ICAEW Report Looks at Differential Accounting Requirements for SMEs

A new report from ICAEW, *SME Accounting Requirements: Basing Policy on Evidence*, looks at the arguments for and against having differential accounting requirements for SMEs and calls for a substantial program of research into the costs and benefits of regulating and deregulating SME accounting. The report by the Institute of Chartered Accountants in England and Wales (ICAEW), *SME Accounting Requirements: Basing Policy on Evidence*, also reviews the relatively small amount of research evidence available, says Brian Singleton-Green, Manager, Corporate Reporting, ICAEW in a write-up in IFAC Knowledge Gateway. The report concludes that there is not a good understanding of why different countries have the particular SME accounting regimes that they do. It may be that each country has arrived at the right answer for its own particular circumstances. But it is equally possible, given the lack of relevant evidence for policy makers, that the differences are to a greater or lesser extent arbitrary. "SME accounting requirements—and I include in this audit requirements where they exist—are an interesting and problematic topic for policy makers. On the one hand, there is a strong desire to lighten regulatory burdens on SMEs. On the other hand, there is an equally strong feeling in many countries that it is important that all incorporated businesses should meet certain minimum standards of competence and integrity in their accounting—that accounting, even by SMEs, should not be a complete free-for-all, he says. In practice, while accounting requirements for listed companies around the world are increasingly moving toward a common approach based on International Financial Reporting Standards, requirements for private companies—and particularly for SMEs—still vary widely internationally.

New Bottle, Old Wine? Six Capitals Framework Will Require Trade-offs

Integrated reporting offers a great opportunity to think differently about the decisions that organisations make. It can help companies make decisions based on more than financial criteria and the bottom line to consider socio-economic impacts, governance and accountability, sustainability, and more, says Nick A Shepherd, President EduVision, in a write-up in IFAC Knowledge Gateway. *"The International Integrated Reporting Council (IIRC)'s six capitals framework* seems to require recognition that for any entity to create value it must call on not just financial capital but others forms of external capital—some of which impact its local, regional, or even global community. Conceptually this is significant progress but the challenge will be in how organisations approach, adopt, and apply the framework. It also remains to be seen to whether the results of decision making using the framework will translate into full transparency and accountability to society as a whole", he adds. One of the ways to start thinking about the application of integrated reporting is to consider the societal issues and concerns that have brought us to this point. What's the problem that we are trying to solve? In what way is the existing approach to decision making not serving society? These questions and type of thinking opens up a considerable discussion that can include possible changes that might make capitalism as we know it work better, provided the discussion is open and honest.

The reality is that the larger and more global a corporate entity becomes, the greater the risk to both its home society as well as those it operates in. Entities also face trade-off decisions between the capitals. For example, manufacturing has seen a global shift to low labor-cost countries with the resultant loss of jobs in more developed, higher-cost nations (this can also be true within larger nations, such as in parts of the US), he says in the write-up. Using the IIRC model, it could be demonstrated that a decision to enhance financial capital would result in significant depletion in both human and social capital. Where costs are reduced through outsourcing or downsizing, shareholders benefit from sustained or increased profits and users of the product or service receive competitive products at a sustainable or decreased price.

IESBA Improving the Structure of Code of Ethics for Professional Accountants

Developed by the International Ethics Standards Board for Accountants (the Ethics Board), the *Code of Ethics for Professional Accountants* (the Code) establishes ethical requirements for professional accountants. The IESBA is now in the process of improving the structure of Code of Ethics. It is mentionable that in December 2015, the Ethics Board issued an Exposure Draft, *Improving the Structure of the Code of Ethics for Professional Accountants—*

Phase 1 (Structure ED), which represents the first application of the proposed new structure and drafting conventions for the Code, covering both a number of general application provisions, as well as sections addressing professional accountants in public practice. The last for comments on the same was April 17, 2016 and the Ethics Board is now analyzing the comments. Key features of the proposed restructuring include 'Increased prominence of the requirement to apply the conceptual framework and comply with the fundamental principles'; 'Better demarcation of requirements versus application material—paragraphs identified with R or A, as appropriate, to better distinguish'; 'Increased clarity of responsibility—more clearly enabling identification, where relevant, of a firm's responsibilities and, together with firms' policies and procedures, the responsibilities of particular professional accountants'; 'Increased clarity of language, where possible: simpler and shorter sentences'; 'Simplification of complex grammatical structures; increased use of the active voice; and avoidance of legalistic and archaic terms'; 'Reorganisation of the Code as appropriate, to enhance clarity and usability, positioning the Code to take advantage of forthcoming electronic features'; 'An enhanced definitions section, which is now presented as a glossary and includes descriptions of terms used.'

Exploring Artificial Intelligence & the Accountancy Profession: Opportunity or Threat?

Artificial intelligence (AI)—the capacity of machines or software to create and exhibit intelligence—bring with it both promise and concern, says Bhumi Jariwala in a write-up in IFAC Knowledge Gateway. AI tools and applications are being developed to think, feel, and react like living creatures. A survey of recent literature suggests that there is a practical connection emerging between science and finance, more specifically, accountancy, she says adding that AI could become an invaluable partner in professions that demand considerable training, technical precision, and ethical judgments—including accountancy. According to a reliable international report, AI could bring about entirely new classes of products and services, create new markets, and generate large gains for inventors. Application areas include customer service, research and development, logistics, sales, and marketing. Accountants' responsibilities often involve following long-established methodologies for information analysis and professional standards for report preparation. Specialised software already automates many accounting, tax, and audit data-gathering and processing tasks and provides the results to professionals who use their professional judgment to review. AI has the potential to completely transform the accountancy profession, Jariwala says. According to a report from the Association of Chartered Certified Accountants, over the next two years, automation will alleviate many cumbersome processes, such as bookkeeping and transaction coding, enabling accountants to focus on advisory services and other higher-value work. As a result, the future will offer smart applications that drive value for accountants and their clients. *The Economist* also recently indicated that there is a 94% likelihood that AI will lead to job losses in the accountancy profession over the next two decades.

Should Professional Accountants Care about Culture? Yes!

Extensive rules and procedures alone are not enough to ensure appropriate conduct in the work place—the financial crisis of 2008 illustrated this. "At the Association of Chartered Certified Accountants (ACCA), we believe that a healthy culture is a prerequisite for corporate governance and risk management to be truly effective. Without it, the effectiveness of regulations and codes will always suffer," says Pauline Schu, Policy and Research Officer of ACCA in a write-up in IFAC Knowledge Gateway.

But what exactly is "culture"? Culture shows in the way things get done, how a company manages its operations and staff. It is about what is seen as important and appropriate. Culture is about how people behave when no one is looking. Appropriate conduct is about the behaviors that support an organisation's objectives over the long-term, as opposed to those that go against what the organisation is seeking to accomplish, those that lead to accidents, destroy value, and end up in financial and reputational loss. Academics have long argued that when a culture is strong and widely shared, it becomes a determining driver of behavior and a durable enabler of internal control. The ACCA has dealt on the issue more elaborately by conducting an international study based on qualitative and quantitative research titled *Culture and Channelling Corporate Behavior*.