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The twin pillars of professionalism

Emeritus Professor Chris Cowton University of Huddersfield

Warning: I'm going to begin with an illustration about going to the dentist. If that's too painful for you to contemplate, please skip the next two paragraphs.

If, like me, you've ever suffered acute toothache, you will have known the joy of finding yourself in the dentist's chair. It's not where you would usually wish to be, but in the circumstances, you wouldn't want to be anywhere else. You are relieved to be in the hands of the dentist. She's the expert at curing toothache.

Well, she's supposed to be the expert. You are relying on her to be able to make a correct diagnosis and to initiate an appropriate solution. You're also relying on her to undertake treatment that is in your interest, not hers. The treatment might still be costly for you and remunerative for her, but you are trusting her not to over-treat you purely for the sake of her bank balance.

This little scenario illustrates what I often refer to as the 'twin pillars' of professionalism: competence and integrity. Both are needed. We rely on experts, who can provide highly specialist services, but the asymmetry of expertise between us and them also makes us vulnerable to potential exploitation. Sometimes, we can run some limited checks, but ultimately we must trust that they will apply their expertise and skills in our interests.

Accountants are similar to the dentist, in having a duty to apply our knowledge and judgement in the interests of our clients or employer and, ultimately, to the public benefit. As an AIA member or student, you have the framework of a rigorous qualification regime and continuing professional development, together with the Code of Ethics, built on five fundamental principles, to guide you.

But have you ever thought about how competence and ethics are not just complementary, but connected?

First, the acquisition and maintenance of technical expertise, and an understanding of where you need to supplement it, are themselves an ethical responsibility. This is reflected in the third fundamental principle of the Code of Ethics, 'professional competence and due care'.

Second, behaving ethically is itself a matter of competence. It's not a question of just having vaguely positive intentions. Recognising that a situation has ethical dimensions, identifying any threats to compliance with the fundamental principles that are not at an acceptable level, and eliminating those risks or reducing them sufficiently by means of safeguards, are not skills you were born with. They need to be developed and kept up to date. Some of us are better at it than others.

So, as we approach 2024, I hope your two pillars of professionalism are both looking strong – and your teeth, too, for that matter!

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GLOBAL TAX

UN draft resolution on a unified corporate tax regime


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A UN resolution on establishing a legally-binding UN tax convention could potentially deliver the biggest shake-up in history to the global tax system. The draft resolution, 'Promotion of inclusive and effective international tax cooperation at the United Nations', will kick-start negotiations early in 2024 if it is adopted at an upcoming vote at the UN General Assembly.

According to the Tax Justice Network, a UN tax convention is urgently needed to prevent countries from losing nearly $5 trillion to tax havens over the next decade – the equivalent of losing a year of worldwide spending on public health. It said that a framework tax convention would create the first ever globally inclusive, democratic process to set tax rules and standards, with the potential to recover much of the $480 billion a year in estimated tax revenue losses that countries suffer due to cross-border tax abuse.

The draft resolution, tabled by Nigeria, signals a direction in favour of the strongest of the three options proposed by the UN Secretary General. The draft resolution 'emphasises that a United Nations comprehensive convention on international tax cooperation is needed in order to strengthen international tax cooperation and make it fully inclusive and more effective; and recognises that this will also help in accelerating the implementation of the Addis Ababa Action Agenda on Financing for Development and the 2030 Agenda for Sustainable Development.'

The draft resolution, if adopted, would establish an intergovernmental committee tasked with the job of drafting the UN tax convention by June 2025. The exact nature of any new convention will form part of the negotiations.

Tax Justice Network's advocacy consultant in New York, Amelia Evans, said: 'This is an exciting moment. For the first time, the countries of the world are engaged in discussions about the value of a UN tax convention. The question in New York now is how the negotiations about a UN tax convention will take place, not if.'

And Alex Cobham, chief executive of Tax Justice Network, added: 'Almost every country in the world stands to gain from agreement on an ambitious UN framework convention on tax, because almost every country suffers significant revenue losses due to international tax abuse. The OECD has taken things as far as it can, and it's clear now that only globally inclusive, transparent negotiations will deliver. We're more than halfway through the Sustainable Development Goals period, with nothing to show for the promise of enhanced international cooperation against tax abuse – and that's why there's so much momentum now.'

IT SECURITY

GenAI security threats

Only 36% of businesses across the globe say that security concerns are a priority as they integrate generative AI into their working practices.

US cybersecurity company ExtraHop surveyed 1,200 IT and cybersecurity professionals from around the world and found that inaccurate responses were the top concern for businesses using GenAI tools, cited by 40% of respondents. Only 36% of respondents cited security issues as their main concern, including the loss of employee and customer data.

Despite many companies prohibiting the use of GenAI tools such as ChatGPT, ExtraHop's study found that of these bans have been ineffective.

While a third of businesses that took part in the study had banned GenAI tools, only 5% of respondents stated that their employees never use these tools at work.

ExtraHop's survey also found that less than half (46%) of businesses had AI governance policies in place, and just over two in five (42%) trained employees on how to use AI tools.

In a separate survey, data analytics firm GlobalData found that just 17% of firms have already integrated AI into their businesses. However, it also said that training employees on proper AI use and risk management of generative AI should be a top priority for businesses eager to implement the technology.

GlobalData's principal analyst, Steven Schuchart, said: 'There is a serious need for robust laws about how AI can be used. This must include comprehensive strengthening of individual privacy and personal data sovereignty.' He also called for AI to be auditable and transparent.

AIA NEWS

NET ZERO

AIA encourages accountants to embrace carbon reduction

The Net Zero Accountancy Initiative, developed by Net Zero Now, in collaboration with industry leaders, including AIA, serves as the sector-specific roadmap to achieve Net Zero for accountancy businesses. Firms that join the initiative gain access to Net Zero Now's online platform, which offers user-friendly tools and recommendations for carbon measurement and reduction.

AIA encourage their member firms to take steps towards addressing their carbon footprint by pursuing an 'On the Road to Net Zero' certification. This initiative shows a firm's unwavering commitment to combat the climate crisis by setting ambitious short-term and long-term carbon reduction goals.

Philip Turnbull, AIA Chief Executive said, 'AIA is thrilled to witness the expansion of the Net Zero Accountancy Initiative and the positive impact it has had on accountancy firms. We applaud these early adopter practices for their pioneering role, demonstrating their unwavering dedication to sustainability within the accounting sector.

'We look forward to our continued partnership with Net Zero Now as we collaborate to advance our journey towards a Net Zero future.'

COMMONWEALTH

Commonwealth Accredited Organisations: AIA's vital contribution

The Rt Hon Patricia Scotland KC with delegates of the Commonwealth Accredited Organisations

The Commonwealth Secretary-General, the Rt Hon Patricia Scotland KC, launched the outcome of an independent study revealing the significant contributions of the 87 non-profit organisations accredited to the Commonwealth. Addressing the delegates at the Commonwealth headquarters in London, she said: 'The Commonwealth Charter places the greatest importance on the vital role of civil society in our Family of Nations, and I continue to be deeply humbled by – and grateful for – the work that you all do.'

This study underscores the pivotal role of these Accredited Organisations in advancing the values and principles of the Commonwealth Charter, reaching millions of lives across various sectors. Accredited Organisations, more agile than governmental institutions, swiftly respond to emerging issues, crises and demonstrate inclusivity.

Last year, the Commonwealth's Accredited Organisations more than doubled their financial commitments, surpassing £283 million. These organisations, ranging from large bodies to smaller community-led initiatives, are an essential component of the Commonwealth.

During the recent response to Cyclone Freddy in Malawi, Accredited Organisations provided vital services. They also support the Commonwealth Year of Youth and advocate for people with disabilities, climate action and the Sustainable Development Goals.

AIA, as a Commonwealth Accredited Organisation, is an integral part of these impactful efforts. Philip Turnbull, AIA Chief Executive said: 'AIA's involvement in the Commonwealth is of utmost importance. It allows us to collaborate with like-minded organisations, magnifying the impact of our work. Together, we can create positive change on a global scale.'

Download the full report for details on 'The contribution of Commonwealth-Accredited Organisations to advancing the Commonwealth Charter' (see tinyurl.com/mrbf7658).

AWARD

AIA Council Member wins 'Small Firm of the Year' at Accounting Excellence Awards

AIA is absolutely thrilled that AIA Council Member Dr Peter Ellington's company, Triple Bottom Line Accounting, has been awarded with 'Small Firm of the Year' at the 2023 Accounting Excellence Awards, which took place in October at London's famous Roundhouse in Camden. This incredible achievement underscores Peter's outstanding dedication and enduring contributions to the field of accountancy and green finance.

Triple Bottom Line Accounting is a UK based digital practice providing a range of services to SMEs, including accounting, taxation, management accounting, sustainability advice, and financial control and direction. The company is deeply rooted in its commitment to the community and its dedication to environmental values, which align with Peter's values as CEO and Founder. The company has recently received verification as a B Corporation, signifying its adherence to high standards of social and environmental performance, transparency and accountability.

In addition to leading the team at Triple Bottom Line Accounting, Peter is Associate Professor at the Norwich Business School at the University of East Anglia. He has an MSc in Economics and a Doctorate in Education from the Institute of Education at UCL. His thesis paper 'Powerful knowledge in accounting education' focused on how accounting education needs to develop for the future.

Since achieving his Doctorate in 2021, Peter has been focusing on how accountancy and accountants need to change to face the challenges of climate change, biodiversity loss, responsible purchasing and supply, and the related economic and social change. In addition to his key role on the AIA Council, Peter has authored multiple articles in collaboration with AIA, including:

- 'Transforming accountancy to create a sustainable future' (see tinyurl.com/yjh25xb8);
- 'Greenhouse gas accounting and net zero advisory' (see tinyurl.com/2bhuesaf); and
- 'ISSB Standards: new sustainability milestones' (see tinyurl.com/4d8r4sex).

The team at Triple Bottom Line Accounting celebrate their win at the Accounting Excellence Awards

AIA's Chief Executive, Philip Turnbull, applauded Peter's success, stating: 'AIA is exceptionally proud of Peter's accomplishments, which are truly deserved. We are proud to have him as a pivotal part of the AIA Council.'

Many congratulations to Peter and all winners and nominees!

SCHOLARSHIPS

AIA scholarship programmes open for 2024

AIA announces the re-opening of its scholarship programmes to support students with strong career aspirations in accountancy or audit to obtain the AIA professional qualification with full financial assistance.

AIA Accountancy Scholarship UK

Five awards are available through the AIA Accountancy Scholarship UK, two of which are given with priority to applicants from lower socio-economic backgrounds to support the AIA's commitment to Access Accountancy.

This award covers all course fees via AIA Achieve Academy, exemption fees and exam fees for the AIA professional qualification on either the accountancy or audit route.

AIA Commonwealth Scholarship

The AIA Commonwealth Scholarship offers a further five awards and is open to applicants from all Commonwealth countries, excluding the UK. The scholarship is part of the AIA's aims as a Commonwealth Accredited Organisation to support education and the economy through financial education and professional skills.

This award also covers all course fees via AIA Achieve Academy, exemption fees and exam fees for the AIA professional qualification.

The scholarship programme provides a great opportunity for fully funded learning and we encourage applications from a diverse range of candidates.

As part of the application process, applicants are asked to submit a short essay on one of two questions:

- What would this scholarship mean to you?
- Why is a career in accountancy important to you?

Successful applicants will have a clear view of how they will develop their future career and the difference they want to make to the accountancy profession.

Carl Jepson, AIA Director of Sales and Marketing, added: 'Empowering under-represented students to achieve their career aspirations is our mission. These scholarships are a crucial step towards transforming the future of global accountancy, fostering financial education and unlocking the full potential of talented students.'

The deadline for applications is 1 March 2024.

ANTI-MONEY LAUNDERING

AIA published report of AML activity in 2022-23

AIA has published its professional body supervisor report, which explains work carried out to ensure accountants prevent criminals from using their services to launder money.

AIA supervises its practising members for the purposes of the United Kingdom Money Laundering Regulations 2017 (amended 2019), where AIA is listed in Schedule 1 as an approved supervisory body. In the Republic of Ireland, AIA is a designated body under the Criminal Justice (Money Laundering and Terrorist Financing) Act. This work is overseen by HM Treasury, the Office for Professional Body AML Supervision (OPBAS) and the Republic of Ireland Departments of Finance and Justice.

AIA's strategy is to provide robust anti-money laundering (AML) supervision through a risk-based approach. A risk-based approach requires assessment of risks and targeting resources to the areas or products that are most likely to be used to launder money. AIA also offers support to members through education, guidance, training, compliance checklists and templates.

The report covers:

- our role in tackling money laundering and terrorist financing;
- firms and individuals in scope of the regulations;
- monitoring and supervision activity;
- reporting suspicious activity;
- whistleblowing and AML disclosures;
- emerging risks; and
- upcoming areas of focus and supervisory activity.

George Josephakis, Chair, AIA Regulatory Oversight Committee, said: 'IA continues to take its role as an anti-money laundering professional body supervisor for accountants extremely seriously. We continue to prioritise our role as an AML supervisor and on behalf of the AIA Council and Regulatory Oversight Committee. I would like to thank AIA's supervised population for their continued engagement with our monitoring and supervision work.'

David Potts, AIA Director of Operations and Money Laundering Reporting Officer, said: 'AIA will continue to work with our members to prevent criminals taking advantage of the professional services offered by accountants. The effectiveness of the UK's AML supervision in the accountancy sector has continually improved since OPBAS was established. It is vital that we protect the progress made by professional body supervisors in the fight against economic crime, as we look towards HM Treasury reporting on its recent consultation on reform of the UK's AML supervision framework.'

Read the full report at: tinyurl.com/bdeacb8k

AWARD

AIA recognises international accounting student achievement

AIA Chief Executive Philip Turnbull visits the University of Northampton

Chief Executive Philip Turnbull visited AIA's partner business school at the University of Northampton, to award a prize to the top student on their BSc International Accounting.

AIA collaborates with university business schools across the UK to provide pathways onto the AIA professional qualification and to share knowledge and expertise.

AIA awards top achievers who are studying on a number of accounting degree programmes, recognising the joint dedication of AIA and partner universities in nurturing talent and creating an environment of academic excellence.

This year's recipient, Jennifer Awha, from Lagos, Nigeria, stood out for her academic performance on the degree programme.

Philip Turnbull, AIA Chief Executive, said: 'AIA is committed to fostering excellence in accountancy education and is keen to nurture relationships with our partner universities and to recognise students for their exceptional performance. I congratulate Jennifer on this well-deserved achievement and am confident she will go on to make significant contributions to her chosen field.'

Karen Mustard, Head of the BSc International Accounting programme, said: 'We are proud to have the outstanding achievements of students being recognised and honoured by the prestigious Association of International Accountants.'

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Multidisciplinary case study

Study guidance on how to approach the multidisciplinary case study.

The objectives of the paper are to ensure that students can apply professional judgement relating to the work of a professional accountant, encompassing the knowledge of all prior study. It combines and consolidates the aims of the other papers in the syllabus but is **not** aimed at students studying for the RQA status, who attempt an audit focused multi-disciplinary case.

After successfully completing this paper, students should be able to:

- apply knowledge gained from the other papers in the AIA curriculum to a practical case study;
- analyse relevant and significant information from a combination of pre-seen and unseen materials that describe a practical situation;
- prepare clear, logical and comprehensive responses that meet the needs of the designated recipients, as identified in the case study and its associated requirements; and
- communicate in a clear and concise manner to a designated reader.

This paper requires existing skills, which have been assessed earlier in the curriculum, to be applied in a more practical setting than is possible in a more traditional exam.

The paper will comprise a pre-seen scenario that will be available via the AIA website six weeks before the examination. Students will be free to study the materials provided, to research the background to the entity's circumstances and to discuss the materials with colleagues. The content of the scenario will not indicate the precise form that the final requirement will take, although students will, of course, be able to think ahead. Students have already demonstrated their competence on the technical aspects of the curriculum, so they are free to draw any advantage they can from the pre-seen case without penalty.

The pre-seen materials will be supplemented by an unseen component which will be made available in the exam. This will provide further facts needed to satisfy the requirement.

The student will be required to prepare a specific document, such as a report or a memorandum, that is addressed to a specific reader or readers. The student must make use of the background information gleaned from the pre-seen material, as well as the ability to assimilate the new material from the unseen material.

Preparing for the MDCS in May 2024

This is the fifth sitting of the new AIA MDCS. These tips are intended as additional support to students attempting this relatively new style of examination:

1. Attempt the past paper first as though it is your real paper. Undertake relevant research based on the unseen element of the material and then look at the seen material plus the requirements. Has your preparation been wide enough to cover all possible angles in the requirements? You will not always be the external auditor for the company, as professional accountants provide wider assurance and consultancy support which draw on the skills required within audit.
2. When preparing the case study, consider the type of preparation that a professional accountant would engage in when getting to know their client. Read the guidance in ISA 315, 'Identifying and assessing the risks of material misstatement through understanding the entity and its environment'.
3. You **must** consider the key elements from audit assignments, including the assessment of all aspects of business risk, the ability to critically evaluate control systems and the control environment. Suggest improvements to these, the ethical considerations around client conduct and the key challenges in accounting and decision making, including accounting estimates, accounting for complex issues and the techniques of investment appraisal.
4. The case study reflects a fictional company but is based in real events. Use the additional newspaper articles as clues for context and external risks facing the company. You can research into the reality of these events as part of your knowledge of the business.
5. Sustainability and ethical conduct are becoming increasingly important. Every case study will reflect either a business engaged within sustainable business models or affected by the development of sustainable business practices. The ethics paper is key to inform your analysis.

Marks are awarded for the candidate's ability to apply their technical knowledge from prior AIA study to the case study scenario and to formulate and communicate an appropriate professional response to this. It is not possible to pass the paper based upon pure technical knowledge. The quality of the professional judgement shown in, for example, prioritising relevance and developing appropriate professional responses, is critical to success.

Candidates are expected to demonstrate application and critical analysis skills within their answers. This is the capstone of their professional examinations and will explore all aspects of work as an audit practitioner. It encompasses all aspects of technical knowledge presented as part of a practical scenario. It is not possible to predict the technical areas to be examined from the seen material and candidates should prepare themselves for some aspect of audit related work for the client presented in the case study.

The AIA is satisfying itself that you are technically competent and professional in your approach to your clients to allow you to assume the status of a professional accountant. Answers should be presented and written in a professional language appropriate for the intended audience. They should be structured logically with use of accepted conventions for the document style. Ideas should be expressed with clarity and accuracy and use information from the case study as evidence to explain the issue or support its importance. The recognition of problems and the suggestions for action should reflect generally accepted auditing practice (where appropriate) and demonstrate consideration and understanding of the technical skills expected of qualified practising accountants. The answers should comply with International Ethical Standards issued by the International Ethics Standards Board (IESBA) and the Ethical Standards (ESs) published by the Auditing Practice Board.

Candidates should look at the previous case study set for May 2022 to understand the format of the paper.

How to prepare for the MDCS

The pre-seen material of the MDCS will give details of a company or organisation that you will engage in professional work for. You may be working in the finance department or some other part of the organisation or you may be an external consultant. The role that you are given will influence the tone of your report and the type of tasks that you are asked to do.

You must analyse the information given to you to develop a picture of the organisation (products, market niche, strategy, internal risks and control environment) and research the wider business context to understand any external risks and challenges. It may be helpful to identify similar companies from real life and research their challenges and opportunities. Not all of the information given to you may be relevant for the examination but prepare as though it might be! Also remember that the information you are being given may be in draft format and subject to change or may have been incorrect. Organisational information is not always accurate, and sometimes employees and directors are deliberately misleading. The case study aims to replicate the practical experiences that accountants have day to day.

You must be familiar with the practical aspects of working in a team and within an organisational structure, as well as your technical accounting, finance, ethics and business decision making knowledge. The case study specifically aims to explore your understanding of corporate strategy and how it impacts on the work of the accountant.

Ensure that you are comfortable with writing standard professional documents. As an accountant you will have to be able to write reports to a professional standard and the MDCS aims to ensure that qualified members of the AIA are able to do this. The examination will require you to demonstrate your ability to support and advise directors and colleagues and your competence in providing relevant and sensible advice.

You will be required to demonstrate your commitment to the ethical standards articulated by APB in the Code of Ethics and you should ensure that any responses you give comply with these codes.

How to answer MDCS questions

The MDCS is an 'open' style of examination and you can take a number of approaches and interpretations. Aim to show your professional competence, demonstrating your technical knowledge through appropriate application in the practical scenario you are presented with. You will not earn marks for repeating what is in the case study.

Plan and structure your answer to produce a professional document as specified by the question. Answer the question in the format asked. The document should look realistic – a letter should be headed as a letter and a memo presented as a memo, for example.

Top tips

1. Show all your workings: This allows the examiner to see if your approach to answering the question was correct, even if your final answer was incorrect. If detailed and clear workings are included then part marks will be awarded. Any workings on individual sheets of paper should be inserted into the exam script, generally in the appendices to any report requested.

2. Attempt all of the requirements of the paper: The requirements will be broken down into specific information required in the document and the examiner may give an indicative weighting to that.

3. Manage your time carefully: Use the first hour to review the case and plan your answer. Time management is important, as the first marks in each section of the question are always the easiest to collect.

4. Prepare to answer questions on all papers within the syllabus: The MDCS focuses upon your work as a professional accountant within the organisation or an accounting adviser in a professional practice. Ensure you write in this role, as you need to be clear if you work for the organisation or not!

5. Apply your knowledge to the scenario: Bring your common sense and experience to your response to the scenario. Think about what you would do at work as a starting point. You may be writing to your shareholders, Board, CFO or another colleague, who will all have different levels of accounting knowledge. This should be evidenced in your writing style.

Wider reading

- **International Sustainability Standards:** The ISSB has issued two standards around sustainability reporting, IFRS S1 around general sustainability reporting and IFRS S2 which relates to climate related disclosures. To access these, you will need to register with the IFRS through the link at: tinyurl.com/4nu266ye
- **Guidance on Current Issues in Corporate Reporting:** tinyurl.com/2z2f66re
- **Current Guidance on Corporate Governance Reporting:** tinyurl.com/2prnrkfh
- **Guidance on Board Effectiveness:** tinyurl.com/drwbt7hf
- **Guidance on Audit Committees:** tinyurl.com/n4cwcud5
- **Guidance on Risk Management and Internal Control:** tinyurl.com/3bsudfv2
- **Ethical Standards:** tinyurl.com/2cjrcpmz

6. Increase your knowledge with independent reading: The pre-seen material will enable you to understand the nature of the organisation, and to research the key current factors facing that organisational sector. Background reading beyond the supporting materials will greatly improve the quality of your answers. Ensure that you are up to date with technical developments in accounting and governance and are familiar with developing strategic issues that organisations are facing. Watch out for the technical pronouncements on the AIA website and follow these up in the FRC and IFAC websites.

7. Stay up to date with current accountancy and ethical compliance issues: You must be up to date on accountancy issues, including an understanding of and engagement with International Financial Reporting Standards (IFRS) defined in the syllabus. Most contain definitions, criteria and other requirements which can be applied to the scenarios in the exam papers, showing your ability to apply that knowledge in practice. You must be competent in the assessment of risk and provision of strategic advice to organisations, able to advise on investment and strategic decision making, and conversant with appropriate ethical standards and be able to give advice on corporate governance.

8. Practise case study questions: Get plenty of practice in answering case study questions. A good answer does not just cover the theoretical aspects of the topic but addresses the answer in the context of the case study, demonstrating the ability to apply that knowledge in practice. Try to consider a variety of possible responses to the scenario and develop your skills in appraising and critiquing the options.

9. Understand the command words: Make sure you know how to answer the question by interpreting the command words correctly. Remember to request a copy of the 'Teaching and Learning Guide', which contains definitions of the command words.

AIA's response to plans for AML reform

AIA calls for practical reform to the UK AML Supervision Framework in response to HM Treasury's 'Reforming anti-money laundering and counter-terrorism financing supervision' consultation.

David Potts
Director of Operations, AIA

The Association of International Accountants (AIA) presented a response to HM Treasury's 'Reforming anti-money laundering and counter-terrorism financing supervision' consultation, published in June 2023.

AIA strongly supports measures to combat money laundering and terrorist financing and recognises the significant role that accountants play as gatekeepers to financial integrity.

As a professional body supervisor recognised under Schedule 1 of the amended Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR 2017), AIA understands its key role in preventing economic crime and contributing to a robust approach to anti-money laundering (AML) safeguards.

This consultation response builds upon evidence previously submitted to the following calls for evidence:

- The Treasury Select Committee's Economic Crime Inquiry 2020;
- HM Treasury's Review of the UK AML/CFT Regulatory and Supervisory Regime 2021; and
- HM Treasury's consultation into Amendments to the Money Laundering Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 Statutory Instrument 2022

The response is also framed following discussion with other professional body supervisors. Working with other accountancy sector supervisory bodies through the Accountancy AML Supervisors' Group (AASG), the Intelligence Sharing Expert Working Group (ISEWG) and more widely with government, regulators and other sectors through the AML Supervisors Forum (AMLSF) and Public Private Threat Groups (PPTGs) enables a real public-private partnership delivering a focused response to the serious threat of money laundering and terrorist financing.

Although AIA shares the government's commitment and ambition to reforming the AML regime to ensure the effective combat of economic crime, it should be stressed that this can only be achieved by working positively with the various sectors present in the United Kingdom and building upon progress made since the

Author bio
David Potts is director of operations at the AIA.


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implementation of the Office for Professional Body Supervision (OPBAS).

AIA recognises the proposed options for reform. However, the only effective model for implementation quickly and efficiently, and therefore the most feasible, is Model 1: OPBAS+. The remaining models suggested carry significant risk of money laundering growing and extreme pressure being placed on the supervision of accountants – in particular leading to a collapse in the supervisory regime and weakening of controls.

AIA's main concerns

Alongside other professional body supervisors, AIA's main concerns can be summarised under three broad headings.

1. Transition and failure risk

All proposed models, excepting Model 1, would require significant supervision resource to ensure that supervision is maintained during any implementation. There is also the risk of a fall in the standard of supervision during any implementation period, as the incentive to maintain and enhance supervision by professional body supervisors facing derecognition would not be present. In addition, there are risks involved in transferring large amounts of data and sensitive information from the current recognised professional body supervisors to any new supervisor.

Under Model 2, there is also the key risk that if any consolidated professional body supervisors were to fail, there would be no backstop to cover AML supervision, leading to substantial gaps in the UK's AML defences.

2. Loss of expertise

The current supervisory model serves a particular purpose due to the nature of the AML regulated

The four models

The Reform of the Anti-Money Laundering and Counter-Terrorism Financing Supervisory Regime Consultation proposed four models for consideration.

Model 1: OPBAS+

The first potential model would involve no structural change to the regime. OPBAS would be given enhanced powers to increase the effectiveness of supervision by the professional body supervisors, which should capitalise on the improvement in standards brought about by OPBAS's activity since its establishment. Under this option, OPBAS could be given a range of new powers. This model would be the most immediately feasible, requiring no structural changes.

Model 2: Professional body supervisors consolidation

Model 2 would likely see either two or six professional body supervisors retain responsibility for anti-money laundering and counter-terrorism financing supervision. There could be either one accountancy sector supervisor and one legal sector supervisor, both with UK-wide remits; or one accountancy sector supervisor and one legal sector supervisor within each jurisdiction: England and Wales, Scotland, and Northern Ireland. Under either option, there would be a decision required as to whether accountancy firms currently supervised by HMRC should transfer to the consolidated professional body supervisors.

Model 3: Single professional services supervisor

The third model would see a single body supervise all legal and accountancy sector firms for anti-money laundering and counter-terrorism financing. It may also supervise some or all of the wider sectors currently supervised by HMRC. This body would most likely be a public body, unlike the professional body supervisors. The body would be expected to be operationally independent of any ministerial department, but accountable to the Treasury. While the existing professional body supervisors would no longer be responsible for anti-money laundering and counter-terrorism financing supervision, they could continue to supervise firms for other purposes. It would be important to mitigate the impact of this dual regulation on firms.

Model 4: Single anti-money laundering supervisor

Under this model, all anti-money laundering and counter-terrorism financing supervision in the UK would be undertaken by a single public body. The major difference between this and previous options is that the FCA and Gambling Commission would also stop supervising firms for anti-money laundering and counter-terrorism financing compliance. A single anti-money laundering supervisor would likely be operationally independent of any ministerial department, but accountable to the Treasury.

sector. There are a broad range of professional body supervisors because there is a variety of supervision needed, which spans diverse sectors, professions and size of firms.

Since the implementation of MLR 2017, professional body supervisors have spent significant time and resources developing models of supervision, training and educating staff, recruiting and developing a skilled workforce and educating members on the risk and requirements of the AML landscape.

Moving away from Model 1 would mean the loss of this expertise within professional body supervisors and weaken the UK's supervision of professionals.

3. Feasibility

AIA argues within this consultation response that Models 2, 3 and 4 would result in a significant rise in fees and bureaucracy, magnified by the challenges of implementing a single AML supervisor.

UK firms would face a confusing marketplace of dual supervision and regulation, with multiple fees for different organisations, which would put pressure on the current market.

In addition, the length of time needed to successfully and completely implement all proposed models (excluding Model 1) may cause significant disruption to and gaps in AML supervision.

It should be stressed that AIA does not support maintaining the status quo and recognises the need for reform. AIA has consistently undertaken significant investment and resourcing to ensure its supervised population are appropriately monitored.

Model 1: OPBAS+

Model 1 (OPBAS+) is the only solution of the four which meets the consultation's three objectives and addresses the concerns expressed in AIA's response to this consultation document. AIA would disagree with the consultation that this would only see 'incremental' change, as it depends entirely on the new powers given to OPBAS.

If OPBAS were to be given more robust powers to hold professional body supervisors accountable, AIA believes this would improve supervisory effectiveness. OPBAS's new powers could also be used to improve system co-ordination (another consultation objective) to ensure that professional body supervisors are sharing timely and accurate information with OPBAS and other bodies.

As already acknowledged in the consultation, OPBAS+ already meets the final objective as it is 'the most immediately feasible, requiring no structural change'.

While OPBAS+ would not solve the lack of a default supervisor in the legal sector, this issue should be addressed separately. The accountancy sector has a well-structured regime in place for AML supervision and it would be counterproductive to choose a different model that is unsuitable for one profession just to meet a specific gap in the other. It is also worth noting that OPBAS has only been operational for approximately five years, which is not enough time to justify whether a wholesale change of the system is justified.

AIA recognises the need for AML supervision reform and argues that OPBAS+ is the most effective model for speedy implementation. Other models carry significant risks, including the potential for money laundering to grow and for extreme pressure to be placed on the supervision of accountants, which could lead to a collapse in the supervisory regime and weakening of controls. HM Treasury should prioritise the safety and security of our financial system by choosing the most feasible and effective option.

The effectiveness of the UK's AML supervision in the accountancy sector has continually improved since OPBAS was established. In order to deliver the change that the government wants, it should build on this progress to ensure that professional body supervisors are held accountable, expertise is retained in the sector, failure risk is managed, and disruption and cost are kept to a minimum.

The full consultation response 'Reforming anti-money laundering and counterterrorism financing supervision' is available at: tinyurl.com/3zw322bf

Letter to Baroness Penn

AASG
Accountancy AML Supervisors' Group

Alongside the other professional bodies supervisors overseeing anti-money laundering and counter-terrorism financing compliance for the accountancy sector in the UK, AIA has written to Treasury Lords Minister Baroness Penn to express shared concern for some of the models proposed in the Treasury's consultation 'Reforming anti-money laundering and counter-terrorism financing supervision'.

The effectiveness of the UK's AML supervision in the accountancy sector has continually improved since OPBAS was established. In order to deliver the change that the government wants, it should build on this progress to ensure that professional body supervisors are held accountable, expertise is retained in the sector, failure risk is managed, and disruption and cost is kept to a minimum.

Read the open letter to Baroness Penn at: tinyurl.com/yc7vbt9z

Making the world a better place

Christopher Cowton explains how you can make it easier to comply with the Code of Ethics by being an ethics influencer at your place of work.

Christopher Cowton
Emeritus Professor, University of Huddersfield

One of the marks of a profession such as accountancy is that it has a remit to make the world a better place. Perhaps you don't often think of your work in this way, but as a professional body, the AIA requires that you act in the public interest and thereby build trust in the profession.

On a day-to-day basis, this remit is achieved by using your professional judgement and skills in accordance with the five fundamental principles on which the Code of Ethics is based (see ***The five fundamental principles of the Code of Ethics***). A by-product of this is that, as well as upholding the reputation of the profession, you will also be setting a good example to colleagues.

Most of the time, this is all reasonably straightforward. However, the Code of Ethics recognises that following the fundamental principles isn't always easy. This is implied by the Code's conceptual framework, which states that you need to be alert to threats to compliance with the fundamental principles. Section 120.6 A3 of the Code identifies five

The five fundamental principles of the Code of Ethics

1. **Integrity**
   You must be straightforward and honest in all professional and business relationships.
2. **Objectivity**
   You must not compromise professional or business judgement because of bias, conflict of interest or the undue influence of others.
3. **Professional competence and due care**
   You must maintain professional knowledge and skill (in practice, legislation and techniques) to ensure that a client or employer receives competent professional service.
4. **Confidentiality**
   You must not disclose confidential professional or business information or use it to your personal advantage, unless you have explicit permission to disclose it, or a legal or professional right or duty to disclose it.
5. **Professional behaviour**
   You must comply with relevant laws and regulations, and avoid any action that may bring disrepute to the profession.

Encouraging and promoting an ethics-based culture

Section 200.3 A3 of the Code of Ethics states:

'The more senior the position of a professional accountant, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the employing organisation. To the extent that they are able to do so, taking into account their position and seniority in the organisation, accountants are expected to encourage and promote an ethics-based culture in the organisation.

Examples of actions that might be taken include the introduction, implementation and oversight of:

- ethics education and training programmes;
- ethics and whistleblowing policies; and
- policies and procedures designed to prevent non-compliance with laws and regulations.

Author bio
A regular contributor to the AIA's professional ethics training, Chris Cowton is Emeritus Professor at the University of Huddersfield

categories of threat: self-interest; self-review; advocacy; familiarity; and intimidation.

Threats to compliance

If you judge that a risk is not at an acceptable level, you should eliminate it or, by means of the application of safeguards, reduce it to an acceptable level. At the extreme, you might need to decline or end the specific professional activity. If eliminating the threat means resigning your job or saying goodbye to a significant client, that is hard. Hopefully, it rarely comes to that.

This talk of threats to complying with the fundamental principles can sound worrying, perhaps even depressing. It suggests the possibility that professional accountants – perhaps even you – might fall short of professional standards. However, a more positive way of looking at this is to recognise that the time that the fundamental principles really matter is when they are under threat, when circumstances are not benignly conducive to doing the right thing. This is when the ethical rubber hits the road! Every time a threat to compliance with the fundamental principles is identified and dealt with appropriately, that is a victory for the profession's public interest remit.

Organisational-professional conflict

Upholding the fundamental principles can be tough, as the fifth category of threat identified by the Code's conceptual framework – intimidation – implies. Clients can be intimidating, and so can employers. Intimidation by managers might be seen as an example of organisational-professional conflict, which occurs when you are pressured to behave in a way that is incompatible with professional ethics. This can be a really difficult position to find yourself in.

To the colleagues with whom you are experiencing tension, you might appear uncooperative or disloyal. Yet, as a professional, there are two drumbeats you march to. As an employee, there is the organisational drumbeat; but as an accountant, you are expected to march to a professional drumbeat too. Thankfully, these are usually in sync, but sometimes they are at odds, and it becomes challenging to fulfil your professional responsibilities.

I don't have space to go into all the ways in which you might deal with organisational-professional conflict when it occurs, much of which is situation specific. However, it is worth noting that, for AIA members, there is a secure section of the website where you can access a host of guidance and insights on ethics. What I do want to look at, though, is how you can prepare for such possibilities.

Be prepared

First, you can prepare yourself by ensuring that ethics is part of your professional development. The AIA regularly offers sessions that will help you to increase your competence and confidence in recognising and dealing with ethical issues.

Second, and perhaps less obviously, you can seek to change the organisation itself, so that organisational-professional conflict is less likely to arise. 'Is that really my responsibility?', you might ask. Well, according to the Code of Ethics, it might be. (See ***Encouraging and promoting and ethics-based culture***, which applies to both business organisations *and* professional firms.)

While the examples of actions given in the Code of Ethics are useful, in my experience they represent a rather incomplete list. Conspicuous by its absence is an organisational code of ethics (or 'code of conduct'). This is generally central to an effective ethics programme, forming, amongst other things, the basis for the ethics training and whistleblowing (or 'speak up', as many businesses prefer to call it) that the Code does refer to.

An effective ethics programme will help you to develop an ethics-based culture and hence a better environment for you to do your job professionally, reducing the risk of experiencing organisational-professional conflict. Although what is being discussed here is not part of the Code's 'threats and safeguards' conceptual framework mentioned earlier, it is consistent with it. Encouraging an ethics-based culture within the organisation you work for will reduce the risk that significant threats to compliance with the fundamental principles will arise.

Common questions

Now, I can anticipate at least two questions about what I have just written.

Small and medium-sized businesses

'This is all very well for large organisations, but what if the organisation I work for (or advise) is only small or medium-sized?'

I think the general point still applies, remembering that the Code is merely giving examples of what might be done to encourage and promote an ethics-based culture, which is the basic aim. Many of the ways in which smaller organisations do things are less formal, but I would still encourage serious conversations about ethics in advance of problems arising. Developing a code of ethics is a good focus for such conversations. Furthermore, if you are a supplier to large organisations, having a code of ethics in place is very handy when they decide to conduct ethical due diligence on you.

Your level of influence

'I am only a junior/middle level employee. Does that mean the section doesn't apply to me?'

I would argue that, even if you don't think you have much authority to drive change, you need not be without influence.

First, you can make suggestions. Would your line manager, and perhaps their manager, support the idea of developing a code of ethics or having a clear speak up procedure, for example?

Second, you might not be able to get the organisation to invest in an ethics programme, but we all have some local influence. Why not initiate conversations with colleagues, perhaps around an ethical dilemma that might realistically arise in your work? Or, if you manage a team, you can make it clear that if anyone has any ethical concerns, they are allowed – indeed encouraged – to raise them.

'Using our professional judgement guided by ethical principles isn't just a responsibility; it's our roadmap to a brighter future. In our workplaces, even amid unique challenges, we must navigate with integrity, setting examples that positively impact our professional community. Let's confidently forge ahead, refining our ethical compass, influencing our surroundings to champion integrity, and elevating our workplaces as pillars of ethical excellence within our societies.'

Seth Ganu
AIA Council Member

No-one welcomes colleagues who point an accusing finger, but it is still possible to encourage people to raise a hand if they have a concern and to develop a local cultural norm of not moving on until that concern has been properly discussed.

Finally, remember you are not alone. Most people want to do the right thing and work for a decent organisation, and you are likely to find colleagues with whom you can make common cause – especially if they are accountants or members of other professions that have a code of ethics.

In conclusion

To conclude, how can you make the world – or your workplace, at least – a better place?

First and foremost, it's by deploying your professional judgement and skills in accordance with the Code of Ethics, removing or mitigating identified threats to compliance with the fundamental principles and addressing organisational-professional conflict to the best of your ability.

Second, in doing this, you will be setting a good example to your colleagues – who might be equally keen to do the right thing in the workplace.

Third, you can undertake professional development in ethics and reflect on your experience, so that you are better prepared for recognising and addressing threats when they occur.

Fourth, use whatever influence you have, whether formal or informal, to encourage and promote an ethics-based culture, whether across the whole organisation or just your bit of it.

I'm not saying you have to be an 'ethics warrior', but I am encouraging you to do what you can to be an 'ethics influencer' – and a credit to your profession. ●

On 10 January, 2024 Christopher Cowton will present an online training session entitled 'How to be an ethics influencer', in which he will discuss some of the ideas in this article in greater detail.

Navigating the compliance network

***Ian Waters* explains why compliance is important to AIA and its members, and how to better understand the various requirements'.**

Ian Waters
Compliance for Accountants Ltd

In accountancy practice, when we refer to compliance, we often mean the billable work that enables our clients to comply – in the areas of tax and financial reporting, in particular. But forget that for the purpose of this article. I'm talking about the compliance obligations that *you* have as an accountant in practice, including those obligations you have as a practising AIA member.

In this context, I suspect that 'compliance' is not a subject that gets you out of bed and enthusiastically into your office each morning. It is often seen as the necessary evil that should absorb as little of your time as possible. I wouldn't completely disagree with you.

However, as a member of a professional body, if you cannot easily embrace the need to comply with laws and regulations, perhaps we can agree on the value provided by being seen to be regulated – and seen to be compliant.

Why should I embrace compliance?

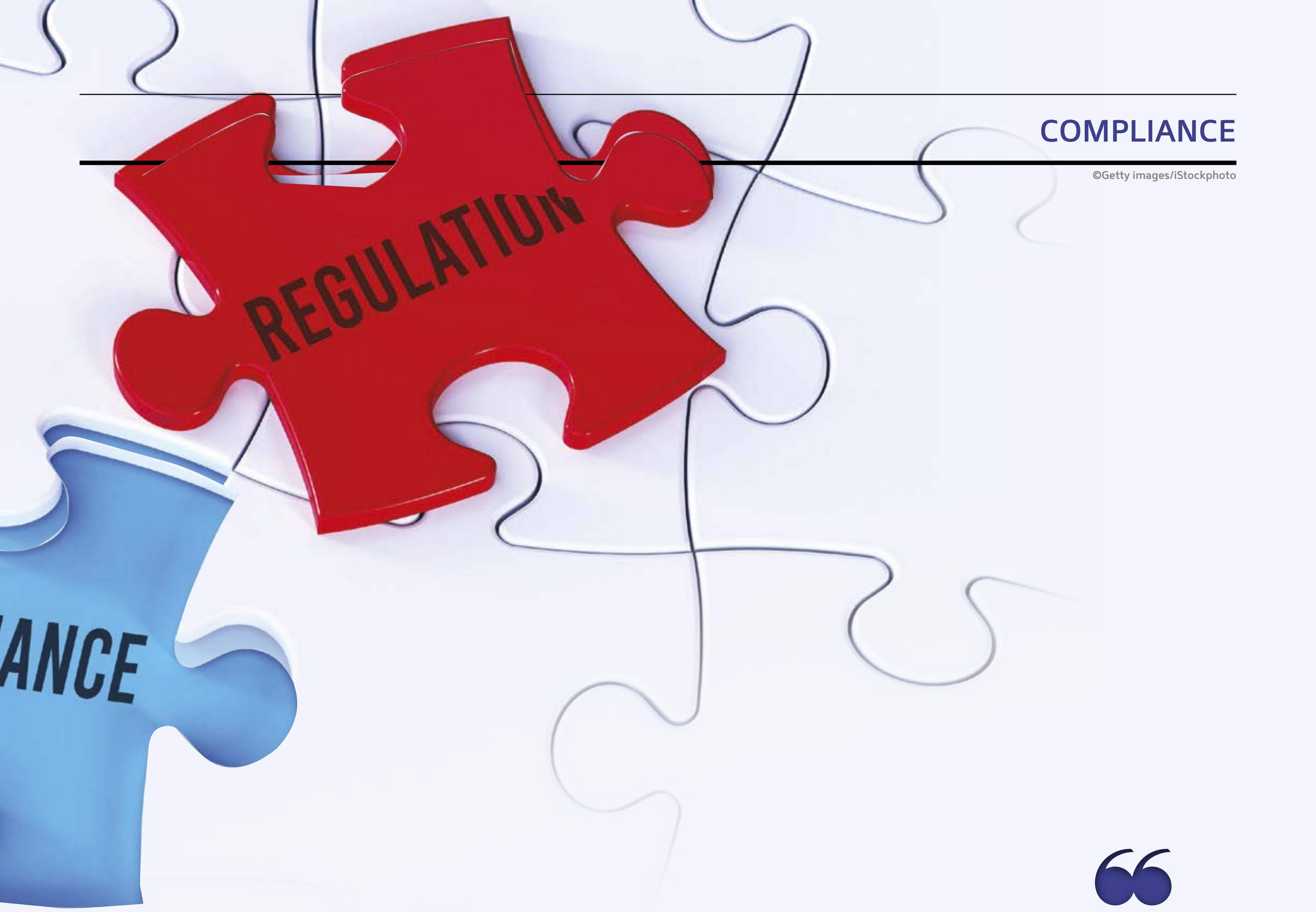
Even an accountant in public practice who is not a member of a professional body must comply with the law. One of the areas of law that often springs to mind is that of anti-money laundering (AML) compliance.

In the UK, for example, even an accountancy practice that is not supervised by a professional body supervisor, such as AIA, will be required to comply with the Money Laundering Regulations, the Proceeds of Crime Act 2002, etc., and will be supervised for compliance by HMRC. We must all comply with the law, and perhaps compliance is easier for a practising accountant who has a professional body to support them in doing so.

Some accountants in practice will be subject to statutory regulation where they are authorised to perform work in areas such as audit, insolvency or financial services. Although AIA does not supervise its members in these areas, some members are likely to work in firms that are subject to statutory regulation.

Compliance with the law and statutory regulation may be regarded as a minimum level of compliance: the same rules apply to everyone and have been developed following public consultation and detailed scrutiny. This enhances public confidence and meets the basic expectations of stakeholders – often to remedy a specific concern that has arisen. For example, we might recall that there was once a time when auditing standards and guidance were drafted by the professional bodies. No wonder the profession is often referred to as 'self-regulatory'!

So let's consider what 'self-regulation' means. An accountant is still able to practise in the UK and Ireland, for example, without formal qualifications and without the need to belong to a professional body. It has been argued by some that a formal accountancy qualification is not necessary to provide general accountancy services, such as tax advice, and that to restrict the use of the term 'accountant' would not serve the public interest.



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The public's access to affordable accountancy services is important, and I do not propose to venture here into the discussion of who should be allowed to describe themselves as an 'accountant'. However, AIA certainly has the right to restrict the use of the designation 'International Accountant' and the public has the right to know what to expect from a member of a professional body.

Transparent regulation

Proportionate, targeted regulation of its members by a professional body sets those members apart from others. Transparent regulation demonstrates the high ethical and professional standards against which members are held accountable, and that transparency includes suitable publicity where those standards have not been met.

In that way, members of the public may have confidence that the majority of accountants who are members of a reputable professional body, such as AIA, are compliant with high ethical and professional standards, as well as being technically competent.

This serves the public interest, making it easier for the layperson in need of professional services to access those services. Of course, that confidence in regulated professionals also serves the interests of AIA members. Regulation that is seen to be robust, and high levels of compliance, enhance the reputation and trustworthiness of both the professional body and its members.

Where to find the requirements

Having addressed the question of 'Why?', let's now turn to the question of what the various compliance requirements are and where you can find them.

Compliance with the law will be covered specifically in a later article, as will some of the detail in respect of AIA's Bye-laws and Regulations. The rest of this article is mainly about regulatory navigation (or at least orientation) and knowing the various elements of compliance of which you should be aware.

The Bye-laws

The Bye-laws, Regulations and Code of Ethics are all set out in a single constitutional document, which is publicly available on the AIA website. The Bye-laws are the key to what AIA may expect of its members and students.

The Articles of Association authorise AIA's Council to 'make Bye-Laws and Regulations as it considers appropriate for the purpose of carrying on the business of the Association and regulating its affairs'. Any amendment or variation of the Articles shall only take effect if approved by AIA members.

The Bye-laws, on the other hand, may be amended by Council. They state that Council shall 'prescribe or provide for in regulations ... the obligations applicable to a member'. While it is reasonable to expect a degree of permanence in the Bye-laws, a set of Regulations may be

Transparent regulation demonstrates the high ethical and professional standards against which members are held accountable.

Author bio
Ian Waters supports accountancy firms with compliance – AML, ethics, professional standards and more.

AIA Regulations: A summary

Membership Regulations

- Fitness and propriety considerations regarding AIA membership
- Use of the designation 'International Accountant'
- The obligation to submit annual returns to AIA

Public Practice Regulations

- The need to hold a practising certificate and how to obtain one from the AIA
- Additional fitness and propriety considerations
- The monitoring of practising members and their firms
- Professional indemnity insurance requirements
- Continuity of practice arrangements in the event of death or incapacity
- Custody of client assets
- Engagement letters
- Internal complaints handling

Continuing Professional Development Regulations

- The number of CPD units required over a period
- Record-keeping and annual declarations
- CPD monitoring by AIA

amended more frequently – to enhance processes, demonstrate proportionality or adapt to a changing environment.

The Articles and Bye-laws are agreed by, and for, the collective AIA membership, and the tacit agreement of individual AIA members to abide by the Bye-laws and Regulations is clear – quite apart from the explicit undertaking they make on joining AIA and renewing their membership.

Fundamentally, the Bye-laws make clear that a member shall be liable to disciplinary action in the circumstances set out in the Bye-laws and Regulations, and that a member must, at all times, co-operate with the Investigations, Disciplinary and Appeals Committees. In fact, it might be said that much of the value of professional body membership is derived from members working together to further their common interests, which includes the expectation that they will share the same high professional and ethical standards.

The Regulations

The Regulations declare to the general public (more explicitly than the Bye-laws) the professional standards that AIA expects of its members and what will happen if those standards are not met.

There are six sets of AIA Regulations but, as we are focusing here on the professional standards required of members, we only need to consider three. I shall go deeper into the specific requirements in a future article. For now, the details of what you can expect to find in each set of Regulations are in the box above.

The Code of Ethics

Although the entire Code of Ethics is founded on five fundamental ethical principles, Part 3 (relating to Professional Accountants in Public Practice) carries some specific requirements in certain situations. Those requirements are entirely consistent with the framework explained in Part 1 of the Code, whereby the fundamental principles must be safeguarded when threats to compliance are identified.

Nevertheless, AIA Members must be aware of the Code's specific contents in respect of:

- conflicts of interest;
- professional appointments;
- second opinions;
- fees and other types of remuneration;
- inducements, including gifts and hospitality; and
- responding to non-compliance with laws and regulations.

Where to find guidance

Related to the Code of Ethics is the publication Professional Conduct in Relation to Taxation (PCRT), relevant to the UK. It has been drafted by representatives of seven professional bodies and endorsed by HMRC as an acceptable basis for dealings between accountants and HMRC.

AIA has adopted PCRT, which has been recognised in the courts as the standard for use by UK tax advisers.

AIA provides further compliance support for members, in the form of guidance and resources, through the secure area of the AIA website. So why not log-in soon and familiarise yourself with what's available there?

Finally, as AML compliance is such an important area, I should remind you of the Guidance for the Accountancy Sector (often referred to as 'AMLGAS') produced in the UK by the Consultative Committee of Accountancy Bodies. As this has been approved by HM Treasury, it is an important point of reference for a better understanding of the statutory requirements and the expectations of the supervisory authorities.

Final thoughts

When it comes to compliance with your professional body's requirements – in other words, the expectations of your fellow AIA members – I urge you to make use of all the available guidance, which will help you to comply effectively and efficiently. I shall highlight aspects of that guidance in future articles.

And don't forget the importance of CPD (which may take many forms). Plan your CPD in advance to ensure that you prioritise certain needs and achieve the desired outcomes effectively.

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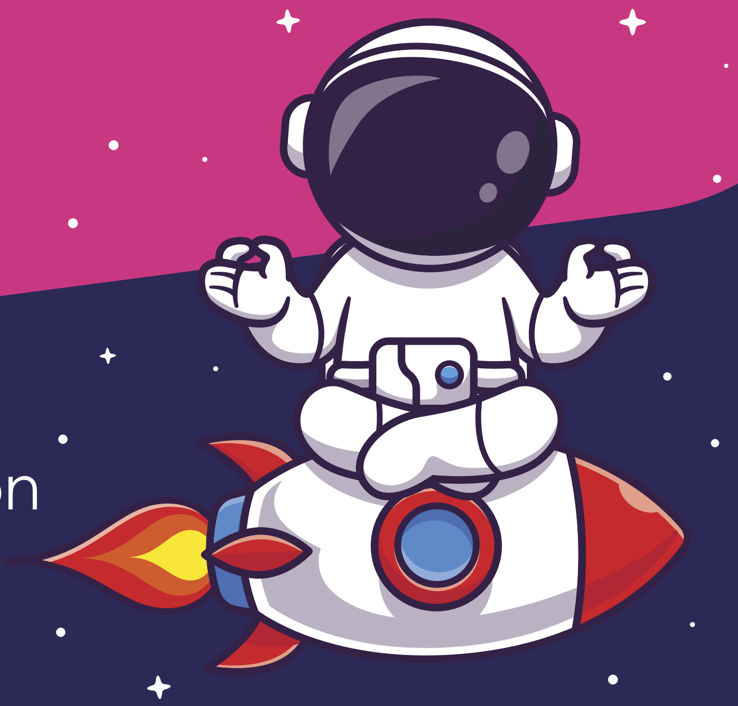

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Sustainability reporting standards for the public sector

As the baseline for private sector sustainability reporting is finalised, the public sector has started to build on this to address its own specific needs, writes *Ian Carruthers*.

Ian Carruthers
International Public Sector Accounting Standards Board

The UN Sustainable Development Goals provide a framework for governments' sustainability activities globally. While the private sector has made notable progress in setting and measuring sustainability targets, the public sector has only recently intensified its focus in this area.

This shift is crucial in the face of the global climate emergency. Through the size of its operations and its significant financial and regulatory influence, the public sector plays a fundamental role in achieving real progress. Representing over a fifth of the global workforce and with governmental spending exceeding 40% of GDP in many countries (see tinyurl.com/4aetu9dr), the public sector often drives national economies. Furthermore, it sets the sustainability agenda through policies, regulations and incentives. Without a structured approach to tracking these activities, assessing the success of governmental strategies is difficult.

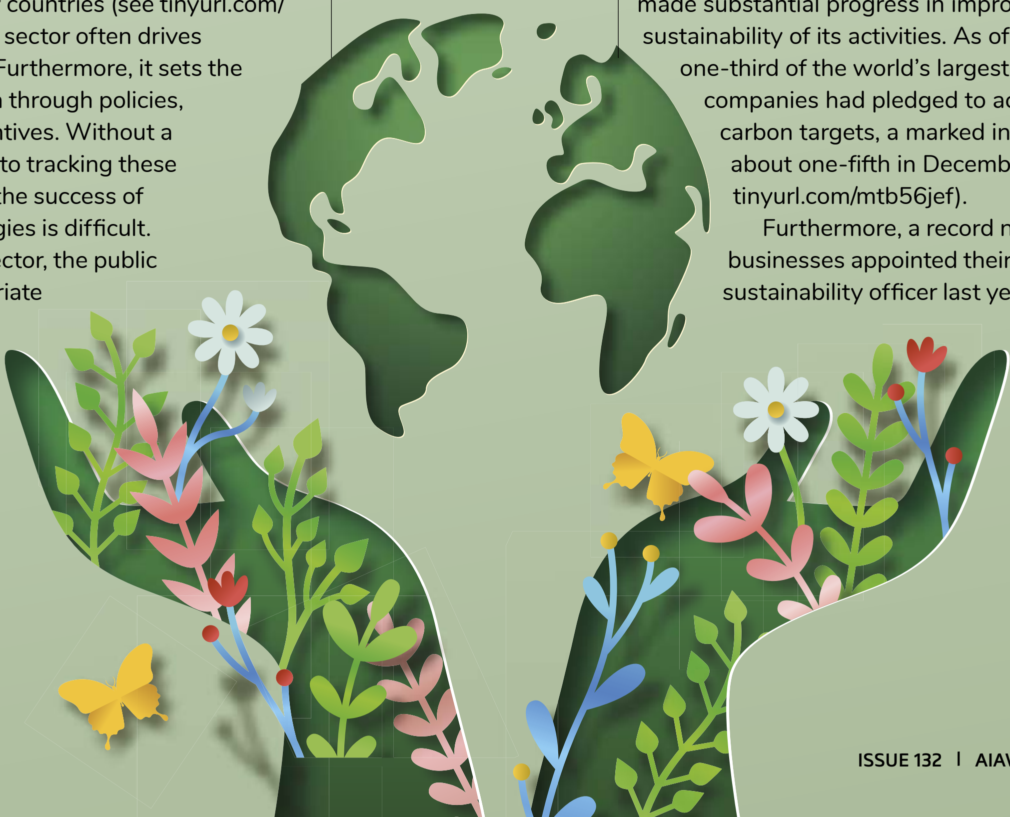
Like the private sector, the public sector needs appropriate sustainability reporting standards to enable better-informed decision making, hold governments accountable for the environmental impact of their interventions and foster trust in the public sector's sustainability efforts.

While progress is still patchy, a promising boost comes from the International Public Sector Accounting Standards Board's (IPSASB) recent announcement that it will start developing international sustainability reporting standards addressing the public sector's unique reporting requirements.

Targeted frameworks produce results

In recent years, the private sector has made substantial progress in improving the sustainability of its activities. As of last June, over one-third of the world's largest publicly traded companies had pledged to achieve net-zero carbon targets, a marked increase from about one-fifth in December 2020 (see tinyurl.com/mtb56jef).

Furthermore, a record number of US businesses appointed their inaugural chief sustainability officer last year (see



tinyurl.com/y3pk7v72). This significant progress can be largely attributed to the increasing adoption of standardised metrics for sustainability reporting, which has, in turn, driven organisations' actions and priorities.

Standardised sustainability reporting is important because it allows organisations to hold themselves accountable in meeting their climate-related targets. It also allows external stakeholders to compare relative sustainability performance. International standard setters – including the International Sustainability Standards Board (ISSB) and the International Audit and Assurance Standards Board – have recently made enormous strides in developing standards that will support these efforts.

Public sector action is critical

Despite the public sector not experiencing the same level of pressure from investors and consumers as the private sector, the financial ramifications of neglecting sustainability goals are becoming clear for governments. Sovereign bonds account for about 40% of the global $100 trillion bond market, and a 2021 study indicated that by 2030, countries failing to meet emission targets could incur debt downgrades costing between $137 billion and $205 billion. And interest in government efforts is growing –when the European Union launched its first green bond in 2021, it drew record demand from prospective investors (see tinyurl.com/6n7kyczm).

This makes IPSASB's new initiative more important. By developing sustainability reporting standards tailored for the public sector, we will drive transparency, ensure that governments answer for their environmental footprint, and sharpen decision making on climate change. This enhanced accountability also stands to improve global trust in the public sector's decisions and actions by making their impact measurable and comparable.

Strong foundations are already in place

Fortunately, there is no need to start from scratch. A decade ago, in 2013, the organisation I chair, the IPSASB, released the first of three Recommended Practice Guidelines (RPGs). Two of these provided guidance on topics still not addressed in the private sector – addressing long-term fiscal sustainability and service performance. Based on feedback, we recently issued further guidance that clarifies the application of RPGs 1 and 3 to sustainability reporting (see tinyurl.com/69wc36u7).

The recent advances in the private sector also offer valuable insights for the public sector. When developing international public sector sustainability reporting standards, we will be able to leverage guidance from the ISSB and the Taskforce for Climate-related Financial Disclosures, as well as the existing Global Reporting Initiative (GRI) standards.

However, public sector reporting comes with unique challenges. Public entities navigate a diverse stakeholder landscape and often have more intricate budgeting, accounting and performance structures than private firms. The ramifications of policy decisions, from regulatory frameworks to tax incentives, will need to be considered in developing international public sector sustainability reporting standards. Consideration must also be given to the potential effects of climate change on countries' natural resources. Finally, unlike corporations, which cater to specific stakeholder groups, governments serve vast populations with varied concerns. Here the GRI standards are likely to be helpful.

In May 2022, IPSASB initiated a global consultation to advance public sector sustainability reporting. Global feedback underscored the urgent need for tailored public sector standards, entrusting IPSASB, with its quarter-century of standard setting expertise, to spearhead this initiative. Fast forward to the present: IPSASB is now gearing up to develop a public sector specific Climate-Related Disclosures standard. This will integrate insights from the private sector while catering to the unique demands of the public sector. Our ambition is to collaborate closely with global standard-setters, governments and policymakers, aiming for universally relevant guidelines to harmonise public sector sustainability reporting.

Helping the public sector move at speed will benefit everybody

International sustainability reporting standards will help to focus public sector investments, aid in sovereign bond issuance and encourage international development finance. By transparently reporting their adherence to sustainability goals and global climate initiatives, governments can enhance their appeal to investors.

Individual countries and the world at large stand to benefit from both public and private sector efforts focused better on achieving real sustainability impacts. With so much at stake, none of us can afford to wait for someone else to take the lead. ●

This article was originally published in Environmental Finance and is available on the Environmental Finance website at: tinyurl.com/2ju2zr8f. The article was originally titled 'The importance of developing sustainability reporting standards for the public sector'.

Author bio
Ian Carruthers is head of the International Public Sector Accounting Standards Board.

Spot the warning signs

Jonathan Munnery **examines the role of the accountant in corporate insolvency and restructuring proceedings.**

Jonathan Munnery
UK Liquidators

It is an unfortunate fact of business that many companies will experience some form of financial distress at some point in their lifecycle. For some, this will be a temporary tightening of cash flow which is swiftly resolved; for others, however, the problems will become so severe that professional intervention is required to deal with a company which has found itself technically insolvent.

While insolvency poses a real threat to the ongoing viability of a company, this does not necessarily mean that the business is beyond rescue at this stage. There are a variety of corporate restructuring and turnaround processes which can be implemented to reverse an ailing company's fortunes.

If the company's problems have indeed taken it beyond the point of rescue, opting for a formal insolvency procedure to bring the company to a close can ensure that this is achieved in an orderly and compliant manner.

Accountants and insolvency practitioners

When insolvency threatens, a collaborative effort is needed in order to maximise the chances of effecting a successful turnaround. Although formal insolvency proceedings can only be entered into under the guidance of a licensed insolvency practitioner, the company's accountant often plays a pivotal role before, during and after the process.

Rather than operating in competing roles, the insolvency practitioner and the accountant work in tandem to ensure the best possible outcome for the client, whether that results in the rescue of the insolvent business or its ultimate closure.

The initial stages of insolvency proceedings

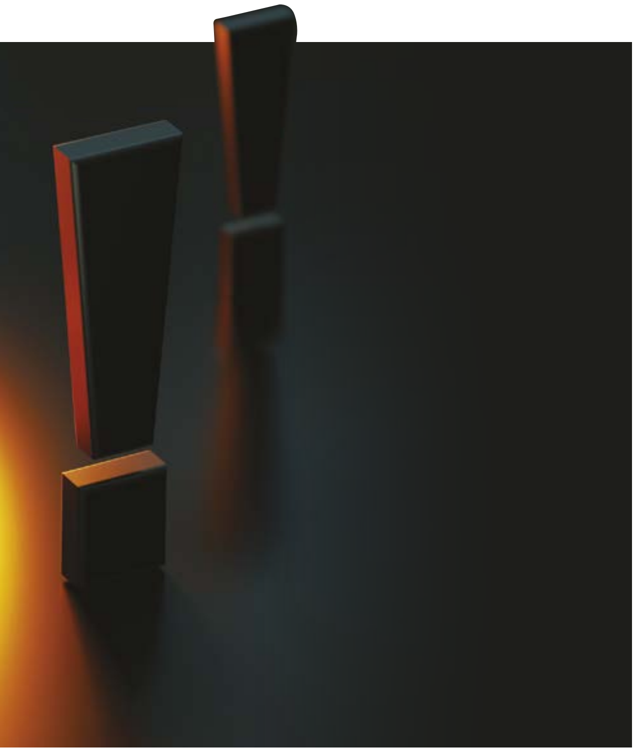
When it comes to rescuing a distressed business, it is often what happens at the earliest stages of insolvency that proves to be a decisive factor in whether the business can be saved. The accountant is often there right at the start of the process, long before an insolvency practitioner is even appointed.

In some instances, the accountant could well be the most informed individual regarding the financial and operational performance of the company, even more so than the company's directors. They will often be the position to identify the company's insolvent position and alert its directors to the fact that the company is in a perilous financial position.

In other cases, directors who are on top of their company's financial performance are likely to go to their accountant as trusted financial professionals when looking for advice and guidance as to what to do next.

As an accountant, being aware of the early warning signs of potential insolvency can make all the difference when it comes to a client's company being able to trade out of its current problems, albeit after a process of operational and/or financial restructuring, or one which succumbs to its challenges.

Company insolvency is often a gradual process, so being alert to the early warning signs of impending insolvency means that action can be taken to remedy the situation before it escalates to a terminal point. Below are some key signs accountants and business owners should be alert to:



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- **A reduction in business activities:** This could take the form of lucrative contracts coming to an end, a reduction in turnover and a general decrease in demand for the product or service. It may also involve suppliers withdrawing supply or changing the terms of supply.
- **Financial difficulties:** This can involve an inability to obtain third party funding, the inability to pay overheads as and when they fall due, and increasing creditor pressure. In more extreme cases, there may also be final demands and threats of enforcement action.
- **Accounting problems:** The business may be submitting accounts late and falling behind in tax obligations. It may also be defensive about providing financial information about their company when asked.

The advice and referral stage

Many accountants, particularly those with a specialism in insolvency, will be in a position to undertake preliminary discussions with their client, giving a general overview of the potential rescue and closure options which may be available depending on the situation they have found themselves in. Once it is determined that entering into formal insolvency proceedings is the only viable route forward, the accountant will then work to refer their client to an insolvency practitioner for further guidance.

The accountant can be involved in these initial fact-finding meetings with the insolvency practitioner, acting as a support to both client and insolvency practitioner alike. Depending on the company's financial and operational position, together with the future desires of the directors, a range of insolvency options can be considered.

Restructuring

Corporate restructuring is not a one size fits all offering. Each company which has found itself insolvent will be experiencing this distress in a number of different ways, often caused by a number of different issues both internal and external to the business. Due to this, a successful restructuring plan needs to be tailored to the individual company, taking into account both the challenges it is facing and also the potential opportunities on the horizon.

Restructuring often takes a two-pronged attack, which looks at restructuring both operations and finances. Non-performing parts of the business will be identified with the aim of directing funds, energy and resources at the more profitable areas.

Companies typically continue to trade during a formal restructuring proceeding, although this may not always be possible, particularly if staff are being made redundant as part of this process. During restructuring, the appointed insolvency practitioner may or may not assume control of the company during this period. If control is taken away from the directors, this will be handed back when the company is back on a solid financial footing.

Liquidation

While liquidation is not always desirable, in some cases it is the best outcome for all concerned. When all options for restructuring have been exhausted, or if the directors do not have the desire to save the company, liquidation can ensure that the business is brought to an end in an orderly and formal manner.

As part of the liquidation process, the insolvency practitioner will assume control of the company and will begin the process of identifying company assets, liquidating these for the benefit of creditors, and ensuring that the company's liabilities are repaid as far as possible from the proceeds.

Liquidation can ensure the best outcome for creditors by shielding them from further losses which may occur if the company continues to trade and its financial position declines even further as a result. Likewise, liquidation can signal the end of a particularly stressful and fraught time for the company's directors and shareholders, who are likely to have been battling the consequences of approaching and actual insolvency for some time.

Informal options

In some instances of corporate insolvency, a full restructure of the business is not required. Simply

Author bio

Jonathan Munnery is an insolvency and company restructuring expert at UK Liquidators, a leading provider of company liquidation services.

What is an insolvency practitioner?

An insolvency practitioner is a professional licensed to help companies and individuals in financial difficulty. Licensed insolvency practitioners sometimes have a legal or financial background, and might work within an insolvency department for a company in these industries. Alternatively, an insolvency practitioner could work for a specialist insolvency firm. It's important to seek assistance from 'licensed' insolvency practitioners, as they are regulated by an official body or association and have undergone extensive training.

Seeking the professional advice of an insolvency practitioner can help to prevent a further slide towards liquidation. With the UK's supportive insolvency regime there may be a variety of options open to businesses in financial distress, and an insolvency practitioner's principle objective is rescue and long-term recovery.

Company directors have to take great care when their business is experiencing financial difficulty. Insolvency laws in the UK dictate that trading must stop as soon as the business becomes insolvent or when directors believe that insolvency is inevitable. Seeking help from a licensed insolvency practitioner in this situation is obligatory – failing to cease trade could be viewed as director misconduct, and there's a danger that creditors could suffer further financial losses as a result.

A licensed insolvency practitioner must be appointed to administer formal insolvency processes in the UK, including company administration, Company Voluntary Arrangements and company liquidation. An insolvency practitioner realises business assets and distributes the proceeds of sale to creditors, but they're also obliged to investigate the conduct of directors leading up to insolvency.

As well as assisting limited companies, a licensed insolvency practitioner helps individuals and sole trader businesses in a similar way, offering advice and practical support in relation to bankruptcy or debt remedy measures such as Individual Voluntary Arrangements and Debt Relief Orders.

Insolvency practitioners are also appointed to close down solvent companies if a director wishes to choose to enter a solvent liquidation process called Members' Voluntary Liquidation. Again, this is an official procedure even though the company is solvent, so a licensed insolvency practitioner oversees the process and ensures the company closes down according to statutory regulations.

refinancing existing liabilities or entering into informal negotiations with creditors to reconfigure current payment terms is all that is needed to reverse the company's fortunes.

While directors can embark on these discussions with creditors themselves, it is sometimes beneficial to have a professional on board handling these negotiations on their behalf. A collaborative effort between the accountant and an insolvency practitioner can ensure that these talks are strengthened by accurate financial figures and a robust explanation of why restructuring existing liabilities will be beneficial to all parties.

Accountants and insolvency practitioners: working together

In order to determine whether embarking on a restructuring and turnaround plan is going to be feasible, the precise financial position of the company will need to be determined. This crucial part of the process is something the accountant is often heavily involved with.

Preparing a Statement of Affairs is one of the first things to be done when a company is contemplating formal insolvency proceedings as it provides an accurate snapshot of the company's assets, liabilities and ability to continue to trade.

The insolvent company's accountant will also liaise with the insolvency practitioner when it comes to obtaining books, records and the prior accounts of the company. All of these are vital to paint a comprehensive picture of the company's current financial position but also help to inform future operational and financial performance.

The role of the accountant during and after insolvency proceedings

While the formal insolvency proceedings will be handled by the insolvency practitioner and their team, this does not mean that the accountant should fully step away. It is in an accountant's interest to maintain a relationship with the client during this time. They should act as a support to both the insolvency practitioner and to the insolvent company's directors and shareholders. They should also be able to offer support when it comes to client retention purposes.

Even when liquidation beckons, many directors will have the intention to restart in business, albeit under a newly formed company. By maintaining a professional relationship during insolvency proceedings, the client is more likely to seek the services of their trusted accountant when the time comes to incorporate their new venture.

Be prepared for insolvent clients

As we enter an uncertain economic landscape, the threat of insolvency is likely to become greater, meaning that accountants should ensure they are well equipped for dealing with clients with distressed businesses.

This may involve refreshing knowledge on corporate insolvency options and being alert to the warning signs of impending insolvency. They may also wish to have a connection with a trusted insolvency practitioner that they can turn to for advice during the early stages of client insolvency and outsource this work to if required.

Remember, insolvency does not necessarily mean the end for a business. With swift action and the right advice, many companies can bring themselves back from the brink and go on to have a successful and profitable future. Having a trusted accountant and a qualified insolvency practitioner on board at an early stage will give a distressed company the very best chance of achieving a successful outcome for all concerned. ●

The new light of Gen AI

Steve Cox weighs the risks and benefits of what Gen AI might mean for the future of accountancy.

Steve Cox
Director of Business Intelligence, IRIS Software Group

As we quickly approach ChatGPT's first anniversary on 30 November, it is clear that there is no single industry which hasn't been impacted by Generative Artificial Intelligence (Gen AI). When it comes to the accounting world, AI has been deployed in the audit space for many years, bringing about digital transformation and ensuring fairness and accuracy in financial statements.

The recent acceleration in the use of Gen AI has compelled the rest of the industry to take notice and recognise the technology's potential to rejuvenate their business practices. Indeed, according to the latest report by Forrester, the 'Big Four' are heavily pouring funds into AI, with KPMG joining PWC, Deloitte and EY in making multi-billion dollar investments (see tinyurl.com/2sv7t3s7).

However, even in this age of digital change, the accounting industry has been slow to embrace cloud technology. Compounded by the media attention focused on the negative aspects of AI, especially after the UK's recent AI Summit, it's no wonder many accountants remain wary (see tinyurl.com/t68nbxbp).

An industry cautious of change

Despite the introduction of Making Tax Digital (MTD) and cloud-based solutions, only 20% of

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small and mid-sized enterprises (SMEs) describe themselves as tech-savvy and open to digital transformation (see tinyurl.com/bdzf2f6x). As a result, 80% stick to their more conventional methods. Significant AI adoption may take a while.

This challenge stems mainly from concerns about the shifts in tools and culture required for AI implementation, often coupled with the pressures that firms face in managing their existing workloads. Significant numbers of accountants have issues automating administrative tasks, in part due to budget constraints when it comes to making technological investments. If there is to be adoption of AI by the accountancy profession, it will be necessary to educate professionals and businesses on the benefits of such innovative technologies to bring about behavioural changes.

There's also a common misconception that specialised knowledge is needed for the operation of AI-enhanced tools. Gartner recently highlighted one of the Gen AI risks as the need for competency, calling for a unique set of skills that must be sourced either through upskilling existing staff or hiring externally from start-ups (see tinyurl.com/3zzeph6n).

Introducing new talent with AI skills is certainly beneficial to the overall business. However, most AI tools have already been integrated into office software, so more emphasis should be placed on the fact that AI doesn't require strenuous training – no more than any other new software used in the accounting industry.

The implementation of technologies that eliminate manual processes and analyse essential insights from the financial data enables firms to alleviate employee burnout and to focus on strengthening partnerships with their clients. But it's no surprise that some firms may have an initial apprehension of the new technology, given the financial costs associated with more sophisticated software, training and time spent on implementation.

There isn't a single, immediate solution to the challenges that the accountancy industry faces in terms of its current talent and technology. This emphasises the need for a forward-thinking, long-term strategy. Discussions regarding the transition to cloud technology have been circulating in the accounting industry for over a decade, and debates about AI's influence have been ongoing for more than five years. The challenge now is to transition from discussing the technology to effectively implementing it through a grounded strategic approach.

This approach not only future-proofs firms for the succeeding years but also enhances value proposition for clients. By nurturing a more profound relationship with clients and employing data-driven insights, firms can upsell or cross-sell their services more effectively, resulting in increased revenue from their existing client base. However, it's also important to take an honest look at the risks and benefits of Gen AI to create a wellbalanced roadmap for adoption.

Benefits of AI adoption

Discounting the initial hesitations, AI implementation promotes several advantages, primarily streamlining time-consuming and costly mundane tasks, which can effectively provide accountants with the precious commodity of time.

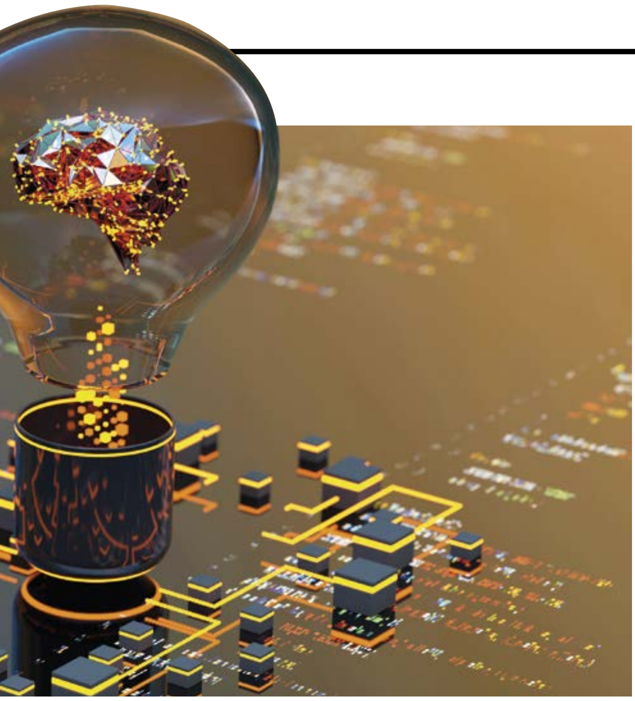
The adoption of AI technologies is already visible with the running of automated audits for a comprehensive view of operational and customer data. Audio transcription services eliminate the need for notetaking during client calls, while message-generation services produce content faster than ever possible.

It's no secret that the accounting industry is grappling with a persistent talent shortage, causing professionals to be spread thin between routine compliance tasks and providing value-added services to clients. This staffing dilemma shows no signs of alleviation, with a 36% decrease in accounting applicants between 2021 and 2022 (see tinyurl.com/yr7hckft).

To effectively navigate these challenges, accountants are slowly introducing AI tools to address their unique requirements, allowing them to efficiently prioritise their clients, business and time management. For example, AI-powered training tools can record speaking pitches, which the AI then reviews and provides feedback, addressing the talent shortage by upskilling accountants and preparing them for interviews and client pitches.

Introducing the idea of human-centric AI counters the concerns of 'job replacement' by offering a user experience aligned with traditional methods, while facilitating a natural progression into new capabilities. With AI-powered auditors, there is no need to spend extensive time sorting through samples; they can immediately dive into analysis and decision-making using insights generated by the platform.

We have also seen the use of AI-powered chatbots to foster learning and skills development



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among junior staff. AI further provides expertise on novel techniques to market practice or approach a new prospect. It allows accountants to integrate learning models into their systems to recognise new opportunities, such as identifying potential clients for advisory services through pattern matching and trend analysis.

Risks and pitfalls

Despite the seemingly glowing prospects, adopting AI is not without concerns. The main worry is that AI might replace jobs, but it is important to note AI technology is still in its infancy. Therefore, it can't and shouldn't be used to replace jobs.

However, it is crucial to address the issue of trust. Notorious instances where Gen AI has provided false responses by hallucinating further fuel the hesitations (see tinyurl.com/msrtt694). Attention to detail and accuracy are fundamental for accountants but Gen AI, with its 'black box' nature, can potentially stand in the way, making accountants apprehensive about AI integration.

In addition, accounting operates within a broad institutional framework, implying that regulators and standard setters also need to cultivate their proficiency in AI applications and develop a comfort level with the inherent risks. Without this institutional backing, implementing changes in areas such as auditing or financial reporting becomes impossible.

Therefore, the proactive participation of standard setters and regulators is pivotal. For instance, audit standards authorities should work with organisations to investigate where auditors apply these methods to collect evidence and evaluate the reliability of these techniques.

Finally, the most significant risk associated with AI is failing to educate accountants about the potential benefits of AI and teach them how to utilise the technology optimally. Unfortunately, many accountants lack the time to familiarise themselves with Gen AI, so they might not know the correct prompts to help with their tasks. The industry must invest more time and effort into training and cultivating technical skills to overcome this issue.

Firm steps forward

AI undoubtedly promises a new and improved way of doing business for accountants. Despite widespread hesitation, educational initiatives could help to progress the long-awaited AI revolution in the accounting industry. Hesitation and scepticism are not unusual reactions to change, but proper guidance and understanding will give way to readiness and anticipation for AI adoption.

More importantly, as the appetite for AI services increases, expertise in this technology is expected to become a necessity in the sector. In fact, the recent Thomson Reuter's 'Future of professionals report' shows that just under 90% of tax professionals predict that AI training will be mandatory for practitioners within the next half-decade (see tinyurl.com/34k698k5). Therefore, the real concern for today's accountants isn't whether AI is going to replace them but, actually, whether a client will replace them with an accountant using AI.

Accountants' roles extend beyond pure analysis. They strategise and empathise, combining a deep understanding of nuances and a resilience that machines can't emulate. However, the accounting profession is shifting towards trend spotting, data analysis and holistic business environment assessments. An accountant well-versed in AI is able to deliver more agile and modern services.

This shift in trend is not only recognised by the AI trail-blazing companies. Accountants who don't get on board with the AI revolution will end up being left behind by the governments, too. We have seen multiple examples in Europe where AI and machine learning algorithms were used to detect fraudulent VAT tax activities (tinyurl.com/2vmb6ezn). However, one theme is prevalent across these examples – accountancy cannot solely rely on basic detection algorithms but rather needs a combined effort that encompasses a human-centric approach.

The journey towards AI should not be hindered by apprehension or hearsay. Instead, we must recognise how AI redefines the concept of reasonable assurance and empowers accountancy teams to provide added value, entrusting data processing and number crunching to sophisticated computer algorithms. Failing to create a roadmap to AI could result in losing a critical advantage. The reality is that AI will not replace accounting professionals; however, those who harness AI's capabilities will outperform those who don't. ●

Author bio
Steve Cox is a Director of Business Intelligence at IRIS Software Group.

EVENTS

FEATURE EVENT

How to be an ethics influencer
Date: 10 January 2024
Time: 10.30 – 11.30
Venue: Online webinar

Speaker: Chris Cowton

Chris Cowton is Emeritus Professor at the University of Huddersfield, where he served as Professor of Accounting, Dean of the Business School and Professor of Financial Ethics. He previously lectured at Aberystwyth, Cardiff and Oxford universities. From 2019 to 2023, he was Associate Director of the Institute of Business Ethics, where he contributed to the leadership and delivery of its training, advisory services and applied research.

Based in London, Chris continues to speak and write regularly on the topics of business and financial ethics for academic and practitioner audiences.

One of the marks of a profession, such as accountancy, is that it serves public interest. On a day-to-day basis, you do this by using your professional judgement and skills in accordance with the AIA's Code of Ethics. Sometimes this can be challenging, however, as implicitly recognised in the conceptual framework in the Code, which requires you to address threats to compliance with the Code's fundamental principles.

Some threats come about because of pressures in the workplace. If you could make the workplace a more congenial environment, that would reduce the general level of threat to carrying out your work according to the fundamental principles.

We will therefore examine the practical actions that organisations can take to develop an ethics-based culture and explore the formal and informal ways in which you can influence this, whatever your level in the organisation.

At the end of this session, you will:

- have refreshed your knowledge of the fundamental principles on which the Code of Ethics is based and of the conceptual framework for addressing threats to compliance with those principles;
- understand the requirement in the Code of Ethics regarding the encouragement and promotion of an ethics-based culture;
- have an overview of the key elements of an organisational ethics programme; and
- take away ideas about how to encourage and promote an ethics-based culture, whatever your level in the organisation.

To reserve your place at this exclusive event go to: tinyurl.com/3dydxmvs

OTHER UPCOMING WEBINARS

Teambuilding, leadership and mindset: unlock your potential
Date: 13 December 2023
Time: 10.30 – 11.30
Speaker: Bolu Fagborun
Former professional rugby league player Bolu Fagborun will explain how to apply teambuilding and leadership skills to your organisation and unlock your potential with a positive mindset.

The whys and whens of modern mentoring
Date: 15 December 2023
Time: 10.30 – 11.30
Speaker: Dr Judie Gannon
Dr Judie Gannon will draw on a range of research evidence and sources, as well as practical experience, on why mentoring matters to mentors, mentees, organisations and, more broadly, professional communities and society.

Incorporation of a company: essential details and legal responsibilities (Singapore)
Date: 18 December 2023
Time: 18.30 – 19.30 (UTC+8)
Speaker: Tony Loke
AIA Singapore branch president will explain what information must be prepared before incorporating a company in relation to its legal responsibilities or obligations to comply with the local authorities.

Stepping up your AML compliance: best practices in identifying beneficial owners (Malaysia)
Date: 19 December 2023
Time: 18.00 – 19.00 (UTC+8)
Speaker: Muhamad Nazri
A webinar designed to help accountants understand the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act and best practices in identifying beneficial owners.

Confronting the nexus of climate change and poverty
Date: 08 January 2024
Time: 10.30 – 11.30
Speaker: Professor George Iatridis
Professor of accounting and finance George Iatridis from the University of Thessaly, Greece explores how sustainability and poverty reduction can be more easily achieved if considered together.

Achieving practice success without long hours or undervaluation
Date: 23 January 2024
Time: 10.30 – 11.30
Speaker: Shane Lukas
This webinar by Shane Lukas will explain the five critical growth stages that shape your practice's journey, how to identify roadblocks, proven strategies for success and how to future-proof your practice.

Traditional finance to sustainable finance: internalising externalities into financial markets
Date: 14 February 2024
Time: 10.30 – 11.30
Speaker: Lisa Sheenan
This webinar by Lisa Sheenan will provide an overview of the history of sustainable finance, explain the concept of externalities from an environmental, social and governance (ESG) perspective and discuss ways in which these can be internalised into financial markets. The challenges and trade-offs that are faced by accountants while doing this in practice will also be highlighted, along with possible solutions and ways forward.

INTERNATIONAL

IFAC releases sustainability checklist for small businesses

The International Federation of Accountants (IFAC) has released a Small Business Sustainability Checklist to help small and medium-sized enterprises (SMEs) maximise the benefits of incorporating sustainability into their strategy and business operations.

The checklist is a diagnostic tool designed to be tailored by each business according to its own unique circumstances, including its industry sector, lifecycle, and products and services provided. It lists a comprehensive range of initiatives and actions to be considered in terms of environmental, social and governance (ESG) factors. Not all actions in the checklist will be relevant to every SME, but it aims to help all organisations to take small steps on what could be a long but highly fulfilling journey.

As outlined in previous IFAC thought leadership, including 'Sustainability information for small businesses: the opportunity for practitioners', small and medium-sized practices (SMPs) are ideally placed to help SMEs on this journey because of their deep business knowledge and expertise. As trusted advisers, they can recognise the risks and opportunities, and advise SMEs on how best to act on them.

Monica Foerster, IFAC SMP Advisory Group Chair, said: 'SMEs are critical to the global economy through their vital contributions to GDP and employment levels. Thus, they need to be an active part of the conversation on sustainability issues. Moreover, the expectations for SMEs to report on sustainability information, often due to requests from supply chain partners or finance providers, are likely to grow, resulting in new challenges to these businesses. SMPs are ideally placed to help SMEs tackle sustainability-related risks and to help unlock opportunities, enhance resilience and illuminate the path to becoming future fit.'

The checklist was developed under the umbrella of IFAC's work on practice transformation, which highlights the need for SMPs to adapt to remain relevant and serve a rapidly changing world. SMPs are also strongly encouraged to use the checklist to begin their own journey and consider their strategy, policies and procedures on sustainability. This is also critical to both attracting and retaining the next generation of talent.

The Small Business Sustainability Checklist has been launched together with an expanded range of external resources to help practitioners upskill and build knowledge in this emerging area. IFAC has prepared a dedicated web page that provides material on sustainability reporting, advisory, assurance and education and training. Professional accountancy organisations are encouraged to share the checklist with their members and highlight the range of additional resources available.

INTERNATIONAL

New IFAC study expands insights into sustainability disclosure and assurance beyond the G20

Fresh research from the International Federation of Accountants (IFAC) expands its sustainability disclosure and assurance data to 20 additional jurisdictions beyond the G20 previously reported on. The new report, 'The State of Play: beyond the G20', focuses on the Global South with data from three jurisdictions from Latin America, six in Africa and the Middle East, and four in the Asia-Pacific region, as well as six smaller-sized economies within the European Economic Area and Switzerland.

IFAC CEO Kevin Dancey said, 'When viewed in full, the State of Play series of reports now provide data on the current market practices of nearly 2,000 of the largest stock exchange-listed companies across 42 jurisdictions over the period 2019 through 2021. This broader lens on disclosure and assurance makes it even more clear that we are still in the early stages of the journey to provide investors and other stakeholders with consistent, comparable, decision-useful and assured sustainability information that is as reliable as financial information.'

While the data shows an upward trend in the incidence of assurance, the scope of assurance being obtained by companies is narrowing. Additionally, fragmentation in terms of which assurance standard is used is evident. The International Auditing and Assurance Standards Board's recently proposed sustainability assurance standard – International Standard on Sustainability Assurance 5000 – addresses both of these issues. The International Ethics Board for Accountants is also working to enhance independence and ethics requirements to support high-quality assurance.

As governments, regulators and policy makers around the world are turning their attention to new sustainability requirements, IFAC is conducting this and other research to help raise awareness about the need for high-quality sustainability information and foster evidence-based policy and regulatory decisions, both of which are aligned with its commitment to the adoption of ISSB standards and the ISSB's Partnership Framework.

Additional key findings

- 89% of companies reviewed reported some environmental, social and governance (ESG) information in 2021, with 48% of those companies receiving some level of assurance.
- Sustainability disclosure – in in the G20 as well as beyond the G20 – is still an 'alphabet soup' of standards

and frameworks. However this study found more connectivity between sustainability and financial information, with only 19% of companies relying on stand-alone sustainability reports, compared to 50% for the G20 (as reported in 'The State of Play: sustainability disclosure and assurance 2019-2021', published in partnership with AICPA-CIMA).

- Assurance rates have risen from 37% to 48%, but engagements cover a narrowing set of topics. Specifically, broader scope assurance has declined from 74% in 2019 to 64% of engagements in 2021.
- Most assurance engagements were conducted by audit firms – 62% of assurance engagements in 2021.
- 81% of these assurance engagements applied the IAASB's International Standard on Assurance Engagement 3000.

The GRI establishes a Sustainability Innovation Lab in coordination with the IFRS Foundation

The Global Reporting Initiative (GRI) has announced the upcoming launch of the Sustainability Innovation Lab (SIL), in partnership with the IFRS Foundation as its Convening Partner. The SIL is being established to enable companies to meet their evolving sustainability disclosure requirements, fostering professional development, training, practical solutions and innovative thinking.

The SIL will bring together global and local partners to advance capabilities for reporting using the GRI Standards and the IFRS Sustainability Disclosure Standards. Given that 81% of listed companies in Asia-Pacific report with GRI, and the strong interest from the region in adopting the new International Sustainability Standards Board (ISSB) Standards, the SIL will be based in Singapore (where a launch event takes place on 20 November), and will be supported by offices throughout Asia, initially.

Through the SIL, representatives of GRI, the ISSB and other key stakeholders will collaborate to identify emerging sustainability disclosure topics, developing concepts, best practices and data-driven solutions. It will also provide capacity building within supply chains that are being asked to meet new information demands.

The goal of the SIL is to support stakeholders and all market participants on their disclosure journeys, guiding them to address disparities in sustainability reporting requirements, while supporting the further harmonisation of the reporting landscape at the global level. It will seek to streamline the process for companies that report on a multi-stakeholder basis.

UK AND IRELAND

Strides made in corporate governance reporting but more work needed to meet stakeholder expectations

The Financial Reporting Council has published its latest Annual Review of Corporate Governance Reporting which finds ongoing improvements in the quality of reporting against the UK Corporate Governance Code, but also identifies areas where many companies are still falling short.

The review showcased high quality and insightful reporting by some companies, with the FRC continuing to see more transparent reporting of departures from the Code, rather than simply stating compliance. However, explanations were often found to lack sufficient clarity and few companies reported to a consistently high standard.

The report also found many examples of boilerplate reporting using generic language that fail to meet stakeholder needs for meaningful explanations which demonstrate how alternative governance arrangements benefit the company and shareholders.

While risk assessment and internal controls have been a focus over the past year, little improvement was seen in the quality of reporting in these critical areas. More work is needed by most companies to demonstrate robust systems, governance and oversight.

However, the FRC was encouraged by the increased focus on workforce engagement and stakeholder reporting. It would now like companies to show how engagement has led to high-quality outcomes by better reflecting on the feedback received and its impact on board decisions.

Mark Babington, FRC Executive Director of Regulatory Standards, said: 'We are pleased to see clear progress made by some companies in providing transparent and insightful disclosures. However, more work is needed across the board to meet stakeholder expectations through clear reporting that provides genuine insights into governance outcomes and actions.

'This is essential to properly apply the Code's principles and the spirit of "comply or explain". Good corporate governance disclosures build trust and understanding, and is not just a compliance exercise.'

FRC report looks at 'Materiality Mindset' for better corporate reporting

The Financial Reporting Council (FRC) has published a report looking at how companies can improve their corporate reporting by taking a more focused, strategic approach to assessing materiality.

Following interviews with companies, investors, advisors and other stakeholders, the new report, 'Materiality in practice: applying a materiality mindset', encourages companies to think holistically about what information is material to their stakeholders when preparing annual reports. It provides practical suggestions and examples for identifying material issues, where reporting could be streamlined and prioritising key messages.

Key elements in the report include:

- taking a holistic approach that connects quantitative, qualitative and sustainability related factors across strategy, operations and finances; and
- focusing on the key issues that management and the board are prioritising across the short, medium and long term.

Mark Babington, FRC Executive Director of Regulatory Standards, said: 'Given the complexity of some corporate reporting, companies should look holistically when deciding what information to give their stakeholders. The suggestions in this report are a starting point for an ongoing dialogue on materiality and we look forward to continuing to engage with companies and the investor community on this important issue.'

EUROPE

ESMA to put cyber risk as a new Union Strategic Supervisory Priority

The European Securities and Markets Authority (ESMA), the EU's financial markets regulator and supervisor, is changing its Union Strategic Supervisory Priorities (USSPs) to focus on cyber risk and digital resilience, alongside environmental, social and governance (ESG) disclosures.

With this new priority, EU supervisors will put greater emphasis on reinforcing firms' information and communication technology risk management through close monitoring and supervisory actions, building new supervisory capacity and expertise. The aim is to keep pace with market and technological developments, and closely monitor potential contagion effects of attacks and disruptions across markets and firms.

The new USSP will come into force in 2025, at the same time as the Digital Operational Resilience Act (DORA). This timeline is intended to provide supervisors and firms in member states with sufficient time to prepare for compliance with the new regulatory requirements. Meanwhile, ESMA and national competent authorities (NCAs) will carry out preparatory work planning and shaping the supervisory activities to undertake under this priority.

In addition, ESMA and NCAs will continue their work on the second priority – ESG disclosures. The aim is to tackle greenwashing, increase investors understanding and embed sustainability requirements when firms advise investors. ESG disclosures will remain the focus in 2024 across key segments of the sustainable finance value chain, such as issuers, investment managers and investment firms.

The new USSP on cyber risk and digital resilience will replace the USSP on market data quality. ESMA and NCAs have carried out intensive and concerted supervisory efforts to make structural, long-lasting improvements in this area. Notably, they have built common data quality methodologies and data sharing frameworks; and worked on the detection of supervisory issues, carried out investigations and developed supervisory tools to extract further intelligence from the data reported.

Ensuring data quality remains a primary duty of supervised entities. Firms, and in particular their top management, should take ownership of the data they report and increase its use also for internal purposes. EU supervisors will continue to undertake important supervisory work on data quality, leveraging the new methodologies and tools developed through the USSP. Paying close attention to this topic remains fundamental in building a data-driven supervisory approach, a key strategic objective under the ESMA Strategy.

European Supervisory Authorities publish joint criteria on the independence of supervisory authorities

The three European Supervisory Authorities (ESAs) – the European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA) and European Securities and Markets Authority (ESMA) – have published their joint criteria on the independence of supervisory authorities.

Supervisory independence is key to ensure that fair, effective and transparent decisions are taken by appropriately resourced supervisory authorities. These authorities can in turn provide effective and adequate protection for customers and consumers of financial services ensuring confidence in the financial system.

The independence criteria are organised around four key principles:

- **Operational independence:** so supervisory authorities operate without any form of undue influence from the supervised sector and the government, have adequate legal powers and operational resources.
- **Personal independence:** with transparent rules for the appointment, selection and removal of members of the supervisory authority's governing body, and high ethical standards for members of the supervisory authority's staff and governing body.
- **Financial independence:** with sufficient financial resources for supervisory authorities to fulfil their mandates.
- **Accountability and transparency:** so supervisory authorities conduct their tasks in a transparent and accountable manner.

In 2020, following their review, the ESAs were tasked to foster and monitor supervisory independence. To fulfil this task, in 2021 the ESAs published in close coordination their individual reports to take stock of the factual situation of supervisory authorities' independence. Building on these reports and based on the 2021 EIOPA's criteria and international standards, the ESAs further worked together to issue joint criteria on the independence of supervisory authorities.

The criteria can be used by supervisory authorities as a tool to enhance their independence and, at a later stage, by the ESAs to assess supervisory independence in the EU.

EFRAG and CDP announce co-operation to drive market uptake of European sustainability reporting standards

The European Financial Reporting Advisory Group (EFRAG) and the CDP have announced a collaboration to accelerate the market uptake of the European Sustainability Reporting Standards (ESRS), adopted by the European Commission on 31 July 2023. CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.

Under the agreement, CDP will explore and implement alignment of its disclosure system with the ESRS as EFRAG provides technical expertise, access and guidance. This collaboration will support the market readiness for quality environmental reporting by accelerating the implementation of the European sustainability reporting standards.

CDP, supported by EFRAG, will begin to offer webinars and detailed technical guidance materials to support companies report on ESRS data points through CDP. Currently, used by over 23,000 companies, CDP disclosing companies represent two-thirds of global stock market capitalisation and nearly 90% of European market value.

Starting in January 2024, the ESRS will apply to around 50,000 businesses and in due course to a significant number of non-EU headquartered businesses, meaning that requesting information in relation to value chains will have to be considered by many companies worldwide.

Covering climate change (ESRS E1), pollution (E2), water and marine resources (E3), biodiversity and ecosystems (E4), and resource use and circular economy (E5), the ESRS represent a very comprehensive and ambitious effort to legally require companies to report wide-ranging data on their environmental impacts, risks and opportunities.

Building on and contributing to global sustainability reporting progress, the ESRS are interoperable with the IFRS S2 climate-related disclosure standard developed by the International Sustainability Standard Board (ISSB), as well as with the Global Reporting Initiative (GRI) standards.

The ESRS follow a double materiality approach, meaning businesses must report both how they expect climate and environmental changes to affect their operations and value creation, as well as how they impact people and planet.

CDP's disclosure system already extensively covers climate change, forests, and water security, impacts and risks. Data from those disclosures is used by financial institutions, policymakers and many other organisations worldwide to measure and drive corporate environmental progress.

UNITED STATES

FASB issues disclosure improvements in response to the SEC's disclosure update and simplification initiative

The Financial Accounting Standards Board (FASB) has issued an Accounting Standards Update (ASU) that incorporates certain US Securities and Exchange Commission (SEC) disclosure requirements into the FASB Accounting Standards Codification. The amendments in the ASU are expected to clarify or improve disclosure and presentation requirements of a variety of Codification Topics, allow users to more easily compare entities subject to the SEC's existing disclosures with those entities that were not previously subject to the requirements, and align the requirements in the Codification with the SEC's regulations.

In SEC Release No. 33-10532, 'Disclosure Update and Simplification', issued on 17 August 2018, the SEC referred certain of its disclosure requirements that overlap with, but require incremental information to, generally accepted accounting principles to the FASB for potential incorporation into the Codification.

The ASU incorporates into the Codification 14 of the 27 disclosures referred by the SEC. They modify the disclosure or presentation requirements of a variety of topics in the Codification. The requirements are relatively narrow in nature. Some of the amendments represent clarifications to, or technical corrections of, the current requirements. Because of the variety of topics amended, a broad range of entities may be affected by one or more of those amendments.

For entities subject to the SEC's existing disclosure requirements and for entities required to file or furnish financial statements with or to the SEC in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer, the effective date for each amendment will be the date on which the SEC removes that related disclosure from its rules. For all other entities, the amendments will be effective two years later. However, if by 30 June 2027, the SEC has not removed the related disclosure from its regulations, the amendments will be removed from the Codification and not become effective for any entity.

ASIA PACIFIC

MAS partners industry to develop a Generative AI risk framework for the financial sector

The Monetary Authority of Singapore (MAS) has announced the successful conclusion of phase one of Project MindForge, which seeks to develop a risk framework for the use of Generative Artificial Intelligence (GenAI) for the financial sector. A whitepaper detailing the risk framework will be published in January 2024.

GenAI is a rapidly evolving technology that could both transform and disrupt the financial sector. While GenAI can help financial institutions to improve efficiency, provide more personalised customer experiences and generate content and ideas for products and services, there are also risks involved, including more sophisticated cybercrime tactics, copyright infringement, data risk and biases.

Project MindForge looks into the risks and opportunities of GenAI for the financial sector. It aims to develop a clear and concise framework on the responsible use of GenAI in the financial industry, and to catalyse GenAI powered innovation to solve common industry wide challenges and enhance risk management. The project is supported by a consortium comprising DBS Bank, OCBC Bank, United Overseas Bank Limited, Standard Chartered Bank, Citi Singapore, HSBC, Google Cloud, Microsoft, MAS, Accenture and the Association of Banks in Singapore.

In phase one, the consortium has developed a comprehensive GenAI risk framework, with seven risk dimensions identified in the areas of: accountability and governance; monitoring and stability; transparency and explainability; fairness and bias; legal and regulatory; ethics and impact; and cyber and data security. The framework will enable financial institutions to use GenAI in a responsible manner.

The consortium will also look into developing strong industry use cases that will benefit from the application of GenAI and other AI technologies, including the use of GenAI in managing complex compliance tasks and identifying hidden, interconnected financial risks.

In the next phase, the MindForge consortium will expand its scope to involve financial institutions from the insurance and asset management industries. The GenAI risk framework can thus be further improved and extended to the entire financial industry. The consortium will conduct experiments to explore the use of GenAI in areas such as anti-money laundering, sustainability and cyber security.

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