



ENABLING PURPOSE DRIVEN ORGANIZATIONS

PAIBs Leading Sustainability and Digital
Transformation

Message from Sanjay Rughani, IFAC Professional Accountants in Business Advisory Group Chair



Purpose driven organizations, climate, the SDGs, accelerated digitalization, future skills, and attracting the next generation of accountants continued to dominate the agenda during the recent meeting of [IFAC's Professional Accountants in Business Advisory Group](#). Convening virtually over two

days, this dynamic global group of business and finance leaders shared their insights on these key global trends and how they are elevating the role of professional accountants in business and the public sector (PAIBs).

Over the last year, in the face of massive uncertainty and ambiguity, PAIBs have strived to help organizations navigate the COVID-19 pandemic and move from crisis to recovery. The crisis demonstrates the importance of taking into account purpose, people, planet as well as profitability in the evaluation of business success.

Purpose driven organizations are leading paradigm shifts, factoring in key trends, consumer behavior shift, and societal needs into management approaches and business models. We were joined by two such companies. The Chairman and CEO (America, Europe and Asia Pacific) of Japanese company OMRON shared with us how integrated reporting and the SDGs have enabled OMRON to integrate sustainability and contribution to society through its innovative products with its ability to optimize earnings and return on invested capital (ROIC). The Group CFO of Malaysian conglomerate Sime Darby Berhad shared insights into how the company has progressively improved its integrated thinking and reporting to better report on the business and communicate to investors and other stakeholders how the company creates long-term value.

Climate change has also become another frontier of long-term value creation. It is a systemic risk that requires accountants to be climate literate so they can help organizations to properly understand and deal with climate risk and opportunity. Companies and their investors lack robust climate impact insights to understand how it will affect business resilience. Together with KPMG, we identified how we need to position accountants to be able to understand the implications of climate change on an organization and its financial performance and prospects.

As a CEO, I have relied on my CFO to provide objective, relevant and reliable sustainability and financial information to ensure that our organization and investors have the information needed to deliver a strategy that can be ultimately compatible with a Net Zero economy.

The PAIB Advisory Group is also exploring more deeply public sector and PAIB priorities post COVID-19. During our recent global public sector roundtable, we focused on how PAIBs have been a key part of the frontline response to the pandemic, helping governments and other public sector organizations direct emergency expenditure to priority areas, as well as reinforce trust in public services and spending amidst heightened demand for transparency and accountability. In recovery, the world's governments face an increasingly difficult balancing act between continuing to spend on immediate priorities and investing in longer-term strategies to restore economic growth, while at the same time trying to ensure sustainable, equitable and inclusive recovery. PAIBs have been playing a greater leadership role in the public sector to help navigate the tough choices in service delivery and financial management.

Looking to other PAIB and finance function trends that impact our future readiness as a profession, we considered the escalating digitization of procurement and how this is significantly affecting

finance and accounting roles in procurement and supply chain operating models, and what it means for our capabilities and skills. We also discussed the realities of virtual finance as the new normal and the extent to which finance and accounting work can, or should, be done from home once a return to the office is safe.

IFAC and ACCA's report, [Gen-Z Groundbreakers: Gen Z and the Future of Accountancy](#), which shows the aspirations and concerns of over 9,000 18-to-25-year-olds, also poses a challenge to the profession in communicating how accountancy careers can lead to rewarding roles in enabling sustainability and long-term value creation.

There is great opportunity to welcome a new generation of accountancy leaders into organizations, and to actively learn from them, but only if the profession is proactive in attracting young talent. This will require better communication of the breadth of opportunities a career in accountancy provides. To support this, it is important we continue to drive forward the key areas of the PAIB agenda covered in this report and share our learnings across the global accountancy profession. Together, we can enable a PAIB-relevant profession that is attractive to the new generation entering the workforce.

Stay well and blessed.

Sanjay Rughani

Chair

IFAC Professional Accountants in Business Advisory Group

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VALUE CREATION AND SUSTAINABILITY

An increasing number of companies are fundamentally transforming their approaches to value creation and sustainability. These transitions are driven by a rethinking of how business contributes to societal goals and the focus of investors and other stakeholders on the environmental, social and governance (ESG) performance of organizations.

Purpose driven organizations are leading paradigm shifts in management approaches and business models based on understanding key trends and societal needs linked to the Sustainable Development Goals (SDGs) which provide the basis of sustainable value creation and long-term investment in innovation and research and development (R&D). Essential in enabling a purpose-led stakeholder approach is the information accountants provide to support decision-making that helps navigate businesses to long-term value creation.

Such organizations are increasingly using integrated reporting to connect all important aspects of value creation and sustainability to communicate and engage with investors and stakeholders. Since the International Integrated Reporting Council was formed with the support of IFAC in 2010, the number of organizations using integrated reports story has increased with now more than 2,500 organizations in over 70 countries implementing integrated reporting.

The PAIB Advisory group heard two case study examples on integrated thinking and reporting from:



OMRON is a global electronics company headquartered in Japan, specializing in the field of automation, ranging from industrial automation and electronic components to social systems and healthcare. OMRON executives, Nigel Blakeway and Tsutomu Igaki, shared insights on how OMRON's [integrated reporting](#) is enabling the business, as well as the expectations of the CFO and finance team and external accountants/auditors. [READ MORE](#)



Sime Darby Berhad is one of Malaysia's oldest conglomerates with four major businesses; industrial, healthcare, motors, and logistics. Having recently published their 7th integrated report: [Resilience through Diversity](#), Sime Darby's Group CFO, Mustamir Mohamad outlined the company's journey on integrated thinking and reporting and highlighted the pivotal role of the finance function. [READ MORE](#)

IFAC CEO, Kevin Dancey was recently involved in an executive panel discussing the role of CFOs and other professional accountants in stakeholder capitalism and value creation, alongside [Geraldine Matchett](#), co-CEO and CFO of DSM, Dutch multinational health and nutrition company, as well as the World Business Council for Sustainable Development (WBCSD) and the Association of International Certified Professional Accountants (AICPA).





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Integrated reporting in Japan

The [2019 KPMG Survey of Integrated Reporting in Japan](#) shows the momentum of integrated reporting among Japanese companies in recent years. In 2019, 513 companies issued a self-declared integrated report – the ninth straight year of growth. 477 of these companies are listed on the First Section of the Tokyo Stock Exchange (2,186 companies in total at the end of 2020).

Companies in Japan are using integrated reporting to demonstrate their contribution to economic and sustainable development. However, despite the increasing quantity of integrated reporting, quality remains a challenge. Consequently, the role of professional accountants and accounting firms in helping companies improve the quality of integrated reporting is significant.

The development of integrated reporting supports the Japanese Government's Revitalization Strategy based on promoting sustainable corporate value creation and mid to long-term investment. This Strategy is supported by the Ministry of Economy, Trade and Industry Guidance for Collaborative Value Creation that focuses on growing sustainable growth of national wealth over the long term by enhancing capital efficiency covering various capitals.

Japan is witnessing significant developments in company approaches to value creation and sustainability. This greater emphasis on long-term value creation and sustainable growth is reinforced by institutional investors and asset managers who

are more focused on ESG performance and linked capital flows.

OMRON and Sime Darby are good examples of a purpose-led organizations using integrated reporting to communicate their value creation story in a way that has resonated with investors and asset managers .

Corporate sustainability reporting

IFAC is strongly [advocating](#) for international standards on reporting of sustainability information to deliver much needed reliability, comparability and consistency of information, which is important for investors but also important for business. To achieve this, it is critical that an international sustainability standards board be created under the International Financial Reporting Standards (IFRS) Foundation to ensure a coherent global ecosystem of interconnected financial and non-financial reporting, so companies can benchmark themselves and track their progress.

To help establish global standards under the IFRS Foundation and ensure the interoperability of these standards with regional and jurisdictional initiatives, IFAC established a building blocks conceptual [approach](#) to reporting sustainability information.

➤ Recommendations for IFAC Members

Kevin Dancey's recent [letter](#) to IFAC member organizations on corporate and sustainability reporting sets out IFAC's corporate reporting agenda in 2021 including:

- Advocating for a global approach to sustainability standards
- Encouraging sustainability-related skills and competencies
- Championing an integrated mindset
- Advancing assurance services
- Positioning the profession to lead



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DELIVERING ON CLIMATE CHANGE, THE ROLE OF THE ACCOUNTANCY PROFESSION

Key messages

- Given the systemic threat of climate change to value creation and sustainable development, a low-carbon transition is underway and will change how economies operate creating uncertainty and the need for greater transparency.
- Climate is a financial risk and opportunity. However, companies and their investors typically lack robust climate impact insights to understand how it will affect business resilience and long-term value creation.
- Climate scenario analysis and risk assessment can be complex areas in which accountants and auditors need to be involved particularly translating risks and opportunities into numbers. Without quantification of the risks and opportunities, companies will find it hard to compare climate change against their wider enterprise risks, and investors are unable to make informed decisions about the allocation of their capital.
- Climate risk reporting requires significantly better disclosure around key accounting estimates and judgements in assessing and reporting on financial position and performance.
- Investors and regulators, and subsequently auditors, have started to ask questions of companies, particularly those with large carbon footprints, challenging their assumptions and risk disclosures in their financial reporting.



Simon Weaver, KPMG Partner and head of KPMG's Climate Risk & Decarbonisation Strategy team.

KPMG's multi-disciplinary Climate Risk and Decarbonization Strategy team supports clients with developing and achieving net zero emissions targets and plans. KPMG helps clients undertake climate scenario analysis and risk assessments using its Climate IQ tool. Such assessments are based on a comprehensive evaluation of an organization and its value chain to identify key drivers of its climate risk and opportunity exposure related to products, services and operations. Climate scenario analysis and risk assessments enable the quantification of climate impacts and risks which improves engagement with boards and management, and ultimately the incorporation of risks and opportunities into strategic decision-making processes.

Understanding the financial impact of climate change

Climate change is a financial and investment risk or opportunity. It can no longer be categorized as purely an ESG or sustainability-related risk without potential near-term financial consequences.

Climate risk represents the risk of financial value impact as a result of climate change, or the value created from changes in markets and demand. For many companies, climate change is

leading to consequential risks and opportunities including

- Opportunities to access new markets driven by changing customer sentiment
- Prolonged business interruption in key locations
- A need to reduce and decarbonize energy consumption
- Damage to brands and reputation leading to reduced customer demand.

Understanding the implications of climate change on a strategy and business model enables improved strategic decisions, including providing the basis for a decarbonization plan to reduce direct or indirect emissions resulting from a company's operations and supply chain which will likely lead to greater business resilience.

Two major categories of climate risks:

Physical	Impacts of a changing and more variable climate e.g., water stress, wildfires, droughts or floods, rising sea levels
Transitional	Regulator and market response to curbing physical risks e.g., changes in consumer preferences and spending, policy and regulatory changes such as carbon pricing and energy efficiency standards



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The role of the accountancy profession is fundamental in ensuring transparency

Better climate insights and reporting drive awareness of the risks associated with assets and operations. The right qualitative and quantitative disclosures across all entities in capital markets, including lenders and financial services, will enable the market to price climate risks and lead to more reliable valuations, and ultimately ensure that climate risk does not undermine the stability of the financial system.

Currently, climate risk [disclosure globally is inadequate](#). What can make addressing climate risk more challenging is different entities in the system believing they do not need to consider and disclose climate-related matters because they have passed the risk to a third party. For example, the physical climate risk to property is not adequately recognized by mortgage lenders or insurance companies, who typically pass the risk on to reinsurers, who then in-turn package risks and sell them to others such as bondholders. Consequently, for climate risk to be fully reflected in company valuations every company, every bank, every insurer and investor needs to disclose their climate-related risks.

Where do accountants have the most influence?

- **Valuations** – until recently climate has not been fully taken into account in valuations because companies have not reflected climate-related risks in their financial position and performance. As climate is increasingly integrated into corporate reporting, valuations will better reflect the actual and potential impacts of climate change. Company valuations in a 2-degree Celsius or lower world will likely be very different given the potentially significant implications on future cash flows, both positive and

negative.

- **Risk and strategy** – incorporating climate risks and opportunities in strategy and risk analysis including both qualitative and quantitative information. As climate scenario analysis is better understood, climate risks should be embedded in strategic decision-making processes such as capital investment. Qualitative information on risks and opportunities should flow through to accounting judgements on asset valuations and useful lives.
- **Audit and assurance** – pushing companies to disclose relevant climate-related information and, within existing standards and regulations, ensuring disclosure of material climate risks and opportunities. For example, the respective audits of BP and Royal Dutch Shell both included climate risks and the energy transition in their Key Audit Matters. Assumptions used as part of scenario analysis should be stress tested in evaluating impairment indicators, and auditors will increasingly seek to challenge key accounting estimates and judgements. Assurance of climate-related information will be critical to ensuring confidence in climate-related disclosures in the “front half” of annual reports.

Leveraging the TCFD’s recommendations

The Financial Stability Board’s Taskforce on Climate-related Financial Disclosures (TCFD) [recommendations](#) are a catalyst for action as well as enhanced disclosure. Although the TCFD recommendations focus on improving disclosure, they provide a robust foundation for strategically managing climate-related risk and opportunities in organizations across four areas:

- **Governance**: The organization’s governance procedures

surrounding climate impacts covering both risks and opportunities. Investors are seeking to understand the governance processes, controls and procedures used for managing climate-related risks and opportunities. And importantly, not just that the right conversations are being had at the Board level – but how the considerations around climate change are being pushed down through the business.

- **Strategy**: The actual and potential climate-related impacts on the organization’s businesses, strategy and financial planning – underpinned by scenario analysis. Resilience to climate change is evaluated against a range of climate-related scenarios including a 2-degree Celsius or lower scenario. Investors need to understand how the implications of climate-related risks and opportunities are integrated into the entity’s strategy and business model, including how resources are to be used to support strategic resilience and to realize opportunities. Climate risks and opportunities will relate to the strategy and business model in terms of adaptation and mitigation activities, products and services, supply/value chain, investment in research and development, operations, price of inputs and business model dependencies.
- **Risk management**: The processes used by the organization to identify, assess and manage current and emerging climate-related impacts. Climate-risk assessment is enhanced by scenario analysis (explained on page 8). Investors need to understand the effectiveness of this risk management process and how it links to strategy and planning.



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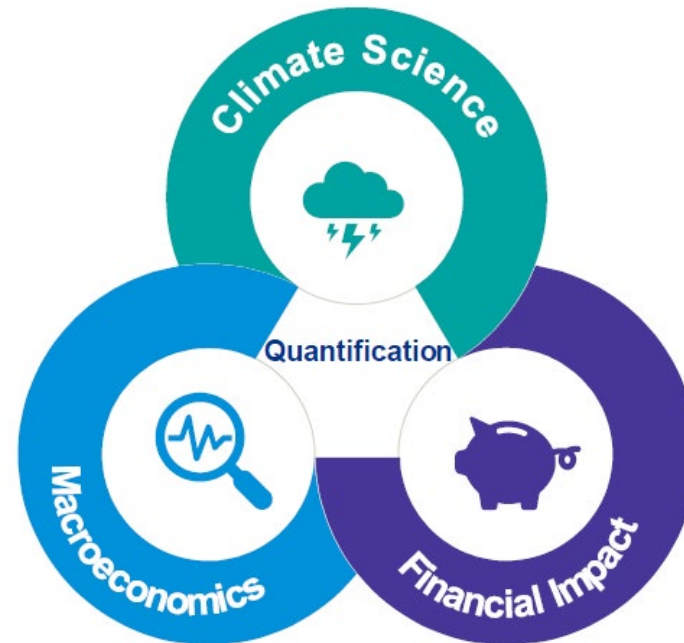
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- **Metrics and targets:** The metrics and targets utilized to assess and measure climate impacts, ensuring goal congruence between stakeholders. Investors need to understand the metrics and targets used to assess and manage climate-related risks and opportunities. Targets set by management drive actions to mitigate or adapt to climate risks and opportunities. For example, targets to reduce greenhouse gas (GHG) emissions in line with science-based targets are needed to achieve 2-degree Celsius warming or lower. Information requirements will include:
 - KPIs to assess performance against targets and strategic goals
 - Metrics used to measure and manage risks and opportunities such as the current carbon price or range of prices used for assessing climate risks and making investment and strategic decisions
 - Metrics that reflect the impact of risks on financial performance including
 - financial impacts on income and expenses, operating costs and revenues, savings and the potential effect on future cash flows and income, and
 - impacts on financial position such as change in the useful life of assets, the potential effect on asset values, and the viability of projects and the contingencies

Climate scenario analysis and risk assessments



Scenario analysis is a critical element in bridging risk management and strategy, which can often be siloed functionally within organizations. Climate scenarios provide useful insights into how resilient strategies and business models are in the context of physical and transition risks associated with climate change.

Climate change scenario analysis provides greater understanding of both the specific and potential climate factors that have financial consequences. It also helps to highlight the interlinkages between climate risks and other

environmental, social and economic areas.

Scenario analysis is complex given it deals with the intricate interrelationships between risks and uncertainty of timescales and events. It involves three key inputs:

- **Climate science** – what the world will look like under different scenarios including a two-degree warming scenario, which is the basis of the [2015 International Paris Climate Agreement](#), and the potential impacts of more extreme scenarios and the transition and physical risk trade-offs. For example, achieving a 1.5-2-degree Celsius world (based on aggressive mitigation) would be subject to significant transition risk, and a four-degree business-as-usual world would involve significant physical risk.
- **Macroeconomics** - changes arising from different scenarios covering impacts on GDP, productivity, population and migration patterns, and prices etc. and relating this to current strategies, plans and business models. Most scenario planning assessments are similar in terms of how they treat potential physical climate risk and its potential impact on assets. However, transition risk modeling can vary significantly depending on assumptions made on macroeconomic factors.
- **Financial impact** - A significant challenge in climate-risk assessments and disclosures is that climate impacts are often not quantified and monetized. Quantification helps to drive medium and long-term planning, and is where accountants involved in financial planning and analysis, can significantly contribute by providing financial-related information about profits and valuations that reflect climate-related risks and events.



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Climate impact and key accounting estimates and judgements

Climate change impacts accounting estimates and judgements used in the preparation of financial statements and reports. Material climate-related matters can be incorporated in financial reporting under existing IFRS Standards and particularly where climate change is materially affecting financial performance or position. In accordance with IAS 1, *Presentation of Financial Statements*, companies should be considering climate-related matters in applying IFRS standards when the effect of those matters is material in the context of the financial statements taken as a whole i.e., information is material if omitting, misstating or obscuring it could reasonably be expected to influence investor decisions. Other climate-relevant IFRS standards include

- Inventory obsolescence (IAS 2)
- Useful economic lives of assets (IAS 16)
- Impairment of Assets (IAS 36)
- Provision of decommissioning costs (IAS 37)
- Financial Instrument cash flows (IFRS 9)
- Fair Value measurement and inputs (IFRS 13)

The Climate Disclosure Standards Board (CDSB), an international consortium of business and environmental NGOs in which KPMG and IFAC are involved, has issued [guidance](#) on the disclosure of the financial effects of climate-related issues on a company's financial statements.

Relevant work from IFAC members and partners

- Accounting for Sustainability and CPA Canada, Essential Guide to Valuations and Climate Change [English](#) and [French](#)
- Accounting for Sustainability, [TCFD Top Tips for Finance Teams](#)
- KPMG and Eversheds Sutherland, [Climate Change and Corporate Value](#)
- ICAEW, Climate Change [Hub](#)
- CDSB, [Accounting for Climate](#)
- CDP, CDSB, GRI, IIRC, SASB, [Reporting on enterprise value: Illustrated with a prototype climate-related financial disclosure standard](#)

IFAC Member Case Study

The Royal NBA Prioritizes Climate Action

Since conducting two [surveys](#) of both its PAIB and public practice members that showed their involvement in climate issues being limited, The Royal NBA has proactively worked to raise awareness of the importance of the accountant's role in responding to climate change.

The Royal NBA issued a [Public Management Letter](#) to its members highlighting climate as a strategic priority and financial concern. Their continuing work in this area involves providing its members information on how to make climate part of strategy, integrate climate into business processes, and internal reporting and to deliver actionable insights.

➤ Recommendations for IFAC Members

Professional accountancy organizations (PAOs) have an important role in keeping accountants informed of how they can support efforts to respond to and report on climate change. Accountants should be climate literate in five areas to support them in their roles in business and in advising clients:

- Climate finance
- Decarbonization strategies and business models
- Climate scenarios and risk assessments
- Climate performance and data management
- Climate reporting and disclosure



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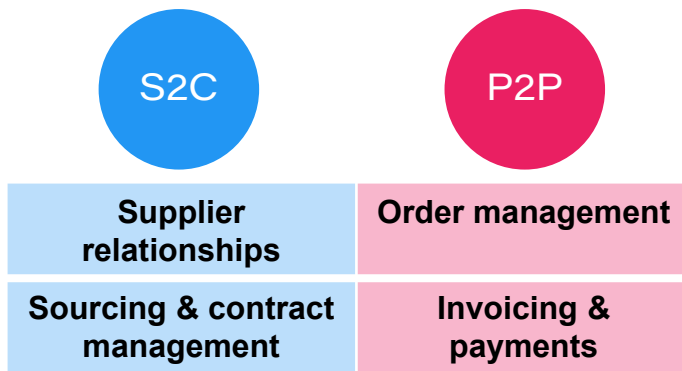
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PROCUREMENT AND SUPPLY CHAIN OPERATING MODELS ARE CHANGING THE ROLE OF FINANCE FUNCTIONS

The PAIB Advisory Group considered the digitization of procurement and how this is affecting finance and accounting roles in procurement and supply chain operating models.

Procurement and supply chain are connected areas subject to huge change and provide a significant opportunity for the finance function, and for accounting and finance professionals, to evolve into a business partner role.

Source-to-pay (S2P) processes include procure-to-pay (P2P) and source-to-contract (S2C) aspects of procurement and supplier management. In most companies, the transactional P2P processes are positioned under the CFO and finance function. Increasingly strategic S2C activities are being placed under the CFO function, or where they are in another function, the finance team is involved in providing support and business partnering to improve processes and insights.



Digitization of procurement

The extent of digitization and automation in procurement is rapidly increasing to enhance productivity and accuracy. It is significantly changing how finance and accounting work is performed and the expectations of accounting and finance professionals. The experiences of PAIB Advisory Group members are that the digitization of procurement is accelerating and maturing in larger companies. Digitization has also markedly accelerated since the COVID-19 pandemic particularly in relation to P2P technology implementation. [McKinsey](#) analysis estimates that at least 40% of S2P processes are currently fully or partially automatable and the automatization potential of transactional parts of P2P such as order, invoice and payments processing is significant.

The extent of digitization depends on the size and type of organization. Smaller and not-for-profit organizations are typically at a lower level of maturity and looking specifically at quick and cheap automation and smart work-flow solutions to reduce ordering and invoice processing, as well as improve sourcing and supplier management through enhanced data and analytics. Automation maturity can be graduated, for example there are different levels of invoice automation: auto populate, auto post and fully touchless processing. Fully touchless is not always possible even for larger companies because of legal and tax regulations.

Key trends include:

- Greater adoption of automation in P2P (e.g., enabling touchless document processing, matching and payment processing, and tax calculations) and S2P (e.g., automated and online biddings, supplier reviews and some basic sourcing) to remove low-value human tasks and reduce the cost of finance. This investment in technology and the cloud includes RPA/intelligent automation, machine learning algorithms and bots/cognitive agents, and natural language processing.
- Adoption of the [Internet of Things](#) (IoT) in operations and manufacturing using interconnected physical devices to provide more data on the tracking of products through the supply chain. This allows for faster and more efficient distribution and operations, together with enhanced quality control. Understanding and being engaged in IoT helps the finance function to work more closely with operations and contribute to supply chain optimization. Data from IoT, along with other forms of big data, is also important in expanding the boundaries of accounting and enabling finance and accounting professionals to potentially add more value to organizations.



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- Exploration of additional innovative solutions not yet widely adopted in supply chain such as blockchain and related tools including Ripple Transaction Protocol, are being explored by a few larger organizations to improve supply chain management through greater automation, transparency and visibility. Currently, the penetration of blockchain appears to be limited to a few use cases particularly focused on enabling provenance of products and materials, for example ensuring full traceability of minerals to compliance-accredited mining locations. Over time, it is expected that distributed blockchain technologies will demonstrate strong potential and, in turn, enhance end-to-end supply chain visibility, flexibility and speed, while reducing costs and risks.
- Larger companies are also working closely with their key suppliers to redesign relationship processes, enable adoption of digitization and tools at the supplier end to achieve greater end-to-end transparency and supplier empowerment, and lower system costs and risks.

The implication for PAIBs is that much of the traditional controlling role in P2P is vastly diminishing and new opportunities and challenges have emerged.

Key trends include:

- Given the finance function is the key connective tissue between an organization, its suppliers, banks, legal and tax authorities, regulators, and other counterparties, involving finance early in process design to deliver end-to-end procurement and sourcing is critical. A key challenge is ensuring finance processes are not siloed from related critical business processes, but to achieve this requires finance and accounting professionals to be at the table when redesign or improvement of business processes occur. It is also interesting to see an example of the entirety of end-to-end value creation processes including finance, operations, supply chain, enterprise performance and strategy functions being placed under the domain of the CFO as has been the recent decision in [Boeing](#).
- Automating processes requires new agile project management techniques. Some companies are deploying the widescale use of lean and agile management principles that enable cross-functional and customer-focused approaches to process design that PAIBs need to be familiar with to deliver better solutions. These involve strong product owners and subject matter experts that link key processes to the business and ensure they deliver value to customers (internal users). For example, a product owner for S2P represents the organization ensuring that users are incorporated into execution and their needs are met in the rollout of new processes and technology and tools. As well as learning agile management approaches, PAIBs need to have a strong connection to other business functions, particularly understanding the language and practices of operations.

- Greater digitization enables a shift of focus and resources to higher value activities, providing strategic decision support by utilizing data and insights to enhance supplier management and de-risking the supply chain. S2C and supplier relationship management have become key areas of focus for procurement and supply chain activities within companies and for retained finance teams (where P2P processes are in the shared services environment). Data analytics and artificial intelligence are critical in informing procurement decisions and supply chain management to bring tangible improvements in vendor management and negotiation, and strategic sourcing that reduces business risk. PAIBs need to blend their knowledge of financial decision-making tools and reporting methodologies with data analytics to provide greater insights to supply chain opportunities and challenges.

Supply chain de-risking is leading to changing expectations of finance functions.

Key trends include:

- For some companies, evaluating post COVID-19 supply chain resiliency has involved bringing finance and procurement activities closer together to help identify opportunities for supply chain enhancement. Engagement with other functions is key to the contribution of the finance function given some important procurement and supply chain data is not readily available for finance teams such as on supplier performance and relationship management. Securing the data needed requires greater engagement with procurement and operations and a process for evaluating key suppliers.



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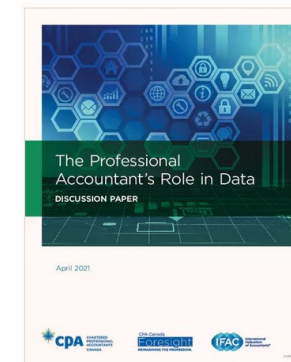
- Ensuring responsible procurement and ethical sourcing in the context of the United Nations Sustainable Development Goals has become of strategic importance to the reputations and social license to operate of many companies. Supply chain de-risking and doing the right thing involves understanding supplier risk, mitigating contractual and operational risk, and seeking alternative sources of supply. [Modern slavery](#) and forced labor requirements present immense challenges for organizations and finance functions. In an increasing number of jurisdictions, corporations must disclose the risk of modern slavery occurring in its supply chain and what is being done to manage the risk. Delivering on company net zero emissions targets also requires greater levels of supplier engagement and collaboration.
- In the public sector, ensuring probity and good governance in procurement continues to be an important part of protecting public money from fraud and corruption. During the pandemic, this has involved balancing speed of decision making to secure needed supplies with ensuring compliance with policies and procedures. The utilization of technology is also being used to deliver more efficient and effective risk management and control processes in procurement. For example, artificial intelligence tools deployed at scale to detect fraud and errors.

Implications for PAIB capabilities and skills

1. To contribute to value creation and protection across the spectrum of procurement and supply chain activities, key areas of capability include
 - **Digital and technology:** automation, cognitive technologies and tools, data analytics, and business process design
 - **Technical:** modeling and statistics, and advanced analytics
 - **Strategic:** supply chain management and risk management in a strategic context
 - **Business partnering and people/interpersonal skills** that provide the basis for influencing without authority and collaboration with other functions, including co-creation with users and other stakeholders outside of the organization
2. Some organizations are facing the immediate challenge of bringing in the skills and capabilities needed for the finance function to play a more strategic role in procurement. This presents CFOs a choice of whether to invest in upskilling finance staff internally and/or seeking external expertise in data analytics to source and use data to enhance procurement and supply chain decision making.

The Professional Accountant's Role in Data

As economies digitize, organizations of all sizes across sectors face enormous disruption and opportunity. Professional accountants must expand their approach to include both structured and unstructured datasets to support organizations in making insight-driven decisions. The Professional Accountant's Role in Data, a joint report released by IFAC and the Chartered Professional Accountants of Canada (CPA Canada), outlines a data management value chain and explores four key roles professional accountants can occupy within it: Data Engineer, Data Controller, Data Scientist, and Strategic Advisor.





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THE VIRTUAL FINANCE FUNCTION – THE NEW NORMAL POST CV-19?

Restrictions because of the COVID-19 pandemic have challenged both *how* and *where* finance and accounting work gets done. Reflecting on the last year, and with many organizations across countries still operating largely remotely, the PAIB Advisory Group discussed whether virtual finance could be the new normal, the implications for the business partner role, and the challenges of leading a virtual finance team.

Times of crisis provide [unique opportunities for radical change](#), and according to a [McKinsey Global Survey of executives](#), in just a few months responses to COVID-19 have sped up the adoption of digital technologies by several years. Technology has enabled finance and accounting teams to adapt quickly (and by necessity) to remote working models. Those that had already started digitizing business and finance processes were more prepared for the rapid shift. For others, the finance function has played a leading role in supporting accelerated digital transformation, automating finance processes as much as possible at the same time as trying to ensure a robust system of internal control in a virtual working environment.

The PAIB Advisory Group discussed the extent to which finance and accounting work can, or should, be done from home post COVID-19 once a return to the office is safe.

Key factors include :

- The **enterprise-wide view** – finance is only part of an organization and its operating model will be informed by organization wide policies. Recognizing the relative success of remote work over the last year, as well as

employee demand for more flexible working models, many companies are offering options. For example, Salesforce recently announced its [“Work from Anywhere”](#) approach, which allows employees to choose from three options: hybrid, fully remote, and office-based. [Standard Chartered Bank](#) is also implementing a hybrid approach, having assessed that more than 80% are suitable for more flexible working.

- The **internal customer** and where they are based. The finance function, in its business partner role, may support various business units or departments within an organization. Where their internal customers are based and how they operate, will likely determine where finance teams will predominantly need to work to provide support most effectively. Being an effective business partner requires the finance function to obtain and maintain a good understanding of the business, which can be more challenging to achieve remotely and may require a physical presence and in-person interaction with other business units.
- Organizational **culture** – the pandemic has forced a paradigm shift and a mindset change, demonstrating how it is possible to operate fully remotely, while still maintaining productivity. Leading a remote team requires a different management approach focused on outcomes and relies heavily on an underlying culture of trust. Looking forward, many see a hybrid model as an optimal solution that provides flexibility and the benefits of both in-office and at-home working. But this also

brings with it challenges for leaders in managing teams with team members based in different locations and with different working patterns. There may also be downsides in terms of collaborative working and innovation. McKinsey also highlights the risk of [two organizational cultures emerging, dominated by the in-person workers and managers](#).

- **Cost** considerations – as organizations consider longer-term strategic implications of COVID-19, many have been turning to their finance teams for guidance, with a particular focus on cashflow projections and cost management. Making remote working more permanent may be an attractive proposition as organizations seek to control costs. In the US, according to research and consulting firm [Global Workplace Analytics](#), a 50% increase in remote work could lead to over \$11,000 in savings annually per employee.
- **Security** considerations - those working with highly secure information may not be permitted to access this remotely. But even more generally, cyber security and data transfer security are key concerns in a virtual working environment. In the [2021 PwC 24th Annual Global CEO Survey](#) of over 5,000 business leaders, globally cyber was ranked the second highest threat (47% of CEOs gave a response of extremely concerned, compared with 33% in 2020). For North America and Western Europe, cyber was the top ranked threat with 69% and 44% respectively



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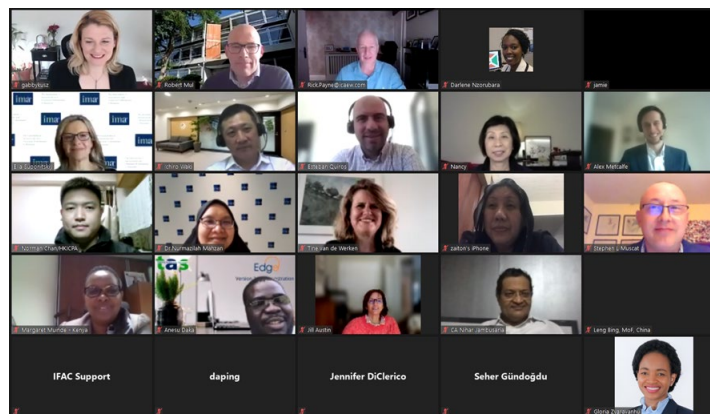
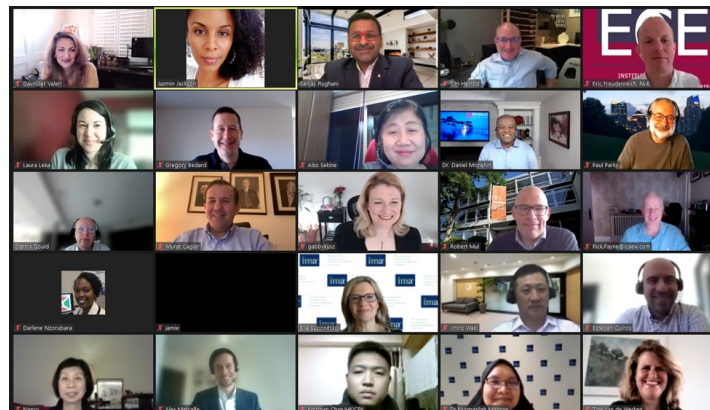
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- The **size** of the organization and the finance team, as well as the **composition of the finance team**. Maintaining team connectivity and strong working relationships virtually can be more challenging, particularly when onboarding new staff and integrating them into the team. Ways of coaching, training, and mentoring also need to be key considerations. According to a [PwC US survey](#), those with the least amount of professional experience (0-5 years) are more likely to want to be in the office more often.
- Attracting talent** – giving individuals more flexibility in working arrangements can help increase an organization’s attractiveness to new talent. The PAIB Advisory Group shared examples of where organizations were able to attract and recruit specialist talent both nationally and internationally specifically because a remote working option meant relocation was not necessary.

➤ Recommendations for IFAC Members

The PAIB Advisory Group emphasized the importance of ensuring any decisions regarding finance function operations and models of working must be carefully considered, evidence-based, and specific to the needs of the organization and its employees taking into account the factors above.



Remote Work Resources

- Deloitte: [FUTURE OF WORK: Ways of working to sustain and thrive in uncertain times](#)
- Deloitte: [Where will your employees work in the “next normal”?](#)
- EY: [The role of the remote worker in the post-pandemic era](#)
- Forbes: [13 Tips For Leading And Managing Remote Teams](#)
- ICAEW: [What we gain \(and lose\) from remote working](#)
- ICAEW: [The four skills remote managers should focus on](#)
- IFAC: [Solutions for Staff Onboarding under Remote Work](#)
- KPMG: [Addressing the impact of remote work](#)
- KPMG: [Work anywhere, together](#)
- McKinsey: [What employees are saying about the future of remote work](#)
- McKinsey: [Reimagining the postpandemic workforce](#)
- PwC: [It’s time to reimagine where and how work will get done: PwC’s US Remote Work Survey](#)



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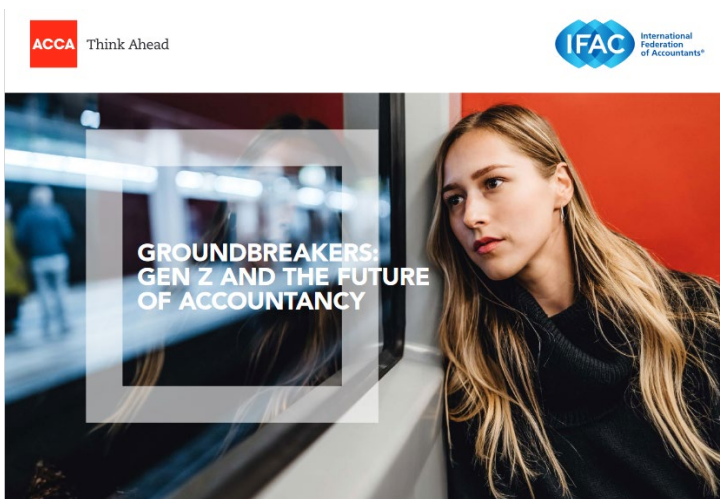
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GEN Z AND THE FUTURE OF ACCOUNTANCY



The PAIB Advisory Group considered the high-level findings of Gen Z Groundbreakers: [Gen Z and the Future of Accountancy](#), a joint research report between IFAC and ACCA.

The report brings together feedback from over 9,000 18- to 25-year-olds on their aspirations and concerns, as well as the views of employers around the world on how to harness the potential of Gen Z in the workforce.

The findings reveal accountancy has strong appeal for Gen Z particularly as a gateway profession to a career in business. Those already working in, or studying, finance and accountancy value long-term career prospects, the professional qualification, developing a broad range of skills

and the portability of finance roles globally as the most attractive aspects of a career in accountancy.

PAOs, global network firms, and industry must welcome this new generation of accountancy leaders into their organizations, and actively learn from them.

But the profession is missing opportunities to attract and retain young talent.

Those Gen Z respondents who do not want to pursue a career in accountancy cite various reasons, including not knowing much about a career in accountancy, finance and auditing, and concerns about having the right aptitude for the subject. Among those who are not currently in accountancy, there also remains a traditional view of the profession and the type of work and jobs it provides. The role of accountants in business is seen mainly as preventing and detecting fraud, supporting decision making, providing assurance, and ensuring ethical business. And even for those already employed in accountancy, there is an apparent disconnection in the minds of Gen Z that an accountancy career is purpose driven with specific opportunities to make a real difference to broader economic, societal, and environmental issues that contribute concretely to sustainable business.

There is a real concern that many Gen Zs may not pursue accountancy because they perceive that other career and educational options can provide more rewarding roles. This is a clear indication that PAOs need to better communicate the breadth of opportunities a career in accountancy provides,

including options beyond a career in public practice. This is particularly the case in countries where PAIBs have historically had little or no voice in the profession. The profession must also better position itself as one that can play a key role in areas of significant importance to Gen Z, such as fighting climate change and promoting sustainability. Combating the perception that accounting jobs are being replaced by technology is also crucial.

IFAC Member Case Study

To promote the value of the CPA to the business community and to society, [The Japanese Institute of CPAs](#) has developed an engaging video, [Origins and Future](#) (full length version available [here](#)), highlighting the value of its CPA designation.





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FROM CRISIS TO RECOVERY: PUBLIC SECTOR PRIORITIES TO SUPPORT COVID-19 RECOVERY

Governments around the world are dealing with pandemic crisis management as they respond to COVID-19, doing and spending, whatever they can to get through the immediate health and economic crisis. Fiscal interventions globally have already exceeded [16 trillion US dollars \(as of April 2021\)](#), a significant proportion of which has been from advanced economies, with [less than 20 per cent](#) from developing countries. COVID-19 has had a devastating impact on global poverty, and is estimated to push an additional [119 – 124 million people into extreme poverty](#), effectively reversing decades of progress. The pandemic has also highlighted and widened the inequality within and between countries. The most vulnerable in society have been disproportionately affected, and the pandemic is leading to an increasingly [unequal world](#). Increased spending has also drastically increased public borrowing, which according to the IMF, globally will reach an [unprecedented average of 99 percent of GDP in 2021](#).

In this context, to explore key strategic issues for the public sector and its finance leaders, IFAC convened a global virtual roundtable that brought together senior public finance professionals from across central and local governments, the health sector, accountant general and supreme audit institutions, as well as members of the International Public Sector Accounting Standards Board (IPSASB) and representatives from professional accountancy organizations.

Key takeaways include:

- **Challenges in balancing spending priorities** - Globally, the pandemic has caused huge value destruction in terms of economic activity, employment, and reduction of tax revenues. An important message was - it is crucial not to withdraw government support too prematurely. However, at the same time governments are very cognizant of the rising budget deficits and increasing debt burdens, and the need to evaluate spending strategies and investments to improve public sector resilience as well as deliver social value.
- **Public finances and service delivery are more strained than ever.** Public sector entities must think fundamentally different about how services are delivered and how to ensure public finances are more resilient going forward. They must capitalize on measures put in place, and major investments made, during the crisis that should remain long after COVID-19 (for example digital provision of services).
- **Collaboration is crucial to recovery** - this includes globally across countries, nationally across government departments and public sector entities, and between the public and private sectors. Public private sector partnerships have been critical during the crisis in a range of areas including vaccine development and rollout, procurement of personal protective equipment, and quarantining and track and trace arrangements.

- **Governments need to foster a pathway to sustainable recovery from the pandemic** - A sustainable and equitable recovery is evaluated in the context of the SDGs and national sustainable development plans that provide context to government policy and spending decisions to address systemic issues such as climate, gender inequality, access to education, and poverty.
- **Influencing decisions requires more than good financial information** – To understand the impact of spending on social value and outcomes, performance reporting needs to bring together financial and non-financial information to provide a more comprehensive picture.
- **There is heightened need for transparency and accountability** in the current environment to help build trust and reinforce the social contract between governments and citizens. Trust is particularly important in times of crisis given the demand for confidence in how public money is being managed and spent.

It was clear throughout the discussion that accountants have been, and need to continue to be, at the heart of the COVID-19 response, playing a central role in helping governments and public sector organizations make tough choices, innovate, do more with less, and reinforce trust in public services and spending. [READ MORE](#)

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