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Monitoring and achieving Net Zero targets

The risks of undertaking a personal guarantee

The assurance of sustainability reporting

The benefits of online exams and remote invigilation

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WELCOME

Sustainability reporting

Angela Partington Editor, IA

examine the challenges of sustainability reporting (see page 9), the standards that govern assurance and the criteria that businesses should bear in mind when selecting an assurance provider. Assurance is still an evolving market, and a number of factors will impact how it will be regulated. The article looks at the issues being considered by the accountancy profession, as well as academics and regulators, in the drive to provide useful and credible information to stakeholders.

The announcement of Net Zero goals by countries and companies around the world is another significant factor in sustainability reporting. Almost all companies now have a reporting mechanism. However, general observation reveals that although most companies have a target of achieving Net Zero by 2050, there is little evidence of a detailed plan to meet this goal. Sunita Devi examines the difficulties involved in monitoring (see page 18), and how the independent tool Net Zero Tracker allows you to assess the emission levels of nations and cities, as well as on a company-by-company basis.

On 5 January 2023, the Corporate Sustainability Reporting Directive entered into force in EU law, modernising and strengthening the rules concerning the social and environmental information that companies have to report. Sustainability information is presented according to internationally established disclosure standards – mainly, the

European Sustainability Reporting Standards, the Global Reporting Initiative and the International Financial Reporting Standards S1 and S2.

Providing accurate and verifiable sustainability reports is a challenge for all businesses, and obtaining accurate assurance of this information is a significant step in meeting internationally established disclosure standards.

María Antonia García-Benau, Laura Sierra-García and Nicolás Gambetta

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INSOLVENCIES

Company insolvencies higher than during financial crisis

More UK companies became insolvent in the past year than during the pandemic and the global financial crisis, according to the latest figures.

Company insolvencies hit 25,551 in the year to July 2024, according to the audit firm Forvis Mazars – 1.4% higher than the total number of companies that went insolvent in the same period during the financial crash (25,186 in 2008/09).

Insolvencies in the month of July consisted of 320 compulsory liquidations, the highest monthly number since before the Covid-19 pandemic. There were also 1,691 creditors' voluntary liquidations (CVLs),

155 administrations and 25 company voluntary arrangements (CVAs).

The company liquidation rate in the year to July was 56.6 per 10,000 registered companies. This corresponds to one in 177 companies entering insolvency.

Rebecca Dacre, a partner at Forvis Mazars, said the figures are a strong reminder that many businesses are still a long way from recovery. Despite initial signs of improvement in the economy, some sectors are still experiencing severe difficulty as interest rates remain high. Falling consumer spending during the cost of living crisis has also made it

incredibly difficult for some businesses to survive. The retail and hospitality sectors have borne much of the brunt,' she said.

Tim Cooper, President of R3, the UK's insolvency trade body, and a partner at Addleshaw Goddard LLP, said that despite a 75 decrease in insolvencies between June and July, the latest insolvencies were the highest in June since 2019.

'CVLs continue to be the most common corporate insolvency process, although their numbers have fallen compared to last month and July 2022. Used predominantly by smaller businesses, their increased take-up compared to July of last year and July 2019 reflects the challenging trading conditions these businesses have operated in over the past four years.'

TAXATION

G20 agrees on joint effort to tax 'super-rich'

G20 nations have agreed to work together 'to make the super-rich pay their taxes', but stopped short of a more substantial deal, according to a declaration adopted after a meeting of finance ministers in Rio de Janeiro.

The topic of tackling tax-dodging billionaires dominated the two-day meeting in the Brazilian city, which will host the next G20 summit in November.

A G20 statement said the initiative is a key priority for Brazilian President Luiz Inacio Lula da Silva, who heads the group, which includes the world's major economies, the European Union and the African Union.

While many members were seeking a minimum tax on the super-rich, the final statement represents a compromise on a topic that divided member states, it said. 'With full respect to tax sovereignty, we will seek to engage cooperatively to ensure that ultra-high-net-worth individuals are effectively taxed,' said the statement. 'Wealth and income inequalities are undermining economic growth and social cohesion and aggravating social vulnerabilities.'

The United States and Germany

dismissed the need for a global deal on taxing billionaires, an initiative which is backed by France, Spain, South Africa, Colombia and the African Union.

International Monetary Fund chief Kristalina Georgieva praised the G20's position on tax fairness. 'The shared

vision of G20 Ministers on progressive taxation is timely and welcome, as the need to rebuild fiscal buffers while also attending to social and development needs involves difficult decisions in many countries,' she said in a statement.

ARTIFICIAL INTELLIGENCE

AI 'will not automate accountants out of jobs'

Fear that artificial intelligence (AI) will decimate accounting and finance roles are not being borne out by recent research highlighting its potential to boost productivity and create new and different roles.

Research by investment bank Evercore and start-up consultants Visionary Future found that over the next five years AI adoption in the US is expected to reach 67%, meaning that by 2028 Generative AI (GenAI) will be able to do 21% of each job's function across the whole US economy.

Their analysis of 160 million US jobs revealed that service sectors such as accountancy and finance are particularly vulnerable to disruption by AI, and yet full job replacement was unlikely.

Rather, the study found that 'effective implementation of AI could enhance efficiency in the service sector, which has historically been difficult to automate'.

Michael Robert, an AI expert at gaming firm GTA Boom, said: 'While visions of intelligent algorithms totally replacing humans may seem straight out of a sci-fi blockbuster, the reality is far more nuanced. In my experience, AI is more likely to augment professionals rather than completely automate them out of a job.'



HMRC

New government's commitment to Making Tax Digital

In a recent letter received by the AIA, the new Exchequer Secretary to the Treasury sets out the Labour government's ongoing commitment to Making Tax Digital (MTD) for Income Tax. The letter highlights that MTD for Income Tax is in a critical stage of its delivery and HMRC's focus is on developing a successful testing phase to ensure successful delivery of the service by 2026 as planned.

It also clearly expresses that this will not be achieved without a continued strong collaboration between HMRC and external partners, such as AIA and other professional bodies.

One of the key requirements of the testing is to ensure that the right quantity and types of businesses can participate and this is one area where the government sees an important role for representative bodies, including AIA.

The timetable is expected to remain unchanged. From April 2026, MTD for Income Tax will be mandated for self-employed businesses and landlords with turnover above £50,000. From April 2027, it will be mandated for self-employed businesses and landlords with business turnover above £30,000.

AIA is partnering with HMRC to provide updates with a webinar on 16 September 2024 (see tinyurl.com/38shzsv3). AIA will continue to collaborate with HMRC more widely to assist members and businesses in their preparation for this important change.

AIA NEWS

AIA NEWS

AWARD

Winner of the John Blake Award Announced

AIA is pleased to announce Mujeeb Alam as the recipient of the John Blake Award. He achieved the highest mark in the International Financial Reporting Standards (IFRS) at Professional Level 2.

The John Blake Award honours the memory of Professor John David Blake, a pivotal figure in AIA's history who was instrumental in the successful application for AIA's recognition as a Recognised Qualifying Body for statutory auditors by the UK government in 1994. This award continues to celebrate his legacy by recognising outstanding achievements in the field of International Financial Reporting Standards, symbolising AIA's commitment to excellence in education and professional development.

Mujeeb Alam has demonstrated exceptional knowledge and understanding of IFRS, reflecting both academic excellence and a commitment to the highest standards of the accounting profession.

Jane Steele, AIA Qualifications Manager, commented on this achievement: 'We are incredibly proud of this year's winner for their dedication and hard work. Their success exemplifies the commitment to excellence that the John Blake Award represents. We look forward to seeing their continued contributions to the field of accountancy.'

Mujeeb Alam expressed his gratitude, stating: 'I am honoured to receive the John Blake Award and grateful for the recognition of my efforts. This achievement motivates me to continue pursuing excellence in my career and to contribute to the advancement of the



Mujeeb Alam

accounting profession.'

We extend our congratulations to Mujeeb on this outstanding accomplishment and look forward to celebrating his future contributions to the field of accountancy.

BOOK LAUNCH

Fellow member launches a new book

Knowing the Middle East is one thing, understanding it is another. Written in tutorial style and format, AIA Fellow Dr Shamir Andrew Ally aims to inform and teach, in his new book *My tenure as Guyana's ambassador in Kuwait with lessons in diplomacy: how we improved the image of Guyana in the Middle East*.

Find out more at: tinyurl.com/ykuchk28

PARTNER

New professional indemnity insurance partner

AIA is pleased to announce a strategic partnership with Counce O'Hara Insurance Brokers (COHIBL) to provide professional indemnity insurance services to AIA members. This collaboration will offer AIA members access to comprehensive insurance solutions designed to meet their professional needs.

Founded in 1995, COHIBL has consistently prioritised its customers by delivering personalised and reliable insurance services. As an independent commercial brokerage, COHIBL focuses on building trust and fostering strong relationships with its clients, ensuring that their philosophy of 'we care' is consistently delivered by their exceptional team. Through this partnership, AIA members will gain access to a range of benefits, including:

- **Online Quote and Buy Insurance Facility:** A fast and efficient online platform that allows members to obtain quotes and arrange compliant cover in just 90 seconds.
- **Expert Insurance Broker Services:** A dedicated team of insurance brokers

available to conduct cover reviews and comparisons, ensuring that members receive the most suitable insurance solutions.

- **Risk Management Consultancy:** Professional risk management services to help members identify, assess and mitigate potential risks within their practices.
- **Claims Handling Support:** Comprehensive support and guidance through the claims process, providing peace of mind when it matters most.
- **Complementary Employee Benefits Audit:** A complementary audit of employee benefits to help members optimise their offerings.

Ben Leeson, Director at COHIBL, commented on partnering with AIA: 'We are delighted to partner with the AIA. At COHIBL, we are very selective in our partnerships, ensuring they align with our values and customer-first approach. The AIA's commitment to supporting its members' professional and personal growth makes this partnership a natural fit. By working together, we can provide

AIA members with the specialised services and comprehensive support they need to thrive.'

The collaboration with COHIBL reflects AIA's ongoing commitment to enhancing the professional and personal development of its members by providing valuable resources and support. With COHIBL's extensive experience and dedication to customer service, AIA members can be confident in accessing top-tier insurance solutions tailored to their unique requirements.

Carl Jepson, AIA Sales and Marketing Director, said of the new partnership: 'Partnering with Counce O'Hara Insurance Brokers represents an exciting opportunity for our members to access high-quality insurance solutions that are tailored to the specific needs of accountants and finance professionals. At AIA, we are committed to delivering value and support to our members, and this partnership will enhance the resources available to them as they navigate their professional journeys.'



EDUCATION STANDARDS

AIA responds to proposed sustainability revisions to International Education Standards

AIA welcomes proposed revisions to the International Education Standards (IESs) issued in April 2024, emphasising the integration of sustainability across accountancy qualifications.

AIA supports the International Federation of Accountants' (IFAC) approach of embedding sustainability within existing standards rather than creating a separate standard, which aligns with its commitment to equip members and students with the key skills needed to champion sustainable reporting in business.

AIA also endorses the separation of assurance from audit in the standards and recognises the growing importance of assurance services related to sustainability. However, this should

be considered carefully to avoid any confusion that the separation may cause, and to ensure adequate highlighting of the necessity for transferable skills and specialisation opportunities within the accountancy profession.

Dr Peter Ellington, AIA Council Member and Associate Professor at the University of East Anglia, said: 'The integrated approach that IFAC has taken, incorporating sustainability across existing standards, is a step in the right direction and aligns with AIA's view that sustainability should be embedded throughout the professional audit and accountancy qualification syllabus.'

AIA advocates for stronger clarity in sustainability concepts and recommends the addition of a supplement to

the standards that explains how sustainability applies, with the inclusion of core sustainability competencies, and advocates for these concepts to be a mandatory part of accountancy education.

AIA's response builds on its role as a professional accountancy membership and qualifying body, supporting its members in providing essential data to clients and preparing future accountants for their key roles in sustainability reporting. AIA is committed to sustainability education and skills development, as demonstrated through its Sustainability Promise and as a signatory of the Sustainable Finance Education Charter.

David Potts, AIA Director of Policy and Regulation, commented: 'AIA supports the proposed sustainability revisions to the International Education Standards, which reflect the essential role that accountants play in driving sustainable business practices.'

See the full response at: tinyurl.com/yrnhz4k5

Better exams, a brighter future

Patrick Coates explores the benefits of online exams, the positive impact of online proctoring in accountancy and how to prepare effectively for exams.



While digital assessment

may seem like a new innovation, the technology has been pervasive since the 1990s, particularly with IT exams and

professional institutions. The e-Assessment Association (eAA) was founded in 2008 to share the benefits that technology brings to assessment.

For any students studying for professional qualifications like accountancy, exams can be a daunting experience. The disconnect between the digital tools used in daily professional life and the pen-and-paper methods used in exams has often been a source of frustration. Many professional bodies have been using online exams for many years and more recently, partially driven by the pandemic, there is a growing recognition of the benefits that remote invigilation (online proctoring) can bring.

The benefits of online exams and remote invigilation

The transition to online exams in accountancy has been a natural progression in reflecting an increasingly digital world with many benefits.

Exam content: Online exams can facilitate the use of item types that reflect the practical application of skills, as you would do in the workplace.

Faster and more reliable results: Digital assessments can result in quicker grading and feedback. For those awaiting results for career advancement, this can be a significant advantage. The ability to receive results faster not only reduces anxiety but also allows for more timely decision-making, whether it's applying for a promotion or pursuing a new role.

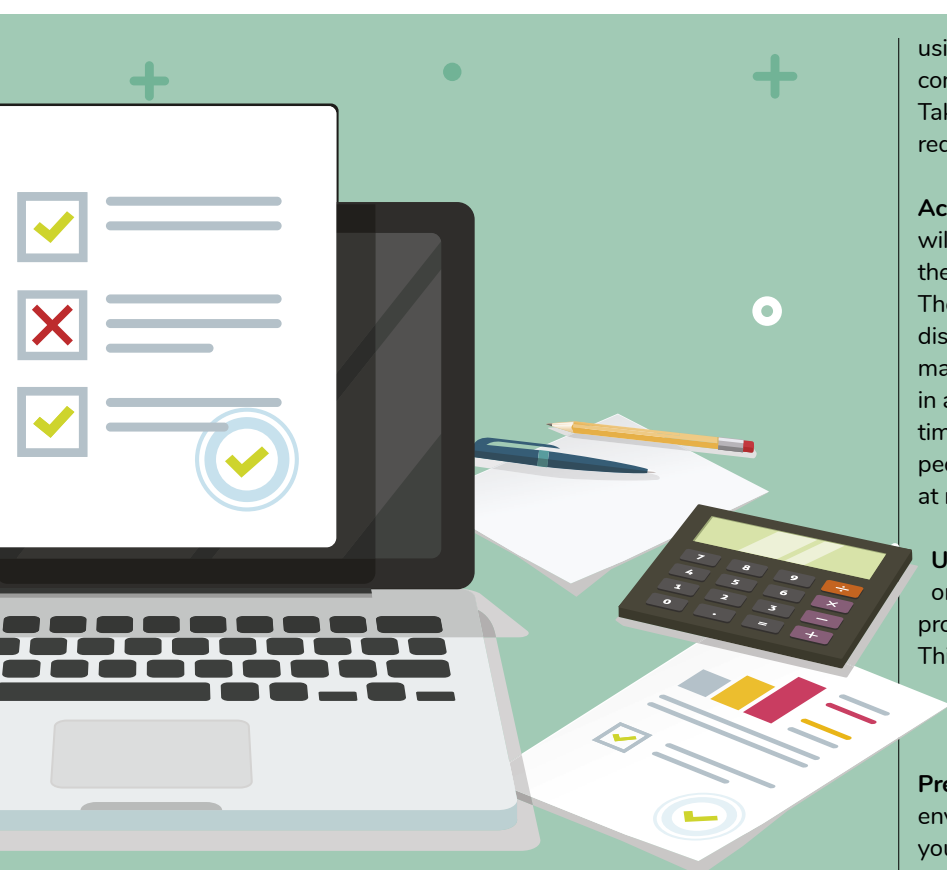
Patrick Coates
Chief Executive,
e-Assessment
Association

Environmental benefits: Online exams generally eliminate the need for paper, reducing the environmental impact associated with traditional exams. Additionally, the risk of exam papers being lost in transit is eliminated, ensuring that all exams are accounted for and marked promptly. The digital format also facilitates more reliable and consistent marking, as automated systems can assist in evaluating the objective components of exams, reducing the potential for human error.

Improving learning: The data generated by online exams provides valuable insights into student performance. This data can be used to identify common areas of difficulty, allowing educators to tailor their teaching strategies to better support students.

The move to online proctored exams is a natural progression from this, as the exam delivery technology is the same – it is just that the person invigilating the exam is based remotely, rather than in a test centre.

Flexibility and convenience: Students no longer need to travel to a physical exam centre, saving time, reducing stress and allowing them to take exams in a comfortable and familiar environment. This flexibility is especially beneficial for those juggling studies with work commitments, as it allows them to better manage their time and reduce the logistical challenges associated with traditional exams.



Enhanced fairness and integrity: Remote invigilation employs advanced technologies, including AI and webcam monitoring to maintain the integrity of the exam process. This ensures that all students are assessed on a level playing field, mitigating concerns over cheating and reinforcing the credibility of the qualifications earned. The use of digital invigilation tools provides an additional layer of security, making it more difficult for dishonest practices to occur and ensuring that the value of the qualification is upheld.

Increased capacity: Test centre capacity can be limited and remotely invigilated exams, in theory, have unlimited capacity.

Overcoming the fear of online and remotely proctored exams

Despite the clear benefits, the transition to online exams can be intimidating for some students. As with any exam, make sure you prepare in advance. Take practice or mock tests as much as possible. Embracing this change rather than fearing it is key to success.

Familiarisation with technology: Anxiety often stems from the unknown. By familiarising yourself with the online exam platform the process becomes less intimidating, and you can approach your exams with confidence. Most institutions provide access to practice sessions or mock exams

using the actual software, allowing you to become comfortable with the format before the real test. Taking advantage of these resources is crucial in reducing anxiety and building confidence.

Accommodations: Remotely proctored exams will work with assistive technologies. Please take the time to check beforehand if you are not sure. The exam provider will make sure you are not disadvantaged in any way as you are using your own machine – it should be much easier than using one in a test centre. As with any exam you can get extra time as needed, so please make sure you let the right people know in plenty of time when you are looking at registering for the exam.

Understanding the exam process: When you log on, you will be required to confirm your identity – a process designed to ensure fairness and security. This may involve showing identification and performing a room scan to verify that you are alone and free of unauthorised materials.

Preparing your environment: Creating a conducive environment for your exam is essential. Ensure that you have a quiet, well-lit space with a clear desk free from distractions.

You should also check that your technology meets the necessary requirements, including a reliable internet connection, functioning webcam and the appropriate software installed on your device. Most exam platforms provide detailed guidance on these requirements, so be sure to review them well in advance of your exam date.

Managing technical issues: While technical problems can be stressful, most online exam platforms have robust support systems in place. If you encounter a technical issue during your exam, don't panic. Contact the invigilator or technical support immediately. Knowing that help is just a click away can provide peace of mind and allow you to focus on your exam.

Secure data security: Data protection is a legitimate concern in the digital age, but it is taken seriously by all reputable organisations. Personal data is only kept for the minimum time necessary, and data used to improve systems and exams is anonymised. This ensures that your privacy is protected while still allowing for the continuous improvement of the exam process.

Prepare well: Preparation is key to success in any exam, and online exams are no different. Being familiar with the exam format, working through practice papers, good time management and incorporating stress-relief techniques into your routine will all help you prepare for the exam.



Author bio
Patrick Coates is CEO of the e-Assessment Association, representing the interest of over 5,000 individual members and key industry suppliers located around the world.

ONLINE EXAMS

About the eAA

Founded in 2008, the e-Assessment Association is an international not-for-profit membership organisation representing all industry sectors with an interest in e-Assessment, including schools, further education and higher education through to qualification providers, regulators, technology providers and industry consultants. With over 5,000 members worldwide, we have three main goals:

- to promote the better assessment of knowledge, skills and capabilities of people through technology;
- to build awareness of the benefits that technology brings to assessment, particularly around delivering better learning and assessment, rather than just greater efficiency; and
- to ensure we have a strong voice and influence in the key policy debates involving the assessment of learning, training and competency.

Find out more about the e-Assessment Association at:
www.e-assessment.com

What does the future hold?

While the pandemic has accelerated a trend that was already gaining momentum, many educational institutions and professional bodies have recognised the benefits digital assessment can bring.

Each year the e-Assessment Association hosts the International e-Assessment Awards. In 2021, the Best Transformational Project was won by an accountancy body which recognised the importance of moving to digital assessment and the

benefits this would bring to their students.

In the future, we are likely to see AI playing a greater role in personalising exams, providing real-time feedback and ensuring even greater fairness and accuracy in assessment. AI-driven tools may also help to identify areas where students need additional support, making the learning process more efficient and targeted. As more exams are conducted online, the data generated by online exams will continue to drive improvements in the assessment process, leading to better-designed exams that more accurately assess the skills and knowledge required for success in the accounting profession.

In addition, the flexibility of remotely proctored exams could open up new opportunities for students around the world. With fewer geographical barriers, education and professional qualifications will become more accessible, fostering a more diverse and inclusive community within the field of accountancy.

As the world continues to move toward a digital-first approach, online exams will become an increasingly integral part of the educational landscape. For accountancy students, this is an opportunity to not only adapt to a new mode of assessment but to thrive in it. The future of exams is digital, and by embracing this change, you will be better prepared for both your exams and your career beyond.●

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The assurance of sustainability reporting

María Antonia García-Benau, Laura Sierra-García and Nicolás Gambetta examine the challenges we face with the assurance of sustainability reporting.

María Antonia García-Benau Professor of Accounting and Auditing, University of Valencia
Laura Sierra-García Associate Professor, University of Pablo de Olavide
Nicolás Gambetta Director of Postgraduate degrees in Accounting and Taxation, Universidad ORT Uruguay

Stakeholders nowadays demand more reliable sustainability information and therefore the assurance of such information is a necessity.

Directive 2014/95/EU already established that an independent assurance service provider could provide assurance on sustainability reporting information. However, only three countries (Spain, France and Italy) have so far made this possibility mandatory, while the rest of the member states maintained a position in line with the Directive. Directive

2022/2464/EU of the European Parliament and of the Council of 14 December 2022 requires the assurance of sustainability information for the companies defined within its scope.

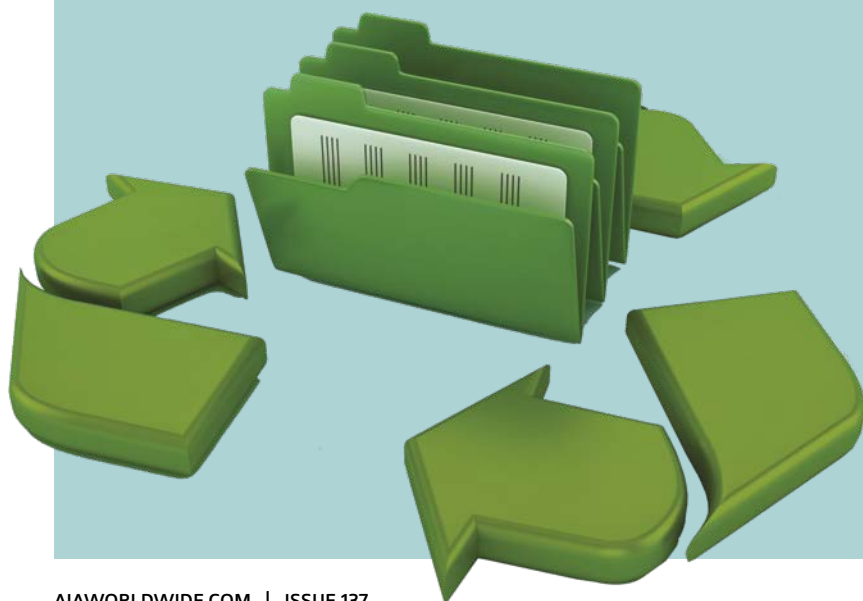
Assurance gives credibility

In an assurance engagement, the assurance practitioner must obtain sufficient and appropriate evidence to express a conclusion designed to increase user confidence in sustainability information. The assurance may be reasonable or limited according to the draft International Standard on Sustainability Assurance 5000 'General Requirements for Sustainability Assurance Engagements' (ISSA 5000).

The great importance and relevance of assurance results from it being a professional activity of public interest. This means that we are at a point where we must define all the elements that revolve around this concept.

The sustainability report

Companies disclose information on social, environmental and governance aspects in their sustainability reports. Sustainability information is presented according to internationally established disclosure standards. The main standards are the European Sustainability Reporting Standards in Europe, and the Global Reporting Initiative and/or the International



Financial Reporting Standards S1 and S2 elsewhere. European standards emphasise double materiality (financial materiality and impact materiality), while International Sustainability Standard Board standards only emphasise financial materiality.

Materiality is a crucial concept for sustainability reporting. The most popular corporate reporting trends revolve around presenting materiality matrices. However, given Europe's commitment to considering double materiality, important work remains on using this concept and its implications for the assurance of such information. Therefore, for this information to be useful and credible to stakeholders, it must be subject to assurance.

Who assures? Independence is the key

Defining who the service provider is involves discussing the personal and professional characteristics that the professional offering these services must have.

From a personal standpoint, the service provider should demonstrate clear moral and ethical principles. Professionally, it is crucial to understand that the credibility of the assurance report rests on the independence of the assurance provider from the company that is subject to assurance. This involves a 'deep dive' into concepts like competence, integrity, objectivity, scepticism and professional judgement.

The intricate issue of independence, which necessitates real independence to coexist with apparent independence and its associated risks, must also be defined.

Assurance can be carried out by statutory auditors or – in principle and if they meet a similar set of requirements and controls – by independent providers of assurance services. In both cases, they must possess the necessary characteristics to provide the service, meet the regulatory requirements, and have a background of producing reports for a broad group of users.

What standards govern assurance?

So far, the standards that have primarily been used are AA1000AP, issued by Accountability; and ISAE 3000R, issued by the International Auditing and Assurance Standards Board (IAASB). The international assurance reports presented have been based on these standards, sometimes individually and sometimes jointly.

In summer 2023, the IAASB issued a draft standard and the public consultation period ended in December 2023. On 25 September, the IAASB approved the International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements.

Selecting an assurance provider

- **Criteria for choosing the assurance service provider:** The reasons that lead companies to choose one assurer over another may be linked, among others, to technical issues, the price offered or the perceived reputation/image of the service provider.
- **Criteria for changing the assurance service provider:** Reasons for changing the assurer may be due to legislative requirements or the company's own decision. The reasons for a voluntary change of assurer involves analysing the consequences that have occurred after the existence of a contractual relationship between the company and the assurance provider.
- **Study of market power:** Knowing who is exercising market power through the study of concentration allows for analysis of the role and impact of each of the assurance service providers. This will reveal whether the assurance service is behaving as a perfect market.

Given the significant influence of the IAASB in setting auditing standards internationally, the ISSA 5000 standard is expected to gain widespread acceptance globally. However, in the European context, the Directive's requirement for the adoption of assurance standards may lead to a regulatory vacuum. This could mean that member states adopt national standards pending the Commission finalising the assurance standards at the EU level.

Preparing the assurer's report: the challenge of communicating to stakeholders

The final work of the assurer is shown in a report which, according to the ISSA 5000 standard, should have the following **minimum content**:

- title of the assurance report;
- addressee;
- the assurer's conclusion;
- the basis for the conclusion;
- other information, if applicable;
- responsibilities for sustainability reporting;
- limitations inherent in the preparation of the sustainability information, if applicable;
- responsibilities of the assurer;
- for a limited assurance engagement, the summary of the work performed;
- the signature of the assurer;
- the location where the assurer practices; and
- the date of the assurance report.

One of the crucial aspects in the report's content is the assurance practitioner's conclusion and its scope. Limited assurance reports serve as a stepping stone towards a reasonable assurance report. In this sense, reasonable assurance provides stakeholders a higher level of confidence in sustainability information than limited assurance. The International Federation of Accountants (IFAC) has provided examples of the limited assurance reports in its publication



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'What to Expect from Sustainability Assurance' (see tinyurl.com/mpm2dsxr).

The assurance market: the consequences to come

Assurance services entail the logical and standard remuneration of a service. They represent the income that the market can generate with this service and serve to understand the importance of the assurance market and the presence of each of the assurers. The amount paid by each company for assurance services may or may not be publicly disclosed by the company. However, the best proxy is the company's turnover amount.

One of the most relevant issues with the assurance of sustainability reports is the fact that the structure of the market for this service is still taking shape. The interplay of supply and demand, along with other factors, will be decisive in understanding the guidelines by which this market will be regulated. The factors affecting the selection of your assurance provider are set out in the box.

Perspectives from academia

There are currently three main areas of study for academia which must be addressed in order to gain a full understanding of the assurance market.

1. Study of the expectations gap in assurance

Assurance is an activity of public interest, and a wide range of stakeholders are interested in it. Therefore, it is necessary to study whether stakeholders' expectations are being met from the first stages of implementation.

Ideally, the work of assurers should meet stakeholders' expectations. However, experience in the business world shows that analysis is required to determine whether there is a gap between what is expected from the assurance service and what is offered by the service provider. In such situations, the causes of the gap and the ways in which it can be reduced or even eliminated should be defined.

Academia should study the expectations of the different stakeholders interested in the assurance of sustainability information.

2. Study of readability and comprehensibility of assurance reports

It is important to recognise that assurance reports are addressed to various stakeholders. This means that users may not always be experts in accounting, environmental, social or governance issues. It is, therefore, essential to consider the readability of the reports signed by the assurance practitioners. For this reason,

and using ideas put forward by international organisations in the field of accounting, it would be necessary to study whether the reports are written in 'plain language'. Further studies examine to what extent they are understood.

3. Monitoring the shape of the assurance market

The assurance market at the international level operates in such a way that assurance is mandatory for some companies, but for many others it is a service demanded on a voluntary basis. The analysis of the standard's mandatory or voluntary nature impacts the market configuration itself. Continuous analysis of the evolution of the assurance services market and knowledge of the factors that define it at any given time are essential to ensure that it functions according to desirable parameters. Therefore, academics must study the variables that are appearing and their effect on the market structure so that measures can be taken quickly.

Perspectives from the accounting profession

We believe that for the accounting profession, many of whose members conduct audits and sustainability assurance, there are currently two significant issues to be studied.

1. Training of the assurance team:

Assurance teams, led by the audit partner or main expert, are crucial in the identification and reporting of social, environmental and governance risks. Their diverse educational backgrounds ensure comprehensive coverage, making this a key challenge for these professionals.

2. Technologies in the assurance process:

Given the complexity of assuring sustainability information, it is necessary to introduce tools linked to technologies that help assurance practitioners measure, evaluate and communicate their work.

Perspectives from the regulator

We believe that from the perspective of regulators, there are currently three fundamental issues that need to be addressed to help inform the assurance process:

- guidelines for the application of standards;
- definition of the requirements that the assurance team must meet; and
- rules relating to the independence of the assurance practitioner, which include prohibitions, threats, safeguards, rotation and the establishment of assurance fees.

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George Josephakis

Welcome to an interview with George Josephakis, President of the AIA Greece Management Committee.

In this conversation, George shares a glimpse into his role within the audit sector and his company's journey. From his international client base to his involvement in professional organisations and commitment to career guidance, George offers an insight into his professional and personal life.

As the AIA Greece Management Committee President, George explores the challenges and opportunities facing the accounting profession in Greece, including the integration of AI, sustainability and ethical considerations. Join us as we discuss George's perspectives on CPD, the importance of networking and his vision for the future of the AIA Greece Branch.

Can you tell us a little about yourself, your business and your professional affiliations?

Absolutely. I have been an AIA member since 1990. I trained and qualified as an accountant in London, gaining significant working experience in the UK, Cyprus, Greece and Romania. In 1996, I formed G Josephakis Audit Ltd, a firm of certified public accountants in Cyprus, specialising in auditing and assurance, corporate and personal taxation, business consulting and accounting. Since 2004, I have also been a tutor of International Financial Reporting Standards and International Standards on Auditing in Greece.

As the Managing Director of G Josephakis Audit Ltd, we operate in the audit, assurance, accounting, taxation and consulting sectors. We are based in Nicosia, Cyprus, and have a team of five staff members. Our clients are primarily SMEs, serving both local and international clients. I've also been a member of the Institute of Certified Public Accountants Cyprus since 2000 and the International Compliance Association (ICA) since 2019.

Are you involved with any other committees, apart from AIA?

Yes, I am deeply involved with several committees and professional bodies. I am a Council Member of the Association of International Accountants and the Chair of AIA Branch in Greece. In this capacity, I am actively involved in promoting AIA for further recognition.

Additionally, as a member of ICA with a specialisation in Anti-Money Laundering, I serve as the Chair of AIA's Regulatory Oversight Committee. This committee deals with the scrutiny, oversight and review of AIA's regulatory requirements as a recognised supervisory body under the UK Money Laundering Regulations. I also represent AIA on the European Federation of Accountants and Auditors for SMEs' Digital Experts Group.





We support our members through a variety of initiatives. Our goal is to ensure that members have access to the resources and support they need to thrive in their careers.

Do you engage in any voluntary work or community activities?

Although I do not participate in charity fundraising, I am dedicated to providing career guidance to students. This involves mentoring and advising them on career paths and encouraging them to consider opportunities within the accounting sector.

How do you perceive your role as Branch Chair?

As the Branch Chair, my primary responsibility is to promote AIA in Greece and assist our members in navigating their professional journeys. This involves organising events, providing valuable CPD and representing their interests to ensure they receive the support they need to succeed.

How do you see the Branch activities giving a voice to its members?

This is a challenging task. Recognition of AIA in Greece will significantly enhance the voice and presence of AIA students and members within the Greek professional and business sectors. This will enable us to advocate more effectively on their behalf and ensure that their contributions are acknowledged.

What opportunities and challenges does the Branch face in gaining recognition by regulators, employers and society?

While AIA is well-known among regulators and employers in Greece, it is not officially recognised. The biggest challenge we face is obtaining full recognition of the audit qualification.

This recognition is crucial for our members' professional development and acceptance within the industry. However, achieving this does not depend solely on Branch activities but requires broader strategic efforts.

What do you think are the most important challenges to the accounting profession?

The accounting profession faces several significant challenges today. Sustainability is a major issue, requiring extensive training for both those preparing financial statements and for those responsible for auditing sustainability reporting. In Greece, sustainability audit reports are issued only by registered auditors.

Advanced technology, particularly AI, is another significant challenge. Accountants and auditors must stay abreast of technological advancements, which can be beneficial but also costly in terms of training and implementation. Ethics is another critical area, especially for those accountants not under the supervision of a regulated body. Ensuring ethical practices in such cases is a considerable challenge.

What are your views on the delivery of CPD? Do you feel it is better to have face-to-face events, online or a combination of both?

I believe in the value of face-to-face events for CPD. However, short CPD events (not more than 1.5 hours) are better suited to online training. This blended approach allows us to cater to different preferences and situations, ensuring that all members can benefit from the training provided.

Do you think professional networking and building social capital is possible online?

While it is possible to network and build social capital online, I believe face-to-face meetings are still necessary for fostering genuine relationships and rapport. Personal interactions often lead to stronger connections and better professional relationships.

How do you support your membership?

We support our members through a variety of initiatives, including seminars and events that provide valuable learning and networking opportunities. Our goal is to ensure that members have access to the resources and support they need to thrive in their careers.

What activities does the Branch hold or provide?

As the branch has been recently re-established, we are looking to organise an event focused on sustainability, AI and SMEs in the near future. Keynote speakers from the audit profession, regulators and business sectors from Greece and Europe will share their insights and expertise.

What are your top priorities for the Branch?

Our top priorities are to enhance our local presence, obtain recognition, increase membership, offer training and provide regular CPDs. By focusing on these areas, we aim to strengthen the AIA Greece Branch and support our members' professional growth.

And finally, do you have any life lessons that you can pass on to our members?

In today's digital-first world, the greatest skill you can leverage is the power of focused attention. Focused attention is your ultimate currency, and the way to build this is through daily meditation. Never underestimate the value of maintaining a positive mindset and being open to unexpected opportunities.

We hope you enjoyed this interview with George Josephakis, AIA Greece Management Committee President. Stay connected with us for more updates and activities from the AIA Greece Branch. ●

The modern accountant

Christian Davis explores how AI is reshaping the role of the accountant and what steps they need to take to stay ahead.

Christian Davis
Associate Partner
at JMAN Group

Artificial intelligence (AI), particularly generative AI, is rapidly transforming the way businesses operate, and the world of finance and accounting is no exception. For accountants who have ambitions to step up to more senior positions, such as Chief Financial Officer (CFO), this has far-reaching implications.

Opportunities for finance professionals
As data-driven decision-making becomes the norm, especially in contexts like private equity,

understanding how AI impacts the profession and how accountants can stay ahead is critical. There is an increasing expectation that CFOs should be able to harness AI-driven insights to forecast, strategise and make data-backed decisions with agility and speed.

AI is changing the accounting industry by shifting how financial data is collected, analysed and reported. It's no longer just about bookkeeping or managing compliance – accountants are now expected to provide deeper insights that directly influence business strategy. According to a PwC study, assets managed by AI-enabled platforms are expected to nearly double to \$6 trillion over the next three years (see tinyurl.com/4cxvckvb).



AI tools are enabling businesses to analyse massive datasets quickly and accurately, identifying patterns and trends that would have taken human professionals much longer to spot. For future CFOs, this shift means moving beyond traditional roles. The need to interpret data with precision and translate it into tangible business insights is becoming essential.

Accountants are now required to go beyond standard reporting functions and assume a more strategic role within their organisation. Finance professionals need to be proficient in data analytics, which involves not just understanding the numbers but also the tools that process complex data like AI-driven analytics platforms. Training in areas such as machine learning, predictive analytics and data visualisation will help them better understand how AI can uncover trends, predict future outcomes and provide more accurate forecasts.

The value of AI in finance

Investing in data infrastructure is critical to ensure that financial professionals have all of the information they need to facilitate comprehensive analysis and informed decision-making. A robust data infrastructure not only automatically centralises data from various sources but also streamlines the process of data retrieval and analysis. This enables financial professionals to access real-time insights, which is essential for timely decision making in a fast-paced business environment.

Creating this environment is not just a matter of learning new tools; it involves embracing a whole new way of thinking. Financial professionals must develop a mindset that is open to technology, innovation and continuous improvement.

They must become comfortable experimenting with different AI tools and methods, understanding that this process may involve some trial and error. They should also focus on developing critical thinking skills to question the data presented by AI systems and ensure its relevance and accuracy for their specific business needs. This ability to scrutinise and validate data is essential to maintain trust and integrity in financial reporting.

Investing in data governance is equally important, ensuring that the data is of sufficient quality to draw predictive insights and support decision-making processes. Effective data governance establishes a framework of policies, procedures and standards that govern how data is managed, maintained and used across an organisation.

It is no longer sufficient to be the gatekeepers of financial information – accountants must now contribute to the strategic vision of their organisations. This requires a mindset shift from simply managing financial data to understanding how to use that data to drive growth. For those aspiring to become CFOs, developing the ability to tell a compelling story with data – using visual aids and clear narratives – will be key to influencing stakeholders and helping to shape strategic decisions.



Accountants are now required to go beyond standard reporting functions and assume a more strategic role.

Upskilling for the future

In practice, this might mean more involvement in cross-departmental meetings where strategic decisions are made. Future CFOs should proactively seek opportunities to present data insights to the board or senior management, demonstrating how their analysis can impact decisions such as market entry strategies, cost optimisation or investment in new technologies.

Digital literacy has become just as crucial as understanding financial principles. Accountants should engage in continuous learning to keep up with the changing digital landscape. Whether it involves becoming proficient in SQL, Python or understanding the basics of AI algorithms, the goal is to become comfortable with the technologies that will define the future of finance.

In today's data-driven environment, working in silos is no longer viable. Finance professionals must collaborate closely with data scientists, IT professionals and other business departments to ensure that financial insights are integrated into broader business strategies. This will help them understand how data is used across their organisations, providing a more holistic view.

To progress in this new environment, accountants should take several practical steps to ensure they are ready for the shift. The pace of change in technology means that ongoing education is vital. Pursuing certifications, attending workshops and participating in online courses that focus on AI and data analytics are critical. Understanding how AI works, from basic algorithms to advanced applications, will be essential in adapting to new tools and methodologies. Regularly using AI tools for efficiency is also important, as AI can automate



Those who can adapt to these changes will play a key role in shaping their organisation's data strategy.

routine tasks, freeing up accountants to focus on more strategic activities. Tools for automated data entry, anomaly detection and predictive modelling can increase efficiency and allow more time for decision making. Being proficient in these tools will make accountants more valuable to their organisations.

Soft skills development such as effective communication, leadership and adaptability are also increasingly important. Accountants must be able to explain complex data insights in straightforward language to non-financial stakeholders, ensuring that their recommendations are understood and acted upon. Leadership skills will also help them guide their teams through the complexities of digital transformation, setting the tone for embracing AI technologies and embedding a culture of innovation. Adaptability will allow them to stay resilient in the face of continuous change, learning new technologies and adjusting their approaches as AI continues to develop.

Risks in the digital age

Accountants should definitely advocate for a data-centric approach within their companies. By demonstrating the value of AI-driven insights in budgeting, forecasting and performance management, they can help to create a culture that prioritises data and analytics. This will not only enhance their role but also position them as key players in shaping business strategy. As AI tools become more prevalent, it is also important to maintain high ethical standards. Finance professionals must ensure that AI is used responsibly and transparently, avoiding biases in data and algorithms that could lead to misleading conclusions or unethical practices. They should also be prepared to provide oversight in how AI is implemented across their organisations.

Critically, they must be aware of the regulatory implications when it comes to AI use and implementation. According to the International Federation of Accountants, global regulatory bodies are increasingly focusing on establishing guidelines for AI governance to ensure transparency and accountability in financial practices. New regulations are likely to emerge that govern its use in financial reporting and decision making. Staying informed about these

developments and understanding how to comply with them will be critical.

The broader impact of AI in finance

Those who can adapt to these changes will play a key role in shaping their organisation's data strategy, helping to navigate the shift toward a more data-driven culture. Understanding how to use AI to measure and report on key metrics – such as financial health and customer behaviour – will make them indispensable.

AI can also play a pivotal role in promoting sustainable finance. By using AI tools to accurately measure and report on environmental, social and governance (ESG) criteria, accountants can help their organisations to attract investment from funds increasingly focused on sustainability. This not only broadens their scope of influence but also meets the growing demand for responsible and sustainable business practices.

Adapting to AI is about leading change. Finance professionals must be ready to drive digital transformation by advocating for technology adoption, promoting data literacy across teams and mentoring others on how to use AI effectively. They should play an active role in developing their organisation's data governance policies to ensure that data is managed ethically. This can also enable the alignment of financial reporting to the core value drivers of the business.

The opportunities for accountants willing to embrace AI are vast. From becoming key players in strategic decision making to driving sustainable business practices, those who understand how to use AI effectively will find themselves in high demand. Private equity firms, for example, now expect detailed scenario analyses that cover every possible outcome, a task made more achievable with AI.

By utilising AI tools to deliver more accurate forecasts and insights, accountants can support investment decisions and position their firms for growth. The ability to process and analyse data quickly will lead to better decision making, improved operational efficiency and a stronger competitive position in the market.

The shift for many accountants might seem daunting, but those who take the initiative to learn, adapt and lead can step up to become a CFO or secure a similar senior leadership role in their organisation. To do this, they must adopt a strategic mindset, embrace continuous learning and develop a deep understanding of how generative AI and other emerging technologies impact their industry.

Those who do this effectively will move beyond their traditional role, distinguishing themselves as future-ready leaders, ready to shape the development of their organisation from a position of influence and leadership. ●



Author bio

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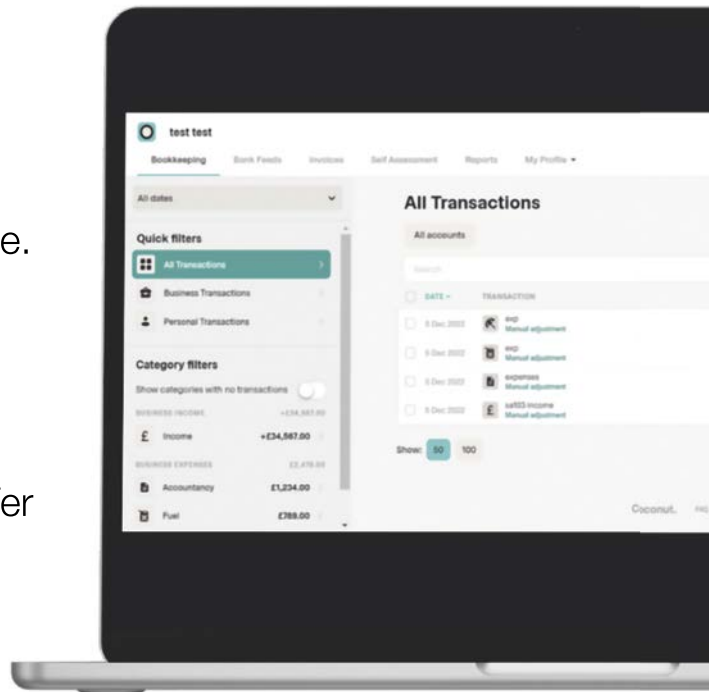
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Net Zero: a risky business

Sunita Devi examines the difficulties in monitoring and achieving Net Zero targets on a global basis.

Since the Brundtland Commission Report in 1987 and Kyoto Protocol in 1997, the science of measuring polluting gases has been ongoing. The announcement of Net Zero goals by countries and companies around the world adds to this conundrum. The ambition to balance the amount of greenhouse gases emitted with those removed from the atmosphere has become a global dilemma in fighting climate change.

Sunita Devi
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Governments, corporations and individuals have all embraced this goal, pledging to drastically cut emissions and invest in carbon removal technologies. However, the path to Net Zero is fraught with risks and challenges that could undermine its effectiveness if not carefully managed.

This article explores some of the significant risks associated with pursuing Net Zero targets and the implications for global climate policy and sustainability.

Monitoring Net Zero ambitions

Net Zero Tracker is an independent tool that provides a comprehensive view of Net Zero across all nations and the world's largest regions, cities and companies (see <https://zerotracker.net>), and allows you to identify the individual emissions levels and targets on a company-by-company basis.

Almost all companies have a sustainability reporting mechanism. However, general observation reveals that although most companies have a target of achieving Net Zero by 2050, there is little evidence of a detailed plan to meet this goal. Few have included Scope 3 in the coverage, nor is there an indication of their roadmap and whether their greenhouse gas inventory is verified.



Surprisingly, the majority of the companies on the Net Zero Tracker database did not consider the use of carbon credits as a preferred option.

Policy and regulatory challenges

Net Zero commitments around the globe are subject to regulations set by the capital markets, as well as by the government. However, the enforcement of these commitment is lacking.

Christopher Bataille's article 'Physical and policy pathways to net-zero emissions industry' (Wiley Interdisciplinary Reviews (2020)) reveals that the physical absolute reduction of emissions varies in different industries. A sectoral reduction plan, known as the transition pathway, provides specific evidence for sectors such as construction, transportation and the automotive industry; however, this information is not widely available in other sectors.

This is made clear on examination of the Sustainability Reports of financial institutions. Although financial institutions are highly regulated, there isn't sufficient reporting on Scope 3 emissions.

The success of Net Zero targets hinges upon robust and consistent policies and regulations. However, the political landscape can be unpredictable, with policy changes influenced by shifting government priorities and lobbying from vested interests. Inconsistent policies can undermine climate goals, create uncertainty for investors, and lead to ineffective implementation of Net Zero strategies.

The neighbouring countries Malaysia and Singapore provide a good example of this disparity. The Singapore Stock Exchange enforced mandatory reporting on emissions in 2024. Meanwhile the capital market regulator Bursa Malaysia has just published a listing requirement that both new and existing companies have until 2027 to report on full emissions.

With such variations in requirements, can the Net Zero objectives be achieved by 2030 or 2040? Will the milestone have to be pushed back even further?

Economic and social impacts

Achieving Net Zero requires substantial economic investment and systemic changes across multiple sectors. The transition to renewable energy sources, such as wind and solar, necessitates significant upfront costs both for infrastructure and technology.

Any slippage by a corporation in its transition from fossil fuels to carbon capture technology could have a significant impact. This has been demonstrated by the case of Occidental Petroleum, which has been criticised by Carbon Market Watch.

A transition that addresses absolute emissions, according to the Net Zero Transition Pathway, would first consider avoiding operational activities that cause emissions, followed by reduction, substitution and finally the offsetting of any residual emissions. Would this pathway result in actual economic and social impacts?

There are clear indications of difficulties in some organisations. Steelmaker ArcelorMittal, for example, has been criticised by the Institute for Energy Economics and Financial Analysis for its reliance on 'unproven' carbon capture technologies to achieve its Net Zero targets.

For an organisation to be considered to have met the reporting principles, it should disclose its baseline greenhouse gas inventory, and its Greenhouse Gas Roadmap with absolute reduction projections. The environmental, social and economic impacts are key to business sustainability and the resilience of the organisation.

Many of the businesses that do not report on their Net Zero targets and milestones may be guilty of committing 'green hushing' (non-transparent and non-credible reporting). For others, though, it may simply be due to an innocent or ignorant omission if non-qualified writers are drafting their sustainability statements.

Measurement and verification challenges

A Net Zero organisation, which commits publicly to achieving a Net Zero ambition by 2050, has to sign a declaration note and have its carbon footprint and reduction plan verified by the Science Based Target initiative. This climate group is the arbiter for corporate Net Zero goals.

Accurately measuring and verifying emissions reductions across sectors, countries and individual companies poses a significant challenge. The effectiveness of carbon offset projects and other mitigation strategies depends on reliable monitoring and reporting systems. Inaccuracies or misreporting can lead to overestimations of progress and undermine the credibility of Net Zero commitments.

A company reporting on emissions from diesel consumption would have different numbers depending on whether they are using AR5 reports or AR6 reports, making standardisation difficult for Scope 1.

In many countries, an emission factor calculation formula is provided by the energy commission or by independent power producers. However, the mathematics and science behind those numbers are not standardised. This causes further discrepancies in Scope 2 emissions.

Waste collection vendors often work within an informal sector within their country. Not having

the actual emissions data from waste collection and disposal is another significant challenge for Scope 3 emissions. The local authority should be able to provide a reasonable waste emission factor based on landfill management.

Airline companies that are forthcoming in offering their emissions data for both long and short haul flights should be the preferred partner for corporate travel.

Measurement and verification is essential, and so is the provision of accurate mathematical formulae which support the science behind Net Zero claims.

Any change in directions from the set standards in achieving Net Zero would jeopardise the integrity of the actions not just by one authority but by the collective stakeholders. The backlash over the Science Based Target initiative's offset standards is one example of such a slide back. Set standards must be enforced – it garners credibility.

Unpredictable Net Zero challenges

The future trajectory of climate science, technology and policy is inherently uncertain. Unforeseen developments, such as breakthroughs in technology or changes in political dynamics, could significantly alter the landscape of Net Zero efforts. Building flexibility and adaptability into climate strategies can help to manage these uncertainties and ensure that Net Zero goals remain achievable despite evolving circumstances.

One of the most significant risks in the journey toward Net Zero is the reliance on technologies that are not yet commercially viable or proven at scale. Carbon capture and storage, direct air capture and other carbon removal technologies are promoted as essential components of Net Zero strategies. However, these technologies are still in the experimental or early deployment stages and face numerous technical, financial and logistical hurdles. Over-reliance on these unproven solutions could lead to a false sense of security and potentially divert attention and resources away from proven absolute emission reduction strategies.

Carbon leakage, or burden shifting, is the situation where emissions reductions in one country or sector can lead to an increase in emissions elsewhere, often due to shifts in production or consumption patterns. For instance, stringent climate policies in one country might prompt industries to relocate to regions with less stringent regulations, thereby undermining global emission reduction efforts.

Addressing carbon leakage requires coordinated international efforts and mechanisms to ensure that climate policies do

not inadvertently shift emissions to other parts of the world.

While Net Zero focuses on balancing emissions, there is a risk that it could overshadow the need for immediate and substantial emission reductions. Some stakeholders may perceive the promise of future carbon removal as a justification for delaying or diminishing current efforts to cut emissions. This 'wait-and-see' attitude could hinder progress in achieving the necessary reductions needed to limit global warming to 1.5°C or 2°C above pre-industrial levels, as outlined in the Paris Agreement.

Certain carbon removal technologies, such as large-scale bioenergy with carbon capture and storage (BECCS), raise environmental and ethical concerns. BECCS involves growing biomass, which requires land, water and nutrients, potentially competing with food production or natural ecosystems. Additionally, the large-scale deployment of these technologies could have unintended ecological consequences. Ethical considerations, such as the impact on indigenous lands and local communities, also need to be addressed to ensure that climate solutions do not exacerbate existing inequalities or harm vulnerable populations.

This raises global disparities in resources, technology and capabilities, presenting another risk in the Net Zero transition. Developing countries, which contribute less to historical emissions but are more vulnerable to climate impacts, may struggle to achieve Net Zero due to limited financial and technological resources.

Ensuring equitable support and financing for these countries is essential to prevent widening global inequalities and to foster international cooperation in addressing climate change.

Net Zero is risky: tread carefully

While the pursuit of Net Zero is a critical and necessary goal for addressing climate change, it is not without its risks and challenges. Navigating these risks requires sufficient science and mathematical nuances in measurement and approaches. These must balance ambition with practicality, innovation with proven strategies, and short-term actions with long-term goals.

By acknowledging and addressing these risks, leaders in organisation with Net Zero goals can better navigate the complexities and avoid potential green washing in their Net Zero journey.

This article elaborates on the webinar 'How Net Zero is Risky Business webinar' held for AIA on 13 August 2024. ●



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Tackling financial crime with AI

Henry Wyard explains how AI can change three key data-driven processes that underpin contemporary anti-financial crime practice.

It's fast becoming an accepted fact that an artificial intelligence revolution has arrived, bringing with it transformational change for all areas of social, economic and political life.

It is unsurprising that businesses which already have longstanding dependencies on technological innovation are actively exploring new AI possibilities. A 2024 survey of financial institutions, for example, found that 91% of respondents were either already using AI or evaluating its potential utilisation (see tinyurl.com/8cehjzfn).

It is natural that AI would be of great interest for anti-financial crime, given that it exists in the space between national security and financial services, both of which areas have already embraced AI innovation.

AI transformations

What has driven these skyrocketing levels of attention paid to AI? Most accounts attribute the contemporary AI explosion to significant improvements in three areas.

Firstly, new ways of building AI models (network architectures) have been developed. These new architectures have been combined

with two further improvements – increases in the quantity of available training data, and continuing growth in the power of processing units – to produce dramatic increases in the range and sophistication of AI technologies.

In broad terms, the likely transformative effects of AI innovation can be divided into two categories:

- increases in the scale and range of AI implementation; and
- innovations in the types of functionalities that AI technology can deliver.

Phrased even more simply, AI can transform how much one can do in a given amount of time, and it can also transform the types of things that one is able to do.

Contemporary anti-financial crime and AI

But what do these transformations mean for anti-financial crime? How can businesses practically take advantage of the new possibilities open to them?

Ultimately, these questions can be answered by understanding how AI can change three key data-driven processes that underpin contemporary anti-financial crime practice. We can conceptualise these as:

1. **Data collection:** gathering information about clients and their activities;
2. **Data verification:** determining whether collected information is both genuine and legitimate; and
3. **Data interpretation:** analysing collected and verified data to assign levels of risk and identify suspicious activity among clients.

Henry Wyard
Financial and Environmental
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Each of these three tasks faces serious challenges. The broad scope of anti-money laundering (AML) and counter-terrorism financing legislation, along with the wide range of potentially relevant data, mean that the resource required to perform these processes effectively is increasingly large.

Indeed, compliance with anti-financial crime legislation has never been so expensive. In 2023, the global costs of compliance reached an estimated \$206 billion (see tinyurl.com/253hutmc).

AI technologies have the potential to transform how all three of these anti-financial crime data processes are conducted.

1. Data collection

All AML-regulated businesses are obliged to gather data about their clients (and the nature of their clients' financial activities) not just at the outset of a commercial relationship, but throughout. Even for small enterprises, this can present a daunting amount of information that requires processing.

Moreover, this client information must be referenced against numerous datasets pertaining to financial crime risk. Perhaps the most significant of these are lists of individuals and entities subject to financial sanctions.

Failures to implement these carry the threat of severe penalties, including imprisonment. Yet sanctions lists are just one of many sources against which client profiles must be assessed: others include lists of politically exposed persons, litigation history and adverse media reporting.

AI solutions

One data collection solution already in established use is automated client screening. Advanced systems can use AI to improve searches and continuously update the risk databases against which client profiles are screened, eliminating the need for costly manual intervention.

However, AI collection of structured data – the formatted, standardised information contained in risk databases and sanctions lists – is only part of the story. Natural language processing (NLP) techniques allow for the analysis of unstructured data sources, which can help to connect entities, individuals and criminal activity, as well as to identify adverse media.

AI-enabled collection of unstructured data from a much wider range of sources (for example, neighbourhood watch groups, press releases from law enforcement and news articles) presents human anti-financial crime analysts with immediate access to a much richer pool of specific, useful information to enhance risk screening and investigation processes.



Compliance with anti-crime legislation has never been so expensive. In 2023, the global costs of compliance reached an estimated \$206 billion.

2. Data verification

Yet even if the data collection processes involved in anti-financial crime were fully optimised, an unavoidable problem remains as to how to verify the accuracy and truthfulness of that data.

While there are additional verification measures that businesses can take to counteract these sorts of financial crime typologies (particularly in the form of enhanced due diligence investigations carried out laboriously by skilled intelligence professionals), they add an undeniable cost burden.

AI solutions

An area of data verification that has been subject to focused AI development is electronic identity verification (eIDV), which uses machine learning techniques to automatically determine whether both documentation and individuals themselves are genuine. These have proved highly successful – the experience of photographing pieces of ID and taking selfies to access online financial services is now a familiar experience for many.

Yet eIDV technology is not impervious to criminal abuse. In February 2024, 404 Media reported on a website named OnlyFake, which generated photos of fake IDs for a mere \$15 (see tinyurl.com/48e32v6k). Journalists used the site to generate an entirely fake piece of ID that was



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convincing enough to pass the eIDV system of a cryptocurrency exchange.

Even advanced contemporary solutions to data verification face serious challenges from fraud and forgery. While AI technology has already contributed significantly to improving ID verification, there remains much scope for further development.

3. Data interpretation

In the context of anti-financial crime, data interpretation involves performing analysis of information collected about clients to determine the appropriate level of financial crime risk that should be applied, and subsequently to detect suspicious activity and transactions.

Automated transaction monitoring has consequently been a feature of AML systems for decades – the UK's Financial Conduct Authority (FCA), for instance, published a best practice note on the technology in 2007 (see tinyurl.com/m9apb5et). Most current automated systems apply statistical models and machine learning to profile client behaviour (assessing current activity against past activity of similar clients) and screen transactions against hundreds if not thousands of pre-defined rules and thresholds.

Even the most sophisticated systems, however, involve a time delay for the initial analysis

processes. Once a threat analysis has been performed, more time is required to incorporate new typologies and trends into monitoring systems. Financial criminals can – and do – exploit this time lag to remain one step ahead.

AI solutions

A concrete example of how novel methods of AI analysis offer a game-changing edge in tackling financial crime can be seen in the application of graph neural network deep learning techniques to financial crime datasets (see tinyurl.com/bda78wue).

The expression of data in graph form, by displaying relationships between entities in a network of edges and nodes, allows financial crime investigators to uncover hidden connections in the information they possess.

Beyond the link analysis of a single network that a human expert can perform, graph neural network models have the potential to identify patterns across an entire dataset of networks (see tinyurl.com/4h54tesu). In a financial crime context, risk alerts might be generated simply due to the similarity of a client's network structure to those known to be fraudulent or criminal. These sorts of insights have never existed before. Their realisation by new AI solutions would mark a genuine change in the financial crime landscape.

Conclusion

AI solutions alone do not offer a panacea for the various issues of financial crime. AI-based processes provide a powerful tool in combating financial crime, but their effectiveness ultimately depends on who uses them and how they are used.

It is sometimes extremely challenging, if not impossible, to fully understand how some AI models function and why they produce certain results. This issue, often referred to as the 'explainability' problem of 'black box' AI models, is a major obstacle to AI's full implementation in compliance systems. Money laundering reporting officers and senior executives must make decisions about potentially denying services to suspicious clients and reporting them to legal authorities; it is vital that they are able to justify and explain their actions.

The increasing use of advanced AI models in the anti-financial crime sphere therefore brings with it a growing need for experts who can bridge the gap between humans and machines. Human experts are crucial not only in training and enhancing AI compliance systems but also in conducting further verification and interpretation of the results produced by complex models. Only by embedding AI within existing anti-financial crime expertise can we turn the very real promise the technology holds into reality. ●



Author bio

Henry Wyard is a Financial and Environmental Crime Researcher at Themis.



The risks of personal guarantees

Marco Piacquadio examines the factors involved in supporting a client considering a personal guarantee.

Navigating the intricacies of personal guarantees can be a critical aspect of safeguarding your client's financial interests. To help your client make the serious decision about whether to sign, it is essential that you are equipped with the knowledge to recognise the terms that could be problematic for them, especially from an insolvency perspective.

There are a number of steps you can take which will limit the liability of your client when accepting a personal guarantee.

Capping the guarantee: Rather than accepting an open-ended personal guarantee, it is wise to try to negotiate a limit on the amount for which your client can be held responsible. This limit could be established as either a

Marco Piacquadio
Director at FTS Recovery
and FA Simms

predetermined sum or as a portion of the total outstanding debt.

Incorporating a release clause: It is advisable to stipulate a release clause in the guarantee that would absolve the guarantor of their obligations upon the fulfilment of certain criteria, such as the achievement of designated financial milestones by the company.

Limiting the scope of the guarantee: You can aim to confine the guarantee's coverage to particular debts or commitments, as opposed to an all-encompassing guarantee.

Setting a guarantee expiry: It might be possible to add a clear expiration date for the personal guarantee that, once reached, makes the guarantee null and void. This establishes

a predefined end to your client's financial exposure.

Consent for modifications: Ensure the inclusion of a provision in the guarantee that requires your client's explicit approval before any amendments can be made to the terms of the credit agreement or the guarantee itself.

When to advise against a personal guarantee

Although lenders and creditors commonly require personal guarantees, there are circumstances when advising your client against such an agreement is the best advice you can give. For example:

- if their business model is unproven or unprofitable;
- if the company is operating in an unstable market;
- if the company is already suffering from cash-flow issues;
- if the client's personal finances are overextended; or
- if you mistrust one or more of the business partners.

If one or more of these factors is present in your client's situation, there is a higher risk that the company will encounter financial difficulties or fail to meet its obligations.

In this instance, as the personal guarantor, your client can be held personally liable for the debt. The result of this could be bankruptcy, leading to the sale of your client's home and other valuable assets, seizure of personal bank accounts and possibly a claim on future earnings.

Personal guarantees and company insolvencies

When a company becomes insolvent or enters a formal insolvency process, any personal



It is wise to try to negotiate a limit on the amount for which your client can be held responsible.

guarantees signed by directors or other individuals are likely to be enforced by the lender.

Creditors can pursue the guarantor for the repayment of the debt even after the company's debts have been dealt with through an insolvency process. This is why it is worth considering the implications with your client before they sign a personal guarantee.

Personal bankruptcy could provide some relief, as a bankruptcy effectively freezes the personal obligation to pay back debts. However, a bankruptcy will involve the sale of your client's assets to be able to pay the frozen personal guarantee debt which can have devastating personal financial consequences which will impact the guarantor for years.

Going forwards

The complexity of personal guarantees and the gravity of their implications cannot be understated. The objective for accountants is clear: ensure that when directors are pursuing viable business ventures, they are safeguarding their financial future in the process.

If your client is concerned about taking on a personal guarantee to keep their business afloat, or about one they already have, it is essential to guide them through the risk management and financial planning that goes with it.

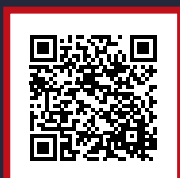
For further information about your client's, you can contact us at: enquiries@fasimms.com ●



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Supporting ethnic minority business owners

Diana Chrouch OBE examines the key to powering up ethnic minority business growth.

Diana Chrouch OBE
Special Adviser to APPG of Ethnic Minority Business Owners



Ethnic minority business owners contribute an estimated £25 million to the UK's economy. They also present a hardworking and entrepreneurial economic powerhouse that – with the right support and opportunities – could provide engine fuel to the growth of the UK's international trading prowess across the globe.

Like all business owners looking to carry out international trade, ethnic minority business owners are very keen to grow their businesses and earn profits. To achieve this, they are open to finding the right business support, especially when they are seeking to compete and grow their businesses in a dynamic and lucrative global economy.

This is where the expert skills of international accountants can be invaluable, enabling ethnic minority business owners to access the advice and support that they need to shape their businesses for international success.

Disproportionate barriers

Despite their potential, it has long been reported that ethnic minority businesses face disproportionate barriers when it comes to accessing the finance and business support that they need to thrive (see tinyurl.com/34ee9jpd).

A key issue is a lack of trust in generic 'one size fits all' advice, which is not tailored to proactively address the diverse cultural needs or business models of ethnic minority businesses.

They are also wary of advisors from mainstream organisations that have low levels of diversity amongst their teams and senior leadership.

As a result of these barriers, researchers have found that ethnic minority business owners have historically preferred to turn to trusted professional advisors such as accountants and lawyers for business advice, rather than from traditional business support organisations (see tinyurl.com/58yr22jx).

Trusted advisors

These research findings chronicle the barriers that ethnic minority businesses face. However, they also provide an opportunity for international accountants to leverage their unique position as advisors with knowledge of diverse international markets. They can provide ethnic minority business owners with expert and culturally sensitive advice, enabling them to build the agility and resilience that they need to maximise their potential to successfully scale their businesses in international markets.

From strategic financial planning, navigating complex international tax regulations and structuring international operations, to bringing a wealth of knowledge and critical 'know how' in diverse cultural markets, international accountants are well qualified to provide invaluable professional skills.

As vital as these skills are, however, of equal importance to ethnic minority businesses is the 'type' of business support that international



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accountants can provide. These professionals can work hard with clients to develop close, long-term, trusted advisor relationships. These allow them to integrate the mentorship, support and tailored advice they can offer, and which has long been the preferred 'go to' business support model sought by ethnic minority businesses.

Untapped potential

Ethnic minority businesses present an untapped potential. Research shows that they are more likely to be involved in international trade than their white British counterparts. They also present a valuable asset through their powerful international diaspora links around the globe. This provides them with important cultural and market insights with enormous potential for competitive advantage and ability to boost growth in international trade (see tinyurl.com/yc8x9c72).

International accountants are a potentially important conduit and could provide the vital support to increase the capacity of the UK's ethnic minority business communities to contribute to the expansion of international trade.

Capacity building

International accountants are also in prime position to provide the capacity building that ethnic minority businesses need to overcome many of the disproportionate barriers that they have traditionally faced, and which have hampered their ability to take their businesses to the next level.

A key challenge has been access to the finance and investment that they need to scale up their businesses.

Indeed, the development of a robust financial strategy to provide the financial knowledge and resources needed to build an effective strategy is critical to success. These are 'bread and butter' professional skills that international accountants can provide.

Furthermore, through their valuable networks and experience, international accountants can also help ethnic minority businesses to access a wide range of funding options, including international grants, venture capital and funding programmes focused on ethnic minorities. They can also provide expert advice and support to assist with preparing necessary financial documents and building a financial profile that will attract investors.

Conclusion

In conclusion, there is no doubt that ethnic minority businesses provide international accountants with an exciting opportunity to increase their market share of underserved ethnic minority diaspora business communities.

As well as bringing expert skills, international accountants are in an advantageous position when it comes to being able to build productive and lucrative long-term relationships with ethnic minority business communities. They can build on their hands-on experience of working with diverse cultures. They can also adapt their guidance to offer a tailored and culturally sensitive approach to business support.

These advantages in providing tailored expert services to a potentially lucrative underserved business community are clearly a win for the international accountancy profession. After all, it is constantly facing other challenges in a backdrop of complex and evolving regulatory frameworks, and emerging significant issues such as climate change and the increasing role of technology in the provision of professional services.

For ethnic minority business owners looking to expand and thrive, partnering with an international accountant could be the key to unlocking their full potential. These professionals can provide much more than number crunching. Instead, they can provide a menu of game changing strategic partnerships to deliver tailored financial strategies, expert tax advice and access to sources of funding and market insights.

Critically, international accountants can provide long term relationships with ethnic minority businesses, enabling them to build those key trusted advisor relationships that they need as a precursor to achieving successful global expansion. ●



Author bio

Diana Chrouch OBE is the Special Advisor to the All Party Parliamentary Group of Ethnic Minority Business Owners and the FSB National Champion for Ethnic Minority Business Policy.

EVENTS

FEATURE EVENT

R&D tax in the UK: compliance and legislation

Date: 20 November 2024

Time: 10.30 – 11.30

Venue: Online webinar

Speaker:

James Campbell

Since moving to the UK in 2017, James has worked directly for the Founders of a number of fast-growing start-ups and scale-ups (SaaS, AI, Climate Tech) in their business growth and commercial strategies. Prior to moving to the UK, James spent many years growing Australia's leading private investment platform throughout Asia Pacific.



Speaker:

Graham Steed

Graham runs his own consultancy, advising companies on compliance for the preparation of R&D tax credits claims; representing clients



facing HMRC enquiries where he has an exceptional success rate; and delivery of training to staff on HMRC centric tax issues. Previously, Graham spent 17 years at HMRC as an R&D Tax Inspector.

Speaker:

Tad Marinic

Tad has over six years' experience in R&D tax relief, leading compliance and operations. He currently sits on the HMRC Research and Development Communication Committee and is hands-on in the day-to-day operations of Walmer Group, ensuring the highest level of compliance for clients.



The last 18 months have seen the government spotlight firmly placed on the R&D tax incentive. This has largely been driven by the rise of fraudulent activity and scheme abuse. To counteract this, HMRC is continuing to introduce significant changes to the

R&D tax legislation. For accountants that are currently navigating these potholes on behalf of clients, Walmer Group will present this webinar to assist you in ensuring full compliance with HMRC. The topics to be discussed include, but are not limited to:

- the merging of the SME and RDEC incentives;
- digitalisation of claim submissions and disclosure of associated R&D agent(s);
- how to deal with an R&D enquiry from HMRC; and
- changes in allowable expenditure inclusion (i.e. restriction of overseas subcontractors).

There will also be a Q&A session, where attendees will have the opportunity to ask questions to our experts.

To reserve your place at this exclusive event, go to: www.aiaworldwide.com/cpd/events/rd-tax-in-the-uk-compliance-legislation

OTHER UPCOMING WEBINARS

Payroll update

Date: 8 October 2024

Time: 10.30 – 11.30

Speaker: Samantha O'Sullivan

The Chartered Institute of Payroll Professionals (CIPP) policy and research team monitor the latest changes to payroll and pensions legislation. Sam will provide an overview of the new legislation that the Labour government is implementing, and how this will impact the work of payroll professionals.

Attend this session to learn about the changes to be implemented in the next two tax years, including lifetime provider model for pensions, reporting hours worked via RTI submissions and mandating payrolling of benefits from April 2026.

Essential sole trader tax update

Date: 14 October 2024

Time: 10.30 – 11.30

Speaker: Emma Rawson

In this webinar, we'll take a look at some of the recent tax changes for sole traders, as well as what is coming down the line. We'll have a practical focus, looking not just at what is changing, but what it might mean for our clients and ourselves.

UK Budget 2024

Date: 1 November 2024

Time: 10.30 – 11.30

Speaker: Tim Keeley

This webinar reviews the economic forecasts prepared by the Labour government and an insight into the tax changes announced by the Chancellor and their likely impact upon individuals and businesses. Tim will provide a detailed analysis of the first Labour Party Budget, review the economic forecasts prepared by the government and give his usual insight into the tax changes announced by the Chancellor and their likely impact upon individuals and businesses.

Digital marketing fundamentals: a strategy for online success

Date: 3 December 2024

Time: 10.30 – 11.30

Speaker: Antony Worsley

This webinar is aimed at helping accountants to develop a diverse online marketing strategy. Online presence and digital marketing grew significantly during the pandemic and for many this has become their primary means of customer engagement. Businesses have taken huge technological leaps forward. Developing a diverse marketing strategy that can adapt

to changing market conditions will be vital to future growth and development.

Corporate governance (Malaysia)

Date: 11 December 2024

Time: 18.00 – 19.00 (Malaysia Time)

Speaker: Dr Lau Chee Kwong

The 2010s witnessed a dramatic growth of economic prosperity around the globe but also the mushrooming of accounting scandals and corporate failures arising from unsustainable growth. Effective corporate governance and business management are vital in addressing these problems. The Malaysian Code on Corporate Governance, introduced in 2000 and updated in 2021, has been a significant tool in the reform of corporate governance. This webinar presents a conceptual and practical perspective on corporate governance.

Tax updates (Malaysia)

Date: 17 December 2024

Time: 18.00 – 19.00 (Malaysia Time)

Speaker: Thenesh Kannaa

The webinar will provide an overview of recent tax developments with an emphasis on 2025 Budget updates. The areas covered include corporate tax, tax incentives and indirect tax.

INTERNATIONAL

Building professional accountancy capacity can strengthen emerging economies, say IFAC and global partners

Emerging economies, including the Global South, present enormous opportunities for economic growth, and their development is important in both local and global contexts. For these economies to grow and achieve prosperity, the active contribution of professional accountants is essential.

The International Federation of Accountants (IFAC) commenced meetings for the Memorandum of Understanding to Strengthen Accountancy and Improve Collaboration (MOSAIC) in Bucharest. They began with the MOSAIC Steering Committee meeting to discuss plans for developing the capacity of the accounting profession in emerging economies.

The MOSAIC Steering Committee meeting will bring together the signatories to MOSAIC, comprising: African Development Bank; Asian Development Bank; Australian Department of Foreign Affairs and Trade Australia Aid; Finland Ministry of Foreign Affairs; GAVI Alliance; Global Fund to Fight AIDS, Tuberculosis and Malaria; Inter-American Development Bank; IFAC; New Zealand Aid Programme; Swedish International Development Cooperation Agency; UK Foreign Commonwealth and Development Office; US Agency for International Development; and The World Bank.

MOSAIC serves as a cornerstone

for a unified global approach to enhance the capacity of professional accountancy organisations (PAOs) and elevate the quality of financial management systems in emerging economies. The agreement and the collaborative efforts it fosters aim to empower PAOs in partner countries to improve the standards of accountancy and financial management, ultimately amplifying the effectiveness of donor assistance.

Acknowledging the complexities of PAO development, MOSAIC is designed to strengthen cooperation and collaboration between IFAC, international donors and the global development community.

Initial discussions were focused on the future of the MOSAIC Memorandum of Understanding, exploring strategies to magnify its impact developing the accountancy profession in emerging economies in the years ahead. This comes at a crucial moment, with the rapid evolution of sustainability reporting and assurance in the private sector, and in the context of the continued work of the International Public Sector Accounting Standards Board (IPSASB) to develop sustainability reporting standards for the public sector, where SAls are key stakeholders.

Lee White, Chief Executive Officer, IFAC said: 'Strengthening capacity among PAOs and

throughout the accountancy profession is one of the most effective ways to support sustainable economic and social growth and development, and we outlined a number of areas where accountants can have an impact in our recent publication 'The accountancy profession enabling Africa's transformation'.

'It is inspiring to see so many development partners prioritising capacity building in the accountancy profession. We look forward to working together with the MOSAIC signatories to strengthen our collective impact and drive meaningful change.'

Arturo Herrera Gutierrez, World Bank Global Director for Governance said: 'Proper accounting is critical for the development of the private sector and enabling access to credit markets and enhancing citizens' trust in governments' effective use of public resources. The World Bank has a long history of engagement on this foundational agenda. We are committed to supporting emerging issues, including sustainability reporting and proper recording of contingent liabilities in the public sector in collaboration with the IFAC and its International Public Sector Accounting Standards Board. We look forward to continuing to work closely to strengthen and improve collaboration.'

INTERNATIONAL

'Accounting for a better world': takeaways from the latest PAIB Advisory Group Meeting

Professional accountants in business (PAIBs) occupy a pivotal position in driving sustainable business practices, fostering transparency and contributing to the economic and social wellbeing of communities worldwide. Recognising that in an increasingly interconnected and rapidly changing global economy,

the role of accountants is evolving, the theme of the last PAIB Advisory Group meeting was 'Accounting for a better world'.

The event was hosted by the South African Institute of Accountants (SAICA) in Cape Town, South Africa.

PAIBs comprise a significant part of the profession working in commerce, industry, financial services, education and the public and not-for-profit sectors, and the PAIB Advisory Group focuses on ensuring these accountants meet the future needs of business and the public sector by convening leaders, sharing their

knowledge and insights, and identifying trends globally.

Informed by the PAIB Advisory Group's last meeting, the article 'Accounting for a Better World' outlines multiple opportunities where professional accountants can have an impact, including:

- enabling Africa's transformation;
- diversifying entry into the accountancy profession and strengthening the talent pipeline;
- ensuring sustainability and excellence as a CFO;
- driving integrated thinking through strong corporate governance;

- harnessing the transformative opportunities of AI; and
- nature-related accounting and financial disclosure.

Sanjay Rughani, PAIB Advisory Group Chair said: 'To the International Federation of Accountants' (IFAC) members worldwide, I urge you to seize the momentum generated by our discussions and embark on a journey of continuous learning, innovation and collaboration. Our discussions were not merely exchanges of ideas but rather catalysts for action, igniting a sense of purpose and urgency. Professional accountants, now more than ever, have the opportunity to contribute to creating a better world.'

Recognising that Africa is vital in a regional and global context, with 12 of the world's 20 fastest growing economies, IFAC, in collaboration with the Pan African Federation of Accountants (PAFA), has also convened a panel of distinguished leaders to explore how accountants can better enable the Africa Union's 2063 vision and agenda, empower intra-continental trade, support Africa's transformation and prepare organisations to optimise the continent's vast potential. Additionally, the group discussed valuable perspectives from transformative banks and financial institutions on enabling climate transition and bridging the sustainable finance gap.

The discussions underscored the critical role of accountancy and finance professionals in driving economic growth and sustainability across the continent, identifying five areas of influence:

- building capital market efficiency and transparency through high-quality information and reporting;
- unleashing sustainable financing;
- greater regional integration;
- enabling business and entrepreneurial growth; and
- transforming public sector decision making.

UK AND IRELAND

A discussion paper has been launched on the future of digital reporting in the UK

As part of a cross-regulatory group, the Financial Reporting Council (FRC) has announced the launch of a

comprehensive discussion paper on the future of digital reporting in the UK.

The group, comprising the Financial Conduct Authority, Companies House, HMRC and Charity Commission for England and Wales, aims to gather feedback on crucial developments in digital reporting. The paper addresses changes in the regulatory landscape and considers the impact of the recently passed Economic Crime and Corporate Transparency Act 2023.

The FRC has been developing and maintaining UK taxonomies for over a decade, providing a framework for high-quality, consistent digital reporting. The UK Taxonomy Suite plays a crucial role in minimising burdens on businesses while supporting economic growth by enabling investors to access and compare information efficiently and allowing regulators to confirm compliance with legal and regulatory requirements.

Key topics covered in the discussion paper include:

- potential alternatives to the European Single Electronic Format (ESEF) taxonomy for UK regulated markets;
- proposed changes to structured digital reporting to support regulatory disclosure initiatives;
- considerations for mandatory assurance of digital tagging;
- the impact of 'full tagging' requirements on companies and charities; and
- strategies to support stakeholders in adapting to new digital reporting requirements

The discussion paper seeks input from a wide range of stakeholders, including preparers of financial reports, investors, software vendors, accountants and regulators. It aims to help shape the future of digital reporting in the UK, ensuring it meets the needs of all users while promoting transparency, comparability and efficiency in corporate reporting.

The FRC wants to hear from stakeholders about how it can continue to develop digital reporting in the UK and further enhance the benefits it offers. Market intelligence, information and data are increasingly important for both decision making and monitoring outcomes, so it is crucial to set a strategy for UK taxonomies that will continue to deliver for business in the future.

FRC publishes thematic reviews into offsetting in the financial statements and IFRS 17 Insurance Contracts

The Financial Reporting Council (FRC) has published two thematic reviews into the quality of UK company reporting in respect of offsetting in the financial statements and IFRS 17 Insurance Contracts.

Offsetting contributes to a number of the FRC's top ten reporting findings. It involves presenting items that would otherwise be shown separately as a single net amount. International Financial Reporting Standards (IFRS) permit or require offsetting only in specific situations.

Companies are reminded that inappropriate use of offsetting can mask the full extent of the risks relating to a company's assets and liabilities, income and expense, and cash flows. The FRC regularly identifies material errors in the use of offsetting through its routine monitoring work which has led to a number of restatements of primary financial statements.

The review sets out the most commonly found issues, particularly in the areas of the cash flow statement, financial instruments and provisions and provides examples of good disclosures. Addressing these issues can help companies to avoid queries from the FRC's Corporate Reporting Review team and the potential need to restate their accounts.

Key findings include:

- Cash flows should be presented gross, unless otherwise required or permitted.
- Bank overdrafts and positive bank balances that form part of a cash pooling arrangement are offset in the statement of financial position only when there is an intention to exercise a legally enforceable right to set off period-end bank balances.
- High quality disclosures are important where financial instruments have been offset or are subject to a master netting arrangement or similar agreement.
- A reimbursement asset is required to be separately presented from the associated provision. Any reimbursement rights that satisfy the contingent asset requirements of

IAS 37 should also be appropriately disclosed.

Alongside the review of offsetting, the FRC has also published a review of company disclosures against IFRS 17 Insurance Contracts following the first full year of reporting. Overall, the quality of IFRS 17 disclosures in the FRC's sample was good.

While some further areas for improvement were identified, many of these related to areas commonly raised with companies, such as judgements and estimates, and alternative performance measures. The FRC recognises that this is a new accounting standard, with a significant impact on the insurance sector, and that practice will continue to develop and improve over time.

In the early periods of implementation of a new standard, the FRC is particularly careful to take a proportionate approach, so that companies have the opportunity to innovate and consider fully how best to disclose the required information. This is particularly the case with IFRS 17 due to the significant amounts of disclosures that are required to be made.

EUROPE

European Supervisory Authorities warn of risks from economic and geopolitical events

The three European Supervisory Authorities (ESAs) – the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA) – have issued their Autumn 2024 Joint Committee Report on risks and vulnerabilities in the EU financial system.

The report underlines ongoing high economic and geopolitical uncertainties. The ESAs warn national supervisors of the financial stability risks stemming from these uncertainties and call for continued vigilance from all financial market participants. For the first time, the report also includes a cross-sectoral deep dive into credit risks in the financial sector.

The continued decline of inflation in late 2023 and early 2024 has led central banks to begin the shift towards looser

monetary policy. Financial markets performed strongly in anticipation of future rate cuts and an improving macroeconomic outlook, save for the short-lived but sharp equity price dip in August. Considerable uncertainties, nonetheless, remain regarding the future path of the global economy, inflation and monetary policy and the interplay of these factors across different jurisdictions.

Amid ongoing geopolitical developments, such as the Russian aggression against Ukraine, the war in the Middle East and elections in the European Union and the United States, there is potential for sudden shifts in the economic outlook and market expectations. High market volatility in August provided a glimpse of the continued potential for sudden shifts in outlook and market expectations. In sum, the highly uncertain current environment continues to present material financial stability and operational risks that necessitate vigilance from all financial market participants.

Against the backdrop of these risks and vulnerabilities, the Joint Committee of the ESAs advises national competent authorities, financial institutions and market participants to take the following policy actions:

- financial institutions and supervisors should remain prepared to face the impacts of continued high interest rates on the real economy;
- credit risk should continue to be monitored and carefully managed as its potential materialisation remains a concern. This underlines the need for adequate provisioning levels and forward-looking provisioning policies, while maintaining prudent and up-to-date collateral valuation;
- financial institutions need to be flexible and agile and have proper plans and processes in place to address unexpected short-term multi-fold challenges;
- financial institutions and supervisors should remain vigilant regarding the impact of inflation on product development; and
- financial institutions and supervisors should remain vigilant to operational and financial stability risks that could arise from cyber-risks, as exemplified by the global IT disruption in July from the failed software update of a widely used cybersecurity company.

The EBA sets 2025 priorities for resolution authorities and reports on the progress achieved in 2023

The European Banking Authority (EBA) has published its European Resolution Examination Programme (EREP) Report. It sets three priorities for resolution authorities and banks for 2025: operationalisation of their resolution tools; liquidity strategies in resolution; and a management information system for valuation. The report also looks at the progress achieved in 2023 and identifies areas of improvement.

The 2025 EREP priorities confirm and complement the areas of focus set for 2024, given their relevance and the fact that work takes time on those complex topics. New elements introduced for 2025 reflect policy and market developments, progress and expertise gained by resolution authorities and, overall, embed a testing dimension which is considered central for resolution readiness.

Compared to 2024, building up own funds and eligible liabilities is not a separate priority anymore, given that most banks have met their minimum requirement for own funds and eligible liabilities (MREL). However, to increase the effectiveness of the bail-in tool, MREL qualitative aspects are to be further monitored as part of the operationalisation of resolution tools, and quantitative aspects will be followed and disclosed by the EBA in its MREL Dashboard.

In 2023, convergence increased within the EU with regards to resolution planning practices and objectives.

On MREL, only four banks did not meet their target as of 1 January 2024. Resolution authorities have used their powers to impose sanctions and extended deadlines for 22 institutions. They have also increased their monitoring of MREL eligibility and quality, especially for contracts governed by third-country law.

On the operationalisation of the bail-in tool, most resolution authorities have now published their bail-in mechanics and consider that challenges concerning the identification of holders of instruments, suspension for trading or requirements of issuing prospectus for the new instruments persist and are particularly prominent in relation to third country stakeholders.

While some progress has been observed in the area of liquidity in

resolution, resolution authorities plan to further increase the intensity of their testing and to challenge the severity of banks' scenarios.

Finally, resolution authorities have performed more testing of management information systems for valuation as some banks showed significant gaps in data quality, automation, granularity and timeliness of report delivery. Further progress remains needed. Resolution authorities have put in place procedures for quickly appointing a valuer.

UNITED STATES

The Financial Accounting Standards Board seeks public comment on proposed derivatives scope refinements

The Financial Accounting Standards Board (FASB) has published a proposed Accounting Standards Update (ASU) to address stakeholder feedback related to:

- the application of derivative accounting to contracts with features based on the operations or activities of one of the parties to the contract; and
- the diversity in accounting for a share-based payment from a customer that is consideration for the transfer of goods or services.

Issue 1: Derivatives scope refinements

During the FASB's recent agenda consultation and other outreach, stakeholders noted challenges in applying guidance in FASB Accounting Standards Codification Topic 815, Derivatives and Hedging. Topic 815 establishes accounting requirements for contracts that meet the definition of a derivative based on certain characteristics and are not otherwise excluded from its scope.

Because of the broad and evolving interpretation of the definition of a derivative, many types of contracts are evaluated and potentially accounted for as derivatives, including certain research and development funding arrangements and bonds in which interest payments may vary based on ESG-linked metrics.

The proposed ASU would improve this area by excluding from derivative

accounting certain contracts with underlyings that are based on the operations or activities of one of the parties to the contract. It would also change the predominant characteristics assessment applicable to certain contracts that are not traded on an exchange.

The proposed ASU is expected to:

- reduce the cost and complexity of evaluating whether these contracts are derivatives;
- better portray the economics of those contracts in the financial statements; and
- reduce diversity in practice resulting from changing interpretations of the existing guidance.

Issue 2: Scope clarification for a share-based payment from a customer in a revenue contract

The proposed ASU would also clarify the applicability of Topic 606, Revenue from Contracts with Customers, and its interaction with other topics, in the accounting for share-based payments, such as warrants or shares, received from a customer that are consideration for the transfer of goods or services.

The proposed ASU would provide investors with more comparable information and would reduce accounting complexity and related reporting costs for preparers and auditors.

The proposed ASU, including information on how to submit comments, is available at www.fasb.org. Stakeholders are encouraged to review and provide input on the proposed ASU by 21 October 2024.

ASIA PACIFIC

ACRA has published a monitoring programme on reviewers' responsibilities under the 'hot review' order

The Accounting and Corporate Regulatory Authority of Singapore has published Practice Direction No. 2 of 2024, which sets out the criteria and responsibility of a reviewer appointed under the 'hot review' order issued under the Practice Monitoring Programme (PMP) and serves as supplementary

information for public accountants subjected to a hot review.

This Practice Direction is effective for hot reviews issued on or after 2 September 2024.

Section 38(1)(b) and 38(2)(b)(iii) of the Accountants Act states that where compliance with professional standards by public accountants is partially satisfactory or not satisfactory, the Public Accountants Oversight Committee may make 'an order requiring the public accountant to take any other steps specified by the Oversight Committee to improve the public accountant's practice in relation to his or her compliance with the professional standards'.

One of the orders that may be issued by the Oversight Committee is for the work of the public accountant to be subject to a review (also commonly known as a 'hot review') for a stipulated period, by another suitably qualified person, when they provide public accountancy services. Under this order, a public accountant cannot sign off an audit engagement unless an independent reviewer (also commonly known as a 'hot reviewer') has reviewed the audit work that has been performed.

The purpose of subjecting the work of the public accountant to a review is to uphold audit quality by enabling the public accountant to improve their work under the supervision of a suitably qualified public accountant or former public accountant. The public accountant under review may engage any suitably qualified public accountant or former public accountant to be the reviewer, subject to ACRA's prior approval, as long as there are no conflict of interest or independence issues.

The hot reviewer serves as a mentor assisting the public accountant (who is subject to the hot review) to review the quality of the audit process undertaken. The focus is on helping the public accountant to improve the quality of their audit process. Notwithstanding the hot review, the responsibility of the public accountant who is under review in signing off the audit report with respect to the audit judgment and opinion issued remains unchanged. That is, the public accountant, being the audit engagement partner, remains solely responsible for the audit engagements that have been signed off notwithstanding that the engagement has been reviewed by a hot reviewer.



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