

GLOBAL PRIORITIES FOR PROFESSIONAL ACCOUNTANTS IN BUSINESS AND THE PUBLIC SECTOR



INSIGHTS FROM IFAC'S PROFESSIONAL ACCOUNTANTS IN BUSINESS ADVISORY GROUP



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IFAC, with its member organizations, serves the public interest by enhancing the relevance, reputation, and value of the global accountancy profession. IFAC's three strategic objectives are:

Contributing to and promoting the development, adoption, and implementation of high-quality international standards;

Leading and developing a future-ready profession; and

Speaking out and engaging as the voice for the global profession.

The aim of this report is to share insights from IFAC's Professional Accountants in Business Advisory Group across the global accountancy profession.

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MESSAGE FROM THE CHAIR, IFAC PROFESSIONAL ACCOUNTANTS IN BUSINESS ADVISORY GROUP

The chaotic world we currently live in continues to challenge businesses and governments globally. While the fallout of the COVID-19 pandemic lingers on, political and business concern grows over geopolitical instability and its social and economic impacts. Organizations face mounting pressures arising from the war in Ukraine, including further pressure on already strained global supply chains, volatile energy prices as well as rapidly increasing inflation across most major markets. These challenges are also occurring at the same time as the net-zero climate and sustainability agendas gather momentum.

Helping organizations respond to such significant challenges requires disruptive thinking from the accountancy profession. We must push the boundaries of what we as professionals can do to identify risks and turn them into new opportunities through business model transformations. This way of thinking was central to our discussions at the recent [Professional Accountants in Business \(PAIB\) Advisory Group](#) virtual meeting, where we explored how PAIBs can add value to their organizations and to society by playing a bigger role in driving sustainability and value creation at the same time as responding to uncertainty, and in the context of recent history, unprecedented trading and economic conditions.



Sanjay Rughani
Chair
IFAC PAIB Advisory Group



IFAC's CEO, Kevin Dancey joined us to give an update on IFAC's extensive sustainability related activities, including its latest [call to action on sustainability and next steps for the accountancy profession](#). He emphasized that to get sustainability right, job number one is to ensure an integrated mindset within organizations. CFOs and their finance functions can drive this by helping to break down information and functional silos to bring about an interconnected approach to information about sustainability, value creation and financial performance. If this is achieved internally, the reporting will more naturally follow, and will help avoid a greenwashing and box-ticking approach to sustainability.

“Helping organizations respond to such significant challenges requires disruptive thinking from the accountancy profession.”



Demonstrating an integrated mindset in practice, we were joined by Bikash Prasad, Group CFO of Olam Agri, an international food and agri-business. Bikash also brought along members of Olam's dedicated Sustainability Finance team, to outline how Olam embeds sustainability into its business strategy and key decision-making processes, using its multi-capital methodologies for capitals accounting within the company. A key message from their presentation was that impact cannot be created without defining, measuring, tracking and reporting on sustainability impacts and related risks and opportunities and working collaboratively with suppliers and others to change practices. I was truly impressed with the leading role of their finance team in supporting Olam's growth and impact and what has been achieved over only a 33-year history.

Expanding on the topic of sustainability, the Royal Netherlands Institute of Chartered Accountants (NBA) and Circle Economy led a thought-provoking discussion on how accountants can enable circular economies and business models where resources and products are kept in use as long as possible. Achieving circular business models is the route to achieving true sustainability of resources and nature. However, it requires changing our mindset away from linear business models upon which economies have become dependent and involves rethinking impact, risk and value and overcoming accounting and reporting challenges.

The meeting also included sessions on enabling the finance workforce in the public sector, challenges for accountants in responding to rising inflation and the supply chain crunch

and priority issues on audit committee agendas.

The key insights from our meeting are summarized in this report, and I hope you find it of value as a means to keep connected to IFAC discussions and priorities. Across our two-day meeting, the determination, passion and commitment of the PAIB Advisory Group was inspiring and together we will continue to push the boundaries when we meet in-person again in New York in September.

Stay well and blessed.

Sanjay Rughani



ACCOUNTANTS AT THE CENTER OF RESPONDING TO INFLATION AND THE SUPPLY CHAIN CRUNCH

These are unprecedented times. At a critical moment for the climate agenda, the current business environment is characterized by high inflation and supply chain challenges and geopolitical and macroeconomic uncertainty.

For CFOs and finance teams, responding to inflation and current market challenges is a priority that requires connecting different parts of organizations and providing insights that enable a business to continue to create and protect value. Their co-pilot and value partner role can be captured in four key areas:

1. Understanding and keeping track of market dynamics
2. Relationship management and collaboration
3. Managing the impact of volatility
4. Procurement and supply chain challenges and reconfiguration

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CONTENTS



Accountants Enabling the Circular Economy	6
Championing an Integrated Mindset	11
Case study: Olam Agri	11
Engaging with Audit Committees to Support Accountants Addressing New Responsibilities	12
Enabling an Effective Public Sector Finance Workforce	18

ACCOUNTANTS ENABLING THE CIRCULAR ECONOMY

Circular business models are necessary to ensure the sustainability of resources and nature and to achieve sustainable development. However, it is challenging to change legacy mindsets away from linear business models upon which economies have become dependent. It involves rethinking value, impact and risk in a world where materials and products can be kept in use as long as possible to eliminate waste and pollution. Shifting to a circular economy is crucial to close the 'circularity gap' in worldwide resource use, which in recent years is still above 90% (as shown by the [reports](#) from Circle Economy and the World Economic Forum).



Circular thinking has implications on the application of accounting and financial principles, for example, depreciating assets until they have no value does not provide incentives for shifting to circular business models. Accountants need to be able to evaluate decisions beyond the financial value generated.

To consider the opportunities and challenges to circular economy adoption, Usha Ganga, NBA Topic Director Sustainability and Aglaia Fischer, Circle Economy, Finance Initiative Lead presented on the work of The Royal NBA and Circle Economy as part of the Coalition Circular Accounting (CCA). CCA's work aims to identify and overcome finance and accounting-related challenges that hinder transitioning to a circular economy. The CCA comprises a group of experts and scientists from finance, accounting and law. Members include NBA, Circle Economy, Invest-NL, ABN-AMRO, Rabobank, Alfa Accountants, KPMG, Allen & Overy, Sustainable Finance Lab, Impact Economy Foundation and scientists associated with Nyenrode Business University and Avans University of Applied Sciences. Their work and latest report, [Financial accounting in the circular economy: Redefining value, impact and risk to accelerate the circular transition](#), is summarized in an article on the IFAC website, [Financial Accounting Must Enable the Circular Economy](#).



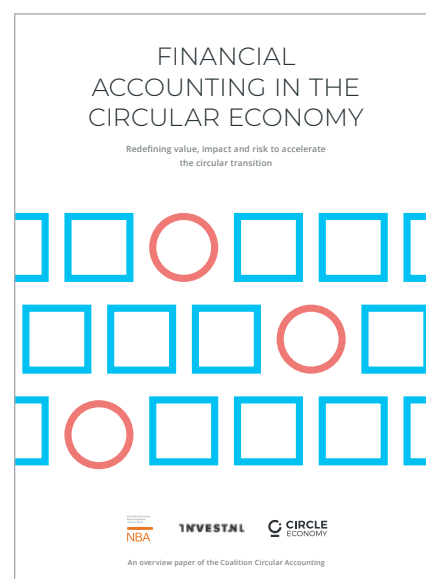
Circular business models are not yet commonplace practice among companies or accountants, and the benefits are not well-understood. Circularity requires innovation in business models and resource use, as well as in financial management and accounting.

KEY CONCEPTS

Circular economy is an economic system that maintains a circular flow of resources by regenerating, retaining or adding to their value.

Circular business models involve strategies to narrow, slow, close and regenerate resource cycles or loops.

Circular revenue models allow value to be captured with circular strategies and can be distinguished depending on economic ownership structure. Examples include deposit models, lease and rent models, the Sell-and-Buy-Back model (where the user becomes a temporary economic owner and may sell the product back to the producer), as well as the Product-as-a-Service (PaaS) model.



CASE STUDY

CIRCULAR ROADS

REPORT LAUNCH: ROAD-AS-A-SERVICE

How should we modify and rethink current financing and reporting practices for the circular economy?



A pilot project of Dura Vermeer and Overijssel Province has provided a practical case for investigating how a circular road can be exploited as a road-as-a-service. A white paper on this project, launched by a new coalition for circular accounting, demonstrates how to modify and rethink current financing and reporting practices for the circular economy.

A discussion about contractual structuring and its implications has led to new insights. Dura Vermeer wants to retain the economic ownership of the road while providing its functionality (i.e. the use of the road) as a service to their client, Overijssel Province. This incentive ensures that it will maintain the road as well as possible from its knowledge and expertise, this will ultimately lead to a higher residual value.

The participants formed a Coalition Circular Accounting (CCA). This is a collaboration between Circle Economy, Sustainable Finance Lab, The Netherlands Institute of Chartered Accountants NISAC, Dura Vermeer, ABN AMRO, Rabobank, KPMG, Province Overijssel and scientists of Erasmus University, Open Universiteit, University of Groningen, Nyenrode Business University and Avans University of Applied Sciences. The CCA was co-funded by Nederland Circulair.

To sell or not to sell

The fundamental question is "to sell or not to sell", according to CCA, financial reporting is about economic ownership and the transfer of risks and rewards. If at the end of the contract, economic ownership is transferred to the client (in this case

Road-as-a-Service is a pilot project in the Overijssel province in the Netherlands, led by Dutch construction and infrastructure company Dura Vermeer. In this new model, the client (Overijssel) is the legal owner of the road while the contractor (Dura Vermeer) retains the economic ownership of the raw materials of the constructed road and the use of the road as a service. Both parties enter into a contractual obligation while the road is in use. The client covers a periodic payment for the services of the contractor based on functional requirements of the road, such as safety and availability. It is the contractor, however, who bears the costs of road maintenance.

Because the contractor is entitled to collect the residual value at the end of the contract term, the company is incentivized to use durable, long-lasting materials and to optimize the maintenance and (re-)use of the road and the raw materials used in the process.

FROM RISK TO OPPORTUNITY

Excessive pollution and waste, unsustainable resource extraction and biodiversity loss are significant sustainability risks that can be turned into opportunities through circular strategies and business models, which eliminate waste, keep products and materials in use and regenerate nature. The transition to a circular economy will also substantially reduce CO2 emissions and is therefore essential to reaching climate goals.

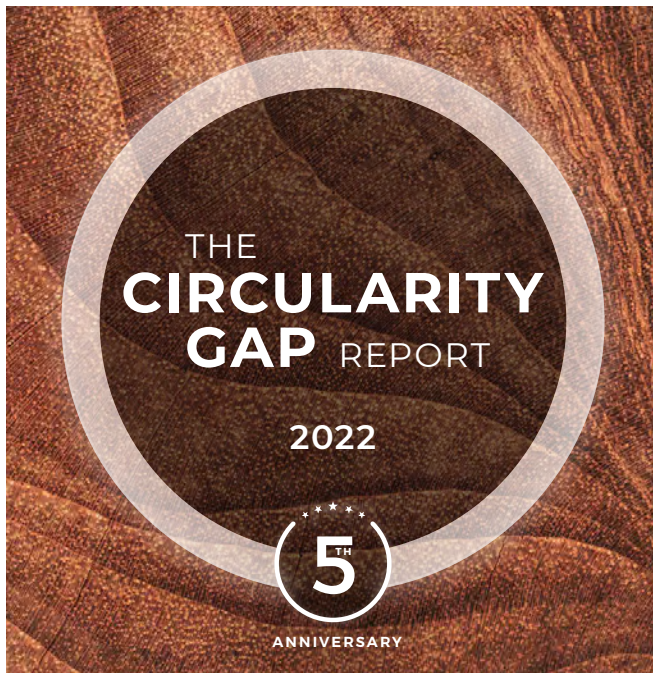
Circularity involves rethinking:

- **Value** – understanding and quantifying the value generated with circular business models and re-assessing concepts of value, for example, in circular thinking regarding waste as residual value can lead to uncovering previously undervalued uses.
 - **Impact** – consistent, comparable and reliable impact measurement and reporting are needed to enable circular economy decisions. Different formats for presenting impact data are evolving such as integrated profit and loss statements and multi-capital balance sheets.
 - **Risk** – holistic risk assessments which take into account a company's total long-term impact and relationship with the human and natural environment—not only financial returns—are needed to steer capital away from non-circular business models, and towards ones that promise long-term, stable value creation and positive impact.
- Circular economy solutions involve various strategies including:*
- Narrowing resource loops (use fewer resources) through innovations in the production and design of products, such as resource efficiency and optimized logistics. It can involve understanding and supporting solutions to make production processes more efficient by using fewer resources e.g., recovering CO2 from production and reusing, replacing non-renewable fossil or virgin resources, or redesigning products to reduce material use.
 - Slowing resource loops (use resources for longer) by increasing product longevity through design for durability, repairing, and remanufacturing. Extending the life of products starts with products that are already in use and changing designs to expand the duration of product use.
 - Closing resource loops (use resources again) by making sure that all resources are reused in new product life cycles after use, through reverse logistics and take-back programs which involve reusing material at the end of consumer use of a product.
 - Regenerating resource loops - Improving nature and biodiversity through changed practices. The changes in farming and land practices in the food and agriculture industry as highlighted by [Olam are a good example](#). Regeneration strategies are also becoming more common to protect raw materials.



The shift to circularity is not straightforward. Obstacles that need to be considered and overcome include:

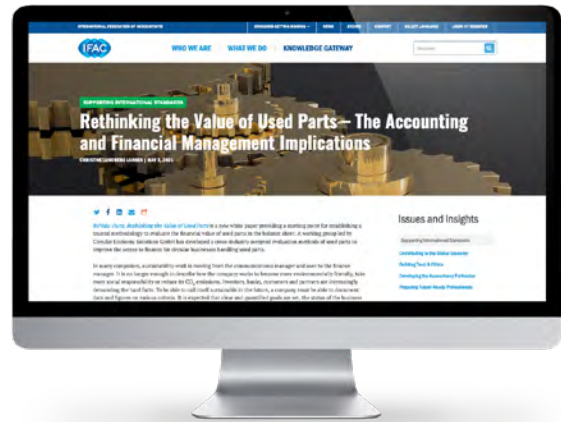
- Business feasibility, particularly in the absence of government policy to incentivize investment in a circular economy and sustainability. Investment and solutions are more likely to be driven at an organization level within a government policy framework. Without this context, the return on investment on new or alternative technologies and solutions may not appear to be economically viable for some businesses. The introduction of better tax policy and enabling environmental regulations that help to create a level-playing field among companies can all provide important incentives.
- Technical feasibility and practical implementation - a lack of awareness of the practical changes to operating practices, and products and services that would lead to circular resource-efficient business models. Awareness of solutions that reduce waste and emissions is typically lacking and often requires expertise in the science underpinning business processes and products.
- Reliable data on sustainability impacts and risks and opportunities is necessary to focus strategy and business model changes on targeted high-impact areas.
- A system-wide change is needed to build consumer demand and enable supply.
 - It is important to build consumer awareness and demand for products as a service and their benefits, particularly where there are higher upfront costs for products with longer lives. Longevity needs to become a key product feature;
 - Suppliers must collaborate on critical aspects to shift to circular such as materials, design, enhancing quality and reparability to increase longevity which may require changes in manufacturing and production processes;
 - Circular solutions must be profitable over time to enable business viability.
- Mindsets must change to view waste and pollution as design flaws and to move away from the take-make-dispose linear business model. Circularity can also challenge the idea that incremental improvements to production processes and products are in themselves sufficient.



POSITIONING CFOs AND FINANCE FUNCTIONS TO HELP ENABLE CIRCULAR BUSINESS MODELS

To help, CFOs and finance functions can:

- Address data limitations particularly relating to sustainability impacts and related risks and opportunities; where information is not available, the finance function is well placed to work with others such as engineers and surveyors to collect, filter and report on the information needed to support decision making and reporting.
- Select key impact metrics relating to resource efficiency, waste and emissions according to global standards and supplement with local sustainability priorities, for example, related to water, and build measurement methodologies to ensure reliability and comparability. Appropriate targets to meet circular economy goals can then be established.
- Ensure financial planning and management tools such as budgeting incentivize innovation to support sustainable practices and solutions aligned to goals and strategy. Financial modeling and decision criteria may need refining to ensure the long-term benefits of projects are balanced against short-term economic realities. For example, economic value-added and other financial measures of value and return need to incorporate wider performance metrics such as those related to enhancing reputation.
- Address accounting challenges such as new depreciation models to assign value to products and resources after their useful life. Current asset depreciation over the useful life of an asset discourages circular thinking. A working group led by Circular Economy Solutions GmbH has developed methods for valuing used parts and materials on the balance sheet (see [Rethinking the Value of Used Parts – The Accounting and Financial Management Implications](#)).
- Frame the business case for transforming business models to enable business resilience and viability. For example, circular business may require new service models that do not require product ownership and accompanying shifts in revenue models to focus more on services such as warranties, repair and maintenance.
- Ensure all relevant principal and financial risks of linear business models are understood such as the potential for fossil-based assets to lose economic value quickly through higher costs driven by carbon taxes. This may involve stopping activities now even though they are still profitable in the short term.
- Identify opportunities and risks related to transitioning to a circular economy.
- Rethink relationships with other functions and external stakeholders to ensure that an enabling industrial ecosystem is developed to maintain and support a circular business approach.
- Where external financing is needed, engage with investors and financiers to demonstrate the value proposition of circular business model changes such as how these will lead to new sources of value creation for key stakeholders.



KEY RECOMMENDATIONS FOR THE PROFESSION TO ADVANCE THE CIRCULAR ECONOMY

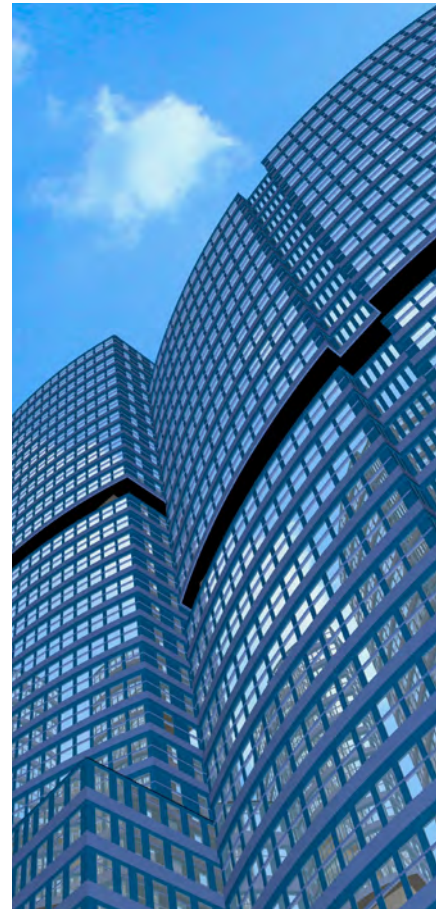
Convene forums with relevant stakeholders help to facilitate debate and alignment on country strategies for enabling circular economy thinking and overcoming obstacles to the circular transition. Key partners and collaborators include private sector leaders in circular business models, active investors and financiers, relevant government ministries and departments to broker political support, business organizations such as chambers of commerce, NGOs and customer groups.

Highlight best practices in circular business models and industry case studies that demonstrate practical solutions and the multi-capital and stakeholder benefits of investing in the circular economy.

Consider incorporating circular business as part of the education, training, and professional development of accountants including in existing education and training programs that are provided to members including sustainability learning and continuing professional development programs. These programs can include specific learning on circular and resource-efficient business models and how reporting and valuation can enable circular decisions.

Monitor and contribute to how global and jurisdictional sustainability reporting standards deal with information disclosure related to the circular economy and resource use. For example, sustainability reporting standards being developed in the European Union are likely to reference disclosure requirements for resource use and circular transition in support of the EU Green Deal, EU Taxonomy regulation and EU Circular Economy Action Plan.

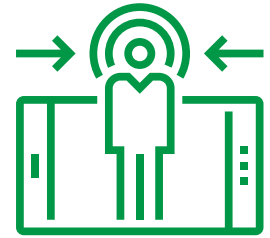
Advocate for policy incentives and support for businesses including from a tax and revenue perspective and ensure policy schemes are designed to achieve desired outcomes.



CHAMPIONING AN INTEGRATED MINDSET

Recent case study presentations at the PAIBAG, including Olam Agri, show the critical contribution of the CFO and finance function, and professional accountant's skillset and ethical core, to enabling sustainable value creation.

Consolidating these insights, a new advocacy initiative on CFOs and finance functions enabling an integrated mindset to deliver sustainable value creation will be launched in June. This will capture why an integrated mindset is essential to organizations in advancing sustainability and avoiding greenwashing, and how it can be achieved through the engagement of the CFO and finance team.



CASE STUDY

OLAM AGRI

The PAIB Advisory Group was joined by Bikash Prasad, President & Group CFO of Olam Agri, an international food and agri-business. Bikash was joined by members of Olam's dedicated Sustainability Finance team, Nikita Asthana, Head of Sustainability Finance, and Qinyue Huang, Deputy Manager. Together they outlined how Olam embeds sustainability into its business strategy and key decision-making processes. Key takeaways included:

- Understanding sustainability involves measuring and valuing impacts to identify value created or destroyed for other non-financial capitals.
- Olam uses multi-capital accounting to identify more sustainable strategies for its highest-impact issues related to human, natural and societal capital. Multi-capital accounting informs business decisions to drive sustainable practices and financial outcomes.
- Olam's dedicated Sustainability Finance team supports the development of its multi-capital methodologies and is the center of excellence for capitals accounting within the organization.
- The team is comprised of finance and accounting professionals and brings finance and accountants' mindset and skillset to measuring, quantifying and reporting on sustainability topics and climate change.
- A common data platform has been created to drive internal decisions and external reporting.
- This sustainable finance team leads on ESG reporting to meet the requirements of investors, regulators and ratings agencies.

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“Quantifying our externalities and dependencies allows us to embed these into our business decision making and effectively manage long-term impacts and dependencies on natural, social and human capitals.”

Bikash Prasad, President & Group CFO of Olam Agri

ENGAGING WITH AUDIT COMMITTEES TO SUPPORT ACCOUNTANTS ADDRESSING NEW RESPONSIBILITIES

At their core audit committees play a crucial role in ensuring the provision of high-quality, decision-useful information about an organization to its investors and other stakeholders. But in the current environment, fulfilling this mandate is becoming increasingly more complex as organizations face greater uncertainty and risks and as audit committee oversight responsibilities continue to widen.

Professional accountancy organizations (PAOs) have a key role in supporting their members working on audit committees to continuously learn about new topics, risk areas and reporting requirements, and consider the implications on their organizations and work.

To help PAOs engage with audit committee members on these trends, the PAIB Advisory Group discussed and identified the following priority issues for consideration on audit committee agendas.

DEALING WITH ECONOMIC UNCERTAINTY

Continued fallout from the pandemic, coupled with geopolitical instability, have created an extremely challenging and volatile business environment with [high inflation, pressured supply chains and macroeconomic uncertainty](#). In this context, areas for the audit committee to consider include:

Going concern and accounting estimates - has the audit committee sufficiently considered and challenged management's assessments, judgements and assumptions in areas such as going concern and other accounting estimates?

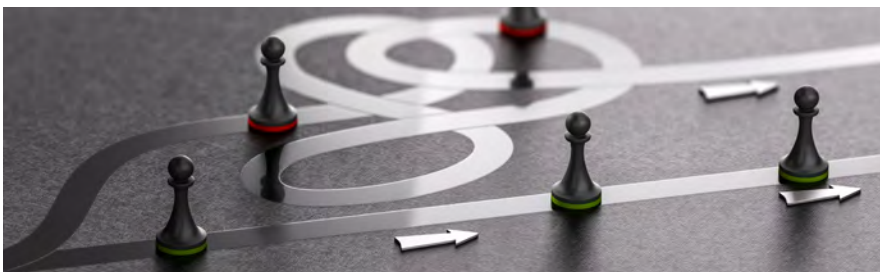
- In an environment of heightened uncertainty, management estimates and underlying assumptions including projections of revenue and future cash flow and fair value measurements may be more complex and will require a multiple scenario approach.
- The audit committee should also engage with the external auditor and carefully consider their [work on accounting estimates](#) as they may need to perform additional procedures to stress test going concern analysis, as well as assess whether the accounting estimates made by management and the related disclosures are reasonable in the context of the changing and uncertain economic environment.



EXAMPLE: CLIMATE-RELATED JUDGEMENTS AND ASSUMPTIONS

To enhance trust and confidence in what companies' report, auditors and the reports they issue may also need to address climate-related judgements and assumptions used in preparing the financial statements. For example, where an auditor determines that work to test and evaluate an estimate or assumption constitutes a key/critical audit matter, the matter may need to be highlighted in the audit report.

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Enterprise risk management – how responsive are processes for identifying, assessing and managing uncertainty and related risks and opportunities?

For example, do they consider issues such as:

- Overall operational resilience, and whether the organization has the ability or agility to respond to disruption, and whether there is a crisis resilience plan, as well as post-covid recovery plans.
- Evaluation and management of supply chain pressures and vulnerabilities and the associated risks, including financial and regulatory risks.
- Monitoring of third-party risks, including collectability of receivables and the financial health of critical vendors/suppliers.
- Enabling successful risk-taking and decision-making at speed in a volatile environment.
- Internal audit plan responsiveness to new or emerging risks.



Heightened risk of fraud – does the uncertain environment increase the risk of fraud or material misstatement?

- Incentives to commit fraud can be heightened when organizations and individuals face unprecedented economic challenges. In challenging times, individuals under significant work-related or personal pressures can exhibit and rationalize uncharacteristic behaviors such as enhanced risk-taking and unethical decision-making. They may also deliberately present a more favorable picture of current reality through financial statement and disclosure manipulation.
- [A re-assessment of fraud and reporting risk](#) focused on material areas may be required to enable the board to effectively discharge its responsibility for preventing and detecting fraud. This may involve the audit committee heightening its attention on senior management fraud and including fraud risks as a recurring item on their agenda.

ESG/SUSTAINABILITY REPORTING

Embedding sustainability and ESG matters into strategy is a key priority for boards, and the reporting of sustainability related information is gaining momentum, particularly with recent developments in global [sustainability standards](#). Many boards are turning to their audit committees to provide oversight of broader corporate reporting such as sustainability, TCFD-related disclosure and integrated reporting. In the European Union, the European Commission's proposed Corporate Reporting Directive would expand the audit committee's mandate to include sustainability reporting (see Accountancy Europe's publication, [ESG Governance: Recommendations for Audit Committees](#)). These changes in expectations and requirements will involve oversight of a broader set of business and reporting risks, internal controls and assurance processes. Considerations for the audit committee include:



Monitoring the control environment for sustainability/ESG information

– has management established an effective approach to risk management and internal control as they relate to sustainability information? E.g.,

- Identification and management of ESG risks, including compliance risks and their potential impacts on the financial statements.
- Assessment of processes and controls to ensure the integrity of sustainability information and reporting, including whether the internal control approach is fit for purpose and operating effectively.

The connectivity and consistency between information – is ESG/sustainability information consistent between the financial statements and other reports and public disclosures?

Level of assurance over integrated reporting, ESG/sustainability and climate-related disclosures, including whether:

- Internal audit has the expertise to support internal assurance of ESG information and integrated reporting.
- Expertise is needed to provide assurance over specialized topics.
- The external auditor can provide wider assurance over ESG/ sustainability information outside of the financial statements as part of a separate engagement and any independence issues.
- The audit committee also needs to consider the integrity of reports not subject to audit or assurance and the reasons for not obtaining external assurance.

INTERNAL ASSURANCE

Coordinated *internal* assurance activities are vital for boards of directors to discharge their fiduciary duties and prepare responsibility statements. When embedded in a company's governance and reporting ecosystem, such assurance will improve the confidence that investors and other stakeholders can have in the information provided by the board in their reporting on their accountability, as well as better prepare the organization for external assurance.

Executing the Board's Governance Responsibility for Integrated Reporting

Overview

This second installment in the integrated reporting assurance series highlights how an integrated control approach to assurance can support boards of directors (directors) in governing their responsibilities for the integrity of integrated reporting. Board responsibilities for integrated reporting should include:

- Approving and overseeing the results of a reporting strategy.
- Making strategic integrated reporting decisions, including the decision to prepare an integrated report and ensure its quality and accuracy.
- Ensuring the integrated report includes a credible, robust, and reliable description of the business's performance and impacts.
- Ensuring responsibility statements to ensure the integrity of the integrated report, in alignment with the **International Integrated Reporting Framework**, and to underpin integrated reporting practice.

While this installment focuses on integrated reporting assurance, it also addresses the importance of the assurance process which will be governed by the **IFAC Assurance** after July 2023. The concepts herein can be used to support boards to deliver on the terms of assurance reporting, including a foundational description of the business, such as the integrated nature of management's responsibilities in many parts of the world, including management, resources and capital, strategy, management, reporting, learning and financial returns, the New York City Climate Related Financial Disclosures.

To provide the impact level of confidence for the board to sign the responsibility statement related to an integrated report, multiple internal assurance activities across a range of governance and management must be coordinated to, collectively, they support the integrity of the integrated report and underlying processes, systems and information.

A consistent internal control approach using a framework such as the **COBIT Internal Control Framework** provides robust governance and control processes to the director and integration of internal control risk and responsibility, including the board, management, and internal audit. This ensures assurance is provided without duplication or gaps.

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BENCHMARKING GLOBAL PRACTICE

THE STATE OF PLAY IN SUSTAINABILITY ASSURANCE

JUNE 2021

IFAC International Federation of Accountants

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THE STATE OF PLAY IN SUSTAINABILITY ASSURANCE

IFAC and the AICPA & CIMA embarked on this global benchmarking study, in partnership with Audit Analytics, to better understand the extent to which companies are reporting and obtaining assurance over their sustainability disclosures, which assurance standards are being used, and which companies are providing the assurance service. Significant differences in practices across different jurisdictions show a situation that is still evolving, much like the road to a consistent set of standards for reporting sustainability information.

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POST-PANDEMIC WORKING ENVIRONMENT

The pandemic forced a shift in how and where work gets done, and as remote and hybrid working arrangements become the norm, audit committees should consider the implications on their organization's operations and risk environment as well as any impacts on the work of auditors. Considerations include:

Changes to the control environment – have any internal controls been impacted by remote or hybrid working practices, and how is the organization monitoring and maintaining an effective control environment?

- The credibility of reporting and information relies on a robust internal control environment. It is therefore important to identify and address any control deficiencies, for example security of systems being accessed remotely, appropriate segregation of duties, manual vs automated controls.
- Auditor evaluation and testing of the operating effectiveness of controls may also be impacted, for example requiring the use of technology to remotely perform procedures like walkthroughs and testing of controls via live screenshares and live videos.



Technology and digitization – are there additional and/or changed technology-related risks to consider? For example, whether:

- Remote or hybrid working is increasing reliance on technology to run operations, and if this needs to be reflected in formalized business continuity plans.
- There are increased cybersecurity and data transfer risks, including data protection compliance and security of information, cyberattacks on employees working from home, as well as other risks of data breaches through [third parties and supply chains](#).

Other workforce considerations

- Ensuring health and safety of employees working from home.
- Talent attraction and retention in the finance function through flexible working arrangements.
- Whether management is monitoring the risk of employee frauds such as working for a third party remotely.



AUDIT COMMITTEE KNOWLEDGE, SKILLS, AND COMPETENCIES

It is easy to get overwhelmed with widening agendas, but it is important not to forget the basics – and crucial for an audit committee chair to consider is *competency*, including competency of the audit committee itself, the finance function and internal audit.

The size of an audit committee varies by jurisdiction, industry or company, but is often relatively small with only 3 – 5 members. Therefore, for audit committees to understand and effectively oversee a wider range of risks, considerations include:

Keeping up to date on the business – does the audit committee understand the business and how is it keeping up to date with any developments?

- In some circumstances, site visits may be appropriate to fully understand business operations in order to ask the right questions of management. At the same time, audit committee members need to be cautious not to overstep their oversight role.
- As well as updates from the CFO and chief internal auditor, audit committees may require updates during meetings from other department heads, such as the head of IT, head of human capital, and the chief sustainability officer.

Composition and collective expertise – does the audit committee as a whole have the collective experience and expertise to oversee a wider range of risks?

Considerations include whether:

- There is enough financial expertise. Often the requirement is for at least one member to have financial expertise, but this can create a risk of too much reliance on the professional accountant member, who often shoulders a bigger burden because of their professional responsibilities.
- Audit committee members are willing and able to continually learn new areas.
- The board can effectively rotate membership of committees to help increase knowledge of the business and broaden experience.
- There is a common member between audit and risk committees (where these are separate) to ensure connectivity of agendas.
- Appointing outside experts onto audit committees could help increase diversity, independence, and expertise. This approach is being used in jurisdictions such as Saudi Arabia.

Reliance on the expertise of others – does the audit committee need to bring in third party expertise to deal with certain risk areas?

- Subject matter specialists can be brought in to provide external perspectives.
- Set up advisory groups comprised of internal and external experts to support the audit committee on specific risk areas.



AUDIT COMMITTEE TRANSPARENCY

Given the broadening scope and complexities of audit committee agendas, audit committee reporting and transparency is increasingly more important to communicate to the board, investors and other stakeholders how the audit committee has discharged its responsibilities and to enable a more informed assessment of audit committee performance and effectiveness.

For audit committee reporting to be meaningful, there needs to be strong and candid disclosure of:

- The scope of the audit committee's work and key areas of its agenda and discussions.
- Significant issues the audit committee considered in relation to the financial statements and wider corporate reporting and how these issues were addressed.
- The audit committee's evaluation of the organization's internal controls.
- How the audit committee measures and monitors audit quality, including how the audit committee considered and assessed the performance of internal audit and the finance function, the work of external audit (including independence considerations), and whether any audit quality indicators are used.

In the US the CAQ 2021 [Audit Committee Transparency Barometer](#), a review of audit committee disclosures by S&P 500 companies, revealed the highest rates of disclosure continue to be related to non-audit services and potential impact to independence.



KEY RECOMMENDATIONS FOR THE PROFESSION

PAOs can use this summary as a foundation to engage with their members who serve on audit committees to help:

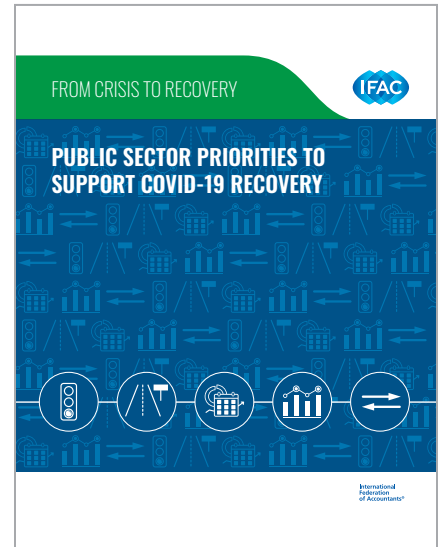
- Understand the current priorities and challenges on audit committee agendas.
- Raise awareness of key trends that may impact the work of audit committees.
- Establish the support members need from PAOs to fulfil expanded roles and responsibilities.

ENABLING AN EFFECTIVE PUBLIC SECTOR FINANCE WORKFORCE

Enabling an effective public sector finance workforce is particularly important in the current environment where public finance professionals play key roles in:

- Enabling [greater transparency and accountability](#) in the public sector, helping citizens understand how public funds are being managed and spent, and how decisions are made.
- Continuing to support governments in [recovery from the pandemic](#), and responding to emerging crises.
- Supporting sustainable development and the shift to net-zero.

During its March meeting, the [PAIB Advisory Group](#) discussed public sector priorities and challenges for the profession across jurisdictions which vary due to the differing maturity levels of the accountancy profession in the sector, as well as local or regional specific issues. Regardless of jurisdiction, consistent messages included the need for continued advocacy to promote the value of the public sector finance workforce to both the organizations they work for and to the individuals themselves as well as the importance of investing in the workforce and skills development. The key themes discussed are summarized below.



Getting buy-in from senior managers leading frontline services is an essential requirement to improving public sector financial management. Only when the public sector finance professional is trusted and seen as a valuable addition to management teams, can they truly become an integral part of the decision-making process.

Kirsty Stanners, Head of Policy and Technical, CIPFA



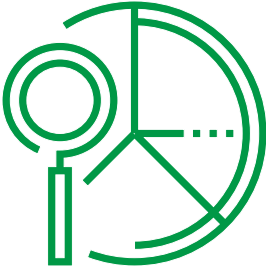
THE VALUE OF THE PUBLIC SECTOR FINANCE WORKFORCE

Supporting decision making and directing resources to priority areas

Many who choose to work in the public sector do so because they have a strong desire to deliver public good. This sentiment was echoed by Kirsty Stanners, Head of Policy and Technical at CIPFA (and a technical advisor to the PAIB Advisory Group), who shared her experience from over 20 years working across a range of public finance roles, most recently as the Head of Finance Business Partnering for Police Scotland. Kirsty also shared [case study examples of CIPFA members](#) from around the world to demonstrate the variety of rewarding roles that accountants working in the public sector can have.

Drawing from her own experiences, Kirsty highlighted that as a public sector finance professional and CIPFA member, during her career she has been well placed in finance to have an overview across the organization, understand what the organization is trying to achieve, share best practice across different departments or divisions and help ensure that decisions are taken with economy, efficiency and effectiveness at their heart. In her roles, this has involved supporting those working on the frontline, such as senior police officers, teachers and social workers, who as they move up through the management hierarchy, are increasingly responsible for financial management and people management as part of their jobs.





Finance can help senior managers understand and evaluate competing demands in order to prioritize and ensure the biggest impact with the resources available. That is what allows finance professionals to provide value for money for the taxpayer and demonstrates the value of investing in the public sector finance profession.

CASE STUDY

CIPFA CASE STUDY: DATUK DR YACOB BIN MUSTAFA,
ACCOUNTANT GENERAL OF MALAYSIA

“As an accountant in public service, I...can be part of the betterment of this country. I also have the chance to participate in the policy-making process and assist government in making effective decisions that best serve our nation.”



In a career spanning more than 30 years, Datuk Dr Yacob Bin Mustafa's career has served in various government departments in Malaysia. He sees his role in the public sector as a way to contribute to Malaysia and highlighted the breadth of his role compared to accounting work in the commercial sector. His work involves ensuring high-quality accounts are produced and public finances are managed effectively, which helps the government in its decision making.

READ MORE

INVESTING IN THE WORKFORCE AND SKILLS DEVELOPMENT

Capacity building and professionalization

For many jurisdictions, the professionalization of the public sector is the immediate priority. This involves increasing the number and capacity of skilled and competent public finance professionals, with suitable training and qualifications, and embedding strong professional and ethical standards.

The significant shift from cash to accrual reporting by governments [projected over the next 10 years](#) is a trigger in many jurisdictions for PFM reform and investment in professionalization of the finance workforce. This includes both immediate actions to train incumbents as well as longer term capacity building initiatives. Professional accountancy organizations play a crucial role in supporting these efforts.



CASE STUDY

DRIVING PFM REFORM IN RWANDA

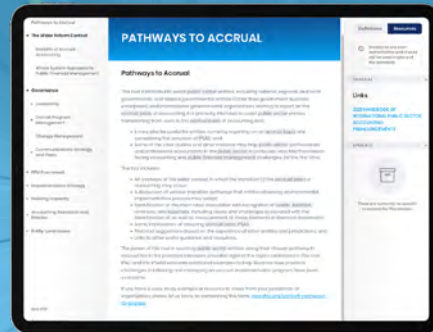
The Government of Rwanda, through the Ministry of Finance, identified the Institute of Certified Public Accountants of Rwanda (ICPAR) as its partner for developing the skills and competencies of its financial management staff. IFAC also supported these efforts through the development of an accounting technician qualification.

READ MORE

PATHWAYS TO ACCRUAL

This digital platform is designed to be a practical project management tool to help governments and other public sector entities think through key aspects in a transition from cash to accrual accounting and forge their own unique paths towards sound public financial management.

ifac.org



CASE STUDY



STRENGTHENING A TRANSPARENT & ACCOUNTABLE PUBLIC SECTOR IN ZIMBABWE: HOW DO PAOS FIT IN?

The Institute of Chartered Accountants of Zimbabwe (ICAZ) sees transparency and accountability as key drivers for enhanced PFM, which in turn is a driver of national economic growth. ICAZ believes that increased accountability, ethics, and integrity comes through greater professionalism and training. It also believes that PAOs worldwide can help accountancy professionals develop stronger, broader skill sets that will enable the production of high-quality financial information, audits of this information, and the delivery of excellent financial services.

[READ MORE](#)

In some jurisdictions, further advocacy is needed to highlight the importance of having accountants with the skills, ethics and public interest focus, in key positions in government departments to ensure proper management of public funds. For example, a challenge in many parts of the world, such as south Asia and Africa, is that there are often qualified accountants in government owned commercial operations, but not in government departments.

Increasing the attractiveness of the accountancy profession is a general issue across the profession, but it can be even more of a challenge in the public sector. Challenges shared ranged from

lack of a perceived career pathway, and wide salary gaps compared to the private sector, to more serious concerns in jurisdictions with high levels of government corruption, where individuals can face intimidation threats and fear for their safety.

Across the profession there is still much to do to support professionalism in the public sector, establish and promote attractive career pathways and rewarding roles and highlight the breadth of opportunities a career in public sector accountancy provides, including opportunities to make a real difference to broader economic, societal, and environmental issues.



Business partnering and skills development

For jurisdictions that already have a more established public finance workforce, the focus is on ensuring that accountants in their various roles at governance, strategic, and operational levels, have the skills as strategic business partners to enable better public service delivery and support in a range of areas such as:

- **Short, medium, and long-term financial planning** – providing decision-useful insights and information to help balance spending priorities and manage trade-offs.
- **Risk management, spend control and assurance frameworks** - ensuring value for money, but also recognizing the need to have an appropriate risk appetite and take risks, and being able to understand and respond to uncertainty, often with imperfect information. This is particularly important in the current environment with [high inflation, supply chain challenges, and geopolitical and macroeconomic uncertainty](#).
- **Policy development** – including supporting scenario planning, enhanced data analytics and evaluation of policies, for example evaluation of green finance policies (UK example [The Green Book \(2022\) - GOV.UK \(www.gov.uk\)](#)).
- **Performance measurement** – integrating financial and non-financial information to help understand the impact of spending on social value, broader societal outcomes and the environment.



CASE STUDY

CIPFA CASE STUDY: DEVASUDA ANBLAGAN PHD, SENIOR FINANCE MANAGER AT NHS ENGLAND AND NHS IMPROVEMENT

Devasuda took her job with the National Health Service (NHS) in April 2020 and was initially focused on supporting the NHS's response to the pandemic. Before working in finance, Devasuda studied physics and was a Research Fellow at the University of Edinburgh, involved in research into perinatal and ageing brains using MRI. Devasuda became a public sector accountant to help support the improvement of the healthcare system and medical research through understanding current challenges and future demand.



“A major challenge is that there is too much focus on short-term goals and failure to recognise that sometimes we need to choose or make short-term sacrifices to achieve greater benefit in the long term.”

More could be done to invest for the future. For example, the health service could spend more on preventative interventions early in life to avoid costly emergency interventions later. From a finance point of view, more could be done to invest in technology, where resource pressures can sometimes leave the public sector lagging behind the private sector.

[READ MORE](#)

EXAMPLE: UK GOVERNMENT FINANCE FUNCTION

“We put finance at the heart of decision making. Driving the agenda, not just keeping score.”

The UK's Government Finance Function is a diverse community of over 10,000 people, striving to deliver '[more mature financial management, evidence-based policy and operational decision making, sophisticated forward-planning, and robust risk management](#).' It brings together a range of disciplines and expertise, from strategic business partners, to accountants, to risk and audit professionals, who are embedded in every government department and their organisations.

[READ MORE](#)

Transferability of skills between the public and private sectors

There can be a perception among accountants and organizations that skills and competencies are not transferable between the public and private sectors. For accountants who move from the private sector into the public sector, it can be a challenge to navigate the politics, as well as the governance and transparency requirements of operating in a public sector environment. To encourage more movement between sectors, focusing on key skills and competencies that matter in the public sector is important. For example, focusing on:

- Leadership, influencing, and people skills as well as technical competencies.
- Communication skills, which are just as important as financial skills, when working within organizations to promote and improve public sector financial management. Those in senior roles will also need to communicate effectively with politicians and the public.

Conversely, those moving from the private sector to the public sector can bring valuable commercial perspectives. Secondments between the public and private sectors were suggested to encourage movement and broaden experiences and skillsets.

There is also increased public-private sector partnership and collaboration, including on infrastructure projects, healthcare, and other service delivery. At the height of the pandemic, partnerships were critical in a range of areas including vaccine development and rollout, and procurement of personal protective equipment. As governments face their greatest policy challenges and deal with increasingly complex issues, cross-collaboration between sectors is key to determining how to create value and better outcomes for society.



Diversity and inclusion

Diversity of the workforce is particularly important in the public sector to ensure that decisions made are representative of society as a whole. For the finance workforce, embedding diversity and inclusion into teams is an important part of making better decisions and approaching challenges from different perspectives.

CASE STUDY

CIPFA CASE STUDY: CLAIRE LAKE, PARTNER AT BAIME CONSULTING (& CIPFA DIRECTOR FOR NORTH AMERICA)



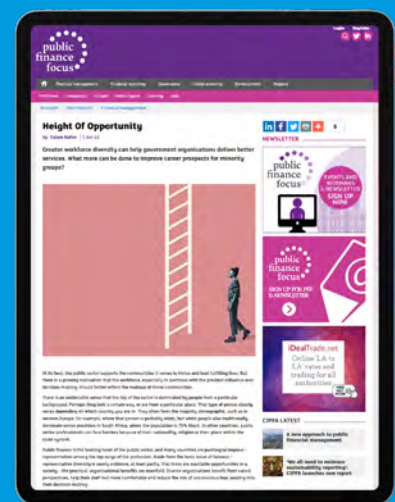
“The work I do directly impacts Canadian's lives. I can help to ensure that funding moves around government in a more effective and efficient way.”

Claire has over 20 years of experience working in a range of industries including the public sector, financial services, IT, automotive, energy and engineering. Claire's career started in the private sector, where she worked with governments raising money for large infrastructure projects. With this experience, Claire found she could transfer to working in the public sector, and saw public sector work as an opportunity to give something back to society. Claire commented that public sector can change working arrangements ahead of the private sector, because change is made for the right reasons

[READ MORE](#)

CIPFA: HEIGHT OF OPPORTUNITY

At its best, the public sector supports the communities it serves to thrive and lead fulfilling lives. But there is a growing realisation that the workforce, especially in positions with the greatest influence over decision-making, should better reflect the makeup of those communities.



[READ MORE](#)

ICAEW: SOCIAL MOBILITY: HOW AUDIT WALES IS RISING TO THE CHALLENGE

The Auditor General for Wales has launched a number of initiatives to bring people from different backgrounds into its staff and introduce them to other parts of the Welsh public sector.

[READ MORE](#)

AICPA: PROMOTING EQUITY IN GOVERNMENT ENTITIES

In Canada and the United States, the public and social sectors have higher diversity in senior roles than in private industry. But with the COVID pandemic exacerbating leadership burnout, particularly amongst women, government entities must work harder than ever to support, retain, and build upon this diversity.

[READ MORE](#)

KEY RECOMMENDATIONS FOR THE PROFESSION

Professional accountants play critical roles in advising governments, directing expenditure to priority areas, controlling and accounting for funds and ultimately reinforcing trust in public services and spending. And in the current environment, there has never been a greater need for the accountancy profession to apply its skills, expertise and professional integrity in the public sector. To support this, PAOs can:

- **Promote** the value that a professional finance workforce brings to public sector priorities, across a diverse range of roles.
- **Advocate** for the importance of having accountants in key positions in government departments to ensure proper management of public funds.
- **Engage** with key influencers in the public sector, which includes professional accountants working in senior political roles.
- **Support** professionalism and continued professional development of the public sector finance workforce, including development of broader skills such as business partnering and influencing.
- **Collaborate** with key stakeholders (such as governments and donor agencies) to support PFM reform programs, including supporting implementation of accrual IPSAS.
- **Highlight** the breadth of opportunities a career in public sector accountancy provides, including opportunities to make a real difference to broader economic, societal, and environmental issues.

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