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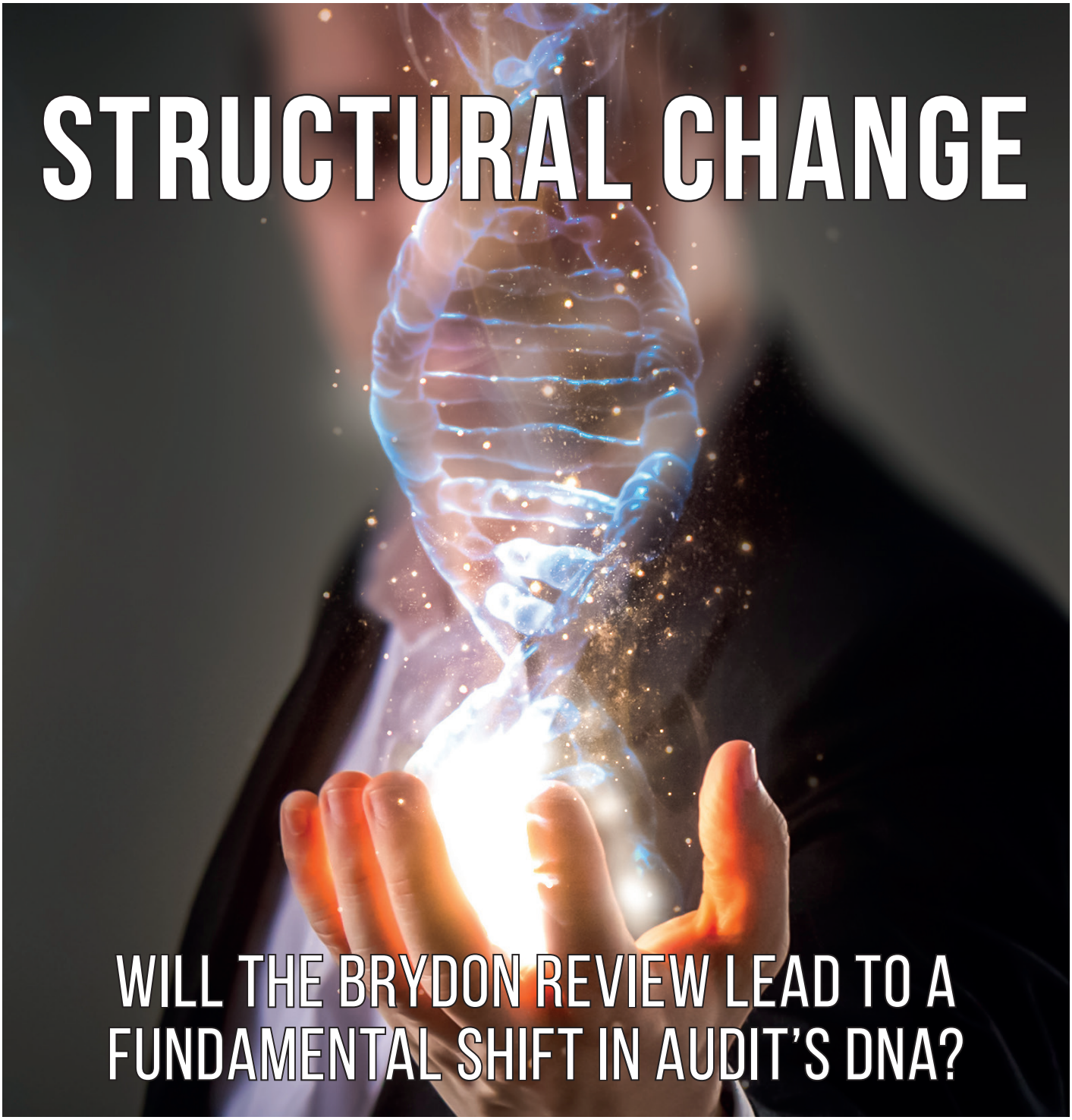

STRUCTURAL CHANGE

WILL THE BRYDON REVIEW LEAD TO A FUNDAMENTAL SHIFT IN AUDIT'S DNA?

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THIS MONTH

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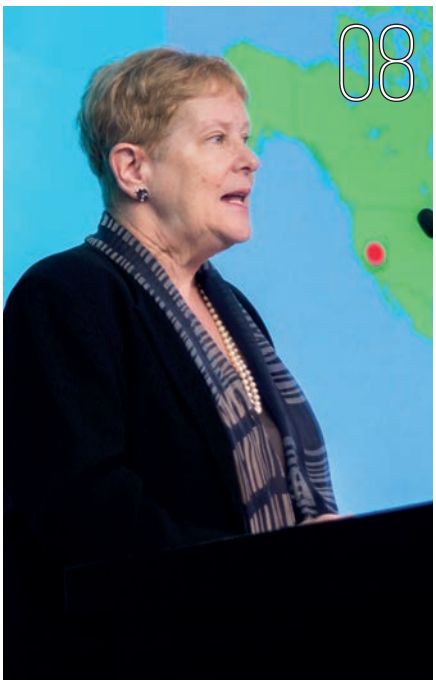
FEATURE



COMMENT

EDITOR'S LETTER
THE FUNDAMENTAL PROBLEM OF THE EXPECTATIONS GAP

Joe Pickard, Editor

HAPPY NEW YEAR! AS THIS MAGAZINE – OR ITS EDITOR AT LEAST – WAS GETTING READY TO PACK UP FOR THE CHRISTMAS BREAK, SIR DONALD BRYDON DECIDED IT WAS AN OPPORTUNE TIME TO RELEASE HIS FINAL REVIEW INTO THE UK AUDIT MARKET.

I am sure he did this with the best intentions of wanting to provide some reading material for those lost days between Boxing Day and New Year's Eve.

Following our initial coverage on the day of its release, *The Accountant* reached out to various members of the profession to hear their views on some of the proposed recommendations and how they may be implemented **(pages 10–13)**.

The review was extensive, looking at the fundamental problem of the expectations gap between what an auditor is actually meant to do. It will be interesting to see how the recommendations are implemented and how the industry will react. I am sure this will provide a lot of content for *The Accountant*'s readers and subscribers over the next year.

Earlier this month, The Global Reporting Initiative launched a country-by-country public reporting standard for tax. The event included an interesting panel discussion that looked at the benefits for both investors and companies in providing better disclosure on tax practices **(pages 8–9)**.

Elsewhere in the magazine, haysmacintrye charities director Steve Harper discusses why charities need to work with their auditors to prevent safeguarding crises, following research conducted by the firm looking at different risks for charities **(page 17)**, the CABA talks about the importance of career adaptability and how to build on skills **(page 18)**, and the AICPA looks at some of the key trends for 2020.

As January trudges along and the Christmas break is all but forgotten – apart from a few residual mince pies remaining around the waistline – we wish you all the best for the new year. ■

GET IN TOUCH WITH THE EDITOR AT: **JOE.PICKARD@VERDICT.CO.UK**

NEWS UPDATE

IFA launches provisional associate membership for graduates

The Institute of Financial Accountants (IFA) has launched a new membership tier specifically for finance and accounting degree graduates.

The membership, which is aimed at graduates of IFA-approved UK and overseas degrees who are in their first three years of employment, has been designed to help maximise their university learning and access potential employers before they enter the market.

IFA CEO John Edwards said: "Many students set their sights on working for the FTSE100 companies when they graduate, but in reality most will find themselves working for SME businesses for the duration of their career. SMEs account for 16.6 million jobs, or about 60% of the UK workforce, and it is here that employees can get some of the best hands-on experience.

"Working with students and lecturers, we identified that there was a need to support students and graduates to maximise their employment potential, to differentiate themselves in a competitive job market, and to provide direct opportunities to advance in the accountancy profession beyond their university learning.

"The IFA's new provisional associate membership does that, connecting graduates with SME and SMP employers across the country, as well as keeping graduates up to date after they successfully complete their degree. It also provides them with the opportunity to be associated with a professional body early in their career, and helps ensure they are eligible for the full membership and the AFA designatory letters once they have the necessary experience."

With the majority of its members working with micro and small to medium-sized enterprises, the IFA's provisional associate membership connects graduates with IFA members and local employers through branch meetings in 17 UK locations.

The membership was designed to provide support, guidance and recognition to graduates, and access to CPD workshops. ■

ACCA LAUNCHES STUDENT WELLBEING HUB

The Association of Chartered Certified Accountants (ACCA) has launched a wellbeing hub to provide mental health, lifestyle and community support for students.

ACCA developed the materials available on its website in collaboration with online personal development coach and Pride of Britain award finalist Ross Anderson, who is now serving as ACCA's first wellbeing ambassador.

The materials, which are available to over 500,000 students worldwide, include:

- Two three-part podcast series exploring anxiety and sleep;
- Quick tip podcasts on meditation and nutrition, and
- Exclusive articles on study, meditation, sleep and exams.

The launch of the hub follows a survey issued to students and affiliates to seek their views on mental health, wellbeing, the support currently available and what they would like to see developed by ACCA.

Julie Hotchkiss, executive director – people at ACCA, said: "The survey garnered a strong response, more than 4,600 students worldwide replied showing the strength of feeling on this serious issue.

"A little more than 28% felt their wellbeing wasn't being supported adequately – ACCA has listened to them and responded accordingly. We have provided accessible podcasts, videos and articles all with actionable advice to support mental health and wellbeing.

"We recognise our exams are both rigorous and demanding, as the qualification produces the future-ready accountants the world needs. It is therefore important for students to know that we are there to support them every step of the way on their journeys to becoming ACCAs."

Anderson added: "Every organisation has a moral obligation to provide quality wellbeing resources to prevent mental and physical illness and foster mental and physical flourishing.

"Not only is it the right thing to do but it's the smart thing to do. Unfortunately, few fulfil those obligations and those who do approach it with a lacklustre attitude, which yields poor results at best."

He continued: "The few who decide to pioneer wellbeing and make it a fundamental part of who they are develop conscious cultures and thus experience growth of many forms." ■

IASCA LAUNCHES AUTOMATED EXAM SYSTEM

The International Arab Society of Certified Accountants (IASCA) has replaced its International Arab Certified Public Accountant (IACPA) paper-based exams with an electronic exam system developed by Talal Abu-Ghazaleh E-Solutions.

IASCA founder and chair Talal Abu-Ghazaleh said the system was developed in a user-friendly manner, which also "saves time, cost and effort to keep abreast with the requirements of the age of digital transformation".

The system includes an online channel to take the exam, and a separate online channel for correcting and marking exams, and for releasing results. Abu-Ghazaleh noted that the automation of the exam system follows the success of automating IASCA's curriculum and training courses to become digital and interactive.

IASCA executive director Salem Al Quri said the traditional paper-based exam system has been discontinued for qualifications held by IASCA, including the Arab Certified management Accountant, IFRS Expert Certificate, and the International Public Sector Accounting Standards. ■


Talal Abu-Ghazaleh, IASCA

Chartered IIA launches new Internal Audit Code

The Chartered Institute of Internal Auditors (Chartered IIA) has published a new code with the goal of increasing the effectiveness of internal audit functions.

The Internal Audit Code of Practice aims to strengthen corporate governance following a number of high-profile company failures linked to governance deficiencies, such as the collapse of UK construction company Carillion.

The code aims to increase the status, scope and skills of internal audit, and makes 38 recommendations for business, including:

- Unrestricted access for internal audit, so it is not stopped from looking at any part of the organisation it serves and key management information;
- The right to attend and observe committee meetings;
- A direct line to the CEO, and a direct report to the audit committee chair to increase the authority and status of internal audit;
- The direct employment of chief internal auditors in every business, even when the function is outsourced. This is to ensure that chief internal auditors have sufficient and timely access to key management information and decisions, and
- Regular communication and sharing of information by the chief internal auditor and the partner responsible for external audit to ensure both assurance functions carry out their duties effectively.

The Internal Audit Code of Practice was developed by an independent steering committee set up by the Chartered IIA and chaired by BP audit committee chair Brendan Nelson. The final version of the code follows a 12-week public consultation in which more than 100 stakeholders participated.

Nelson said: "High-profile corporate collapses linked to governance deficiencies have led to a wide-ranging review of the audit and corporate governance framework. Strong, effective and well-resourced internal audit functions have a central role to play in supporting boards to better manage and mitigate the risks they face.

"The code makes 38 important recommendations, including the right for internal audit to attend executive committee meetings, unrestricted access for internal audit to all parts of the business, and a direct line for internal audit to the chief executive.

"I urge boards, and in particular audit committees, to apply appropriately the Internal Audit Code of Practice to increase the effectiveness of their internal audit functions, in the pursuit of stronger corporate governance and risk management."

Commenting on the code, UK Financial Reporting Council (FRC) CEO Jon Thompson said: "Internal audit is a vital part of the overall assurance that companies provide their investors and stakeholders, which helps to build trust in business.

"This is a significant time in the evolution of audit in the UK in light of the Kingman, Brydon and CMA reviews.

"I commend the IIA for developing and introducing this new Code of Practice, which sets a high standard of best practice and should be considered an important part of the overall risk management and assurance framework."

The Internal Audit Code of Practice follows an FRC review of companies reporting against the Corporate Governance Code, which was also published this month. ■

CALL FOR DISCLOSURE RECOMMENDATIONS ON UN SUSTAINABLE DEVELOPMENT GOALS

Leading accounting bodies have called for corporate and asset-owner action and improved reporting on the UN's Sustainable Development Goals (SDG) in an attempt to reach the goals set for 2030.

The recommendations are detailed in the report *Sustainable Development Goals Disclosure (SDGD) Recommendations*, authored by Carol Adams, professor of accounting, with Paul Druckman and Russell Picot, honorary professors, at Durham University Business School

The report has been published by global accountancy bodies the International Federation of Accountants (IFAC), the Association of Chartered Certified Accountants, the Institute of Chartered Accountants of Scotland (ICAS), Chartered Accountants Australia and New Zealand, the International Integrated Reporting Council (IIRC) and the World Benchmarking Alliance. It is also endorsed by the director of SDG impact at the United Nations Development Programme (UNDP).

The SDGD recommendations offer a new approach for businesses and other organisations to address sustainable development issues aligned to the three most influential and popular reporting frameworks. They attempt to establish best practice for corporate reporting on the SDGs, and enable more effective and standardised reporting and transparency on climate change, social and other environmental impacts.

The SDGD recommendations were developed through consultation with accounting and finance professionals, sustainability experts, academics, consultants, framework and standard setters, asset owners and managers, and civil society participants.

Responses to the consultation have been published in *Sustainable Development Goals Disclosure (SDGD) Recommendations: Feedback on the Consultation*. They show strong support for the alignment of SDGD recommendations with other key reporting frameworks and standards, such as those of the Task Force on Climate-related Disclosure, the Global Reporting Initiative and the International <IR> Framework. Respondents widely agreed that accountability for value destruction and negative impacts are critical.

The SDGD recommendations call on organisations to consider sustainable development risks and opportunities relevant to their long-term value-creation strategy, and communicate the actual or potential impacts on achievement of the SDGs. This will require relevant and material disclosures about the factors that influence long-term value creation or destruction for the organisation and society, or that have an impact – positive or negative – on the achievement of the SDGs, in the annual report.

Adams said: "There is increasing awareness in both business and investment communities that the health and wellbeing of the planet and its people impact on the longer-term success of business. The SDGs offer an opportunity to collaborate and address this.

She added: "A change in what and how business is done is essential to the achievement of the SDGs. Key to driving change is the requirement for a statement from the board chair that the board accepts responsibility for the SDG Disclosures in the annual report."

The recommendations are built on a suggested five-step approach for contributing to the SDGs aligned with long-term value creation, which was previously developed by Adams and published by the IIRC and ICAS.

Elizabeth Boggs-Davidsen, director of SDG impact at the UNDP, said: "To achieve the SDGs, companies and investors will need to move away from mapping existing activities to the goals, to a more integrated practice of directing and disclosing on investment activities that create more impact and contribute to progress towards the SDGs."

Gerbrand Haverkamp, executive director at the World Benchmarking Alliance, said: "Without companies aligning their business models and operations with the SDGs, they simply won't be achieved. We therefore need to work together in translating scientific and societal expectations into clear reporting guidance for companies. This will create the data the World Benchmarking Alliance and others can use to assess and rank corporate performance in a manner that is transparent and free for everyone to see."

IFAC CEO Kevin Dancey added: "Achieving the SDGs requires dedication from business, and the urgency continues to grow. We fully support global best practices that enable effective, transparent reporting on sustainability measures."

He continued: "It's imperative that we act together and that we act now to secure a sustainable future." ■

THE GRI TAX STANDARD: WHAT'S IN IT FOR COMPANIES?

At a launch event for the Global Reporting Initiative's tax standard (GRI 207: Tax) held at the London Stock Exchange on 16 January 2020, industry stakeholders took part in a panel discussion looking at some of the benefits of disclosing tax reporting. *Joe Pickard* reports

For the past 23 years, the GRI has been developing a number of standards to develop reporting practices for non-financial reporting (NFR), and now makes its first foray into developing a standard for disclosing tax reporting.

In an introduction, GRI CEO Tim Mohin declared that "tax payments to governments are fundamental to our sustainable future" and drew to attention to how taxes support government investment into infrastructure.

Mohin, noting how this is a sustainability issue, referenced how the targets of the UN's Sustainable Development Goal (SDG) 17 relates to the issue of taxation in developing countries – 'Strengthen domestic resource mobilisation, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection'.

Echoing Mohin in her keynote speech, former US Senate tax investigator Elise Bean said: "Corporate tax transparency is the next big sustainability task. In 2018, at least 90 hugely profitable US corporations paid no US tax at all – an outrage that is not sustainable morally or in light of the societal investments needed worldwide.

"Corporations want better infrastructure, an educated workforce, patent enforcement, trade protection and more. And some corporations impose enormous costs on society through environmental damage, worker injuries, financial fraud, or worse.

"Companies need to pay their fair share, and the new GRI Tax Standard will encourage responsible corporations to do just that. Not only because it's the right thing to do but because it is in their self-interest to help provide the revenue needed to sustain the economy and restore public confidence in the business world."

> "CORPORATE TAX TRANSPARENCY IS THE NEXT BIG SUSTAINABILITY TASK

Mohin reflected on the current state of affairs, noting that while a number of businesses do release some information related to their tax payments, the information is "consolidated and aggregated in reports", making it "impossible" to determine how much tax companies are paying compared to their level of business on a country-by-country basis.

To combat this, as well as providing country-by-country disclosure, GRI 207: Tax also includes management approaches that companies use to deal with tax issues ranging from strategy to governance and risk management to stakeholder engagement.

INVESTOR DEMAND

Other than the views that greater disclosure of tax practices will lead to a more sustainable future, the launch event also highlighted the benefit of increased disclosure to both investors and the companies disclosing their tax reporting.

Mohin expressed the view that this information is essential to an informed public debate on how much companies should be paying in tax. Commenting on the public consultation process of developing the standard, he noted that over 40% of the comments came in from institutional investors, which shows how support for this kind of transparency is growing, noting:

"They want it to guide their investment opportunities, but also to understand the risk of their investments," he commented.

Tim Mohin, GRI


Elise Bean

Tax Justice Network chief executive Alex Cobham, who took part in the panel discussion, pointed out that companies that do not publicly report on tax practices may be deterring investment.

He said: "The companies that are saying: 'Actually, we have a competitiveness concern over this,' what they are effectively saying is: 'We have got stuff that is hidden from the market, hidden from you as investors, which allows us to get a lower effective tax rate.'

"Now, if I were an investor, I think I would be running from those companies – on instinct, but also on the evidence."

"We know from analysis with the FTSE 100, that companies with lower effective tax rates do not deliver higher returns to shareholders, but they do pose higher risks. Companies that say this is a competitive issue, I do not think that these are companies which we should be investing into anyway."

COMPANIES

When explaining some of the benefits country-by country reporting has, Andrew Cale, head of financial reporting – tax at Vodafone, said: "Particularly for us, I would say it has been hugely valuable for us to be able to prove that we do what we say we do.

"The country-by-country reporting allows us to say that these are not just words on a page, but that we live by that approach. It allows us to defend ourselves against some of the criticisms that come to multinationals, such as profit shifting, or why tax is not being paid in certain jurisdictions. It gives us that ability to explain things, rather than be the punching bag as multinational organisations sometimes are."

"Some of the time, the reasons why you do not pay tax in certain countries are incredibly boring and mundane, and is not down to some clever tax planning strategy that you have to move profits to a low-tax jurisdiction: it can be down to the fact that you are just not doing very well in a country. So it allows us the opportunity to put that information out there. We do not expect everybody to necessarily agree with the approach we have to tax, but we will say, 'This is what we do and why we do it.'"

> "COUNTRY-BY-COUNTRY REPORTING ALLOWS US TO SAY THAT THESE ARE NOT JUST WORDS ON A PAGE, BUT THAT WE LIVE BY THAT APPROACH

Cale went on to provide advice for companies thinking about disclosing information on a country-by-country basis. "The first thing for companies to do is really understand their data, what data they have and how easy it is for them to get it," he explained. "It is not quite as straightforward as it appears to do country-by-country reporting.

"When you get the data together examine what it looks like, do it yourself internally and challenge yourself within the company. You might see resistance from parts of the business, because you are putting information in the public domain that was not available there before, and people are just scared of doing that and the response they might get.

"So challenge yourself about what you are doing. Are you comfortable defending what that data says? If you are operating in the way you want to as a company, you should be able to stand up and explain why you do what you do, and not be afraid of the response that might come because of that."

A MOVE TO MANDATORY?

As it stands, the GRI's standards are not mandatory, but voluntary.

However, as more and more companies take on board this standard, it may begin to pave the way for mandatory reporting, implemented by regulators across the globe.

It may, in time, also change companies' view on the competitive issues of reporting their tax practices: if a majority of companies are reporting, then it will leave the investor questioning companies on why they are not.

In her keynote speech, Bean reflected on how it may influence standard setters on making this type of reporting mandatory.

She said: "I think the GRI is going to help convince FASB that this is the wave of the future, this is where we are headed, and the United States should not be behind but should be one of the leaders in the tax transparency field, but that is not happening at the moment.

"I'm hoping that GRI will be another way of showing FASB that we need to do better in the United States." ■

THE BRYDON REVIEW: TIME FOR AUDIT TO EVOLVE INTO ITS OWN PROFESSION?

At the end of 2019, the much-awaited Brydon review was published, assessing the quality of audit in the UK. To use its official title, *Assess, Assure and Inform: improving audit quality and effectiveness,* the report was commissioned following a number of large-scale company collapses over the past few years, such as Carillion and BHS. *Joe Pickard* writes

In the parliamentary inquiries that took place in the months following the collapse of Carillion, a number of representatives of the Big Four and the UK's Financial Reporting Council (FRC) were called in to provide evidence to the government on the services they provided to the company before its collapse.

It is fair to say that the politicians who were running the select committee hearings seized the opportunity to place themselves on the opposite side of an interrogation process, and some of the comments made to the auditors at the time made for some interesting soundbites to say the least – one MP told an audit partner at KPMG that, "he would not trust him to audit the contents of his fridge".

The political scrutiny and the prominence of the companies that collapsed brought the role of auditors under the public spotlight, and a number of reviews were commissioned by the government.

The first was the Kingman Review, which looked at whether or not the FRC is still fit for purpose. It determined that it is not, and that it should be replaced with a new regulatory body called the Audit, Reporting and Governance Authority (ARGA), which would be established with a new mandate, new powers and new leadership.

> "THERE IS A FUNDAMENTAL NEED FOR THE AUDIT SECTOR TO EVOLVE

The second was the review by UK's Competition and Markets Authority (CMA), which scrutinised the dominance of the Big Four at the top of the listed market, and called for mandatory joint audits and an operational split of the Big Four in its final report.

Speaking to a number of stakeholders in response to the various reviews over the past year or so, and asking whether or not they agreed with the recommendations, one of the main views was that the Brydon review would be the report to truly get to the heart of the matter, by reassessing the role of audit and auditors in order to manage the expectations gap and develop the role of audit, so it is fit for purpose in the 21st century.

That was the remit of Brydon's review, and a number of recommendations have been proposed to tackle this question and improve the quality of audit.

One of the main points that Brydon makes is that, while conducting his review into the audit industry, many of the stakeholders

referred to the 'audit profession', where in fact no such profession exists outside the accountancy profession.

To combat this, Brydon suggests transforming audit into its own profession, which the proposed new regulator, ARGA, could "midwife" into being, adding: "Auditors need to be professionals in their own right, not just as part of another profession."

Brydon points out that of all the topics covered in his report, the question of fraud and auditors' related responsibilities was the most complex, and notes the understandable "gap between the reality and the expectations of auditors in this area".

He recommends that ARGA amend ISA (UK) 240, the auditing standard dealing with fraud, to "make clear that it is the obligation of an auditor to detect material fraud in all reasonable ways".

Brydon believes that the syllabus for the education of auditors is required to reflect this, and recommends that "training in both forensic accounting and fraud awareness be parts of the formal qualification and continuous learning process to practise as a financial statements auditor".

In addition to this training, he suggests that "ARGA maintains an open-access case study register detailing corporate frauds, in order that auditors can learn in real time from these frauds".

The Accountant spoke to Gavin Hayes, head of policy and external affairs at the Chartered Institute of Internal Auditors (Chartered IIA), and Maggie McGhee, executive director – governance at the Association of Chartered Certified Accountants (ACCA), to find out their views on some of Brydon's recommendations.

TA: Do you think the Brydon review goes far enough with its recommendations to transform the audit industry if put into legislation?

Maggie McGhee: There is a fundamental need for the audit sector to evolve, and ACCA is supportive of any changes that prioritise improving audit quality and promoting trust in the profession.

Much depends on the areas of focus in Sir Donald Brydon's review. Moreover, the transformation of the audit sector must ultimately be a connected piece of work – one that considers the progression of and recommendations coming from other reviews, such as the CMA and Kingman.

The recommendations must be people-focused, and while there is divergence in the profession, global standards are critical and must be incorporated into Sir Donald's recommendations. The ease of doing business revolves around having one set of standards.

> "WE WANT TO SEE THE LEGISLATION REQUIRED TO ESTABLISH ARGA, AND GIVE IT THE POWERS AND AUTHORITY IT NEEDS, TO BE SPEEDED UP

Time will tell if Sir Donald's recommendations cover the practicality of recognising that many auditors and accountants are operating more broadly. The devil is in the detail, and government must ensure it is cognisant of other standards and what this means at the review's implementation stage.

Gavin Hayes: Broadly speaking, we have welcomed the Brydon review recommendations. We believe the recommendations to strengthen the requirements for company directors over governance, risk and internal controls should help to raise corporate governance standards.

Now Brydon has reported, we would like to see the government accelerate audit reform. This should include getting on with reform of the audit regulator as recommended by the Kingman review. We want to see the legislation required to establish ARGA, and give it the powers and authority it needs, to be speeded up.

TA: Do you agree with Brydon's view that the audit industry needs to become its own profession, separate from the accountancy profession? How do you think this will improve the profession itself, and the quality and expectation of audit?

MM: ACCA's joint research with Chartered Accountants Australia and New Zealand, and IFAC looked at the benefits of multi-disciplinary firms. This highlighted the wider set of skills needed by audit teams. There needs to be further clarity on the proposed definition of a separate profession, and how a progressive accountancy profession can support this. From an ACCA perspective, our operation provides career flexibility – an ACCA can specialise as an auditor and can then subsequently decide to progress in another area of accountancy.

An auditor may not always want to be an auditor; equally, a non-auditor may want to become an auditor later in their career. The breadth of the ACCA qualification and profession currently allows cross-skilling. It is important that the profession can continue to separate the importance of audit, and Sir Donald's proposals do not inhibit this.

Some of Sir Donald's recommendations may well grow the number of audit roles existing in the future. Perhaps it will make the existing and recognised audit routes more overt.

Finally, there is currently a lack of clarity over whether a new audit profession would apply only for listed entities. What would be the consequences to the auditing of non-listed entities?

GH: Brydon makes a strong and reasonable case for statutory external auditors to become their own specific profession, which he has called 'corporate auditing'. Careful consideration should be given to the potential name of this new profession, we believe 'corporate external auditing' could provide greater clarity, and would help to promote the separate and distinct roles of external and internal audit.

Separating external audit from the rest of the accountancy profession could well be beneficial at increasing professional standards and, in turn, improving external audit quality. However, because this reform represents a significant change to the current framework in place, it will require further careful thought and consideration. This should include close consultation with the main accountancy professional bodies.

TA: One of the main issues in regard to the expectations gap was the misunderstanding of auditors' responsibility in the detection of fraud. Do you think the measure that Brydon proposes will help solve this?

MM: ACCA's own research, *Closing the Expectation Gap in Audit,* identified a demand for auditors to be assigned more responsibilities in identifying and reporting fraud. We can all agree that the auditor's responsibility in the detection of fraud is one of the main areas of misunderstanding leading to an expectation gap; as the evolution gap


Maggie McGhee, ACCA


Gavin Hayes, Chartered IIA

highlights, this is not the only one.

Our suggested approach is to divide the expectation gap into three components: the knowledge gap, the performance gap and the evolution gap – the most crucial element here.

A reduced knowledge gap and a reduced performance gap will support a more constructive discussion about how audit can evolve to meet society's expectations of it.

The review recommends that the directors should report on the actions they have taken to fulfil their obligations to prevent and detect material fraud against the background of their fraud register. We support this recommendation, as it makes the directors' obligation explicit and clear.

Sir Donald also recommends that the new regulator, ARGA, should amend a key standard (ISA (UK) 240) to make clear an auditor must endeavour to detect material fraud in all reasonable ways.

There is no doubt that there is confusion over an auditor's responsibility with regard to fraud, and this is recognised to a degree by the inclusion of fraud in the IAASB's future work programme. We are therefore supportive of the direction stated in the recommendation, whilst recognising that the issue is best addressed on a global basis through the review and update of global standards.

> "IT IS IMPORTANT THAT THERE IS ANALYSIS OF THE KINGMAN, CMA AND BRYDON REVIEWS ON HOW THEIR PROPOSALS RELATE TO ONE ANOTHER

GH: The recommendations on fraud should help to make clearer the role of statutory external auditors in helping to detect fraud, as well as enhance external audit's role in assessing the effectiveness of the internal controls in place to detect fraud. The recommendations also put greater responsibility on company directors in regard to fraud prevention. On this, we believe internal audit functions will also have an important role to play in supporting boards to fulfil these enhanced responsibilities.

TA: Is there a danger of unintended consequences occurring from the recommendations? If so, what do you imagine they will be?

MM: There has been a broad range of audit reviews published in the past two years, some of which remain ongoing. In most cases, the reviews reference each other – highlighting their correlation.

The profession and government need to ensure there is a holistic assessment of each review to guard against potential conflicts in their recommendations. Whilst it is unlikely that reviews would concur entirely on the direction in which the audit sector should proceed, broad consistency would be welcomed. It is important that there is thorough analysis of the Kingman, CMA and Brydon

reviews on how their proposals relate to one another.

There is potentially an extremely heavy implementation burden that the broader reform programme is likely to place upon the new regulator, ARGA. This will need working through and prioritising in practice. ACCA would support a phased implementation to ensure that recommendations can begin to be implemented. The scope of Brydon and the CMA review means some recommendations could, in theory, work against each other. All stakeholders must work collaboratively to reduce the impact of unintended consequences.

GH: When any new regulations are proposed, there can often be unintended policy consequences, particularly where they are overly prescriptive.

A good example of this would be around introducing a UK version of Sarbanes-Oxley (SOX). If any version of SOX is adopted in the UK, it must be designed in a way that does not encourage a tick-box culture – something that has been cited by some as a downside of the SOX regime in the US. There should also be clarity on the roles and responsibilities for the implementation of a SOX regime. This is why the Brydon review recommendations should be subjected to careful thought, consideration and further consultation with relevant stakeholders.

Following the Kingman Review and CMA Market Study, the government carried out public consultations on the recommendations. We expect to see a similar consultation on the Brydon review recommendations. This will help to ensure that any unintended policy consequences are identified and addressed prior to implementation.

TA: What are the main areas of the review that will affect the internal audit industry? How will this change your sector? How can you support your members in meeting the recommendations?

GH: The main area of the Brydon review that most affects the internal audit profession is Section 13 of the report. It makes a number of recommendations on internal controls, giving company directors more responsibility over the governance, risk and internal controls of a company.

We believe that strong, effective and well-resourced internal audit functions have a central role to play in supporting boards to meet the enhanced responsibilities that Brydon has recommended in respect of the control environment.

We also welcome the recommendation that external audit and internal audit should meet to share relevant information and ensure appropriate communication is maintained on a regular basis. We included a recommendation on the sharing of information between internal and external audit in our newly published Internal Audit Code of Practice.

Once the government has confirmed how it intends to progress the recommendations of the Brydon, Kingman and CMA reviews, we will provide our members with detailed information and guidance to ensure they are prepared for any new requirements.

TA: How will the ACCA assist its members and students to develop learning material and a curriculum to support the recommendation that 'auditors be required to undergo initial and ongoing periodic training in forensic accounting and fraud awareness'?

MM: The ACCA qualification has always had an audit specialism route – both internationally and in UK. It is embedded in the rulebook, approved by council and is underpinned through examinations and practical experience.

We have a specific Ethics and Professional Skills module (EPSM), which is a mandatory element of the ACCA qualification, and additionally, ethics is embedded across all strategic professional exams. The EPSM module is also available for members to complete for free, and provides them with continuing professional development (CPD) units.

In many respects, ACCA is delivering a separate audit profession through the structure in our qualification, as we allow students to choose audit as an area of specialism. An ACCA student must be clear before progressing on a route into audit by taking the Advanced Audit and Assurance (UK) and Strategic Business Reporting (UK) exams to practice in the UK.

To assess the future impact on members and students, ACCA seeks further clarity on what Sir Donald means by creating a separate audit profession.

With regards to forensic accounting and fraud awareness, the qualification prepares students for professional scepticism to ensure all learners think about their audit engagement.

For members, this thinking can be continued through their CPD, and we have a variety of courses and articles covering topics on ethics, audit, professional scepticism, fraud and forensic accounting. These can all be found in the CPD resources section of ACCA's website.

Throughout the progression of the reviews, ACCA undertakes regular reviews of the qualification to ensure the qualification remains relevant, future-ready and able to prepare the auditors the world needs. Additionally, we work closely with regulators, both here in the UK and in many of our international markets.

TA: How can the ACCA begin to act on the other recommendations or help with their implementation?

MM: ACCA is committed to improving audit quality through our engagement with our students, members, regulators, standard setters and governments across the world.

Through our membership of the assurance committee, ACCA ensured it played an important role in the progression of Sir Donald's review. We continue to champion the need for a detailed and holistic analysis of the interconnection between the CMA, Kingman and Brydon reviews.

Additionally, we remain a key consultee of government department and select committee reviews and will continue to submit evidence on proposals focusing on audit quality.

ACCA is committed to working with all our stakeholders to ensure their views are best heard as the Brydon review – and indeed other audit reviews – progress. We continue to assess and monitor each of Sir Donald's recommendations and how they impact our membership, students and wider networks. ■

> "IN MANY RESPECTS, ACCA IS DELIVERING A SEPARATE AUDIT PROFESSION THROUGH THE STRUCTURE IN OUR QUALIFICATION

INDUSTRY FOCUS: THE SKILLS GAP IN ACCOUNTANCY

Having spent most of his professional life at the Big Four firms, *Chris Biggs*, managing director at Theta FR says with some certainty that there is a widening skills gap in accounting – although maybe not in the ways that many other sectors are developing

I have worked for listed companies, non-governmental organisations, private companies and the largest accounting firms in the world.

I have been recruited by and recruited for all of these firms, and now, at Theta, I am responsible for growing a full-service accounting advisory and consulting firm, so I have seen the recruitment process from beginning to end, from every angle.

From what I have observed, there is a skills gap in experience rather than core skills, which are more crucial to the success and the employability of the individual. There is a gap of experience within many roles where professionals need greater commercial and real-life applicable experience to apply their auditing and accounting knowledge.

Within each individual, there is a 'breadth' of a skills gap. I am not expecting all accountants trained in the profession to have every skill; however, the training environment encourages trainees to work within a specific area of a firm, which gives them deep experience and skills in one area, but often not decent exposure to other areas.

For example, trainees in auditing will often have little exposure and experience of 'non-audit' advisory services. This means they develop deep and valuable expertise in audit but not accounting issues and challenges from a non-audit perspective, which is a key requirement and skill outside of the audit profession.

In my current role at Theta, I often see qualified accountants from large firms who have very little – if any – experience in accounts preparation, and this fundamental understanding of how financial reporting comes together is so key to be an effective advisor in practice and in industry.

As well as impacting their ability to take skills from the profession into life outside of practice, their breadth of experience is fundamental to their ability to add wider insights and support to clients while still in the profession.

If the current drive to 'split' the audit and non-audit functions of firms goes ahead, either voluntarily or by legislation, this is likely to exacerbate further the narrowing of the individual's breadth of experience across the skills in both audit and non-audit services. This will impact what they can take out of the profession to industry, and will be detrimental to the profession as a whole.

DEVELOPMENT IMPACT

Within life in professional practice, this breadth of a skills gap is having an impact on business development. Many firms will be affected by this. At Theta, we struggle to identify prospective candidates who have both relevant technical and business development skills. The latter is critical to the ability to grow and develop business within the profession.

Candidates typically fall into either being a 'technical' person or someone with a proven record of growing opportunities and developing businesses while not being technically strong – it is exceptionally rare that you find one with both skill sets; if you do, grab them!

This issue is inherent in the structure of firms where the business development responsibility is generally at the partner or director level. Staff below that level are encouraged to support and start to develop such a mindset, but are not invested in fully by the firms or asked to act as entrepreneurs or owners of the business.

Personally, I have seen big firms recruit the business development experience they need from other firms to fill the skills gap as an easier and more cost-effective approach than to develop from within. This is where we, as a sector, need to realign training in the industry. This is not necessarily just an issue in accounting but is being experienced by other professional service sectors such as law.

While I accept that audit professionals are restricted by professional standards from selling add-on services to audit clients, as the profession becomes more disrupted, business development and an entrepreneurial spirit will become more and more a 'required' skill. The millennial generation is often labelled as 'lazy', but I have found them to be actually incredibly proactive and innovative, with more and more professionals having projects and secondary revenue streams supplementing their main nine-to-five job.

This has been seen in the amount of young professionals going freelance, but this entrepreneurial attitude needs to be developed in house to help firms retain the best talent and grow their own business at every level, not just at partner or director level.

One observation that I have seen over the last decade that is particularly on the rise in professional social networks, is that people are not properly developing and growing their networks and business development skills at an early enough stage for success.

While it may seem easier than ever to build and nurture a great network, candidates looking to move within the profession or progress to partnership level struggle to demonstrate both skills. When these candidates are looking to move out of their current roles to another firm in a role that includes business development, they become

an 'expensive' candidate if they do not have the skills needed and require significant development and training. This can seriously hinder the applicant, and firms are struggling to employ candidates with both sets of these skills.

However, not all accountants are natural or capable of preforming in a business development role to a strong level. This is a risk for a future employer to take on someone who needs development, but may not be a natural fit for such a role and, ultimately, may not be successful.

This is a fundamental issue in the marketplace currently – there is a scarcity of resources, and the industry has a fundamental issue of finding the right mix of experience. The question is: how, as an industry, are we reacting to the skills deficit?

The Big Four training, from personal experience, can cover a wide range of areas; however, those areas outside the trainee's 'day job' (e.g. the core disciplines of audit, tax, non-audit services etc) tend to be limited to the theoretical, with limited practical application of that knowledge to develop practical experiences, skills and understanding.

I am not advocating everyone becoming an expert in everything, but a good working understanding based on practical experiences of the wider key areas of the profession is to all's benefit. Therefore, the day-to-day practical training provided by firms has to also provide practical experiences in wider topics to benefit the individual, the employer and the wider world outside of practice.


Chris Biggs, Theta FR

> "INVESTMENT INTO SKILLS IS AN INVESTMENT INTO THE BUSINESS AS WELL, SO LONG AS THE FIRM CAN RETAIN THE TALENT IT CAN DEVELOP

COST SENSITIVITY

There will always be a cost associated with providing trainees with a wide range of experiences and skills, which is accepted by the firms. However, regulatory pressures and downward pressure on fees – the required audit rotation and tenders generate a lot of fee-reduction pressure – will make firms even more sensitive to costs. I am interested to see the impact this has on the willingness of firms to incur costs, make investments and accept non-chargeable time etc. inherent in providing a range of experiences more than the individual needs for their current role.

What firms must remember is that this investment into skills is an investment into the business as well, so long as the firm can retain the talent that it can develop. This is another development that firms must make in order to make a decent return on investment and thrive in the next decade.

Saying this, where firms do provide internal secondments and periods of experience to widen their people's skills, the inherent additional costs resulting from splitting audit and non-audit disciplines is likely to have a significant impact on the investment available to continue to do this – firms will have to hire more specialists to sit in audit full time rather than utilise specialists from their non-audit disciplines when needed – this will potentially limit not just the obvious chance for individuals to get the wider experiences, but the investment available to provide internal secondments, training and those experiences.

Things are changing, but not necessarily in favour of the firms. At Theta, we are interviewing people from the big firms who are getting 'burnt out' at a more and more junior level. When I first trained myself, you would hear about an occasional partner who had reached this point, now its senior managers and managers.

In founding Theta, we deliver the same quality and skills as the big firms; however, we are doing this in a way that does not sacrifice the work-life balance of our team. It is a hard balance, but very much worth it, and its down to me and our senior team to make it work for everyone.

It is often a cliché, but we strongly believe in getting it right. We offer part-time working, flexible working, the 'normality' of people working from home rather than feeling they need to 'show face' in an office when not out at clients etc.

The challenge for the big firms that are operating a model where people step out of the firm from a full-time employed basis to stay on 'reserve' to work with them as and when needed, is that they must offer such people more than a choice of whether to work or not to work – the environment they come into when they do work, needs to realign to a true work-life balance.

SKILLS AND INDIVIDUALS

Outsourcing or using subcontractors is a valid model; however, firms need a large volume of individuals to make sure the right skills are available when needed – and trusted individuals. Theta's associates (subcontractors) are still very much part of our firm, our brand and 'our' people. We only ever engage associates we completely trust to be part of our team and deliver the quality our clients expect from us

With the upcoming IR35 tax rule changes in the UK, some large companies are already moving away from the subcontractor model. It will be interesting to see the impact of the new rules, and whether the new government readdresses them to see how they affect the industry.

To conclude, the skills gap we are facing in the industry is one that both employees and employers have the capacity and the responsibility to fill.

There is a wealth of talent out there, but we need to harness and grow the crucial, applicable skills in candidates to help grow business at every level and retain the best talent in the marketplace today.

At Theta, we have recognised these issues at an early stage, and other firms must adapt soon in order to remain competitive in their particular service offering. ■

WINNING IN THE 2020S: THE IMPERATIVE OF RESILIENCE

If even the biggest companies have hurdles, why do some manage to rise to the challenge while others spiral down? *Andrew Harding*, chief executive – management accounting at the Association of International Certified Professional Accountants, writes

Most of us can probably think of some great business success stories (Netflix, PayPal and Apple), infamous downfalls (Kodak, Blockbuster and MySpace) and failed ventures (Google Glass, Microsoft Zune and Amazon's Fire Phone).

So, if even the biggest companies have hurdles, why do some manage to rise to the challenge while others spiral down? What is the difference between them? The answer is simple: their ability to quickly adapt – or in other words, their resilience.

The business world has markedly shifted in the last 20 years. And with machine learning, artificial intelligence, and automation spreading at breakneck speed, businesses must now embrace innovation and build resilience to survive the complete overhaul of their environment. This is especially true in the UK, where businesses face a global economic slowdown, Brexit and changing rules and policies from the new Conservative government. To build organisations that perform well in the 2020s, business leaders must focus on several key areas.

PURPOSE

With an estimated 80% of company value now locked up in intangible assets such as intellectual property, software and reputation, business leaders can no longer base their model solely on financial performance.

They must create a broader business framework and assess performance beyond financial data to encompass the purpose, values and strategy of the organisation. This framework should outline how the organisation contributes to society and meets the long-term needs of its stakeholders – be they customers, employees or investors. It should also account for environmental, cyber and societal risks. Resilient businesses are holistic and transparent.

DIGITAL TRANSFORMATION

To make the most of the digital world and build long-term, sustainable success, businesses must rethink how they operate if they want to stay not only in but ahead of the game. Our *Agile Finance Unleashed* report, published in partnership with Oracle, found that businesses that had made most progress in successfully transforming their business model were those with a digital-first culture.

If you remember the meteoric rise of Apple and fall of Nokia, you know that market dominance can be here today and gone tomorrow. It is by responding to fast-changing developments in consumer behaviours and innovation, and by developing digital capabilities, that businesses can make the most of digital transformation. Resilient businesses are digital first.

SKILLS DEVELOPMENT

Many businesses do not currently have the pipeline of talented and skilled employees they need to navigate our increasingly complex business world. In fact, a recent report by the Confederation of British Industry and Tata Consultancy Services revealed that two-thirds of UK firms cannot currently fill digital roles.

Our own research shows that despite automation and new technology putting job security at risk, 37% of UK workers remain apathetic toward learning skills, and more worryingly, lack the desire to learn digital skills. Keeping up with digital transformation is not solely about investing in technology: it is largely about training people so they have the necessary skills to perform their roles now and in the future. Resilient businesses embrace talent with a learning mindset.

CUSTOMER INTELLIGENCE

With interactions happening through online and offline channels, businesses must constantly gather, review and analyse information to effectively engage with their customers and create sustainable success.

Business leaders now have a range of tools and resources at their fingertips to help them make better decisions and optimise their operations. Keeping up with what your customers want – and not what you think they want – to deliver a customer experience that meets, and ultimately exceeds expectations, can be your biggest advantage. Resilient businesses put customers first.

CYBERSECURITY

Digital transformation goes beyond deploying new technology solutions: it has also impacted businesses' security needs. In fact, according to the World Economic Forum, data fraud or theft, and cyberattacks respectively rank fifth and sixth on the list of top ten risks in terms of likelihood – and these can be quite costly.

Cybersecurity breaches for large companies such as Marriott, Facebook, Equifax and Yahoo have each affected an average of 257 million customers, costing a whopping $347m each time. Cybersecurity is more than just an IT issue: it must now be fully integrated – from creating a unified security architecture to sharing threat intelligence – as part of digital transformation to make sure your company's and customers' data is safe. Resilient businesses have a holistic approach to risk management.

ECONOMIC SLOWDOWN

Amid sluggish UK economic growth, trade wars and Brexit-related uncertainties, businesses must prepare for weaker investments, stifled consumer spending and deceleration of the country's productivity.

The 2020s will certainly be a continuation of this abrasive environment. Organisations must take a closer look at their models to create operational efficiencies, develop new products and services, embrace technological innovation and cultivate their workforce's digital skills. Only those businesses that have embedded such resilience will thrive in the days to come. Will yours? ■

WHY CHARITY TRUSTEES MUST WORK WITH AUDITORS TO PREVENT CRISES

Following a wave of negative media attention, UK-based international charities are now more aware of the reputational harm caused by not responding adequately to safeguarding incidents. Auditors can provide a valuable source of support, writes *Steve Harper*, charities director at haysmacintyre

Research by haysmacintyre has found that more than one in four (28%) international charities reported safeguarding as one of their principal risks, compared to just 8% last year.

This dramatic rise is due to the reputational damage suffered by a number of big names in the fallout of high-profile cases that were met with widespread dismay among the public, policymakers, opinion formers and key influencers.

It is not only the wrongdoing that has angered many: often it was compounded by the reaction of the charities in question. When the behaviour of Oxfam staff in Haiti in 2011 was made public in 2018, it was also revealed that the organisation oversaw a culture of secrecy, with its people told not to talk about safeguarding issues.

The issue is never far from the headlines. Recently, there have been allegations that charity SPAC has financially exploited vulnerable young people from its congregation, with the Charity Commission launching an inquiry into its safeguarding, financial and governance activities.

This has had a galvanising effect on the charity movement, with many now rejecting the 'lockdown' approach and becoming increasingly open. As haysmacintyre's research shows, many are more willing to look proactively at best practice and reveal safeguarding as a principal risk. These are very positive developments, as reputation, perceptions and credibility are inextricably linked to fundraising and future financing, which is the most commonly reported risk by international charities – 58% cited it as their chief concern.

Put simply, a massive safeguarding issue could severely compromise income generation due to the potentially profound impact on a charity's reputation. Throw an increasingly uncertain environment into the mix – more international charities are listing government policy and the political climate as a risk (20% now, up from 9% in 2018), with Brexit troubling another 15% – and it is easy to see why many are uneasy.

Any of a number of scenarios could radically affect institutional funding and support, just when delivering objectives is becoming more costly. It means they certainly cannot afford to deliver excuses to slash contributions on a plate.

For example, there are widespread worries about the government's attitude to international aid donations. The recent UK election fuelled rumours that the Department for International Development will be absorbed into the Foreign Office, which could be the prelude to a weakened executive commitment or a very different focus. A group of over 100 charities has signed a statement expressing concern that UK aid risks becoming a vehicle for foreign policy.

There is no doubt, then, that international UK charities must operate under very challenging conditions, which present trustees with many risks to prioritise and manage. However, while safeguarding is now high among them, it is a particularly complex one to navigate. Indeed, it is the sort of specialist area that they often have difficulty getting to grips with – in contrast to international commercial organisations, which will, invariably, be geared up to manage them. This is because, while trustees have a legal responsibility to run a charity effectively, and their time – usually given voluntarily – is the backbone of the sector, they may not always have the right mix of specialist expertise to oversee a global organisation.

For this reason, it is a very good idea for them to make full use of their audit team, which can be a 'critical friend', providing support in planning for and mitigating against safeguarding issues. Auditors will, necessarily, have strong knowledge of the charity's sector and operating environment; often be able to anticipate risks and specific dangers; be unafraid to 'speak truth to power', have difficult conversations and pose challenging questions; and examine and critique lines of communication and crisis procedures.

A good audit team should be asking trustee boards tough questions. With the most important safeguarding elements being incident planning, management and whistleblowing policy, a sound six-step checklist to structure policy and procedure is:

1. Do you have a safeguarding policy that clearly lets trustees, staff, volunteers and beneficiaries know what their roles, rights and responsibilities are? If not, why not?
2. When was the policy last reviewed, and by whom?
3. Is safeguarding considered part of the decision-making process by relevant groups and committees, including HR, programmes and grants?
4. Are safeguarding risks incorporated into the risk register and monitored as part of the risk management process?
5. Is there a process to confirm that partners and grant recipients have adequate safeguarding policies and procedures?
6. Is it clear how concerns can be reported to trustees, and is there a formal policy to ensure the protection of whistleblowers?

Recognition among charities that they must professionalise in some areas and ensure they have the right training and experience has led to some specialist advisors seeking ways to support trustees, with a number offering programmes to help equip trustees with the skills needed to manage risk and the key questions to ask. Such added value, consultancy and partnership fosters and strengthens client relationships and enhances practices' reputations. ■

THE IMPORTANCE OF CAREER ADAPTABILITY AND SKILL BUILDING

How, in such a competitive industry, do you cultivate a successful career without the risk of complete burnout? The experts at *CABA*, the charity supporting the wellbeing of chartered accountants and their families, discuss the importance of career adaptability and skill building in professional development for accountants at all stages of their career

The journey from student to chartered accountant can be as long as it is challenging, requiring years of study and vocational experience.

Following this significant investment of time and effort, it is crucial to set development goals for yourself on a regular basis and maintain a clear vision for your career path, as this will allow you to continue to feel fulfilled and challenged in your chosen profession.

CAREER ADAPTABILITY

From globalisation to the rise of new technology, there are multiple forces that now impact our career development.

Career adaptability is important, as it involves developing the skills and abilities needed to successfully shape and adjust to an ever-changing professional environment, allowing you to build the career and future you want. By exploring the key areas of career adaptability – concern, control, curiosity and confidence – you can measure how adaptable you are and build on the skills you need to stay ahead of the game.

Concern

To be career-adaptable, a person must exercise a certain level of concern about their future. A desire to achieve certain goals requires you to be concerned and aware of what you need to do to achieve this, fueling your drive to eventually reaching it.

Control

In order to become 'concerned' about the future in a 'controlled' way, people need to set themselves clear objectives. A good way to do this is by talking about hopes and plans for the future with friends, colleagues and family, or someone with relevant experience in your desired role.

Curiosity

It is important that you dig deeply into your chosen sector of work so you can uncover any upcoming challenges, future changes to the industry and the career prospects which await you. The questions you ask yourself along the way will help to shape new goals and ambitions throughout your career.

> "IT IS IMPORTANT THAT YOU DIG DEEPLY INTO YOUR CHOSEN SECTOR OF WORK

Confidence

If you find yourself hungry for new information and keen to understand the inner workings of the industry, you will find that you are more confident with this deeper knowledge. This is the last piece of the adaptability puzzle: it gives people the courage to pursue new options and step outside their comfort zone.

BUILD ON KEY SKILLS

As an accounting professional, you will be confident with numbers and competent with complex financial models. However, to work your way up the career ladder, not only do you need sharp technical knowledge, but you will need to develop those soft skills that can help you to progress even further.

A recent survey of UK employers found that soft skills are prized more than technical knowledge in graduates. Desirable soft skills include good communication, flexibility, creativity and the ability to be a good leader.

Being highly organised and having excellent time management is beneficial in any role, but being able to demonstrate these abilities will help show your company that you are proficient and capable of handling the added pressure of a managerial role.

If you are still studying, completing assignments on time and being ahead of the curve when it comes to starting a new task will help you to develop these skills so that you are equipped when entering your first role.

You need to remain calm under pressure, deal with problems rapidly, and find suitable solutions. In doing so, you will start to demonstrate your leadership skills and your ability to manage calmly and confidently when faced with a crisis, even when others around you are panicking. ■

For more information on how to get the most out of your career, and for tips and tricks on a range of topics from exam preparation to managing stress and anxiety, visit the Help and Guides section on CABA's website: caba.org.uk/help-and-guides

WHY MTD IS THE CATALYST FOR CHANGE

April will herald phase two of the UK government's Making Tax Digital (MTD) initiative. Its adoption is projected to save UK businesses billions over the next five years, so could this be the catalyst for a faster adoption of technology? *Steve Berridge*, finance technology specialist at the Access Group, looks at why the time is now for AI, cloud solutions and automation

MTD has been on the radar for almost five years, with the deadline for the start of its second phase – 1 April 2020 – looming on the horizon.

The move by the government towards digital tax has, unintentionally, encouraged many accounting firms and finance leaders to rethink their practices and adopt new and more advanced ways of carrying out their roles.

In fact, in the time since the government announced MTD, it has coincided with a significant increase in the amount of tools available. From AI to automation and cloud solutions, advanced technologies are enabling accountants to be more agile and smarter, and are leading to a shift towards value-added services.

Yet the take up of these tools by accounting departments is still relatively slow when compared with other areas of business. This is often down to finance leaders being hard to convince of the benefits that advanced tools such as AI and cloud accounting can bring to their business, versus the cost of investing in them.

However, phase two of MTD could bring with it the catalyst that will see an upward trend in adoption.

MTD PHASE TWO

When phase two comes into force on 1 April, there will be three main updates to MTD that accounting firms will already be making their clients aware of. At this point, VAT returns can still be submitted digitally with data that is copied and pasted from where it is stored.

From April, data will need to be kept digitally (update one), and the journey from where it is stored to how it is submitted has to have a digital link in place (update two). That journey has to be able to be tracked; if it is not, or if any other guidelines are not adhered to, it could lead to the third update: penalties.

> "ACCOUNTANTS WILL BE ABLE TO MOVE TIME AWAY FROM RESPONSIBILITIES LIKE ENTERING VAT INFORMATION AND OTHER FINANCIAL DATA

With the digital transformation of VAT returns, it is a real opportunity for accounting firms to use this as a chance to discuss with clients how technology is changing their role and how it can help to increase turnover, increase margins and help to develop staff to grow their businesses.

Accountants will be able to move time away from traditional responsibilities like entering VAT information and other financial data, which is now a faster and more streamlined process thanks to automation. They can focus on becoming a more consultancy-based business that analyses trends in financial data and uses real-time information at their fingertips to help businesses make smarter decisions. Some firms already work like this and are reaping the benefits of being more proactive.

MODERNISING

MTD is the excuse for businesses to modernise and invest in technology that provide tools to make them more agile. They will already have had to ensure the technology they use to submit VAT returns is approved by HMRC, so why not encourage them to invest further to improve top-line business performance?

A report published earlier this year indicated the potential of MTD alone could be worth £57bn ($75bn) to UK businesses during the next five years. This shows why MTD can be the catalyst for businesses becoming more interested in advanced technologies.

Integration and automation will be key during the next few years, as more businesses become open to and aware of the benefits that advanced technologies can bring to them. No longer will pages and pages of audits take what seems like forever to fill out, thanks to automation, and greater integration will mean that finance and other departments within businesses can all sing from the same hymn sheet.

Increasing productivity, reducing human error and becoming more agile will all be behind business decisions when it comes to finance in the coming years – so accounting firms should be looking to encourage businesses to take the leap now. ■

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