mgi middle east & north africa

MENA NEWSLETTER

ISSUE 1, 2018

Dear Members,

I hope everyone had a blessed Ramadan and a pleasant Eid break. Now that we are well and truly in the second half of 2018, I wanted to reflect on the many happenings in the first half of the year.

First and foremost, we had our MENA Regional meeting along with the Africa Region in the first week of May 2018, in Dubai, U.A.E. This was a historic moment as it was the first joint regional meeting with for both the regions. Having the members of these two fast growing and dynamic regions meet together promised an exciting meeting, and it did not disappoint.

I had encouraged your active involvement in my previous addresses and I am thankful that so many of you took note and attended the meeting to make it a success. I would especially like to thank members for whom this was their first MENA/Africa regioinal meeting, Mr. Hesham Alsakka, from Kuwait, Mr. Shakeel Azeer, from Mauritius, Mr. Franklin Olorundaisi from Nigeria, Mr. Felix Kimoli from Kenya, Mr. Khaled Bassam from Saudi Arabia and also to Mr. Bhavya Mehta, who was in attendence from Mumbai, India.

I am sure all of you will agree that attending this joint regional meeting and meeting members from another region allowed the sharing of best practices and grew your network at the very least, and potentially allowed the sharing of business.

In the first half of the year we have added to the MENA Region one new member, Al Hamli CPAs, from Saudi Arabia. I welcome them and am excited to have them be a part of the MGI MENA family. I hope that the benefits of membership will meet and far exceed your expectations. Please remember “what you put in is what you get out of the membership” and we hope to see you more involved in MGI MENA going forward.

2018 has been an interesting year so far, especially for the MENA region. Oil has been dominating the discussion, with more and more countries in the region actively exploring ways to diversify away from this traditional source of revenue. Some have implemented new taxes, while others have looked at opening their economy for international investment by easing foreign investment rules and improving infrastructure to attract tourists.

On the regulatory front, accountability is the name of the game with the Big 4 under investigation globally over their audit practices and their dominance in the marketplace, considering the various oversights in South Africa with the Gupta scandal and in the UAE and the UK, with the fall of Abraaj Capital. The banking sector is under tough scrutiny to counter money laudering, tax evasion and also to ensure proper capitalization to prevent a repeat of the financial crisis of 2008-2009. This has opened up a number of opportunities for small to mid-sized accounting firms in networks like MGI Worldwide.

Let me conclude by saying I hope to see all of you at the Annual General Meeting in San Francisco, in October 2018, where as a group we can debate these challenges and come up with ideas on how to manage them.

Wishing you, your loved ones and your colleagues a happy summer break and a prosperous rest of the year.

Faiyaaz Rajkotwala
Area Leader – Middle East & North Africa

mgi middle east & north africa

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MGI MENA MEMBER NEWS

MENA Regional meeting

The meeting held on the 3 May successfully brought together members from MENA & Africa region. There were 20 delegates representing 8 firms from MENA, 6 firms from Africa and 1 from Asia. We also had 2 delegates from our sister organisation Mackrell International.

Many of the members present were meeting each other for the first time. There were also 4 new members, two from MENA (Al-Hamli & Partners and Boubyan Consulting Company) and two from Africa (Haruna Yahaya & Co. and Alekim & Associates). The positive interactions had during the meeting were important to build their respective business networks.

The day of the meeting began with each member introducing themselves and their firm. This set the tone for the meeting with members having open and robust discussions.

There were presentations by new members and CEO Clive Bennett on various MGI Worldwide initiatives. Nigel Rowley, the Chairman of Mackrell International, talked a little about the work of Mackrell and how members of both the organisations can work together.

The panel session on “Diversification from traditional audit services” threw up some good ideas for members to consider in their respective practices.

Members also discussed ways and means to build the MGI Worldwide global network brand in their respective countries, and how best to promote their MGI Worldwide membership for the benefit of their firms in their local and international markets.

MGI Vision Chartered Accountants wins new client

The firm has secured the engagement of one of the major Foreign Exchange Company in Oman, Majan Exchange LLC. Majan Exchange is the prominent player in foreign exchange trade in Oman and part of the Joyalukkas Group. Joyalukkas is a multi-billion dollar conglomerate that has various business interests, including jewellery, money exchange, retail fashion, luxury air charter and malls.

This is an important mile stone as the Central Bank of Oman (CBO) has very stringent rules for the appointment of auditor of Banks, Non-Banking Finance Companies, Insurance Companies and Foreign Exchange companies. The appointment of the auditor has to be approved by CBO every year. This is a testimony of MGI Vision’s competence and ability and the quality of its work.

Majan Exchange L.L.C

Joyalukkas World's favourite jeweller

“We had to work very hard with the CBO officials to secure the engagement. This success is very important to us as it has now opened up doors for us to all CBO regulated entities including banks and insurance companies. We are already in talks with one of the banks in Oman for the engagement for 2018 audit” said Rakesh Jobanputra, partner at MGI Vision.

The engagement has been approved by the CBO on condition of delivering quality output during the interim audit which will be reviewed by them before permanent engagement.

Nadia Yaich of MGI Business Finance Consulting appears on Tunisian TV

Nadia Yaich was interviewed on Al Janoubia channel, in its current affair program “From Studio” about the Chartered Accounting profession & expertise in Tunisia.

She highlighted the shortage of accountants in Tunisia, exacerbated by the fact that only 5% of candidates pass the Chartered Public Accounting exam every year. For this reason, local students are starting to go to other countries to get their professional qualification.

She stated that the National Order of Chartered Accountants which was created in 1983 only has 1000 Chartered Accountants and women only represent 10% of that small number. Nadia further emphasized that the accounting educational system should be changed and improved to attract more young people into the profession.

The panel including Nadia talked about financial transparency and advocated for the government to set up an oversight body like H3C in France and PCAOB in USA. This will help to improve the governance and quality of the accounting profession in Tunisia

IAB rankings for MENA countries

The International Accounting Bulletin has over the past few months published the rankings of networks based on fees/turnover in some of our MENA countries

In March it ranked MGI 16th in the UAE. MGI was ranked 14th in Egypt and ranked 10th in Morocco when the ranking was announced in May.

This is great news for our members being in the Top 20's or higher amongst networks

MGI GLOBAL NEWS

MGI Europe accountancy network firms champion new business initiative

The idea is to establish an initiative that can help further opportunities and build business for members.

This is one idea for how we can start creating opportunities and building business for each other in other parts of the world, by being a bit more proactive about it.

The idea is very simple. Interested MGI Worldwide members that are looking to further opportunities and build business together will soon be able to participate by accessing information online in a new business development section of the MGI Worldwide website. The idea is that each firm will input a list of countries where a parent company or subsidiary that they work for is also operating or has interests, and fellow members operating there will be able to put themselves forward and start conversations with each other.

Members interested in learning more about this initiative and how to get involved can contact Simon Rowe for more information at srowe@milsted-langdon.co.uk

More information on this HERE

Successful start to 2018

It has been a good start for MGI Worldwide as we welcome eight new members joining us from across the network including two from the MENA region

Audit & Business Advisory (A&BA) Group is based in Skopje, the capital of the Republic of Macedonia. As the country borders Kosovo, Serbia, Bulgaria, Greece and Albania, A&BA Group is well placed to advise clients and fellow MGI Worldwide member firms on accountancy matters throughout Europe. A&BA Group specialises in serving European clients in the natural resources, not-for-profit, charity, energy, petroleum and trade sectors, to name just a few.

Boubyan Consulting Company, Kuwait is a two-partner firm. Their specialisms lie in risk consulting, corporate governance, transformation, regulatory compliance, business performance, risk management, internal audit, tax and internal controls reviews. They have extensive experience supporting clients in a wide range of sectors, including real estate, telecom, aviation, banking, healthcare, transport, education, petrochemical, hospital, entertainment, oil and gas and not-for-profit organisations with their consulting and accountancy needs.

AND Bağımsız Denetim A.Ş. a 5 partner firm specialises in helping clients with their tax and auditing needs, covering a wide variety of areas including initial company set-up, bookkeeping, mergers and acquisitions, transfer pricing and evaluation.
The firm is based in the metropolitan city of Izmir, is home to the country's main export port, with a large volume of freight handled here, as well as Turkey's free zone, the result of a Turkish-US joint venture established in 1990.

Haiti based **AMF_Experts** provides accountancy services to clients in a wide range of industries across the Caribbean, including healthcare, education, agriculture, telecoms, finance, energy and construction. It is also one of the few Haiti accounting firms to carry out audits financed by the US government via the United States Agency for International Development (USAID)

Dva Dukata doo is among the top 100 accounting firms in Serbia. The firm's full-service offering includes accounting, bookkeeping, tax consulting, ERP consulting and labour relations services. Dva Dukata doo operates across two locations in Belgrade, the capital of Serbia.

Five-partner firm **Haruna Yahaya & Company,** is among the top ten accountancy firms in Nigeria and specialises in providing solutions in the fields of accounting, auditing, tax planning, training and business restructuring to its clients. The head office is in Minna the capital of Niger State and they have offices in Kaduna, Abuja and Lagos.

Al-Hamli & Partners from the Kingdom of Saudi Arabia offers audit and accounting services with office locations in the four largest cities in Saudi Arabia.
The firm comprises of 52 professionals in total, including senior partner Mr. Abdullah Al-Hamli, managing partner Mr. Khaled Al Bassam, and their certified administrative partners Mr. Osama Al Zuhairi and Mr. Ghasan Al Majed.

Kenya-based accounting firm **Alekim & Associates** joined us in May. Alekim & Associates was founded in 2008 and employs 24 staff members, including managing partner Felix Kimoli and technical partner Alex Nguu. Services offered include statutory auditing, audits of donor-funded projects, Tax and Financial Advisory, Risk Advisory, Training and technical assistance and Company Secretarial Services.

MGI MEETINGS 2018

The first half of the year is always a busy time for members with quite a few regional meeting taking place. It started with the Australia meeting in April, followed by 3 regional meetings in May, starting with MENA who held a joint meeting with Africa members on the 2-3 May. The North America meeting was held next followed by the Latin America meeting on the 23-25 May. Lastly the European region held their meeting in early June

Meeting highlights and other information are available on the website: http://www.mgiworld.com/members-area/meetings/meeting-highlights

Upcoming meetings

Asia Regional meeting
24-25 August
Hong Kong
Register at : http://www.mgiworld.com/23189.aspx

2018 Global AGM
17 - 19 October
San Francisco, USA
Register at:
http://www.deprezmeetings.com/groups/2018_mgi_agm_sfo/index.shtml

2018 UK & Ireland Partners & Managers Conference
28 - 30 November 2018, Near Heathrow, Windsor, UK

Online member marketing materials

We have a suite of marketing materials that range from templates for your firm business cards, letter heads, reports, presentations, banners etc & ready-made templates to help firms develop a website. Member case study, white papers and employee handbook insert on what it means to be part of MGI are also available

There are also NEW client communications produced to help members of MGI Worldwide make the most of their membership when talking with their clients. This includes flyers, PowerPoint presentations and a dynamic client video that members are welcome to use on their own firm websites.

Have a look at http://www.mgiworld.com/members-area/knowledge-hub/marketing-material

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PROFESSIONAL NEWS FROM AROUND THE WORLD

IFRS Taxonomy 2018

The IFRS Foundation published IFRS Taxonomy 2018, which includes a number of updates to the IFRS Taxonomy 2017.

The IFRS Taxonomy facilitates the electronic reporting of financial statements that comply with IFRS Standards. It reflects the presentation and disclosure requirements in IFRS Standards and the accompanying materials to IFRS Standards. The IFRS Taxonomy also includes elements for disclosures not specifically required by IFRS Standards that companies commonly report.

Updates to the IFRS Taxonomy are released during the year to reflect changes to IFRS Standards, common reporting practice by companies that apply IFRS Standards, general improvements to the IFRS Taxonomy or technology changes.

The IFRS Taxonomy 2018 incorporates the IFRS Taxonomy Update for IFRS 17 Insurance Contracts and Annual Improvements and the IFRS Taxonomy

Update—Prepayments Features with Negative Compensation - Amendments to IFRS 9

For the IFRS Taxonomy 2018 files and supporting information, please go HERE

Revised version of IFRS Conceptual Framework.

The International Accounting Standards Board (IASB) issued a revised version of its Conceptual Framework for Financial Reporting that underpins IFRS® Standards.
http://www.ifrs.org/news-and-events/2018/03/iasb-completes-revisions-to-its-conceptual-framework/

The Conceptual Framework sets out the fundamental concepts of financial reporting that guide the Board in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, providing useful information for investors and others.

The Conceptual Framework also assists companies in developing accounting policies when no IFRS standard applies to a particular transaction; and it helps stakeholders more broadly to understand the Standards better.

The revised Conceptual Framework includes: a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance—in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The IASB will start using the revised Conceptual Framework immediately, whereas companies will use it from 2020.

Source: IFRS website

IFAC releases Agreed-Upon Procedures Engagements

IFAC (The International Federation of Accountants) has released a new publication, Agreed-Upon Procedures (AUP) Engagements: A Growth and Value Opportunity. It provides a great opportunity for small- and medium–sized practices (SMPs) to grow, and deliver a valuable client service.

The publication describes AUP engagements, when they are appropriate, and, identifies key client benefits. It also covers examples of financial and non-financial information AUP engagements and provides six short case studies with example procedures that might be applied.

You can access the publication HERE

IFAC releases 4th edition of the Guide to Practice Management for Small- and Medium-Sized Practices.

First released in 2010, the Guide provides comprehensive guidance to help SMPs operate more efficiently in the increasingly complex and competitive global marketplace for professional services. This fourth edition is organized into eight stand-alone modules, including a new module on 'Leveraging Technology'. The revised Guide addresses a comprehensive range of topics including:

- Strategic planning,
- Managing staff,
- Client relationship management,
- Risk management and,
- Succession planning

The new 'Leveraging Technology' module covers how technology developments are fundamentally changing the way organizations operate and recognizes the importance of how SMPs must adapt to service their clients utilizing technology. Included are topics such as developing a technology strategy, hardware and software options, technology risks, new and emerging technologies, and leveraging technology for practice innovation.

For a copy of the guide go to the IFAC website https://www.ifac.org/publications-resources/guide-practice-management-small-and-medium-sized-practices-3

Source: IFAC website

REVAMPED CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS

International Ethics Standards Board (IESBA®) released a completely rewritten Code of Ethics for Professional Accountants that is easier to navigate, use and enforce. Beyond the new structure, the Code brings together key ethics advances over the past four years, and is clearer about how accountants should deal with ethics and independence issues.

While the fundamental principles of ethics have not changed, major revisions have been made to the unifying conceptual framework—the approach used by all professional accountants to identify, evaluate and address threats to compliance with the fundamental principles and, where applicable, independence. New Code highlights include:

- Revised "safeguards" provisions better aligned to threats to compliance with the fundamental principles;
- Stronger independence provisions regarding long association of personnel with audit clients;
- New and revised sections dedicated to professional accountants in business (PAIBs) relating to preparing and presenting information and pressure to breach the fundamental principles.
- Clear guidance for accountants in public practice that relevant PAIB provisions are applicable to them;
- New guidance to emphasize the importance of understanding facts and circumstances when exercising professional judgment; and
- New guidance to explain how compliance with the fundamental principles supports the exercise of professional skepticism in an audit or other assurance engagements.

Renamed the International Code of Ethics for Professional AccountantsTM (including International Independence StandardsTM), the new Code becomes effective in June 2019.
You access the new Code HERE

Public Comment Sought on Behaviors Associated with Exercise of Professional Skepticism

The International Ethics Standards Board for Accountants® (IESBA®) seeks public comment by August 15, 2018 on its consultation paper, Professional Skepticism – Meeting Public Expectations.
In response to regulatory and other stakeholder feedback on the topic, the paper explores:
(a) The behavioral characteristics comprised in professional skepticism;
(b) Whether all professional accountants should apply these behavioral characteristics; and
(c) Whether the International Code of Ethics for Professional Accountants (including International Independence Standards) should be further developed to address behaviors associated with the exercise of appropriate professional skepticism.

Through this initiative, the IESBA also aims to reinforce the effective exercise of professional skepticism by auditors.

Source IFAC website

Introducing New Member

Abdullah Al-Hamli & Partner Co (CPAs & Consultants)

What is the history behind Al Hamli Group?

Al-Hamli Group CPA was founded in 1979 by Mr. Abdullah Abdulaziz Al-Hamli providing the full range of services. In 1985, the firm established the Arabian Center for Consultants, which provides consulting services and is considered as one of the leading Consultation Centers in Saudi Arabia. In 2015 Mr. Khaled Al-Bassam Abdullah joined as a new partner and the firm was renamed Abdullah Al-Hamli & Partner Co (CPAs & Consultants). In 2018 further 2 partners joined the firm

What are Al Hamli's areas of expertise & types of services offered?

Our services extend to cover the following fields: Audit and assurance, taxation & zakat, internal auditing and Accounting and bookkeeping services. We also provide a wide range of consulting services from feasibility studies & business evaluation, forensic accounting, fraud investigation & due diligence work. The firm also assists clients in recruitment of finance & admin personnel.

What are your future plans for the company?

Our vision is for Abdullah Al-Hamli & partners to become one of the leading professional firms that offers professional services to a broad range of clients at the highest standard while considering the Saudi traditions and work environment regulations.

To achieve this vision we have set 6 strategic goals:

- To be one of the leading professional firms through good leadership
- Development of all professional service of the firm
- Provide professional performance that matches quality standards
- Provide a stable and healthy working environment
- Preserve the name and reputation of the firm
- Maximizing profits and returns

What factors influenced your decision to join MGI Worldwide?

The firm has implemented quality control standards for our team members and training on International Standards of Auditing (ISAs) and International

Financial Reporting Standards (IFRS). By joining MGI we hope to receive endorsement on our quality control procedures via the QA peer review. We also want to grow our business hence we believe being part of MGI Worldwide will help us achieve our objectives

What can Al Hamli offer the network?

- Ideas on investment opportunities in the Kingdom of Saudi Arabia especially with the governments political vision of development 2030
- Sharing our advisory services for zakat and tax with members' clients in business in the Kingdom especially for VAT services
- Sharing our experience in regard to financial reporting standards ,quality and risk-based audit conversion to those adopting IFRS or ISAs for the first time
- To add more services to the group globally through sharing opportunities for global engagements

What does Al Hamli hope to get out of MGI Worldwide?

The opportunity to network, exchange experiences and effective team work to obtain global engagement opportunities.

MGI MENA COUNTRY UPDATE

Jordan: Proposed amendments to the Income Tax Law

On 22 May, the Jordanian Cabinet approved a new draft law ("Proposed Law") amending the Income Tax Law no. (34) for the year 2014 ("Current Law"). The Proposed Law is subject to further debate, review and amendment after Ramadan.

A high level summary of the key changes of the Proposed Law are set out below:

- Increase to the corporate income tax rates in most industry sectors
- Indefinite carry forward of certain tax losses
- Exemption from corporate income tax for venture capital funds

- 1% levy on the net profits (before tax) on public and private shareholding companies
- 15% capital gains tax on the sale of unlisted Jordanian shares
- 10% withholding tax on dividend distributions from public shareholding companies
- Introduction of thin capitalisation rules on related party debt
- Reduction of tax allowances and increase in tax rates for individual taxpayers
- Amendments to certain penalties and tax administration matters

The Proposed Law (if enacted) is likely to come into force by 1 January 2019, with executive regulations expected to be issued in due course.

In general, the Proposed Law appears to be aimed at raising additional tax revenues. Although the Proposed Law is not yet final, there are a number of proposed changes that would impact the tax treatment of companies in Jordan.

Kuwait deferes VAT implementation

The Kuwaiti Parliament Budget Committee confirmed at a meeting on 15 May 2018 that the introduction of Value Added Tax (VAT), which was expected to occur during 2018, will not now take place until 2021. Instead, the Kuwait government intend to focus their efforts on bringing excise tax into effect on selected products such as tobacco, energy drinks and carbonated drinks.

A statement confirming the proposed plans (which is currently only available in Arabic), has been published on the website of the Kuwait National Assembly.

Source: Deloitte website

Oman to levy taxes on certain goods

Oman has issued a decision to levy taxes on luxury items as well as goods which are harmful to public health and environment, according to Oman's latest budget figures published recently.

The decision comes ahead of Oman's implementation of Value Added Tax on goods and services set for the middle of next year.

Oman has followed in the footsteps of other Gulf states, like Saudi Arabia, the UAE and Bahrain which started levying 100 per cent tax on tobacco and alcohol, and 50 per cent on energy drinks starting from January this year.

contributed by MGI Vision Chartered Accountants

Qatar to provide many incentives to foreign investors

Qatar's draft law on the "Regulation of Foreign Investment" provides many incentives to foreign investors including "exemption from customs duties and possibility of exemption from income tax", according to the Ministry of Economy and Commerce (MEC).

Besides allocating land for the establishment of projects by foreign investors, the law stipulates that "foreign investments are not subject to expropriation".
A major incentive for potential foreign investors is that they can "transfer investment ownership from one

investor to another." Another incentive, the MEC said, is free transfer of investments within and outside the country.

The draft law regulating the investment of non-Qatari (foreign) capital in the country's economic activity will attract 100% foreign capital in "all economic and commercial activities," the MEC said.

The aim of the draft law is to "accelerate economic development, attract foreign investment in all economic and commercial activities, achieve economic diversification in line with the Qatar National Vision 2030, facilitate foreign investors' entry and increase confidence and investment safety in the country."

The most important features of the bill are that it "provides many guarantees that enhance the investment environment and allows investment in banks and insurance companies by a cabinet decision, provides for an increase in the State's tax revenues.

The draft law, the MEC said, is "based on the government's spending power in settling foreign investments and provides many guarantees that enhance the investment environment." It also "offers attractive investment incentives and protects foreign and domestic investors from the risks of side agreements."

The law "restricts commercial concealment and has been prepared in accordance with the best regional and global practices in this field."

HE the Minister of Economy and Commerce Sheikh Ahmed bin Jassim bin Mohamed al-Thani said the Cabinet agreed to take the necessary measures to issue a draft law on the regulation of investment of non-Qatari capital in economic activity, having been informed of the recommendation of the Advisory Council on the draft law, and in accordance with the directives of His Highness the Amir Sheikh Tamim bin Hamad al-Thani, on the importance of completing the legislation and decrees necessary to facilitate investment.

Sheikh Ahmed added that Qatar has become very attractive to foreign investment thanks to the well-studied economic policies, which contributed to creating a promising investment environment.

Source: Gulf Times

Saudi Arabia issues guidelines on the VAT application

The General Authority of Zakat and Tax (GAZT) continues to issue guidelines for different sectors on the practical application of the VAT legislation in effect as from 1 January 2018. English versions of VAT guidelines on transitional VAT rules, investment metals, transportation and VAT grouping were released in February 2018 and are available on the GAZT website. VAT return guidelines also have been issued that set out detailed instructions for preparing and filing a VAT return via the GAZT web portal.

The guide on the transitional VAT rules covers the applicability of grandfathering provisions, including the zero-rating of qualifying contracts entered into before 30 May 2017. It also explains the transitional treatment of supplies between Gulf Cooperation Council member states until the electronic services system is established and provides guidance on applying for rulings from the GAZT.

The investment metals guide confirms when zero-rating will apply to supplies of gold, silver and platinum.

The guideline on transportation address the place of supply of transportation services, and provide more detail on the definitions and application of VAT to both passenger and ad freight transport. It discusses qualifying means of transport, along with input VAT deduction and transitional rules for the transportation sector.

THE VAT grouping guideline provides additional detail on tax grouping, covering areas such as the criteria for setting up a tax group, the implications of being a member of a tax group, how to amend a group, and the situations in which the GAZT has the power to set aside a tax group.

In another important development, the GAZT has called upon nonresident entities carrying out economic activities in Saudi Arabia to register for VAT and appoint a tax representative. The representative must provide information about itself and the nonresident business represented at the time of VAT registration. The GAZT will be working with the Ministry of Commerce & Investment and other government entities to publish a list of accredited resident firms authorized to act as tax representatives or agents.

Source: Deloitte website

Tax Group VAT Guide

The VAT Guide on Tax Group has been released by the Federal Tax Authority, UAE. The guide provides guidance on the following;

Effects of registering as a single taxable person in a VAT group;

Criteria to be fulfilled for forming a VAT group;

- Amendment and changes to a VAT group;
- Government entities;
- Anti-avoidance measures (refusal of registration as a VAT group and mandatory registration as a VAT group).

The full guide can be accessed on the FTA website: https://www.tax.gov.ae/pdf/Tax-Groups-Guide.pdf

Source: PwC website

Dubai International Financial Centre (DIFC) enacts CRS Law

On 21 March 2018, the Dubai International Financial Centre (DIFC) enacted the Common Reporting Standard (CRS) law, which imposes obligations on reporting financial institutions to collect and report certain information in relation to their account holders.

The law applies with retroactive effect as from 1 January 2017.

The law provides general guidance on implementation, but also gives the DIFC the functional power to enforce compliance in a variety of ways, such as by conducting investigations, and imposing fines and penalties.

Key provisions include:

Section Topic

12(2) Establishing a CRS compliance framework manual

12(3) Maintaining records with regard to the due diligence procedures undertaken

12(6) Notifying a reportable person prior to reporting

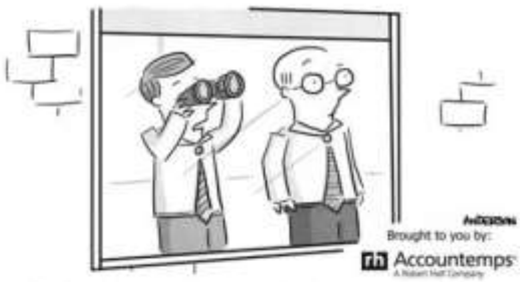
13(1) Entering the premises of a reporting financial institution at any reasonable time for conducting an inspection and ensuring compliance with the law

13(4) Blocking, suspending and closing the accounts of non-compliant account holders

14(1) Appointing an inspector to investigate the affairs of the reporting financial institution

Schedule 2 of the law provides for different types of fines ranging up to USD 70,000 for a single contravention. Penalties are included for failure to report, failure to keep records of the due diligence procedures performed and knowingly or recklessly signing or otherwise positively affirming a false self-certification.

Source: Deloitte website



"I know this accounting in the cloud is supposed to make things easier, but how do we know which one is ours?"

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IDEAS & BEST PRACTICES

Firms of the Future–Building Advisory Services

by Johnny Yong and Mats Olsson

There is currently a general consensus that SMPs need to re-evaluate the services that they are providing, which may involve an eventual change to their current business model. Hence, it could be necessary for SMPs to shift their mindset and seriously consider building on their traditional compliance services with business advisory services focusing on foresight and other predictive analysis.

Interestingly, 45% of respondents to the 2016 Global SMP Survey seemed to support this direction by stating that they anticipated revenue to increase in 2017 for advisory and consulting services – the highest out of all four service lines. It was 44% for accounting, compilation, and other non-assurance/related services; 42% for tax and 38% for audit and assurance services.

IFAC's literature review on The Role of SMPs in Providing Business Support to SMEs—New Evidence explored both the supply and demand for business support from SMEs and highlights the associated potential for future revenue growth from the provision of business advisory services. Research indicates that, irrespective of jurisdiction, accountants, and especially SMPs, continue to be the preferred advisors to SMEs. SMPs have an in-depth knowledge and understanding of their SME clients and are therefore well-positioned to provide a range of other services. They also have a unique advantage because of their interactions which are often long-term and centered on personal relationships that are based on trust and reliable communication.

83% of the 2016 SMP Survey respondents stated that they already provided some form of business advisory and consulting services. The most commonly offered services included:

- 48% provide Corporate Advisory (Financing, Mergers, Due Diligence, Valuations, Legal);
- 46% offer Management Accounting (Planning, Performance, Risk Management, and Internal Control);
- 30% advise on Human Resources Policies and Procedures/ Employment Regulations (Hiring and Firing, Employee Contracts, Sick Pay, Remuneration Structures); and
- 29% support Business Development (Strategy, Marketing, Benchmarking, Budgeting).

The IFAC SMP Committee has recently focused on how SMPs can build business advisory and consultancy services. During a recent SMPC meeting, representatives from around the world shared their own experiences with a view to better prepare firms that are ready to diversify into advisory and consulting service.

What services will small- and medium-sized entities (SMEs) require in the future?

Future oriented services such as budgeting, cash flow planning, determining market pricing on products and services offered by SMEs and a business 'health-check' are likely to be highly sought after. Furthermore, a firm that can house all compliance and advisory and consulting services in a single location, or hub, will be in demand as the SMEs will not have to move around to get the full range of services that they need. Hence, the attraction of services being provided through the cloud cannot be over-stated.

With SMEs operating on a more global basis than ever before and relying increasingly on computing power, SMPs that can operate across multiple languages and cultures and provide IT consulting and cyber-security services will be important business partners to their clients.

How can SMPs remain relevant to tomorrow's SMEs?

Niche Market

The traditional SMP firm model may need to change. Specialization in a niche market offering could be a way forward. This could be a field where the firm has a high degree of industry and/ or technical understanding. It should be large enough to justify the expenditure on marketing and if necessary obtaining specialist knowledge. Focusing on developing specialisms may also open up new client opportunities as other firms may want specialist expertise.

Networks

Firms should consider how they approach collaboration, networking and alliances with other professionals and practices. SMPs may have a limited ability to provide a full range of services. It is therefore important to become part of a high-quality referral network, formal or otherwise informal. Some SMPs are already very active users of a trusted referral network. Successful firms have developed networks and cooperate with other accountants and other professionals such as lawyers, corporate financial advisers, chartered secretaries, qualified valuers etc.

Joining a network, association or alliance could also be explored. In the 2015 IFAC Global SMP Survey 28% were members of a network (11%), association (10%), or alliance (7%). An additional 24% indicated their practice was considering joining one. Key benefits indicated included broadening client service offerings, retaining clients expanding in size and/ or operations and strong networking opportunities. There is also a need to look at the value proposition as part of the transition into offering of advisory and consulting services.

<u>Leveraging Technology</u>

As SMEs become more and more connected in the digital age, so too must firms evolve. Leveraging technology to manage costs and offer new services will need to be a priority. Investment in these areas has to be planned and executed. Automation should result in more time being available for data analysis, insights and proactive 'real-time' value-added services.

<u>Trusted Business Advisor</u>

SMPs need to remain relevant by understanding and listening to their clients' needs, then utilizing their broad experience and expertise to help them accomplish their goals. The accountant's role (as adviser, mentor, and coach) is to work as a 'business partner'. This new role requires flexibility and an understanding of the context and cultural environment of the client. Practitioners will need to create an even more regular and ongoing communication with their clients and build the relationships.

<u>Talent Management</u>

Staff's skill sets will need to be refreshed. Employees are expected to be more outward facing with strong communication skills and could require training on how to deliver valuable business insights. The traditional recruitment routes may no longer be efficient or viable as the skills required are rapidly changing. Hence, new ways to attract talent will be needed. A Gateway article 'Searching for Stars: Youth & Talent Management' explores this further.

How can the firms initiate change?

As part of the process to initiate change, SMPs must first evaluate their existing client's profile. For example, are they expanding and, thus, need more support? Secondly, existing clients can be asked to rate their satisfaction on the firm's past performance. This feedback enables the firm to know what areas they are doing well and what could be their inherent strength. In undertaking client profiling, coupled with internal insights, some past services that were delivered for free may eventually be billable as advisory in the future. The key here is to be confident that these services actually add value to the client.

SMPs need to focus on branding and communicating both to existing and new clients the full range of services that can be provided. One mechanism is to utilize the firms' social media presence. This can help with promotion and the dissemination of information to clients, as well as attracting talent.

Conclusion

Yes, building advisory and consultancy services can be an amazing journey for staff, partners and clients. But, it is important for SMPs to take some time out to reflect on the firm's strategy. Developing a strategic business plan with the necessary buy-in from staff and partners is paramount. It is critical to have a clear vision for the future and a roadmap for how to get there.

Johnny Yong is a technical manager with IFAC's Global Accountancy Profession Support (GAPS). Mats Olsson is partner and one of the founders of Adrian & Partners AB, a medium-sized practice in Sweden and was previously the Deputy Chair of the IFAC SMPC

An accountant's three best tools

By Daniel Hood

It's common these days to hear that the accounting profession is moving en masse to higher-value-added services, dropping its backward-facing, compliance-oriented drudge work in favor of forward-looking, technology-enabled advice that will unleash a new era of happy, profitable clients.

This is both enticing and daunting, as it leaves many feeling left behind, finding themselves with no clue how to begin delivering this new generation of services, stranded between exhortations given at 10,000 feet and the practicalities of acting on those exhortations on the ground.

Let's make this easy: To start bringing higher value to your clients, you only need three tools:

1. *The ability to ask questions.*
2. *The ability to listen carefully to the answers.*
3. *The ability to clearly communicate the advice you create as a result.*

In case you're wondering, I didn't make this up on my own: I learned it from consultant and "Countess of Communication" Geni Whitehouse, when she joined us on the Accounting Today podcast, "On the Air," recently. "Accountants have a hard time picking up the phone and talking to people," she said. "And we're afraid to ask questions, because we think we're supposed to have all the answers. We think we're supposed to be the Oracle at Delphi."

She's right that accountants are often reluctant in these areas, of course — but asking a question can't be any more terrifying than answering all the ones on the CPA Exam. It's just a matter of working up the nerve, and having some good questions lined up in advance. Whitehouse's firm has a set of questions all ready to go to help get to know clients better, and uncover some of their most important goals and issues.

Asking questions is pointless if you don't listen to the answers, obviously, because the point is to use the information and the insights it gives you into your client's situation to create valuable advice. That part you don't need help with — accountants are business experts, after all. From your education, your training, your work with all your other clients and your deep industry knowledge, you'll be able to turn the raw information into actionable advice.

Then comes the last and, I think, hardest part, and the one where Whitehouse hit the nail on the head when she said that accountants and CPAs see themselves as the Oracle at Delphi, because while the Oracle was famously wise and able to predict the future, it also spoke in impenetrable riddles.

Train yourself to deliver your advice in ways your clients can understand; speak in the language of their business, whatever it may be, rather than in the language of accounting. Give them the specific, useful advice you'd want to be given — while remembering that they most likely don't have degrees in accounting, and never passed the CPA Exam.

Later on, you'll start bringing technology into the equation, using data analytics and other tools to unearth useful and usable new insights and deliver unexpected new services, but for now, being a more valuable advisor starts with three simple tools: Asking a question, listening to the answer, and speaking plainly in response.

Daniel Hood is editor-in-chief of Accounting Today and Tax Pro Today, and has covered the tax and accounting field for over 20 years.

Surviving and thriving in an evolving marketplace

By Lee Frederiksen

The accounting profession is undergoing a series of seismic changes. From automation to blockchain technology, profound change is already underway. How can a firm keep up and thrive in such an uncertain environment? Here are six tips that can help you align your business approach with the needs and expectations of a rapidly evolving marketplace:

1. Utilize Research-Based Marketplace Insights

This is not a good time for guesses and hunches. Firms that conduct formal research on their target markets have been proven to grow faster and become more profitable. Our own research has revealed that high-growth firms are much more likely to conduct systematic client group research at least once a quarter. They are able to base their business decisions on solid empirical evidence rather than gut instincts or dangerously flawed assumptions.

2. Create an Expertise-Centered Brand

With insights gained from your research, you will be able to build a more valuable brand based on the wants and needs of your target audience. Knowing what your prospects are looking for in an accounting firm enables you to demonstrate and promote your firm's expertise in addressing those needs. The right expertise is the number one selection criteria for prospective clients seeking a firm to hire. Even more impressive, in nearly three out of four searches (72 percent), expertise tipped the scale in favor of the final choice.

3. Balance Traditional and Digital Approaches to Firm Growth
The way buyers are searching for and evaluating firms is evolving rapidly, so your marketing strategy must also evolve.

Achieving the greatest marketing message reach and frequency (how many prospects you "touch" and how often) requires balancing on- and offline outreach by speaking at events, publishing educational articles and blog posts, and producing free webinars, to name just a few common tactics. In fact, firms generating leads from both digital and traditional sources tend to grow faster and are more profitable than those that rely solely on traditional sources. Our research tells us that firms utilizing a balanced approach can grow up to four times faster and be more than twice as profitable as firms that employ an unbalanced approach.

4. Develop a Focused Marketing Strategy
Research has also revealed that buyers favor specialists over generalists. While it may seem intuitive that offering more services to a broader audience creates greater opportunity for growth, quite the opposite is true. A broader approach simply creates less obvious value and benefit to potential clients.

A better strategy is to offer more niche services. Firms that take this approach are more likely to be high-growth firms. Another proven differentiation approach is to focus on solving a particular business problem or serving the needs of a particular type of client.

5. Create a Culture of Learning and Change
Implementing some of the strategies outlined here may require a significant change in how your firm operates and that may be a challenge—inertia and an entrenched way of doing things can be difficult to overcome. In professional services it's easy to embrace how everyone else in the industry operates, and that leads to a me-too environment that is difficult to stand out and succeed in.

However, before you can retool your marketing, you must develop a firm culture that supports learning and change. One way is through training. Another is by adopting what we call the Test/Measure/Learn cycle. This is a methodology that helps organizations introduce and test new services and marketing methods to help the firm gain value and visibility in the marketplace. The approach is simple, but effective: You introduce and test an idea, measure the results, and learn from the experience—was it a success or failure? Make it a habit and your services will evolve more quickly.

6. Become a Magnet for Top Talent
As you introduce the strategies above and begin to reap the benefits, your firm will gain visibility and create greater value for existing and prospective clients, as well as top industry talent. Investing in your employer brand can help you capitalize upon this. Start by determining the following:
- What is your reputation as a place to work?
- Is your workplace culture consistent with your client-facing brand?
- Does your employer brand attract top talent or make them leery of working for you?

Why is this important? Because our research has shown that what is most valuable to today's job candidate for employment and career advancement has changed. Potential employees today are most interested in working for a growing firm and having job flexibility. Interestingly, obtaining the highest possible salary came in third. In other words, the kind of work environment you provide is more important than whether you offer the highest salary.

These six fundamentals of marketing have proven instrumental in helping professional services firms achieve greater visibility and a competitive advantage in an evolving marketplace. Put these six strategies to work for your accounting firm and start achieving the success and profitability you deserve.

Lee Frederiksen, PhD, is managing partner of Hinge, a branding and marketing firm for professional services. Hinge conducts research into high-growth firms and offers services for firms that want to become more visible and grow.

How to Follow Up with Networking Event Prospects
By Liz Farr

Do you have a drawer full of business cards you've collected through the years? Most people are lazy when it comes to following up, so if you just make a small effort, you'll stand out as different.

More importantly, if you don't follow up, you could be leaving money on the table. You never know who might need your services in six weeks, six months, or maybe a few years down the road. Prospects become clients when they're ready, not necessarily when you're ready.

Why Follow Up is Important
Research shows that it may take as many as eight touches before a prospect decides to do business with you. That means the goal with any networking event is not to get an immediate sale, but to begin a relationship. Though you may think that accounting is about numbers, it's really about relationships. By establishing a relationship with your prospects, when they have a problem that your services can solve, you ensure that they think of you first.

If your prospect already has an accountant, the relationship they have with their current accountant can make it very hard to get them to change to a new one. From their perspective, there are only two reasons to change accountants:

1. they're unhappy with their current accountant
2. you provide services they need that they can't get with their current accountant

So before you add your latest stack of business cards from a networking event to your collection, here are some ideas that can help you move that money off the table and into your bank account.

Begin with a Process
First, you need to set up a process for following up. Without a process, those cards will just join the business card graveyard in your desk drawer.

First, add their contact information to a CRM or contact management system. A spreadsheet works, too. Don't forget to include some notes about them while the details are still fresh in your memory.

Set up reminders within that CRM system (or equivalent) to follow up with those prospects on specific dates. As a starting point, you might try following up in three days, seven days, two weeks and then every six to eight weeks.

What to Do
Just the act of following up will set you apart from the competition because so few do it. If you want to really stand out, try doing something different from the usual.

The most basic is to send an email or make a phone call on your follow up days. While it may be tempting after a big event to send out a mass email to everyone you met, that's not ideal.

A better method is to send each person a friendly email with a reminder of your connection, tailored specifically for them. That's why it's important to include notes about each person in your CRM system.

Here's an example:

Hi xxx,
Great to meet you at last week's networking event at the Q Bar! I really liked hearing about how you work with the clients in your investment firm to find out their long-term goals, and how you help them stay accountable.
Do you have time in the next week to continue our conversation over a coffee? I'd love to have a chat about how we can help each other's businesses.
Regards,

You'll really stand out if you include something of value for the other person. Maybe you just published a blog post or an article on LinkedIn.

Maybe you just listened to a great business podcast or perhaps you came across a news item or an article of interest to them. Include a link to that article in your email.

If you really want to stand out, print out that article and mail it to them, along with a brief note:

Hi xxx,
I just came across this and thought it would be of interest to you.
Talk soon,

If your prospect is local, try to set up a lunch or coffee meeting. Depending on the situation, meeting for a drink at your favorite brew pub might be appropriate, but use your best judgment.

Today's technology allows us to set up virtual coffee meetings. Consider sending out an invitation to do a quick Skype or Zoom meeting to connect.

If this is someone you'd really like to do business with, send them a business book that you think they'd enjoy. You can either send it from Amazon, gift wrapped and with a card, or mail it yourself.

If you send it yourself, a great bonus is to include a note that points to passages or chapters that you think would be of particular interest to your prospect so that they don't have to read the whole book to get some benefit from it.

Make sure you reach out and connect with them on LinkedIn, Twitter and any other appropriate social media platforms. The key to success with social media is to be social and engage. Follow what they post, like it, comment on it and share it.

And of course, you should add them to your email newsletter list. Before you add them, be sure to get permission. The best email newsletters are the ones your firm creates.

An easy way to produce a newsletter is to collect articles you've come across that are of interest to small business owners and link to them. Remember that besides tax and accounting, business owners may also need help with human resources, managing multiple generations and marketing.

Be a Problem Solver

When you're following up, focus more on finding out everything you can about their business and their goals. Seek out ways to help them solve problems, even if you're not the solution provider.

Remember that it may take eight or more touches before anything comes of your new relationship. Most accountants don't even make one touch, so you'll stand out when you follow up systematically with prospects.

Liz Farr, CPA, has worked in tax and accounting since 2002. She is also a freelance writer specializing in content marketing for accountants and bookkeepers around the world.

Making the move to 21st century recruiting

By Daniel Hood

The traditional recruiting tools simply aren't enough for accounting firms to fill their personnel needs nowadays, according to consultant Sarah Dobek, founder of Inovautus Consulting.

"We need to rethink how we deliver our recruiting message in a way that cuts through the clutter," she said in a session at the American Institute of CPAs' 2018 Engage event, held in Las Vegas this week, warning the audience of accountants that they need to explore a much wider range of tools and distribution channels. "The biggest challenge in recruiting is getting people's attention."

"Most firms focus on job boards, which still have value – but we need to move beyond them to other formats," she said. "How about a video of the hiring partner talking about the job? Send it out through social media and online. You can also do this in a podcast format."

Given that most firms will be aiming to hire millennials, it's crucial to take their preferences into account when crafting a recruiting strategy, Dobek warned. "Millennials aren't always interested in following the usual position hierarchy, or the traditional career path," she said. "How do we allow them to personalize their careers?"

Sharing the stories of current staff members who have pursued individual career paths is a great way to communicate this to potential job candidates, she explained – but firms will need to communicate it in the venues those candidates prefer, like social media and online, and where possible in video or audio format. "Storytelling and sharing stories of actual people in your firm – why they joined your firm, what they like about it – this is going to help with the personalization that millennials are looking for," Dobek said.

On the flip side of that, firms will want to allow candidates to share their own stories in unusual ways. "Consider asking for a video or audio introduction, rather than a cover letter," she suggested. "Imagine what kind of candidates you'd get if they'd gone to those lengths."

Giving potential recruits the option to chat online with recruiters or HR staff – rather than, say, holding a phone interview – is very important, as it's often a form of communication they expect and are comfortable with.

Two aspects of their culture that firms will want to communicate very clearly are professional development and technology. "Share information about development and learning opportunities," Dobek urged. "They're not interested in what it will be like to be a partner in 20 years; they want to know what you're going to teach them in three or four months."

And this isn't just for large firms, either. "You have to be able to talk about how you mentor and teach staff. It doesn't have to a big-firm university," she said. "It can be, 'We'll have a partner take you under their wing.'"

As for technology, "The rising generations are going to expect us to integrate with AI – we need to emphasize technology in recruiting," she said. "A lot of that is going to come down to how we interact with candidates," including social media, video and audio alternatives, chat and texts, and so on.

More broadly, firms need to realize that recruiting is a full-time job – even when they're not looking to hire."Move away from reactive recruiting, where you only recruit when you have an open position, to more proactive recruiting where you're constantly getting your message out there," she advised. "Spend time building your brand presence – with advertising, networking, hosting events, using social media, leveraging alumni, and so on."

In addition, she said, "You should be constantly building a list of candidates, including people who applied for open positions, that you are nurturing on a regular basis, keeping connected with them, and keeping a record of all your contacts with them – as well as making sure you know who at the firm owns recruiting them."

Part of that constant recruiting is doing some thinking in advance. "One of the first things to do is to figure out what your ideal target employee is. Most firms haven't really had this conversation," Dobek said. "It's a really important exercise to go through – what soft skills do they need, culture fit, location, experience level, etc."

Overall, firms need to realize that recruiting can no longer be a haphazard, underfunded endeavor. "Invest in resources," she said. "Someone has to own this – a full-time or part-time recruiter to keep things moving. If you're over 80 people, you're going to need a full-time recruiter, and you need a budget for these activities."

"You have to invest in recruiting," she urged the conference attendees. "People are our most important products."

Questions of firm culture

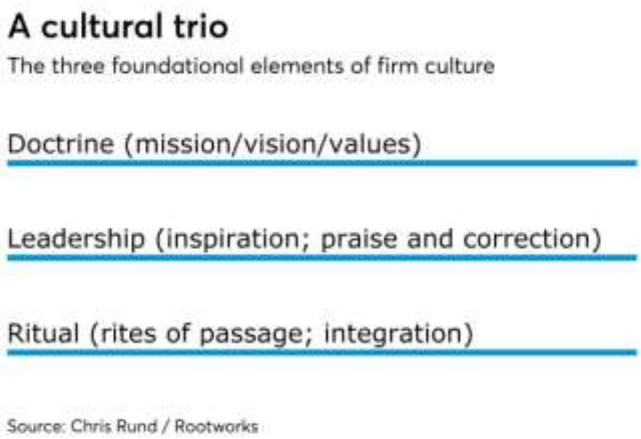
Daniel Hood

When you ask firms about their culture, it's not uncommon for them to start by saying that they believe in work-life balance, and that they treat their staff like family — and to leave it at that.

Those are certainly elements of culture, but they are far from the only ones, and it's growing more and more important for firms to get a better handle on just what, exactly, their culture is. Why? Well, to start, a clearly defined culture will make it easier to attract and retain the right kinds of employees. Knowing who you are is also a great guide in making difficult decisions, and is very handy for identifying who might be a good fit for a merger. With that in mind, here are 10 questions to help your clearly understand the shape of your culture.

1. How entrepreneurial is your firm? Do you routinely try out new service lines or client niches, or are you content with strengthening the ones you have? How much risk can you tolerate? Would you allow a partner to miss their goals for billable hours if they were building up a new practice area?

2. Are you happy with one or two people making major firm decisions, or do think more people should be included? This speaks to how hierarchical your firm is, as well as how much say you're willing to give non-partners, younger staff and others in the running of the firm.



3. How transparent is your firm? Do you routinely share information on profitability, or do you only tell people what they absolutely need to know? Do you keep everyone updated on new developments at the firm, or only those who are directly involved?

4. Who comes first — clients or staff? Who are you more likely to believe in a conflict, for instance? Have you ever fired a client that your employees hated?

5. What's your take on technology? Some view it as a threat that has to be handled, some merely as critical infrastructure, and still others as an amazing tool that can be leveraged to create enormous opportunity.

6. What factors go into determining compensation? What you pay for says a great deal about what the firm values. Will you sacrifice billable hours for, say, mentoring or community service?

7. Are you one firm, or a collection of individual businesses? Have your audit people ever met any of your tax people? And how much can the separate practice areas rely on support from the others?

8. How client-focused are you? Do you have a firm policy on how quickly staff must respond to client emails? What about weekend inquiries? Do you routinely throw in "extras," or does every new client request require a change order?

9. How much room is there for individuality? Can people set their own schedules? Can a hard charger move ahead faster than older, more senior people?

10. How does your firm have fun? Some firms have barbecues in a partner's backyard, others dress up for a fancy dinner; some go mountain climbing, while others rent out a video arcade. What about you?

And remember, there are no right or wrong choices — the only wrong answer is not to answer at all.

Daniel Hood is editor-in-chief of Accounting Today and Tax Pro Today, and has covered the tax and accounting field for over 20 years.

How blockchain might affect audit and assurance

By Ken Tysiac

Although emerging blockchain technology may significantly change financial statement auditing, accounting professionals will continue to have an important role in the audit and may see new opportunities related to blockchain, according to a newly released audit and assurance alert.

Blockchain technology forms the foundation for an internet-based peer-to-peer network that uses computer-powered cryptography to facilitate exchanges of value. Computers on the network, known as nodes, simultaneously verify and record transactions, allowing parties that do not know one another to complete transactions without the traditional trusted intermediary, such as a bank or credit card network. This technology, originally created for bitcoin but since developed for many other cryptocurrencies and uses, including smart contracts, has the potential to disrupt numerous industries.

The emergence of blockchain has led to concerns over the future of CPAs in auditing. That's because the combination of peer-to-peer networking technology and cryptography allows for the creation of a distributed, "triple-entry" ledger that can automatically confirm and record transactions, virtually in real time, and is extraordinarily difficult to change after the fact. To some, it may seem that there would be nothing left for a CPA to audit if all transactions are captured and preserved in an immutable blockchain.

Those concerns are addressed in a report authored by several leaders in blockchain technology from Deloitte's U.S. audit and consulting business, as well as blockchain leaders of Deloitte Canada, CPA Canada, the AICPA, and the University of Waterloo. The report, Audit & Assurance Alert — Blockchain Technology and Its Potential Impact on the Audit and Assurance Profession, describes how blockchain technology could potentially affect the financial statement audit.

According to the report, while the acceptance of a transaction into a reliable blockchain may constitute sufficient appropriate evidence for certain financial statement assertions, it may not provide sufficient audit evidence related to the nature of the transaction. For example, although the transfer of bitcoin is recorded on the blockchain, the auditor may not be able to determine that the product was delivered based solely on an evaluation of information on the bitcoin blockchain.

According to the report, a transaction recorded in a blockchain may:

- Be unauthorized, fraudulent, or illegal.
- Be executed between related parties.
- Be linked to a side agreement that is "off-chain."
- Be incorrectly classified in the financial statements.

Although CPAs may be able to develop procedures to obtain audit evidence directly from the blockchain, the auditor would need to consider the risk that the information is inaccurate because of error or fraud. This may present new challenges because there is a good chance the blockchain would not be controlled by the entity being audited. The CPA auditor will need to extract the data from the blockchain and also consider whether they are reliable.

But the report says migration to the blockchain might enable CPA auditors to streamline the audit process. With access to real-time data, CPA auditors can develop software to continuously audit organizations using the blockchain and eliminate labor-intensive manual data extraction and audit preparation activities.

In addition, the report says new roles for CPAs that may develop as a result of blockchain's emergence include:

- Auditor of smart contracts. Smart contracts may be embedded in a blockchain to automate business processes. Parties to smart contracts may be eager to engage a CPA to verify that smart contracts are implemented with the correct business logic.
- Service auditor of consortium blockchains. Potential users of private blockchain products may wish to engage a CPA to provide independent assurance on the stability and robustness of the system's architecture. Rather than each participant performing his or her own due diligence, it may be more efficient to hire a CPA to achieve these objectives. A trusted and independent third party may be needed to provide assurance as to the effectiveness of controls over the private blockchain.
- Access-granting administrator. A trusted, independent third-party CPA may be the perfect candidate to serve as the central access-granting administrator for a blockchain that requires permission to join.
- Arbitrator. CPA assurance providers may be among the qualified professionals in the future who would settle disputes among participants in a private blockchain.

While the exact implications of blockchain for CPAs are uncertain, the report urges members of the profession to learn more about the technology and consider the skills they will need to meet market demands as blockchain use increases.
Identifying the risks associated with blockchain and learning how to use the technology for a competitive advantage can help CPAs maintain and increase their relevance in the business environment.

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Three Security Vulnerabilities Every Accounting Firm Must Address

Over the past year we saw a record-breaking high of 1,579 data breaches, as such accounting firm leadership around the world have security vulnerabilities first on their agenda.
But when practices across the globe collect and store both firm and client data, how can you be sure your organization won't be next? In short, protecting against a data breach requires a significant amount of planning and resources. If you don't know where to begin, we suggest that you first understand the top three security vulnerabilities that every accounting firm innately has:

1. Sensitive data is a target for hackers and malware
In 2017, we saw an almost 300% growth in global ransomware, which is malicious software that takes control of your computer until you "ransom" your data from the hacker that attacks the technology infrastructure of businesses of any size. Between attacks on Equifax (145 million people), Uber (57 million people), WannaCry (300,000 systems around the world) and Yahoo (3 billion accounts), it's clear

the threat of hackers and malware on sensitive data is only growing.

To avoid being the next victim, it's critical that organizations stay on top of all operating system patches, including patches on software or apps that store data, like Google Chrome. We also encourage organizations to utilize endpoint antivirus applications that have the ability to communicate with edge network devices (firewalls/network). This will limit the inconsistency in the security of different devices and make it more difficult for hackers to find a vulnerability.

2. Employees are your main threat

No business wants to consider that its employees could be a source of security vulnerability, but it's true. In 2016, 77% of data breaches involved an insider, which means even the most careful allocation of access and permissions can be compromised through employee negligence and sabotage.

Another complication is the increase in bring-your-own-device (BYOD) environments. Seventy-four percent of organizations either use or are adopting BYOD policies, which introduces a loss of control, standardization and compliance plus it creates a more complex security environment for your IT partner to manage.

Minimizing this risk requires the creation of a unique security strategy that aligns with your long-term business goals: consider restricting the types of apps allowed on employee devices or getting consent to use a Mobile Device Management software (MDM) and educate your employees on security best practices with thorough onboarding and training.

3. Your organization hasn't had a full risk assessment

The final threat to your accounting firm's security is that most accounting firms don't have a clear picture of the vulnerabilities that present the largest security threats to their organization. Less than 40% of organizations have conducted full-network active vulnerability scans more than once per quarter – a sure sign that the first step in addressing these vulnerabilities and building an overall IT strategy is to perform a full risk assessment.

In a risk assessment, you'll receive a detailed report answering questions such as:

- Asset list of all internal/locally stored data
- Asset list with locations of all cloud based data storage for both firm and clients
- Value of data sources
- Redundancy of both local and cloud based storage/software systems
- Update policies of both local and cloud based storage/software systems
- What would happen if either data sources were damaged or lost?
- What are our system's most significant threats and vulnerabilities?
- What's the best way to minimize exposure to these threats and vulnerabilities?
- Resolution plan should a breach occur

Final Thoughts

Securing your firm's and your client's data is not something that can be completed with one action or one decision; it's an ongoing process that must be reviewed and updated regularly. This is why it's so important that accounting firms take a comprehensive approach to designing and implementing an IT strategy that takes these changes into account and starts with a comprehensive risk assessment.

In short, the next time you read about an enormous security breach in the news, you'll rest easy knowing you've taken every precaution to protect your organization from these common vulnerabilities.

Alessandra Lezama is the CEO of AbacusNext, a software and private cloud services provider for the legal and accounting professions.