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CEO Message: The Silence of the Auditors

CMA AUSTRALIA Certified Management Accountants

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CEO Message: The Silence of the Auditors

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In my last CEO message, I provided recent examples of iconic companies running amok and paying scant attention to ethics and values but being rewarded with higher share values. There was Volkswagen ignoring the toxic pollution caused by their diesel engines, HSBC involved in money laundering for Mexican drug cartels, Facebook breaking all privacy legislation, and almost all the Australian banks involved in large-scale corrupt practices.

Businesses behaving badly

Since writing that message, in Australia there appeared to arise what one could only describe as a 'corporate crime wave'. There was an outbreak of business lawlessness including wage theft, mistreatment of franchisees, abuse of workers on temporary visas, and much more[1].

Mr. Rod Sims, the chairman of the Australian Competition and Consumer Commission, in his 2018 Giblin Lecture on Friday July 13, gave us an extraordinary list of the commission's enforcement activity for the month of April alone this year.

Ford was ordered to pay $10 million in penalties after admitting to unconscionable conduct when dealing with complaints about *PowerShift* transmission cars. Some customers were informed that shuddering was the result of their driving style despite Ford knowing the problems with these cars.

Telstra was ordered to pay penalties of $10 million in relation to its third-party billing service known as 'premium direct billing' under which it exposed thousands of its own mobile phone customers to unauthorised charges.

Thermomix paid penalties of more than $4.5 million for making false or misleading representations to certain customers through its silence about a known safety issue affecting one of its products.

Flight Centre was ordered to pay $12.5 million in penalties for attempting to induce three international airlines to enter into price-fixing agreements.

K-Line, a Japanese shipping company, pleaded guilty to criminal cartel conduct concerning the international shipping of cars, trucks and buses to Australia.

Woolworths had proceedings instituted against it alleging that the environmental representations made about some of its Homebrand picnic products were false, misleading and deceptive.

Mr. Sims went on to say that earlier this year, the Federal Court found that food manufacturer **Heinz** had made misleading claims

that its Little Kids Shredz products were beneficial for young children, when they contained about two-thirds sugar.

Nurofen packaging for four of their pain products claimed that each was specifically formulated to treat a particular type of pain when, in fact, each product contained the same active ingredient and was no more effective at treating that type of pain than any of the others.

Hotel giant **Meriton** was caught taking deliberate steps to prevent guests it suspected would give an unfavourable review from receiving TripAdvisor's 'review express' prompt email, such as inserting additional letters into guests' email addresses. The court found this to be a deliberate strategy by Meriton to minimise the number of negative reviews its guests posted on TripAdvisor.

Optus Internet recently admitted to making misleading representations to about 14,000 customers regarding their transition to the national broadband network (NBN), including stating that their services would be disconnected if they didn't move to the NBN, when under its contracts it could not force disconnection within the timeframe claimed.

Pental admitted that it made misleading claims about White King 'flushable' cleaning wipes, saying they would disintegrate in the sewerage system when flushed, just like toilet paper, when, in fact, our wastewater authorities are encountering enormous problems because the wipes can cause blockages in their systems.

The Silence of the Auditors

Against this backdrop, one needs to question why auditors have remained silent. Most of the above companies and financial institutions received unqualified audit opinions.

Auditors collected large amounts in audit and non-audit fees. The unethical behaviour of large companies and the impact of such on the value of shares raises questions about the value of company audits, auditor independence and the quality of audit work, economic incentives for good audits and the knowledge base of auditors.

The external audit is supposed to operate as a trust mechanism to persuade the public that capitalist corporations and management are not corrupt and that companies and their directors are held accountable. In an uncertain world, corporate audits are expected to reassure stakeholders that there is an external and objective check on the way in which financial statements are prepared and presented, and it is an essential part of the checks and balances required. Accountants, as auditors, have cemented their status and privileges on the basis of claims that their expertise enables them to mediate uncertainty and construct independent, objective, true, and fair accounts of corporate affairs. This expertise, it is claimed, enables markets, investors, employees, citizens, and the state to limit and manage risks.

Such claims of expertise are, however, frequently exposed as inadequate by unexpected corporate collapses, frauds, and failures and, more recently, by systemic unethical and corrupt practices by corporations that the public would have trusted in the past, even without the reassurance of an external audit.

Auditors behaving badly

Beside the problems of the audit, the unethical and corrupt practices of the auditors themselves have been in news, as illustrated below.

Ernst & Young

In September 2016, public accounting firm Ernst & Young (E&Y) agreed to pay $9.3 million to settle charges against three of the firm's audit partners. The US Securities and Exchange Commission (SEC) found that Gregory Bednar, a former senior partner on the engagement team for a client that was a New York-based public company, "maintained an improperly close friendship" with the company's Chief Financial Officer, thus violating rules that ensure objectivity and impartiality during audits. Bednar reportedly spent close to $100,000 in travel and entertainment expenses between 2012-2015 while socialising with the client's Chief Financial Officer and his family, according to the New York Law Journal. E&Y was aware of the expenses but did nothing. In a separate case, former E&Y partner Pamela Hartford, who served on another audit team, had a romantic relationship with Robert Brehl—the former Chief Accounting Officer of E&Y client Ventas, a real estate investment trust, according to the USA SEC (Farber,2016)[2].

PricewaterhouseCoopers (PwC)

PwC was banned from auditing listed companies in India for two years after being accused of negligence in its audit work at the now defunct *Satyam Computer Services*. The Securities and Exchange Board of India said that PwC chose to rely on "glaring anomalies" and huge differences in Satyam's balance confirmations during its audit work between 2001 and 2008. Although the initial ban did not include ongoing 2017/18 audits for listed companies, the date was extended into 2019, and now PwC continues auditing its clients until 31 March, 2019.

KPMG

KPMG's South African branch came under fire and suffered a severe reputational hit after becoming caught up in a growing corruption scandal surrounding one of the country's most powerful families, the Guptas. KPMG was accused of facilitating the Gupta family in tax evasion and corruption. The Gupta family, once called South Africa's 'shadow government', is a very wealthy and politically influential family with close ties to former South African president Jacob Zuma. It is alleged that the family exerts undue influence over government policies and dictates high-level governmental appointments in exchange for commercial opportunities. Note that HSBC (the bank's unethical behaviour was detailed in the May-June 2018 CEO Message) has been accused of money laundering for the Gupta family.

Following the above allegations, financial services company Sasfin and investment company Hulisani announced plans to drop KPMG because of reputational risks. Sygnia Asset Management had fired it earlier. In all, six companies terminated their KPMG contracts within two months of the scandal erupting.

While the firm denied any wrongdoing, it admitted to missing several red flags in relation to the Gupta family's accounts. At least eight senior KPMG South Africa officials resigned in the wake of the scandal, including CEO Trevor Hoole.

It is clear that it's not because they had a sudden change of heart that they suddenly came forward. If they were not caught there would not be this pseudo-accountability.

Deloitte

The South African accounting watchdog launched an investigation of Deloitte's audit of Steinhoff International after the retailer disclosed accounting irregularities that triggered a share price collapse. The Independent Regulatory Board for Auditors in South Africa is investigating audit work done by Deloitte South Africa for the South African-based retailer from 2014 to 2016. The watchdog plans to liaise with accounting regulators in Germany, where Steinhoff is listed, and the Netherlands, where the company is incorporated. Deloitte has signed off on Steinhoff's accounts for at least 18 years, according to the retailer's annual reports. The investigation is another blow for Deloitte, which admitted in September 2017 that it had suffered a cyber-attack that undermined its reputation as an expert provider of security advice. The breach, which affected clients, also prompted an investigation of Deloitte by New York State's attorney-general, which is ongoing. Steinhoff's announcements that it had discovered accounting irregularities and planned to restate its 2016 financial results caused the company's share price to plummet by more than 80 per cent. The company's former Chief Executive, Markus Jooste, stepped down and apologised in correspondence with close associates for making "some big mistakes" that "caused financial loss to many innocent people". German prosecutors said they were investigating whether Steinhoff inflated its revenue and book value, and Steinhoff's supervisory board commissioned PwC to carry out an independent investigation into the accounts (the same PwC mired in the Satyam scandal in India!!).

Such events fuel the suspicion that auditors lack the requisite independence, expertise and incentives to construct the promised 'true and fair' account of corporate affairs. It also begs the question of whether the rules and principles of *the International Financial Reporting Standards (IFRS)* are, in fact, hopelessly outdated and cannot differentiate between ethically and unethically generated company revenue and expenses, or provide a true and fair valuation of a company that has significant intangible assets.

A Royal Commission into the Audit profession?

These examples call into question the role, value and independence of auditors. Perhaps what is needed is a Royal Commission into the Regulation, Independence, Politics, Production and Knowledge Base of Auditors. An independent inquiry into the role of auditing, especially at financial institutions, would help to highlight the shortcomings of current practices and indicate why there has been a 'Silence of the Auditors' while the banks were marched like lambs to the slaughter to admit their significant ethical and moral shortcomings in the Banking Royal Commission.

We have considered the unethical, and often corrupt and fraudulent, behaviour of large corporations, financial institutions and even external auditors. What about the professional bodies of accountants that educate, train and certify the competency of the auditors and provide good governance guidelines for their professional members?

***CPA Australia*,** the country's largest accounting body, had a tumultuous year in 2017 after an unprecedented member uprising over indiscriminate spending and exorbitant salaries led to the sacking of CEO Alex Malley and the resignation of the entire Board.

The issues related to the 'CPA Scandal' have been well documented in the Australian financial press and include the revelation that CEO Alex Malley's salary was $1.79 million per annum, the details of the over-the-top pay of Board members, the excessive salaries of senior management, Mr Malley's termination payout of $4.9 million, and so on. These revelations outraged members, and were key factors that led to the revolt over the way the body was run.

A group of CPA Australia members submitted 10 resolutions at the accounting body's make-or-break Annual General Meeting in May 2018. Among these were resolutions to cap director pay, permit members to directly elect the Board, and to have Chairman Peter Wilson removed.

The CPA Board and Mr Wilson opposed all 10 of the member resolutions, citing a variety of reasons including that the ideas were impractical, costly and not in the interests of the body.

Instead, the new Board and Chairman put forward resolutions that stemmed directly from the controversial independent review commissioned into the CPA late last year and subsequent (so-called) member consultation.

A key CPA member group spokesperson, Mr. Brett Stevenson, said the rejection of all the members' resolutions showed the Board did not want to deal with the major governance issues at the body.

"After all that has been exposed and reported on about the terrible leadership, at both Board and management level, and resultant shenanigans at CPA Australia over the last decade, it appears we are just being taken for a ride. In more blunt terms, we are just being treated with the same disdain and patronising professionalism that has gone before," he wrote in his governance blog in May 2018.

One of the key resolutions put forward by the CPA Board (as a counter to those proposed by the CPA members' group) was the creation of an Appointments Council to appoint Board members. It would replace the discredited 23-person Representative Council, where the Board appointed 11 members to a body that in turn selected the Board members. The proposed Appointments Council would have 13 members with Mr Wilson taking up the position of non-voting Chairman. Each division and branch would select a member of the Council, meaning that NSW and Victoria, where more than half of the 163,000-strong membership reside, would get only two representatives. Regions such as Singapore, with around 8,500 members, and Greater China, with 5,800 members, would each have one representative on the Appointments Council. Critics of this resolution fear it will be a back-to-the-future move that will disenfranchise the majority of members in Australia.

It was claimed in the media that CPA Australia actively harvested proxy votes from overseas members and was successful in preventing the CPA members' group from gaining majority acceptance of any of the resolutions that could have transformed the way the embattled accounting body is run.

This will result in a situation where the Europe Divisional Council, with 1,750 members, will have the same voting power as the NSW Council with 45,000 members and Victoria with 40,000 members. The NSW and Victoria divisions have over 50 per cent of the membership of CPA. They are only going to have two votes on the Appointments Council. The other divisions and branches, which have less than 50 per cent of the members, are going to have 11 votes. This is gerrymandering at its best, says Mr Stevenson.

The bottom line is that ordinary members of the CPA cannot directly vote for their Board or President. However, it appears that such lack of governance by CPA Australia will not affect its financial viability as a majority of its professional members appear to be indifferent to the lack of good governance practices in their own body. It is hoped that ICMA members take a more active role in how their professional body is run.

It appears that not only is the desire for social responsibility dead in the corporate world, but also among the auditors of those very corporates and the professional financial accounting and auditing bodies that promote such governance practices.

The role management accountants can play

It is time for management accountants to further distance themselves from the financial accounting and auditing profession and ensure that they are able to inculcate good strategic governance and strategic audit practices in the organisations in which they work.

Since businesses are behaving badly in the (legitimate) pursuit of higher profits and shareholder value, the key is for the government to legislate that companies undertake compulsory strategic audits to evaluate business practices beyond simply the financial reporting of the past. Key business practices in marketing, advertising, supply-chain, manufacturing, human resource management, information technology and finance need to be strategically audited to ensure that brand reputation and shareholder value is future-proofed against such rampant bad behaviour by corporates, their compliant financial auditors and the professional accounting bodies given the legislative responsibility of training such auditors.

Further, it is important for government legislation to significantly increase the cost of bad behaviour. Even though the fines and penalties listed by Mr Sims appear large, they are often easily absorbed by the sheer volume of revenue generated by such unethical actions. In other words, companies assess the profitability of law breaking by weighing the benefit to be gained against the cost of being caught, multiplied by the probability of being caught. Mr. Sims said in his speech that "the penalties for misconduct, given the likelihood of detection, are comparatively weak".

Many firms invest heavily in their brand reputation to signal that they can be trusted. The greater the likelihood that bad behaviour will be exposed and made public, the more companies will do to guard against behaviours that significantly diminish brand reputation.

Mr Sims is recommending to the Australian government that once bad behaviour is exposed, penalties and fines should be 10 to 20 times higher than they are today. Alongside such hefty fines, a statutory strategic audit, alongside strong whistle-blower protection, will increase the chance of bad behaviour being exposed and fined, and their executives sent to jail.

As I said in my last CEO Message, no company should be 'Too Big to Jail'.

- Professor Janek Ratnatunga, CMA, CGBA
CEO, ICMA Australia

The opinions in this article reflect those of the author and not necessarily those of the organisation or its executive.

1 Ross Gittins (2018), "Businesses Behaving Badly". The Age, Business, July 18, page 18.
2 Madeline Farber (2016), "Ernst & Young Was Just Fined $9.3 Million for Inappropriate Client Relationships', Fortune, September 20, 2016.

THE

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MANAGEMENT

ACCOUNTANT

Making sense of

the bottom line…

CMA at Commonwealth Heads of Government Meeting (CHOGM)

The Global Chairman of ICMA, Professor Michael Tse, attended the Commonwealth Heads of Government Meeting (CHOGM) 2018 at London from 16/4 to 20/4. Before the official opening of the meeting, he participated in the Commonwealth Business Forum and the Commonwealth People's Forum. Keynote speakers of the forums include Prime Minister of the United Kingdom, Theresa May and founder of Microsoft, Bill Gates. In addition, he attended the Pre-CHOGM Foreign Ministers Meeting as an observer.

As the delegate of ICMA, Michael joined the 47 Commonwealth heads of government at the official opening of CHOGM at the Ballroom of Buckingham Palace and the official reception hosted by Commonwealth Secretary General at St James's Palace. At the last day of the meeting, he represented ICMA at the Foreign Ministers Roundtable at Lancaster House.

Besides participating in CHOGM, Michael also had a meeting with the Chief Executive Officer of Association of International Accountants, Philip Turnbull, to discuss the development of accounting profession in the Commonwealth.

Exploratory Goodwill Tour

During the last few months Dr Chris D'Souza embarked on an exploratory goodwill tour to visit countries that are underrepresented in terms of ICMA members to talk to universities about embedding the CMA program within their Master degree programs, and also to investigate the potential of opening Regional Centres in those countries. He was assisted by the Australian Trade Commission and Australian Embassy officials in those countries. We are happy to announce that pursuant to these efforts we have made significant progress in many of these countries and are in the process of signing MOU's with important institutions and partners in these countries.

South Korea

The first country he visited was South Korea where he first met with Rodney Commerford Australian Trade Commissioner, Sam Baker, Secretary (Economic) at the Embassy and Emily Chung Education Manager Austrade. They discussed the potential for ICMA in South Korea and possible roadblocks ahead. He also met with the Manager of the Australian Chamber of Commerce in Seoul – Rowan Petz and discussed a proposal of how ICMA could work with Austcham in Seoul in achieving its objectives.

Japan

ICMA then crossed the Sea of Japan and had discussions with Austrade at the Australian Embassy in Tokyo. He met Scott Morriss the Australian Trade Commissioner assisted by Ms Tomoko Ichikawa and George Manetakis, the Education Manager. They provided a comprehensive market briefing on the Japanese Education sector and discussed best ways for ICMA to break into this market.

Thailand

Another country where ICMA is underrepresented is Thailand and in recent months we have made significant progress here. Here again we started with a market briefing from Austrade led by the **Susan Kahwati** the Senior Trade Commissioner & Minister-Counsellor (Commercial) and **Busarin Sinthunavarat** the Education Manager, Bangkok and ASEAN Education Team.

They organised meetings for ICMA with Assumption University who have in principle agreed to collaborate with us.

The meeting at Assumption University was attended by Busarin from Austrade and Dr. Witsaroot Pariyaprasert, Director of Assumptions MBA program and Dr Rawin Vongurai Director of at the Graduate School of Business.

Another fruitful meeting was with AustCham Thailand President Mr Brenton Mauriello, who runs a successful business in Thailand. We benefited greatly from his advice on the Thai culture and market conditions.

Brenton in turn introduced Dr Chris to a long-term Australian living in Thailand for over 30 years – David Bell who has extensive experience in running leadership training courses in Thailand.

ICMA Australia was also pleased to welcome the General Manager of Mitsubishi in Thailand, Mr. Yoichiro Ogihara who was so impressed with the CMA Program he attended in Jakarta that he has signed up as a member for 5 years. We are also discussing the possibilities of collaborating with him on opening up of our Japanese operations.

India

From Thailand he crossed the Indian Ocean to the South Indian State of Karnataka where ICMA is planning to hold a CMA Program in the first week of October in Bengaluru (Bangalore). ICMA has signed an MOU with the prestigious St. Joseph's Institute of Management and is in the process of collaborating with St Joseph's College as well. Dr Chris also held extensive discussion with the Manipal Group in Manipal as well as Manipal Global Education in Bengaluru. ICMA looks forward to great progress in the coming days in this important market.

Customer Fraud Top Economic Crime in Australia

Customer fraud is the number one economic crime in Australia with organisations experiencing a significantly higher rate than the rest of the globe in the past two years, according to a PwC survey released today which finds 45 percent experienced customer fraud compared to the global average of 29 percent.

The Australian edition of PwC's Global Economic Crime Survey reveals threats from outside of organisations such as fraudulent customers, hackers and organised crime also outweigh internal threats for the first time in the 27 years the survey has been running (64 percent vs 36 percent respectively).

Almost two-thirds of all fraud and economic crime came from external sources compared to less than half just four years ago. However, 60 percent of these crimes were committed by 'frenemies" – someone close to the organisation, such as a customer, supplier, consultant or agent.

PwC Partner and Forensic Services Leader, Malcolm Shackell, said: "The significant rise in customer fraud is being driven by the increasing availability of information and new technologies like editing apps to change documentation, make fraudulent IDs, credit card applications and insurance claims. Another driver is the increasing influence and sophistication of organised crime syndicates.

"Fraudsters are more strategic in their goals, and more sophisticated in their methods. It's a business in its own right that's tech-enabled, innovative, opportunistic and pervasive – like the biggest competitor you didn't know you had.

"Organisations need to be alert to the changing nature of the threat environment so they can adopt necessary risk controls. Unfortunately, more than 40 percent of organisations we surveyed have not assessed the risk of fraud in the last two years, leaving them increasingly vulnerable to new and emerging forms of economic crimes. We're also lagging behind our global counterpart in the use of technologies like artificial intelligence and advanced analytics as part of our efforts to combat and monitor fraud."

Australia still hotspot for cybercrime

Cybercrime remains one of the most prevalent forms of economic crime experienced by Australian organisations, with almost half of those surveyed saying they have suffered a cyber attack in the last two years. Phishing was the most common type of cyber attack experienced, followed by malware, which was the same for survey respondents across the globe.

Australia is among 18 countries out of 123 which reported cybercrime to be more disruptive than the global average (15%). Survey respondents in Australia and across the globe expect cybercrime to be the most disruptive economic crime in the next two years.

PwC cyber partner, Richard Bergman, said: "To see that one in two organisations surveyed suffered a cyber attack in the past two years is bad enough, but we think the number is probably much higher. We're seeing at least one new attack every fortnight and it's only going to get worse as enabling technologies become cheaper and more accessible.

"It's particularly concerning that around half (48%) of the organisations surveyed have not assessed their vulnerability to a cyber attack and over one-third (36%) don't have a cyber incident response plan documented and tested. Without these cyber security fundamentals, organisations will find themselves highly vulnerable to a successful cyber attack and poorly prepared to respond when the inevitable happens."

To read the full report, please visit **https://www.pwc.com.au/gecs2018**

Five-Minute Life Hack: Tips to Boost Your Career

(BPT) – The rapid pace of change in jobs means the era of one-and-done learning is over. It no longer matters what you learned in the past — to stay relevant you need to upskill. So if you want to improve your marketability and get ahead in your career, it's time to think about the valuable skills that could open the door to new opportunities. The good news is with tools and online courses on platforms like **LinkedIn Learning**, you can explore and develop critical skills and interests — right at your fingertips anytime, anywhere.

"Experience never gets old, but your skills can," says Marci Alboher, author of The Encore Career Handbook and upcoming LinkedIn Learning instructor. "Re-skilling throughout your career will position you to ensure you're finding meaning in your work, growing in your profession and making an impact along the way."

Here are three tips for kick-starting your learning efforts.

1. Find the time!

The **#1 career goal** for professionals in 2018 is to learn a new skill — but not everyone knows where to fit learning into their daily lives. Here's a tip: In today's ever-connected digital world, we're living in the era of bite-sized learning, where new skills can be honed in minutes on the subway, or while you're eating breakfast.

Start by picking 5- to 10-minute windows in your daily routine — you don't need to find hours, minutes are fine. For example, try skimming through courses on a Sunday night, and make a wish list of courses to view throughout the week, whenever it's convenient for your busy life.

2. Make it a habit

They say a habit is formed in 21 days. Whenever you slot learning into your daily schedule, try to pick a time when you can make it routine — whether it's on the bus during your morning commute, or in the 10 minutes after you brush your teeth at night. You'll be growing in your skills before you know it. Fun fact: **LinkedIn Learning** also sets a reminder for you, so it's one less thing you have to remember in your day.

3. Pick your skills

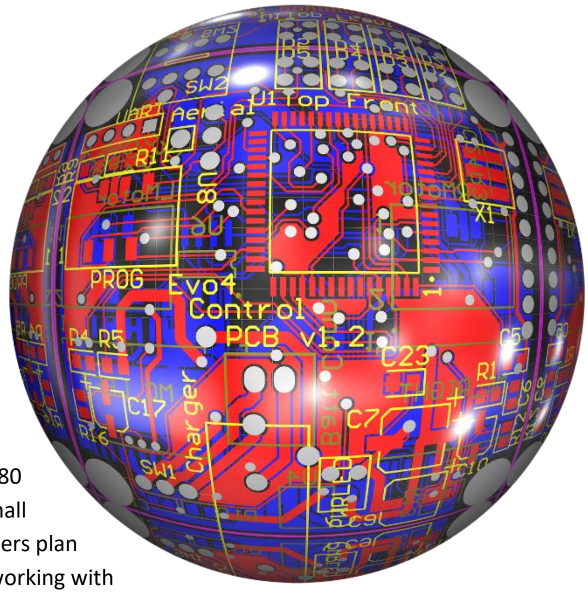
Today's skills landscape is changing faster than ever — with new technologies and digital techniques emerging at every turn. Whether you want to advance your existing career or begin a new one, start by identifying a few key skills you'd like to hone. For example, people in every job can benefit from learning **soft skills** that teach you how to get things done or achieve your goals. Soft skills, such as communication and critical thinking, will give you a competitive advantage in the workplace, and you never know when you'll uncover a new passion or side project along the way.

LinkedIn makes it easy to identify the skills you need by alerting you to the most in-demand skills for your job and industry, based on your LinkedIn profile, from **project management** to **leadership**.

One of the most important skills for keeping your passions alive is to learn how to be a lifelong learner. In any industry, in any phase of life, there are always new skills to be gained, and new knowledge to explore. Committing yourself to being someone with a constant appetite for learning will enrich you not only today, but throughout the course of your career.

To learn more about LinkedIn Learning and explore business, creative and technology skills to achieve your personal and professional goals, visit **www.linkedin.com/learning**.

In the Age of AI, Accountants Continue to Fuel Small Business Success



New data from [Xero](#) shows that, despite advances in AI and automated accounting technology, the vast majority of small business owners (72%) will continue to rely on the human advice of their accountant.

The accounting industry is frequently held up as one of the industries most likely to be negatively impacted by AI and automation. For example, [a recent McKinsey study](#) suggested that as many as 800 million jobs could be lost worldwide to automation by 2030, with accounting poised to take one of the biggest hits.

Xero has been at the forefront of delivering AI and machine learning solutions that automate the mundane data entry once associated with the accounting industry. In fact, Xero recently announced that it has delivered more than [1 billion machine learning recommendations to Xero customers](#).

However, far from spelling the end of the accounting industry, Xero has built a platform specifically designed to maximize the impact accountants can have on their small business clients. In fact, 90 percent of small businesses who use Xero connect with an accountant.

According to the [Small Business Administration](#), approximately half of small businesses go out of operation within five years. By contrast, data from countries where Xero is already established shows that 85 percent of businesses working with an accountant on the Xero platform succeed [five years and longer](#).

Data from Xero's new study shows that advances in technology mean that small business owners

want to work with an accountant more than ever before. That's because they rely on them as a trusted advisor who can help navigate a period of change. The study, released at [Xerocon Atlanta](#), shows that:

- **Accountants are the most trusted source of business advice:** Accountants are the most trusted, and frequently used, source of advice for small businesses — beating out peers, friends/family, online communities, lawyers, consultants, and financial advisors. Two-thirds (65%) of small business owners find the advice provided by their accountant very, orextremely, beneficial to their business.

- **Small businesses don't see advances in tech as a replacement for their accountant:** Seventy-two percent of small businesses would still use an accountant even if they had an app using AI to automate accounting. Additionally, 80 percent of small business owners plan to continue working with their accountant over the next 12 months.

- **Accountants have an opportunity to help small businesses navigate changes in technology**: As trusted business advisors, accountants can play a key role helping small businesses realize the benefits of technology. Accounting firms are increasingly evolving from a focus on compliance services, such as tax, to more complex business advisory services, such as advice on managing major business transactions. Employees at these firms spend about eight hours each month educating themselves about new business apps — that's double the four hours per month spent by employees at compliance-focused firms.

According to Keri Gohman, President, Xero Americas, "We are at an inflection point — advances in tech are profoundly altering the economic and social order. This presents both positive opportunities and potential pitfalls. At Xero, we believe that getting it right for our customers means taking a 'human technology' approach where we aggressively push forward with technological innovation, while also working to help our customers and partners overcome the tensions that inevitably accompany periods of change."

She added, " We know that small businesses are more successful when they work with an accountant. At Xero, we are using technology like AI and machine learning to build a platform that enables accountants to work even more closely with their small business clients – further increasing the odds of long-term success."

Added Gohman, "This data shows that advances in AI and automation are not the doomsday scenario for the accounting industry that is commonly portrayed. Instead, this is a massive opportunity for accountants to play an even bigger role in helping their small business clients succeed. Technology alone will never be the solution; technology combined with people will be."

The survey of 512 small business owners was conducted by MMR Research Associates, Inc. between the dates of May 14, 2018 and May 17, 2018.

Coordinated Strike on Tax Agents Facilitating Suspected Phoenix Activity and Avoidance of Tax

Eleven sites across Victoria were accessed in August by more than 250 ATO officers as part of a broad investigation into alleged phoenix activity and avoidance of tax.

Deputy Commissioner Jeremy Geale confirmed the access without notice at business and residential sites across Melbourne and Shepparton to gather information as part of a long-term compliance action into a range of tax mischief.

“We are examining a group of tax agents suspected of facilitating phoenix activity and promoting avoidance of tax involving GST, income tax and the failure to remit pay-as-you-go withholding tax payments.

“We suspect the agents have used phoenix techniques to assist clients to avoid paying tax on millions of dollars of income,” Mr Geale said.

The compliance action was triggered by complaints from concerned tax professionals and clients, as well as the ATO’s own intelligence.

Mr Geale explained the ATO rarely uses its formal access powers and the decision to undertake access without notice was not taken lightly.

“We only use these powers in the most serious of cases, when taxpayers or their representatives refuse to engage with us within a reasonable period of time and where we believe there is a risk of records being moved or destroyed,” he said.

Mr Geale said the ATO is committed to protecting honest businesses, their employees and suppliers.

“Tax agents play a vital role in contributing to the integrity of the Australian economy.”

As primary advisers, tax agents have a significant influence on whether small businesses comply with their tax, super and other regulatory obligations.

While the majority of tax agents do the right thing, there are a small number of agents who don’t participate appropriately in Australia’s tax and super system.

Tax agents who fail to meet the required professional standards may be gaining an unfair advantage over other tax agents and businesses who do the right thing, and often leave their clients with significant consequences and liabilities.

The ATO is taking broader action against high risk agents, also known as ‘Agents of Concern’, to ensure there are significant consequences for the agents as well as referring the agents to the Tax Practitioners Board.

If a member of the community has any knowledge or concerns about someone doing the wrong thing they can report it online at ato.gov.au/report a concern or by calling **1800 060 062**.

Victoria Police supported ATO officers at several of the sites with the visits. As the matter is currently under investigation, no further comment can be made at this time.

How Global Data Protection Laws Are Putting CFOs To the Test

The list of regulations increases in size and complexity each year. CFOs are facing this challenge using their expertise, that of external consultants, and finally, considering the challenge from a talent acquisition perspective. Are these regulations a mere hurdle to be surmounted or a real opportunity to streamline operations?

Our interviews with CFOs from SMEs to multinationals have revealed four key ways of approaching regulatory changes and compliance.

Click below on the Pilot, Scientist, Coach and Engineer to reveal an insight from one of our interviewees on different approaches to this challenge.

The Engineer

“We delegate tasks to the people who are closer to the action, while keeping an overall view.”Phil Dennis, CFO, BizSpace.

The Scientist

“One of the things we do as part of our supplier check is to make sure their cybersecurity and data security systems are adequate.”Andrea Wesson, CFO, Eversholt Rail.

The Pilot

“We have formed a general counsel for governance and compliance that is educating the business about them.”Shane Kelly, CFO, Gazeley.

The Coach

“As laws become more complex, our people need to get better at explaining complex things in simple ways.”James Gregory, UK CFO, JLLThe Scientist.

The number of new regulations for businesses is increasing at lightning speed. U.S.-based insurance firm Thomas Risk Management Solutions once calculated that a new regulatory alert occurs every 12 minutes, guaranteeing that compliance is squarely on the CFO’s agenda for the foreseeable future.

The European General Data Protection Regulation (GDPR), which will enter into force this year, is the latest example of the regulatory hurricane that is striking businesses across the world. It is set to have an enormous impact on the EU, with data protection violations amassing fines of 4% of group sales or EUR 20 million, whichever is higher.

More complex and harder to understand

The CFOs interviewed for this study unanimously considered the new data protection regulation to be a huge challenge, especially as other regions are developing similar laws. “It is a massive hurdle that everybody is struggling with at the moment,” says Kelvin Stagg, Global CFO of PageGroup. “The rest of the world is moving in the same direction; there is already a Chinese version in the making.”

There is little doubt that within companies, the CFO is well positioned to tackle the fact of ever-changing regulations. But as pressure grows, the question is how. As James Gregory, UK CFO of global real estate firm JJL explains: “Whether it’s GDPR, IFRS or US GAAP, the list just gets bigger and more complex each year.”

The Engineer: solutions to mitigate costs

On top of this, the new regulations impact more than the company, particularly as a failure to comply would instantly affect its credibility before shareholders.

This is where the CFO as Engineer comes into its own: this particular approach sees the CFO taking the initiative to design the right approach to tackling compliance, constructing a solution that calls for the support of range of disciplines: finance, accounting, treasury, administration, budgeting and planning.

“Compliance and the changing regulations mean that we need to have people who know more about practical details, who contribute to the work required to achieve compliance, and who can review and assess progress in a competent manner,” says Phil Dennis, CFO of Bizspace. “Our processes in the past were fairly compliant, but the documentation needed greater attention. Now we delegate tasks to the people in the business who are closer to the action, while keeping an overall view.”

The Scientist: familiarity with security issues

To ensure IT systems are compliant, the CFO must be familiar with security issues and ideally within the framework of multiple legal systems, either by working closely with the COO/CIO or having the Tech Department report directly into the CFO. Not only should the company’s systems undergo regular health checks but so should those of the customers and suppliers. This is a heavy-duty undertaking best suited to the tech-savvy approach of the Scientist.

The Coach: creating internal awareness

It would be short-sighted, however, to approach compliance exclusively from a technical point of view, argues Phil Dennis: “In the last few months, we´ve been working on GDPR, the more rigorous money laundering regulations, the corporate criminal offence regulations and, obviously changes to IFRS. For each of those we have had to adopt a different approach. For example: GDPR is not purely about IT, but it’s also about creating business-wide awareness, training and familiarisation.”

By being an advocate for change, the CFO as Coach can utilise his or her visibility within the company to spread that advocacy among employees. Indeed, JJL CFO James Gregory sees training as a key priority: “The challenge with the control team is, in the increasing world of compliance regulation, how do they keep up with it? How can they use technology better, and how can they be better trained on people skills? As laws become more complex, our people need to get better at explaining complex things in simple ways.”

The Pilot: turning regulations into competitive advantage

Although many CFOs view regulations only as an expense for the company, proper planning and precise execution can become a competitive secret weapon. When faced with an administrative vortex, keeping an eye on the bigger picture as Pilot allows a company to turn compliance into a competitive advantage.

Shane Kelly, CFO of real estate investor Gazeley explains: “Having been owned by an opportunistic fund, governance and compliance have been crucial to us for some time. As a result, we have formed a really good general counsel who is already on top of those aspects and competently educating the rest of our business about them. Now we are far more conscious about how we manage and report personal data.”

Key takeaways

- The General Data Protection Regulation (GDPR) will be one of the biggest compliance challenges this year, with similar initiatives being rolled out worldwide
- As laws get more complex and harder to understand, CFOs need to appoint experts who are able to explain them to key stakeholders in an accessible way
- To make sure that IT systems are compliant, CFOs need to be tech-savvy
- Compliance is also about business-wide awareness and training and familiarisation
- With proper planning and precise execution, compliance can become a competitive advantage

Click here to download the full PDF report

Australians Among the Least Stressed Workers Globally

Australia is world-renowned for being a relaxed country, an acknowledgement supported by research commissioned by specialised global recruiter Robert Half, which found Australians are amongst the least stressed employees in the world. In the global rankings of eight countries, Australia ranks second best (52.4) on a scale of 0-100 with 100 being not stressed at all. The results are published in the recent report, **It's Time We All Work Happy®. The Secrets of the Happiest Companies and Employees**.

In the global rankings of eight countries, Australia ranks second best (52.4) , only second to the Netherlands (55.9), followed by the UK (52.0), USA (51.5) and Belgium (48.9). Germany tops the list as the country where employees are most stressed (47.6).

Employee workplace stress by country

Country	Stress level
1. The Netherlands	55.9
2. Australia	52.4
3. UK	52.0
4. USA	51.5
5. Belgium	48.9
6. Canada	48.8
7. France	47.7
8. Germany	47.6

Source: Independent survey commissioned by Robert Half based of more than 23,000 office workers globally.

Who are Australia's most stressed employees?

Stress levels go down with **age**. According to the research, the most stressed Australian workers are those aged 18-34 (51.5), followed by professionals aged 35-54 (52.2). Senior workers are the least stressed, with a ranking of 54.7 for workers aged 55+, suggesting experience plays a part in managing stress levels.

Gender also impacts stress levels, as Australian women are more stressed in the workplace than men, ranking their stress levels as 50.1 compared to their male colleagues at 54.6.

Industry can also play a role, with people working in healthcare industries (47.4), manufacturing (48.0) and human resources (48.5) more stressed than those working in the finance industry (54.5), IT industry (54.7), administration (57.1) and accounting sector (58.6).

Stress levels are highest for those with longest **tenure**. While stress levels are lowest for those who have been in the job for 1-2 years (55.9) and less than one year (54.0), they are at their highest for those with an average tenure of 11-20 years (51.4) and more than 21 years (44.3).

Nicole Gorton, Director of Robert Half Australia said: *"Stress in the workplace is sometimes unavoidable with many subtle yet insidious contributors. Stressed out employees not only negatively affect company performance, but can also impact overall team morale. Eliminating all work-related stress in the office may not be possible, but taking proactive steps to reduce it can improve staff performance, engagement and overall workplace happiness."*

"Stress can lead to 'burn out' which in turn can contribute to high levels of absenteeism, employee turnover, and lost productivity. The most successful companies have systems in place to effectively monitor and manage stress levels, whether in the form of seeking regular employee feedback or increasing temporary staff headcount to help manage high workloads. Other company initiatives include offering employees increased sick leave, sabbaticals, or encouraging more social activities with staff outside the office."

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About the research

This study was developed by Robert Half and Happiness Works and conducted by an independent research firm. The research is based on survey results of more than 23,000 working professionals who are currently employed on a full or part-time basis across eight countries with the results segmented by geographic location.

Half of Australian Businesses Restructuring to Keep Up with Changing Business Needs

A rapidly changing operating environment demands a CEO with a different kind of CV.

The speed at which technological innovation is transforming our daily lives is exceeded only by the impact it is having on businesses. The responsibility for overseeing this change falls on the world's CEOs and it will be their response and decisions that ultimately decide the fate of the businesses they lead. What skills and values are the Board of Directors looking out for in 2018?

This change is not confined to any single sector; the commercial landscape continues to evolve and the role of a CEO is as much to be the custodian of change as anything else. A Forbes CEO outlook report notes that globally 71% of CEOs consider the next three years to be more critical for their industry than the whole of the previous fifty.

CEOs are under unprecedented scrutiny. As they steer their organisation through often stormy waters, they must be customer facing, politically minded, social influencers and brand ambassadors. Rapid change and widespread uncertainty bring huge challenges and those willing and able to adapt are the ones best placed to succeed.

Rapid change and widespread uncertainty bring huge challenges and those willing and able to adapt are the ones best placed to succeed.

In this new world of economic and political uncertainty, social media exposure, corporate responsibility and rapid transformation, how is the role of the CEO changing, and from which business functions are we likely to see future CEOs emerge?

The digital revolution creates opportunities for the CIO

A new skill set is required of the CEO when business is increasingly driven by technology, which brings both opportunity and threat. CEOs currently in post are unlikely to be digital natives. In contrast, those CIOs and CMOs who have spent their careers witnessing and driving drastic change in their field are perhaps best placed to take the helm of organisations that are most impacted by the digital revolution and undergoing fundamental change.

"The focus within many businesses is moving away from traditional areas and is engaging more and more in the realm of technology and digital," explains Joss Godbold, Page Executive Regional Director for Asia Pacific. "This is heavily influenced by UX/CX, that is, the user experience and the customer experience, with increased customer focus, mainly driven by a desegregation of where customers are coming from and how consumers engage with businesses nowadays. As a result, CEOs from technology and digital backgrounds will become more common."

Marketing has not typically been a route to the top. However, in the modern world of metrics, measurement and technology, marketers are now able to show tangible evidence of their contribution to profitability and growth. What is more, they are likely to be tech savvy and have a solid understanding of the customer base. That's a powerful combination in the modern business environment. Currently, 21% of European chief executives have a marketing background, second only to those with a finance background.

In the modern world of metrics, measurement and technology, marketers are now able to show tangible evidence of their contribution to profitability and growth.

Commercial experience favoured

In the APAC region, companies tend to be more comfortable with a commercially-minded CEO. When a business leader is appointed, those from a marketing, procurement or operations background are often pipped to the post by someone with commercial expertise.

This is likely due to the rapid growth in the region's many emerging markets. Businesses seeking to push growth are more confident that a leader with a strong commercial background will be able to achieve their ambitious targets.

Again in APAC, consumer-driven organisations are likely to favour the appointment of chief executives who exhibit sales acumen. However, they are now becoming more open to considering heads of digital or marketing.

In the APAC region, those from a marketing, procurement or operations background are often pipped to the post by someone with commercial expertise.

The type of company, how it interfaces with its customer base and where the interaction takes place can be a factor here. An enterprise that conducts a large part of its business digitally is far more likely to appoint a CIO as chief executive than a company reliant on a 'boots on the ground' salesforce, where someone commercially minded usually heads the list.

This is not so much the case in established Western markets, where growth is slower and more established companies show more confidence in promoting leaders with an operations or finance background. In the UK, 50% of FTSE 100 leaders have a finance, accounting or financial services background.

Selecting a safe pair of hands

A potential barrier to the promotion of a wave of CEOs from new business areas is that company boards tend to be highly risk averse. If the ultimate test of a CEO is the bottom line, then it stands to reason that the individual or business function that has the most impact on profitability represents the safest pair of hands.

One of the world's largest companies certainly thought so when Apple appointed Tim Cook to the position in 2011. Bringing his procurement background to the fore, he implemented wholesale changes at the ground level that have helped the company habitually post record profits during his tenure.

"There is a very significant focus on adaptability and change management," notes Simon Nolan, Head of Practice Consumer at Page Executive UK. "The capacity to manage rapid change, combined with appropriate interpersonal and leadership skills, is a powerful combination in a modern CEO."

Simon Nolan, Head of Practice Consumer, Page Executive UK

The capacity to manage rapid change, combined with appropriate interpersonal and leadership skills, is a powerful combination in a modern CEO.

Appointing in their own image

Culture fit remains a huge factor and even though business need is often now moving away from traditional areas and toward the realm of technology and digitisation, there can be a tendency for decision-makers to take the perceived safe option and appoint from within their own industry. Unfortunately, this approach leaves scant room for innovation and fresh thinking, which are more likely to be injected if the new CEO brings experience of a different business area or sector.

Most modern CEOs and other senior leaders would insist that their skills are highly transferable and that the role of a leader is to get the best from all business functions. Looking outside the traditional areas for new leadership, therefore, becomes fundamental to business evolution, innovation and, ultimately, survival.

Key takeaways

- The selection of a CEO is subject to a wide array of considerations, including the company's growth ambitions
- A successful CEO must foster and embrace change and innovation
- Today's senior leaders need to grasp the opportunities that technology affords
- Being too risk adverse in selecting a CEO can lead to the organisation becoming stagnant
  Despite some industries remaining conservative in their choice of CEO, many are widening their search for candidates for the top post

Regional Office and Branch News

Hong Kong at SJTU MBA Graduation

CMA Australia Hong Kong Branch continues to be one of the most active Branches in the CMA Universe. They were active participants at the Shanghai Jiao Tong MBA graduation program by sending a delegation to the event and sponsoring the MBA dinner.

The Graduation Delegation with Prof Allen Wong, the ICMA Regional Director for Hong Kong and Greater China

Prof Allen Wong, the ICMA Regional Director for Hong Kong and Greater China with the SJTU Graduates.

Invitees to the SJTU Graduation Delegation

Shanghai Jiao Tong University (SJTU), as one of the higher education institutions which enjoy a long history and a world-renowned reputation in China, is a key university directly under the administration of the Ministry of Education (MOE) of the People's Republic of China and co-constructed by MOE and Shanghai Municipal Government. Through 121 years' unremitting efforts, SJTU has become a comprehensive, research-oriented, and internationalized top university in China.

Prof Allen Wong, the ICMA Regional Director for Hong Kong and Greater China addressing SJTU MBA students on the benefits of the CMA Professional Certification.

CFO Forum in Cambodia

The CFO Forum was run simultaneously with the 5th Intensive CMA program conducted at the Intercontinental Hotel, Phnom Penh. Prof Janek Ratnatunga facilitated the *Strategic Cost Management* course from March 9-11, 2018; and Prof Brendan O'Connell facilitated the *Strategic Business Analysis* course from May 12-15, 2018.

Cambodia is one of 50 countries which has members in ICMA Australia, Australia's only post-graduate level management accounting professional association, and ICMA Australia has around 10,000 members globally.

Prof Janek Ratnatunga, CEO, ICMA, conducting the Strategic Cost Management course at the Intercontinental Hotel.

Professor Brendan O'Connell, President ICMA with students in the 5th Intensive CMA program

CMA Intensive Program in Indonesia

The Third CMA intensive program organised by Dr Ana Sopanah of *Inspire Consulting*, was conducted at *Mercu Buana University*, in Jakarta, Indonesia on July 15-21, 2018. The program was facilitated by Professor Janek Ratnatunga, the CEO of ICMA Australia and Dr Chris D'Souza, ICMA COO/CFO.

Participants of the 3rd CMA Intensive Program with with Dr Harnovinsah the Dean of the Economics & Business Faculty, Mercu Buana University, Prof Janek Ratnatunga, ICMA CEO, Dr Ana Sopanah of Inspire Consulting who organised the event; and Dr Chris D'Souza, ICMA COO/CFO.

Dr Ana Sopanah of Inspire Consulting facilitating a case study discussion with the participants of the 3rd CMA Intensive Program at Mercu Buana University.

CPD Training was also conducted for ICMA members. They undertook the Certified International Business Analyst (CIBA) and Certified Enterprise Risk Analyst (CERA) programs provided by the *Academy of Finance and Management Australia (AFMA).*

Prof Janek Ratnatunga, ICMA CEO with some of the happy participants of the 3rd CMA Intensive Program at Mercu Buana University at the conclusion of the course.

Dr Chris D'Souza, ICMA COO/CFO who facilitated the Certified International Business Analyst (CIBA) and Certified Enterprise Risk Analyst (CERA) programs provided by the Academy of Finance and Management Australia (AFMA receiving a gift from , Dr Ana Sopanah of Inspire Consulting who organised the event.

CMA Events Calendar

- September 1-9, 2018: CMA Preparatory Program, Academy of Finance, Colombo, Sri Lanka
- September 22-24 and October 20-23, 2018: 6th CMA Preparatory Program, Ruwan Hulugalle and Company, Phnom Penh, Cambodia.
- October 1-7, 2018: the 1st CMA Train-the-Trainer Program, conducted by STRACC Learning LLP in Bangalore, India
- October 13-19, 2018: CMA Preparatory Program, IPMI Business School, Jakarta, Indonesia.
- October 19, 2018: Accounting Hall of Fame & Management Accounting Hall of Fame Awards 2017, Gala Dinner, Phnom Penh, Cambodia.
- October 29, 2018: ICMA Australia Annual General Meeting, Melbourne Australia
- November 15, 2018: CMA Graduation Convocation, Academy of Finance, Colombo, Sri Lanka
- November 17-24, 2018: 24rd CMA Preparatory Program, SMART Education Group, Dubai, UAE.
- February 3-9, 2019, 4th CMA Intensive Program at Mercu Buana University Jakarta, Indonesia, organised by Inspire Consulting.

Private Providers

Wharton Institute of Technology and Science (WITS), Australia

Syme Business School, Australia

Academy of Finance, Sri Lanka

IPMI (Indonesian Institute for Management Development), Indonesia

Multimedia College (MMC), Malaysia

Business Sense, Inc. Philippines

HBS for Certification and Training, Lebanon

SMART Education Group (UAE)

Institute of Professional and Executive Management, Hong Kong

AFA Research and Education, Vietnam

Institute of Finance and Management PNG

TOP Academy, Malaysia

Segal Training Institute, Iran

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