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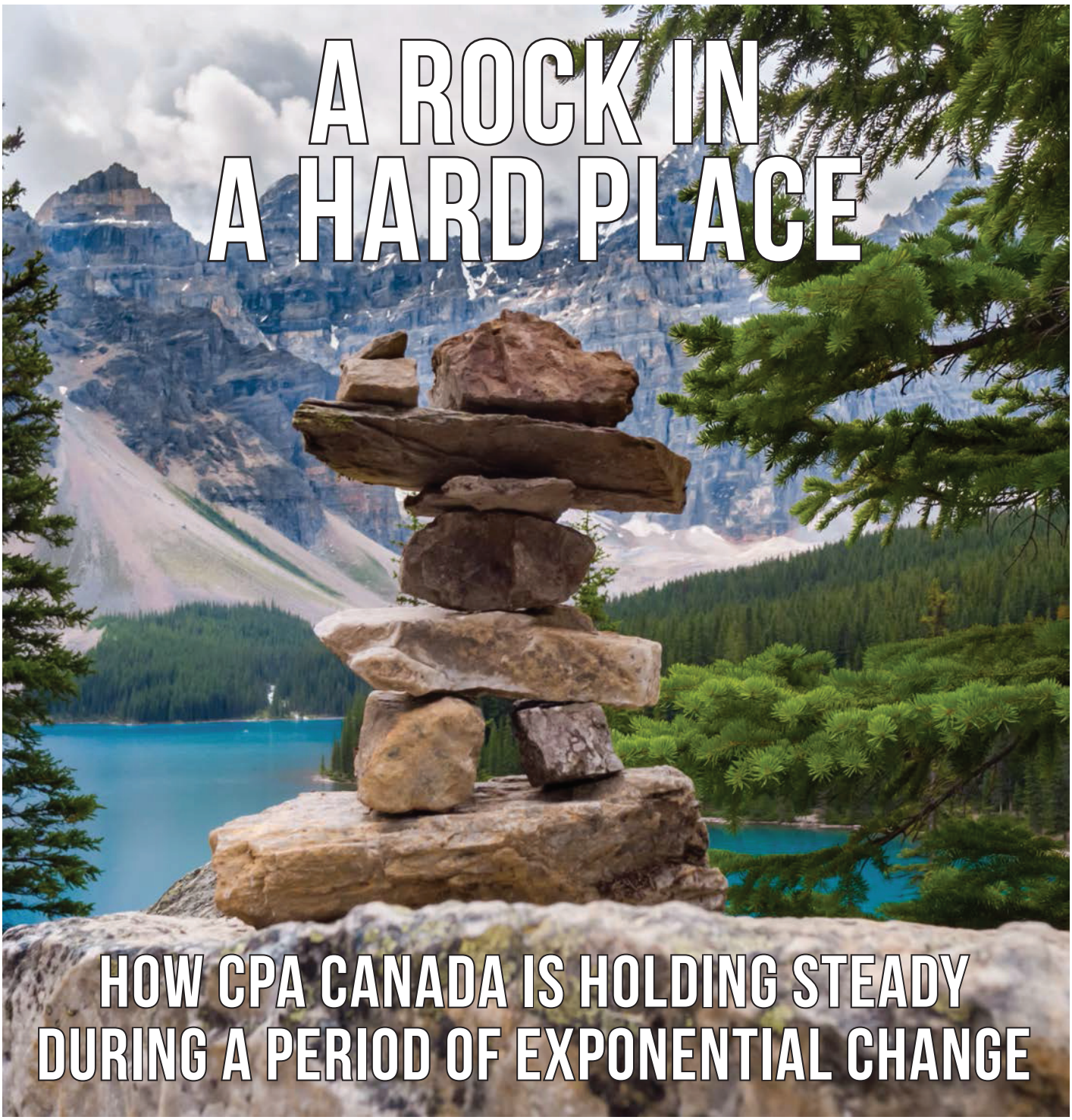
THE Accountant



A ROCK IN A HARD PLACE

HOW CPA CANADA IS HOLDING STEADY DURING A PERIOD OF EXPONENTIAL CHANGE

FEATURE

Covid-19 and how it is effecting the global accountancy profession

COMMENT

Opportunistic criminals see upheaval as an opening to commit financial fraud

PEOPLE

Validis on the biggest impacts that technology will have on the industry

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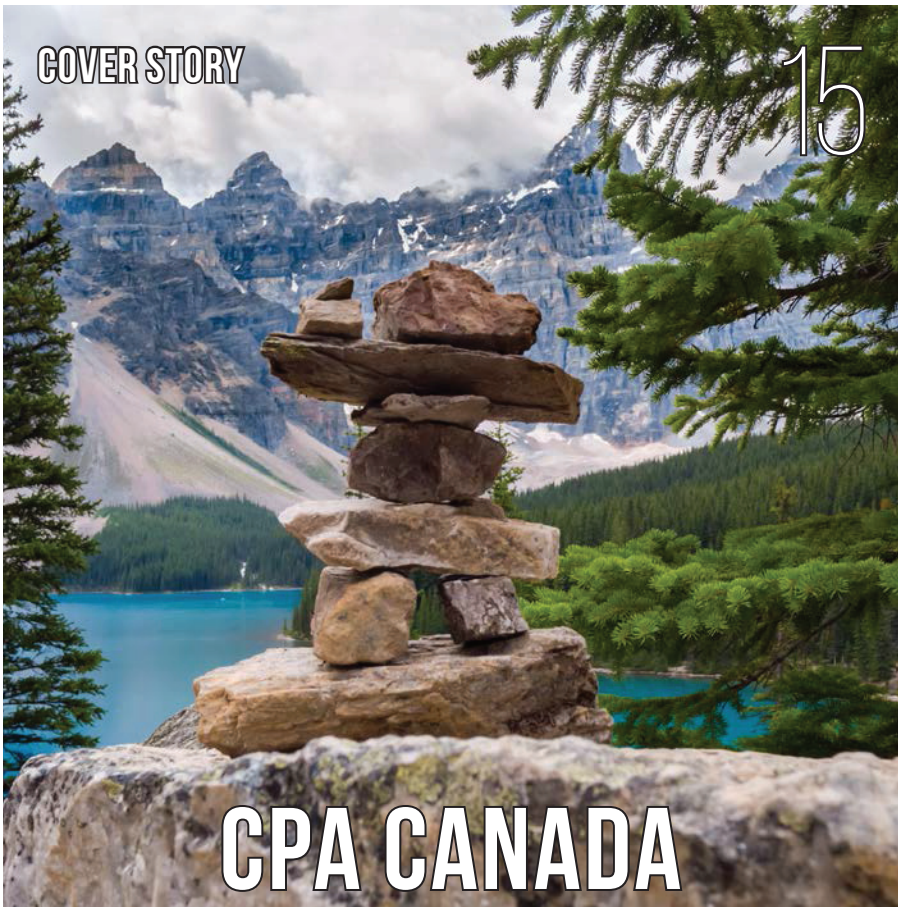
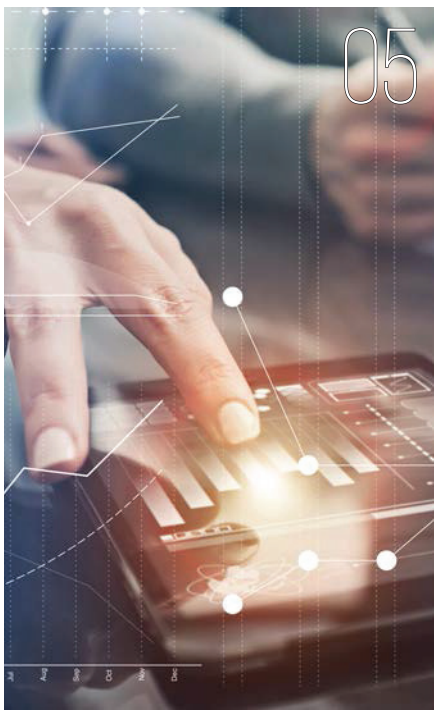


NEWS



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THE Accountant

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MARCH 2020

EDITOR'S LETTER
INSIGHT AND CONTENT IN UNPRECEDENTED TIMES

Joe Pickard, Editor

AS THE ACCOUNTANT WENT TO PRESS, UK PRIME MINISTER BORIS JOHNSON HAD JUST ADDRESSED THE NATION TO ANNOUNCE THE CLOSURE OF ALL NON-ESSENTIAL SHOPS AND INSTRUCT THE PUBLIC NOT TO LEAVE THEIR HOMES UNLESS FOR A LIMITED NUMBER OF REASONS.

The UK follows a number of countries across the world in setting greater restrictions on the movement of its citizens in an effort to curb the Covid-19 pandemic. As well as the societal changes taking place, a great number of financial measures have been announced across the world in an effort to support businesses and individuals through these difficult times.

We have a rundown of the latest regulatory changes arising due to the spread of the outbreak on **pages 8-9.** On **page 13,** Ashfords restructuring and insolvency team legal director Katie Farmer discusses how the spread of the virus may mean that businesses will have to consider formal restructuring to survive, and on **page 14,** Fiscal Technologies CEO David Griffiths talks about how the turbulent situation is being seen by criminals as an opportunity to commit financial fraud.

Elsewhere in this edition, we take a look at the some of the capacity-building work undertaken in Cambodia by the Institute of Chartered Accountants in England and Wales. I also talk with the team at Validis, an accountancy software provider that provided input to the Brydon review, about the future of audit. CPA Canada CEO Joy Thomas also provides commentary on the state of the profession in Canada.

During these unprecedented times, we still aim to bring you insightful content from the global accountancy profession and over the coming months we will undoubtedly be covering the latest societal and financial developments in light of the spread of Covid-19.

If you would like to provide comment, please do not hesitate to contact me on the email address below. ■

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

NEWS UPDATE

UK FRC: Step change in use of technology to improve audit

Use of automated tools in audit processes such as data analytics has grown dramatically in the last three years; however, auditors are dependent on companies having robust IT systems that allow data to be extracted in a usable form to challenge management, according to a new report from the UK's Financial Reporting Council (FRC).

The report follows up a review conducted in 2017 which highlighted that the use of data analytics for audit was not as prevalent as the market might have expected. However, three years on, the FRC has said there has been a "step change", with data-led audits more prevalent and the use of technology being routine at the largest UK audit firms.

The FRC also found that emerging technologies such as machine learning and predictive analysis, although in their infancy, can help to identify unusual transactions or challenge judgements around going concern or impairment that would not otherwise be found by a human auditor. The FRC encourages audit firms to continue to develop their technologies in these areas to seek further improvements in audit quality.

Analysis of audit inspections revealed:

- The most prevalent use of audit data analytics (ADA) beyond journals is in high-volume, low-judgement transactions such as revenue testing;
- Audit teams use ADA to focus audit testing on the areas of highest risk through stratification of large populations;
- In response to audit inspection findings, audit teams have improved their documentation and evidence supporting the use of ADA, and
- Automated tools are deployed with sufficient training and support.

FRC's executive director of supervision, David Rule, said: "Technology provides opportunities to deter fraud and the manipulation of accounts by analysing entire populations of data and identifying unusual transactions."

Rule added: "We support wider use of audit data analytics. We are looking to the market to continue to develop innovative solutions, and are now consulting stakeholders to inform our policy for the future of audit technology."

As the development of technology moves ever faster, the FRC has outlined a number of expectations for audit firms, including:

- Responsibilities for ongoing development, testing and approval of existing and new automated tools;
- Demonstrating the integrity of extracted data for use by automated tools, and
- Clear articulation of how automated tools support audit procedures. ■

IASCA LAUNCHES QUALIFICATIONS THROUGH QATAR ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

The International Arab Society of Certified Public Accountants (IASCA) has launched a training plan in cooperation with the Qatar Association of Certified Public Accountants (QCPA) which aims to offer programmes, qualifications and training organised by IASCA in Qatar.

QCPA, in cooperation with the IASCA, organised an introductory seminar at the headquarters of the Qatari Ministry of Commerce and Industry on the approved professional qualifications, in the presence of government and private sector employees, and university students.

During the seminar, IASCA executive director Salem Al-Ouri reviewed the professional certificates issued by the IASCA in the fields of accounting, auditing and related sciences, and the registration requirements of these certificates, with the possibility of obtaining preparatory training courses for such certificates in cooperation with the QCPA through the provision of professional curricula and training materials presented by lecturers. ■

ACCA: ACCOUNTANCY MUST LEAVE SPREADSHEET COMFORT ZONE

Only 20% of accountants believe they have expertise in emerging technologies such as blockchain and artificial intelligence, according to the Association of Chartered Certified Accountants (ACCA)'s *The Digital Accountant* report.

The report's survey showed that there is still a higher level of ability in the more traditional areas of using spreadsheets, with 81% of respondents indicating an expert ability level.

When asked about their understanding of enterprise resource planning solutions, 72% of respondents identified as experts.

Clive Webb, author of the report and ACCA senior subject manager – business management, believes greater ambition with technology can help accountants be future-ready for digital challenges.

Webb said: "Being able to predict where market disruption is coming from is imperative. There is a fundamental need for accounting and finance professions to have a robust and comprehensive digital skill set.

"This must then be applied to help accountants and the businesses they support to address the issues of the day – namely ones such as the current global coronavirus pandemic we are combating.

"Making best use of technology in times such as these is key. The report recognises a gradual comfort zone has developed in accountancy in relation to technology. It is important to recognise the days of spreadsheets being the new technology for accountants are over."

Webb continued: "The profession is comfortable with older digital technology such as spreadsheets and enterprise resource planning. Digital transformation is one of the key conversations across businesses at present. The amounts invested by organisations are significant; the benefits substantial.

"Accountants must now have the capability to respond to digital challenges presented by the profession. This can be achieved by showing purpose, ambition and understanding technology such as blockchain and the use of coding."

He added: "Speaking the language of technology and appreciating how it can drive business models can benefit accountants significantly. This could be from spending just three minutes a day invested in continuous learning and identifying future opportunities on how to improve their understanding of technology." ■

CHARTERED IIA: 163% MORE INTERNAL AUDITORS AT EXECUTIVE MANAGEMENT LEVEL IN FINANCIAL SERVICES THAN IN 2013

Half of all chief internal auditors are now employed at executive management level in their businesses, at a rank equivalent to CFO, according to a survey from the Chartered Institute of Internal Auditors (Chartered IIA).

This is an increase from 19% in 2013, when the Chartered IIA published its *Financial Services Code*, which was launched with the objective of raising the scope and status of internal audit in the financial services sector.

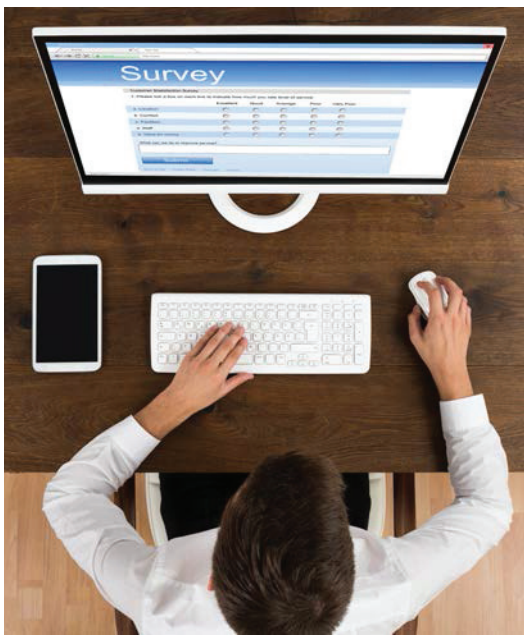
The survey also found that more resources are being spent on internal audit teams. Since 2015 there has been a 30% rise in the number of internal audit teams reporting their staff numbers had increased, from 40% to 52%.

More audit committee chairs are also now responsible for recruitment, management, and budget of internal audit teams.

John Wood, interim chief executive at the Chartered IIA, commented: "This survey shows our *Financial Services Code* is making a real difference to the status and influence of internal audit since its launch six years ago.

"There has been a 163% increase in the number of chief internal auditors working in roles equivalent to executive management since the *Financial Services Code* was launched. And staff numbers have risen in over half (52%) of internal audit teams in financial services."

Wood continued: "We now want our new Internal Audit Code of Practice to achieve the same success as the *Financial Services Code* to help more businesses better manage the risks they face." ■



AICPA PUBLISHES SUPPLY CHAIN RISK MANAGEMENT REPORTING FRAMEWORK

The American Institute of CPAs (AICPA) has launched a new risk reporting framework, SOC for Supply Chain, to help manufacturers, producers and distribution companies to identify, assess and address supply-chain risks.

The SOC for Supply Chain is a voluntary framework for organisations to communicate certain information about manufacturing, production or distribution systems, and the effectiveness of controls that mitigate supply-chain risks.

AICPA vice-president – assurance and advisory innovation Amy Pawlicki, said: "Today's supply chains are highly sophisticated and complex. There is often a high level of interdependence and connectivity between them, which increases an organisation's vulnerability to risk. Our new SOC for Supply Chain framework can help an organisation assess risk, understand the effectiveness of its controls and identify shortfalls."

The new framework allows organisations to have an examination engagement performed of their manufacturing, production, or distribution system. This type of audit provides a CPA's opinion on the organisation's description of the system it uses to manufacture, produce or distribute products, and an opinion on the effectiveness of the controls in that system.

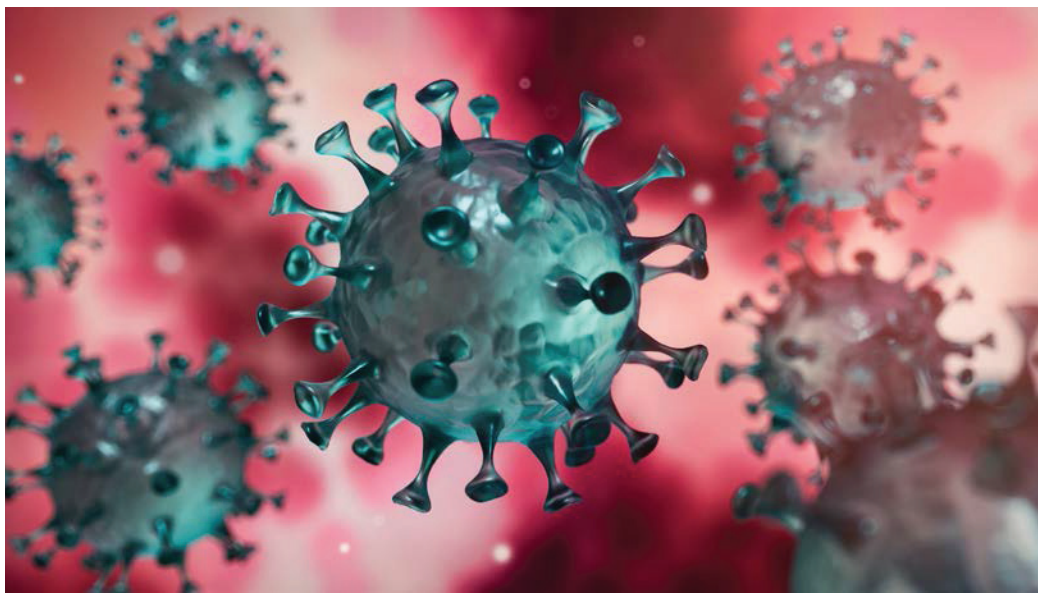
AICPA associate director – attestation methodology and guidance Mimi Blanco-Best commented: "This framework is a vital step in helping companies that manufacture, produce, or distribute products explain how they are managing risks in their supply chains.

"We believe investors, boards, audit committees, customers and business partners will see tremendous value in gaining a better understanding of how those companies are managing their supply-chain risks. Combined with the CPA's opinion, this will increase stakeholders' confidence in a company's due care and diligence." ■

IRBA: Covid-19 presents opportunity to demonstrate resilience

South Africa's Independent Regulatory board for Auditors (IRBA) has issued guidance in relation to the implications of the Covid-19 outbreak on audits and auditors.

IRBA CEO Bernard Agulhas said: "This outbreak presents an opportunity for the audit profession to reflect on the recognition of its public interest responsibility, and to demonstrate its independence and resilience to external factors. Auditors should continue to apply the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour."

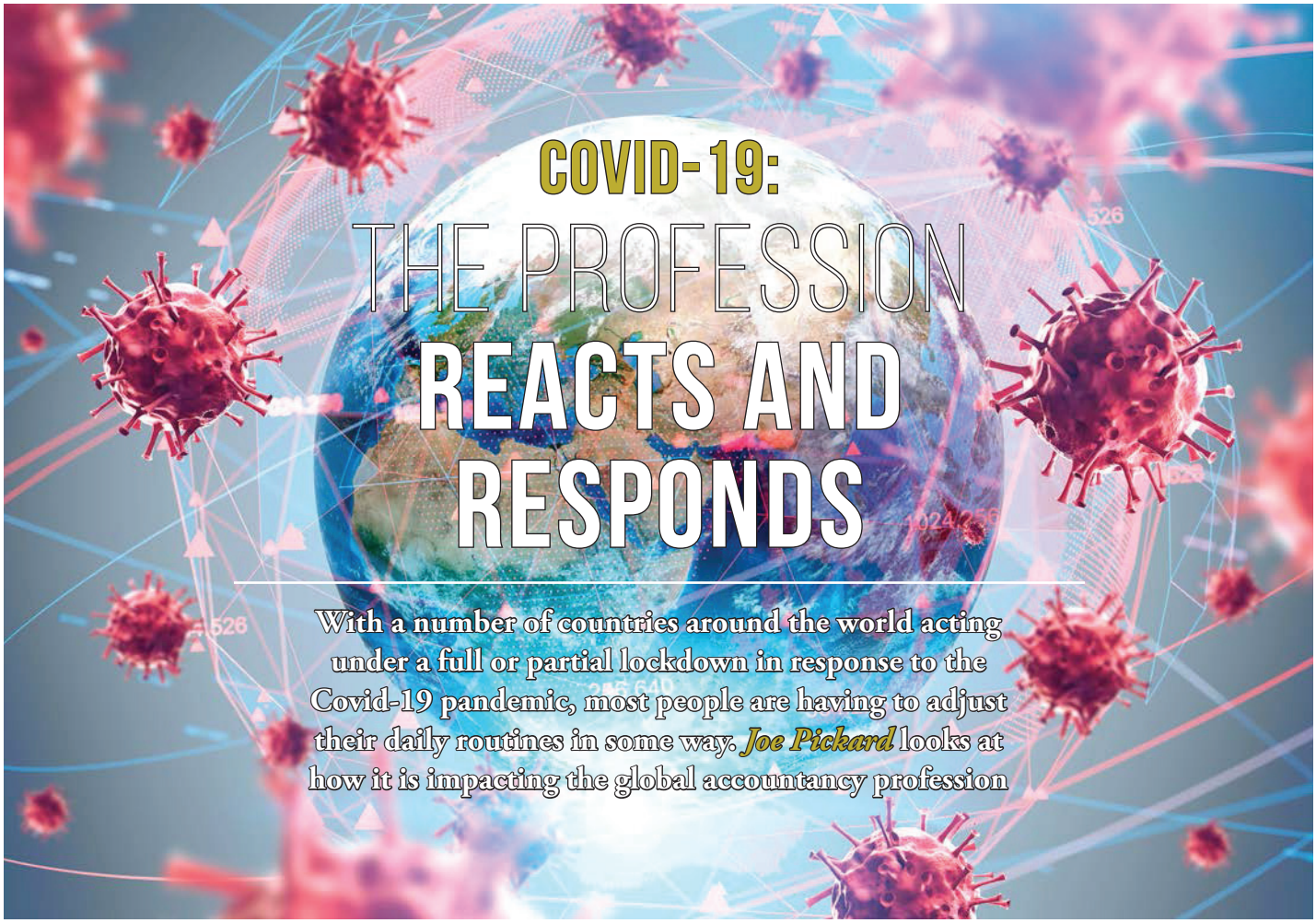


Key areas of the guidance include:

- The Covid-19 outbreak may disrupt the operations of entities, and the financial reporting process may also be impacted. Auditors should proactively discuss these matters with clients to understand whether there is an impact on the client's reporting timetable and the audit processes;
- With the Covid-19 outbreak, auditors may need to reassess the risks of material misstatement of the financial statements, as the information on which the initial risk assessment was based may have changed. For audits in progress, auditors should evaluate the impact and may need to revise their risk assessments and modify further planned audit procedures in accordance with ISA 315 (Revised).
- Due to the travel restrictions and various working arrangements, auditors may have difficulties in accessing client premises to perform audit procedures, and may not be able to obtain the sufficient appropriate audit evidence, and
- For group audits, component auditors in affected countries may encounter difficulties in obtaining sufficient appropriate audit evidence, which may cause significant delays in the completion of component audits. In addition, group engagement team members may not be able to travel to affected countries to review the work papers of significant components. The group engagement team is, however, responsible for obtaining sufficient appropriate audit evidence to form the group audit opinion. The group engagement partner is responsible for the direction, supervision and performance of the group audit engagement.

In addition to the above areas, auditors may also consider the implications for the auditor's report.

A dedicated Covid-19 webpage has been added to the IRBA website. This will form a central repository of information that has been released both locally and internationally in relation to the outbreak, and the implications for audits and auditors. ■



COVID-19: THE PROFESSION REACTS AND RESPONDS

With a number of countries around the world acting under a full or partial lockdown in response to the Covid-19 pandemic, most people are having to adjust their daily routines in some way. *Joe Pickard* looks at how it is impacting the global accountancy profession

At the time of writing, the UK government became the latest to announce a number of lockdown measures with the aim of slowing the spread of Covid-19 in order to reduce pressure on the National Health Service.

The majority of the country has been told to work from home, with a few exceptions such as those who are deemed to be in essential work.

Over the past week or so, a range of financial measures have been announced by UK Chancellor Rishi Sunak, such as government loans to businesses which will be interest free for 12 months, and support to supplement up to 80% of some worker's wages. Whether these measures go far enough still remains to be seen.

Since the beginning of March, accountancy organisations, networks and governing bodies have increasingly cancelled, postponed or made events virtual, as well as encouraged staff to work from home.

Working from home can be difficult for a number of reasons, whether that is access to technology, maintaining focus, or having to also look after children who are unable to attend school. As well as logistical struggles, long periods of isolation can have negative effects on mental health and wellbeing.

UK-based charity CABA supports members of the profession and their families. Its spokesperson and psychologist, Richard Jenkins, provides some advice: "Individuals dealing with stress and anxiety will spend a lot of time in the past or trying to predict the future, which can include catastrophising. My best advice is to try to remain in the present – focus on the issues we are facing today and what control you do have:

> "FOCUS ON THE ISSUES WE ARE FACING TODAY AND WHAT CONTROL YOU DO HAVE

- Consider if there could be another way of looking at the situation. Are you catastrophising?
- Do you have enough of the right information? Consider if the information you are getting is accurate, and if not, switch it off. Being well informed is helpful, but only through trusted sources;
- Consider how you are benefiting from thinking, feeling or acting this way. Question the negative thoughts and look for evidence as to why you are feeling the way you do;
- Continue to use techniques to relax – mindfulness, exercise – whatever works for you to increase your feeling of control.

REGULATION

In a number of jurisdictions there have been calls for an easing of financial regulation to help deal with the spread of the virus and to help mitigate damage to the economy.

On 23 March, the UK's Financial Conduct Authority (FCA) strongly requested that all listed companies observe a moratorium on the publication of the preliminary financial statements for at least two weeks.

The FCA said that due to the unprecedented events surrounding the spread of Covid-19 over the last few weeks, the basis on which companies are reporting and planning is changing rapidly, and that it is important that due consideration is given by companies to these events in preparing their disclosures.

The regulator noted that listed companies and the audit profession are facing unprecedented practical challenges due to the pandemic. The FCA believes the practice of issuing preliminary financial statements in advance of the full audited financial statements is adding unnecessarily to the pressure on companies and the audit profession at this moment.

The FCA is currently in talks with the Financial Reporting Council and the Prudential Regulation Authority about a package of measures aimed at ensuring companies take the necessary time to prepare appropriate disclosures and address current practical challenges. The three bodies intend to announce details shortly.

Commenting on the request, KPMG UK head of audit Jon Holt said: "We are in constant dialogue with both the relevant regulators and the entities we audit to support them in how they manage their reporting obligations as this extraordinary situation develops. We support these measures. Keeping people safe is the overriding priority for everyone involved. It is clear that, given the pressures on people and the changes that we see day to day, it is in the public interest for reporting to be delayed to give companies the time to properly consider the impacts on their results."

Richard Martin, head of corporate reporting at the Association of Chartered Certified Accountants, says: "The FCA announcement may help in heading off investor anxiety when announcements that were originally expected on a particular day do not appear.

"The announcements are still mostly of December year ends. For these the virus outbreak is being treated as a non-adjusting event which means that the measurement of assets and liabilities are generally not affected by what has happened in 2020.

"The estimation of the going concern basis of the accounts is a different matter and needs to be done as of the date when the accounts are approved – so in the context of the pandemic.

"Any full year or interim results for periods ending in 2020 are going to have more issues. What companies say about what they are doing and prospects, will be just as important for investors as the financial numbers."

Angel Gurría, OECD

In the US, the Public Company Accounting Oversight Board (PCAOB) has provided audit firms with the opportunity for relief from inspections in light of the spread of the virus.

PCAOB-registered audit firms have been provided with a 45-day relief period from inspections, with the exception of providing the regulator access to audit documentation for certain engagements. Inspections are expected to resume 11 May.

The regulator said that the opportunity for a pause will give audit firms the time, resources, and flexibility to work through significant matters with their issuer and broker-dealer clients, while at the same time allowing PCAOB staff to continue their work by reviewing documentation for certain engagements remotely and preparing for inspections.

LOOKING FORWARD

While the spread of Covid-19 has dominated the news for the past few weeks, the majority of countries are just at the start of their battle against the virus.

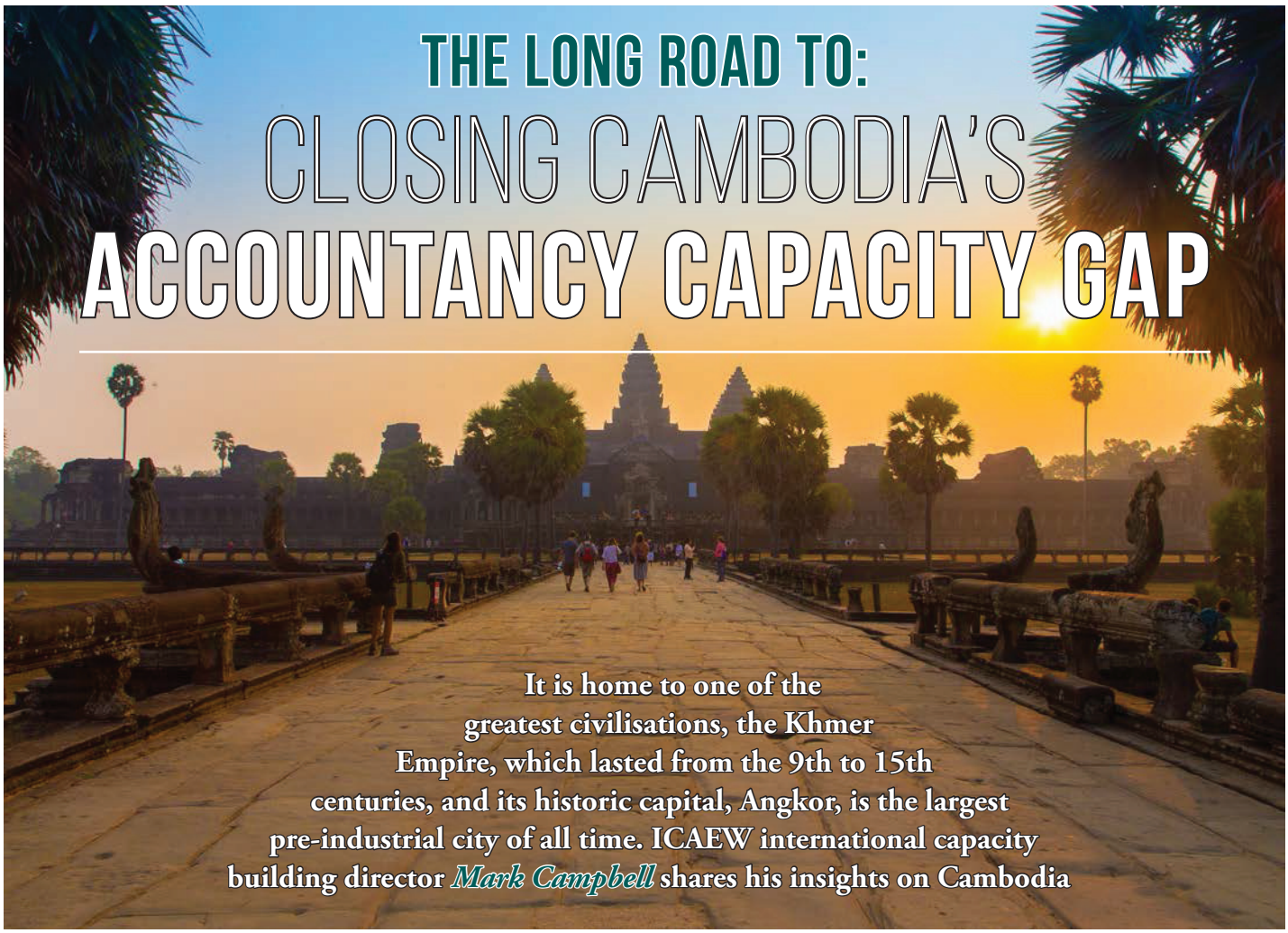
While there have been some major initiatives put in to place, we are likely to see more as, in many countries, the peak in number of cases is still several weeks – if not months – away.

After the pandemic has subsided, the economic fallout will then take precedence. The UK government's measures in total amount to £330bn ($389bn), or 15% of the UK's GDP. This is a huge amount, and is likely to affect fiscal policy for years to come.

> "ONLY WITH IMMEDIATE, LARGE-SCALE AND COORDINATED ACTIONS WILL THE ECONOMY BE READY FOR A QUICK AND VIGOROUS RESTART

OECD secretary-general Angel Gurría says: "Beyond the immediate health policy response, the world needs decisive and ambitious actions to mitigate the economic downturn and protect the most vulnerable. This is all about people: older people and the young, women and men, those on low income or no income, those who were already facing a difficult situation and who will be hit hardest.

"Only with immediate, large-scale and coordinated actions will the economy be ready for a quick and vigorous restart. It is encouraging that many major efforts and initiatives have already been announced, but greater international co-ordination is fundamental to ensuring these initiatives produce the best results, reassure markets and support the most vulnerable countries." ■



THE LONG ROAD TO: CLOSING CAMBODIA'S ACCOUNTANCY CAPACITY GAP

It is home to one of the greatest civilisations, the Khmer Empire, which lasted from the 9th to 15th centuries, and its historic capital, Angkor, is the largest pre-industrial city of all time. ICAEW international capacity building director *Mark Campbell* shares his insights on Cambodia

I first visited Cambodia in 2010, and will never forget the long journey by bus from Phnom Penh over rural landscapes to Cambodia's second city, Siem Reap, the gateway to the past civilisation.

During this visit, I realised that the journey of the Pol Pot era of 1975-1979 and its aftermath is not yet over. Most Cambodian professionals died under the Khmer Rouge, while Pol Pot lived on in the jungles of north west Cambodia, escaping justice until his death in 1998.

Each journey I take in Cambodia, I see the impacts of conflict, the lack of land rights, corruption and deforestation, and ask why the road to recovery is taking so long.

There is no easy way to rebuild a government, economy and society when there are so few professionals. The first Cambodian to study for professional accountancy and to qualify was Kuy Lim. He travelled to Vietnam at weekends for tuition, and qualified in 2003. In the years since 2003, despite there being over 70 universities in Cambodia, only 250 Cambodians have fully qualified as professional accountants under our counterpart body, the Kampuchea Institute of Certified Public Accountants and Auditors (KICPAA). This illustrates that rebuilding Cambodia's accountancy profession will take much more time, and definitely more than one generation.

> "FRAGILITY AND CONFLICT CAST A LONG, DARK SHADOW OVER RECOVERY

Cambodia is not alone. ICAEW's International Capacity Building (ICB) team has worked in 20% of the world's most fragile states, and realises that fragility and conflict cast a long, dark shadow over recovery. The international development community has yet to fully learn how to rebuild effective professions as a prerequisite step in rebuilding conflict-affected states.

As a starting point, our team often considers various measures of fragility, conflict, corruption, economic wellbeing and growth. One measure that we find helpful is the ratio of professional accountants in the national profession to the population. For the UK and Singapore, this ratio is around 1:174 and 1:189 respectively, while for Cambodia it is 1:64,000.

While not telling the full story, this ratio provides an early snapshot of national accountancy capacity, and can be compared to economic wellbeing. In a world of increasing competition, sustainable economic growth is unlikely to happen when the accountancy profession is weak.

On corruption, the best-known measure is the Corruption Perceptions Index (CPI), which has been used over many years by Transparency International, better known as the Transparency Index, which is effectively the inverse of CPI. The CPI may seem like a measure of corruption or financial crime such as fraud or money laundering, but in reality


Mark Campbell, ICAEW

it measures only how relevant organisations view the status of corruption in the public sector.

Cambodia figures prominently in many of the indices that we consider. It sits 54 in the world's top 60 Fragile States Index. Its CPI score gives it a transparency index of 161 out of 180 countries – New Zealand, Denmark and Finland being the top three. Cambodia is also one of just 12 countries listed in the OECD-led Financial Action Task Force Greylist of 2020.

BOOTS ON THE GROUND

The ICB team first touched down on Cambodian soil in 2011. We realised from our discussions with the World Bank and KICPAA that the acute shortfall in professional accountants was holding back economic development. ICAEW supported the World Bank's recommendation that Cambodia should have its own national professional qualification (PQ). ICAEW is working to improve the situation. We designed a national PQ for Cambodia, due for launch in 2020.

During 2019, with funding support from the United Nation's Development Programme and ICAEW itself, we also designed an accounting technician qualification (ATQ) for Cambodia. This was launched with the support of the Ministry of Economy and Finance to much publicity, and is being piloted with four of the top 10 universities.

Universities and colleges will embed the ATQ in foundation studies, or teach it standalone. It can be taught in either English or the native language, Khmer.

The ATQ comes with learning materials in both languages, and students can take examinations in either. In this way, the ATQ will, over time, be well suited to teaching across all of the cities and provinces of Cambodia.

BUILDING A TALENT POOL

A wonderful aspect of this project is that the ATQ will be 100% owned by Cambodia, and this means that it can be made accessible to students at a very low cost. The ATQ will finally help to create a talent pool that can support organisations of all sizes, and strengthen the accountancy profession. The first 300-400 students will qualify in 2022.

As the graduates in Cambodia improve their bilingual skills through the ATQ, we expect to see the numbers taking the ATQ and the new Cambodia PQ grow rapidly. During 2020, we will work with employers to provide internships for ATQ students.

A model in capacity building called Theory of Change sets an overall goal in national social or economic development, and is very relevant to our project work in Cambodia where we will soon begin tosee a steep rise in the number of qualifying accountants year on year. This will help businesses and organisations of all sizes and contribute to future economic growth.

> "WE HOPE THAT CAMBODIA ITSELF WILL GIVE MUCH HOPE TO FRAGILE AND CONFLICT-IMPACTED STATES AROUND THE WORLD

A past focus on selling only international qualifications in Cambodia has stifled growth in Cambodia's accountancy profession. The new national qualifications are overdue, and will be an effective vehicle for building accountancy capacity and services.

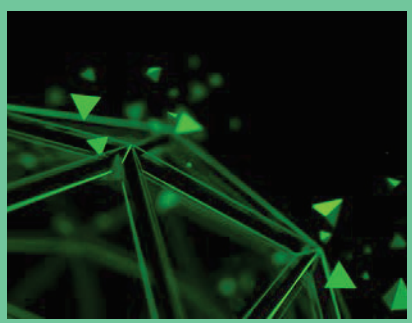
As we follow the careers and achievements of this new generation, we hope that Cambodia itself will give much hope to fragile and conflict-impacted states around the world on how accountants can deliver the social and economic benefits that a Theory of Change model would predict. ■

ICAEW: BUILDING CAPACITY

Since 2007, ICAEW has completed more than 60 accountancy capacity-building projects in over 30 countries.

Its dedicated International Capacity Building team manages up to 10 projects at any one time.

Today, three of its projects are in Cambodia, and cover audit quality assurance, regulation and education.



REGULATION: IAASB CHAIR LOOKS TO TACKLE STANDARD SETTING

International Auditing and Assurance Standards Board (IAASB) chair Tom Seidenstein is assuring governments around the world that his board is moving to deal with two controversial auditing standards. *Tom Ravlic* reports


Tom Seidenstein, IAASB

Tom Seidenstein, a former senior president at Fannie Mae in the US, has walked into the role of IAASB chair at a tumultuous time, with debates surrounding the adequacy of audit regulation across many jurisdictions.

He has flagged that the IAASB has gotten a clear message from governments across the world, and that fraud and going concern are topics he and other global standard setters must tackle.

Seidenstein tells *TA,* in his only one-on-one interview during a week of meetings in Australia and New Zealand, that reviews such the Competition and Markets Authority review, the Brydon and Kingman reviews and the audit regulation inquiry in Australia, have raised the issues of fraud and going concern.

The IAASB has kicked off its preliminary research on both of these areas in readiness for standard setting, but Seidenstein says that people cannot expect these issues to be dealt with quickly, given the complexities involved in both topics.

He points to the going concern project as requiring a significant amount of research to be done, so that jurisdictional peculiarities, and the manner in which the laws, accounting standards, audit standards and governance standards work together in various countries are understood.

"There are a number of different views on the role of audit and assurance in going concern statements out there. What's the role of management? What's the role of financial reporting standards? What's the role of audit standards? That's yet to be determined," Seidenstein says.

"We are in the process of researching the different regimes that exist nationally and internationally in relation to going concern, and understanding the expectations of users and other public officials in terms of going concern."

RESPECTIVE ROLES

Seidenstein's questions about the elements that drive considerations of going concerns are methodical, and this comes from a central point he made at the start of the interview: all parties have their role to play in the system, irrespective of whether they are directors, managers, auditors or regulators.

He notes that standard setters have an important role to play, but other parts of the system must ensure that the standards are enforced in their own way.

"I think that investors and other stakeholders depend upon all of these parts to work together in a modern economy to provide sufficient trust and confidence in the marketplace to enable capital to be allocated in a fair fashion consistent with societal needs," Seidenstein observes.

"One of our strategic objectives is to make sure we are interacting properly with regulators, national standard setters, ethics standard setters, inspection regimes as well, to make sure we recognise that we are a part of the broader ecosystem."

Fraud is another particular favourite issue raised by commentators who believe auditors ought to be doing more in the context of fraud. Seidenstein notes that the fraud project will need to explore any increase in audit scope and whether adjustments to the fraud standard are capable in any way of reducing the expectation gap. "What else the profession should be responsible for will be a focus of our project," Seidenstein explains. "As people like to say, the expectation gap does exist."

One problem for a global standard setter is that it deals with multiple jurisdictions, and this also means the IAASB encounters numerous stakeholders in each country, to which the IAASB chair travels. Seidenstein also is aware that time-poor professionals and investors have views, and he has prioritised a greater use of technology to make it easier for them to articulate their perspectives without needing to submit comment letters.

Collaborative forums such as discussion boards are on his mind in order to seek views from investors, analysts and other stakeholders at different stages of projects.

"One of the things I have thought about is how you meet people, where they want to meet us," Seidenstein says. "Getting investor input is difficult because they are not technical in the way people from the profession are. They have other daily demands as well, and they do not have huge infrastructure to write comment letters." ■

COVID-19: SURVIVING THE TRADING HIATUS

With Europe increasingly in lockdown, many businesses across the UK are adapting to new ways of working, where possible. However, despite government support, insolvencies may be inevitable, writes *Katie Farmer,* legal director in the restructuring and insolvency team and head of the asset recovery team at Ashfords LLP


Katie Farmer, Ashfords

For those that cannot move their workforce to remote working, such as pubs, gyms and non-essential retailers, businesses of all sizes in all sectors are shutting their doors for an indefinite period and hoping to survive in the meantime.

With businesses in the US looking set to be impacted similarly, economists are warning that the coronavirus outbreak will likely lead to a global recession.

Company directors and business owners therefore have the additional worry of the longer-term implications of recession as well as the short-term need to survive interruptions or reduction in trading.

Many businesses are considering immediate measures to mitigate these concerns. For example, employees of many businesses are being furloughed, some companies will retain their June VAT payments to assist cash flow, some employers will be asking staff to defer bonus payments or reduce their hours, and many will be looking to utilise some of the chancellor's recent business remedy packages such as grants, rates relief and state-backed loans.

The chancellor's measures may offer immediate, short-term assistance, but for those already struggling or on the verge of insolvency, all the measures may do is delay the inevitable.

The response of some businesses will be to take more drastic cost-saving measures, such as considering permanent redundancies or seeking agreed deferments to outgoings such as rent and bank borrowing. This may not be enough to counter the impact of social distancing and lockdown, particularly in sectors where turnover is wholly or significantly dependent on consumer footfall or presence.

RIPPLE EFFECT

Even if a business is more insulated from the impact of consumers staying at home, the ripple effect of closures and disruption to trade encountered by other businesses can bring a host of new problems – and expenses.

For example, M&A activity, property transactions, trade events, new infrastructure and other projects may have to be delayed or postponed indefinitely, affecting businesses throughout supply chains. Legal advice may be required to consider the contractual liabilities and remedies that follow, and parties may find there is additional expense in the inevitable litigation to resolve disputes that arise.

As a result, there is a real risk to businesses that sooner or later they may have to consider more formal restructuring in order to survive. Some businesses will not be able to restructure and could require a formal insolvency process.

When companies are faced with potential insolvency, or a risk of insolvency in the future, directors' obligations shift so the primary duty is owed to creditors. In any pre-insolvency period, often referred to as the 'twilight' period, the decisions made by directors can come back to haunt them. Directors who fail to act in the best interests of creditors, or whose decision to continue to trade beyond a certain point causes loss to creditors, can result in a requirement that the individual directors contribute personally to the assets of their insolvent company, or in the directors being disqualified from acting as directors in the future.

It is already challenging enough steering a business through these unprecedented and changing times, but company directors must also be mindful that decisions made now have the potential to have serious personal consequences to them.

Of course, it is not all doom and gloom. Some businesses will find a significant increase in workload. Delivery companies can expect a huge increase in demand as retail moves almost entirely to online ordering and delivery of goods.

However, rapid increases to demand can also be tricky to manage. Therefore all businesses will need the support of trusted advisors to help them identify risks, consider options and solutions. Accountants are well placed to support business owners and directors with the challenges posed by Covid-19, providing expert and objective advice and assisting with new measures that may need to be accessed rapidly.

Businesses that survive this hiatus to normal life will be those that have acknowledged and confronted the impact of these times, sought early assistance, and adapted, sometimes creatively, to meet the challenge. ■

COVID-19 AND FRAUD: AN OPPORTUNITY FOR AP TEAMS

Covid-19 has already had an unprecedented impact on the global economy, the way we work and our everyday lives. While we negotiate the upheaval, opportunistic criminals have seen the situation as an opening to commit financial fraud, writes *David Griffiths*, CEO at Fiscal Technologies


David Griffiths, Fiscal Technologies

Covid-19 is placing added pressure on accounts payable (AP) teams to ensure fraudulent activity is minimised, and the organisation's working capital is protected.

While the way forward may seem daunting for AP workers, there is an opportunity here for these teams to be a voice of calm among the chaos.

For this to happen, it is key that AP teams have all the right financial controls in place to minimise errors, maximise visibility of transactions, and streamline processes – especially with so many people now working from home and the various compliance challenges this creates. In essence, it is about taking a more forensic approach to AP activities.

Three-way matching: room for improvement

For many years, AP departments have relied on three-way matching to validate the payment of supplier invoices. However, AP processes have become considerably more complex in recent years: invoice-related information now arrives in a multitude of formats, and payments are made in a number of different ways.

While three-way matching to validate payments is an effective first line of defence, it does leave processes open to errors, which could heighten the potential impact of fraud. There are a wide variety of incidents where three-way matching can be bypassed, with the following six being the most popular:

1. Frequent exceptions

Investigating exceptions or non-matches can distract staff, who then spend time fixing the payment in question. When these exceptions start to accumulate, employees can be tempted to process them without a full investigation, because it is time-consuming, repetitive and could impact on key performance indicators or early payment discounts.

Frequent exceptions from a specific supplier soon become accepted as the norm, which ultimately increases the risk of fraud.

2. Open purchase orders

Open purchase orders allow overpayments to occur, sometimes for a significant duration, which can then be difficult to unravel. This is common when call-off orders are in place or the purchase order details multiple shipments – usually for repeat items. This may then be paid automatically and without checks, either until the invoice limit is reached or an internal audit highlights the issue.

3. Overreliance on automation

Automating the three-way matching process certainly saves time, but it also removes the natural checks and balances of human oversight. This can then lead to an overreliance on automated systems, and increases the chances of staff becoming complacent.

4. Duplicate purchase orders

Duplicate purchase orders can be erroneously created for the same goods by staff who are under severe time constraints, or by records from the same supplier causing confusion. They can also occur if the purchase order is allocated to the wrong supplier, for a different period of time or for similar orders.

5. Manual errors

As AP staff manually enter most purchase orders into their procurement systems, they are subject to the inevitable vagaries of typographical errors. This can occur even if digital systems are being used, as a combination of both automation and human input remains common.

6. Automated supplier errors

With the advent of online procure-to-pay portals, suppliers can now load their own invoices – which could contain errors – onto customers' ERP systems. This adds to the complexity of the procurement process, and also relies on inherent trust and the security of suppliers.

Despite the importance of properly navigating this complexity, staff are often eager to please or are pressured into making exceptions to ERP processes. This can then lead to changes being made to supplier files or bank details, without consideration for the wider effect on the ERP system or the errors this could cause.

Adopt a meticulous approach

To eliminate these issues, being thorough is vital. Three-way matching should be combined with additional stringent internal process control, strict visibility of master supplier files, and forensic analysis of transactions before payments are made.

We are definitely in exceptional times. The purse strings for every organisation are tighter than ever, so the last thing you want to be contending with is a fraud incident. AP teams should take stock and remember that they can play a hugely significant role in all of this. Be meticulous, avoid cutting corners, make full use of different technologies and look after your employees, and there are many reasons to be optimistic. ■

CPA CANADA: HOLDING FIRM DURING DISRUPTIVE TIMES

Joe Pickard speaks to CPA Canada CEO Joy Thomas to discuss the main challenges and opportunities that the profession faces in Canada, in a period of what she describes as 'exponential change'

The Accountant: What are the main impacts that the Covid-19 pandemic is going to have for accountants at this stage?

Joy Thomas: Well, it is still very early. Obviously the economic outfall is extensive, that is already playing out through the markets, through supply chains and the cancellation of many events.

The economic fallout will have a significant impact on accountants, but I think more to the point right now is just dealing with the societal issues around the virus and making sure that we keep our employees safe and making sure we do whatever we can for this country to mitigate the spread of the virus. That is really our focus.

We have already extensively cancelled programming and we are looking internally at our critical mission, critical functions and what might occur next.

Right now, it is more about getting everyone out of the office, working from home, dealing with technology issues and so on, but also actively engaging in the cancellation of programmes.

We run a ton of national and provincial programmes for members and for students, so we are working on turning everything we can to virtual and deferring where we cannot transition it into virtual.

TA: Apart from the spread of Covid-19, what are the major challenges that accountants face in Canada at the moment?

JT: For us, it is trying to make sure that accountants, and the accounting profession generally, are both able to manage this

exponential change that we are going through. Certainly, as a result of things like climate change and societal expectations, we have got lots of disruptions to business models.

Another focus is how our members are leveraging technology in what has become such a data-driven world. The challenges are making sure that members are not only working for today, but are also keenly aware of some of the drivers of change and how they are having an impact on them as they go forward.

For us at CPA Canada, it is really vital that we try to continue to focus on the issues that members face today in terms of running businesses and adding value in organisations, but also taking a really active role in how we do shape that future for the profession. We refer to it as managing 'Highway One' and 'Highway Two'.

In Canada, we have a lot of CPAs for our population, we have over 220,000, so they are working across all sectors of the economy and working across all traditional, and some perhaps less traditional, areas – the traditional being audit, tax and assurance, but they are also working extensively within organisations in performance management, strategy and so on. We see that those types of roles will likely continue to be areas of focus as we move forward.

In terms of managing Highway Two, it is really about being cognisant of external forces and thinking about how we are going to play those roles in organisations in the future. So, it is not just that we are auditing, it is how we are auditing; it is not just that we are managing risk, it is how we are identifying non-traditional risk; it is not just how we are measuring realised value, but how we are actually measuring more than realised value and value creation for organisations.

It is how we will continue to operate in this increasingly digital world. There are challenges, but there are also massive opportunities for us if we can stay ahead and make sure that we are focusing on the right future competencies for our members.

TA: Because the profession is changing, are you finding that more people are joining from non-traditional backgrounds?

JT: In Canada, what I think we have done a good job at is promoting our designation not just as an accounting designation but as a business credential.

In that regard, we have been mindful to, for example, recruit outside of traditional Bachelor of Commerce degrees and accounting in universities and really try to recruit across universities and also to recruit extensively in the workforce. So we are drawing individuals from broader areas of focus than what, in the past, we would have considered more traditional accounting roles.

Joy Thomas, CPA Canada

> **"** IT IS VITAL THAT WE CONTINUE TO FOCUS ON THE ISSUES THAT MEMBERS FACE TODAY IN TERMS OF RUNNING BUSINESSES AND ADDING VALUE

I think we have actually done a relatively good job of that. Clearly, one of the strategies for success and for sustainability of the profession is to make sure that it is inclusive and that we are drawing on a lot of skill sets.

TA: Last year, CPA Canada signed a number of reciprocal membership agreements and MoUs with different government bodies from around the world. Are you seeing an uptake from your members moving into these jurisdictions and vice versa?

JT: We do have a number of reciprocal member agreements and we do always see a good uptake coming into the country. Part of the reason for that is that we have a quite a liberal immigration policy in Canada. Last year we probably had close to 400,000 new immigrants come into the country, and we are a population of 37 million.

As a country, we keenly recognise that we need the expertise of new entrants to Canada. Therefore, we make sure that we have reciprocity agreements, and even where we do not have reciprocity agreements, we have alternate channels to the designation.

We merged in 2014, and we had strong recognition agreements prior to that and we

carried those on through unification. But now we are going through this lengthy process of reviewing all of our current agreements, making sure that they continue to be in the public interest, making sure that our standards continue to be the standards of entry from across the world.

We are going through that process because when we merged, we actually created a new programme for the designation, one that took some of the best parts of the three legacies but also added new competencies and new learning methodologies. So we just have to go through this quite lengthy process of examining all of our reciprocity agreements, making sure they are in line.

What I think is really important as well is where they are not equivalent, that we have other pathways for individuals to still get the CPA designation if they come to Canada.

TA: What else is CPA currently working on right now?

JT: We have been working on a massive project here called Foresight: reimagining the profession. Phase One was launched in 2018 and ran into 2019, and that was really about identifying what are the plausible scenarios that might happen in the future and then thinking about what roles there would be for professional accountants.

In 2019 and into 2020, we entered into Phase Two of that work, and we have really identified two key areas of potential opportunities for the membership. Those are around data governance, this notion of the proliferation of data and how we provide assurance over it and value and manage it. Also, the challenges of the integrity issue and what role we play in that work. That goes back to the whole trust notion of the profession.

Then the other areas, which I have mentioned a little, such as value creation and rethinking the measurements of a value creation, so we are able to report effectively on organisations and their long-term sustainability. That really got us to the whole notion, but it is not a new notion, of really focusing on the idea that we have to get out of hindsight and really get into the mind set of foresight and thinking more long term about organisations

Data governance and value creation are the two work streams that we have really been focusing on. Within those, it is also about trying to understand what tools and resources we can provide to our members as they grapple with some of this within organisations. It is also about doing a lot of research into these areas. So that is some of the ongoing work right now.

> “ WE ALWAYS MAKE SURE THAT OUR POSITION IS ALL AROUND WHAT IS IN THE PUBLIC INTEREST, AND THAT HAS SERVED US VERY WELL

When you think about the skills of our profession, such as the competencies, the ethics, the trust, the integrity, and just being able to leverage those core attributes in some of these new areas in the future, I think that becomes quite exciting. I think it helps to ensure that the profession and the membership can remain relevant as we move forward.

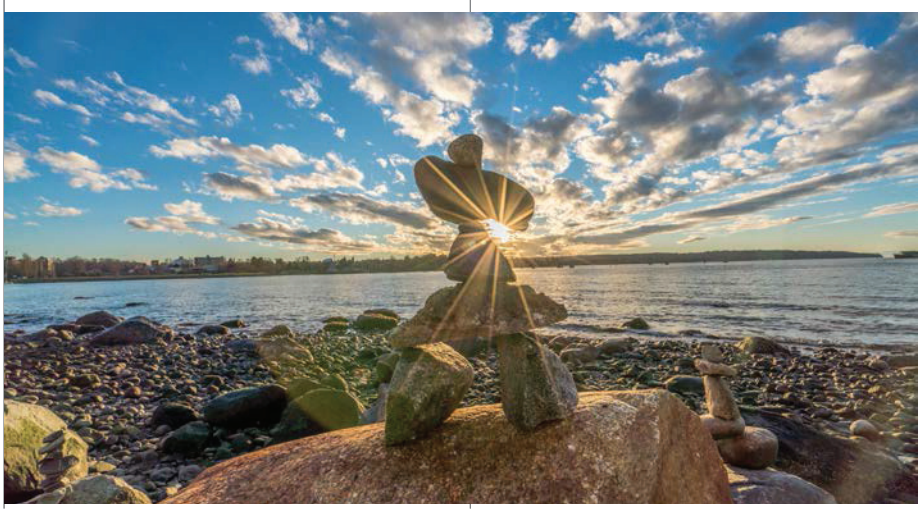
There is a bit of a challenge around the angst of all of the change. We talked about technology and members can get a bit concerned about what their role is when technology seems to be in many cases taking over work. I think by us doing this foresight work and promoting it, broadly consulting with members, and pushing out everything we learn about it, I think it gives us all a way to focus on moving forward and not get too caught up in what we might lose but what we might actually move to. It has been a very significant and positive project.

Also, I think one of the important factors in this work and the continuation of this work is that it is really about the ecosystem. It is not just about the membership, it is not just about CPA Canada, but it is consulting broadly with the standard setters and the regulators, academia and business itself, just to make sure that we are understanding from multiple perspectives what these roles might look like and how we might add value.

We are always talking about the challenges and opportunities for members, but I also like to think about it as the challenges and opportunities for the profession itself and for the organisation as the voice of the profession. As we are thinking as a profession about continuing to instil that trust. which is so key to our DNA, the profession itself or the organisation itself does have a big role to play in that and how they act as a voice.

We think about that a lot at CPA Canada. So for example, it is how we contribute to public policy, how we make sure we have a seat at the table on issues like climate change, like tax reform, like anti-money laundering, like financial literacy, because I think all of that not only helps our members and gives our members a role to play and a say in the development of public policy, but it also demonstrates to the public the role that professional accountants and organisations can play, which I think is sometimes beyond what the public and even government think as the more traditional role of accountants.

We are quite mindful of that work and how we do that work. We do not contribute to public policy from an advocacy perspective; we always make sure that our position is all around what is in the public interest, and that has served us very well in terms of our complicated role with government and various government bodies there in the country. ■



VALIDIS: A FUNDAMENTAL AND TRANSFORMATIONAL CHANGE IN THE INDUSTRY

Following the publication of the *Brydon Review*, which has proposed a number of recommendations in order to transform the UK audit industry, *Joe Pickard* spoke to the team at accounting technology provider Validis to hear about some of the biggest impacts that technology will have on the industry

The Accountant: You gave your opinion towards the Brydon Review, what were the main points that you put forward?

Jeff Graham: For the *Brydon Review* we really focused on a couple of different areas, the biggest being around improving the quality of audit with technology.

That is the 'broad brush', but deeper down in that, with cloud-based technologies and our tool which extracts and standardises GL data at the lowest level, as well as sub-ledgers, we can then take this extracted and standardised data and compare it against third-party evidence.

We have a feature that compares to third-party bank data, whether that is PDF or Open Banking format, and tells the auditor exactly where things are not matching up. So if it has not cleared cash, either inbound or outbound, or it is not traced out to a deferred account or it is not a non-cash item, then there is a good chance we ought to look a little deeper as an auditor.

There is fundamentally a transformational change in this industry because for many years, our technology was a copy machine – we got paper, we copied it, we gave paper back, we carried around big books, big binders, big briefcases, and then we went to the Lotus, then we went to Excel, but fundamentally that sampling of 3% of a client's transactions gave us a comfort factor and still does.

> "A BIT OF A PUSH FROM REGULATORS IS NEEDED IN ORDER TO CHANGE, SOMETIMES

We have done a good job as an industry of self-regulating, but this process can change now, and can change dramatically. So it has changed, and we have just got a level of excitement that is really encouraging.

TA: Why do you think this profession has been so behind in adopting this technology? Surely we have been moving towards this point for quite some time, over the last decade at least, so why has it taken so long?

James Foster: I think a big part of this is the fact this is a bit of a carrot-and-stick situation. I think a bit of a push from regulators is needed in order to change, sometimes.

I think one of the most important recommendations that the *Brydon Review* made was around the obligation of an auditor to endeavour to detect material fraud in all reasonable ways.

Two changes have happened there. Historically, it was never the requirement of an auditor to try and detect fraud. Obviously, they would have to report it if they saw it, but they were not necessarily looking for it. That is changing. I think what is key here is the term 'in all reasonable ways'.

Historically, it has by no means been reasonable to expect an auditor to carry out 100% population testing, but now, with technology, that is a perfectly reasonable expectation. Why has this not happened earlier? I think because no one asked for it.

Steadily over time, perhaps the value of an audit has fallen, or fewer entities have got value from it. We have seen some horrendous collapses of very well-known businesses with a signed-off audit only a few months previously, and in some of those cases there was an indication of fraud as well as signing off as a going concern when there was no such thing

As well, there are a lot of people screaming from the side-lines saying: "What is going on with audit? A lot of these audits are not fit for purpose." So I think there is a lot of external pressure which is forcing change.

TA: You said nobody has really asked for it. Do you think, in a way, that regulation and regulators are stopping innovation from taking place, either directly or indirectly?

JG: Sometimes it takes regulators to incentivise people to change. This is a profession that is that is very conservative by nature, and it has had a long history of being very successful. So there has been no burning desire to change procedures.

We are self-regulated and we pride ourselves on that. We do have slip-ups, but it has been a profession which has by and large been very successful year after year.

When big changes have come, in the states it has typically been around tax law changes or it has been around regulatory issues. In the US we did not have the Public Company Accounting Oversight Board 30 years ago, but when it was established, things had to change.

I think the advent of cloud-based technologies and the focus on audit has really come into light as kind of a new thing, as in the last five to seven years all the technologies within the industry were focused around tax practice management, data management, workflow, different aspects of the firm, but not so much the auditors. There was technology around analysis and workflow tools within the audit, but not like what you can do now with readily available data.

TA: How hard is it for different firms to implement these new technologies when they have different audit methodologies? Does it make it harder to roll out?

JG: I think the firm's willingness and commitment to change is the single biggest mindset to overcome. You have to be willing to embrace looking at procedures and processes in a different light. The bigger the firm, the harder it is sometimes, but you have


Jeff Graham, Validis

got to get somebody within the firm that wants to champion that

JF: To add to that from a slightly different angle, I think more and more of the firms, especially the larger firms, we talk to are very concerned about attracting and retaining really high-quality staff and attracting new staff to the profession.

If you talk to senior auditors on what attracted them to the profession, it was the excitement of being able to get out and visit some of the world's leading companies and spend time on site and understand how these businesses truly operate and it was very cutting edge.

checking out and not striving to do more for their clients or to grow their career.

The firms that are adopting this technology the quickest are also those that are very big about investing in their people and growing the stature of the audit profession and that is very exciting.

TA: If technology is taking away very mundane tasks that accountants used to have to do surely this will free up more time for training in other areas such as forensic accounting and detecting fraud, more so than they previously have been able to?

JF: Absolutely, I agree entirely. In recommendation 14.2.2, it says directors should report on the actions they take to fulfil their obligations to prevent and detect material fraud against the background of their risk assessments

So more and more pressure is going to come on the auditors from the companies being audited, as greater liability is on them. They will expect members of the audit team to be a lot more skilled in the ability to look for fraud as part of their audit process.

Then to be able to evidence that as part of the audit by saying: "This was the team involved in the audit and this is the level of qualification each of those members have."

> **" MORE AND MORE PRESSURE IS GOING TO COME ON THE AUDITORS FROM THE COMPANIES BEING AUDITED, AS GREATER LIABILITY IS ON THEM**

But what may happen when new, young individuals join and get involved in audit practice, only to see their peers in other areas in transaction services or in tax, enjoying and using some of the latest cutting edge technologies to make their jobs easier by taking away a lot of monotonous aspects of their jobs so they can focus on helping the client, and people that remain in audit are left behind a little bit in a technology vacuum. Finding that they are still having to do a lot of cumbersome, manual processes, just to focus on the real problem that the client has or to do their job, that is frustrating to people and it leads to people leaving the industry.

Or, an even worse situation that has been brought to my attention recently is that they may be staying in the industry but mentally

JG: The larger firms are not only looking at different skill sets, but looking at different disciplines. There have been more firms hiring data scientists, which did not happen 10 years ago.

There are firms hiring more people with industry vertical expertise so that they have a better business understanding of what the client is trying to accomplish. That has benefits beyond just better audit, but as benefits along the consulting lines as well. They are looking for people that can look at the data and say: "This does not make sense."

We have found that an auditor has good auditing skills, but as an individual may not possess all those other skills, even though they trade them up and get better at it, and the fraud detection is on a whole other level. ■

The Accountant.

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Capital, £60,000; in 12,000 Shares of £5 each.

QUEEN'S THEATRE, MANCHESTER (Limited).
Capital, £40,000; in 8,000 Shares of £5 each.

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