parliament, the government plans to introduce a new 'failure to prevent fraud' offence. Any organisation facing prosecution under the new offence will want to argue in their defence that they took all 'reasonable steps'. Effective whistleblowing arrangements should be key here .

In March 2023, the government announced a review of the UK's whistleblowing framework (see bit.ly/44RBJlo). Our law is 25 years old and is no longer seen as world leading. The review will consider:

- whether the framework encourages and protects whistleblowers;
- the benefits of whistleblowing to employers, regulators and others; and
- best practice for responding to whistleblowing disclosures.

At Protect, we're keen to see the law updated – it simply hasn't kept pace with the modern workforce. The 'protections' to whistleblowers are only after-the-event remedies which, due to the complexity of the law, are difficult to obtain. We want many more employers to be required to introduce effective arrangements: outside of regulated sectors such as financial services, most employers have no legal obligations to introduce even a policy. We'd also like positive steps to prevent whistleblower victimisation.

With an election not too far away, there is limited time to bring forward the primary legislation needed for such reforms. However, some changes could happen quickly, such as extending the definition of 'worker' for whistleblowing purposes to include non-executive directors, charity trustees, self-employed contractors, job applicants and others currently denied a remedy if they are treated badly as a result of whistleblowing. This can be done swiftly through secondary legislation.

Responding to the ESG agenda

The third reason for a review is that the ESG agenda is here to stay. Whistleblowing is a golden thread across all three areas of environment, social and governance.

The climate emergency means new requirements on firms to act in the interests of groups well beyond shareholders and customers. Regulators want transparency in climate-related disclosures and there is a crack-down on 'greenwashing' where claims to be environmentally friendly are overstated or misleading. The Advertising Standards Authority and Competition and Markets Authority have already acted, while the Financial Conduct Authority has consulted on the importance of accurate labelling of investment products. Those working inside organisations are likely to have insight into whether claims can be substantiated, and we should expect to hear more from whistleblowers concerned about greenwashing and wider environmental concerns.

Whistleblowing has always been central to good governance (the 'G' of ESG). It is difficult to imagine how an organisation could claim to have sound governance if it did not have processes for managing risk and heeding staff concerns. Where potentially harmful activities are taking place, it is in the interest of the board and senior team to be aware. Good whistleblowing arrangements enable this vital flow of information, enabling action to be taken early.

Until recently, whistleblowing may not have been seen as crucial to the 'social' element of ESG. However, risks about organisational culture that are not addressed can be a ticking timebomb. Before the #Metoo and Black Lives Matter movements, many issues about harassment, discrimination or bullying in the workplace were simply dealt with as grievances (when they were taken seriously at all). Toxic workplace cultures don't just emerge overnight, and you can be sure that your staff will know where the problems are.

Whistleblowers who witness others being treated badly can provide vital intelligence that will allow deeper dives to uncover wrongdoing. Organisations that are truly safe for speaking up are likely to be the ones which attract and retain staff and obtain the benefits that come with staff trust.

Getting ahead of the curve

So, what can you do to check that your processes are as good as they can be? At Protect, we work with hundreds of employers who want to have effective whistleblowing arrangements and understand the value of information from their staff. Over the last 30 years, we've gained insight into what makes whistleblowing work.

Having a whistleblowing policy is a necessary, but not sufficient, first step. Make sure that the policy is well-written, easily accessible and widely communicated. Good employers will use a range of channels – from newsletters to one-on-one meetings – to communicate the key messages:

- We want you to speak up.
- It is safe to speak up.
- We'll take action if anyone victimises a whistleblower.

Leaders set the tone, so this message needs to be endorsed by those at the top of an organisation, and by every line manager. Good words need to be backed with clear processes. In our experience, having a range of channels outside of line management to raise concerns is helpful. Training of all staff is important – not just about how to speak up, but also about how to respond to concerns. Line managers are likely to be the first recipient of concerns. It is a myth that whistleblowers are persistent – most will raise a concern only once – so managers have a small window to identify a whistleblowing concern and give assurances.

Training those who may investigate whistleblowing concerns is also vital – protecting the whistleblowers' identity while being fair to those under investigation is no easy challenge.

The right time for a review is now

Things go wrong in every organisation – human nature means that we can't eliminate all risk. But how we respond to that risk can make the difference between an internal discussion and correction, and being the next organisation in the headlines for the wrong reasons. Listening to staff means you can act fast on small risks, and addressing concerns early means your staff won't need to take them externally. Getting whistleblowing right is in every organisation's interest – and the best time to review your arrangements is now. ●

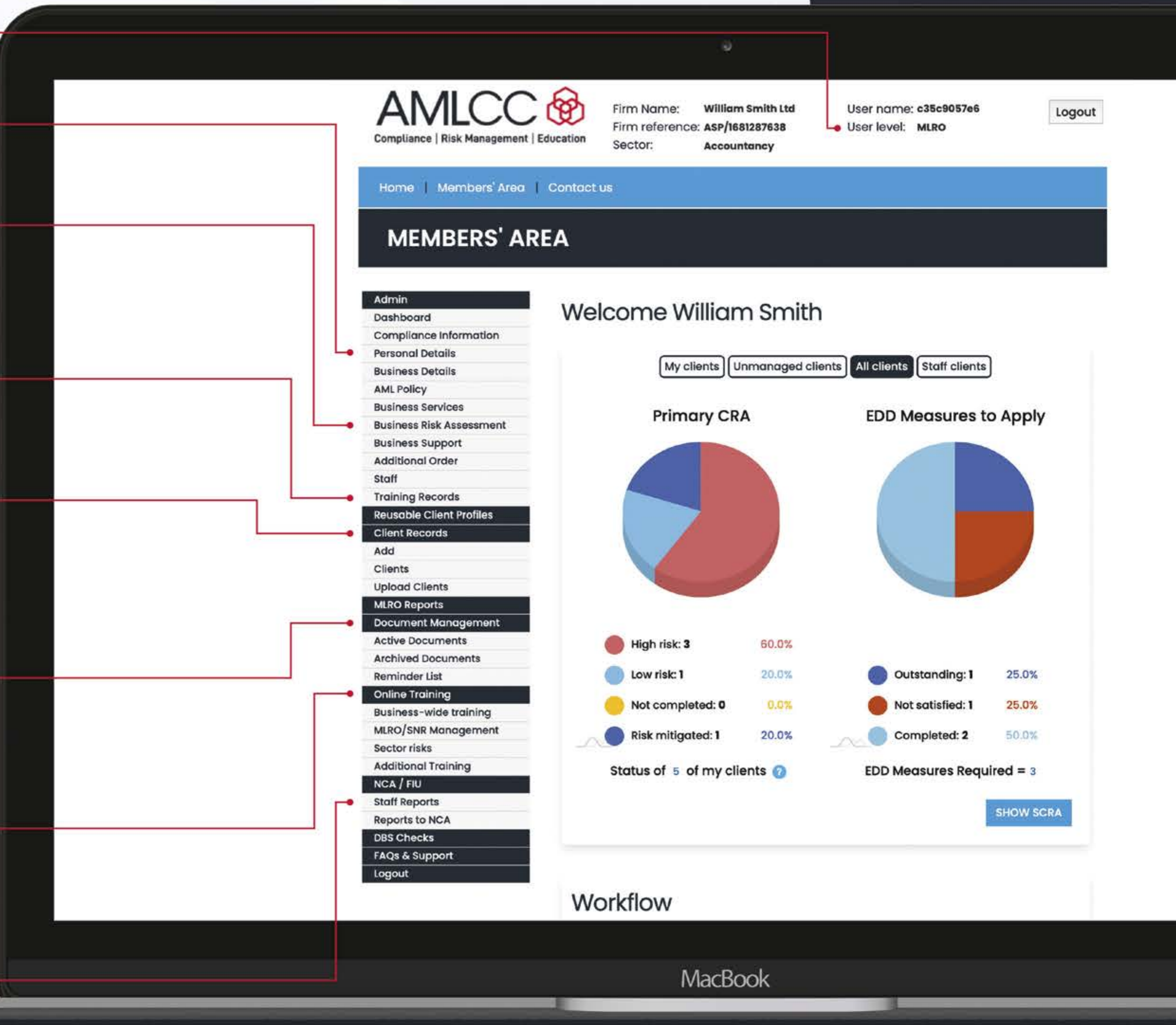
Auditing and reviewing your arrangements can be done using Protect's Whistleblowing Benchmark (see protect-advice.org.uk/our-benchmark).

Our unique diagnostic tool allows you to assess your whistleblowing arrangements across three key areas:
1. governance (your policies, processes and audits);
2. engagement (training and communications); and
3. operations (the experience of the whistleblower using the system).

Author bio

Elizabeth Gardiner is the Chief Executive of Protect, a registered charity that provides free, confidential whistleblowing advice.

dashboard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Business Support
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Online Training
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Staff Reports
Reports to NCA
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Welcome William Smith
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All clients
Staff clients
Primary CRA
EDD Measures to Apply
High risk: 3 60.0%
Low risk: 1 20.0%
Not completed: 0 0.0%
Risk mitigated: 1 20.0%
Status of 5 of my clients
Outstanding: 1 25.0%
Not satisfied: 1 25.0%
Completed: 2 50.0%
EDD Measures Required = 3
SHOW SCRA
Workflow
MacBook

Greenhouse gas accounting and net zero advisory

In the second of a four part series, *Dr Peter Ellington* and *Fran Ellington* explain how forward-looking accountancy practices are offering greenhouse gas accounting and net zero advisory services, supporting businesses to transition to the new sustainable economy.

Dr Peter Ellington
CEO and Founder, Triple Bottom Line Accounting

Fran Ellington
Sustainability and Business Development Director, Triple Bottom Line Accounting

Accounting for greenhouse gas emissions is like accounting for costs. It starts with an estimation of total greenhouse gas emissions for a business split into categories. From this categorisation, the causes of the emissions can be identified. Once identified, options for reducing those emissions are evaluated. This leads to an agreed emission reduction plan that can be managed going forward.

Accountancy practices can provide a GHG Accounting service to their clients. Alternatively, they can appoint a third party to do the evaluation instead. Either way, greenhouse gas accounting and net zero advisory is a natural extension to their service. Nick Hajdu from AIA's partner Net Zero Now says:

> 'The bigger framing of this service is that larger businesses are already legally obliged to measure and report on their carbon emissions and that this legislation will be coming soon to all businesses of all sizes. So it will be like pensions: no matter how small your business, you've got to provide one. It will be the same for carbon emission reporting. And that's where I think accountants come in – as every business will need to turn to their accountant for help with what is becoming known as "carbon accounting". The savvy accounting practices will start offering this service early.'

The steps involved in a greenhouse gas accounting and net zero advisory are as follows:

1. Measure greenhouse gas emissions.
2. Develop plans to reduce greenhouse gas emissions.
3. Set targets and commitments.
4. Incorporate into advisory services.

Getting started

Training and gaining knowledge: The first step is to identify training requirements and invest in programmes to expand your team's environmental, social and governance (ESG) and greenhouse gas emission knowledge. Encourage staff to pursue certifications in sustainability accounting and undertake continuous professional development, such as AIA's online CPD. This investment in training demonstrates your commitment to staying ahead in the field.

Partnerships and collaborations: Accountancy practices should consider partnerships with environment and energy experts. This will combine the accountant's practical knowledge of business, accounting, measurement, management accounting, investment appraisal, critical thinking and target setting with practical expertise in innovative methods for reducing carbon.

Outsourcing: An alternative to developing an in-house service is to outsource to companies such as AIA partner Net Zero Now or others such as Auditel or Greenly. Even when outsourcing,

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accountants should remain involved with their clients' greenhouse gas accounting and reduction plans to ensure that they are integrated into their clients' finances and the advice that they provide.

Understand what is being measured: See the box below.

Step 1: Measure greenhouse gas emissions

Accountants can establish a comprehensive greenhouse gas accounting and net zero advisory service by integrating greenhouse gas emissions estimation tools and add-ons to cloud accounting systems like Xero, QuickBooks and FreeAgent. Platforms such as Normative, Sage Earth or Ecologi Zero can seamlessly connect with these accounting systems, enabling the efficient tracking of an organisation's carbon footprint. See the table *Carbon trackers* opposite.

Most of these emission estimators are aligned with the international standards set by the Greenhouse Gas Protocol, the Task Force on Climate-related Financial Disclosures (TCFD) and Science Based Targets initiative (SBTi) reporting.

There is a list of emission estimators in the box opposite. These carbon-tracking software platforms (aligned with cloud accounting solutions) are designed to simplify emission estimations and are accessible to accountants. They require a small amount of activity-based

> **Accountancy practices can provide a greenhouse gas accounting service to their clients or help them to outsource the work.**

Understand what is being measured

- **Greenhouse gases** are gases that trap heat in the earth's atmosphere, contributing to global warming. Major greenhouse gases include carbon dioxide, methane, nitrous oxide and fluorinated gases. Human activities, like burning fossil fuels and deforestation, have increased greenhouse gas concentrations, leading to accelerated climate change.
- **Scope 1 emissions** are direct emissions from sources that an organisation owns or controls, such as diesel vans or gas boilers for heating and water.
- **Scope 2 emissions** are indirect emissions from fossil fuel burned elsewhere on a business's behalf, such as the consumption of purchased electricity, steam, heat and cooling.
- **Scope 3 emissions** encompass all other indirect emissions that do not fall under Scope 2, including upstream and downstream emissions from purchased goods and services, capital goods, upstream transport, downstream distribution, waste and water consumption, processing of sold products, business travel and commuting (value chain emissions). Measuring Scope 3 is often challenged, but in many cases it represents between 60% and 80% of a business's emissions. By measuring Scope 3, we can accelerate the global net zero target by putting pressure on suppliers and designers of products and services to decarbonise and work towards a circular economy.

Accountants should be familiar with other terminology related to this area. See the *Glossary* on page xx..

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> **It is essential that carbon targets are aligned with financial budgets and cost-benefit appraisals.**

data such as heat, power, fuel and water consumption, employee commuting and waste.

By analysing a business's Scope 1, Scope 2 and Scope 3 emissions, accountants can propose a combination of short, medium and long-term solutions to reduce emissions in line with the business's goals. This process establishes a reliable estimate of greenhouse emissions.

The measurement of greenhouse gas emissions can be accounted for like costs. Once established, as with costs, accountants can use their skills to identify what activities cause the emissions.

By identifying causes, accountants can advise and budget for carbon reduction plans and net zero strategies. By combining these tools with tailored workshops which include key stakeholders within each business, plans can be designed to address each client's unique circumstances.

Forward-thinking accountancy practices are providing crucial information for their clients to create customised net zero targets, strategies and authentic narratives about their sustainability journey.

Step 2: Develop plans to reduce greenhouse gas emissions

After measuring emissions, businesses should consider implementing practical, straightforward and cost-effective plans to reduce Scope 1, Scope 2 or Scope 3 emissions. Many of the estimators (see the table *Understand what is being measured*) provide suggestions for reducing emissions that can be used for further analysis and planning. The following ideas, categorised by emission scope, are examples of how companies can reduce emissions and meet the targets that they set.

Scope 1 emissions: Direct emissions from owned or controlled sources

- **Building energy use:** Undertake regular maintenance of heating and cooling systems; consider insulating walls, floors, ceiling, windows and doors; consider mechanical ventilation with heat recovery systems; reduce hot water temperature while maintaining hygiene; and display posters to remind staff to turn the power off when it is not required.
- **Transportation:** Replace company cars or delivery vans with electric vehicles, which can also offer significant tax benefits for the owners of companies and staff; and plan and combine journeys to optimise the use of vehicles.

Scope 2 emissions: Indirect emissions from the generation of purchased energy

- **Lighting:** Use LED light bulbs; and implement a lights-off policy with motion sensors.
- **Electricity generation:** Explore renewable energy sources for cost-effective power; and think about longer term investment in energy micro-generation such as solar, wind and biogas.

Scope 3 emissions: All other indirect emissions that occur in an organisation's value chain

- **Building materials and fitouts:** Choose durable, sustainable furniture to reduce waste and environmental impact.
- **Commuting:** Encourage employees to use low-carbon modes of transportation; implement a Cycle to Work scheme; and provide electric vehicle charging points.
- **Purchased goods and services**: Buy from environmentally friendly and local suppliers that use sustainable materials and practices; and lobby service providers to disclose their net zero strategy.
- **Capital goods:** Consider the carbon footprint of manufacturing laptops and other electronic devices; and promote recycling and responsible disposal.
- **Water:** Reduce the use of water where possible; and consider rainwater harvesting for toilet flushing.
- **Waste and recycling:** Implement a recycling programme and provide proper bins for different waste types; educate employees about waste reduction and recycling best practices; and encourage reusing and repurposing items before considering disposal.

Carbon trackers (that integrate with accounting packages)

Business Carbon Calculator by Normative	This is the best globally available manual calculator which estimates all three scopes of emissions. The Business Carbon Calculator is optimised for businesses with fewer than 50 employees and is offered, among others, via the UN Race to Zero-backed SME Climate Hub for free. Many small businesses will need the help of a 'friendly accountant'. Expenditure from P&L Account is cross-referenced with final accounts. Data needs to be categorised and manually uploaded. (see bit.ly/3MwweRU)
Normative.io	Normative is a full-service tool for businesses to account for and reduce their emissions. Normative uses the GHG Protocol's hybrid methodology to process both spend-based and activity-based data, ensuring comprehensive, accurate and scientifically rigorous emissions calculations. (see bit.ly/3IkvlUK)
Sage Earth	Automatically links with expenditure. Manual uploads of activity-based data required. (see bit.ly/3o6TSLo) **Current integrations** (UK only at present): Sage Business Cloud Accounting, Sage 50, Xero, QuickBooks **On the way:** Other Sage products, Dynamics, FreeAgent
Ecologi Zero	Simple to set up and free to use. Automatically imports business transactions. Requires input of a small amount of activity data. Identifies emissions hotspots and provides reduction advice. (see bit.ly/3W8SF2X) UK Service industries only Companies with 100 employees or less Xero (QuickBooks and Sage later this year)
Cogo	Measures emissions. Writes your carbon management plan. (see bit.ly/3o30D10) Links to bank account and accounting platforms New Zealand, Australia, UK coming soon
Carbonhound	Carbon footprint is third-party verified. A very different and possibly more accurate approach – one to watch! 10% discount code: enter TBL10 into the promo code area on checkout. (see bit.ly/3W9Snso) Syncs with utility bills and csv files to measure the types of products and services being used rather than the amounts being spent US and Canada
Trace	Focus on employee education and engagement, including staff footprint quiz, presentations and comms toolkit. Alongside spend-based data, activity-based data such as electricity, employee commuting, fuel and waste are required. (see bit.ly/3Oj6mui) Integrates with Xero expenses for spend based analysis. CSV upload or digital data input for companies not using Xero Australia, New Zealand, UK

Note: The above table is not exhaustive and there are new platforms that we have not yet tested; for example, Reshift works with Xero, and Net Zero Now are developing a platform that will be available later in 2023.
For a comprehensive list of carbon trackers, see: **www.aiaworldwide.com/media/3184/carbon-trackers.pdf**

- **IT:** Review the amount of data that needs to be stored and the carbon footprint of that storage; and don't needlessly reply to emails!

By implementing measures such as these, targeted to a business's unique carbon footprint, they can set realistic and achievable targets for reducing emissions across all three scopes.

Step 3: Set targets and commitments.

Setting annual targets is crucial for an effective net zero reduction programme over time. Greenhouse gas emission reduction programmes are like cost reduction programmes. Plans and targets for monitoring are critical to success.

Here's why setting annual targets is essential:

- **Monitor progress:** Targets provide a benchmark for monitoring progress and identifying improvement areas. Regularly reviewing performance enables data-driven decisions, strategy adjustments and effective resource allocation.
- **Accountability and transparency:** Setting and reporting targets fosters accountability and transparency, encouraging employees to take ownership and building trust with stakeholders.
- **Adapt to change:** Annual targets allow businesses to adapt strategies in response to evolving market conditions, regulatory

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changes or technology advances, maintaining momentum in their net zero journeys.

- **Drive employee engagement:** Targets can boost employee engagement, motivation, productivity and innovation as they work together to achieve common goals.

Accountancy skills are essential for setting and monitoring targets. For example, to make comparisons over time, it will be likely that adjustments are necessary to make meaningful comparisons, such as carbon intensity per employee or per unit of expenditure or unit of output/activity.

Whether an accountant manages the whole process or outsources it, carbon targets must be aligned with financial budgets and cost-benefit appraisals to ensure that sustainability initiatives are integral to the business's financial planning and decision-making processes.

Step 4: Incorporate into advisory services

As businesses increasingly prioritise sustainability, accountancy practices have a unique opportunity to offer their clients greenhouse gas accounting and net zero advisory services. With their expertise in financial management, reporting, strategy, planning and budgeting, accountants are well-positioned to help clients transition to a sustainable economy. Thereby, they can combine the accountant's practical knowledge with plans for achieving the following benefits:

- **Cost reduction:** Actively working to lower carbon emissions can reduce energy consumption and resource usage, resulting in long-term cost savings for businesses.
- **Customer attraction:** As society becomes more aware of climate change issues, customers are drawn to businesses committed to sustainability. A net zero plan can enhance a brand's reputation and drive customer loyalty.
- **Competitive edge:** Government entities, larger suppliers and other vital stakeholders increasingly prioritise the sustainability credentials of their partners.
- **Employee engagement:** Demonstrating a commitment to sustainability helps attract and retain top talent, fostering a positive and productive work environment.
- **Easier access to financing:** Investors, lenders and funders increasingly consider ESG factors when making investment decisions. A net zero plan signals a business's commitment to sustainability, making it easier to secure financing.
- **Accreditation:** Accountants can assist their clients with obtaining accreditation. Options include: PAS2060 – Carbon Neutral (BSI); ISO 14064 (based on greenhouse gas protocol); B-Corp (broader and overlaps with ESG); and SBTi Carbon Footprint Certification (certified carbon neutrality).

Accountancy practices can play a pivotal role in helping clients to achieve the benefits of a sustainable business strategy while adapting to the changing market landscape. This proactive approach can add value to their service offerings and solidify their position as trusted advisors in the transition to a low-carbon economy.

Conclusion

Accountants can offer valuable support to businesses as they work towards their net zero goals. It is a natural extension of the accountant's role to measure greenhouse gas emissions alongside the finances of a business and to help their clients set goals to reduce their emissions and to align these plans to their finances.

Linking greenhouse gas emission estimators to cloud accounting packages is now a recognised extension to a business's accounting function. Facilitating workshops to brainstorm solutions that are linked to financial plans is a natural add-on to an accountancy practice's advisory services. By adopting carbon accounting, accountants can contribute to a greener planet and develop their practices for the future. ●

Glossary

Circular economy: In a circular economy, things are made and consumed in a way that minimises our use of the world's resources, cuts waste and reduces carbon emissions. Products are kept in use for as long as possible, through repairing, recycling and redesign – so they can be used again and again. (World Economic Forum)

Carbon neutral: A business can claim to be carbon neutral annually when it has measured its greenhouse gas (CO2e) emissions, offset historical emissions and published a target and plan to reduce these emissions to net zero by at least 2050.

Carbon offsetting: Carbon offsetting involves compensating for greenhouse gas emissions by investing in projects that reduce emissions elsewhere. This could involve funding renewable energy, reforestation or energy efficiency projects. The goal is to achieve carbon neutrality by balancing out carbon emissions with actions to reduce or offset these emissions. NB Carbon offsetting does not achieve net zero.

CO2e (Carbon dioxide equivalent): Each greenhouse gas is given a relative factor based on its comparative global warming potential over a 100 year timeframe. For example, 1 tonne of methane is reported as 25 tonnes of CO2e.

Net zero: According to the SBTi (Science Based Targets Initiative) most businesses can claim to be net zero once they have reduced their emissions by at least 90% from their baseline year. Global net zero will be achieved when the total amount of greenhouse gases released and the amount removed from the atmosphere reaches an equilibrium.

55 red flags

***Oriol Amat* and *Pilar Lloret* identify the warning signs to identify whether fraud has occurred or is likely to occur in a business.**

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Pompeu Fabra University

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Accounting fraud causes serious damage. In many cases, it ultimately brings down the company concerned and causes significant losses to those who have placed their trust in it, be they shareholders, employees, banks, suppliers or other interested parties. It is therefore a good idea to detect fraud before it is too late.

The Global Economic Crime and Fraud Survey 2022 from PWC reports that nearly half of the organisations (46%) reported experiencing some form of fraud within the last 24 months (see pwc.to/3pX1RLH).

According to the latest report by the Association of Certified Fraud Examiners (ACFE), Occupational Fraud 2022, accounting fraud is the type of business fraud that causes the highest losses to companies (see bit.ly/3lx1kqk). The same report indicates that 42% of frauds are discovered as a result of tips, usually from employees, or by chance (5% of cases). Internal auditors discover 16% and external auditing 4% of cases. On the other hand, in many of the most relevant accounting and financial scandals, it can be seen that the existing signals were ignored. This is what happened with the Madoff case in 2008 or the Wirecard scandal in 2020. These are cases in which there were many reports that something serious was going on.

These data suggest that it is advisable to carefully examine the warnings signs or red signals that inform about a high probability that a company is a strong candidate for

accounting fraud in the future or that it is very likely that an accounting fraud has already occurred.

This article includes some of the main red signals that can be perceived by examining the qualitative information of a company and its annual accounts. They include a selection of different red flags proposed in Lloret, Arimany and Amat (2023).[1]

Types of red flags

The signals proposed will be made taking into account two types of classifications:

1: When the red signals can be detected:

- **Before the fraud is committed:** These are aspects that increase the probability of having a fraud in the future. This may be the case, for example, of a company that has a very aggressive bonus system for its managers, which can lead to the manipulation of accounts. Another example is when a company has very poor control systems, which is a good opportunity to commit fraud. In these cases, there is a greater likelihood of accounting fraud.
- **After the fraud has occurred**: Once the fraud has been committed, there are also signs that can be observed. An example would be when there are very important and unjustified changes in some accounts; such as, for example, depreciation of fixed assets. It is important to check these types of signals because they can influence decisions about this company; for example, giving or not a bank loan, or investing or not in the shares of the company.

2: The type of the red signal

- **Qualitative signals:** These are signals related to aspects like the characteristics of the people or the organisation; for example, a change in a manager's habits that can be perceived when they start incurring very luxurious expenses.
- **Signals in the accounts:** The accounts provide very interesting red signals; for example, when the level of indebtedness in a balance sheet is very high, it is more likely that the company can have accounting frauds in the future.

55 red flags

Qualitative signs that warn before a fraud is committed: These are signals that warn before an accounting fraud is committed; for example, when a company has subsidiaries in tax havens where there is no obligation to disclose accounting information. Other types of signals

Figure 1: Qualitative red signals: before a fraud is committed

Company profile
1. Complex corporate structure
2. Subsidiaries in tax havens where there is no requirement to disclose accounting information
3. Legal sanctions in the past

Moments with more motivation for fraud
4. Initial public offering in the stock exchange
5. Takeover bid
6. Changes in the top management of the company
7. The company requires more financing

People in the organisation
8. Legal sanctions in the past
9. Bad financial habits (a lot of debts or very luxurious lifestyle)
10. Low ethical standards
11. Managers or employees who do not take all vacations
12. High proportion of managers

Corporate governance
13. Conflicts in the board of directors
14. Deficiencies in corporate governance
15. Lack of independent directors
16. Lack of fraud prevention regulations (e.g. a code of ethics)
17. Lack of a channel for whistleblowers (anonymous tips)

Control systems
18. No audit committee
19. Inadequate auditors
20. Audit cost that is very low in comparison with comparable companies
21. Change of the auditing firm before the end of the contract
22. Conflicts with auditors

Financial practices
23. Unusual or complex operations that are difficult to understand
24. Difficulties in meeting covenant targets that may result in early loan termination.
25. Frequent claims to insurance companies

Bonus system
26. High aggressive bonuses for short-term results

Figure 2: Qualitative red signals: a high probability of fraud

Characteristics of the company
27. It has been delisted
28. Sanctioned by the authorities

Owners, officers or employees
29. Changes in lifestyle habits
30. Selling shares without logical explanation

Control systems
31. Qualified audit reports

Reports from analysts and credit rating agencies
32. Negative or worsening reports

Media and communications
33. Negative news alerting of irregularities or conflicts

Figure 3: Red signals in the accounts: before a fraud is committed

Balance sheet
34. Low current ratio
35. High debt

Income statement
36. Insufficient revenues
37. Negative or insufficient earnings
38. Lack of cash flow

Figure 4: Red signals in the accounts: a high probability of fraud

Accounting policies
39. Change in accounting criteria

Balance sheet
40. Unusual increase or decrease in the capitalisation of expenses, intangible assets, deferred tax assets, provisions or similar accounts
41. Very surprising positive data considering the history of the company and the situation of the industry
42. Liquidity problems
43. High variation in ratios like asset turnover, customer days or inventory days
44. Too much debt

Income statement
45. Not very credible estimates
46. Inconsistency between sales and the evolution of operating data like number of stores or number of employees
47. Unusual changes in the income statement
48. Important changes in depreciation, amortisation or impairment or very different from those of the industry
49. Very surprising positive or negative data considering the situation of the industry
50. Higher portion of revenues based on estimates
51. Insufficient or negative earnings
52. Significant earnings in operations near year-end

Cash flow statement
53. Relevant discrepancies between profit and cash generated by operations
54. Profit grows but cash generated declines
55. Insufficient or negative cash flow

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are related to special moments, such as an initial public offering (IPO). The profiles of individuals, corporate governance problems, deficient control systems or incentive systems also provide interesting red signals. Various signals of this type are shown in ***Figure 1: Qualitative red signals: before a fraud is committed***.

Qualitative red signals that warn about a high probability that an accounting fraud has been committed: There are other types of signals that are indicative that an accounting fraud has most likely already occurred in the company. These are signals related to the characteristics of the company, people, control systems or reports from analysts and rating agencies. See ***Figure 2: Qualitative red signals: a high probability of fraud.***

Red signals in the accounts that warn before an accounting fraud is committed: Financial accounts (such as the balance sheet, income statement, cash flow statement) also provide signals that may suggest that the company is a strong candidate for accounting fraud. This includes companies that have a lot of debt, little liquidity or negative results. For example, a company with a ratio of debt against assets of 95% could offer a red signal because the excess of debt is one of the most common characteristics of companies which have accounting frauds. See ***Figure 3: Red signals in the accounts: before a fraud is committed***.

Red signals in the accounts that warn about a high probability that an accounting fraud has been committed: Financial accounts can also offer clear signals that a fraud has been committed. In this case, attention must be paid to significant and unjustified variations in the accounts. We are referring to variations in the balance sheet or in the income statement that are greater than the variation in sales, for example; or much greater than what is happening in comparable companies in the industry. See ***Figure 4: Red signals in the accounts: a high probability of fraud***.

When we detect that a company presents a lot of red signals, it can be interpreted as this company having a higher probability to have a fraud in the future or to have committed a fraud in the past. This means that increased caution is required.

Conclusion

In this article, we have listed a total of 55 red signals that can help us to identify companies that have either a high probability of accounting fraud in the future, or that the fraud has already occurred. These signs can be of great help in detecting these situations before it is too late. To avoid problems, it is important to pay attention to the red signals.

Keep in mind that the existence of red flags does not necessarily mean that an accounting fraud has occurred. However, the more red flags there are, the greater the likelihood that accounting fraud has occurred (or will occur in the future).

1. Lloret, P, Arimany, N and Amat, O (2023): 'Comprehensive red flag model for accounting fraud detection using qualitative and quantitative variables', in *Research Handbook on Financial Accounting*, Edward Elgar Publishing (forthcoming).

The defence against proliferation financing

David Potts examines how proliferation financing requirements can highlight your client due diligence risks.

David Potts
Director of Operations, AIA

Proliferation financing refers to the provision of funds or financial services to aggressive and destabilising 'proliferation actors' who may use these to obtain materials, components, data, technologies and expertise to enhance their capability to develop chemical, biological, radiological and nuclear (CBRN) weapons.

This can also be related to the provision of dual use goods, which are commodities that have a perfectly legitimate everyday use but can also be used for other, more nefarious purposes.

Regulated accountancy firms are required to assess the risks of proliferation financing and introduce policies, procedures, systems and controls where risk exposure is identified.

Combating proliferation financing is a complex and challenging task. Accountants may think they are not responsible for proliferation financing, but they play a vital role in preventing it.

Risk assessing proliferation financing

Risk assessments have become a central feature of national responses to the dual threats posed by money laundering and terrorist financing. Additionally, an understanding of proliferation financing risk is vital for effective implementation of counter measures for both the public and private sector.

The Financial Action Task Force (FATF) recently revised its Standards to require countries, financial institutions, designated non-financial businesses and professions (DNFBPs) and virtual asset service providers (VASPs) to identify, assess, understand and mitigate their proliferation financing risks. It also introduced 'Guidance on Proliferation Financing Risk Assessment and Mitigation' to assist the effective implementation of these new requirements.

The UK National Risk Assessment for Proliferation Financing (NRAPF), published by HM Treasury, highlights the key proliferation financing threats facing the UK today, as well as the specific vulnerabilities in the UK economy and financial system which actors may target to gain financing for their proliferation activities.

The NRAPF's findings concluded that the UK was an attractive location for proliferation actors to seek funds, financial service products and evade international sanctions regimes. It stated that this was due to the openness of the UK's economy as a major centre of foreign direct investment, the prominence of its financial services sector and the ease of establishing companies in the UK.

However, it noted that these vulnerabilities were mitigated by the UK's robust legal framework and successful implementation of targeted financial sanctions, export controls and trade embargos.

So, this gives an indication of how the UK government has assessed the risk of proliferation financing within the UK. However, with these risk assessments and changes to legislation come additional requirements for regulated firms.

Changes to regulatory requirements

As a result of these risk assessment changes, important amendments have been made to the UK's Money Laundering and Terrorist Financing Regulations (MLR 2017), in the form of the 'The Money Laundering and Terrorist Financing (Amendment) (No. 2) Regulations 2022'.

Its purpose is to ensure that the UK continues to meet international standards on anti-money laundering and strengthen its capabilities to combat money laundering, terrorist financing and proliferation financing. And it means that as a regulated firm, you have an obligation to assess your risk exposure to proliferation financing and have in place appropriate policies and procedures.

In practice, this means reviewing your current firm-wide risk assessment and controls to ensure that they refer to proliferation financing – and that you're aware of your risk and how to mitigate it, and also that you can recognise indicators when you come across them.

Risk factors

Accountants are required to identify, assess and understand their proliferation financing risks, including understanding breaches and evasions of controls.

Accountants need to be aware of the different ways that proliferation financing can take place, and the red flags that may indicate that a client is involved in this activity.

Assessment can be integrated into the already existing exercise of periodically conducting a firm-wide risk assessment to assess the firm's exposure to money laundering – something that all firms – regardless of their size and organisational complexity – should already be undertaking.

Accountants can spot key proliferation financing risks in their clients. These risks can include some of the following red flags that you should be keeping in mind when conducting a proliferation financing risk assessment (please note this list is not exhaustive):

- clients operating in sectors that involve chemicals, restricted materials, arms, import/export businesses, etc.;
- clients involved in the sale or shipment of 'dual-use' goods: items that have both a civil and military application involving sensitive technologies; e.g. software, electronic components, mechanical parts and components with a maritime or aviation application; and telecommunications equipment. Medium-sized defence sub-contractors dealing in dual-use goods with overseas clients are thought to be at particular risk;
- clients with contracts in force involving an intermediary that do not make it clear who the real 'end user' is: particularly for contracts involving dual-use goods;
- clients that have links to higher-risk geographic jurisdictions, in particular Iran and the Democratic People's Republic of Korea (DPRK) or to countries thought to be allied to these regimes or located in the same region;
- transactions involving politically exposed persons: particularly diplomatic staff of Iran, DPRK or representatives of countries allied to or located in the same region;

- transactions sent or received in which there is a lack of information provided concerning the recipient/counterparty;
- transactions made to pay for goods and services that originate from a different jurisdiction to the one in which the goods and services are bound;
- complex ownership structures: in particular, companies that have or are suspected to have nominee shareholders and/or directors; and
- clients that deal primarily in crypto assets; e.g. clients in which a significant proportion of the assets they hold are crypto assets, or where a significant proportion of the transactions it makes and receives are completed using crypto assets.

If you identify clients linked to risks outlined above or identify aspects of clients' supply chains linked to the above risks, then you should ensure that you conduct enhanced due diligence on these clients, note your results, and adjust your business relationship accordingly in line with the guidance AIA provides.

You should also familiarise yourself with your reporting obligations as a supervised firm.

Where your firm has identified any risk exposure to proliferation financing, you must update your anti-money laundering policy and procedures and ensure that you have controls and systems in place to effectively manage the proliferation financing risks identified within the risk assessment.

You must ensure that you regularly review and update your anti-money laundering policies and procedures.

Trust or company services

The findings of the NRAPF indicate that the key risk associated with proliferation financing originating from the accountancy sector is trust or company services. Firms should be especially vigilant when providing these services – forming new companies, appointing new persons to act as a director or partner, or appointing nominee shareholders.

The NRAPF highlighted the risk of 'off-the-shelf companies', where existing companies (typically dormant for a period) with an established banking history are taken control of by proliferation actors to add a veneer of legitimacy to their activities to be able to obtain credit and financial services.

Accountants undertaking trust and company services work should exercise caution and professional scepticism when dealing with clients that have recently changed ownership – especially where the business activities of the client do not make sense or fit with the client's profile.

Dual use goods

Dual-use items are goods, software, technology, documents and diagrams which have civil and military uses, ranging from raw materials such as aluminium alloys or bearings to components and complete systems. They could be material used in the research and development of weapon systems (i.e. machine tools, chemical manufacturing equipment and computer components).

If you have clients involved in the production of dual-use goods, it is important to be particularly aware of this risk.

In the UK, the Financial Conduct Authority has set some regulatory expectations, while the European Commission has guidance to help identify and manage the impact of dual-use goods.

There are specific commodities and technology controlled for export by multilateral dual-use export control regimes. Additionally, the United Nations requires member countries to control the export of goods which could cause harm to humanity and the pursuit of global peace.

Tight restrictions on the export of dual-use goods are regulated and enforced by most countries through the process of licence applications. Parties that seek to sell dual-use goods to buyers in a different country must first determine the export licence requirements; apply for a licence if that review determines that one is needed; and only if the export licence is granted may the good be shipped. Accountants have a responsibility to report instances where clients are not participating in lawful and globally compliant transactions.

AIA's role as a supervisory body

For its supervised population, AIA monitors sanctions, including proliferation financing compliance, as part of our risk-based inspections, desk-based reviews and other monitoring of our regulated population.

We would expect to see firms considering proliferation financing as part of their own risk assessments. ●

Useful links

- For more detailed guidance from AIA on proliferation financing, including recorded webinar, see: www.aiaworldwide.com/my-aia/aml/proliferation-financing/
- UK National Risk Assessment of Proliferation Financing: bit.ly/3IaG1uv
- FATF Guidance on Proliferation Financing Risk Assessment and Mitigation: bit.ly/3IfBale
- FATF Public Statement on Counter Proliferation Financing: bit.ly/431Nwvx

Author bio
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FEATURE EVENT

New tax year: Are you up to date with legislation?
Date: 13 July 2023 | Time: 10.30 – 11.30
Speaker: Aiden Corcoran

The upcoming webinar **New tax year: Are you up to date with legislation?** from AIA strategic partner GoSimpleTax will look at the changes for the 2023/24 tax year, along with changes to Making Tax Digital (MTD) for Income Tax. Guest speaker Aiden Corcoran will talk about:

- income tax and national insurance: the thresholds covering England, Wales, Northern Ireland and Scotland;
- capital gains tax;
- dividend allowance; and
- changes to paper submissions and the new MTD roadmap.

There will also be a live Q&A, where Aiden will open the floor to answer your questions.

GoSimpleTax
GoSimpleTax provides AIA members with a cost effective, easy to use solution which will ensure readiness for Making Tax Digital for Income Tax in the simplest, most cost-effective way possible, as HMRC moves away from maintaining its own software.

This secure cloud-based solution is officially recognised by HMRC. It includes partnership, non-resident and previous year returns, an easy to use interface and submits direct to HMRC. GoSimpleTax is ready for MTD and the software shows tax liability in real time. It has a simple dashboard allowing you to switch between clients easily.

For further information, see: www.aiaworldwide.com/partner-pages/gosimpletax/

OTHER EVENTS

Take your accounting practice from mildly to wildly profitable, enjoyable and fulfilling
Date: 7 June 2023
Time: 10.30 – 11.30
Speaker: Shane Lukas
Running an accounting business is hard. When you trained to be an accountant, they never taught you how to build a profitable business that works for you, on your terms. You've been learning the hard way, perhaps using the competition as a benchmark for your prices and your website.

Are you living the dream? Or are you working more hours than you'd like to for less income that you deserve? You're a professional accountant and you deserve better.

Shane passionately believes that accountancy is a noble profession that can make a profound difference and deserves to be very well rewarded for doing so. In this session, Shane Lukas will share with you:

- seven reasons why accountants struggle to grow without adding to hours and pressures;
- how to make your services more attractive to even the most price sensitive clients; and
- three steps to raise your profits whilst reducing the pressure of running an accounting practice.

Audit updates 2023 (Ireland)
Date: 14 June 2023
Time: 10.00 – 11.00
Speaker: Colm Owens
While the IAASA International Standards on Auditing (Ireland) have been with us for some time now, there are new standards and amendments being rolled out on an ongoing basis. Auditors need to keep up to date with the fundamentals, along with the changes introduced.

The ongoing flood of challenges facing auditors never seems to end. Covid-19 is still with us, and we have to contend with Brexit and the global economic uncertainty. Financial reporting disclosures, asset valuations and going concerns are back on the agenda with a bang for 2022. It is essential that auditors now focus on optimising their processes and procedures to ensure profitable implementation of the new standards.

Having helped hundreds of firms to navigate the auditing and ethical standards over the years, the OmniPro technical team is uniquely positioned to identify the enduring problem areas and provide solutions to the most common challenges faced by practitioners.

This webinar looks at the theory of the standards blended together with the practical challenges and the requirements to comply with the monitoring expectations of the Institutes. It will focus on the practical implementation of the new auditing and associated ethical standards. This webinar will cover;

- ISA 240: Fraud;
- ISA 315 (Revised): Identifying and assessing the risks of material misstatements;
- ISQM 1 and 2, and ISA 220: Revisions to Irish Quality Management Standards (ISQM);
- ISA 600: Audits of group financial statements; and
- Ethical standards: a reminder of the recent updates and topical matters.

Recent tax updates: Malaysia
Date: 19 July 2023
Time: 18.00 – 19.00 (Malaysia Time)
Speaker: Thenesh Kannaa
In recent years, the Malaysian tax system has undergone substantial changes, such as taxation of foreign source income and the re-implementation of sales and service tax. Policy changes such as the introduction of capital gains tax and luxury goods tax are also being studied.

Further to the policy changes, there are also operational changes such as implementation of Taxpayer Income Tax Numbers, e-invoicing and evolving role of the myTax platform.

This talk provides a bird's eye view on the recent developments, and provides an avenue for participants to raise their questions on any area of recent development.

INTERNATIONAL

IASB amends tax accounting requirements to help companies respond to international tax reform

The International Accounting Standards Board (IASB) has issued amendments to International Accounting Standard (IAS) 12 Income Taxes. The amendments give companies temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's (OECD) international tax reform.

The OECD published the Pillar Two model rules in December 2021 to ensure that large multinational companies would be subject to a minimum 15% tax rate. More than 135 countries and jurisdictions representing more than 90% of global GDP have agreed to the Pillar Two model rules.

The IASB has taken urgent action to respond to stakeholders' concerns about the uncertainty over the accounting for deferred taxes arising from the implementation of the rules.

The amendments will introduce:

- **A temporary exception: to the accounting for deferred taxes arising from jurisdictions implementing the global tax rules. This will help to ensure consistency in the financial statements while easing into the implementation of the rules; and**
- **targeted disclosure requirements: to help investors better understand a company's exposure to income taxes arising from the reform, particularly before legislation implementing the rules is in effect.**

Companies can benefit from the temporary exception immediately but are required to provide the disclosures to investors for annual reporting periods beginning on or after 1 January 2023.

Andreas Barckow, Chair of the IASB, said: 'These amendments respond to stakeholder feedback and will ensure that companies are supported during the implementation of the OECD's rules, while enhancing the financial information provided to investors about how these companies are affected by the international tax reform. We are monitoring developments as jurisdictions implement the Pillar Two model rules. A future maintenance project has been added to the pipeline in which we will revisit the temporary exception and related disclosures.'

Further details about the maintenance project that has been added to the pipeline can be found at: www.ifrs.org/projects/pipeline-projects.

The IASB has a separate project considering possible amendments to the IFRS for SMEs Accounting Standard related to the OECD tax reform.

INTERNATIONAL

New IFAC publication equips accountancy organisations to lead the fight against corruption

A new tool from the International Federation of Accountants (IFAC) is now available to help professional accountancy organisations take leading roles in the anti-corruption fight in their jurisdictions. 'Global fight, local actions: anti-corruption advocacy workbook for PAOs' equips professional accountancy organisations and accountancy profession leaders with the background and framework to craft bespoke approaches and messages that best fit their jurisdiction and needs. It provides a framework that PAOs can use to develop their own engagement plan for anti-corruption. .

'Global fight, local actions' was used to facilitate discussion at the annual Pan African Federation of Accountants (PAFA) PAO Leadership Forum, as part of a workshop on anti-money laundering and the Financial Action Task Force (FATF) 'Grey List'. The PAFA Forum was held in advance of the 2023 African Congress of Accountants, taking place in Abidjan, Côte d'Ivoire.

'PAOs and the accountancy profession are essential stakeholders at the centre of the fight against corruption, in every jurisdiction, in every region,' said Scott Hanson, Director of Policy and Global Engagement at IFAC. 'Equipping our member organisations to lead anti-corruption efforts in their jurisdictions was one of our priority actions in last year's 'Action Plan for Fighting Corruption and Economic Crime', which this new workbook delivers.

'We look forward to talking to PAOs around the world to continue helping them develop their national anti-corruption advocacy plans.'

IFAC also plans to build off 'Global fight, local action' with additional initiatives on priority anti-corruption areas, including the interconnected issues of sustainability reporting, public financial management and financial literacy.

IASB increases transparency of companies' supplier finance

The International Accounting Standards Board (IASB) has issued disclosure requirements to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk.

The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis. The amendments supplement requirements already in IFRS Accounting Standards and require a company to disclose:

- the terms and conditions;
- the amount of the liabilities that are part of the arrangements, breaking out the amounts for which the suppliers have already received payment from the finance providers;
- stating where the liabilities sit on the balance sheet;
- ranges of payment due dates; and
- liquidity risk information.

Supplier finance arrangements are often referred to as supply chain finance, trade payables finance or reverse factoring arrangements.

Andreas Barckow, Chair of the IASB, said: 'The new disclosure requirements will make visible a company's usage of supplier finance arrangements and allow investors to make better-informed investment decisions by demonstrating how that usage has affected the company's operations.'

The amendments, which affect IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures, will become effective for reporting periods beginning on or after 1 January 2024.

IESBA strengthens global ethics standards to respond to transformative effects of technological innovation

The International Ethics Standards Board for Accountants (IESBA) has released final revisions to the International Code of Ethics for Professional Accountants (including International Independence Standards) to further increase the Code's robustness and expand its relevance in a world being fundamentally reshaped by rapid technological advancements and accelerating digitalisation.

The revisions will guide the ethical mindset and behaviour of professional accountants in both business and public practice as they take advantage of the opportunities created by technology and adapt to new technology. Developed to remain relevant and applicable in the ever-evolving landscape of technology transformation, the revisions apply to the use of any technology, including to the extent possible, future technologies.

'Technological innovation is transforming how work is performed and how professional services are delivered as well as enabling new services in ways never before imagined,' said Gabriela Figueiredo Dias, IESBA Chair. 'It is crucial and in the public interest that we provide strong, clear and principles-based standards to equip professional accountants around the world in navigating the ethical risks and challenges brought on by technology.'

The revisions, which were informed by extensive fact-finding and stakeholder outreach:

- strengthen the Code in guiding the mindset and behaviour of professional accountants when they use technology;
- provide enhanced guidance fit for the digital age in relation to the fundamental principles of confidentiality, and professional competence and due care, as well as in dealing with circumstances of complexity; and
- strengthen and clarify the International Independence Standards (IIS) by addressing the circumstances in which firms and network firms may or may not provide a technology-related non-assurance service to an audit or assurance client.

The revisions to the IIS will be effective for audits and reviews of financial statements for periods on or after 15 December 2024. The other revisions to the ethics provisions of the Code will be effective as of 15 December 2024. Early adoption is permitted.

UK AND IRELAND

Scalebox launched to promote competition and quality for smaller audit firms

The Financial Reporting Council (FRC) has announced the launch of a new initiative to assist smaller firms in conducting high-quality audits in the public interest entity (PIE) market. The Scalebox initiative aims to promote competition and choice in the PIE audit market and support the FRC's role as an Improvement Regulator.

The FRC recognises that smaller firms, or those new to the PIE market, often face challenges in meeting regulatory expectations. The Scalebox will support firms in developing and maintaining audit quality as they grow or start out in the PIE audit market. It will also provide valuable insights from the FRC for firms that may come within the FRC's scope for the first time.

The Scalebox is overseen by a separate, independent team within the FRC's Audit Firm Supervision (AFS) team. It will focus its work on areas where common findings occur, where requirements are changing or where firms need to focus as they grow.

The types of activities that the Scalebox may undertake include:

- a review of aspects of completed audits to provide feedback on good practice and areas for improvement;
- a review of a particular element of a firm's system of quality control, including specific areas of audit methodology and audit approach; and
- a review of a firm's actual or proposed governance processes if it has chosen or is planning to adopt the Audit Firm Governance Code.

All firms currently in Tier 2 and Tier 3 for FRC Supervision purposes are eligible to join the Scalebox, as well as firms intending to enter the PIE audit market.

The FRC's Deputy Chief Executive and Executive Director of Supervision, Sarah Rapson, said: 'The unveiling of the Scalebox means the FRC has another tool to use in our role as an improvement regulator and to promote competition and choice in the audit market. Through this approach to working with these firms, we hope to increase their audit capabilities and capacity as they enter the PIE audit market which will, over time, increase competition while maintaining high standards of audit quality.'

Also showcasing the commitment to helping these firms grow their capabilities, the FRC has published the latest report in its 'What makes a good' series, this time focusing on smaller PIE audit firms. This resource provides invaluable insights to navigate the complexities of the audit landscape and foster a culture of quality, integrity and trust.

Find out more about the Scalebox initiative at: www.frc.org.uk/auditors/audit-firm-supervision/audit-firm-scalebox

Financial Reporting Council publishes minimum standard for audit committees

The Financial Reporting Council (FRC) has announced the Audit Committees and the External Audit: Minimum Standard, which comes after careful consideration of the consultation responses received from stakeholders.

The consultation on the draft proposal for the Minimum Standard was launched by the FRC as a direct response to the government's consultation on Restoring Trust in Audit and Corporate Governance, which expressed the intention to grant statutory powers to ARGA (Audit, Reporting and Governance Authority) for mandating minimum standards for audit committees in their role on external audits.

The primary objective of the Minimum Standard is to enhance performance and ensure a consistent approach across audit committees within the FTSE 350. By setting out clear expectations and guidelines, the FRC aims to support the delivery of high-quality audits and reinforce public trust in the financial reporting process. The standard will apply to FTSE 350 companies.

Throughout the consultation period, the FRC received valuable feedback from a wide range of stakeholders, including prepares, investors, audit firms, accountancy bodies and members of the public. The responses were broadly supportive of the standard and have been summarised in the feedback statement.

In line with the FRC's commitment to transparency and collaboration, the standard is now available to audit committees on a voluntary basis, ahead of the anticipated legislation that will make compliance with the standard mandatory. This voluntary adoption period will allow audit committees to familiarise themselves with the requirements and proactively enhance their practices.

Mark Babington, Executive Director of regulatory Standards at the FRC, said: 'The publication of the Audit Committees and the External Audit: Minimum Standard represents a milestone in our collective efforts to restore trust in the audit profession and promote effective corporate governance. We believe that the adoption of this standard will contribute to a stronger and more robust audit market.'

EUROPE

European Supervisory Authorities propose ESG disclosures for Simple, Transparent and Standardised securitisations

The three European Supervisory Authorities (EBA, EIOPA and ESMA) have jointly submitted to the European Commission Draft Regulatory Technical Standards (RTS) on the ESG impact disclosure for Simple, Transparent and Standardised (STS) securitisations under the Securitisation Regulation (SECR). These final draft RTS aim to help market participants make informed decisions about the sustainability impact of their investments.

The key proposals included in the technical standards specify ESG disclosures which would apply to STS securitisations where the underlying exposures are residential loans, auto loans and leases.

These technical standards aim to ensure consistency with those developed under the Sustainable Finance Disclosure Regulation (SFDR), which distinguish between the publication of available information on mandatory indicators (e.g. energy efficiency) and on additional indicators (e.g. emissions).

Following the submission of these RTS, the European Commission is expected to endorse the RTS within three months of their publication.

ESMA highlights risks arising from investment firms providing unregulated products and services

The European Securities and Markets Authority (ESMA), the EU's financial markets and securities regulator, has issued a public statement to warn investors of risks that arise when investment firms offer both regulated and unregulated products and/or services.

Retail investors often rely solely on the reputation of an investment firm, which makes them susceptible to overlooking potential risks of the unregulated products and/or services offered by investment firms (the 'halo effect'). This is especially so where the unregulated products have a purpose similar to financial instruments regulated under MiFID II (investment or hedge).

ESMA's statement therefore aims to remind firms of the behaviours they are expected to adopt in such circumstances (e.g. disclosure, appropriate documentation) to make investors fully aware of the unregulated status of these products and services and of the fact that they may not benefit from the regulatory protections that apply to investments in a regulated product.

In addition, ESMA recommends that investment firms take into consideration the impact that their unregulated activities may have on the firm's business activity as a whole when it comes to risk management systems and policies.

UNITED STATES

Financial Accounting Foundation trustees enhance stakeholder feedback procedures and transparency for standard-setting boards

As part of its continuing efforts to improve its oversight activities and to further increase transparency for stakeholders, the Board of Trustees of the Financial Accounting Foundation (FAF) has announced an enhancement that will make it easier for stakeholders to raise potential concerns about compliance with the due process procedures of the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB).

This enhancement, available to the public via the FAF website, enables stakeholders to flag for the FAF's Oversight Committee alleged failures of either the FASB or the GASB to follow their due process procedures as outlined in the FAF By-Laws.

Stakeholder correspondence with the Oversight Committee will require reasonable specificity regarding an alleged failure by either Board to follow due process on an authoritative standard setting project. Ideally, it will cite the specific provisions of the By-Laws that have allegedly been violated. Correspondence can be anonymous, but it will not be possible for Committee members to direct any follow-up questions to anonymous authors.

If the allegations raise meaningful due process issues, the Oversight Committee will investigate further. If the Committee determines the FASB or the GASB did not appropriately follow their due process, the Trustees will determine what remedial action is necessary based on the circumstances.

'We believe adding this new procedure is a natural next step in strengthening the oversight process,' said FAF Trustee Timothy Ryan, co-chair of the Oversight Committee.

'Soliciting stakeholder perspectives has always been a vital part of our governance model, just as it is to FASB's and GASB's standard-setting processes,' added FAF Trustee David Lillard, co-chair of the Oversight Committee. 'We want stakeholders to know they can communicate directly with the Oversight Committee if they have important concerns to share about how faithfully FASB and GASB members are following their due process.'

Stakeholders can find the new correspondence form on the FAF website. This form should be used to address concerns about due process only.

In the FAF Strategic Plan published in 2022, one objective is to 'continually review and assess our governance and oversight practices to ensure they align with our mission and vision, reflect best practices and maintain the confidence of stakeholders in our role to oversee the independent standard-setting process'.

FASB improves accounting for investments in tax credit structures

The Financial Accounting Standards Board (FASB) has issued an Accounting Standards Update (ASU) that improves the accounting and disclosures for investments in tax credit structures. The ASU is a consensus of the FASB's Emerging Issues Task Force (EITF).

The ASU allows reporting entities to elect to account for qualifying tax equity investments using the proportional amortisation method, regardless of the programme giving rise to the related income tax credits. The ASU responds to stakeholder feedback that the proportional amortisation method provides investors and other allocators of capital with a better understanding of the returns from investments that are made primarily for the purpose of receiving income tax credits and other income tax benefits.

Reporting entities were previously permitted to apply the proportional amortisation method only to qualifying tax equity investments in low-income housing tax credit (LIHTC) structures. In recent years, stakeholders asked the FASB to extend the application of the proportional amortisation method to qualifying tax equity investments that generate tax credits through other programmes, which resulted in the EITF addressing this issue.

ASIA PACIFIC

Monetary Authority of Singapore strengthens the collaboration between financial institutions and training institutes to enhance artificial intelligence and data analytics skills

The Monetary Authority of Singapore (MAS) has launched the Financial Sector Artificial Intelligence and Data Analytics (AIDA) Talent Development Programme. The initiative, which is part of the National AI Programme in Finance, aims to increase the supply of AIDA talent to build deep AI capabilities in the financial sector.

The launch event was officiated by Mr Tan Kiat How, Senior Minister of State, Ministry of Communications and Information. An AIDA Talent Consortium has been set up for key financial institutions (FIs) and training institutions to collaborate on the talent development programme.

Based on an informal survey conducted by MAS in 2022 of 131 local FIs, 44% of FIs indicated that shortage of AIDA talent is the biggest challenge in the adoption of AIDA. The AIDA Talent Development Programme seeks to address this shortage through the following strategies:

- **Aggregate:** Through the Consortium, MAS will aggregate FIs' talent demands across various AIDA roles, based on their stage of AIDA adoption. MAS will work with the Institute of Banking and Finance, Institutes of Higher Learnings (IHLs) and training providers to develop programmes to meet the needs of FIs.
- **Collaborate:** MAS will work with FIs, established training providers and educational institutions to co-curate training programmes and modules which incorporate the latest developments and trends in AIDA, with strong financial sector application. This includes developing case studies to promote sharing of good use cases and industry relevant data resources.

The AIDA Talent Consortium will comprise FIs, established training providers and IHLs. Through workgroups looking at the different stages of FIs' AIDA adoption, the consortium will facilitate the matching of participating FIs to the relevant training institutions which are equipped to curate tailored programmes that meet industry's needs. The consortium will also contribute their expertise in designing curriculums for AI-related modules.

In the second half of 2023, the consortium will publish a whitepaper detailing the current AIDA talent landscape in the financial sector, as well as an AIDA skills progression pathway and financial sector case studies. The skills progression pathway will serve as a roadmap for financial sector AIDA roles and detail both financial sector specific domain skills and technical AIDA skills required.

Mr Sopnendu Mohanty, Chief FinTech Officer, MAS, said, 'Supporting AIDA adoption is one of our key strategies to help financial institutions evolve and adopt game-changing AI technology. However, the shortage in talent limits the industry's potential for growth. With the AIDA Talent Development Programme, we aim to ignite AIDA adoption across the industry and equip the local workforce with in-demand technical skills.'