Accountancy Futures

Critical issues for tomorrow's profession

Edition 15 | 2017

Ethical dilemmas

The digital age puts professional accountants on the frontline of new ethical debates

Plus: Malaysia's minister with a mission | Regulation | Executive pay gap | Leadership | Audit | Governance | Millennials | Sustainability | Belt and Road | Future of trade | Oil and gas | Shadow economy | Public sector | Irish prime minister | Auditor generals

ACCA Think Ahead

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About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants, offering business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.
ACCA supports its 198,000 members and 486,000 students in 180 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of 101 offices and centres and more than 7,291 Approved Employers worldwide, who provide high standards of employee learning and development.

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About CA ANZ

CA ANZ (Chartered Accountants Australia and New Zealand) is a professional body comprised of over 117,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over. Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations. We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that influence the economy and domestic and international markets.

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 Accountancy Futures is published by Certified Accountants Educational Trust in cooperation with ACCA. ISSN 2042-4566.

Welcome

Explore the critical issues facing the accountancy profession in this jointly produced magazine from Chartered Accountants ANZ and ACCA

As the strategic alliance between ACCA (the Association of Chartered Certified Accountants) and Chartered Accountants Australia and New Zealand (CA ANZ) continues to grow and develop, we're delighted to welcome you to this jointly produced magazine, a result of the increasingly close collaboration between the two professional bodies.

Accountancy Futures takes a forward-looking view on the critical issues facing the accountancy profession. Published twice a year, the magazine showcases the very best research, insights and commentary produced by both organisations.

We'll also bring you fresh and incisive voices from influencers and senior players from around the world. In this edition, among others, we hear from the Irish prime minister on the role of accountants, from the auditor general of Malawi on why professionalism is so vital, and from twenty-something fashion icon Margaret Zhang of Australia on the attitudes to work of the next generation of top professionals.

Meanwhile, the cover feature of this edition explores ethics, a topic that sits at the very heart of professional accountants' working lives, whatever their role. It's an area where there are new challenges. Many on the finance frontline are facing new and complicated ethical dilemmas arising from cybersecurity risks, platform-based business models, big data, artificial intelligence, cryptocurrencies and other aspects of the new digital age which is upon us.

Our feature, based on research from both ACCA and CA ANZ, explores these difficult new ethical dimensions of technological progress in our increasingly globalised world.

It's the opportunity to work together to help the global accountancy profession meet such challenges that has been one of the key drivers of the alliance. Together we can pool our resources, extend the reach of both our research and our influence, and provide a stronger leadership position in representing the profession on a global scale.

We hope you enjoy reading the pages that follow. AF

You can find out more about CA ANZ's Future[inc] research at charteredaccountantsanz.com/futureinc

You can find out more about ACCA's research and insights activities at accaglobal.com/insights

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This publication is also available in a range of digital formats, including as an app for Apple, Android and Kindle devices.
charteredaccountantsanz.com/alliance; accaglobal.com/alliance

Cassandra Crowley, CA ANZ president; Brian McEnery, ACCA president.

The ACCA and CA ANZ alliance

A strategic alliance was founded in June 2016 by ACCA and CA ANZ to shape and lead the future of the accountancy profession. Our combined voice represents the views of 800,000 current and future finance professionals in 180 countries, offering unique range and scale.

The two professional bodies work together to advance public value, to promote and represent members, to provide greater support and resources to members and other stakeholders, and on research projects and events. Together, the two bodies have more than 100 offices and centres around the world.

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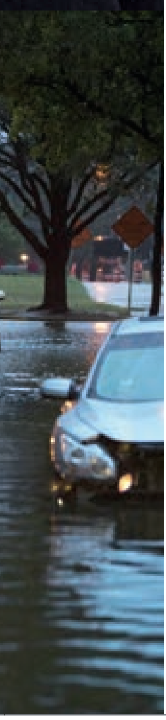
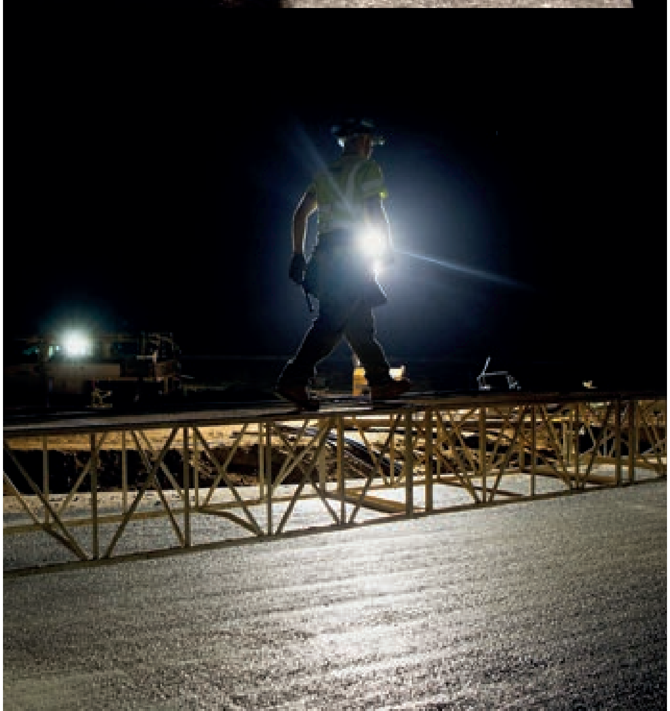



Ethics in the digital age

Technology is opening up a whole new set of ethical dilemmas – and accountants will be at the forefront of the debate

Accountants have never needed to be told of the vital importance of ethics. But from time to time, a scandal in the wider business community reminds us all what damage a lapse in ethical behaviour can do. The global financial crisis was a lapse on an epic scale and as a result, quite rightly, the public and regulatory scrutiny of the financial services sector has increased substantially.

A report by Chartered Accountants Australia and New Zealand (CA ANZ) five years after the onset of the crisis, *Why business ethics matter to your bottom line*, made the point clearly: 'There has been a fundamental shift over the past few years that requires a complete rethinking of the functions of compliance, governance and social accountability, putting ethics into the vocabulary of mainstream management.' It added that there were other, even stronger forces at play; the rapid development of information and communication technologies are creating an environment that is almost unrecognisable from the perspective of traditional management theory and practice.

In this social media-driven world, the perception of a lack of integrity in business will punish organisations quickly where it hurts most – the bottom line. 'The linking of ethical behaviour to reputation makes the effective management of reputational risk and ethical business conduct an integral part of what drives company success,' said the report.

The priority for everyone in the wake of the financial crisis was to make sure that it never happened again. Regulators have certainly worked hard on this, but as a recent report from CA ANZ, *A Question of Ethics – Navigating ethical failure in the banking and financial services industry*, points out, regulations on their own will not succeed. What is needed is a strong ethical culture to drive the right behaviours.

'Individuals in business cannot and should not delegate ethical choices to rules and regulations,' says Karen McWilliams, ethics and sustainability leader at CA ANZ. This is because, as the report found, a good deal of unethical behaviour is unconscious. Few people involved in the key financial scandals of recent times, from mis-selling of financial products to LIBOR rigging, deliberately behaved badly. Instead, says the report, 'an industry-wide culture of tacit endorsement enabled wrongdoers to somehow justify their behaviour, irrespective of the ethical implications.'

Cognitive bias, peer pressure, tacit endorsement and vested interest all serve to persuade otherwise good people to make bad ethical decisions. But, the report argues, these same cultural factors that threaten ethical behaviour can also be used to encourage it.

Ethics in the digital age

How is digitisation changing the ethical dilemmas and decisions that accountants come across in their working lives? ACCA's report *Ethics and trust in a digital age* looks at modern ethical situations in detail across six digital themes.

Cybersecurity

Hackers have found a way into your organisation's open-source database and are holding the data to ransom. They say they will release the data if 0.5 bitcoin (about £1,000 at June 2017) is paid into a specified account. The data is not backed up. What do you do?

Platform-based business models

Your organisation has built a popular platform business offering household services including cooking, decorating, plumbing and gardening. Suppliers whose services are offered through the platform are technically self-employed but in practice almost all of their work comes through it; they have limited bargaining power and do not receive the benefits offered to the small number of direct workers employed by the platform. Are the suppliers being treated fairly?

Big data and analytics

Data is the ultimate asset in the digital age and organisations may be willing to go to great lengths to obtain it. Is it ethical for your organisation to track the movements of visitors to a shopping centre through the free wifi offered, and sell that data on to other businesses? Would your view change if the registration page offered an 'opt out'?

Cryptocurrencies and distributed ledgers

Your organisation, along with its competitors, is considering accepting bitcoins as payment, although there are lingering concerns about whether the virtual currency could be used for money laundering . How do you balance the system's convenience against the possible impact on the company's risk profile and brand?

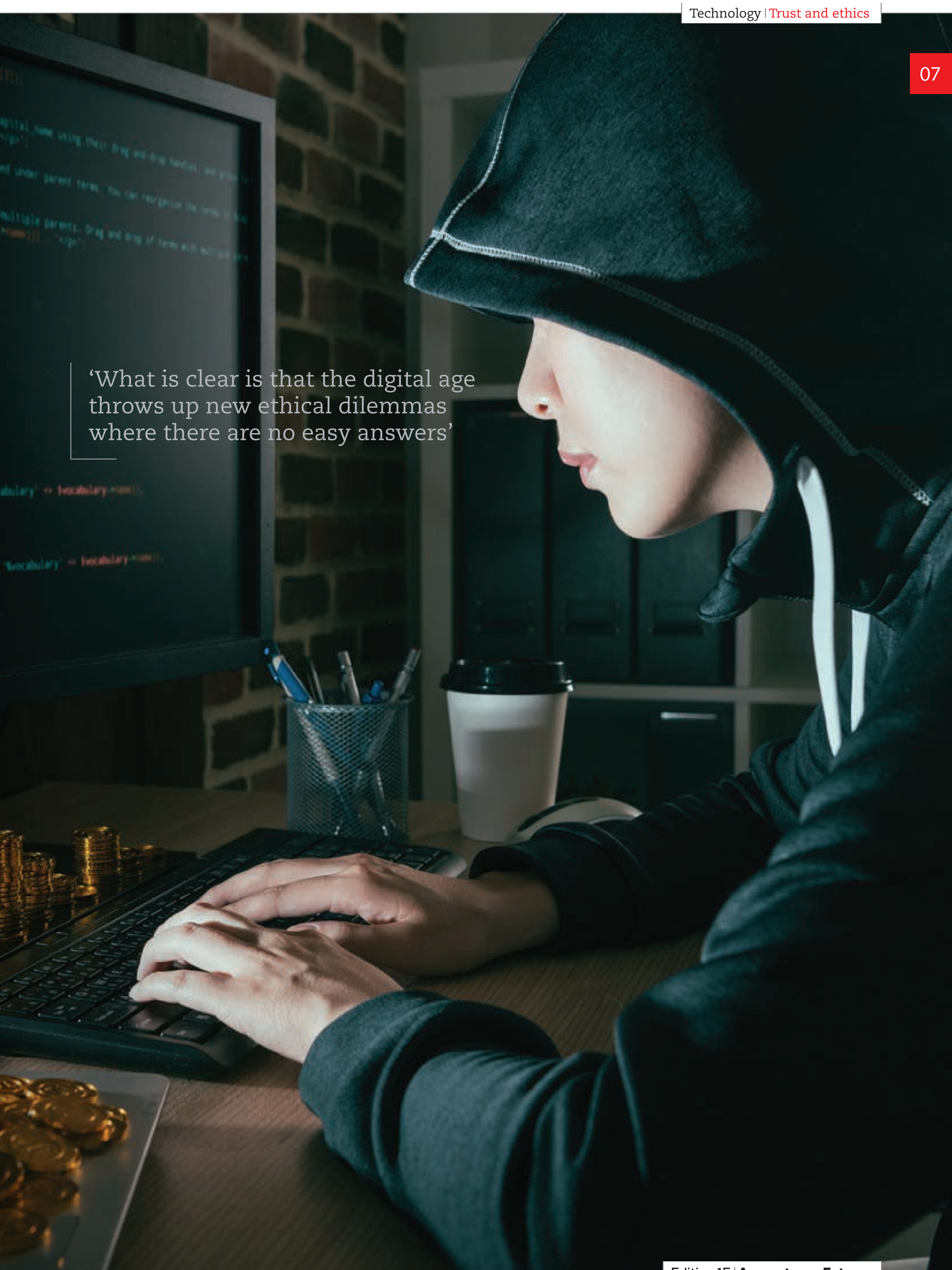
Automation, artificial intelligence (AI) and machine learning

Organisations and their shareholders are looking for competitiveness and efficiency and automation seems the obvious way forward. But what are the organisation's responsibilities towards its employees?

Procurement of technology solutions

A division within your organisation is procuring software from its own budget, bypassing centralised procurement processes. As a result, sub-optimal decisions are being made. You can tackle the immediate problem but what about the underlying issue – perhaps excessive bureaucracy? Is that also within your remit?

For ACCA's *Ethics and trust in a digital age* report and further reading go to bit.ly/ACCA-ethics



> ‘What is clear is that the digital age throws up new ethical dilemmas where there are no easy answers’

Professional accountants, of course, have long understood the importance of a thorough ethical grounding. A survey of more than 10,000 accountants and students across 158 countries, carried out for a new report by ACCA, gave a clear picture of how much accountants value (and use) their ethical training. Ninety per cent of accountants questioned for the report, *Ethics and trust in a digital age*, agreed that ethical behaviour helps to build trust, while 95% of senior executives said that an accountant's ethical behaviour helps their organisation to build trust with internal and external stakeholders.

But the report also examined how the world is changing in the digital age, revisiting what it means to be ethical in a technology-led world. New ethical challenges (see box on page 6) are emerging every day, stretching our understanding and codes of ethics.

The CA ANZ report makes a similar point: 'The financial services industry is ripe for technological disruption. This type of evolution will have both positive and negative implications in the field of ethics.' Automation such as blockchain, it reasons, vastly reduces the risk of human ethical failure, but equally the impact of automation on the workforce is a new ethical question that will have to be addressed. New, previously unseen, ethical dilemmas will arise and the 'right thing to do' may not be immediately apparent.

Accountants will be at the frontline of this new ethical debate; 80% of respondents to the ACCA survey, which included CA ANZ members, agreed that strong ethical principles and behaviour will become even more important in the digital age. 'What is clear is that the digital age throws up new dilemmas where there are no easy answers,' says Maggie McGhee, director of professional insights at ACCA.

Respondents to the ACCA survey agreed, with more than three-quarters saying that upholding their own professional ethics code was the priority. But two-thirds also agreed that embedding ethical standards in day-to-day procedures was the best way to contribute to the organisation's ability to uphold ethics. As McGhee says: 'All those involved in decision-making in business should consider how to support their employees in doing the right thing.'

So what is the answer? The CA ANZ report is based on views from banking and financial services practitioners in six countries and makes a series of recommendations (see box, above right) to encourage ethical behaviour. ACCA has also adapted its ethical training module in response to employers' demands, allowing accountants to show that they understand and can apply ethical behaviour in complex, real-world situations.

'Technology may have an impact on the details one needs to understand in order to be ethical,' concluded the ACCA report, 'but it doesn't change the importance of being ethical.' Ethics will always be about human behaviour – it is up to us to make sure that our standards are upheld as we move into the machine age. AF

Liz Fisher, journalist

Encouraging ethical behaviour

The CA ANZ report, *A Question of Ethics*, makes a series of recommendations which it sees as effective in encouraging ethical behaviour.

Realign incentives

Ethical considerations should be measured (through client surveys, for example) and considered when remuneration is calculated and incentives awarded.

Greater use of principled reasoning

A clear set of principles, usually set out as part of a code of conduct, to guide decision-making should be an essential part of the organisation. These are most effective when the organisation's leaders make it clear they are non-negotiable.

More extensive use of analytics

The accurate measurement and reporting of ethical key performance indicators should form the basis of management's assessment of the ethical climate, risk management and decisions to take corrective action.

Diversity and inclusion

'The lack of diversity in many organisations in the banking and financial service industry contributes to a culture of loyalty and groupthink,' says the report. 'This can discourage the reporting of misconduct by colleagues and industry insiders.'

Examine euphemisms

Euphemisms (such as 'externalities' for any harm done to uninvolved parties) are used to allow people to distance themselves from unethical behaviour. Replacing these with a plain English equivalent is an effective way to encourage change.

Hold ethical moments

Having a short conversation about ethical issues at the beginning of all meetings helps to create an ethical frame that promotes ethical considerations.

Build a framework

An ethical decision-making framework helps employees identify and navigate ethical dilemmas, providing structure to decision-making.

For CA ANZ's *Navigating ethical failure in the banking and financial services industry*, go to bit.ly/CAANZ-ethicsNav

New York City taxi drivers protesting against what they see as Uber's unethical business model, which they say threatens full-time employment.

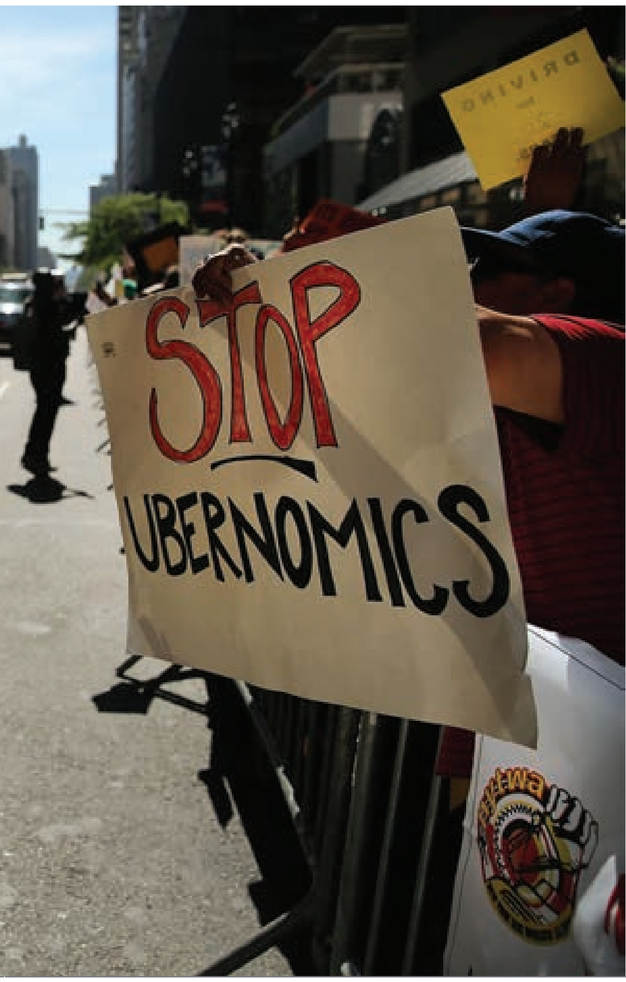
The only way is ethics

ACCA's Alan Hatfield and CA ANZ's Rob Ward look at why ethics is so central to the work of professional accountants – now and in the future

The ability to act ethically at all times – even while under pressure, unsure, compromised or surprised – is absolutely essential for a finance professional. Under the strategic alliance between ACCA and CA ANZ, we have an expansive global reach of around 800,000 current and next-generation finance professionals, and we strive to put ethics at the heart of the training, qualification, resource materials and continuing development of each and every one of them.

So why is ethics important for finance professionals? The 2017 Edelman Trust Barometer found that people's confidence is declining in society's key institutions: governments, businesses, NGOs and the media. Tomorrow's finance professionals will have an uphill battle ahead of them as they attempt to rebuild public trust in business and institutions. Ethical behaviour will be crucial.

For many professionals, acting ethically is important on both a personal and a professional level. And in each of these contexts, a different understanding and application of ethical behaviours may be



Rob Ward is CA ANZ's head of leadership and advocacy, responsible for leading its policy teams in Australia and New Zealand across a range of disciplines that impact businesses and the broader economy.

Alan Hatfield is ACCA's director, strategy and development, responsible for the full range of ACCA's intellectual capital from the overall strategy to talent, brand, policy and qualifications.

required. Professional bodies like ours take on the responsibility of professional ethics: keeping our students and members abreast of developments in work practices, and the ethical quandaries that may arise as a result.

Technology has changed the way that consumers engage with business. It has made the ethical standards of a business more transparent, and empowered consumers and employees to engage with and act on a business's ethics, or lack thereof. New technologies in the workplace have also thrown up new ethical challenges; ACCA's recent report on the subject, *Ethics and trust in a digital age*, identified the ethical quandaries that arise from platform-based business models, and in establishing and maintaining cybersecurity.

And, of course, business ethics also matter to a company's bottom line. CA ANZ's research report, *Why business ethics matter to your bottom line*, showed that management of the ethical dimension is a significant contributor to financial success, and leading corporations are now integrating ethical management into business practices, change programmes and fraud, risk and compliance systems.

In 2016 ACCA published a major piece of research as part of its *Professional accountants – the future* series, which looked at the qualities professional accountants will need to be successful in today's demanding business environment. The research found that professional accountants will need a combination of seven key quotients for success: with technical and ethical at the heart, these are intelligence, creative, digital, emotional intelligence, vision and experience.

Teaching ethics

So if we are to train well-rounded finance professionals, we must incorporate the teaching of professional ethics. These insights informed recent changes to the top level of the ACCA Qualification, including the introduction of a new Ethics and Professional Skills module available from October 2017.

To become fully qualified ACCA professionals, students will have to engage with the concept of ethical behaviour and judgment, and utilise new technologies and digital skills as they navigate real-

> Tomorrow's finance professionals will have an uphill battle as they attempt to rebuild public trust in business

Top and centre: US retailer Home Depot and Sony Playstation have been the victims of hackers. Cybersecurity represents a new challenge in a world of open-source databases and big data.

Bottom: Cryptocurrencies such as Bitcoin are creating ethical dilemmas. Should they be accepted as payment when there are concerns about how the virtual currency could be used for money laundering?

world examples throughout the new module. This way, trained finance professionals will be well-equipped to relate and apply their ethical values with their broader skills, such as communication, commercial acumen, innovation, analysis and evaluation.

Many students will feel that they have a firm grasp of the concept of ethics before they undertake the ACCA Qualification, but all – and perhaps even our seasoned members – will benefit from an understanding of ethics and ethical situations specific to the workplace, and cognisant of new and evolving technologies.

Ethics is also an integral part of the CA ANZ's training programme. The final 'Capstone' chapter further develops a candidate's ethical training.

At both organisations, ethics is embedded into conferences and other education offerings, and enforced by rigorous professional conduct functions. Both organisations also advocate to governments and regulators on matters related to ethics. At CA ANZ this includes advocating on stronger anti-corruption and bribery regimes in Australia and New Zealand to address the growing threat of corruption and cybercrime in the region, and working with the Financial Adviser Standards and Ethics Authority on developing its standards framework.

Rebuilding trust

Both our organisations will be continuing to use our combined resources to identify the drivers of change in today's business environment, and the ways in which this may affect a finance professional's ability to act ethically. For example, CA ANZ recently published a report, *A question of ethics: navigating ethical failure in the banking and financial services industry*, which laid out a number of culture-shaping interventions designed to improve ethical behaviour in the banking and financial services sector.

While a member's ethical compass may remain true throughout the duration of their career, the context in which it is applied will change – there will be new workplaces, situations, behaviours and technologies. ACCA and CA ANZ produce resources and research papers on a number of potential ethical issues or situations to ensure that our members have the tools required to face these challenges.

We expect and help our members to continue developing throughout their careers, and acquiring a nuanced understanding of today's ethical issues is a crucial part of this process.

Today's finance professional needs a strong understanding of professional ethical behaviour, from their very first student experience, throughout a varied career and especially when facing the challenging or unexpected. We see this every day in ACCA and CA ANZ members and students, and it makes us confident that the current and next generation of finance professionals are ready to rebuild trust in our business institutions. If accountants can be the frontline of professional ethics, others will follow and society will benefit. AF

Former Enron executive Kenneth Lay, centre, leaving court in Houston, Texas in May 2006, after being found guilty of fraud and conspiracy.

Follow my leader

The Enron scandal forced researchers to rethink their ideas of what makes an effective leader, says Dr Rob Yeung

Over the years, business school and university research has thrown up many competing models of effective leadership. In terms of this kind of rigorous academic research, is the notion of ethics in leadership on the rise or fall?

In the 1980s and 1990s, perhaps the dominant model of leadership was the transformational theory. Studies by researchers such as the late Bernard Bass found that transformational leaders motivate their followers through four behaviours:

- creating exciting visions that inspire followers
- using their charisma – personality, words and behaviour – to engender admiration and loyalty
- intellectually stimulating followers by challenging them and encouraging them to take risks
- emotionally caring for followers by paying attention to their individual needs.

Hundreds of studies worldwide subsequently explored the impact of these behaviours, generally finding that transformational leaders were associated with positive outcomes such as happier employees.

However, critics pointed out that executives such as Enron founder Kenneth Lay and CEO Jeffrey Skilling were both highly transformational. Yet their unethical and eventually illegal behaviour led to the downfall of Enron and massive corporate value destruction.

As a result, researchers created a newer theory of 'authentic' leadership, comprising four behaviours:

- having an accurate understanding of one's values, emotions, strengths and weaknesses
- taking on board the views of others
- sharing one's genuine thoughts and emotions
- being guided by a moral and ethical code and a desire to make a difference.

Further studies showed that authentic leader behaviours were also associated with positive work outcomes. In truth, both types of leadership behaviours are related to leaders' effectiveness; but the authentic model recognises that leaders can be quietly effective, without being rousing, charismatic figures. Authentic leadership at its core focuses more heavily on consensual and ethical behaviours.

There are other differences between the two. A 2016 academic paper compared the leadership models of 25,452 individuals. Researchers led by the University of North Carolina at Charlotte's George Banks found that transformational leadership behaviour tended to be associated with higher follower satisfaction and task performance, while authentic leadership was linked to higher group and organisational performance. In other words, transformational leaders make followers happier and get them to perform individual tasks better, while authentic leaders get better collective results.

Since the start of 2016, around 27,100 research papers have been published on transformational leadership, and 29,600 on authentic leadership. But the figures for 2017 tell a different story: 12,600 on transformational leadership, and 17,000 on authentic leadership. This suggests that the focus on ethics in leadership as a topic will continue to grow.

Dr Rob Yeung is an organisational psychologist at leadership consulting firm Talentspace.
talentspace.co.uk

Tomorrow's regulator

The regulator of 2030 will need to move as fast as – or faster than – those they regulate, predicts Geraldine Magarey FCA

Geraldine Magarey FCA is leader of policy and thought leadership at CA ANZ.

Megatrends are transforming the way we do business at an extraordinary speed. However, it is not just business that needs to adapt. Regulators around the globe also need to look at their own regulatory models in light of the changing nature of business and these megatrends.

To be able to effectively regulate society and the economy, it is essential that regulators have a firm grasp on both the new and emerging business models they are tasked with regulating, and the technologies which underlie them. While regulators strive to strike the right balance between consumer protection, the promotion of fair and efficient markets, and fostering innovation, they must also be at least as innovative as those they monitor.

Keep up with the disruptors

So what are some of the disruptors that are challenging existing regulatory models? Fintech startups continue to disrupt the financial sector with their innovative use of new and existing technologies. The peer-to-peer economy with marketplace lenders, robo advisers and the use of drones for property assessment in the insurance industry are all disruptors that regulators need to keep pace with.

While many regulators have recognised the need to change, this comes at a cost. With competing demands on the stretched public dollar, government funding of regulatory agencies often falls short. In light of this, regulators have been forced to reconsider their funding models, their management styles and the possibility of achieving efficiencies through technology.

Chartered Accountants Australia and New Zealand recently released a report, *The Regulator of 2030: Regulating our Digital Future*, which examines the megatrends driving business and those most likely to force a response from regulators as we move toward 2030. We also explored the question of funding, which is crucial, given that regulators can only respond within the limits of the resources available to them.

Challenges and opportunities

We considered how regulators are responding to the challenges and opportunities posed by these dynamic forces. We also highlighted the characteristics that will be critical for a regulator in 2030 and beyond. The regulator of 2030 will no longer be playing catch-up as markets continue to be disrupted by innovation. They

will have heeded the advice of the World Economic Forum founder and futurist Klaus Schwab, who warned that their survival would depend on behaving more like entrepreneurs than bureaucrats.

We identified six essential characteristics that regulators must have in order to remain effective and retain confidence.

1. Embrace innovation. Common characteristics of innovative organisations are autonomy, risk-taking, personal initiative and a willingness to experiment. For these characteristics to become ingrained, they must be actively encouraged and rewarded. They must also be modelled by those in positions of leadership. The 'tone from the top' is central to setting organisational culture.
2. Operate in a flexible and adaptive culture. The emergence of new technologies and business models, and changing social norms and market conditions, mean that regulators rarely operate in a static environment. These developments can alter both the profile of risks to be managed, and the suitable regulatory approach. A flexible and adaptive regulatory culture increases the likelihood of a timely, appropriate and proportionate response to such developments.
3. Connect and be proactive. Regulators that don't respond quickly risk losing investments to other capital markets. In 2030, regulators will need to collaborate with market participants to avoid producing legislation that stifles new initiatives. The regulatory sandbox concept is an example of this approach working well in countries such as the UK, Singapore and Australia. Rather than imposing laws on regulated entities irrespective of their fit, the focus will increasingly be on developing regulatory solutions via partnership.
4. Digitally transform. Future regulators will be digitally transformed. As the companies they oversee embrace technology solutions (known as 'regtech') to meet regulatory requirements, regulators themselves will gain real-time insights into the markets by applying analytics, machine learning and artificial intelligence filters to the vast pools of data at their disposal. They will be able to look forward to identifying emerging trends and areas of systemic risk and non-compliance.
5. Recruit creatively and across a wider skillset. Traditionally, regulators have recruited largely from pools of lawyers and accountants. Future regulators will seek out a range of skillsets, mirroring those of the organisations they regulate. Lawyers and accountants will continue to play an important role in 2030, but the digitally transformed and innovative regulator will also seek out specialists with computer science and engineering backgrounds, skilled analysts and technologists who speak the same language as those they oversee.
6. Use of behavioural insights. As regulators have developed insights into how people make decisions, it has helped them to identify problems and tailor solutions that are potentially less interventionist, but that have a greater impact. Future regulators will design regulatory structures differently to oversee a world of extraordinary complexity. In order to do so effectively, they will incorporate behavioural research into their work.

> The regulator of 2030 will no longer be playing catch-up as markets continue to be disrupted by innovation

To be successful, regulators will implement these changes in collaboration with stakeholders, including governments, policymakers, business and consumers. In many instances this will necessitate a change in culture from the solitary and reactive 'corporate cop' of today to the nimble and real-time regulator of the future. Regulators must continue to adapt, as getting policy and regulatory settings right is vital for cultivating the innovation in our markets that underpins economic growth.

We see the regulators of 2030 moving as fast as – or faster than – those they regulate.

Explore the rapidly changing landscape brought about by technology and how it undermines many of the barriers that protect public authority as CA ANZ's specialists examine the readiness of regulators in 2030 and beyond at bit.ly/reg2030

Worlds apart

The global pay debate is hotting up, but finding effective solutions to the growing disparity between executive and workers' pay won't be easy

The divisive issue of chief executive pay has periodically flared up for decades in the US and UK. But increasingly the debate is becoming global – with media outlets from India to New Zealand picking up growing concern over the widening gulf between corporate leaders and the average employee.

A recent study in New Zealand, by accounting lecturer Helen Roberts, garnered headlines by revealing that typical CEO pay had just breached US$1m for the first time. Pay at the top has been increasing at 7% a year since 1997, compared to just 3.7% for the workforce overall, Roberts calculated. Meanwhile a recent *Hindustan Times* article took aim at the lofty salaries drawn by India's chief executives. And in the UK, prime minister Theresa May has found time amid the Brexit negotiations to focus on the issue, backing new rules that will oblige companies to publish a ratio between the pay of bosses and the average for the wider company.

'This is a debate that typically dominates the headlines for a few months before dying down again,' says Paul Hodgson, an expert in executive compensation. 'Now the swing to political populism in the US and the UK – with the Brexit vote and the election of Donald Trump – has given the issue a new sense of urgency. Excessive executive pay is seen by critics as just one part of a capitalist system where the rules are rigged in favour of the elites.'

Resentment grows

Resentment over the scale of executive pay seems to have been intensified by the sluggish rate of salary increases in most developed economies over the past decade or so. In the UK average total pay has risen by

33.7% since 2005, only slightly more than the 32.2% rise in consumer prices, according to figures from the Office for National Statistics.

Workers in the UK are not alone in experiencing near stagnant standards of living. Real wage growth has been weak for the median worker across much of the developed world, from Italy and Spain to the US, where average hourly earnings rose around 2.5% in 2016, while a study by The Conference Board showed executive pay climbing at 5.9%.

The risk of a mounting populist backlash is one that politicians are taking increasingly seriously. May has warned that public confidence in capitalism is at stake. 'For many ordinary working people – who work hard and have paid into the system all their lives – it's not always clear that business is playing by the same rules as they are,' she has written. 'For people to retain their faith in capitalism and free markets, big business must earn and keep the trust and confidence of their customers, employees and the wider public.'

Such words are especially notable coming from the head of a party that has historically prided itself on being pro-business.

The question is what politicians can do about this. Governments in the UK and US have tried numerous ways to address their problem in the past – from increasing disclosure on pay and tweaking the tax code to encouraging a greater say on pay for shareholders. So far, none of these measures appears to have worked.

Some interventions may have even contributed to the problem. Disclosure, the most popular political solution to unequal pay, seems to have had the paradoxical effect of super-charged executive pay rises.

Research by Cornelius Schmidt, an assistant professor at the University of Lausanne and the Swiss Finance Institute, concluded that 'enhanced disclosure can lead to a, likely unintended, effect of higher compensation levels and might explain recent excessive compensation'.

Unintended consequences

The study, based around corporate governance reform in Germany in 2006, found that companies with enhanced pay disclosure increased CEO pay at a faster rate than those that kept compensation secret. Enhanced transparency in the US in the early 1990s was also followed by an acceleration in executive pay.

'More information on pay appears to have produced a ratcheting effect,' says Gary Hewitt, director of corporate governance at research firm Sustainalytics. 'Rather than embarrassing overpaid chiefs and boards into trimming pay, it led relatively underpaid chiefs to demand higher pay. Disclosure made it easier to get good data to make the case for higher pay.'

Tinkering with the tax code has been another notable failure. US president Bill Clinton introduced a US$1m cap on the deductibility of compensation for the top five executives at any company. Additional pay would be taxed. Since this only applied to standard pay, companies increased bonuses and grants of stock options, along with other forms of compensation. CEO pay, which averaged US$2.6m in 1991, rose to US$9m by 2011.

Finally, in 2010, Congress unveiled rules granting shareholders a regular 'say on pay'. This vote, typically held every year, has so far had a minimal impact. Only a handful of executive pay deals have been challenged. And overall, CEO compensation settlements have continued to far outpace median pay increases.

'One potential problem with this approach has been that CEO compensation, however large, is typically still a very small fraction of the earnings of a large enterprise,' says Jane Fuller, co-director of the Centre for the Study of Financial Innovation. 'Unless shareholders worry that pay at the top could drag up everybody else's pay, which doesn't appear to be the case, it is not considered a material financial issue.'

But Fuller believes that shareholders and politicians need to take a broader view. While CEO pay may not be a drag on earnings, it has been corroding confidence in capitalism. The recent reforms suggested by the UK government, she believes, have some merit. Earlier reforms compelled companies to provide a single figure for CEO compensation. 'This was complex since executive pay consists of a complex combination of elements – including deferred stock and equity options – whose value can vary over time,' Fuller says. 'Comparing this figure to the average level of pay, as the latest reforms require, shifts attention to the wide gap between the top and the rest.'

> 'CEO compensation, however large, is typically still a very small fraction of the earnings of a large enterprise'

Companies should also be aware that further government intervention may come if CEO pay continues to significantly outpace compensation in the rest of the economy. For example, the UK government had originally considered insisting that companies put a worker representative on the board.

Still, while the global pay debate is likely to heat up further over the coming year, finding effective solutions won't be easy – especially if history is any guide. 'Governments have a serious dilemma,' says Hodgson. 'Most are eager to curb this growing inequality. But they don't want to get into the business of setting or capping pay and attempts to gently encourage restraint don't seem to have worked. Only in nations like Japan, with a more collectivist and collaborative culture, or China with a large number of state-controlled firms, has CEO pay remained under control. Across the rest of the world, the search is likely to continue for ways to persuade shareholders and corporate boards to keep executive pay in check.

Christopher Fitzgerald and Fernando Florez, journalists

The governance magnet

Foreign investors want big markets and growth economies – as well as the peace of mind of robust corporate governance. So how does Africa fare?

According to World Bank data, six of the 12 fastest-growing economies between 2014 and 2016 were in Africa. With the continent's population predicted to more than double by 2060, Africa would seem well placed to attract investors, yet the continent draws in only a tiny percentage of the world's foreign investment.

One way to encourage investors is to have robust corporate governance frameworks in place. So how well developed is corporate governance across Africa? The second phase of a recent study by KPMG and ACCA, *Balancing Rules and Flexibility for Growth*, focuses on 15 African countries, examining their corporate governance requirements against the benchmark of the corporate governance principles set out by the Organisation for Economic Co-operation and Development (OECD) in 2015, looking at clarity and completeness of content, degree of enforceability, and availability of relevant requirements.

High standard

Although the study found a wide divergence in corporate governance requirements between the 15 African markets, all have a corporate governance code (or equivalent), with most having adopted their first codes since 2000. The standard is relatively high, reflecting the fact that countries have been able to benefit from lessons learned in the evolution of earlier codes elsewhere in the world.

Based on the analysis of local legal frameworks, South Africa came top of the ranking – having adopted the largest number of the OECD's principles of corporate governance. Kenya, Mauritius, Nigeria and Uganda completed the top five.

Overall, a majority of markets (10 out of 15) have aligned their corporate governance requirements with more than 80% of OECD-related principles. Even in Ethiopia, where no stock exchange currently exists, the fundamentals of a strong corporate governance framework are in place.

As well as the adoption of the OECD principles, the researchers also looked at the extent to which countries include requirements seen as leading or better practice. Nigeria is the best performer in this context.

Most markets mandate the basic requirements (financial disclosure, shareholders' rights and the role of the board) and supplement them with non-mandatory instruments

Corporate scores

South Africa topped the ACCA/KPMG report's corporate governance rankings.

Ranking		Score
1	South Africa	145
2	Kenya	128
3	Mauritius	126
4	Nigeria	124
5	Uganda	120
6	Egypt	109
7	Rwanda	106
8	Morocco	102
9	Tunisia	98
10	Mozambique	90
11	Tanzania	85
12	Ghana	82
13	Zambia	80
14	Malawi	67
15	Ethiopia	59

(good practice guidelines and governance codes). An average of 32% of corporate governance requirements are compulsory, while 45% take a 'comply or explain' approach, and 23% are voluntary.

The markets that gain the highest scores for clarity and completeness of requirements codify most of them in the form of 'comply or explain' instruments. The report suggests that too many prescriptive or mandatory requirements may lead to a compliance-only culture where companies do the bare minimum. However, relying entirely on a voluntary approach may not create sufficient impetus for companies to adopt even core corporate governance requirements. Striking the right balance between rules and flexibility is a tricky task for any country, but is of fundamental importance for countries where the corporate governance framework is very much evolving.

Jo Iwasaki, ACCA's head of corporate governance, says: 'We see a lot of interaction with internationally available principles and with other countries that have adopted corporate governance codes or similar frameworks. However, success in implementing frameworks, whether they have mandatory or voluntary requirements, depends on the effort made by the enforcing body. Having a corporate governance framework in place is fundamental but is only the starting point.'

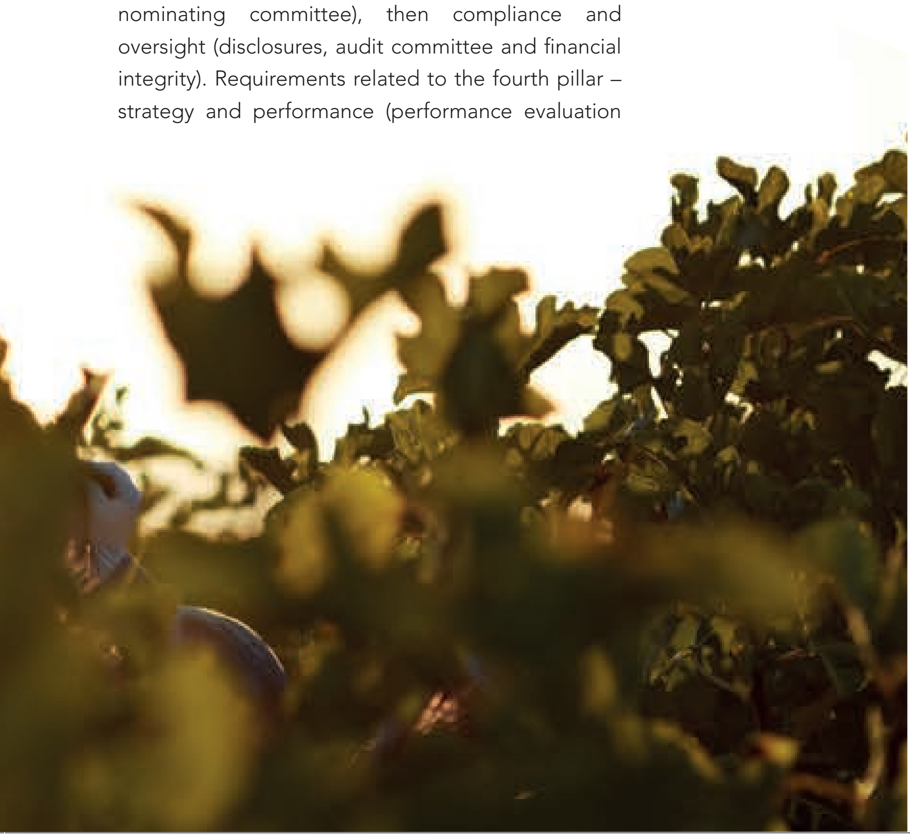
Four pillars

The ACCA/KPMG study looked at countries' requirements across four pillars or tenets of corporate governance associated with the OECD principles. Countries tend to have the most well-defined corporate governance requirements in relation to the stakeholder engagement pillar (which includes shareholder rights), followed by leadership and culture (role of the board, director independence, nominating committee), then compliance and oversight (disclosures, audit committee and financial integrity). Requirements related to the fourth pillar – strategy and performance (performance evaluation and remuneration structures) – are significantly less well defined.

In general, the better defined areas of corporate governance are mostly quantifiable or tangible in nature (structural), or have had more widespread attention over a longer time. They are fundamental tenets of a strong corporate governance framework, and the researchers were encouraged to find that countries are 'getting the basics right'.

Several markets have even moved ahead of OECD principles. For example, the recent King IV Report in South Africa contains elements that go beyond leading and even emerging practice, with board responsibility for governing the technology and information framework (including a specific and separate responsibility for governing cybersecurity risk frameworks).

> Too many prescriptive requirements may lead to a compliance-only culture where companies do the bare minimum



The corruption problem

Transparency International's Corruption Perceptions Index shows that Africa endures some of the highest levels of corruption in the world. They include countries in the KPMG and ACCA study, which found no correlation between strong corporate governance requirements and lower levels of corruption. This indicates that adding anti-corruption requirements to corporate governance instruments is not enough in itself to combat entrenched corruption. The report suggests a coordinated effort by business and government (including a zero-tolerance stance on corruption in government and investment in enforcement) is needed to start tackling the problem.

A third of the countries in the KPMG and ACCA study have recently reviewed their corporate governance codes. Given the impetus of the OECD 2015 principles and the need to encourage more foreign direct investment, the report suggests that now could be the right time for regulators to take stock and revise their codes where necessary.

'A number of countries have had governance codes for some time, and the experience of implementing them must have created practical learning points,' Iwasaki says. 'These could be reflected either in a revision of the code or the production of related guidance material so companies can improve corporate governance practice.'

Sarah Perrin, journalist

Read *Balancing Rules and Flexibility for Growth* at bit.ly/ACCA-AFRgrowth

The spirit of the law

Sadia Khan, the guiding light of corporate governance in Pakistan, aims to make the country's boards transparent, accountable, fair – and diverse

Economist and business executive Sadia Khan is recognised as Pakistan's leading advocate of better corporate governance for her work over the past two decades in the public and private sectors. As Pakistan prepares to implement new corporate governance rules, she hopes that they will lead, among other things, to more women on corporate boards.

Khan has literally written the book on the subject, which she hopes will help the country's business leaders, policymakers and regulators move to the next stage. As the lead author and editor of *The Corporate Governance Landscape of Pakistan*, she says: 'In my country we have a tendency to reinvent everything. I wanted to record what has been accomplished in corporate governance in the last 15 years for people to take it to the next stage.'

Corporate governance reform in the country has advanced significantly since Khan spearheaded the adoption of Pakistan's first code of corporate governance in 2002, as executive director of the Securities and Exchange Commission of Pakistan (SECP). To that effort she brought experience gained as a financial economist at the Asian Development Bank, helping countries in south-east Asia implement corporate governance reforms in the wake of the region's 1997 financial crisis.

Pakistan's first steps towards a national corporate governance regime were not universally welcomed. The recommendations of the 2002 task force were 'subjected to all kinds of abuse from the corporate sector', Khan recalls. The family-owned firms that dominated the landscape 'didn't like the concept' of independent directors, for example. As a result of this opposition, Khan says the final document was 'truncated'.

Even so, the 2002 reforms introduced the basic provisions of corporate governance for publicly traded firms. They addressed several issues related to directors – conflicts of interest, and their roles, powers and obligations – and imposed a maximum limit on the number of directorships an individual can hold. The code also mandated audit committees, and prohibited auditors from providing non-auditing services. In his contribution to *The Corporate Governance Landscape of Pakistan*, Ebrahim Sidat, retired former chief executive of EY in Pakistan, described it as a 'pioneering framework'.

Nevertheless, the code's provisions proved too much for a handful of corporate patriarchs, who moved to delist their businesses. A decade later, however, with Khan again playing a major role in the task force that developed a second round of reforms, attitudes had begun to change and have continued to evolve since. 'There has been a mind-shift due to a greater awareness of the business case,' Khan says. 'Well-governed firms are in a better position to attract foreign capital, and executives now understand how more robust accounting affects the bottom line. They have realised the importance of corporate governance, instead of just doing things to satisfy regulations.'

The 2012 code reflects the new mindset. Among other provisions, it stipulated that at least one board member should be independent, and set a target for one-third of members to be independent in future. It also made it illegal for individuals to hold the positions of chairman and CEO simultaneously, and required boards to establish human resource and remuneration committees.

Khan is a member of several corporate boards herself, including those of Karachi-based Engro Fertilizer and a subsidiary of Malaysian telecoms infrastructure services company Edotco. She has also been a non-executive director of several others, so she is well placed to monitor the progress of the current governance reforms. 'There has been a change in people's perceptions,' she says. 'Company officials are more open to the concerns of all business partners, including minority shareholders and creditors, and corporate social responsibility programmes are becoming more prominent.'

> 'There has been a change in people's perceptions. Companies are more open to the concerns of all business partners'

While the latest rules form part of the new Companies Act 2017, which came into force in June, specific provisions were prompted by revelations made in the Panama papers last year, notably concerning the then prime minister Nawaz Sharif and his family, who were found to have controlled offshore bank accounts.

In consequence, the provisions include, for example, a requirement for directors, officers and shareholders to disclose their interests in any foreign entity. The aim is to boost transparency in financing and help identify money laundering.

The new law also helps advance what Khan calls her pet project – greater participation of women as directors on corporate boards. The 2012 code encouraged companies to appoint women to boards.

While the new provisions do not stipulate that women participate on all corporate boards, they give the SECP power to insist that women be appointed to the boards of what it regards as public interest companies. Khan hopes gender diversity will receive greater attention in Pakistan as a result. She says there is a whole body of literature suggesting diversity leads to better decision-making. Women are also the primary customers for many products and services. 'Most of the spending is done by women, even in male-dominated households. If your customers are women, you need to be in touch with them.'

Women board members can also play a part in breaking up the old boys' clubs that have dominated boardrooms, she says, with the directors' concomitant unwillingness to criticise each other.

Yet Khan is wary of imposing quotas to boost the number of women directors, in part because of the reaction to them. 'Quotas lead to a sense of entitlement on the supply side,' she says, 'and resentment on the demand side.' Yet she is not entirely closed to the idea. 'Certain countries and societies may need a push,' she says. 'And Pakistan may be a case in point. We need to have that discussion. More importantly we need to step up our efforts to train women for board positions.'

Khan is not formally involved in the task force preparing the latest proposals, but her voice will continue to be heard. She says it remains to be seen whether the new rules will be implemented in both letter and spirit across all segments of society.

Sadia Khan

Sadia Khan, economist and business executive, is the co-author and editor of *The Corporate Governance Landscape of Pakistan*, published this year. From 2008 to 2013, she was a member of task forces to revise the first code of corporate governance and then formulate corporate governance guidelines for state-owned enterprises. Between 1996 and 2000, she was a financial economist for the Asian Development Bank. The years 2000 to 2003 saw her as executive director for the Securities and Exchange Commission of Pakistan (SECP). And from 2003 to 2005 Khan was head of strategic management at the State Bank of Pakistan.

One of the big challenges is putting the rules into practice. 'We have some of the best regulations and laws, but implementation is lacking,' Khan says, with businesses all too often respecting the letter of the law, not the spirit.

Education is one of the important keys to change here, which helps explain why students are one of the target groups for Khan's book. 'From the students' perspective, we address the principles: transparency, accountability and fairness,' she says. 'It is not just about appointing two independent directors. You need to appreciate the essence.'

Alongside her involvement in corporate governance, Khan runs her own business, Selar Enterprises, an export management and advice company. A graduate of INSEAD's MBA programme, she is also the current president of the business school's global alumni association. AF

Bill Hinchberger, journalist

Meet the future

The next generation is set to take the workplace by storm, with fashion icon Margaret Zhang leading the way

Last year, a white paper from Chartered Accountants ANZ and Deloitte Access Economics posed a provocative question: 'The future of work: how can we adapt to survive and thrive?' The paper explains that mega trends such as globalisation and digital disruption are radically changing how people manage their careers. Based on a survey of more than 1,400 Australians, the paper says two-thirds of early career workers expect their job will not exist, or will fundamentally change, in the next 15 years.

Furthermore, the paper says younger workers are already 'taking non-traditional or non-linear career paths following on from their university education. The skills gained from studying particular degrees are becoming increasingly transferable.'

The report emphasises that globalisation is enabling more and more professionals to connect across borders, working for businesses all over the world. Younger workers are at the vanguard of this, according to the report: 'Already, the millennial generation has been highlighted as being more mobile than previous generations, with one in four nominating global opportunities and experiences as the most important feature in the first five years of their career.'

Trends such as these have led to speculation about what tomorrow's careers will involve. A 2014 report by PwC, *The Future of Work: a journey to 2022*, painted a scenario where the typical future professional will 'enjoy more flexibility and varied challenges by working freelance or as a contractor for a number of organisations'.

For a preview of what this future professional might look like, meet Margaret Zhang. The 24-year-old Australian is a photographer, stylist, writer, creative director and consultant, having worked all over the world with brands including Gucci, Dior and Louis Vuitton. She also holds a Bachelor of Commerce and a Bachelor of Law, and was last year named in the Forbes 30 Under 30 Asia list of young leaders. Zhang divides her time between clients, projects and continents. Her work ethic is legendary, and her

influence grows by the day (at last count, she had more than 1.5 million engaged followers across her social media channels). In fact, without realising it, Zhang is already following the advice contained in the Chartered Accountants ANZ and Deloitte Access Economics white paper: 'The Australian labour force will have to consider how to differentiate themselves. This may be through offering a unique combination of skills, a different perspective, strong personal brand, or a well-developed network.'

The youth of today

Given the future direction of careers and the workforce, it is fascinating to watch someone like Zhang in action. She is a trailblazer for a new generation of multi-skilled, multi-tasking professionals. So how does she feel when millennials are described as the selfish 'me generation', who can't commit and expect instant career progression?

'People just project their insecurities, ignorance and fear of change onto what they don't understand, and call it insubstantial and frivolous,' says Zhang.

'And yet, young people have always been on the right side of history – with feminism, with civil rights, and today, it's with technology.

'Anyone saying that millennials "can't commit" fails to realise that millennials don't need to commit, because of the increased fluidity of industries through democratised technology, and because new jobs and roles are being created daily to fill the exponentially shifting rate of consumer demand.'

According to Zhang, millennials expect instant career progression because that is a realistic expectation if they work hard, smart and early. 'They're not trying to take your jobs – they don't want your jobs, because those jobs are conventional, predictable and will probably be obsolete within a decade as more and more human tasks become automated.'

The rise of automation and artificial intelligence is seeing the death of many traditional jobs and a period of adjustment in the workforce is already underway.

'It's up to government and corporate bodies to work

Generation Next

In 2016 ACCA released a report that shared insights on the work preference and career aspirations of the youngest generation in accounting and finance today. Almost 19,000 respondents under the age of 36 from 150 countries participated, making it one of the largest ever surveys across the global profession.

Organisations cannot attract, nurture or retain the finance leaders of tomorrow in the same way as the leaders of today. The survey suggests millennials in the accountancy profession are well equipped to deal with change driven by technology and globalisation. They have a global outlook, often expecting to work in another country in their next role or at some time in their careers. They are technologically savvy and technology holds little fear for them. Work-life balance and a variety of experiences are important to them and they will switch jobs quickly to attain what they want from their careers.

The survey results raise new questions – and the report presents a few possible answers – as to how best to engage and nurture young professionals to 'future proof' the talent pipeline. How can finance provide more sustainable, fulfilling career development opportunities in the face of a rapidly changing business landscape? How can organisations equip the next generation with the skills and capabilities to thrive, and not just survive, in a challenging world? How can the profession adapt and innovate to ensure it remains attractive globally?

To read the ACCA report and find out about the most recent research activities, visit bit.ly/ACCA-GenNextResearch.

together to provide training as the workforce evolves alongside technology,' says Zhang.

'In the long term, we'll become more efficient, adaptable, and globally open in socio-political and commercial spheres. That's in theory, of course. There's a way to go before we get there.'

Poles apart

When Zhang says there's a way to go, she means that literally as well as figuratively. For example, Australian businesses have generally been slow to understand the opportunities in Asia's fast-emerging consumer markets. Not so Zhang, who has consulted for international fashion brands in Asia and even recoded her own website to include a Mandarin translation.

'The idea that Australian brands have a baseline advantage in Asia, aside from the obvious logistical advantages flowing from regional trade agreements, is largely misconceived,' says Zhang.

'Our pop culture is inherently American, our legal system is British and, despite our surface multiculturalism, Australians and Australian companies have very little understanding as to the cultural nuances that apply to consumer preferences and interaction with brands and media. The very phrase "expand into Asia" is itself problematic. Asia is not the faraway, exotic East with a homogenous aesthetic or some unified mass hysteria for a Western lifestyle.

'What drives consumers in South Korea is poles apart from those in China. What will work in Thailand has absolutely no correlation with the way advertisers might succeed in Singapore. To "expand into Asia" requires a full sweep of research into fundamental personal values, their perceived value of different categories of products relative to one another, who they perceive to be media authorities, etc.'

Learning and earning

In the 1990s, Zhang's Chinese parents moved to Australia, where she grew up. Her initial career success stemmed from Shine By Three, a fashion blog that she started at the age of 16. By the time she was studying at university, she was freelancing as a model and fashion photographer, as well as sitting front row at fashion shows around the world, and even appearing in a reality documentary television series.

This was an early introduction to the time-poor challenge that more and more people face as they seek to juggle lifelong learning, paid work, and a personal life. 'My more difficult semesters during university involved me going straight to the airport from class on Thursday evening, flying out to Asia or the US for work, then flying back into Sydney on Tuesday morning and going straight to an 8am class,' Zhang remembers.

'I would study on the plane, in the car, whenever I had time without people around.'

Since graduating, her professional life has been just as hectic. Zhang says sheer passion and determination sustain her, but she does admit she spent last year 'jumping between all too many projects and clients to remain reasonably sane'.

The solution in 2017 has been to commit to longer-term projects that require constant work rather than one-off photoshoots and jobs, she says.

Making it add up

Besides chronic busyness, a world with fewer permanent jobs and more freelance arrangements will mean many workers cease to benefit from paid sick leave, annual leave or parental leave, and cease to receive employer contributions to pensions/superannuation. But Zhang's experience provides an optimistic assessment of those risks.

'The best and worst part of being freelance is that you only get out as much as you put in. So, you can take time off whenever you need to – but you don't have that financial security blanket. Everyone I know who has gone from full-time employment to hustling on their own has always ended up working more hours than they did at their office job. But it doesn't matter if you really love it.

'Financially speaking, I save like a fiend, make investments that I can be functionally involved in, and stay on top of global current affairs and economic news, which informs personal financial decisions.'

Andy McLean, content marketing consultant and freelance writer

This article first appeared in the June/July edition of *Acuity* magazine, and can be found at acuitymag.com.

Read CA ANZ-Deloitte Access Economics' white paper *The future of work: how can we adapt to survive and thrive* at charteredaccountantsanz.com/futureinc

Minister with a mission

Datuk Seri Johari Abdul Ghani FCCA on how his early years and corporate career paved the way to his role as Malaysia's Second Finance Minister

When Datuk Seri Johari Abdul Ghani FCCA embarked on his career as an accountant over 25 years ago, little did he envisage he would one day be managing the nation's finances and overseeing its economic and financial policies as Malaysia's Second Finance Minister.

Here, Johari describes how his ACCA training, a successful corporate career and his early years in a poor squatter community have influenced him, as well as discussing the challenges facing the profession.

Datuk Seri Johari Abdul Ghani

Datuk Seri Johari Abdul Ghani received a diploma in accounting in Malaysia before furthering his ACCA accounting studies in the UK, attaining his FCCA status in 1993. He joined international accounting firm Peat Marwick (now KPMG) as an auditor, and subsequently held senior positions in several companies listed on Bursa Malaysia.

Johari won the Titiwangsa parliamentary seat at the 2013 general election. In 2015, he was appointed Deputy Minister of Finance and was subsequently elevated to Minister of Finance II in June 2016 following a Cabinet reshuffle.

Q: How did you move from the boardroom to the Cabinet?

A: I have been a professional accountant for more than 25 years, beginning with my first job at Peat Marwick. I went on to manage several public listed companies and became very familiar with the corporate governance aspect of business. This entailed involvement in various corporate oversight committees and implementation of check-and-balance systems. So, when I made the move to the Cabinet and became part of the country's administration, I found myself in familiar waters due to my background in corporate – albeit at a much bigger scale and expectation.

Q: Was it a tough decision to give up corporate life?

A: I grew up among the urban poor in the setinggan [squatter] area of Kampung Pandan in Kuala Lumpur. Being aware of the people's hardship, I knew back then I must play a part in finding the means and solutions to improve the quality of life of the community that I grew up with.

Coming back from overseas, having obtained the ACCA Qualification, I also involved myself in community works and became politically active.

By the time the country's leadership offered me the chance to run as their parliamentary candidate for Titiwangsa, I was already a relatively well-off corporate figure running a multimillion ringgit business. Having won my first general election and after a two-year stint as a backbencher, I was offered a Cabinet position as a deputy finance minister. Eleven months later, I was appointed as the Minister of Finance II.

The decision to move from the corporate world into government meant I had to take a massive pay cut. Regardless, I find the tradeoff was even more satisfying in that I am now in a position where I can make an actual difference in terms of the country's

development and direction, and be in service to the rakyat [people].

Q: What are some of your key goals?
A: I hope to bring about a culture of change in the ministry, in particular on how we conduct business here. On our journey towards becoming a high-income nation, we are experiencing rapid growth and expansion of our infrastructure in key utilities such as roads, railway systems, telecommunications, and so on. These are the determinants and drivers for growth, employment and general income. These, however, require a huge amount of capital and recurrent expenditure. This is the area where the involvement of the private sector as one of the economic drivers to bring about development and improvements becomes one of the key concerns for the government, in particular the Finance Ministry.
We aim to ensure that unnecessary red tape and bureaucracy will not hamper any infrastructure development projects. We need to establish frameworks that include sound fiscal and monetary policies, transparency, good governance and efficient procedures that will offer confidence to investors.

Q: How do you handle the pressure of being responsible for the country's financial wellbeing?
A: Every job comes with its own set of challenges – even more so when you are tasked with managing and looking after the country's financial wellbeing. At the ministry, I have had to deal with the biggest challenge of all: the government's loss of revenue of approximately RM36bn due to the drop in oil prices.
This has greatly affected the government's ability to help stimulate the economy and help the rakyat in building better infrastructure such as schools, hospitals and rural roads, and improving the economic welfare of the people, be it via healthcare, education or other social services.
We are now experiencing strain on the government's coffers to continue these activities. My job is

Malaysian Ministry of Finance

The Ministry of Finance is one of the government's most strategic ministries, with Prime Minister Datuk Seri Najib Razak holding the position of Minister of Finance since 2008. He is assisted by the Second Minister of Finance, Datuk Seri Johari Abdul Ghani. The ministry is charged with the responsibility for government expenditure and revenue raising as well as developing economic and financial policies. It also oversees financial legislation and regulation. The ministry prepares the Malaysian federal Budget; each October, the Finance Minister will present the Budget to Parliament.

significantly focused on making the adjustments necessary in managing the government's current limited resources to ensure that the economy remains sustainable and that our fiscal deficit is well managed.

Q: What are some key challenges facing the economy?
A: The government has always pursued an open approach in terms of managing the economy and being an open economy. We are not precluded or insulated from the effects of challenges arising from developments in other parts of the world. Prolonged volatility in commodity prices, in particular oil prices, the uncertainties of interest rate hikes in the US, geopolitical tensions, the rebalancing of China's domestic economy and Brexit are part of these challenges. Notwithstanding these, the government managed to record continued expansion in the economy.

Q: How does your training as an accountant help you?
A: I am foremost a 'numbers-and-figures' man. In approaching any situation, I am inclined to evaluate factual premise based on recorded figures that are devoid of any sentiment or bias. My training as an accountant has made me more attentive to details and I am thus comforted that any decisions I make are based on facts and figures.
The tasks in front of us involve a lot of analysing and interpreting, and we need the ability to come up with comprehensive solutions. Therefore, I totally agree that having an accounting background is definitely handy and, to a certain extent, requisite for my work as Second Finance Minister.

Q: Are you therefore better placed to understand and help tackle the challenges facing the profession?
A: I think the biggest challenge the profession is facing now comes from the advances of digital technology. It demands newer skillsets from accountants as we deal more and more with technical data presented in various forms. We need to tune our approach to accommodate our customers' expectations. The onslaught of digital technology presents challenges and opportunities to our profession. Faced with the prospect of our services being rendered irrelevant in the future as advances in new technologies such as blockchain, data analytics and robotic process automation may represent credible alternatives to the services and expertise that we currently provide, we need to evolve and adopt these technologies to our advantage.
As for the government, we now find ourselves having to engage with business entities that are purely based on e-commerce platforms such as Uber, Airbnb, Alibaba and Netflix. We need to figure out how the government – and country for that matter – could benefit from the way these businesses operate in terms of taxation. The digital economy alone contributes 18% to the government's coffers.

Q: What are the key qualities essential to success in the corporate sector?

Role of the professional accountant

'As an accountant, you need to hold these values: patience, focus and integrity. You have a multi-faceted role in business, not just as a bookkeeper but also as counsellor, adviser and, most importantly, as a business partner. When we talk about this role, we must also acknowledge the duty the profession owes to the public. The accountant is looked upon by the public as the guardian of ethical and moral standards in the business world due to our own strict work ethics. It is imperative that we maintain high standards and also act ethically. That is integrity in the profession which we must uphold at all times.'

A: Attention to detail and precision in discharging one's duties and responsibility is essential. I believe these qualities hold true for any profession and not just for accountants. Another essential quality is the ability to make informed decisions without being influenced by sentimental factors. A good example would be the recent disposal of a 49% stake in Proton, the country's first national car project, to China's Zhejiang Geely Holdings. If we were to continue to manage Proton based on sentimental values and allow a misplaced sense of patriotism to play a role in our decision-making process, then the Proton business model would have been unsustainable and the company would continue to bleed unnecessarily at the expense of the country. We have to be pragmatic

> 'An ACCA accountant is more often than not at the frontline of safeguarding the integrity of financial reporting'

in our outlook and the partnership with Geely came at the right time.
We have also learned our lesson with Perwaja Steel, which ceased operation in August 2013. Since its inception in the early 1980s, there were several attempts to save Perwaja but all failed, and one of the reasons was that we allowed sentiment to influence our decision-making process. Perwaja Steel was supposed to be a showcase project for Malaysia's push for industrialisation in the 1980s. The company ended up losing billions of ringgit. Basically, pride got in the way of real business.

Q: How has the ACCA Qualification helped you as a corporate figure and government leader?
A: The ACCA Qualification is internationally recognised. What it essentially means is that an ACCA accountant is a person more often than not at the frontline of safeguarding the integrity of financial reporting in any business endeavour. Having the Qualification is like having a valued business calling card, which greatly assists you in instantly being recognised as a reliable person with the integrity and skill to deal with the intricacies of financial challenges. AF

MK Lee, journalist

Leading from the front

Upskill yourself, educate, take a holistic view and take note of the public interest – these are some of the tips for success from global finance leaders

Danil Prokopovich FCCA

'A remnant from Soviet times is that the majority of work accountants do today still revolves around tax, and we are constantly under pressure from tax authorities to explain, and prepare documents in a very specific way. In Soviet times, accountants were really bookkeepers, exercising little judgment, whereas today they need to be more analysts and strategic partners. The only way to change this is through education… I still today act as a bridge between Western and Russian business culture, also as an educator in international financial reporting.'

Full interview at bit.ly/danilprokopovich

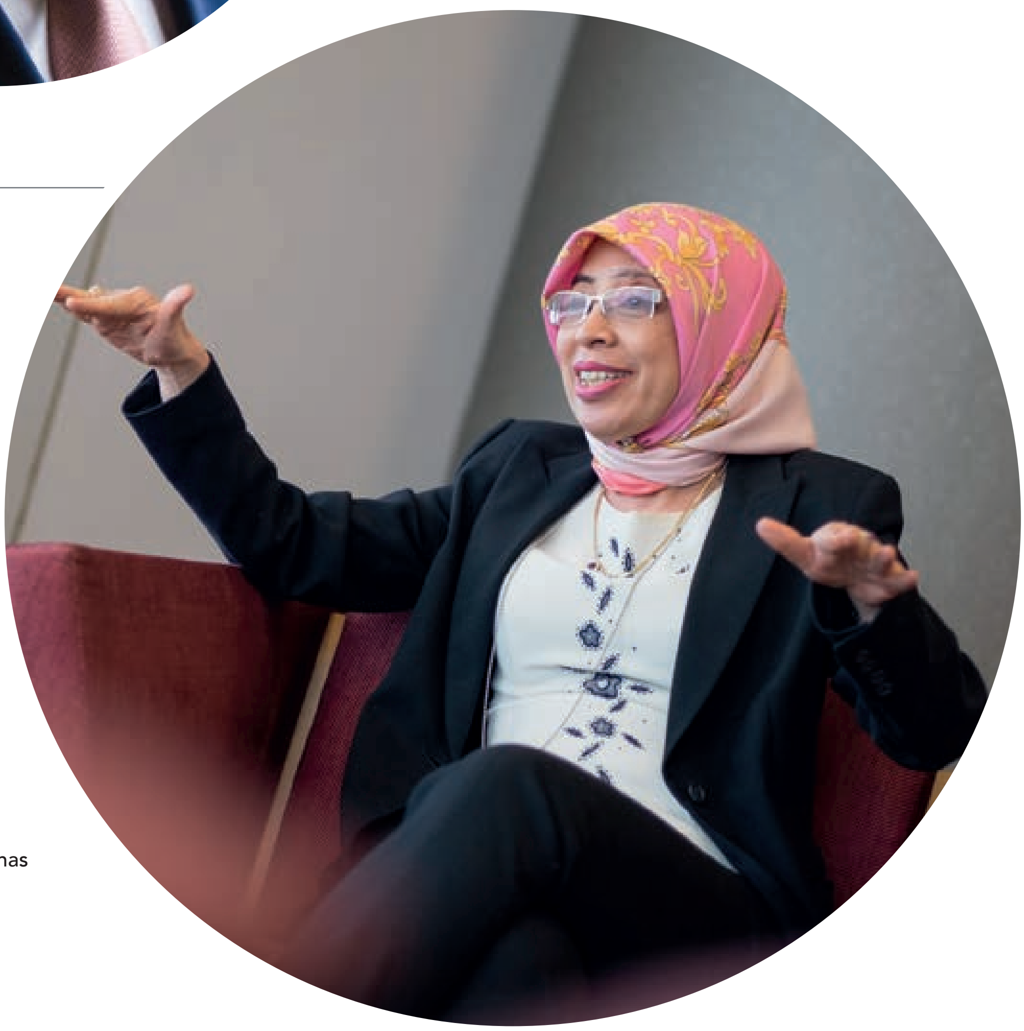
Partner and IFRS Standards leader at the National Audit Corporation (Russia)

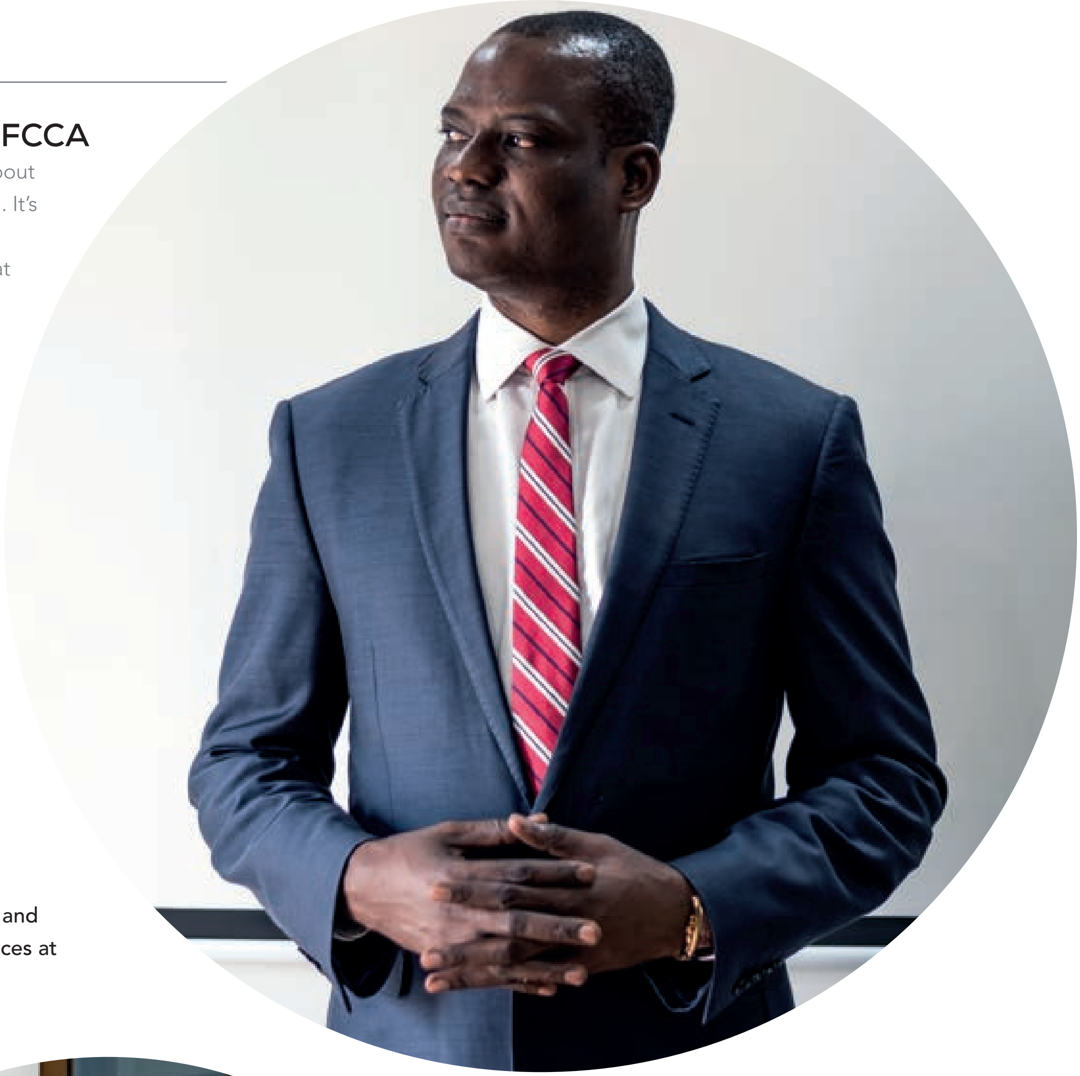
Nuraini Ismail FCCA

'Nothing can substitute for hard work and you have to acquire the right kind of work experience. At the end of the day, qualifications are common, so how you differentiate yourself depends on work experience. I have been involved in many different projects, and on different boards as a director. On top of working hard, you need to build trust and integrity. And you must upskill yourself all the time, otherwise you will be behind the curve. Keep on learning and be hungry to learn all the time.'

Full interview at bit.ly/NurainiIsmail

Vice president of treasury at Petronas





Taiwo Oyedele FCCA

'Leadership is not just about you, it is bigger than you. It's about other people and the organisation, and that is what makes it critical. For the accountancy profession it is about public interest and the reputation of organisations like ACCA and PwC… People should not wait until they become a leader to find out about leadership. But whether you have a big or a small role or you are young or old, leadership is something you do every day.'

Full interview at bit.ly/taiwooyedele

Partner and head of tax and corporate advisory services at PwC, Nigeria

Paula Kensington FCCA

Leadership is about being the best you can be and helping others to do likewise: 'That is my purpose. I work with a business coach; she spent 12 months trying to get me to articulate my purpose and I became frustrated and wanted to move on… People know in their heart what their purpose is. Losing my partner showed me the fragility of life and that it is a gift. And we should live each moment as if it were our last. That doesn't stop me running around like a headless chicken, but some people don't realise this until they are on their deathbed.'

Full interview at bit.ly/PaulaKensington

CFO of Bulletproof Group

Hamish Jolly CA

'We need structural incentivisation with more aggressive concessional tax treatment and advantageous risk/reward structures for start-up entrepreneurs…' On the commercialisation of research ideas, he says that 'Chartered accountants have a key role in that process,' noting four key roles needed in development of a technology: the technical skills of the inventor; someone to raise capital; someone to run the day-to-day business; and a marketeer. 'CAs live and breathe business and finance. They naturally already carry half of the necessary skills.'

Full interview at bit.ly/hamishjolly

Marine biologist and entrepreneur who has created a shark repellent

Anna Lee CA

'It's got to be one of the most prized CFO roles in the country!… When you go into an organisation you can either put yourself in a box or choose to speak up and add something of value. For a finance professional, at some point your technical knowledge is probably going to peak and that for me was a number of years ago. There is only so much more technical finance that you need to know to be effective. Beyond that the real success of being part of a senior executive leadership team and a CFO role is really about people – and project – management.'

Full interview at bit.ly/Anna_Lee

COO of THE ICONIC, e-commerce fashion site

Anit Chandarana FCCA

On taking up his current role in 2013: 'They [members of his new team] didn't see a place for finance in an organisation like this. Can you imagine? A business that spends £6bn a year?' He set about providing clarity of vision, purpose, the role of finance and of the individuals in it. 'Within two or three months it was transformational. Five years before that, I regarded that kind of activity as management speak. But going through that Network Rail journey I began to see its importance. It's one of the key differences between leadership and management.'

Full interview at bit.ly/anitchandarana

Finance director for infrastructure projects at Network Rail, UK

Ryan McCarthy CA

'The further you go up in your career, the less truth you hear. You get into this spiral of thinking that you are incredibly successful and everyone else around you is not. Whereas keeping yourself grounded and having relationships that are good enough, that people care enough to tell you the truth, that's the ultimate accountability.'

Full interview at bit.ly/ryanmccarthy

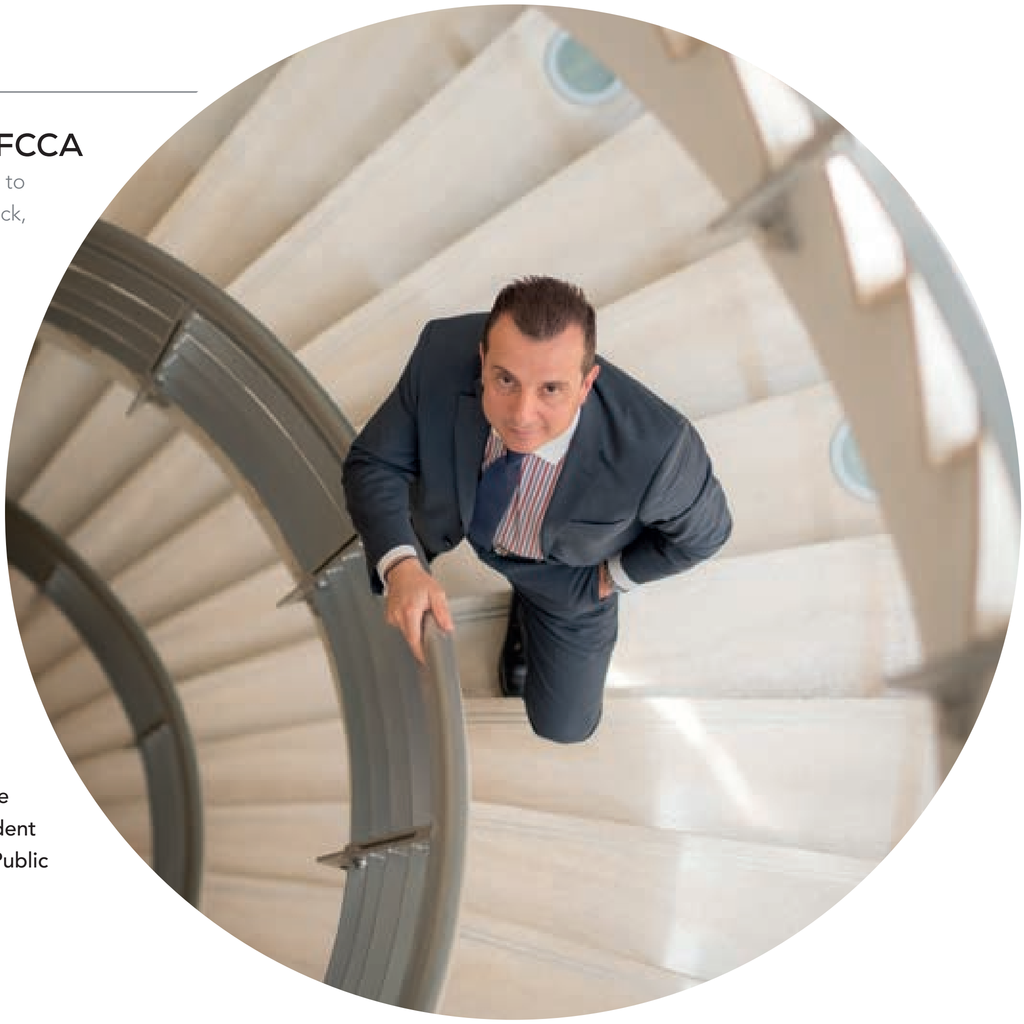
Professional boxer and managing director at Stryker Medical, which was voted the second best place to work in Australia in 2016 in the Great Place to Work award

Marios Skandalis FCCA

On working for the only bank to call a bail-in: 'I took a step back, closed my eyes, put my faith in God and tried to take a holistic view. It was still chaos, but chaos has edges, so I stood at one edge and started to recognise, one by one, the things that should be done. I prioritised them and I started to work on each of those aspects myself, delegate them or work in a group to reach a resolution.'

Full interview at bit.ly/ mariosskandalis

Director of group compliance at Bank of Cyprus and president of the Institute of Certified Public Accountants of Cyprus



Jane Muirsmith FCA

'We weren't able to even get into our building to get any of the technology or the hardware out. We had to rebuild and pull on other resources and suppliers and vendors and partners to help enable us to do our core business.' What was achieved under the leadership of then chief technology officer John McKinley was 'quite heroic', she recalls, 'It saved the livelihoods of so many people and ensured the financial markets were going to be okay, we were going to get through. I think that the human story behind the recovery effort of 9/11 is quite incredible, something I'm very proud to be involved in.'

Full interview at bit.ly/janemuirsmith

Survivor of 9/11 and director of digital solutions company Lenox Hill

Mind the gap

Research on tax cooperation by ACCA, CA ANZ and IFAC shows contrasts between attitudes in Australia, New Zealand and the rest of the world

Calls for greater international cooperation on tax policy are growing louder, but differing views are beginning to emerge about who should be paying their fair share and who can be trusted to deliver a tax system that works.

Fortunately for professional accountants around the world, it is clear that the public trusts them far more than politicians, the media and business leaders when it comes to information on tax systems. But this trust should not be taken for granted.

'Real people can see through the fog and mist created by politicians and the media,' says Chas Roy-Chowdhury, ACCA's head of tax. 'They want to see governments cooperate much more, but also see that businesses do the right thing.'

Tax competition is currently a hot topic among a number of Asian countries, where critics, including the International Monetary Fund (IMF), believe that tax incentives used to attract multinational companies are restricting tax revenues, and hence the ability of governments to invest in their own services and infrastructure.

Originally published in March 2017, the joint ACCA/CA ANZ/International Federation of Accountants (IFAC) research report, *G20 public trust in tax*, received extensive coverage in the media around the world, sparking debate on the need for greater cooperation and less competition in tax policy among G20 countries and beyond. This, in turn, led to well-attended events in a number of countries, especially in Asia, Australia and New Zealand.

Building on this research, CA ANZ has investigated in greater detail public attitudes towards tax cooperation and competition in Australia and New Zealand. In both these countries, professional accountants score greater degrees of trust compared with the average findings among the G20 group of countries. Interestingly, though, both countries scored lower than the G20 average when it came to opinions on whether accountants contribute to a better tax system, perhaps indicating that although they are trusted, that trust comes with a caveat.

However, Australians and New Zealanders are leading the way when it comes to calls for greater international cooperation on tax policy.

Call for cooperation

According to the study, three-and-a-half times more people in the G20 countries would prefer tax policy cooperation than competition. However, in Australia, eight times as many people would prefer cooperation; while in New Zealand, five times more people would prefer this course to a more competitive policy.

If these results reflect a more practical approach to taxation, then Australians and New Zealanders are equally practical when it comes to paying tax. As a whole, G20 citizens were two times more likely to see paying taxes as a matter of laws and regulation than morals and fairness. In New Zealand, this figure was found to be two-and-a-half times more, and three times more in Australia.

Downtown Sydney: Australia is out in front in calling for greater international cooperation on tax policy.

'While there is much we agree on throughout the G20 world, people's views diverge on who is paying enough tax, and who should be able to arrange their affairs in order to minimise tax, whether multinationals, local companies or individuals at different income levels,' says Rick Ellis, chief executive of CA ANZ, which carried out the research alongside ACCA and IFAC. 'Understanding the nuanced views of people in New Zealand, Australia and across G20 countries revealed in this study should help policymakers better understand and tackle the challenges ahead,' he adds. (See table.)

The deeper dive into Australian and New Zealander attitudes towards tax policy reveals further divergences from the overall G20 findings. For instance, 68% of Australians agree or strongly agree average and low-income earners are paying a reasonable amount of tax, while only 18% believe multinationals are paying enough. This differs substantially from the views of people in G20 countries overall, where 52% believe multinationals are paying enough and 46% believe average or low income earning individuals are.

As one respondent to the survey in Australia said: 'I'm happy for companies to get tax benefits to operate in my country, but I think all the arrangements to avoid paying tax should be tightened so they do actually pay their fair share of tax – this also applies to the wealthy.'

Another Australian said: 'Taxation needs to be consistent across countries and fair according to income and assets for individuals and companies.'

Likewise, New Zealanders' views on who is paying enough tax differ significantly from views across G20 countries overall. Of New Zealanders, 63% agree or strongly agree average and low-income earners are paying a reasonable amount of tax, while only 20% believe multinationals are; and 60% of New Zealanders disagree or strongly disagree that the amount of tax paid by multinationals is reasonable.

Equal society

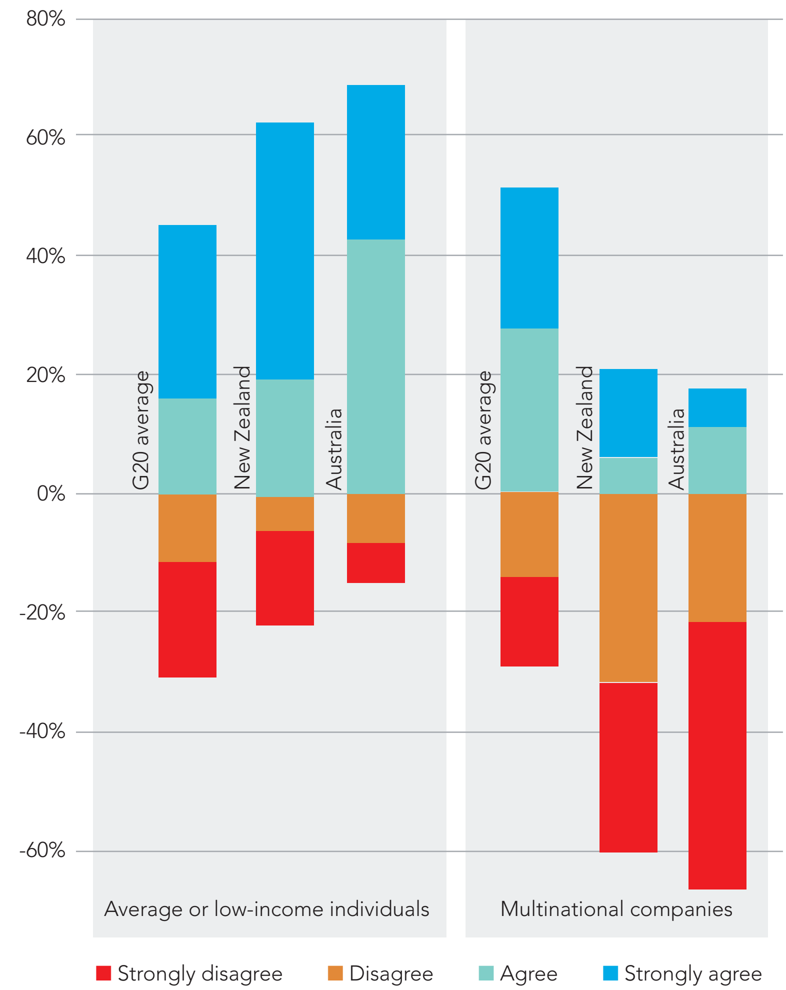
'The tax burden should be distributed equally across taxpayers within society so that no one sector of the population is unnecessarily disadvantaged or advantaged,' said one New Zealand respondent.

In line with this, people in New Zealand were substantially less supportive of tax incentives to attract investment by multinational companies (34%) than people across G20 countries overall (49%). In Australia, this figure stands at 40%.

However, here respondents sound another practical note. 'There needs to be a balance between providing tax breaks that attract businesses to the country and ensuring that they are not "milking it" for their own benefit, with little flow of benefits to the country,' one New Zealander said.

Australians agree, with one respondent calling for action on profit shifting, in line with the Organisation for Economic Co-operation and Development's base erosion and profit shifting (BEPS) project, endorsed by the G20. 'We must ensure multinational companies

Who's paying enough tax?



are taxed properly where their revenue is earned – and money is not shifted around to avoid tax rates in the host country,' the respondent said.

Similarly, New Zealanders' views on the appropriateness of arranging affairs to minimise taxation also differed from most people across the G20 countries; 67% believe it is appropriate or very appropriate for average or low-income earners to do this, while only 44% believe it is appropriate for multinationals. People in G20 countries are 15% more likely to think it is appropriate or highly appropriate for multinational companies to arrange their affairs in order to minimise taxes, than for average or low-income earning individuals to employ tax minimisation.

Context is all

Speaking at the launch of the *G20 public trust in tax* report in March, Edward Troup, the outgoing chairman of HMRC, the UK's tax authority, said: 'The core point is that this is all about national preferences operating in an international context. We must think about how in everything we do – from the design of the tax rules to administering and advising on the tax rules – we have to take account of national preferences but recognise that we are working in an international context.'

Philip Smith, journalist

Tax without tears

The Tax Inspectors Without Borders initiative sends tax experts to developing countries to help them boost their audit capacity and tax take

Demand is growing for a programme that helps developing countries build up their tax audit capacity. A joint initiative of the Organisation for Economic Co-operation and Development (OECD) and the United Nations Development Programme (UNDP) set up in July 2015, Tax Inspectors Without Borders (TIWB) sees tax experts work side by side with local officials in developing and emerging markets. Through mentoring and advising, visiting experts not only help tax administrations tackle complex tax cases (such as those involving multinational corporations), but also build capacity, especially in tax audits.

James Karanja, head of TIWB's Paris-based secretariat, says: 'TIWB is a niche initiative offering complementary assistance to ongoing tax capacity-building programmes by means of a very practical, hands-on approach to development of skills in the area of tax audits.'

The idea is that 'recruits learn best and build confidence by working on real situations under the watchful eye of their more experienced counterparts'.

The approach is working, he says. 'The growing demand for this sort of assistance has clearly demonstrated that [it] is addressing a gap in the realm of skills development for tax administrations in developing countries.

'Besides increasing the knowledge and confidence of local tax auditors in conducting transfer pricing audits, the expert guidance provided has in some audits already resulted in increased revenue collected. Broader benefits, such as greater certainty for taxpayers and encouragement of a culture of compliance through more effective enforcement, are anticipated.'

There are no minimum or maximum periods for a TIWB audit assistance programme, but they are primarily short-term, with the expert providing intermittent on-site assistance. Each visit lasts at least a week, and the expert revisits at intervals, providing, for example, eight to 12 weeks' audit assistance over a six to 12-month period. Experts may be currently serving in a national tax administration or recently retired. Karanja says TIWB currently has 'a growing list of partner administrations willing to release their experts'.

The budget for a programme varies widely and depends on whether the expert is still working or

Donors and partners help cover costs where budget constraints would leave the host country unable to pay

retired, the cost of living in and travelling to the host country, the length of stay and whether it is full-time or periodic. While the host administration picks up the bill, TIWB funding is available, and partner administrations often cover deployment costs for their experts.

'A limited number of countries are willing to commit their own funds towards paying for expert deployment costs,' Karanja acknowledges, but donors and partners help cover costs where budget constraints would leave the tax administration in the host country unable to pay.

The improvements in tax audit knowledge and skills that result from the TIWB initiative have increased tax revenues; on average, the tax take of low-income countries is only 15% of GDP. An April 2016 progress report on TIWB directly linked more than US$185m raised in additional revenue for developing countries to the pilot phase of the project. Senegal alone reported an extra US$12.3m in tax income stemming from its TIWB programme. The development community sees TIWB as 'a viable means of providing technical assistance, as it directly empowers developing countries with the ability to generate resources domestically to finance their own development', says Karanja.

The results of TIWB audit assistance to date are impressive, with more than US$278m extra revenue in total collected around the world up to April 2017. The current programme cycle, covering an expected 100 deployments, runs until the end of 2020, when the TIWB mandate will come up for review.

TIWB currently has programmes running in 13 African countries (see box below). 'Demand for TIWB assistance is extremely high amongst governments around the world, but especially in Africa, given ongoing resource mobilisation challenges combined with high investment needs,' Karanja says. The World Bank and the African Tax Administration Forum are providing auxiliary support for some of these programmes.

One such programme is in Liberia, where the economy is still recovering from a long-running civil war in the 1990s and early 2000s and from the Ebola virus outbreak. Darlington Talery, domestic tax commissioner at the Liberia Revenue Authority (LRA), says: 'One or two years ago, our audit programme was… randomly done, our audit cases were randomly selected. We were not auditing the multinationals

TIWB in practice

- Tax authorities in host countries submit a TIWB assistance request form and a detailed questionnaire to match their needs to available TIWB experts.
- Programmes are flexible and tailored, and can include pre-audit risk assessments, investigatory techniques, transfer pricing and anti-avoidance.
- There are 21 ongoing programmes: in Botswana (two), Cambodia, Costa Rica, Egypt, Ethiopia, Georgia, Ghana, Jamaica (two), Kenya, Lesotho, Liberia, Malawi, Nigeria, Senegal, Sri Lanka, Uganda, Vietnam, Zambia and Zimbabwe.
- Seven will start in 2017: Republic of the Congo, Rwanda, Sri Lanka, Uganda, Vietnam, Zambia and Zimbabwe.
- Three programmes have been completed – in Albania, Colombia and Senegal.

because we did not have the expertise to audit them.' However, LRA officials believed that some multinationals operating in Liberia were evading tax. TIWB officials helped identify the issues requiring more detailed attention and advised on how to handle them. A retired UK tax official, Colin Clavey, has been advising on the financial information to target, and how best to source that data, assess potential tax liabilities and plan a technical strategy.

B Al-Dennis, natural resource unit supervisor at the LRA, says there is a clear long-term benefit: 'What they are doing now is transferring skills. They are not just doing the audits for us. We all make inputs.' And Liberia's president Ellen Johnson Sirleaf has said that TIWB will help the LRA 'become more efficient in managing our tax system' and ensure more revenue.

Many TIWB programmes use tax experts from developed countries, but Karanja says: 'We would like to encourage more women and experts from countries in the southern hemisphere to participate as a way of promoting diversity and south-south co-operation [where one developing country helps out another].'

Only two of the 21 ongoing TIWB programmes involve southern experts. One of these is the Kenya Revenue Authority (KRA), which has sent an official to assist the Botswana Unified Revenue Service (BURS) as part of a programme that began in January. Karanja says: 'Although the initiative is in its early stages, we are very pleased that Kenya has already showed its great commitment to send out its officials to assist other countries on the African continent.'

The other is an Asia project, where TIWB has been helping Sri Lanka's Inland Revenue Department (IRD) to build effective international tax auditing skills, particularly in transfer pricing, and to develop tax base erosion and profit-shifting (BEPS) auditing skills. Previous technical capacity shortages have hampered IRD efforts to address BEPS and transfer pricing issues. An OECD tax expert, a former Colombian official, is organising workshops and has provided TIWB-style assistance on anonymised audit cases, helping IRD to counter crossborder tax avoidance and collect appropriate taxes from multinational enterprises.

Meanwhile, in an Americas programme, TIWB tax consultants are training core staff from the technical, operations, legal and strategic departments at Tax Administration Jamaica (TAJ), as well as the tax policy and revenue appeals division of the ministry of finance. To date, experts from Britain and Germany have held about five training workshops. The two-year upskilling programme will help local tax administrators responsible for transfer pricing provisions.

Bertha Rinjeu in Nairobi, Munza Mushtaq in Colombo, Colin Steer in Kingston, Jamaica, and Sara Lewis in Brussels, journalists

Proud to be an auditor

CA ANZ's Liz Stamford explains why the value of audit is more crucial than ever, and how important it is to get the message across

Liz Stamford is CA ANZ's audit and insolvency leader, overseeing policy and advocacy work in the audit and assurance areas to enhance public confidence.

AuditorProud Day was on 28 September this year, the third annual 'social media blitz', launched by the Center for Audit Quality, designed to showcase careers in audit and encourage young people to consider a career in the sector. Along with other auditors from across the world, CA ANZ members were encouraged to share their stories of why they chose a career in auditing, what they love about the profession, and what makes them proud to be an auditor.

Here are some of my reasons for being #AuditorProud, plus some initiatives that are sure to get the message out to the wider world about the value of auditors.

The most important point is that the ethics and training of chartered accountants inspire trust. While soundbites appear to be the order of the day, people still want accurate information about the companies and institutions they rely on and do business with. They are increasingly recognising that not everything that is written can be taken at face value.

Accountants rate highly on the trust index because we are highly trained and provide practical wisdom. The value of an accountant's support is clear to those who are struggling to manage complex and changeable legislation, and sometimes confusing expectations of permissible behaviour. Auditors' reputation for professional scepticism also garners trust. It is just part of the profession's unique set of skills, which add value to clients. This increase in the trust we inspire helps explain the rise in membership of professional accountancy bodies like CA ANZ and ACCA.

While people who use qualified accountants are aware of our value and our ethical approach, which is demanded and monitored by our professional bodies, the wider population often is not. A financial statement auditor reports to an entity's shareholders, who are often removed from the business world. The shareholders' representatives, the non-executive directors (and audit committee), are the ones who assess the level of trust.

A number of factors over the next few months will broaden awareness of financial statement audits. The first relates to changes to auditor reports from 2017 onwards. They will now be easier to understand and will clearly, and up front, highlight the auditor's independent opinion. For certain entities with broader shareholder bases, there will be commentary on key audit matters in the public reports. This commentary will highlight the key matters that the auditor considered for the audit of that entity, and will summarise how the auditor addressed the matter.

How valuable it is for users to be able to see areas of key audit attention and compare them to their own assessment, as well as being able to look at some of the detail of the audit and evaluate whether it matches their expectations.

Another #AuditorProud initiative is CA ANZ's audit technology competition for university students. We will be challenging students to come up with innovative ways that technology can enhance the financial statement audit process, and in turn bolster the trust and value of audit.

#AuditorProud Day helped to take our message to a wider audience. The importance and value of audit is more crucial than ever. So join me in being #AuditorProud! AF

Watch this space

Careers in audit, of course, will not stand still. They will be affected by dynamic and increasingly global economies, new digital ways of using data, and increased regulatory scrutiny. The core of an auditor's skills – curiosity, adaptability, proactivity and trustworthiness – won't change. But adapting to the already known economic and business changes does mean that skills need to evolve – and then we have changes we don't yet know about. We've got a short video that explores what this could mean. You can view it at bit.ly/CAANZ-auditor.

Lifting the carbon cloud

More systematic corporate disclosures about climate-related risks are needed to speed up the shift to a low-carbon economy

Had Exxon Mobil reported its reserves differently in 2016, investors might have taken a different view of its future trajectory. The company had stated that its Kearl oil sands were reserves, but was subsequently ordered to debook them by the US Securities and Exchange Commission (SEC), the country's financial regulator. A major shift in the company's disclosures ensued in March 2017, with proved reserves cut by 3.3 billion oil-equivalent barrels. 'Under the SEC definition of proved reserves, certain quantities of oil, such as those associated with the Kearl oil sands operations in Canada, will not qualify as proved reserves at year-end 2016,' Exxon admitted in October 2016.

According to Tarek Soliman, senior analyst at CDP, a not-for-profit charity that campaigns for global carbon disclosure, the systematic consideration of climate-related risk would have resulted in a different figure. It would transform investor perceptions if replicated across the whole oil and gas sector. 'If the company were to integrate climate risk into its assessments, it would highlight that these assets show a high propensity to become impaired,' he says. 'They would have been downgraded to a resource rather than a reserve, and this problem would have been foreseen.'

A redirection of energy pathway, not just for Exxon but all its competitors, might follow if they acted this way, as recommended by the Task Force on Climate-Related Financial Disclosures (TCFD), set up by global body the Financial Stability Board (FSB). TCFD's final report was presented to the G20 group of major economies in July by Bank of England governor Mark Carney.

Classifying assets, liabilities and acquisitions under the lens of climate-related risk would, according to TCFD, lead to more appropriate pricing of risks and allocation of capital in the context of climate change. This would work as a voluntary initiative, helping speed the transition to a low-carbon economy, and shift the corporate perspective beyond immediate concerns. In Exxon's case, it might identify a potential stranded asset. TCFD divides climate risk into two categories:

Tar sands oil production has attracted heavy criticism from campaigners because of its high carbon emissions as well as its potential for polluting local water sources.

transitional and physical. Policy, legal, technology and market changes are all classified as transition risks. Examples include policy actions that promote adaptation to climate change, such as governments' carbon pricing mechanisms. Technology transition risk includes, for example, the development of batteries that could affect the competitiveness of industries such as the automotive sector. Market risk is another transition risk, in which supply and demand for certain commodities change once suppliers start taking climate change into account.

The second major type of risk is physical risk due to changing weather patterns. These may have financial implications for organisations, such as direct damage to assets and the indirect effect of supply chain disruption. Organisations' financial performance may also be affected by changes in water availability and quality, and food security, while extreme temperature changes can affect premises, operations, supply chain, transport needs and employee safety. However, TCFD also identifies market opportunities, such as resource efficiency and cost savings, new products, diversification and better resilience.

But as Soliman observes, most industries are not reporting in depth on these values-based assumptions. Oil and gas companies are understandably among the least likely to want to report through a channel that undermines their very existence. But improvements have been made over the past decade as they have responded to demands for data on historic greenhouse gas emissions. These disclosures have usually appeared in corporate responsibility statements. The pressure, as expressed by TCFD, is now to disclose consistently for the first time in financial filings, and to look much further into the future.

TCFD's recommendations require more in-depth information rather than any innovative accounting. 'It would change what the directors are telling us in the strategic report but wouldn't change [the structure of] the balance sheet and profit and loss account,' explains Russell Picot, special adviser to TCFD and former chief accounting officer at HSBC. In the case of hydrocarbons, categories such as reserves and resources in strategic reports would be the numbers most likely to alter.

Leaders have already emerged in this space, and the picture is mixed. CDP finds Norwegian company Statoil the best performer on carbon disclosure for the longer-term horizon in its 2016 study of the sector, *In the Pipeline*. Canadian company Suncor is listed as the worst of 11 major global oil and gas companies, and Exxon last but one.

While most companies use conventional economic metrics to justify decisions in financial filings, CDP finds they also increasingly publish carbon pricing. This can be seen as another way to express or at least accept the risk of regulation on carbon emissions, and to test the company's resilience in that light. Eight

Most of the economic costs associated with climate change will result from shifts in the frequency of extreme weather events, such as Hurricane Harvey in Texas.

out of the 11 companies use an internal carbon price, which ranges from US$22 to US$57 a tonne, while three (Chevron, Occidental and Petrobras) are silent on the matter.

Hence, some companies apply a carbon price to projects under assessment, but there is no evidence they screen out projects on this basis. 'I have not seen a case where the company has said: the project makes sense, but we are going to veto it because the carbon price is too high,' says Soliman.

The TCFD report comes at a time of transition. Some of the major players in oil and gas are talking about climate risk, others are not. Some are acting accordingly, others are paying lip service. An obvious example of directional shift is Italian company Eni, which is increasing the share of gas in its portfolio. In its 2015 annual report, it states: 'Companies operating in energy business have to face challenges…such as climate change and a gradual decarbonisation process. In this context, natural gas represents an opportunity for a strategic repositioning, thanks to gas low-carbon intensity.'

But the task force wants more. If its recommendations were systematically adopted, balance sheet, income statements and strategic reports would most likely need modifications, as Picot points out: 'Including climate risk would sharpen disclosures on the impairment of cashflows arising from assets.'

Investors would be able to access a scenario analysis for each major sector. This would relate to a 2°C temperature rise scenario as well as, for instance, a scenario based on nationally determined contributions or a business-as-usual (greater than 2°C) temperature increase. But the actual frameworks have yet to be shaped. 'We need to see a period of experimentation. Three or four years down the road we could potentially be assessing what is useful in the voluntary disclosures, and see it codified by institutions through, for example, stock exchange guidelines,' says Picot.

However, he suggests that the most significant

> The most significant progression will be found in strategic discussions in financial statements

progression will be found in strategic discussions in financial statements. 'This is not going to result in a huge data drop by companies but rather a thoughtful narrative description from board directors. It will hopefully be used as an engagement tool as well as a divestment tool,' he says. A move towards less carbon-intensive business models could result. However, Picot declares: 'We're not saying they should alter their business model, but that the information needs to get out there so that the market can decide.'

Elisabeth Jeffries, journalist

Not-for-profit charity CDP finds the Norwegian company Statoil best performer on carbon disclosure for the longer-term horizon.

Corridors of power

China's Belt and Road initiative has the potential to create a third global trade axis. So what are the implications for the global economy?

On the road: the Karakoram Highway links China's Xinjiang province with Pakistan via the Khunjerab Pass.

In a series of speeches in September 2013, President Xi Jinping of China set out a plan to create a modern version of the ancient trade routes between China and Europe. The 'Silk Road' was travelled by Chinese merchants 2,000 years ago; a little later, a maritime trade route would connect the continents of Asia and Europe by sea.

Xi's plan was to reopen these trade routes, under the names of the 'Silk Road Economic Belt' and a '21st Century Maritime Silk Road'; these have since become known as the Belt and Road initiative. The ambitious plan would connect Asia, Europe, the Middle East and Africa with a huge logistics and transport infrastructure network, and involves 65 countries that are home to 60% of the world's population. If successful, the Belt and Road project will create a third global trade axis.

> The initiative will create new opportunities for cooperation between countries to further economic growth

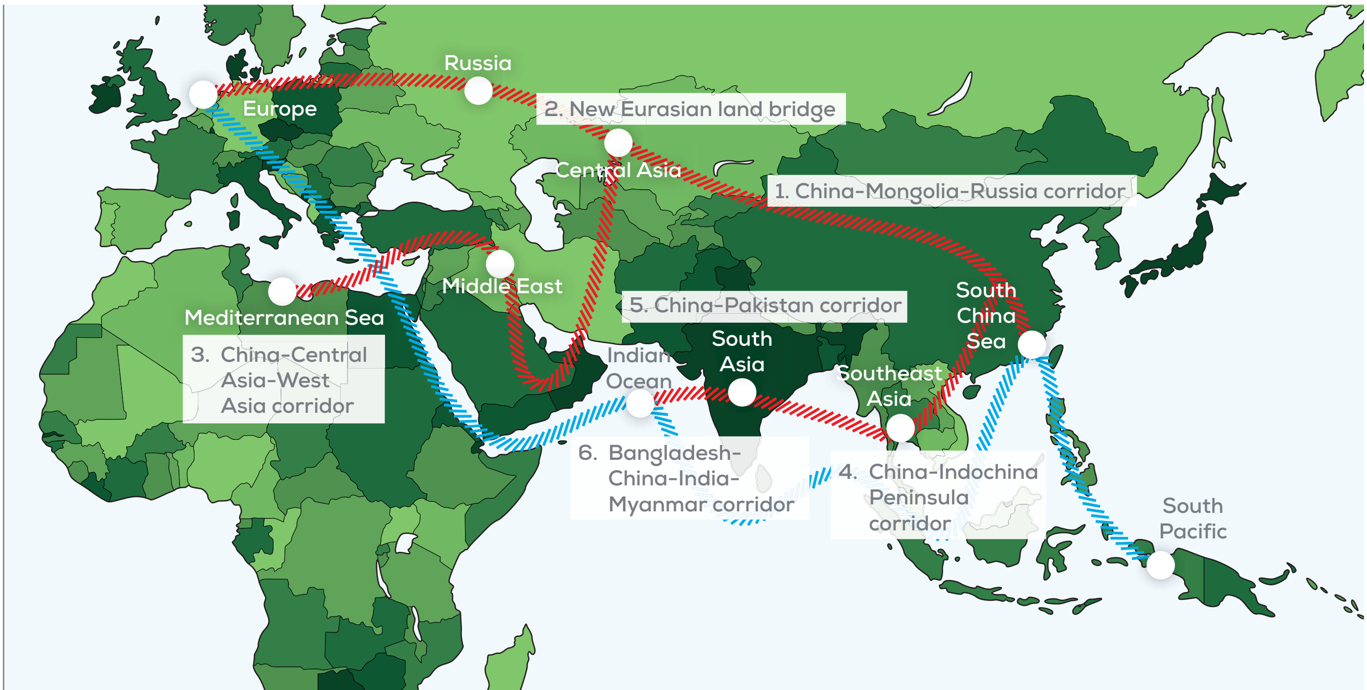
ACCA, in conjunction with the Shanghai Stock Exchange, has undertaken a detailed research project to explore the opportunities and challenges for Belt and Road countries in terms of politics, economics, society and culture. *The Belt and Road Initiative: Reshaping the global value chain* is the culmination of the first phase of the research project – detailing the progress of the project so far, as well as its possible benefits and risks.

Five priorities

The initiative sets out five priorities to improve cooperation between the Belt and Road countries and to increase trade along the routes:

- policy coordination between the countries along the routes
- investment in new transport infrastructure and improvement of existing transport links
- the removal of barriers to trade along the routes wherever possible
- financial integration – including the expansion of bilateral currency swaps and settlements, the development of the Asian bond market, and the establishment of the Asian Infrastructure Investment Bank
- 'people-to-people' bonds, meaning more cultural, student, personnel and academic exchanges between countries along the routes.

There are clear economic reasons for China to encourage the development of these trade routes.



Crossing continents

The Belt and Road initiative would connect Asia, Europe, the Middle East and Africa with a huge logistics and transport infrastructure network, and involves 65 countries that are home to 60% of the world's population.

Better power and water supplies, as well as improved transport and communications links and closer economic cooperation, 'will ultimately give birth to a hyper Afro-Eurasian market', the report says. 'Throughout the process, China's role in international trade will gradually change from "made in China" to "built by China".'

The project will also open up China's economy to millions of new consumers. The countries along the Belt and Road need to grow by US$246 trillion in order to lift their per capita GDP to the global average. In other words, there is a huge potential for consumption and development, and this massive consumer market will converge on China.

> Belt and Road travels through some of the most volatile countries in the world, which is a significant challenge

The potential for outbound investment offered by the initiative is important; Belt and Road provides an outlet for China's inward investment flow, which is already the second highest in the world (US$145.67bn in 2015). China is plagued by over-capacity in some sectors, particularly in steel, heavy chemicals, cement and textiles. Belt and Road will help China find new export markets, liberating resources from some industries that can be channelled into other, more advantageous markets, and bringing with it the opportunity for industrial restructuring and upgrading.

Belt and Road will also help to further internationalise the renminbi (RMB): 'If the majority of bilateral and multilateral trade between China and the Belt and Road countries is denominated and settled in the RMB currency,' it says, 'RMB will certainly circulate widely and rise in both status and influence. In fact, to avoid exchange rate risk and reduce transaction costs, RMB would be the prime choice as settlement currency.'

Growing regional cooperation

In terms of regional benefits, the report outlines China's desire to create a new system of economic growth. As China's need for external support is declining – with annual GDP growth falling from 10% to 7% – its ability to support neighbouring countries, such as members of the Association of Southeast Asian Nations, is on the rise. This was demonstrated at the ASEAN-China Summit held in 2013, when China reaffirmed that 'a united, prosperous and dynamic ASEAN is in line with China's strategic interests'. ASEAN stressed that 'China's development is an important opportunity for the region'.

Added to this are changes in the industrial division of labour in the region. While China's manufacturing sector continues to grow, some industries are beginning to transfer into neighbouring countries through outbound investment. In addition, China's surrounding countries and regions are undergoing drastic changes in economic growth and structural transformation, and need funds and technology. China can provide both; through Belt and Road, regional cooperation will continue to grow.

The report also discusses the implications for the global economy. A key aim is to enable the predominantly developing countries along the route to improve their status internationally, as well as helping them to align their development strategy in a way that works for them. Belt and Road will also, says the report, encourage monetary stability and enable the development of an Asian investment and financing system and credit system.

'Flying geese' model

Beyond Asia, the outlook is encouraging, too. According to World Bank statistics, while the average annual growth rate of global trade and crossborder direct investment stood at 7.8% and 9.7% respectively in 1990 and 2013, that of the Belt and Road reached 13.1% and 16.5% respectively during the same period.

The report refers to the 'flying geese' model: one country's economy leads and paves the way for others to flourish, and suggests that, as China's industrial structure drives improvements and industrialisation along the Belt and Road, the country will take on that leading role.

The initiative will also create new opportunities for cooperation between countries to further global economic growth. It has injected positive energy into the globalisation debate, as well as the prospect of helping to alleviate the imbalance in economic development between developing and developed countries.

Of course Belt and Road travels through some of the most volatile countries in the world, including Uzbekistan, Kyrgyzstan, Afghanistan, Syria, Iraq, Iran, Lebanon and Palestine. Economic development needs peace and a stable political system to thrive; that is in short supply along parts of the routes and is recognised in the report as a significant challenge.

In addition, national trade protection – such as complex export-import documentation, frequent anti-dumping investigations and counterbalancing duty measures – is also a difficulty. The report points out that without a trade liberalisation policy and relatively stable monetary system, it is difficult to see how infrastructure construction along the routes could have a positive effect on trade and investment.

Even so, China is determined to make the project a success. ACCA has operations in 57 countries, and 24 of these sit directly in the Belt and Road footprint.

Chief executive Helen Brand says ACCA is looking forward to playing its part in connecting the communities of professional accountants who can contribute to the success of this new Silk Route together.

Liz Fisher, journalist

Find *The Belt and Road Initiative: Reshaping the global value chain* at bit.ly/ACCA-belt-road1

In view: a young Turkish girl stands near 'Silk Road' highway watching the trucks that transport oil and LPG to Iraq.

Danger zone: a goods truck enroute to Kabul from Pakistan along the notorious Kabul-Jalalabad Road.

Rail links: a freight train leaves Qingdao in east China bound for Central Asia.

Alternative routes

Australia is not alone in having to seek other methods of trade facilitation to sustain its economy, says CA ANZ's Rob Ward

Events such as the Brexit vote in the UK and President Donald Trump signing the order to remove the US from the Trans-Pacific Partnership (TPP) might be viewed as signs that the days of free trade are over. But for nations like Australia, where international trade is essential to its modern economy, efforts to seek other methods of trade facilitation must continue.

In 1964, trade represented 28.7% of Australia's gross domestic product (GDP) and two-way trade in goods and services was worth A$6.1bn. Today that figure has grown to a hefty 42.3% and two-way trade is worth A$669.2bn. Exports accounted for A$312bn of that figure in the last financial year.

Admittedly, primary goods and commodities drove historical trade growth. In 2015, commodities and agricultural goods accounted for 80% of exports. But in *The Future of Trade*, the latest publication in the Future[inc] series from Chartered Accountants Australia and New Zealand (CA ANZ), technological advances are expected to reshape Australia's export composition to more closely mirror its economic composition. Service exports, one of the chief beneficiaries of technology advances, will grow by an average 5.8% a year to 2026, and reach a total of nearly a quarter of exports within five years.

Rob Ward is CA ANZ's head of leadership and advocacy, responsible for leading its policy teams in Australia and New Zealand across a range of disciplines that impact businesses and the broader economy.

The latest trends continue to indicate healthy trade growth, even if trade agreements waver. During 2016, container volumes, global manufacturing orders and the number of businesses going global were all on an upward trend. Australia earned A$32.6bn in exports in December 2016, which was A$7.9bn more than the same month in the previous year.

Australia has sought to engage increasingly in trade through its membership of the World Trade Organisation, with 10 free trade agreements in force. The bulk of these are with countries located in the Asia Pacific region. These agreements have evolved from multilateral to bilateral and regional, and their focus has moved from merchandise and tariffs to services.

Various multilateral organisations and agreements, such as the Trade Facilitation Agreement, World Customs Organisation, and the currently being negotiated Trade in Services Agreement, have also helped facilitate reductions in non-tariff barriers. In fact, nations continue to pursue other methods of trade facilitation as a response to the current disruption in negotiated trade agreements.

The removal of non-tariff barriers, such as lack of internationally recognised accreditation, intellectual property protection and domestic regulations, can improve trade, but are difficult to address. One

> Various multilateral organisations and agreements have helped facilitate reductions in non-tariff barriers

answer has been authorised economic operators (AEO) programmes. These are partnerships between government and industry where the accredited entities receive faster processing times at customs in exchange for accredited transparency in the supply chain of the product.

Australia's AEO programme is known as Australian Trusted Traders. Started in July 2016, the Department of Immigration and Border Protection forecasts that more than 1,000 businesses will participate by 2020, representing 30% of Australian trade by volume and 50% by value. Other avenues of removing non-tariff barriers include governments and other regional bodies supporting industry bodies that are pursuing mutual recognition for professional accreditation.

Asia Pacific

Many of the winners from the removal of non-tariff barriers will be entities trading in the Asia Pacific region. Trade liberalisation in the region will be a powerful counter-balance to the more negative views of global trade dominating the news. In India, for example, the introduction of a goods and services tax in April 2017 will broaden the tax base and lower overall taxation rates, leading to an increase in consumption demand. By 2025, India will be Australia's third-largest trading partner, although China will continue to be its biggest. Indeed, the Asian connection has contributed significantly to CA ANZ's forecast that Australia's exports will increase by A$80bn between 2016 and 2021. But much will depend on government facilitation – like reducing barriers to trade and improving speed at customs – to help businesses more fully access the benefits of international trade.

These behind-the-border barriers to trade can be significant, but are hard to address. However, as trade agreements stall, Australia must continue to pursue other methods of trade facilitation that can be achieved outside of negotiated trade agreements, thus avoiding some of the political difficulties of those agreements. AF

Uncertainty stalls Brexit planning

Uncertainty over the outcome of Brexit negotiations is hindering global financial services' ability to prepare, despite a substantial number identifying the process as a risk to their business, according to research earlier this year from ACCA. The report, *Brexit's impact on financial services*, surveyed professional accountants working in financial services organisations around the world. It found that 40% of respondents viewed Brexit as posing a greater risk than opportunity, as opposed to only 16% who saw it as more of an opportunity than a risk. Despite this, nearly a quarter (24%) had made no plans or were unclear over what to do – with a further 32% being only at an early stage of planning. Insufficient or unclear communication by government and regulators on the proposed approach was cited as the primary obstacle to better preparation.

Uncertainty over the negotiating stance by both the UK and EU in key areas such as equivalence and mutual recognition in the light of a potential 'hard Brexit' were among the major concerns.

Helen Brand, chief executive of ACCA, said: 'The financial services sector has a key role to play in helping organisations navigate the challenges and complexities of Brexit but a lack of detail from policymakers in the UK and Brussels is hindering their ability to do so. While discussion over Brexit has focused on the effect on the UK economy, London's status as a global financial hub means that the Article 50 negotiations have implications for financial services around the world. '

The UK is the world's largest net exporter of financial services, and in 2015 the EU accounted for 41% of the UK's total financial services trade surplus.

Port Melbourne, Australia's busiest port: container volumes showed an upward trend during 2016.

Between 1985 and 2007, international trade grew, on average, twice as fast as world GDP. Discover how this contributed to increased prosperity across the world, and why it will continue to be critical for future prosperity in *The Future of Trade: Are we ready to embrace the opportunities?* Go to bit.ly/Future-of-Trade

Written in clay

Ancient Egyptians believed writing was a gift from the gods, but as Tim Harford explains, the truth has more to do with accounting than belief

Writing is a miraculous invention – so much so that people used to believe that it was divinely inspired. Ancient Egyptians thanked baboon-faced Thoth, the God of Knowledge, for the gift. Greeks gave the credit to Prometheus. Mesopotamians thought that Enki, the God of Wisdom, had gotten blind drunk – not obvious evidence of wisdom, it must be said – and that during Enki's stupor, the Goddess Inanna stole from him the secret of literacy.

The 'baboon-faced Thoth' theory of writing's origins is now out of favour with archaeologists. But in truth, the origin of literacy was a puzzle for a long time. One idea was that writing was used to send messages to distant armies. Another theory is that it was used for poetry or religious texts.

In 1929 the mystery deepened. A German archaeologist named Julius Jordan was excavating Uruk, on the banks of the Euphrates in what is now Iraq. Five thousand years ago, Uruk – with a population of several thousand people – would have been one of the great cities of the age.

'He built the town wall of Uruk, city of sheepfolds,' proclaims the Epic of Gilgamesh, one of the earliest works of literature. 'Look at its wall with its frieze like bronze! Gaze at its bastions, which none can equal!'

And this 5,000-year-old metropolis presented Julius Jordan with two puzzles. The first was a treasure trove: a library of clay tablets, far older than any previous examples of writing. Their script, which became known as 'cuneiform', was abstract. Nobody could make any sense of it.

The second puzzle was that Uruk and other Mesopotamian cities were sprinkled with small clay baubles in varying shapes: cones, spheres, cylinders, even a suppository-style lozenge. What were they for? Nobody knew, although Julius Jordan, no fool, noted that they reminded him of 'the commodities of daily life: jars, loaves and animals'.

It took four more decades before anyone made much progress on Julius Jordan's mystery. The breakthrough came courtesy of a French archaeologist, Denise Schmandt-Besserat, who had been cataloguing appearances of these tokens from Pakistan to Turkey. And she had a theory: the clay pieces were tokens, and their purpose was to help people count.

The method Schmandt-Besserat described is called 'correspondence counting'. It's counting for people who lack numbers: all you need to do with correspondence counting is to look at two quantities and verify that they're the same. So if you wanted to count – say – 12 loaves of bread, you could do that by checking them against 12 loaf-shaped counters. Nineteen jars of olive oil could be counted using 19 jar-shaped tokens.

Correspondence counting is ancient. The Ishango Bone, found in central Africa, uses tally-marks on the thigh bone of a baboon. It seems to be designed for correspondence counting and it is 200 centuries old. But the Uruk tokens were a big step forward from the Ishango Bone, because they could be used to keep track of several different quantities – and also to perform the simple mathematical operations of adding and subtracting.

This was essential, because Uruk was a great city. Such cities required specialists – craftsmen, priests, soldiers, arable and livestock farmers. There were harvests to coordinate, construction projects: trading, taxation,

Clay tablet from the 5,000-year-old city of Uruk, recording a transaction of land for goods in cuneiform.

and planning. Schmandt-Besserat was inviting us to picture hard-working nerds at the door of the temple or the government storehouse, using tokens to count as the sheep, the jars of wine, and the sacks of grain entered and left. These people were the world's first accountants.

But then what about Julius Jordan's first mystery – the ubiquitous, indecipherable cuneiform clay tablets? Schmandt-Besserat had a solution for that as well: she noticed that the apparently-abstract symbols on the cuneiform tablets weren't as abstract as they seemed: they resembled the tokens.

Everyone had missed this point because of the different layers of symbolism involved. First the tokens were used to represent oxen or jars of honey, and to track the back-and-forth. Then the tablets had been used to make a more permanent record: pressing the hard-baked tokens into the wet clay of the tablet. And then at some stage, some ancient accountant decided that an all-purpose writing tool like a stylus could be used instead. These layers of abstraction – a commodity represented by a token represented by a written imitation of the impression of the token – had hidden the fact that, deep down, the cuneiform had once been pictures of commodities. The world's first writing wasn't being used to compose poetry or send orders to distant armies – it was used for the world's first written accounts.

And since it is a small step from a record of payment to a record of debt, writing was soon to produce contracts, too. One clever trick was called a bulla – a hollow clay ball. On the outside was a contract written in cuneiform; on the inside were the tokens that represented the deal. The inside and the outside matched up, verifying each other.

It wasn't long before the ancient accountants of Uruk gave us another world-changing idea: an abstract number system. Rather than recording 10 goats as 10 separate goat indentations, use a symbol for '10' (it was a circle.) Quick on the heels of that came the first calculations of compound interest.

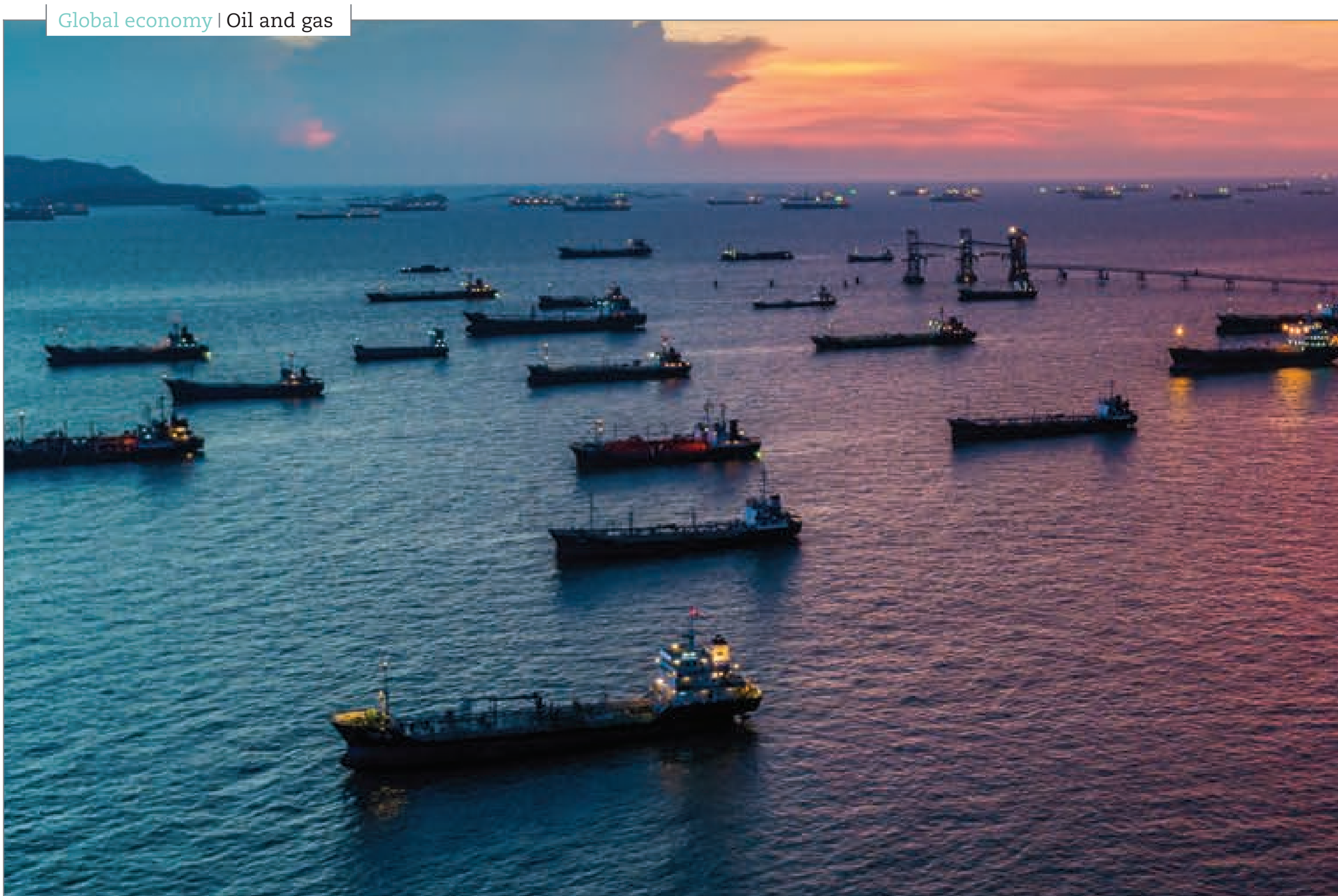
In the modern world, most major financial transactions (and many minor ones) are based on an abstract number system and explicit written contracts: insurance, shares, mortgages and bank accounts depend on the ability to write things down. These contracts – from the bullas of Mesopotamia to the sophisticated financial instruments of 21st-century Wall Street – are fundamental to a complex society. It simply wouldn't be possible to organise city life without the ability to write receipts, purchase orders, debt contracts and tax demands.

The citizens of Uruk could boast a remarkable set of achievements: the first accounts, the first contracts, the first debts with compound interest, the first mathematics and the first writing. But as the cliché goes, necessity had been the mother of invention: without these tools it would have been overwhelming to run a sophisticated economy, dealing with a web of interdependencies between people who may never even meet. Writing was no gift from baboon-faced Thoth. It was a tool for getting an economy organised, and it was developed by the world's first accountants. AF

Tim Harford is a *Financial Times* columnist. His new book is *Fifty Things That Made The Modern Economy* (Little, Brown), also published in the US as *Fifty Inventions That Shaped The Modern Economy.*

What have accountants done for us?

- Paper was invented over 2,000 years ago in China and duly spread to the Arab world, but take-up of this inexpensive writing surface was painfully slow in Christian Europe. Literacy was rare, most books were holy texts, and Europe no more needed a cheap alternative to animal-skin parchment than it needed a cheap alternative to gold for crowns. Only when a commercial class started to churn out contracts, receipts and accounts, did Europeans start to embrace paper. It arrived in Germany in the late 1300s, and it was the availability of paper that made the printing press economically viable.
- Management consulting saved the business of pottery entrepreneur Josiah Wedgwood. In 1772 demand for Wedgwood's ornate crockery collapsed in the face of a severe European recession. His warehouses began to fill with unsold stock; and Wedgwood turned to double-entry bookkeeping to better understand his cost structure. Counterintuitively, he realised that he needed to cut prices and expand. Others followed, and the discipline of 'management accounting' was born. James McKinsey, the cigar-chomping founder of McKinsey and Company, was a professor of accounting.



More in the pipeline

With US shale gas production soaring and businesses switching to gas from nuclear and oil, the sector is in ferment and supply contracts in flux

The gas sector is evolving: price cuts and supply boosts (particularly from the impact of US exports) are creating new challenges for finance professionals.

From a buyer's perspective, gas has 'probably never been more attractive', according to a recent ACCA report *Far East to Wild West: demand and supply in the new gas landscape*. Liquefied natural gas (LNG) is mainly traded under long-term contracts indexed to the oil price: as the oil price has dropped, so has that of LNG. Demand is strong: the number of countries importing LNG almost doubling in the last 10 years (there are now 30 LNG suppliers). Meanwhile the supply of gas available for international shipment is rising – and this too could affect LNG prices. LNG production now exceeds 230 million tonnes a year, and is expected to hit 370 million by 2020.

ACCA's report, which draws on the views of industry experts and a global survey of 413 professional accountants, identifies the rise of the US as a gas producer as a major development in the global market. The US, which used to be a net importer of gas, shipped its first LNG cargoes in 2016. In February of that year, Houston-based Cheniere Energy dispatched a shipment of LNG to India – the first batch of US shale gas ever to be delivered to Asia. Among ACCA's survey respondents, 79% agreed that the rise of the US as a global gas producer will have a serious impact on global gas markets.

'The US's arrival as an exporter of LNG will be a game changer for the global gas sector,' says Philippe Berterottière, chairman and CEO of GTT, a French LNG engineering company. 'The biggest impact will be increased pressure on prices. While the demand for LNG in Asia should rise over time, the US should be able to maintain relatively low prices for its LNG, due to existing infrastructure and a good domestic supply of gas. This probably means that prices for LNG in Asia will drop over time, and buyers will be able to negotiate better deals.' US gas companies are also likely to find export opportunities.

Spot market impact

'With 70% of global gas demand coming from Asia – particularly Japan, South Korea and China – the rise of the US as exporter could represent a significant shift,' says Narayanan Vaidyanathan, senior business analyst at ACCA. 'A climate of low prices is also likely to influence the direction of events.' In some markets such as LNG, cheaper supply from the US may support a degree of rebalancing from long-term contracts towards the spot market, with arbitrage activity expected to rise.

'The reason that the LNG price has been relatively stable in the past is because it has been indexed to the oil price through long-term contracts,' says Adi Karev, global oil and gas leader at EY. 'With the arrival of cheap LNG from the US, there is a price differential in the market for the first time – it's therefore inevitable that arbitrage activity will increase, and the spot market will strengthen.'

'We are going to see a very different LNG market by 2020,' says Al Troner, president of Asia Pacific Energy Consulting. 'We seem to be moving to more of a buyer's point of view. It's something the gas sector, and finance professionals within it, will have to adjust to.'

Sell-side perspective

For gas suppliers and investors, low gas prices are a worry. Two-thirds of ACCA's survey respondents said they were concerned or extremely concerned that further drops in the oil price would cause gas prices to fall.

The oil price drop could damage plans for some proposed LNG projects around the world, according to Troner, but he believes supply will continue to expand. 'Even the world's most careful and conservative oil and gas companies have run into serious cost overruns on their ventures into LNG,' Troner says. 'And a lot of the players currently proposing LNG projects are being far too optimistic about their viability in the current environment. Even so, there will still be an overhang of supply.'

Gas has some weaknesses when compared to oil. For example, wells cannot be turned on or off as easily when prices fluctuate, and the infrastructure needed to store and transport gas is more complex. For such reasons gas tends to be seen as a longer-term commitment.

> 'With 70% of global gas demand coming from Asia, the rise of the US as exporter could represent a significant shift'

Experienced gas companies clearly still find gas an interesting long-term prospect, though. Among ACCA's survey respondents, 39% said that their business was looking for new gas projects as a result of falling oil prices.

Impact on finance professionals

As the gas market evolves, so do the roles that finance professionals need to play within the sector. 'Risk appetite has vanished, and this changes what finance teams have to focus on,' says Karev. 'At the moment, that means focusing on dividends for shareholders.'

Looking ahead, ACCA's report finds that the roles of finance professionals in the gas sector will be strongly affected by developments in pricing, mergers and acquisitions (M&A), costs and sustainability.

Increased price pressure will have a significant impact on accountants within LNG companies. For example, in December 2015 Petronet LNG, an Indian LNG importer, renegotiated its 1999 contract with Qatari producer RasGas – slashing the original price by around half.

Finance professionals are affected by such developments, as they have key roles to play in renegotiating existing contracts and drawing up new ones. Meanwhile, as buyers seek to renegotiate long-term gas contracts, project finance decision-making comes under much greater scrutiny.

Price pressure could increase levels of M&A activity in the gas sector, so finance professionals may well be increasingly involved in bringing deals to fruition.

Expectations about M&A opportunities are particularly focused on North America, although activity levels haven't risen noticeably yet. 'In North America, arguably the global epicentre of gas production over the past 15 years, many people expected a big wave of M&A, given current prices, which have led to financial trouble for many small and mid-scale producers, midstream companies and service providers,' says Tim Boersma, director of the global gas programme at Columbia University's Center on Global Energy Policy. 'However, we haven't seen a lot of activity so far.'

Low gas prices make investors more cautious about backing capital-intensive gas projects, increasing the importance of careful financial planning by companies to secure funding. Finance professionals will be needed to assess the viability of new gas projects in the low-price environment. Floating LNG (FLNG) projects, which tend to be more capital intensive, may look less viable.

Interest in the sustainability of the gas sector and companies within it has grown, just as it has in other sectors. This has coincided with the development and increasing adoption of integrated reporting, which helps companies to explain how they are creating value for the medium and long term, as well as meeting short-term goals.

Continuing adaptation

Many factors affect gas prices and the associated sustainability of the gas sector, including macroeconomic developments. It's clear that finance professionals will need to support companies' strategies as they continue to adapt to the changing environment. AF

Sarah Perrin, journalist

Read the ACCA report *Far East to Wild West: demand and supply in the new gas landscape* at bit.ly/ACCA-OilGas

Out of the shadows

With the shadow economy amounting to 22% of world GDP, professional accountants need to understand its potential impact on their role

From cash transactions to unofficial employment, the shadow economy is accepted by most of us as a fact of life. But it comes at a cost: taxes are avoided, fair wages undercut, and health and safety standards ignored. The best estimate (made in 2011) of the value of the global shadow economy is US$10 trillion – if the shadow economy were a nation state it would be the second-largest economy in the world, employing 1.8 billion people. As facts of life go, this is a very significant one.

Many complex forces drive the shadow economy. For many people, working in it is a case of necessity rather than choice. But the world is changing, and technological development, the rise of the gig economy and rapid globalisation confuse an already complex issue. What will the implications be for the shadow economy in different countries? And what can and should we be doing about it? A new report from the ACCA, *Emerging from the shadows: The shadow economy to 2025*, attempts to shed light on these difficult questions.

The report defines the shadow economy as the market-based production of and payment for legal goods and services that are deliberately concealed from public authorities. It combines a detailed analysis of its drivers and its possible future development, with expert interviews and a global survey that help to improve understanding of why it exists.

Disruptive forces

The world is in the grip of disruptive forces, from economic power shifts and political uncertainty to rapid technological advance. This means there are many possible scenarios for how the shadow economy could develop over the coming decade. It could, for example, expand in the near future as household income is squeezed and employment opportunities are diminished by automation; on the other hand, the gradual elimination of cash from society will make it harder for those working in the informal economy to bypass the system.

Overall, says the report, the forces at play 'suggest that the shadow economy will become ever more complex to monitor, measure and potentially control'.

The report looks in detail at the emerging agents that could affect the evolution of the shadow economy over the coming decade. Those taking part in the survey were asked to identify the agents in each category (economic, business, socio-demographic, socio-environmental, governance, and science and technology) that they thought would have the biggest impact on the growth of informal activity. This revealed the major drivers of the shadow economy as being:

- a higher tax burden and complex tax system
- increasing pressures on small business, intense market competition and the rise of the independent worker
- rising unemployment, increasing poverty and limited access to education and training
- increased levels of corruption and changing social norms
- regulation that is detached from ordinary people's lives
- increasing connectivity and adoption of digital technology, which offers users a degree of anonymity.

Overall, the shadow economy is expected to decline globally by 2025, from 23% of global GDP in 2011 to an estimated 21% in 2025. But this decline will not be uniform. Some countries, particularly emerging market economies, will probably see an increase in shadow activity as a percentage of GDP by 2025. The report forecasts the likely increase/decrease in informal activity (as a percentage of GDP) in 28 countries between 2011 and 2025. The average size of the shadow economy in each country today ranges from 7.69% of GDP in the US to 66.12% in Azerbaijan.

> 'The forces at play suggest that the shadow economy will become ever more complex to monitor, measure and control'

The report highlights the difficulties that countries with a significant shadow economy could face in the future, including rising poverty and inequality and poor public services. 'There are many positives in how the world of work is evolving,' it states, 'but there are also risks.

'Given the tensions between the opportunities and risks, could the future of the shadow economy lie in its acceptance as a business fact of life, in effect decriminalising and legitimising those who, for whatever reason, work in the shadow?'

Role of professional accountants

The report argues that accountants need to have a firm grasp of the potential impact of the shadow economy on their own and their clients' businesses. 'They can help those who wish to escape from the shadows, while also advising those who, through necessity, continue to work in the shade,' it says.

But accountants are also committed to public value, and responsible and ethical behaviour. How best to strike a balance?

An ACCA survey carried out as part of the report found that 22% of respondents would not deal with customers or clients who they believed to be operating in the informal sector, and that 20% had strict policies in place to ensure compliance with the law. But only 7% said they were making efforts to improve their processes to handle shadow economy activities.

Whose responsibility is it?

Overall, opinion was split on where the responsibility for addressing the shadow economy should lie. Some 76% of respondents felt it should be with government, while 60% felt it was up to individuals to refrain from taking part in the shadow economy and to report shadow activity, and 45% wanted local communities to take the lead.

That said, professional accountants are willing to play an important role and see themselves as able to do so. The report offers a number of recommendations where the profession's core ethical values and its role in creating public value can help address the shadow economy. They include:

- monitoring shadow activity
- working with policymakers to help them understand the problem and to develop robust solutions for it
- measuring and modelling the effect of developments such as the rise of the sharing economy and virtual currencies
- mediating between the shadow and formal economies and helping businesses emerge from the shadows
- finding ways to use technology to monitor and measure the shadow economy
- working with government to educate staff and businesses and to help them to formalise their economic activity.

However, as the report points out: 'On the one hand any steps to engage with the shadow economy sector could be seen as entering a minefield, with numerous potential dangers that could tarnish the reputation of individuals, firms and the profession as a whole. On the other, it is clearly a significant and growing sector of the overall economy, and accountants could play a role in helping clients make the transition from informal to formal status.' Either way, the profession should remain close to the heart of this debate around the world.

The ACCA report *Emerging from the shadows: The shadow economy to 2025* is available at bit.ly/ACCA-shadow-future

Clear the track

A lack of public financial management skills in South Asia is an obstacle to the optimisation of funding from donor agencies, says ACCA's Arif Mirza

One of the more potentially rewarding areas of growing the accounting profession in developing countries in South Asia is the realisation that, as an international professional accountancy organisation, ACCA can do a lot to fill the skills gap that exists in public financial management (PFM), the rather loose term often used to describe the entire accounting function of public services, including financial planning and controls.

This area of PFM is rife with international and domestic consultants working across numerous PFM projects throughout the globe, but especially in the developing nations where the state is the recipient of multilateral and bilateral funds from agencies such as the World Bank, the Asian Development Bank and the United States Agency for International Development (USAID), to name three. The recipient client state may not have a trustworthy accounting and financial management mechanism in place to reasonably and properly account for and report on how the funds are used. These funds – destined for a multitude of projects ranging from hydro dams to power plants – can run into billions of dollars.

Arif Mirza is ACCA's regional head of policy for the MENASA region.

Compelling need

But even without the need for, and supply of funds from, multilateral and bilateral agencies, and the requirement for accounting stewardship over that money, developing nations' governments independently now face a compelling need for better PFM over public funds and the use of those funds to provide public goods and services, such as healthcare,

education, housing, transport and communication.
There is increasing scrutiny over public money by the media. The recent Panama Papers scandal exposed by the International Consortium of Investigative Journalists was an illustration of how many individuals holding public office had siphoned off billions of dollars of public money into private offshore companies and is an example of a leaking PFM system.
Two of the largest bilateral agencies operating in South Asia – the UK's Department for International Development (DFID) and USAID – have a significant amount of money invested in a variety of projects in the MENASA region (Middle East, North Africa, South Asia). The US and UK public are increasingly demanding accountability from their governments and this cascades down to recipient countries. Better PFM can be delivered through improved training, systems and technology. Increasingly, enterprise resource planning (ERP) systems are being deployed in markets to improve budgeting, planning and spending across all the components of revenue, expenditure and capital spending.

Aid from agencies (2015)

	USAID US$m	DFID US$m	World Bank US$m
Bangladesh	206.0	197.4	1,560
Pakistan	633.4	559.7	2,280
Sri Lanka	22.2	nil	412
UAE and South Asia	0.9	nil	N/A

There is a trend for projects executed by some of the above-mentioned agencies to be staffed by people seconded from government departments, such as the auditor general office, the provincial or federal governments, and sometimes consultants brought in from national and international sources. The project ends up with diverse teams with different areas of expertise, depending on the nature of the project; but, for the purposes of PFM, the project can often rely on public sector people with poor PFM skills.
One way of bringing in PFM skills is through the employment of temporary contracted-in professionals for the project's duration, rather than seconded government employees. However, while contract employees are well paid, they often suffer from a lack of empowerment – lacking networking within the overall environment and often regarded as outsiders by the regular government sector project staff. The best way to improve the overall financial performance of projects is to improve the PFM skills of the regular federal and provincial government staff who are deployed on such projects.

Governance challenges

Quite often the various committees that are arranged around projects and their work, including releasing money for project sub-contract work, such as capacity building, are subject to governance bureaucracy. Such committees are frequently populated by a variety of staff from line departments, project workers and sometimes people from supreme audit institutions (SAIs). The governance challenges are heightened in the public sector where staff seniority and protocols often undermine frank and honest discussions, and too often far too much time is dedicated to every small detail.
Another factor is that the sector's pay scales are way off current market levels in developing countries – this becomes very evident when temporary contracted staff are hired on projects at US$30k a year compared with permanent staff at a third of that rate. Human resource (HR) rules need to be modernised across the public sector. Many HR rules date back to colonial days in South Asia. Passing professional examinations is not incentivised sufficiently and there is no predetermined pay rise or promotion scale. While there is certainly a desire to improve the situation, leaders seem to be hostages to politics and a predetermined political agenda. Retention, on the other hand, is high – but not on merit. The sector is plagued by nepotism and favouritism. The so-called 'job for life' is alive and well in the public sector of South Asia.

> A lack of confidence in their own PFM abilities is preventing government departments from embarking on projects

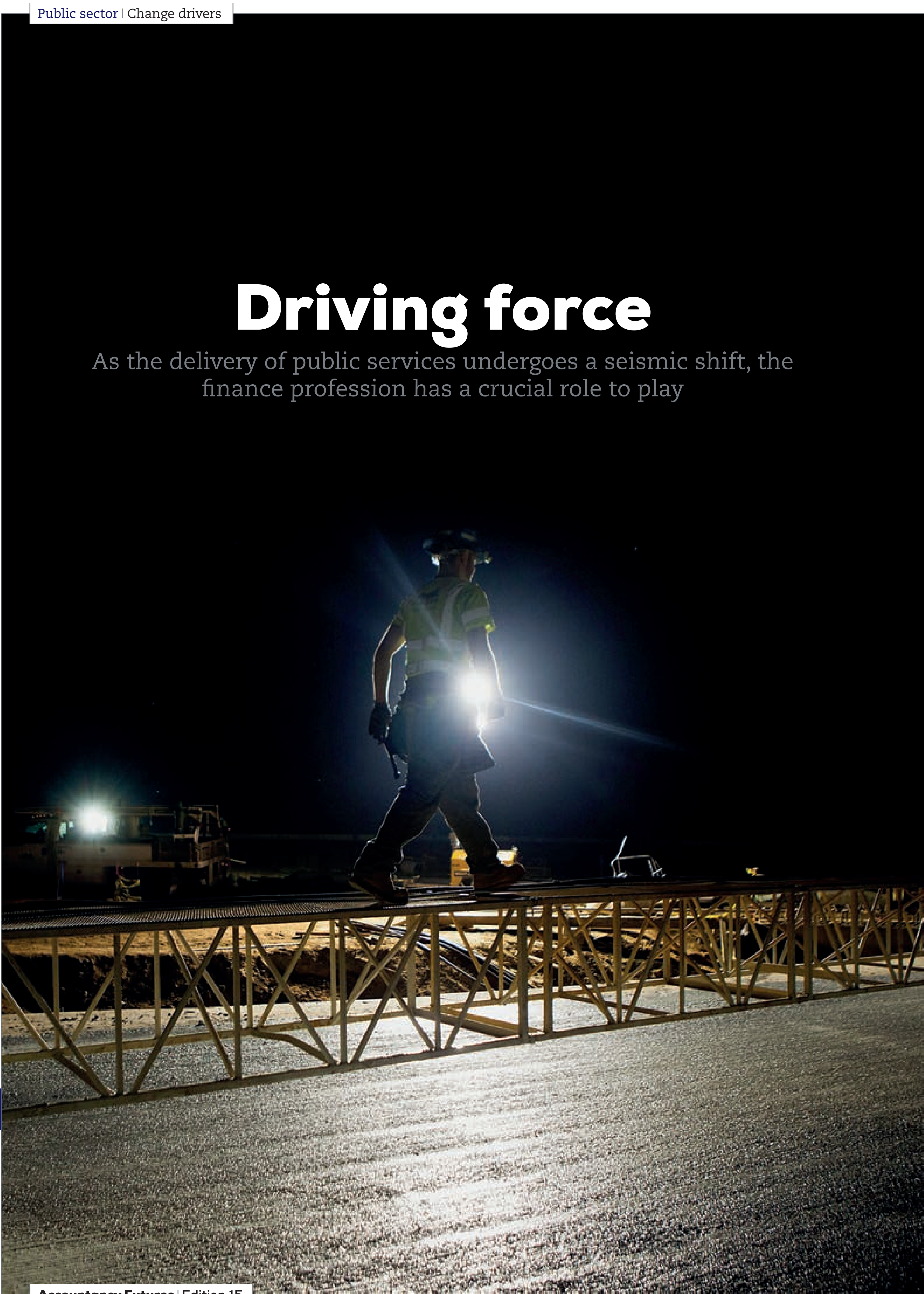
Leadership challenges

If there is a single panacea for lifting the quality of public sector organisations and enterprises in developing nations, it is the appointment of highly principled and qualified leaders. Tone at the top carries a lot of weight in the public sector in South Asia, where unfortunately seniority and protocol are the driving forces in state-owned enterpsies (SOEs). No doubt there is great potential and there are real examples of excellence, but what is needed is continuity: turnover of leaders every three years may have some merit, but there are cases where top-quality leadership bringing meaningful change to SOEs, who still have 'a lot left in the tank', are shown the door because of the three-year rule. In the private sector, it is very common for great CEOs to be awarded several extensions, but seldom in the SOEs.
In conclusion, the public sector is often ripe with project funding, with millions of dollars from donor agencies, but the sword of public accountability combined with a lack of confidence in their own PFM abilities – and the increasing scrutiny by the press and media – is preventing government departments from embarking on projects for fear that they could make a wrong decision and later be unable to ensure stewardship over the funds. This is now becoming a major obstacle to progress and optimisation of project funding from multilateral and bilateral agencies.

The Sri Lankan railway (left) is just one public service of many that would benefit from improved PFM.

Driving force

As the delivery of public services undergoes a seismic shift, the finance profession has a crucial role to play



As we continue to live through one of the most disruptive and extended periods of change ever experienced, how does that translate into the working lives of accountants in the public sector?

Across the globe, finance professionals are dealing with the impact that demographics, economic unpredictability and political upheaval are having as they combine to radically alter the way public services are delivered. Some of these – such as an ageing population – will affect the level and type of services that will be needed, while others – such as economic factors – will affect the availability of funds.

Meanwhile, the nature of the public sector, and the demands on its finance professionals, is being fundamentally changed by digital technology. This is accompanied by the blurring of the boundary between the public and private sectors as governments explore outsourcing and partnerships with private companies.

In order to explore the extent of this change and the many influences involved, ACCA has undertaken a global study to identify the major factors that are driving change in the public sector. The resulting report, *50 drivers of change in the public sector*, also looks at how and when these drivers may shape the future.

This significant and detailed work aims to help professional accountants and leaders in the public sector identify the skills and experience that will, in future, be vital in order to support the delivery of excellent public services worldwide. The study – which included 12 detailed roundtable discussions held in 11 countries – identified the 50 most important drivers of change across eight key areas: economy; politics and law; society; the business of government; science and technology; environment, energy and resources; the practice of accounting; and the accountancy profession.

Delivery evolution

It comes as no surprise that, given the current environment, the level of economic growth was ranked as the top driver for the public sector. However, the survey also shone a light on the changing nature of the delivery of public services across the globe.

This is due in part, the report explains, to the political environment, and the tendency for more public services and support services to be outsourced. 'The public sector is evolving to deliver services in the most effective way within the constraints of available public finances,' the report states.

Top 10 drivers of public sector change

1. Economic growth
2. Availability of global talent
3. Responsiveness to change
4. Use of public-private programmes
5. Exploitation of big data
6. Use of non-financial information/integrated reporting
7. Stability of the global economic infrastructure
8. Cybersecurity
9. Stability of national revenue bases
10. Diversity in society and workplace

China: technological influence

China has experienced significant economic growth over the last decade but its public sector and the professionals working within it face a number of significant challenges. According to ACCA's survey, the top five drivers of change for China's public sector are:

1. quality and availability of the global talent pool
2. level of economic growth
3. business leaders' responsiveness to change and disruption
4. speed and duration of business cycles
5. stability of the global economic infrastructure.

Alongside rapid economic development over the last 20 years, there is a closer focus on sound governance and interventions to address social inequality, rapid urbanisation, geographic wealth distribution and environmental issues.

There are significant opportunities for professional accountants in the public sector. Technological developments will heavily influence their roles – for example, the availability of good data in the public sector means they can use this to drive better service delivery and information. There are also opportunities for better reporting. With China increasingly engaging with International Financial Reporting Standards and International Public Sector Accounting Standards, as well as integrated reporting and corporate social responsibility, professional accountants are increasingly key to policy development.

Singapore: extending dynamism

Singapore public sector financial professionals face serious challenges, ACCA's research finds. The top drivers of change are:

1. quality and availability of the global talent pool
2. level of economic growth
3. experimentation with and adoption of new business models
4. stability of the global economic infrastructure
5. non-financial information and integrated reporting.

Singapore has a strong and dynamic government, and that dynamism spreads into the management of its public sector, which is a world leader in digital government. It has been at the forefront of making services available digitally, bringing down the cost of government and improving its effectiveness. Professional accountants are playing an important role in the development of Singapore, but there is a serious shortage of them, particularly in the public sector. The government has a clear vision for how to grow the profession; Singapore sees itself as a global accountancy hub. So the opportunities for professional accountants in the public sector have arguably never been greater.

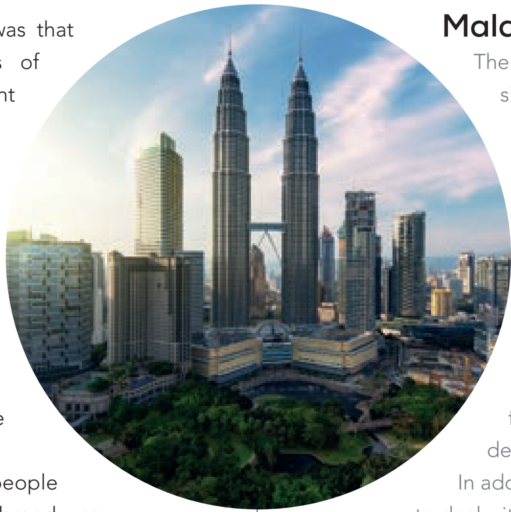
A key finding of the research was that three of the top five drivers of change relate to how government organisations operate. In addition, the availability of talent was also a significant factor in responses across the globe. 'The public sector is often unable to compete with the private sector for talent, so fails to attract and retain the people it needs to help modernise public services,' the report says.

The drive to encourage young people to return home after studying abroad was identified among emerging economies, keen to use those talents for the benefit of their own country; this could, the report notes, prove significant in the near future. Talent shortage was rated most highly as a driver for change by respondents in Asia Pacific (49%) and South Asia (44%), compared with 26% in Western Europe; this was probably due, says the report, to Europe's ability to attract talent from elsewhere.

The number of public-private partnerships across the globe, which are developing at varying speeds, was also highlighted in the report. This demonstrates the vital contribution of professional accountants to this changing landscape, through monitoring and assessing these increasingly complex arrangements. 'Adequate governance arrangements in these commercial agreements will be paramount for maintaining control and accountability for the use of public funds,' the report says. 'The finance professional in central, federal, state and local government will need a blend of commercial acumen and entrepreneurial skills to be able to manage these relationships effectively and explore innovative ways of obtaining better value for money in public services.'

Bridge-building

The report describes the critical role played by finance professionals in the public sector, and how the demands placed upon them will develop in the future. 'There is an overwhelming case that the public sector will require more accountants, but they will now be required to fulfil the growing need for accountability and transparency, as well as provide better insights to help public sector organisations meet future needs,' it says. 'Public sector accountants are being asked to take on a broader strategic and entrepreneurial role, as they are now becoming the bridge between the public and private sectors.'



Malaysia: climate challenges

The public sector in Malaysia continues to undergo significant transformation. According to ACCA's research, the top five drivers of change are:

1. quality and availability of the global talent pool
2. level of economic growth
3. use of public-private partnerships
4. manageability of national and international debt
5. big data: the development and exploitation of large organisational databases, data mining and predictive analytics.

Malaysia's public sector financial professionals face complex challenges, including technological developments and the need for diversity in the workforce. In addition to managing these, the public sector will have to deal with challenges posed by international political volatility and the withdrawal of the US from the Trans-Pacific Partnership, plus developing Malaysia's role in the ASEAN Economic Community.

But opportunities for professional accountants in the public sector abound, such as the adoption of International Public Sector Accounting Standards, helping to shape more effective financial reporting in the sector, and driving transparency and control over public spending. In addition, the Malaysian public sector is particularly influenced by competition for natural resources, and the country faces significant climate challenges – professional accountants in the sector should be able to drive best practices for capturing and reporting green performance measures.

More broadly, access to talented finance professionals is a concern. Key skills in analytics are in demand, as well as related risk management and experience in cybersecurity.

Pakistan: Belt and Road benefits

Now more than ever, the public sector in Pakistan needs professional accountants. According to ACCA's research, the top drivers of change for the public sector in Pakistan are:

1. use of public-private partnerships
2. business leaders' responsiveness to change and disruption
3. level of economic growth
4. quality and availability of the talent pool
5. clarity in financial reporting and defining the audit function.

The country's changing political, social and economic environment will influence the debate in the public sector in the years to come. For example, the China-Pakistan Economic Corridor (part of the Belt and Road initiative) is seen as the economic hope for Pakistan's future, and proper financial management and risk management will be key to its success.

Public services are going through a transition, being reshaped by technological advances and the increasing involvement of the private sector. These will create opportunities for finance professionals in the public sector, who will need a new mindset and skillset, such as good communication skills, professional and ethical judgment, and emotional intelligence.

As the nation takes its place in the global economy, finance teams will be called upon to ensure funds are used ethically and effectively. Government departments will need to provide more transparent and meaningful disclosures in their reporting, aligning with international standards. This will need to be supported by high-quality, independent audit.

There is much work to be done in capacity-building to secure the next generation of public sector accountants.

The report also describes the skills that professional accountants will require as the public sector becomes leaner and more citizen-focused, making greater use of technology and big data. Central to this will be strong technical skills, the report says, coupled with good professional judgment in the analysis of financial and non-financial data in order to create meaningful insights. 'In a public sector context, this is even more of a challenge than elsewhere,' it continues, 'as it is not easy to assess the impact of government spending in a linear or strictly numerical way.'

See the big picture

Professional accountants will also need to 'find their voice', says the report, as well as being prepared to question processes when there is an opportunity to make improvements: 'As the public sector increasingly operates in a commercial and business-like manner, the professional accountant will need to develop a strong understanding of how financial decisions interrelate with strategic and operational priorities.' Governments will need and value accountants who have not only strong negotiating skills but also an ability to see the big picture and take a forward-looking approach.

In his foreword to the report, Stephen Emasu FCCA, chair of ACCA's global forum for the public sector, sums up the challenges facing the public sector but also stresses the vital role that professional accountants will play. 'This is an exciting time to be a professional accountant in the public sector,' he says. 'It is a huge opportunity to shape the public services of the future, achieving value for money and long-term sustainability.' AF

Liz Fisher, journalist

Download the ACCA report, *50 drivers of change in the public sector*, at bit.ly/acca-50-driv-chg-pub. The report forms part of the *Professional accountants – the future* series and focuses on identifying the 50 drivers of change that are expected to have an impact on the public sector and the pivotal role of professional accountants in the decade ahead. It includes 10 country-specific reports focusing on China, Ireland, Kenya, Malaysia, Nigeria, Pakistan, Singapore, South Africa, UK and Zimbabwe.

Kenya: political instability

Kenya's changing economic environment, political environment and societal norms – including a growing population – affect the public sector and the level of related services required.

According to ACCA's research, the top drivers of change in the public sector are:

1. defining the scope of the accountant's role
2. use of public-private partnerships
3. digitisation of work
4. level of economic growth
5. stability of national revenue bases.

The particular challenges facing Kenya highlighted in the report include the threat of political instability, rapid demographic change, the quality of public sector administration, fluctuations in government revenues and high levels of unemployment. All of these factors have an impact on the effective delivery of public service.

Delivery channels are changing with the use of public-private partnerships and digitisation. These new models bring risks but they also provide new opportunities for professional accountants.

Kenya's public sector has to contend with limited local accounting skills and low attractiveness of the accountancy profession. Government and others need to support the development and training of a new generation of professional accountants who understand the specific character of the public sector.

In turn, public sector finance professionals need to develop new capabilities as they contribute to improvements in the effectiveness of the business of government. They must be adaptable as demands on them change and business models evolve.

Nigeria: train new talent

The Nigerian economy is facing significant challenges, yet the stability of the national revenue base is key to the successful delivery of public services in the country.

According to ACCA's research, the top five drivers of change in the public sector are:

1. quality and availability of the global talent pool
2. use of public-private partnerships
3. business leaders' responsiveness to change and disruption
4. extent of foreign direct investment in developed and developing economies
5. competition for limited natural resources.

Nigeria's rapidly growing population, with much of it living below the United Nations poverty line, is a considerable challenge for Nigeria as it struggles to absorb the adult population into the workplace. Therefore, it is no surprise that the availability of high-quality talent was identified as the top driver of change for the public sector. But there are a number of emerging opportunities. The use of big data is a key priority and could yield significant benefits to the public sector in Nigeria if it can successfully digitise its technologies (internet and telecoms infrastructure still requires improvement). Professional accountants in the public sector can play a strong role in bringing valuable insights through data analytics and managing risk.

In addition, Nigeria is facing significant competition for limited natural resources. Professional accountants can support public sector entities in reporting on sustainability measures and helping manage environmental performance targets. Nigeria's public sector has been implementing International Public Sector Accounting Standards, although progress has been relatively slow. And there are ongoing challenges in terms of the internal audit function in some entities.

Republic of opportunity

ACCA members have a 'unique insight' into today's business challenges, prime minister Leo Varadkar explained at the President's Forum in Dublin

Taoiseach Leo Varadkar has made clear his view that the accountancy profession has a key role to play as the country enters the next cycle of economic growth. He paid tribute to ACCA's leadership role in encouraging debate around significant business issues, describing it as entirely appropriate given the importance of accountants to the economy.

'It is natural that you do and should continue to debate the economic issues of the day. You have unique insight into the successes and struggles of Irish businesses, and that insight is really valuable,' he said. 'As we work to create a republic of opportunity in this state, we rely on your contribution to ensure we meet and maintain high standards in business life.'

Speaking at the President's Forum in Dublin in June, Varadkar opened by saying the annual event had proven itself over the years to be a place for 'opening up judgments and assumptions'. He went on to reflect on a number of important pieces of recent legislation of direct relevance to the profession and the current debate. They include the Companies (Accounting) Act 2017, which reduces reporting obligations for small business and micro companies, and the Companies (Amendment) Act 2017, which increases the scope for some companies to report under US accounting standards. Further legislation in the pipeline includes the act that will transpose elements of the European Union audit directive into Irish law.

Moving on to the economy, Varadkar said: 'Despite challenges and risks, we are entering the next budgetary cycle from a position of reasonable

The forum

The focus of the ACCA President's Forum 2017 was a debate on the opportunities for a small open economy. Hosted by ACCA president Brian McEnery at Trinity College Dublin's Science Gallery, the forum brought together a panel of industry and business experts including Brendan Foster FCCA, the president of Dublin Chamber of Commerce; Richard Moat FCCA, CEO of Eir; Sue O'Neill, chair of the Small Firms Association; and Loretta O'Sullivan, senior economist at Bank of Ireland. The forum opened with a keynote contribution from the Taoiseach Leo Varadkar, who had been appointed Ireland's youngest ever prime minister just two weeks earlier.

strength and stability.' Ireland has been the fastest-growing EU economy over the past three years, with growth of 4.3% expected this year and 3.7% next year, and domestic consumption is increasingly driving that growth. This is particularly encouraging, he said, because the domestic sector is rich in employment opportunities and in revenue.

Varadkar said the government was determined that all parts of the country should share in the return to national prosperity. 'While housing supply remains a big problem, we are seeing clear trends in planning permission and housing starts that will translate into output in the coming months and years.'

Although current needs are a priority, and a 10-year plan for capital investment is central to the government's commitment to meet the needs of a growing economy, Varadkar also reflected on the shape of things to come. 'We now have the opportunity to plan with some ambition for Ireland's future and for an Ireland with 1,000,000 more people in it by 2040.'

Key steps being taken to safeguard this future include the government's national mitigation plan for climate change, which will signal a decisive move to a low-carbon economy. It is a journey, he said, that 'will bring profound shifts in how the economy looks and works in years ahead'.

Minimising Brexit's impact

Turning to the topic of Brexit, Varadkar welcomed the opening of negotiations but said it was still not entirely clear what the British government thought Brexit would mean. 'Ireland wants to see the closest possible relationship between the EU and the UK to minimise the impact on citizens' rights, trade and the economy, and we are confident that can be achieved. We've done so much to build social, cultural and economic links across these islands, which is why we adamantly oppose an economic border on our island.' He also suggested that in the new post-Brexit reality, 'more often than not, the UK will have to implement decisions that they are no longer party to the conversation about'.

He added that Ireland was committed to being at the heart of the EU at this critical juncture. 'At a time when so many issues are beyond the capacity of nation states to deal with or address, such as climate change or terrorism, and when money markets and many corporations are more powerful and richer than nation states, it's bodies like the EU that represent our best opportunity to exert democratic control and to bring about solutions that serve the interest of the people.'

Another issue under debate at the President's Forum was taxation, with Varadkar highlighting some government priorities in advance of Budget 2018. He said the guiding principle would be to reduce income tax in a sustainable and affordable way, with work having begun on how to merge the universal social charge (USC) and pay-related social insurance (PRSI). He told attendees that Ireland's corporation tax sovereignty would remain integral to the drive to attract foreign direct investment (FDI) in a post-Brexit arena, adding that Ireland's consistency and certainty of approach in this was a core strength. 'The fact that our corporate tax rate hasn't changed through boom, bust and recovery is important in itself. While others may be reducing their tax rate, few offer the consistency we have.'

Leo Varadkar flanked by ACCA chief executive Helen Brand and ACCA president Brian McEnery.

Opportunity free from artificial barriers

ACCA president Brian McEnery said he saw in the theme of this year's President's Forum a proposition that was 'as interesting as it was endless'. Focusing on how Ireland's economy would evolve within the context of new challenges, in particular Brexit, he said progress achieved in the free flow of trade between the two parts of the island should not be reversed. He said that 20 years ago there were just 20 approved crossing points on the border; today there are 250. 'Careful planning and consideration will be necessary to ensure we do not return to that situation.'

McEnery also pointed out that ACCA had worked 'to provide opportunity free from artificial barriers'. With the forum considering 'what being truly global means in today's world', he welcomed the chance to debate 'whether the small economy of Ireland is situated to take up that mantle'.

He ended by warning: 'Brexit offers opportunity as well as well-documented challenges. Yet that could become a lost opportunity unless business and government work closely together.'

FDI focus

Finally, Varadkar outlined ongoing government policies to support economic development in a post-Brexit landscape. These include a sustained focus on attracting FDI, the continuing central role of the FDI agency IDA, open and accessible government, investment in a skilled workforce and what according to Varadkar is most important of all – Ireland's role in a modern Europe.

In a nod to the thoughtful and reflective debate at the President's Forum, Varadkar concluded by quoting George Bernard Shaw. 'Progress is impossible without change, and those who cannot change their minds cannot change anything,' he recited, adding: 'Let tonight be about changing minds and sharing ideas.'

A very public role

The role of auditor general is necessarily a very public one, subject to in-depth scrutiny. Here we talk to Malawi's AG Stephenson Kamphasa FCCA

When your country's finance minister asks you to take on the role of auditor general, there is probably only one answer that you can give. So it was with Stephenson Kamphasa FCCA. Four years ago, having already seen two previous nominations rejected, Malawi's government was determined to get a new AG in place. And so, despite opposition party concerns that Kamphasa's CV included working for private sector accountancy firms, his nomination was accepted by the Malawian parliament.

That was in June 2013, and Kamphasa is now four years into his five-year term as the country's most senior public sector independent auditor.

'The call from the minister came as a complete surprise,' Kamphasa admits. 'I was originally contacted in May 2013 about a different proposition. Malawi's Institute of Accountants had given the government my name. I sent my CV over to the finance minister. Then, on 4 June I received a letter confirming that the

Stephenson Kamphasa

Stephenson Kamphasa began his career in 1981 working for a government agency. In 1989, he was seconded to Malawi's Institute of Management into an operations role, where he implemented and managed accounting systems. The secondment changed into a permanent position in 1992, after Kamphasa had been promoted to senior assistant accountant. After becoming head of finance, he left the institute in 1998 to join KPMG in Blantyre, Malawi's second largest city, where he stayed until 2007. He then left to set up his own firm Kamphasa Certified Public Accountants. After enjoying rapid growth, Kamphasa was approached by another firm, Mwenelupembe Mhango & Co, to join it. The two firms merged in 2011. Then came the call from Malawi's former finance minister. Kamphasa sat down with his partners to discuss the opportunity, and they agreed that he should take up the position, while leaving the door open for him to return should he chose to do so after his five-year term as AG finishes in 2018.

president was to put my name forward for the role of auditor general, subject to parliament's agreement.'

Having cleared the move with the partners at the accountancy firm where he was then working, Kamphasa took up his new role on 1 July 2013.

'There were so many things that were going on at that time,' Kamphasa recalls. 'I needed to sit down and work out a strategy, work out what was needed.'

Baptism of fire

But then, in Kamphasa's words, 'a very big surprise came along'. The discovery of a massive public sector fraud added a very different dimension to his work. 'This was just two-and-half months into the role. I needed to consider the way forward; everything was so cloudy.'

The scandal to which Kamphasa refers was quickly dubbed 'Cashgate'. Allegations of corruption and misprocurement first came to light in September 2013. UK accountancy firm Baker Tilly (now RSM) was enlisted to carry out a forensic audit to trace US$32m of missing funds. The firm's February 2014 report found MK6.2bn ($8.5m) of transactions related to corrupt payments and a further MK7.5bn to government misprocurement where transactions either had no supporting documentation, incorrect pricing or were allocated to the wrong budgets. Given that the country's annual GDP at that time stood at only US$5.5bn (£4bn), such sums were very significant.

> 'Coming from the private sector, I could see that there was a need for everyone to be trained as a professional'

'The first thing that came into my mind was to say that although I felt able to carry out the work necessary, my office lacked the skills required to do so,' recalls Kamphasa. 'It was a very systematic fraud that required very advanced skills to investigate. And I knew that it would cost money to investigate.'

Fortunately for Kamphasa, the UK's Department for International Development (DfID) came to the rescue, which hired Baker Tilly on Kamphasa's behalf. 'The first part of the investigation was to find out how and why the problem occurred, and then find out about the impact of the fraud on the economy,' Kamphasa explains. 'Thirdly, we needed to know who was behind the fraud.' The investigation took 11 months to complete, amid much public speculation over what would be uncovered. The final report was published at the end of September 2014.

It was in many respects a baptism of fire for the newly appointed auditor general, but it gave him the opportunity to update and fix the country's public sector financial management systems. 'We needed to look at the weaknesses that enabled the fraud,' Kamphasa says. 'The systems had been rendered useless; they had to be fixed. There was the need for a robust platform.'

During the investigation, there was an election that saw a new president and government elected. Joyce Banda, the president who was in office at the time of the fraud's discovery, was replaced with Peter Mutharika, leader of the Democratic Progressive Party, in May 2014. Kamphasa remained in office and was able to continue to assist in the reform of the country's public financial accountability.

Kamphasa worked together with the law enforcement agencies to put together an anti-corruption bureau, to assist in the prosecution of the fraudsters, while at the same time seeking to rebuild the financial management systems, which includes replacing the current system known as EPICAL, and indeed rebuild trust in the system as a whole.

Scrutiny

Fortunately, Kamphasa was no stranger to the public sector. His career has straddled both public and private sectors, having worked in government agencies where he gained his ACCA Qualification, as well as in public practice with Big Four firm KPMG and subsequently his own practice. But the role of auditor general is necessarily a very public role, subject to in-depth scrutiny just as much as the role allows him to scrutinise the financial dealings of government.

So how does Kamphasa deal with this public side of the role?

'I had worked in government before, between 1981 and 1989,' he explains. 'This was very good experience, it helped me very much, and I was able to pick up from where I had left, but in a different role. My KPMG experience also helped me adapt to being an auditor.'

Looking beyond the fraud investigations, Kamphasa can see improvements in the way Malawi now manages its finances. 'Of course, there are still challenges because everything has had to change,' he says. 'We have been looking at the public confidence in the Auditor General's office, and we have had to make changes so that people can trust the office. It has to be considered in very high esteem.

'Coming from the private sector, I could see that there was a need for everyone to be trained as a professional to move forward. We came up with a strategy in which everyone needed to participate, so we have been training our team through international institutions, supplemented by our own local institutions.'

In addition, he has put in place a programme to update auditing processes and software, while interrogating the systems to ensure they are compliant and identify any weaknesses. This strategic plan began in 2015 and is set to run until 2019.

Kamphasa's five-year term as AG will come to an end next year. Has he thought about the future? 'I have been able to contribute to the nation and bring in fresh ideas from private practice. So now my focus has been on making sure that this office is a professional office, and that is something that I still look forward to.' AF

Philip Smith, journalist

A question of principle

Public officials need to be accountable, and institutions must challenge irregular expenditure, says South Africa's auditor general Kimi Makwetu

South African auditor general and professional accountant Thembekile Kimi Makwetu doesn't pull his punches. With half of his seven-year term left to consolidate the restored reputation of his country's state institutions as trusted bodies that accept responsibilities and whose leaders understand and fulfil their duties, he speaks plainly. 'Change in the public sector will only happen with a change of tone among the top structures that no longer absolves people from breaking the law,' he says. 'Leaders institute policies and applications, and must react against deviances.'

He cites the case of a municipality with a 700-strong workforce that functioned only with the help of supplementary consultants for whom management had not budgeted. To meet the cost of the consultants' fees, the town stopped paying its electricity bill, with predictable consequences – its electricity supply and security suffered. By contrast, in well-run public bodies, 'good leadership demands action when things go wrong. Leaders drive the programmes and projects that improve people's lives,' he says.

> Public bodies have been too inactive in calling out instances of fraud, as well as irregular expenditure that breach the law

Before entering public service Makwetu worked for South African financial services institutions such as Deloitte, Standard Bank, insurance giants Liberty Life and Metropolitan Life, and South African packaging company Nampak.

Born and raised in Cape Town, he moved to the Gauteng region – South Africa's economic heart and home to the administrative capital Pretoria – when working for Liberty Life. In 2007, however, his career took a new direction. Terence Nombembe, the first black African to be appointed South Africa's auditor general in the 95-year history of the office, asked Makwetu to become his deputy. Appointed to the top job in 2013, Makwetu now oversees a 3,500-strong team across South Africa's nine provinces.

As a state institution, the Office of the Auditor-General of South Africa (AGSA) has its autonomy recognised in the constitution. Makwetu himself is accountable to the National Assembly – the lower house of the South African parliament – and reports direct to ministers. He sees maximising the opportunities to promote the work of AGSA as a key part of his role. In pursuit of this goal he invests time with national, provincial and local government representatives, universities, the media and the accountancy profession. In February 2017, he was the keynote speaker at ACCA's seventh global public sector conference in Johannesburg, which provided another platform for promoting his office.

However, he also acknowledges that many organisations and professionals touched by AGSA's work have 'different agendas' to that of his office – and as a man known for speaking his mind, he has not been afraid to say so. Releasing three performance audit reports dealing with pharmaceuticals, water infrastructure and urban renewal projects in November 2016, Makwetu stated bluntly that the government's failure to plan and monitor projects was affecting service delivery. The office had audited 109 health institutions and 10 medical depots, water infrastructure projects in seven district municipalities, and four urban renewal projects in Gauteng. The picture revealed by the audits, he says, was not a pretty one.

'The planning processes were largely deficient to the extent that many plans were developed but not sufficiently to respond to the needs,' he explains. He has called on the government to prioritise leadership, oversight and project management.

Makwetu has three main concerns: the accuracy of financial information in the public sector, the speed with which supply chain disruptions can occur within government entities, and the lack of government accountability for such mistakes.

South Africa has legislative requirements for transparency, and reporting mechanisms in the public sector are sound, but the country suffers when institutions are unwilling to stand up and respond to issues such as irregular expenditure, Makwetu says. Too many accounting officers in municipalities and state institutions, he says, fail to follow South Africa's Public Finance Management Act – the legislation that guides the spending of public funds.

He has also publicly decried the lack of consequences for senior officials responsible for unauthorised, irregular and wasteful expenditure – and stresses that in the absence of consequences the misuse of funds will continue unabated. In November 2016 he revealed that irregular government expenditure had rocketed to ZAR46.36bn (US$3.6bn) in the year to March 2016 – an 80% hike on the preceding 12 months. Makwetu laid the blame firmly with continued non-compliance with South African supply chain management legislation. Six entities accounted for more than half the irregularities, the most significant

being the ZAR13.9bn (US$1.1bn) racked up by the Passenger Rail Agency of South Africa (Prasa).

Makwetu believes that public bodies have been too inactive in calling out instances of fraud, as well as irregular expenditure that breach the law without amounting to outright graft. He says the buck stops with a public body's accounting officer, and that action must be taken against officials when 'there is enough evidence indicating fraudulent behaviour'. He adds: 'Too few municipalities follow through with those actions, specifically holding the accounting officer accountable.'

The country's Standing Committee on Public Accounts (Scopa) has invited law enforcement agencies to play a meaningful role in clamping down on irregular expenditure and the unwillingness of entities to censure those accountable. Makwetu sees this as a hopeful sign that anyone allowing irregular expenditure to continue will face sanctions.

In December 2016 Makwetu addressed parliament again, this time red-flagging the tendency of some government departments to resort to legal action to contest audit findings. He is especially concerned about challenges to reported irregularities in the procurement of goods and services.

While accepting it is normal for entities to contest audit findings, he warned that the number doing so was rising 'beyond reasonable levels'. He added: 'Involving lawyers, or going to court, strains relations between state audit teams and those whose accounts are being scrutinised, and racks up costs for both sides.'

He acknowledges that the unwillingness of entities in the public sector to address the issues raised in reports and implement the recommendations is one of AGSA's greatest challenges. 'We need to sharpen our teeth,' he admits.

To do this, AGSA needs to retain its talent. Makwetu believes AGSA needs to ensure it meets individuals' career goals. Working for AGSA enables accountants to bring their skills to bear on grassroots business and public spending issues. 'The benefit is knowing you have a broader perspective than merely looking at the figures and accounts,' he says. 'You are at the coalface of the country's business and economy.'

Nicola Jenvey, journalist in Pretoria

Kimi Makwetu

Kimi Makwetu, auditor general of South Africa since 2013, graduated from the University of Cape Town with a BSocSc in 1989. He worked for Standard Bank and Nampak between 1990 and 1994. Following this, he trained with Deloitte from 1994 to 1998. Then in 1997 he graduated from the University of Natal after taking a distance-learning course in accounting science. This was followed between 2003 and 2007 with posts at Liberty Life, Metropolitan Life and Deloitte. Then from 2007 to 2013 he was appointed deputy auditor general.

(Left to right) Lusan Hung, Fergus Wong, John Timpany, Danny Po and Chas Roy-Chowdhury at the first joint seminar organised by *ACCA Hong Kong* and CA ANZ.

Alliance events in Asia Pacific

Alliance partners ACCA and CA ANZ are collaborating on events for their members and external audiences across the Asia-Pacific region. The two bodies recently worked together to present to audiences at the Tech Fest Australia event in Sydney in September on the role of CFOs in the digital landscape. Other recent events include collaborating on a 'Career Karma' evening at CA ANZ's offices in Perth, which attracted members from both bodies. These follow events held across Australia, New Zealand and other Asia-Pacific countries to mark the launch of the joint research report, *G20 public trust in tax* (see page 33).

Alliance to co-locate staff

CA ANZ and ACCA are co-locating staff in a number of strategically critical markets. Progress is under way on moving CA ANZ staff in Singapore, Kuala Lumpur and Hong Kong into ACCA offices, while ACCA staff in Sydney are moving to CA ANZ offices. ACCA president Brian McEnery commented: 'As we head towards the second year of this important relationship, we want to strengthen the way we work together by co-locating staff in order to work on key projects and initiatives, and better support our members.'

Shared ambition

Ambitious young professionals working in shared services have a huge appetite for fast career progression, according to a global study from ACCA. *Generation Next: managing talent in finance shared services* revealed that nearly 90% of young professionals in this sector want a job in a different area of finance in their next career move or later on. In shared services, 68% are looking to change their role within the next two years, 71% expect their next position will be a promotion and 54% expect they will have to move outside of their current organisation to achieve this.

Read the report at
bit.ly/ACCA-GenNextRep

Planning for prosperity

New Zealand faces issues surrounding housing, inequality and global competitiveness, according to a new CA ANZ report, *The Quest for Prosperity: How can New Zealand keep living standards rising for all?* 'The paper seeks to stimulate public policy discussions about how we plan for our long-term prosperity,' said Peter Vial, New Zealand country head for CA ANZ.

Read the report at
bit.ly/quest-for-prosperity

Research collaboration

Following the success of ACCA and CA ANZ's joint research report, *G20 Public trust in tax* (see article on page 33), teams at the two bodies are working together on further research and professional insights activities. These include a guide to directors' responsibilities on corporate reporting, and further projects on issues including financial reporting and robotics. Geraldine Magarey, leader – policy and thought leadership at CA ANZ, said: 'Collaborating on research will ensure that we are a strong global voice on key business issues. It will also ensure that we can provide insight and resources for all of our members as they navigate their way around addressing future challenges.'

Combining technical expertise

CA ANZ and ACCA are working together on technical consultations to regulators and standard-setters. These include a recent joint submission to the International Accounting Standards Board on its *Principles of Disclosure* discussion paper, and another to the International Auditing and Assurance Standards Board on its exposure draft, *Auditing Accounting Estimates and Related Disclosures*. Maggie McGhee, ACCA's director of professional insights, said: 'Working together enables us to tap into a broader range of expertise and opinion, which enables us to make more valuable contributions to this important work on improving global accounting and auditing standards.'

CA ANZ and ACCA are co-locating staff in a number of strategically critical markets.