The Global Accountancy Profession’s Call to Action for G20 Countries

SMART REGULATION.

HEIGHTENED TRANSPARENCY.

INCLUSIVE GROWTH.

Argentina, 2018
CALL TO ACTION

SMART REGULATION

1. Make Regulation Smarter, and More Effective
2. Create a Consistent, Transparent, Global Regulatory Environment
3. Implement Internationally-Accepted Standards

HEIGHTENED TRANSPARENCY

4. Strengthen Governance
5. Embrace Integrated Reporting
6. Enhance Public Sector Financial Management
7. Collaborate to Tackle Corruption

INCLUSIVE GROWTH

8. Create an Environment for Small- and Medium-sized Entity Growth and Inclusiveness
9. Create a Secure and Digital-Ready Investment Environment
10. Collaborate for a Coherent International Tax System

Since the first G20 Leaders’ summit in Washington, D.C. 10 years ago, much has been achieved. Swift collective action arguably averted the worst ramifications of the global financial crisis, and global economic growth has gradually returned to more stable levels. The G20 has become a hub of dialogue around which government, business, and civil society collaborate and negotiate on policy with a worldwide reach.

Achieving the G20’s 2018 priorities under the theme of building consensus for fair and sustainable development demands genuinely earning the public’s trust and confidence in governments and economies. Much work remains—low levels of public trust and confidence in 2018 threaten both economic and political stability.

The Global Accountancy Profession’s Call to Action for G20 Countries focuses on:

• **Smarter regulation**: because regulation must fulfill its promises to the public through effective conception, design and implementation for it to be trusted.

• **Heightened transparency**: because the public must be able to see the accountability of their government and in their economies to believe it.

• **Inclusive growth**: because the value created in a growing global economy must be shared inclusively for people to have confidence in their future.

The global accountancy profession calls to action G20 countries with specific, actionable recommendations, urging policy consensus backed up by tangible implementation and ongoing cooperation.

Rachel Grimes Fayezul Choudhury
IFAC President IFAC Chief Executive Officer
Regulatory divergence is an intensifying, major threat to growth and stability in the financial system. A study by IFAC of more than 250 compliance and risk leaders in global financial institutions reveals that divergence is:

- Giving rise to $780 billion+ USD in costs annually: between 5-10% of annual turnover in financial institutions, more severely impacting small and medium institutions.
- Diverting senior management time and resources away from managing the business: more than half indicated major impacts on risk management over the past five years.
- Posing a barrier to international growth and finance: 76% of respondents indicate divergence is a moderate to substantial barrier to their institutions.
- Intensifying over time: 73% have noted increasing divergence over recent years and 65% expect further increases in the near future.

These principles were identified by senior executives and experts from regulatory agencies, financial markets, listed companies, investment funds, and professions convened by IFAC in 2015 and 2016. Additional information is available on the IFAC website, www.ifac.org.

**Principles for Smart Regulation**

- Clear objectives in the public interest
- Proportionate and balanced approach
- Evidence-based assessment of costs and benefits
- Appropriate resourcing for regulators
- Collaborative action
- Consistent and coherent regulatory systems
- Active oversight
- Transparent and open consultation
- Systematic review
- Deliberate enforcement

These include:

- International Financial Reporting Standards
- International Standards on Auditing
- Auditor independence requirements set out in the International Code of Ethics for Professional Accountants, issued by the International Ethics Standards Board for Accountants
- International Public Sector Accounting Standards
- International Education Standards

High-quality, internationally-accepted standards are crucial to enhance confidence, growth and stability in the global economy and financial system. We urge G20 members to adopt and implement these standards in their countries and call for global adoption.

**Based on a recent survey of 80 jurisdictions:**

- 79% of jurisdictions surveyed have adopted International Standards on Auditing for all mandatory audits.
- 61% of jurisdictions have fully adopted the Code of Ethics for Professional Accountants.
- 91% of jurisdictions have adopted International Financial Reporting Standards for all or most public entities.

HEIGH TENED TRANSPARENCY

The public must be able to see the accountability of their government and in their economies to believe it. Robust transparency in the public and private sectors is key to earning the public’s trust and confidence, making headway in the global fight against corruption, and fostering strong, ethical governance.

4 | STRENGTHEN GOVERNANCE IN THE PUBLIC AND PRIVATE SECTORS

- Adopt a consistent and comprehensive approach to defining and requiring high-quality governance in public and private sector organizations throughout all G20 countries, including adopting the G20/OECD Principles of Corporate Governance.
- Develop robust mechanisms for monitoring governance practices implementation, including appropriate incentives for voluntary behavior.
- Call for more effective public communication on accountability and governance in public and private organizations in language and platforms that citizens can understand and relate to.

 Failures that shatter public trust—financial, economic, political and beyond—are almost always first and foremost failures of governance, including where governance systems fail to mitigate the impact of individual failings. People should have confidence that their governments and businesses are governed according to strong, globally-accepted principles.

5 | EMBRACE INTEGRATED REPORTING IN ALL G20 COUNTRIES

- Call for global adoption of the International Integrated Reporting Framework to bring about a more coherent corporate reporting system that aligns outcomes with the G20 priorities of building resilience, improving sustainability, and assuming responsibility.

Integrated reporting is an opportunity to focus on long-term value creation, and to fix a largely fragmented, complex and compliance-driven system—moving the emphasis of economic decision making toward measures and thinking needed to achieve the UN Sustainable Development Goals. Integrated reporting is founded on integrated organizational thinking, and more likely to align capital allocation and corporate behavior to the wider goals of financial stability and sustainable development. Now is the time to embrace the International Integrated Reporting Council’s Framework to achieve these vital objectives.

6 | ENHANCE PUBLIC SECTOR FINANCIAL MANAGEMENT

- Adopt accrual-based financial reporting with International Public Sector Accounting Standards (IPSAS) for all public sector entities.
- Establish a working group to examine public sector financial reporting consistency, transparency and accountability and recognize IPSAS as key for sound financial systems and deserving of priority implementation.

WHY ACCRUAL-BASED PUBLIC SECTOR ACCOUNTING?

Accounting is the language in which governments communicate their financial performance and position. Converting from a cash-based to an accrual-based form of accounting will result in a more accurate overall picture of national income, costs, assets and obligations. This would increase governments’ transparency and accountability, strengthen their public financial management, and improve their financial decision-making capacities.

Three-quarters of OECD countries have adopted accrual accounting for government year-end reports (see Accrual Practices and Reform Experiences in OECD Countries), although only a quarter prepare annual budgets on an accrual basis. More than one-third use IPSAS as a primary or explicit reference for developing their national standards.

INTEGRATED THINKING IMPROVES DECISION MAKING

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- 74% of executives and 72% of executives had improved decision making at management level.
- 93% of non-executive directors thought integrated thinking had improved decision making at management level.
- 86% of non-executive directors thought integrated thinking had improved decision making at board level.

Source: South African Institute of Chartered Accountants, Integrated Thinking: An Exploratory Survey.

“AGAINST A BACKDROP OF INCREASED CITIZEN DEMAND, MORE OPEN GOVERNMENT, AND LIMITED PUBLIC SPENDING CAPACITY HIGH-QUALITY FINANCIAL REPORTS ARE ESSENTIAL TO ENSURE THAT GOVERNMENTS MAKE FISCAL DECISIONS BASED ON UP-TO-DATE INFORMATION.”

— OECD & IFAC, Accrual Practices and Reform Experiences in OECD Countries
In July 2018, the International Federation of Accountants and International Bar Association signed an Anti-Corruption Mandate committing to the vital role of global professions tackling corruption worldwide.

Our organizations collectively represent the legal and accounting professions across the G20 and more than 170 jurisdictions throughout the world, playing a vital role in training, educating and supporting our professions to uphold the highest levels of integrity and ethical standards.

Corruption is a major threat to economic stability and growth, to the trust of citizens in public and private institutions they rely on for order, justice and essential services, and to citizens’ ability to make a better life for themselves and prosper.

For many years, professional bodies have worked alongside government, regulators, law enforcement and international bodies and supported our members to combat bribery, corruption, tax evasion, money laundering and the financing of international terrorism. We will continue this work, upholding the Rule of Law and the core values of our professions, and provide support to facilitate national and international cooperation and to improve monitoring and enforcement systems.

We know criminals seek to abuse the services provided by our members to launder the proceeds of corruption and we are committed to ensuring the professions we serve are armed with the tools to thwart this abuse.

We stand united in the fight against corruption in all its forms and are committed to sharing knowledge, skills and intelligence with our fellow professionals and with all agencies fighting this cause.

Source: The IBA and IFAC Anti-Corruption Mandate, IFAC and IBA, 2018

A recent IFAC study highlights that while a stronger accountancy profession is positively correlated with better outcomes in tackling corruption, the role of government, business, and legal frameworks underpin effectiveness. This demands collaboration across public and private sectors, and implementing sound whistleblower protections and incentives.

Source: The Accountancy Profession: Playing a Positive Role in Tackling Corruption, IFAC, 2017
INCLUSIVE GROWTH

To inspire the public’s confidence in the future of nations, the value of a growing global economy must be shared inclusively. Leaders of the G20 agreed in Hamburg “to promote greater inclusiveness, fairness and equality in our pursuit of economic growth and job creation."

CREATE AN ENVIRONMENT FOR SMALL- AND MEDIUM-SIZED ENTITY GROWTH AND INCLUSIVENESS

- Enhance SME access to the digital economy by investing in digital infrastructure and fostering innovation.
- Recognize as a priority facilitating entrepreneurial and business skills development and increasing awareness of the importance of business transfers and succession planning.
- Renew the commitment made by G20 countries to implement key SME policies, including the G20/OECD High Level Principles on SME Financing and the G20 High Level Principles on Digital Financial Inclusion.

SMEs are the engines of economic growth and innovation globally. An improved business environment for SMEs, as well as appropriate support to achieve greater productivity, is essential. The knowledge base on SME needs should be expanded and SME perspectives must be heard and considered at all levels of policy making. We implore the G20 to increase the priority given to SME growth and inclusiveness.

CREATE A SECURE AND DIGITAL-READY INVESTMENT ENVIRONMENT

- Encourage access to professional intermediaries with expertise in risk management and internal control, including cyber security.
- Promote focused investment in secure technology infrastructure to enable businesses, governments and citizens to transact and participate in a secure and trusted digital environment.
- Establish new education models that address the skills required of the digital workplace, such as in data security and analysis, and cognitive computing.

COLLABORATE FOR A COHERENT INTERNATIONAL TAX SYSTEM

- Urgently renew efforts for coordinated implementation of the OECD Base Erosion and Profit Shifting (BEPS) Actions.
- Implement a properly resourced international taxation dispute resolution mechanism.

Efforts to address BEPS have been swift and achieved groundbreaking consensus. This must now be translated into coordinated policy. Public concern remains high in many regions, and trust must be restored for meaningful collaboration.

G20 CITIZENS VIEWS ON THE IMPORTANCE OF THEIR GOVERNMENTS COLLABORATING ON TAX POLICY FOR A MORE COHERENT INTERNATIONAL SYSTEM (BY PERCENT)

Source: IFAC, Association of Chartered Certified Accountants, Chartered Accountants Australia New Zealand
About IFAC

The International Federation of Accountants® (IFAC®) is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. IFAC is comprised of more than 175 members and associates in more than 130 countries and jurisdictions, representing almost 3 million accountants in public practice, education, government service, industry, and commerce.