Finance Directors Update Course

September 2023

Now, for tomorrow

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HOUSEKEEPING

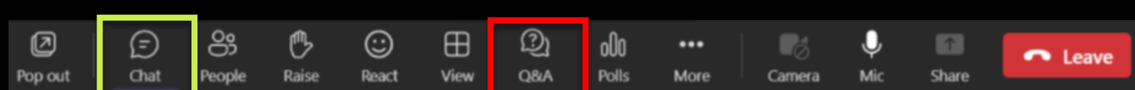
Thank you for joining us

Please keep your microphone muted & camera off.

During the presentation you can ask questions using the Q&A. We will answer some as we go along, but will leave most to the live Q&A at the end with all of our presenters – so don't go away!

You will find other useful information about the webinar and any links referred to in the presentation in the Chat box.

You should also have received a copy of the slides in advance, if you have not, please request a copy via the chat box.



HOUSEKEEPING

Feedback & CPD Certificates

We will send you a link to the recording from today's webinar in the next couple of weeks, along with a short feedback survey, which we would be very grateful if you could complete.

We appreciate all feedback, which helps us to plan future events to ensure they meet your needs.

Please use the feedback form to request your CPD certificate for attending:

https://www.surveymonkey.co.uk/r/FDupdateSept23

This is a CPD Course and provides 3 hours of relevant CPD.

Polls

Two polls will be launched in a moment

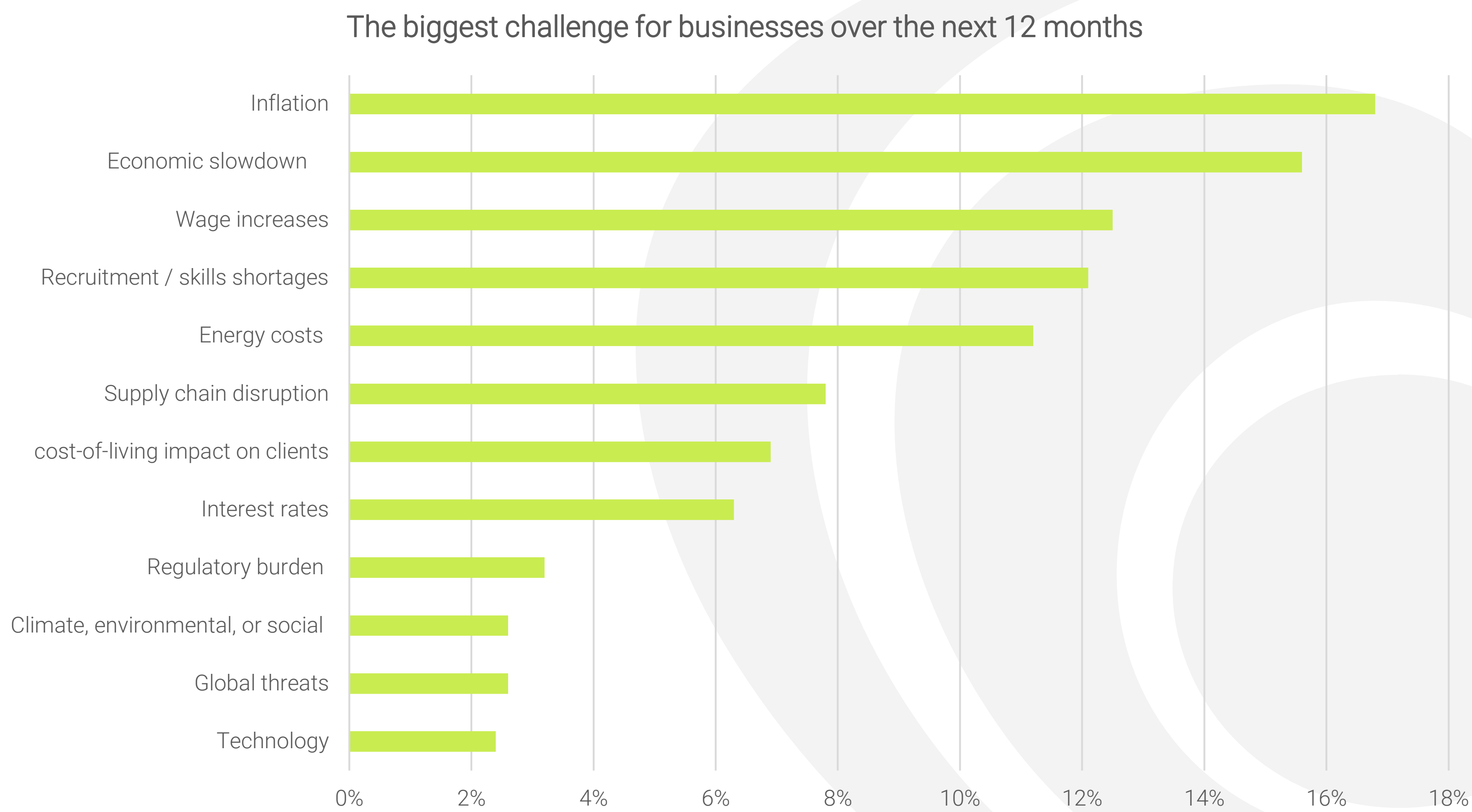
What do you feel?

Want to establish a barometer

Help us to tailor future courses and advice

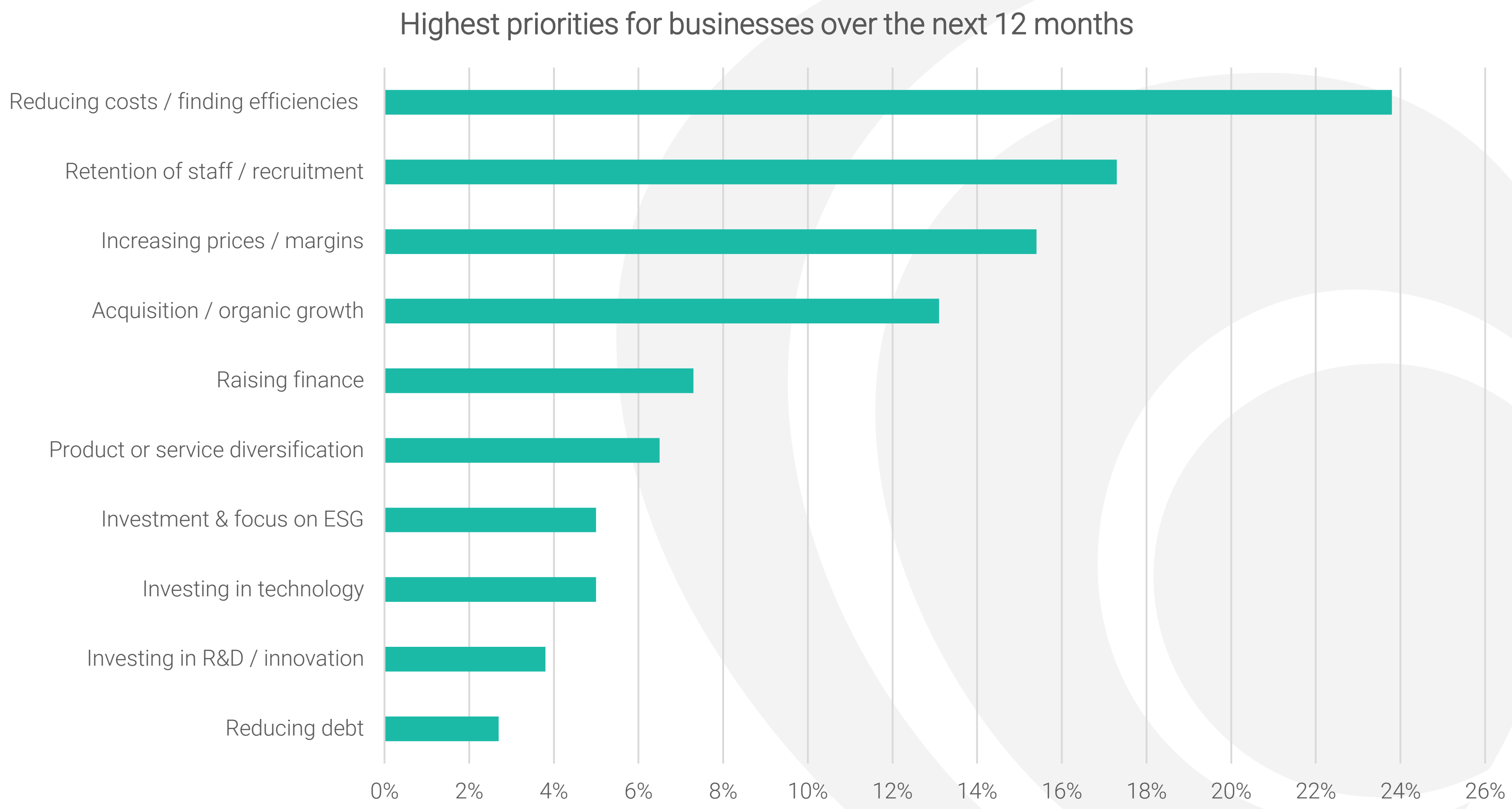
Statistically significant – influence policy?

Poll Results – February 2023



Greatest challenges were voted to be inflation at 16.8%, followed closely by Economic slowdown at 15.6%

Poll Results – February 2023



Highest priorities were voted to as Reducing costs or finding efficiencies – this was a clear top priority at 23.8%

Q&A

Final Session

Some interesting questions received already

Especially one on the new CPD rules – but see my introduction

Our Speakers

Bob Trunchion
Chairperson

Beverley Scott
Tax Specialist

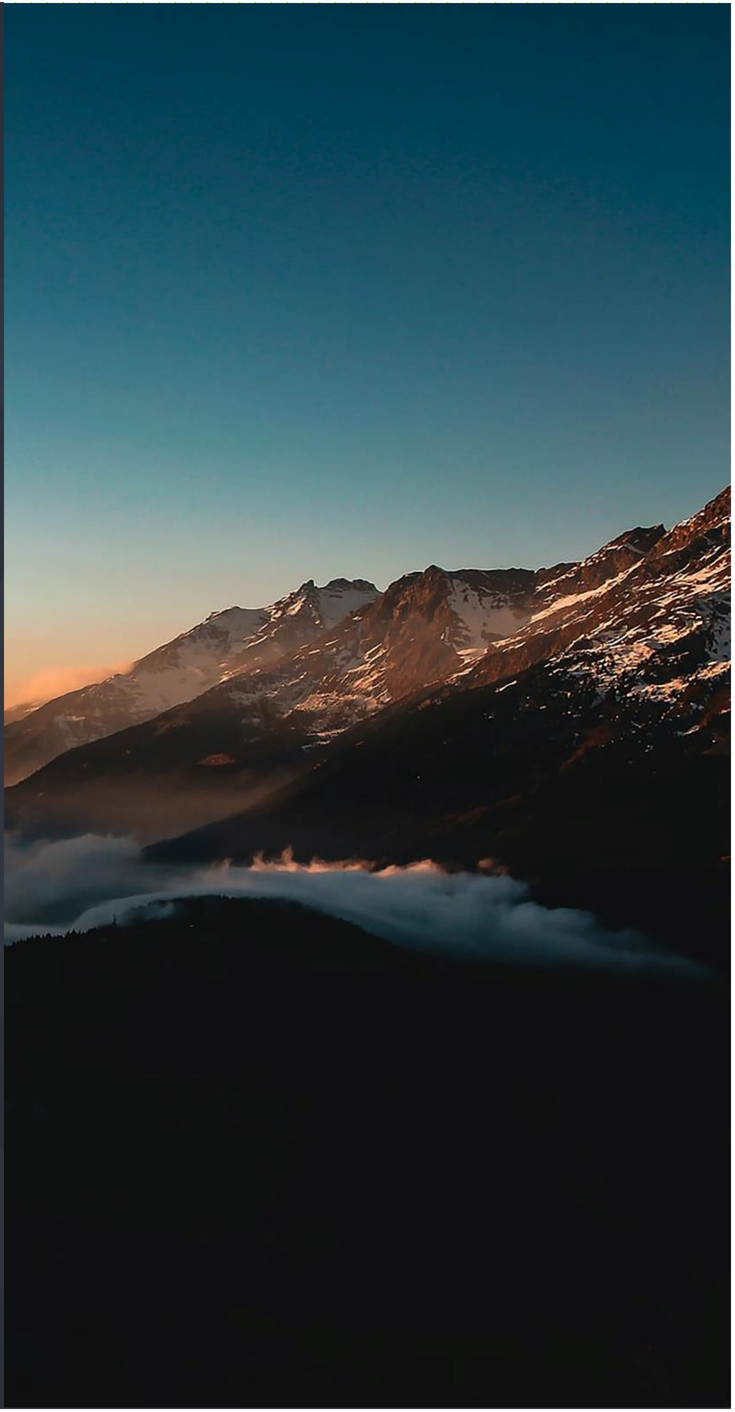
Carlison Morris
Audit & Assurance Specialist

Jonathan Main
VAT Specialist

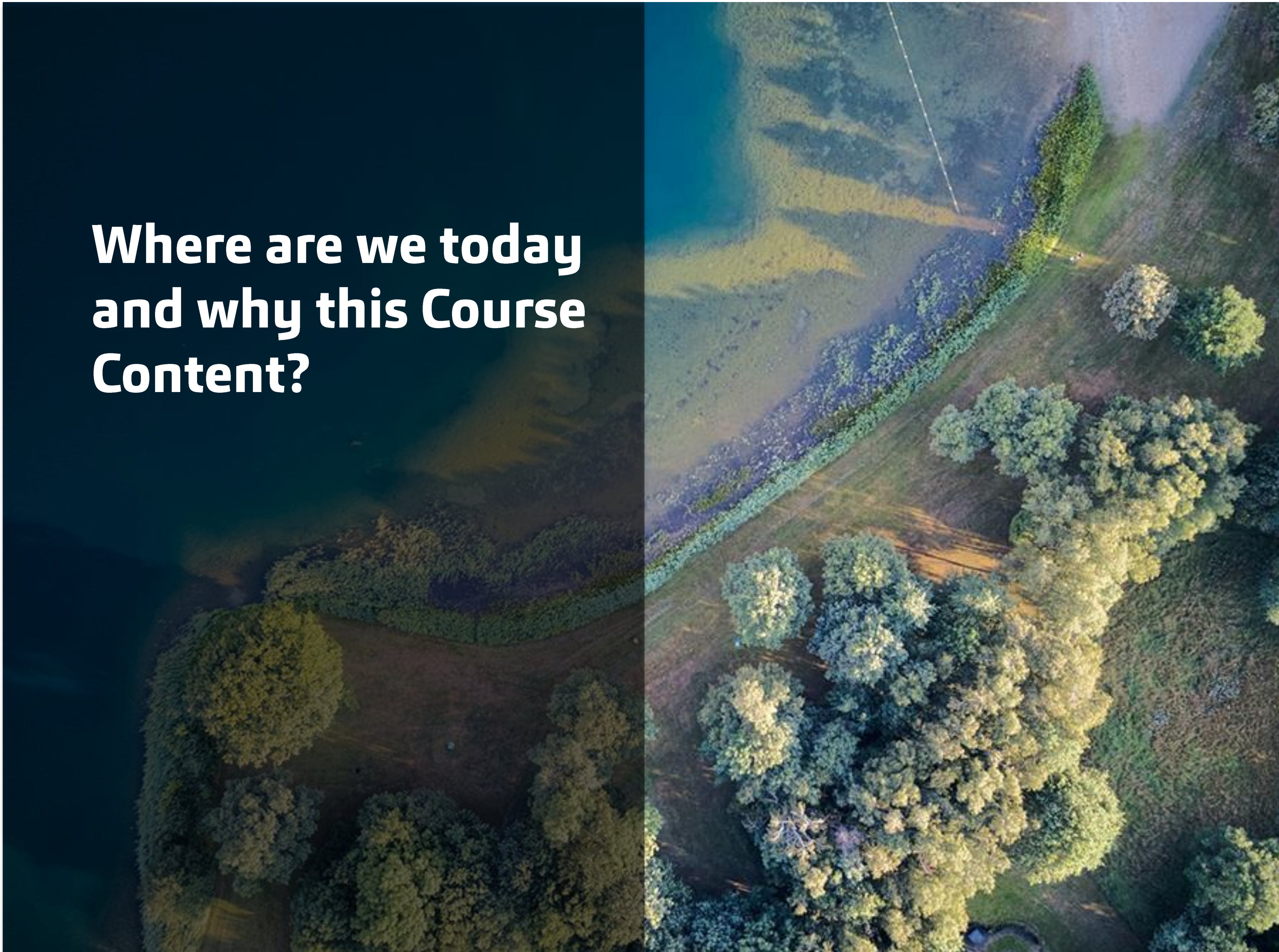
Mark Lumsdon-Taylor
ESG Specialist

Agenda

8.30 – 8.50am	**Introduction** Bob Trunchion
8.50 – 9.35am	**VAT Update** Jonathan Main
9.35 – 10.20am	**Tax Update** Beverley Scott
10.20 – 10.35am	Break
10.35 – 11.25am	**Audit, Accounts and Financial Standards** Carlison Morris
11.25 – 12.00pm	**ESG Audit Considerations** Mark Lumsdon-Taylor
12.00 – 12.30pm	**Q & A** Full panel



Where are we today and why this Course Content?



Where are we today?

- The economy?
- Inflation
- Interest rates
- International situation
- Labour restrictions and costs
- Forthcoming election?

- Uncertainty
- Cashflow

- Increased regulation?
- Importance of communication with stakeholders

Course Content

- Keeping you up to date – prime objective
- Introduction – reminder on CPD rules change for all ICAEW members

CPD – But I am not in an accountancy firm…

If you are an ICAEW member, someone regulated by ICAEW for certain activities, or a reciprocal member, you are affected by the revised CPD Regulations

if:

- you undertake accountancy or finance work, or reserved or non-reserved legal services, or
- you are a company director, trustee, or hold a role with an equivalent level of legal or financial responsibility.

CPD – What is accountancy and finance work?...

Any work that you do that relates to the profession of accountancy is likely to be considered accountancy and finance work. The scope of such activity is wide and would include work undertaken in practice and outside of practice, such as working in the finance department or the management of a business, charity or public sector organisation.

CPD – Directors …

If you are an executive or non-executive statutory director of a company, you are within the scope of the CPD Regulations…..

If you hold a similar role for another type of entity, you should consider whether that role has an equivalent level of legal or financial responsibility to that of a company director. If so, you too would fall within the CPD Regulations.

Statutory directors of micro entities are within the scope of the CPD Regulations - but are not required to complete a minimum number of CPD hours. Micro entities are defined by the Companies Act as those that meet two out of the following three criteria:

- turnover less than £632,000;
- net assets less than £316,000; and
- fewer than 10 employees.

If being a statutory director of a micro entity is the only role that brings you within scope of the regulations, you should reflect on the nature of this work and your professional development needs and ensure your CPD addresses these needs.

CPD – Minimum Hours

CPD CATEGORY	MINIMUM NUMBER OF HOURS	MINIMUM NUMBER OF VERIFIABLE HOURS
Practice		
Category 1	40	30
Category 2	30	20
Category 3	20	10
Working outside practice		
Category 1	40	15
Category 2	30	10
Category 3	20	5
Executives/trustees of charities working pro bono.	ICAEW's CPD course for charity trustees (coming soon) or training with similar learning outcomes.	

CPD – Verifiable?

[What is verifiable CPD? | ICAEW]

CPD ACTIVITY	VERIFIABLE	EXAMPLE EVIDENCE TYPE
Attendance on external courses	Yes	• Certificate of attendance. • Booking confirmation from course supplier.
Attendance on internal courses	Yes – if your organisation provides evidence of your attendance.	• Attendance record. • Certificate of attendance from internal system/training coordinator.
Carrying out technical research	Yes – where the results of that research can be produced in presentations, reports, file notes or similar documents.	• Presentation/report/file note/other document summarising the research. • List of source references used. • Certificate summarising time spent on research activity, signed by line manager. • ICAEW is developing a tool that will enable members to verify reading of articles and PDFs on icaew.com and log it in their online CPD record.
Technical reading	Only verifiable if the reading can be evidenced. Otherwise, would count as non-verifiable CPD if it is relevant to the learning needs of your role.	• ICAEW is developing a tool that will enable members to verify reading of articles and PDFs on icaew.com and log it in their online CPD record.

VAT

Jonathan Main
VAT and Indirect Taxes Partner

T: 07760 166 802
E: jonathan.main@mooreandsmalley.co.uk

My brief…

"VAT and indirect tax developments that will affect businesses with international operations or aspirations, and potential developments on the horizon, post the next election."

With that in mind, I have chosen to cover the following topics:

- EU expansion and the digital economy
- The Labour Party and indirect taxation
- Other post election changes
- I have also included one additional topical item concerning the recovery of VAT on professional fees

Quite a challenge in 45 minutes!

EU changes

What is on the horizon?

- An extension of the one stop shop with a move towards a single VAT registration

- Extending the liability of marketplaces to include the supply of goods cross border and wholly within the EU

- VAT changes for the "platform economy"

The platform economy…

What is a platform?

- It is the same concept as a marketplace for goods (Amazon, eBay etc)

- Just for services

- Examples would include:
  - Uber
  - Airbnb
  - Expedia
  - Vrbo
  - Booking.com
  - Sykes cottages
  - Hoseasons

- There must be at least three parties, buyer, seller, and platform facilitating the transaction

The platform economy…

What is going to happen and when?

- The platform will be liable for VAT if the underlying supplier is not registered for VAT
  - If the supplier is VAT registered, the platform must still report the transactions to the tax authorities
- The place of supply is the place of consumption
- The supplies covered by these changes are “short term” accommodation and passenger transport if the underlying supply is subject to VAT
- Short term has been defined as 45 days or less
- The European Commission will instruct Member States to exclude short term accommodation from the VAT exemption for transactions in land
- For passenger transport, think Uber and similar ride hailing apps
- Due to be rolled out EU wide on 1 January 2025
- EU estimates it will raise €6bn a year, 70% of service providers are not registered for VAT in the EU

The platform economy…

What could this mean for my business?

- If you operate a platform, this will be a complete change to your VAT responsibilities across the EU

- Your business will be liable for third party VAT, controlling the payment flow will be critical

- If the third-party supplier is registered for VAT in the right EU member state, you will still need to report transactional data

- If you sell on a platform and don’t currently pay VAT, your margins will be significantly lower than at present

- You may need to stress test your EU business model for future profitability, potentially increase prices, or reconsider your presence in the EU

The Labour Party and indirect taxation…

Labour published five mission statements earlier in 2023:

- Breaking down the barriers to opportunity
- Build an NHS fit for the future
- Secure the highest sustained growth in the G7
- Make Britain a clean energy superpower
- Make Britain's streets safe

Perhaps not surprising that tax raising measures in these papers are thin on the ground

There are a few snippets with little detail:

- A new Office for Value for Money to report on the efficient use of our taxes
- Changes to the Apprenticeship Levy with the introduction of a "Growth and Skills Levy" to be used on a greater range of training courses
- Fixing the Brexit deal while keeping the red lines of not re-joining the single market or customs union

And one blockbuster, the introduction of VAT on private school fees and the abolition of business rates relief, mentioned once on page 20 of "Breaking down the barriers to opportunity".

VAT and private school fees…

- Private school fees are currently exempt from VAT
- No VAT is payable, and no VAT can be reclaimed by the school on the provision of education
- Labour intends to impose 20% VAT on private school fees
- The Institute for Fiscal Studies (IFS) estimates that this change may raise £1.7bn per year
- This estimate is based on data provided by the Independent Schools Council for the 2022-23 school year
- The IFS estimates that:
  - Total fee income across the sector was £10.2bn in 22/23
  - VAT due at 20% of £2bn
  - Offset by £340m in recoverable VAT
  - £1.7bn net to HM Treasury
- This measure will require a change to primary VAT legislation and therefore parliamentary time to pass an Act of Parliament
- It will also require a precise change to archaic VAT legislation
- On the assumption that the next election is late 2024, this change could be implemented as soon as the start of the 26/27 school year

Other changes in the pipeline?

Cab fares and VAT

- This is not a return to commentary on the platform economy
- A long and winding road with an uncertain destination
- Uber continues to disrupt the private hire market in the UK
- The VAT journey began with Uber v Aslam and a Supreme Court judgment in 2021 confirming worker status for Uber drivers
- A separate High Court judgment in 2021 involving Transport for London (TFL) and Uber amongst others, decided that Uber could not hold a private hire operator (PHO) licence unless it acted as principal in providing the travel service to the passenger
- The TFL judgment only applied to licencing regulations in London
- A further High Court judgment in July 2023 decided that most English and Welsh licencing authorities were wrong to licence PHOs as agents
- This judgment does not apply in Scotland, Northern Ireland and Plymouth, all of which have separate licencing arrangements

Cab fares and VAT

What does this have to do with VAT?

With the possible exception of account work, a PHO will almost always treat itself as an agent acting on behalf of the driver for private journeys

- The PHO will charge a fee to the driver for the introduction of business
- The self-employed driver will accept the journey at their discretion
- The driver will agree a fare with the passenger
- The driver will retain the fare and be liable for any taxes, including VAT

For private journeys, the PHO's VAT liability will be limited to fees charged to drivers and fares collected from drivers employed by the PHO

Cab fares and VAT

We know two things so far:

- If the PHO acts as agent, it is not liable for VAT on the cab fare.
- Following the decisions in the TFL and Sefton MBC cases, the PHO cannot be an agent in London, most of the rest of England, and Wales.

There is an uncomfortable tension between those statements

- If a licencing authority (local council) acts on the Sefton MBC judgment, the PHO can no longer act as an agent

- HMRC guidance is clear that a PHO acting as principal must pay VAT on the full fare received by the driver

- The driver is acting as agent for the PHO.

- A diligent taxpayer cannot use HMRC guidance that does not apply to its circumstances

- This would not be a defence against an HMRC assessment nor an argument that would succeed in court

- I have seen data suggesting that the UK private hire market generates circa £8bn in annual revenue

- This would not affect hackney cab drivers who are individually licenced and can accept business without a PHO

Cab fares and VAT

What may the future hold?

- The imposition of 20% VAT on private hire?
- Bear in mind that the imposition of VAT would disproportionately affect less affluent members of society
  - Mobility issues and lack of access to own vehicle are key reasons for using private hire transport
- A reduced or zero-rate of VAT on the basis that all other passenger transport is not subject to VAT?

Hotel La Tour (HLT)

Why does this matter?

The Upper Tribunal decision undermines HMRC's position that input tax cannot be recovered on professional fees which relate to VAT exempt fund-raising activities

The facts

- HLT incurred VAT on professional fees relating to the sale of shares in a subsidiary
- The funds would be used to part finance the construction of a new hotel
- HLT would build and ultimately manage the new hotel
- HLT raised £16m from the sale of shares with the shortfall being bank borrowing
- The bank required the £16m to be used in preference to loan finance

HMRC's view

The VAT on professional fees could not be recovered, as it related to a VAT exempt sale of shares

The Court decision

- The professional fees were incurred to further HLT's economic activities, which in this case would be subject to VAT
- The fees were not incorporated into the price of the shares and were therefore not consumed in the initial VAT exempt supply

Hotel La Tour (HLT)

What could this mean for you?

- You are entitled to recover VAT incurred on costs for up to four years
- If you believe that you have grounds to revisit blocked VAT based on this decision, now may be the time to lodge a claim with HMRC
- The decision may be appealed by HMRC but lodging a claim will at the very least prevent any tax from falling out of the four year limitation period

My brief…

"VAT and indirect tax developments that will affect businesses with international operations or aspirations, and potential developments on the horizon, post the next election."

In conclusion, we have covered three topics, which collectively may increase the VAT burden across the education, travel and leisure sectors by over £8bn per annum across the EU within the next three years

- EU expansion and the digital economy €6bn per year
- The Labour Party and indirect taxation £1.7bn per year
- Private hire, less clear, but perhaps over £1bn per year

Each of these changes represent substantial increases in the tax burden for both businesses and individual taxpayers. Collectively, this could have a seismic impact on disposable household income

In common with many tax changes, they are developing in individual silos with very little potential for coordination

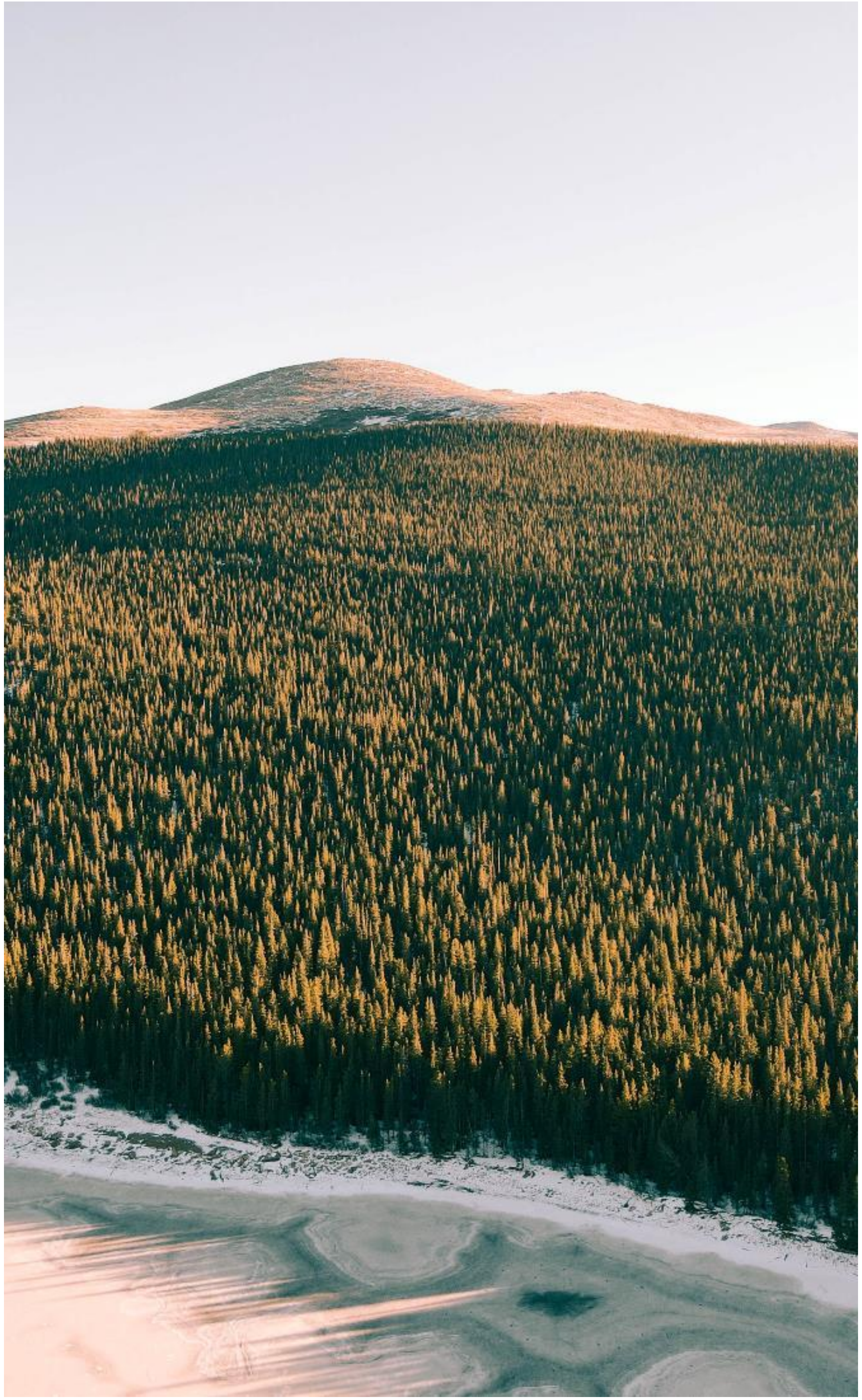
Tax

Beverley Scott
Tax Specialist

T: 0121 2371 806
E: Beverley.scott@mha.co.uk

Agenda

- CIR – what does high interest rates mean for your CIR calculation
- Capital allowances – where are we now
- Transfer pricing – have you got it covered?
- R&D recap of actions



Corporate Interest Restriction

Corporate Interest Restriction – Recap 6 years on!

Introduced with effect from 1 April 2017 as a result of BEPS Action 4

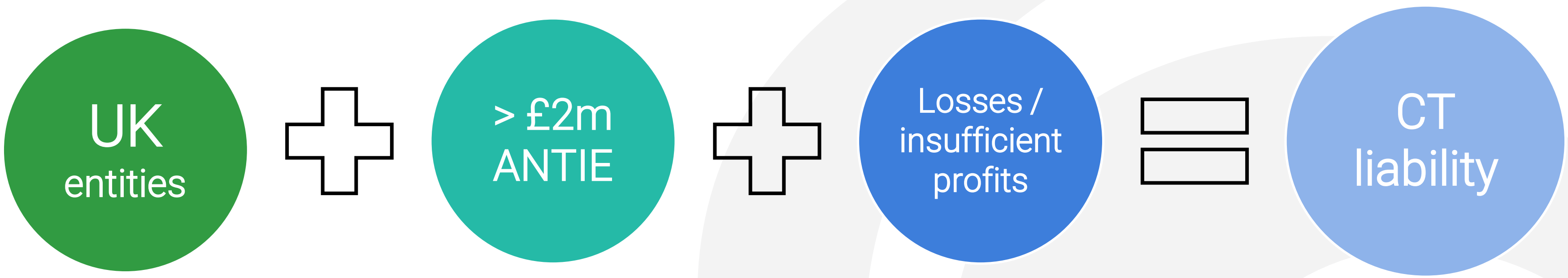
How much of an impact has it really had? Whilst interest rates low, minimal?

Case law?

Administrative burden

Sharp rise in Interest rates in the last 12 months – will it now be relevant to you?

Rules refresher



Fixed rate ratio – 30% of Tax EBITDA

Group ratio – Only useful if it is higher than 30% (by election)

Interest disallowances – carried forward indefinitely. Do you have a deferred tax asset?

Interest reactivations – can be used indefinitely.

Excess Interest Capacity – carried forward for 5 years.

Issues

Negative UK EBITDA

Short period reduces £2m de minimis

Difficult to reactivate disallowances

Loss of excess interest capacity on a takeover.

Identifying the CIR group

Considerations – what can you do now?

Complex rules

- The CIR rules are complex.
- Do you know your CIR Group? Has everyone consented to the group reporting company?
- Have you modelled your expected net tax interest expense?
- Can you forecast your group position.

Opportunities

- Opportunities for effective tax planning where CIR issues are identified early.
- Opportunity to use hindsight – have you reviewed earlier years which may have been “ignored” as no perceived impact

Compliance

- Can you refile returns? Turn abbreviated into full return?
- Can you make any elections now which may improve the situation? Take care!
- Can you amend any inter-company agreements? Are you refinancing in the near future?

CIR Election recap

Election	Notes	Revocable / Irrevocable
Appointing a group company		Stays in place for subsequent periods until no longer eligible or revoked (must be revoked within 12 months of the end of the AP)
Abbreviated return election	submit a simplified return where there are no disallowances	Can be revoked and replaced with full return but must be for the AP in question and intervening periods. (Thus not really on an AP by AP basis).
Group ratio election	can only be used where a group reporting company has been appointed	Revocable
Group ration (blended) election		Applies to a single period of account and is revokable
Group EBITDA (chargeable gains) election		Irrevocable
Interest allowance (alternative calculation)	only relevant to the group interest	Irrevocable
Interest allowance (non consolidated investment) election		Revocable
Interest Allowance (consolidated partnerships)		Irrevocable

Capital allowances

Capital allowances – which do you choose?

Pool	Rate	Type of asset	Time period
Main Rate Pool ("MRP")	18%	Plant & machinery	Ongoing
Special Rate Pool ("SRP")	6%	Integral features	Ongoing
Long life Assets	6%	Useful life of more than 25 years (when new) but limited application in reality	Ongoing
Structural Buildings Allowances ("SBA")	3% (straight line basis)	Cost related to construction or renovation of commercial structure	Ongoing (introduced in 2018)
Short Life Assets	18%	Assets with a useful economic life of less than 8 years	Ongoing
Annual Investment Allowance	£1m	Can be allocated to any "pool" but not cars.	Ongoing
Super Deduction	130% on MRP 50% on SRP	As categories above BUT other conditions apply	1 April 2021 to 31 March 2023
First Year Allowances	100% MRP 50% SRP	See below	1 April 2023 to 31 March 2026 Maybe permanent???

Full Expensing / First Year Allowances ("FYA")

Qualifying Expenditure

The conditions for Full Expensing are the same as those for the Super Deduction.

- The asset must be new and unused.
- The asset must not be used for leasing or hiring out to other persons (exceptions for property lessors).
- Cars do not qualify. Note however that new cars with zero CO2 emissions qualify for 100% First Year Allowances until 31 March 2025.

Property Investors PropCo/OpCo Structures, and Leasing as Part of a Service

Full Expensing and 50% FYAs are not available on assets to companies that lease or hire out the asset to other persons, unless:

- Leasing as a service
- Property letting

Disposals

Where a company sells an asset on which 100% or 50% FYAs have been claimed, the company will be charged to tax on the full disposal proceeds as a balancing charge.

Full Expensing / First Year Allowances ("FYA")

Full expensing (MRP)	FYA at 50% (SRP)
Machines such as computers, printers, lathes	Integral features of a building:
Office equipment such as desks and chairs	Electrical and lighting systems
Vehicles such as vans, lorries and tractors (not cars)	Cold water systems
Tools such as ladders and drills	Space or water hearing systems, powered systems of ventilation, air cooling or air purification systems
Construction equipment such as excavators, compactors and bulldozers	Lifts, escalators and moving walkways
Certain fixtures such as kitchen and bathroom fittings and fire alarm systems in commercial properties and furnished holiday accommodation	Solar Panels
Computer software (by election)	Cars are generally Special Rate but they do not qualify for the 50% allowance.
Storage systems	Thermal insulation of buildings (conditions apply).
Car park lighting	Cushion Gas
Portacabins moved from site to site in the construction industry	

Full Expensing or AIA?

Feature of Scheme	Full Expensing	Annual Investment Allowance
Limit	Uncapped	£1 million across groups and connected companies
Type of expenditure	Main rate only	Main rate and special rate
New/Second hand	Must be new and unused	May be new or second hand
Businesses	Companies only	Companies and unincorporated
Assets leased to others	Not eligible (except background plant in a building)	Eligible, except most residential
Disposal	Immediate balancing charge	Reduces the pool of expenditure, may create balancing charge

Capital Allowances – What should you be doing?

- Do you know your AIA group?
- Are you forecasting your capital spend?
- Upfront analysis has never been more important!
- How does this affect your cash tax / deferred tax position and your overall ETR – can you influence the date of expenditure? Particularly important now we have marginal bands again

Transfer pricing documentation

Transfer pricing documentation

- Another BEPS knock on!

- One of the Actions from BEPS 1.0 introduced a standardised three-tiered approach to TP documentation.

Master file
- standardised information for all MNE group members

Local file
- material transactions of local taxpayer

Country by Country report ("CbC")
- for largest MNE groups.

- UK originally implemented the CbC minimum standard but not the master or local files because the UK already had broad record keeping requirements. .

Transfer pricing documentation

- Enquiries have resulted in excess of £2bn in 2020-2021 for the first time – highest ever yield!

Key points:		
	accounting periods beginning on or after 1 April 2023	
	large MNE groups - global revenues of €750m	
	Preserve and keep TP documentation:	master file
		local file
	prescribed and standardised format	

- There will also be a requirement to complete a questionnaire detailing the main actions undertaken in preparing the local file called a Summary Audit Trail.

Transfer pricing documentation

Documentation	• Kept and provided to HMRC on request within 30 days • Prepared prior to CT return filing
Penalties	• failing to keep records, produce them, or for errors in line with current penalty regimes • beyond doubt that the presumption will be that failures are 'careless'.
Enquiries	• Can be requested outside of enquiry windows • Will still need to be provided if another group MNE has them rather than the UK entity
Smaller MNE groups	• Take note of HMRC's new approach, especially if within the SAO rules!

Preparation for MNE groups

- Identify and quantify cross border transactions involving taxable UK persons
- Establish what existing transfer pricing documentation exists
- Refresh functional analysis prior to the summary audit trail requirement
- Consider recent OECD TP guideline changes
- Identify areas where data access is tricky
- Assess effectiveness of current TP strategy and process, and consider tech solutions?

Research and Development

Key changes - reminder

Compliance changes:

8 August 2023 – you must submit an Additional Information Form (“AIF”)

AP commencing on or after 1 April 2023 – Notification of intention to file within *6 months of the end of the AP*. Earliest notifications will be required 30 September 2024.

Rate changes:

	Pre-April 2023	From April 2023
Loss-making SME	Enhanced deduction: 130% R&D credit: 14.5% Benefit: (up to) 33.35%	Enhanced deduction: 86% R&D credit: 10% Benefit: (up to) 18.6%
Loss-making SME (R&D Intensive) *	Enhanced deduction: 130% R&D credit: 14.5% Benefit: (up to) 33.35%	Enhanced deduction: 86% R&D credit: 14.5% Benefit: (up to) 26.97%
Profit-making SME	Enhanced deduction: 130% Corporation tax rate: 19% Benefit: (up to) 24.7%	Enhanced deduction: 86% Corporation tax rate: 25% Benefit: (up to) 21.5%
RDEC company	RDEC credit rate: 13% Corporation tax rate: 19% Benefit (after tax): 10.53%	RDEC credit rate: 20% Corporation tax rate: 25% Benefit (after tax): 15%

Key Takeaways – what can you do today

Tax modelling:

This has never been more important

Can you forecast the impact quickly to enable you to make effective decisions

Governance:

Is your CIR documentation up to date – Returns / Elections

Is your governance documentation up to date – CCO / SAO (controls and processes) / Transfer Pricing files

R&D documentation – have you prepared your AIF? Registered for an account or will your Agent do this for you?

Break

We will resume shortly

Audit, Accounts and Financial Standards

Carlison Morris
Audit & Assurance Specialist
Partner

T: 020 3890 3245
E: carlison.morris@mha.co.uk

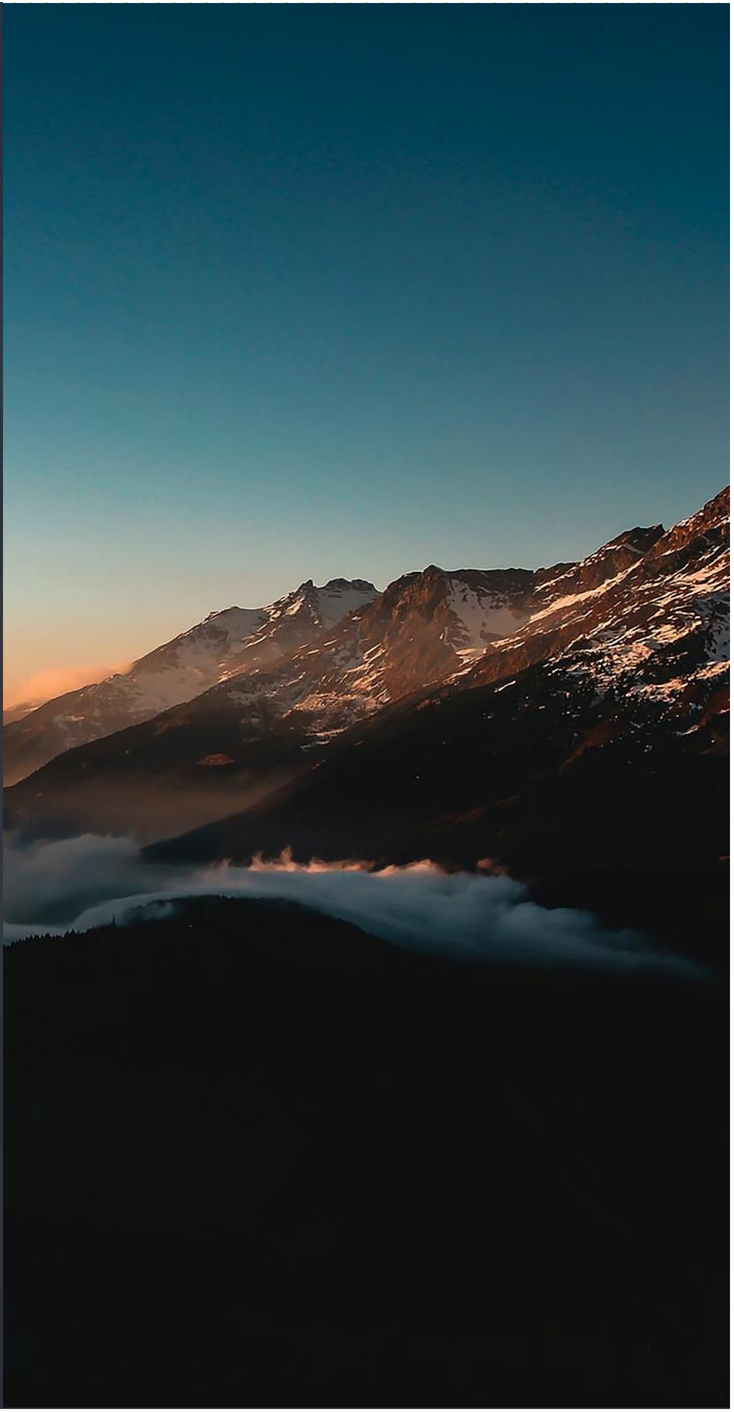
FRED 82 - Overview

The 5- step approach revisited

Right of use assets and lease liabilities

Accounting for Cryptographic Assets

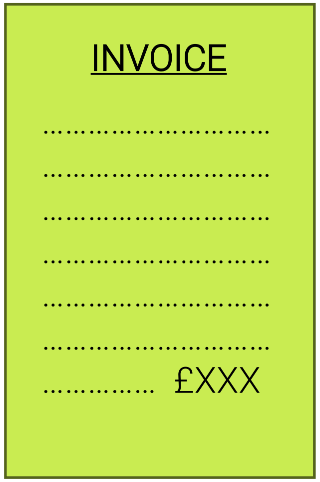
An update on UK audit reform



FRED 82 Overview

All change!

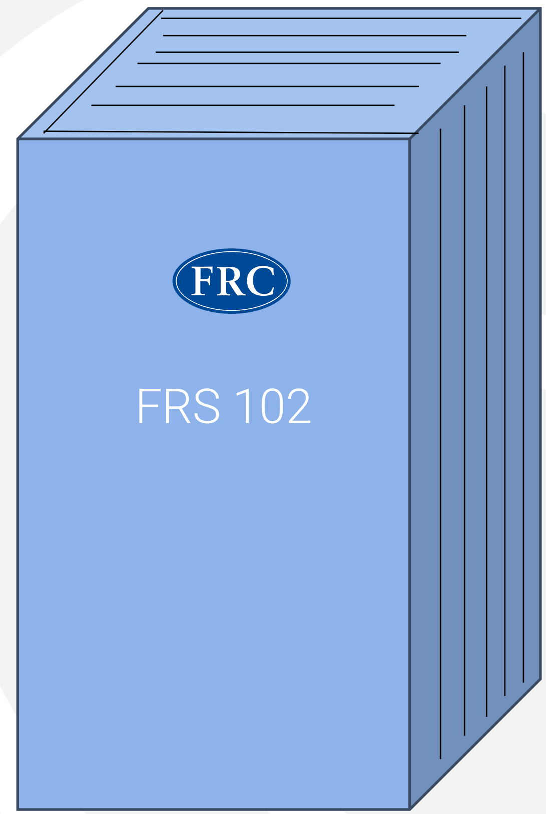
- FRED 82 issued for consultation on 15 December 2022
- Proposed some significant changes to major elements of UK GAAP



- Modifications to make the standard more useable for smaller entities
- Other modifications to increase convergence with IFRS

Other modifications

- More clarity on the disclosures for small co.
- Alignment of Section 2 with IASB's conceptual framework
- IFRS 13 requirements on Fair value new Section 2A
- Setting stage for removal of IAS 39 Option

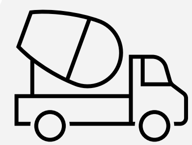


IFRS 15s 5-step approach revisited

FRS 102 current model

- Dependent on the nature of the transaction:

Substantially all risks and rewards have been transferred

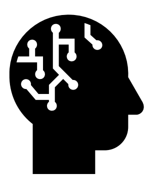


Percentage completion

Construction Contracts

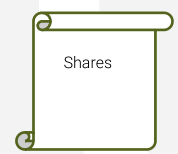
Percentage completion

SERVICES



Accruals basis

ROYALTIES



DIVIDENDS

Right to receive payment established

FRS 102 5 - Step Model

Step 1 – Identify the contract with the customer

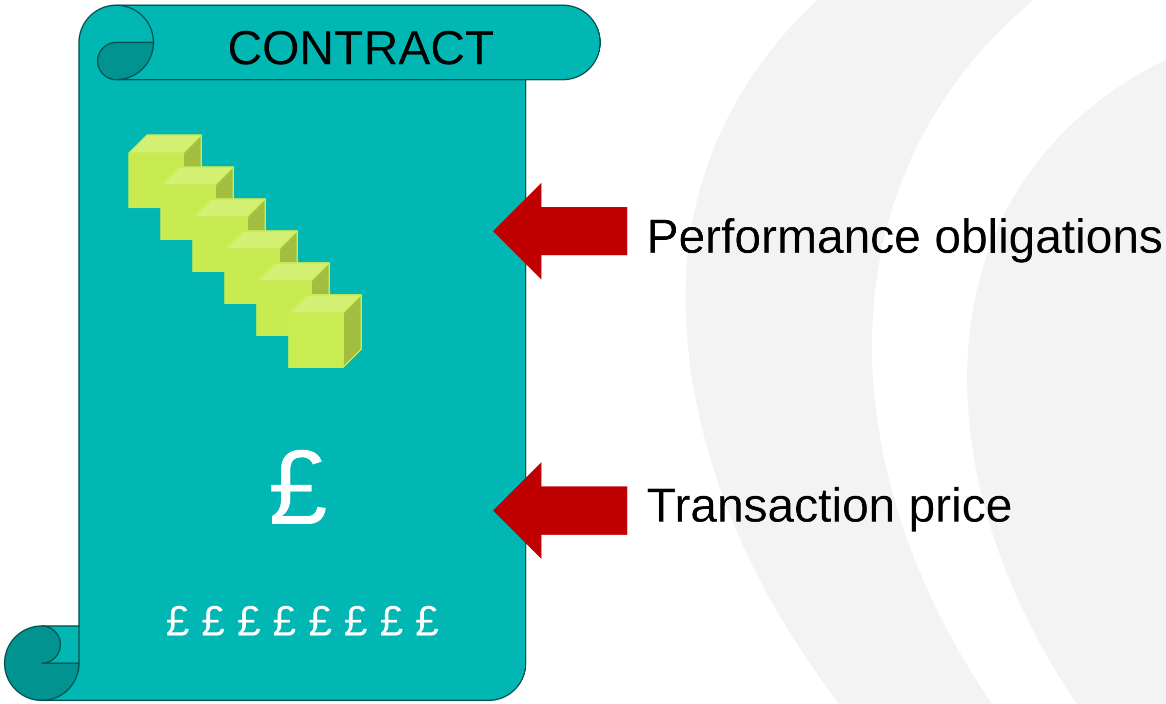
Step 2 – Identify the separate performance obligations in the contract

Step 3 – Determine the transaction price

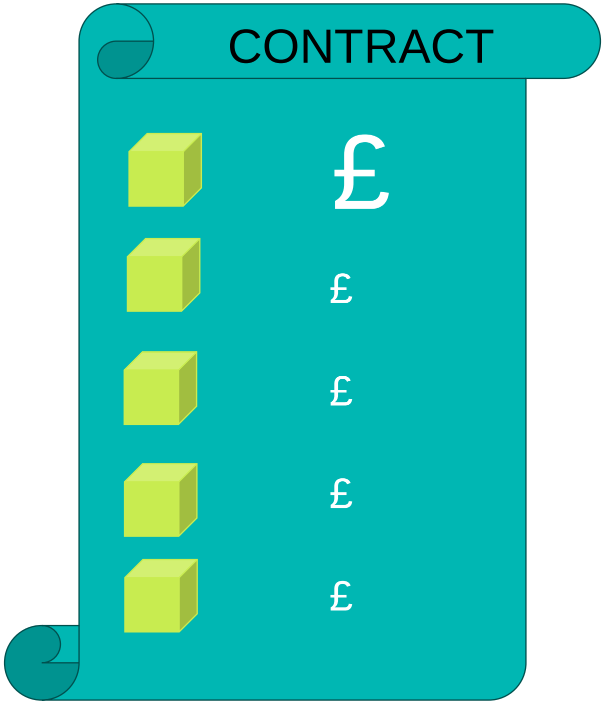
Step 4 – Allocate price to each performance obligation

Step 5 – Recognise revenue when an entity satisfies a performance obligation

Revenue



Revenue



Performance obligations

Are matched with consideration received for performance

Revenue

- IFRS 15 is not a 'Revenue Recognition Standard'

- IFRS 15 is a 'Contracts Recognition Standard'

  - Contract Assets
  - Contract liabilities
  - Contract Expenses

- Lessons learned from implementation of IFRS 15

  - Who is the customer and what is the performance obligation can be tricky

  - Changes to timing of revenue recognition and the associated expenses

  - May require changes to processes and procedures

  - Fees and commissions can add complexity

- Entire industries have had to revise the way they operate in order to effectively comply with these requirements.

Right of use assets and lease liabilities

Leasing for lessees

- FRS 102’s rules for leasing by lessees is also changing
- Will converge with the IFRS 16 approach
- Another long overdue change
- Will add more complexity to the financial statements
- A new class of ‘Right of Use’ asset

A comparison

- FRS 102 Current approach

	Lessor		Lessee	
	Operating	Finance	Operating	Finance
Asset	On B/S	None	Off B/S	On B/S
Depreciation	YES	No	NO	YES
Receivable	NO	YES	N/A	N/A
Liability	N/A	n/a	NO	YES
Expense	NO	NO	YES	NO
Impairment	YES	NO	NO	YES

A comparison

- IFRS 16 / Future FRS 102 Approach

	Lessor		Lessee
	Operating	Finance	All leases
Asset	On B/S	None	On B/S
Depreciation	YES	NO	YES
Receivable	NO	YES	N/A
Liability	N/A	N/A	YES
Charge	NO	NO	NO
Impairment	YES	NO	YES

What is a ROU Asset

- The right to use any asset whether
  - Land and / or Buildings
  - Investment property
  - Plant and Machinery
  - Motor Vehicles
  - Intangible Assets

- If you can access it via a rental / leasing contract then it can be a ROU.

- Need to separate ROU Assets in the financial statements so the user understands there are different rights associated with those assets.

- Amortised through profit and loss over the useful life of the asset.

What is an ROU Asset

Lessee's right to use the underlying asset for the lease term

- **Lease liability**
- **Lease payments/ incentives (received)**
- **Initial direct costs**
- **Decamp. costs**

Components of the Lease Liability

Fixed lease payments

(Less any incentives **receivable)**

Variable lease payments (based on index at commencement)

Additional residual value payments

Exercise price of a purchase option

Penalties for early termination

Discount using Implicit rate

OR

Incremental borrowing rate

= PV

IFRS 16 lessons

- Identification of lease contracts can be difficult especially for leases embedded within other service contracts
- When is the lease term not the lease term
- Sale and leaseback accounting can be challenging
- Modification of leases can have surprising results
  - Significant remeasurement of existing lease assets and liabilities or
  - Recognition of an entirely new lease
- Initial implementation can be time consuming and resource intensive
- If you have a complex leasing portfolio then don't try to manage in Excel invest in software
- Finance should have input into when agreeing future leases or modifying existing ones.

Accounting and regulation of Cryptographic Assets

Cryptographic Assets

What is a Crypto asset?

“…any cryptographically secured digital representation of value or contractual rights that—

a) can be transferred, stored or traded electronically, and

b) that uses technology supporting the recording or storage of data (which may include distributed ledger technology).”

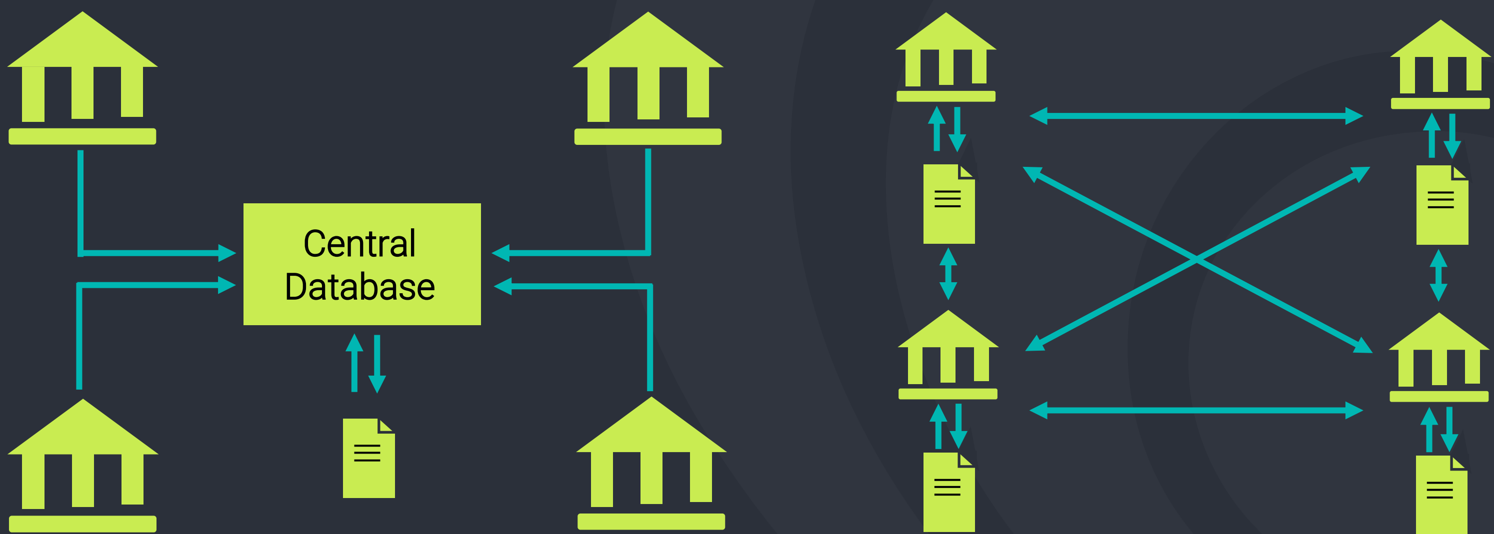
Cryptographic Assets

- Types of Crypto assets
  - **Exchange tokens** - used as a means of exchange or for investment purposes but do not provide the types of rights or access provided by security tokens or utility tokens e.g. Bitcoin, Ether
  - **Utility tokens** – provide digital access to a specific service or application
  - **Security tokens** – Uses DLT to support recording or storage of data may meet the definition of an investment security
  - **NFT** – confer digital ownership- rights do not function as a means of payment and do not confer the rights commonly associated with a security.
  - **Stablecoins** - exchange tokens that have a stable value usually by being pegged to a fiat currency e.g. Circle coin or Tether.
  - **Other tokens** – Asset reference tokens. Commodity linked tokens, Crypto backed tokens, Algorithmic tokens, Governance tokens, Fan tokens.

Distributed ledger

Embedding Distributed Ledger Technology

A distributed ledger is a network that records ownership through a shared registry



Centralised Ledger

Distributed Ledger

The wild west?

- FTX scandal
- Relationships between Crypto exchanges increase the risk of contagion
- SEC regulation and fines
  - Ongoing Investigation of Circle
  - Challenges to Coinbase backed by US dollars claim
  - Pursuing a number of charges against Binance for unregistered sales of securities
- CTFC Investigation and fine for Tether on their backed by US dollars claim
- Many exchanges located in offshore jurisdictions

Accounting for Crypto Assets

- Current approach based on two papers issued by the IASB
  - IFRIC agenda decision March 2019
  - Staff Paper issued in June 2019

- No new standard or interpretation on how crypto assets should be accounted for as current standards appropriately address this area

- Do not meet the definition of cash or another financial instrument

- It can be inventory if the entity holds them for sale in the ordinary course of business
  - Lower of cost and NRV

- More likely than not its an intangible asset as it meet the definition i.e., "…an identifiable non-monetary asset without physical substance"
  - Cost less accumulated amortization and impairment
  - Revaluation / FV through OCI only where there is an active market
  - Gains through P&L to the extent it reverses a previous revaluation decrease.

Accounting for Crypto Assets

- How well does this approach to the accounting reflect the substance of how these instruments are actually used?

- How might this change in the future?
  - A Proposed comprehensive review of IAS 38

- Potentially a new class of intangible asset or a quasi-financial instrument carried at FVTPL.

The Digital Pound

- One of a number of similar initiatives taking place worldwide

- A response to the growing presence and power of cryptographic assets

- How will it work
  - A Central Bank issued Digital currency (CBDC)
  - A unique type of crypto asset denominated in sterling and having stable value with sterling
  - BOE notes that it is "…not a cryptocurrency or crypto asset"
  - Meant to be a digital form of cash operating alongside it.
  - Users would have personal wallet to store and use their pounds

- BOE consulting broadly on this topic responses to consultations closed in June 2023

- Similar initiatives in Bahamas (Sand Dollar), Jamaica (JamDex), Nigeria (eNaira), Sweden (EKrona), China E-CNY.

- Ongoing consultations by Bank of Canada, Bank of England, Bank of Japan, Sveriges Riksbank, Swiss National Bank, Bank for international Settlement.

An update on Audit reform

The case for Audit reform

KPMG to be fined £14m for forging documents over Carillion audit The Guardian May 2022

BDO and Mazars slammed for ‘unacceptabl audits accountingweb July 2022

EY and Wirecard: anatomy of a flawed audit Financial Times October 2021

Grant Thornton fined £2.3m for Patis Valerie scandal BBC September 2021

Deloitte fined record £15m for failings in Autonomy audits The Guardian September 2020

KPMG faces investigation over Conviviality audit THE GUARDIAN July 2018

PwC bosses to face questions from MPs over Thomas Cook Accountancy Age October 2019

Reviews and recommendations

- Independent Review of the Financial Reporting Council – December 2018
  - FRC to be replaced as soon as possible with a new regulator ARGA with clear statutory powers and objectives
  - Changes to the definition of PIE and stronger regulation of PIEs by new regulator
  - Improvements to the enforcement regime including more public scrutiny of enforcement decision.
  - Regulator to be give power to require changes to accounts it considers misleading

- Competition and markets Authority study - April 2019
  - Mandated joint Audits and peer review
  - Operational split between audit and non-audit services
  - Legislation to implement Brydon recommendations for replacement of the FRC with new audit regulator

- The quality and effectiveness of audit (Brydon review) – December 2019
  - >68 separate recommendation for how the operation of the audit industry and the audit process could be improved.
  - Increased powers and objectives for ARGA
  - Improving the work of audit committees
  - Additional reporting responsibilities for auditors

Paved with good intentions…

- Initial flurry of activity.

- Since initial engagement governments agenda for change has been somewhat sidetracked
    - Brexit
    - Negotiations on relationship with Europe and the rest of the world
    - The Trump presidency
    - Three different prime ministers with at times very different visions

- The world of financial reporting has not been standing still
    - FRC preparing for change. More aggressive approach to regulation of the profession
    - New UK endorsement board for UK standards
    - Continuing issues with audit quality

Where to next?

Overdue reform of auditors is set to be delayed again

Failures such as that of Carillion have increased the focus on the auditing industry
DANIEL SORABJI/AFP VIA GETTY IMAGES

Where to next?

UK government set to omit audit reform from legislative plans

Overhaul of accounting regulation and corporate governance is facing fresh delay

Where to next?

Audit overhaul unlikely before next election

by Richard Hattersley

The government is set to delay the long-awaited overhaul of the audit regime, raising concerns that the reform is not likely to be implemented before the next general election.

1st Sep 2023 3 comments

Where to next?

- Anyone's guess really!
- Urgent need for leadership and direction on this issue
- Uncertainty not good for business and certainly not good for the auditing profession.

Where to next?

FT FINANCIAL TIMES

Letter: The UK has no excuse to further delay audit reform

From Anne Kiem, Chief Executive, Chartered Institute of Internal Auditors, London SW4, UK

5 September 2023

It would be deeply concerning if the much-needed overhaul of audit and corporate governance regulation were further delayed, following the report that it is to be omitted from the King's Speech ("Audit reform set for further delay", Report, August 31). It has now been over five years since the collapse of the construction company Carillion, over four years since Sir John Kingman delivered the final report of the Independent Review into the Financial Reporting Council, over three years since Sir Donald Brydon delivered the final report of the Independent Review into the Quality and Effectiveness of Audit and over two years since the government published the Restoring Trust in Audit and Corporate Governance white paper. So, if not now, when exactly? The fact is that reform of audit has already been delayed for far too long and it is time the government delivered these reforms by publishing the audit reform bill it promised in the Queen's Speech over a year ago.

Anne Kiem
Chief Executive, Chartered Institute of Internal Auditors, London SW4, UK

ESG Audit considerations

Mark Lumsdon-Taylor
ESG Specialist

T: 020 3965 2437
E: mark.Lumsdon-taylor@mha.co.uk

About Us

A *new* perspective on sustainability and ESG

Our guiding principle: *‘Purpose, with Profit’*

> Corporate sustainability doesn’t have to come at the cost of corporate profitability.

Mark J Lumsdon-Taylor. MHA Sustainability Partner

ESOS and SECR

- **Energy Savings Opportunity Scheme**
- **Streamlined Energy and Carbon Reporting**

ESOS

Phase 3 effective 31 December 2022

Scope

- >250 employees
- Turnover >£42.5 million
- Balance sheet >£36.5 million

Requirements

- Measurement of energy use
- On-site energy audit
- Identification of cost-effective energy efficiency recommendations
- Compliance report, submitted to the Environmental Agency

Action

Multiple routes to compliance:

- Commissioning ESOS energy audits through approved ESOS assessors
- ISO 50001 certification
- Display Energy Certificates (DECs) and accompanying recommendation reports
- Green Deal Assessments

SECR

Effective since 2019, often missed by expanding companies

Scope

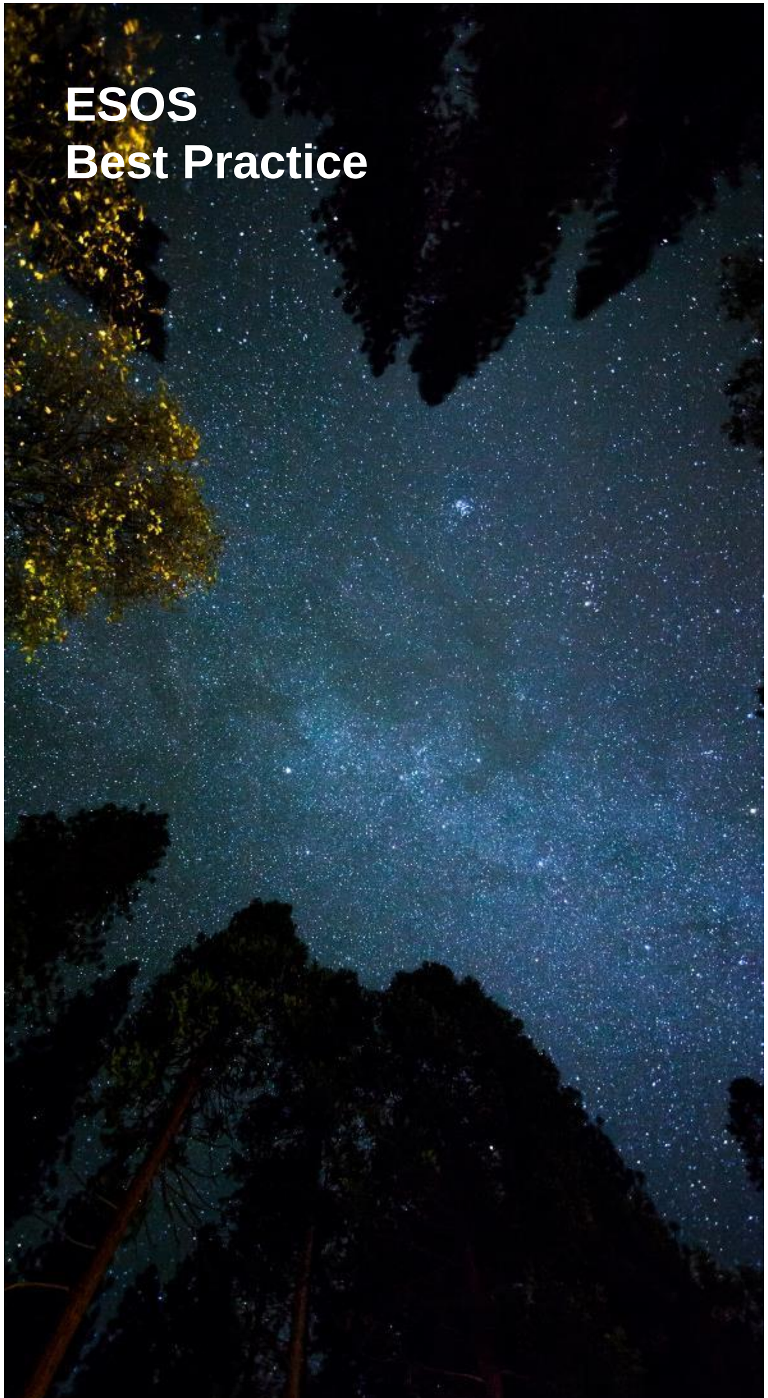
- All UK-incorporated companies listed on LSE main market, NYSE/NASDAQ or EEA exchange
- Unquoted large companies preparing directors report under Part 15 of Companies Act 2006
- Large LLPs (as per existing ‘large’ definition)
- Turnover >£36 million
- Balance sheet >£18 million
- >250 employees
- Unquoted companies / LLPs exempt where annual consumption <40 MWh

Requirements

- Annual energy use (kWh) and greenhouse gas emissions (scope 1 and 2)
- Emissions intensity ratio, using a metric selected by the company
- Methodologies used to calculate the required information
- Narrative on how the company is improving energy efficiency
- Prior year figures for comparison, if available

Action

- Ensure internal controls over reporting are robust
- Consider external assurance / internal audit



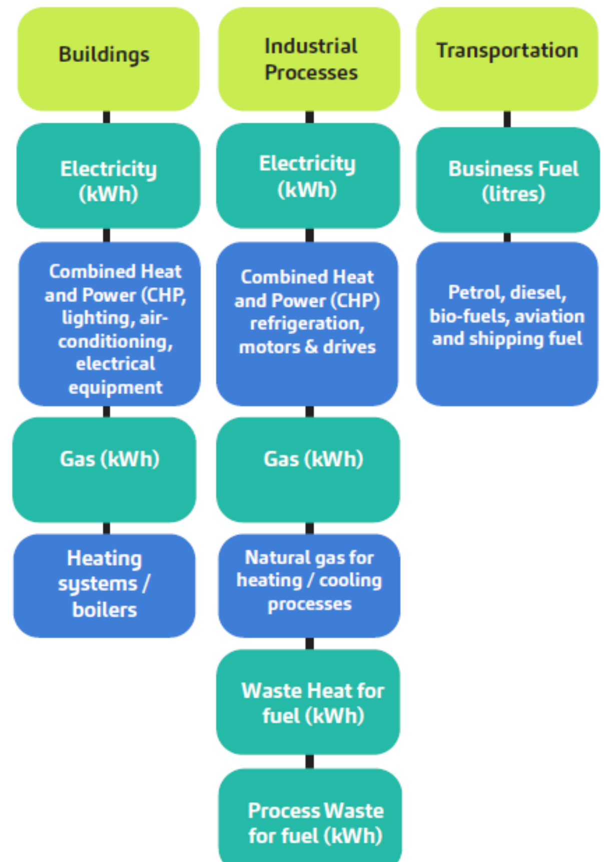
ESOS
Best Practice

Identify ‘consumed’ and ‘unconsumed’ supplies:

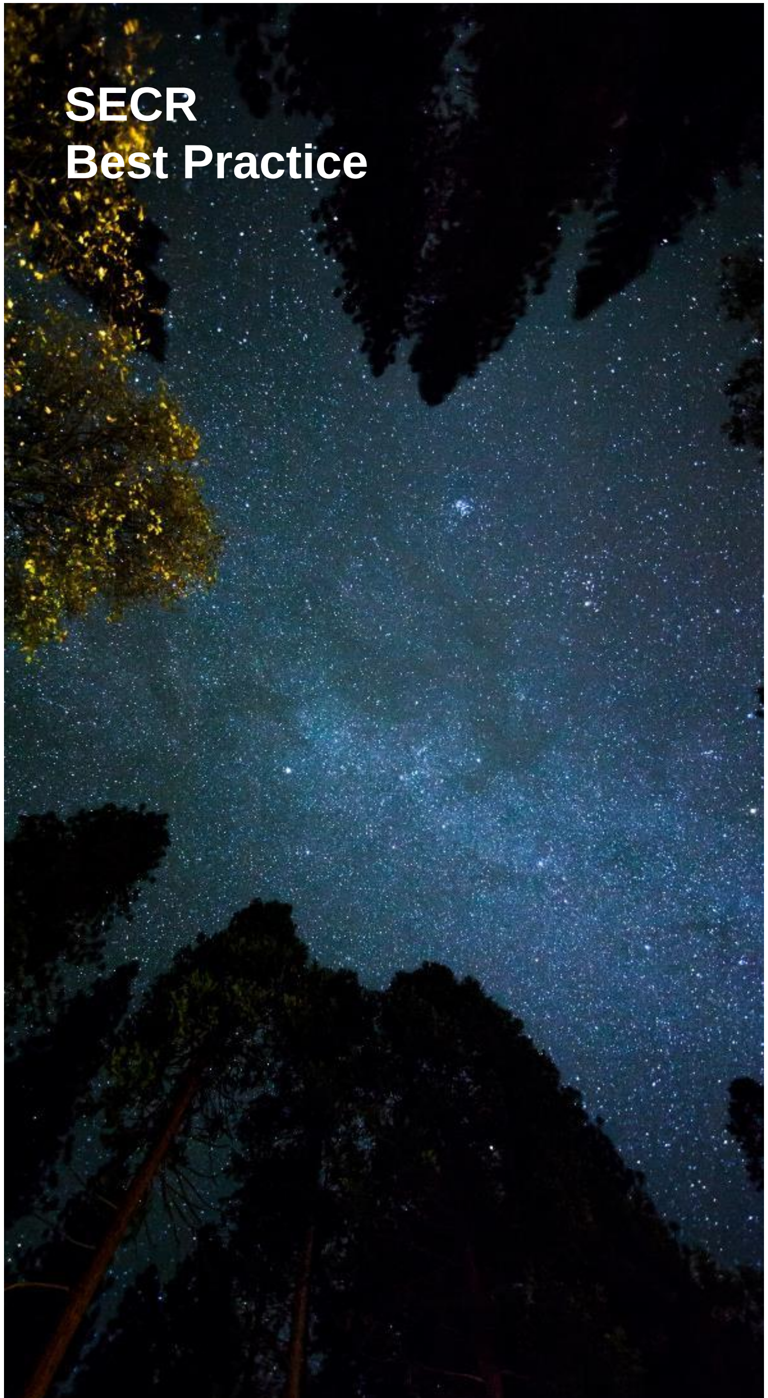
- ‘Unconsumed’ supplies – supplies you do not consume but provide to a third party (e.g. as property landlord). To be deducted from total consumption, data **must** be verifiable

- Consumed supplies – all other energy supplied to and consumed across all assets and activities, either from an energy supplier or from energy generated by your activities

Potential sources of energy consumption:



SECR
Best Practice



- Identify the appropriate factor for the intensity ratio:
    - FTEs – may be appropriate where emissions directly related to use of equipment or usage hours (e.g. heavy construction)
    - Headcount – may be appropriate where emissions directly related to number of unique individuals working (e.g. IT services)
    - Production units – may be appropriate where emissions directly related to number of units produced (e.g. food and agribusiness, manufacturing)
    - Expenditure – more likely to be a stable representation of activity year on year
    - Revenue – less appropriate than other factors, may be appropriate where income directly relates to emissions-generating activity

- Disclosing scope 3 emissions other than employee vehicles
- Business travel by train or air
- Supply and treatment of water
- Disposal of waste
- Use of hotels
- Disclosing scope 1 emissions other than gas including heating oil and wood fuel
- Making a distinction between energy usage from renewables and non-renewables
- Reporting of location-based and market-based emissions – although this needs to be clearly explained to avoid being confusing. Explanation of the difference and linking to the above separation of renewable and non-renewable energy usage may help
- Reporting well-to-tank energy consumption rather than reporting purely based on energy bills
- Disclosing usage of sustainable materials
- Reporting on waste management and recycling
- Reporting multi-year trends in carbon emissions

CSRD and ESRS

- Corporate Sustainability Reporting Directive
- European Sustainability Reporting Standards

Corporate Sustainability Reporting Directive effective 1 Jan 2024

- ‘Large’ entities meet two of following:
  - Balance sheet total >€20 million
  - Net turnover >€40 million
  - Average employees in year >250
- Non-EU groups:
  - EU-based turnover >€150m **and**
  - EU subsidiary or branch with net turnover >€40m
- First set of ESRSs finalised July 2023:

Environmental	Social	Governance
Climate change	Own workers	Business conduct
Water & Marine resources	Workers in value chain	
Biodiversity & Ecosystems	Affected communities	
Resource use & Circular economy	Consumers & End-users	

- ESRSs take a ‘double materiality’ approach:
  - ‘Outside-in’ – effect of climate change and other ESG impacts on the business (typically investor perspective)
  - ‘Inside-out’ – effect of the business’ activities, supply chain and distribution channels on its material stakeholders, viewed from the stakeholders’ perspective

ESRS and CSRD

2025 (on 2024 data)

Entities already subject to NFDD (‘large’ listed entities, banks and insurance entities with >500 employees)

‘Large’ non-EU listed with >500 employees

2026 (on 2025 data)
‘Large’ entities not subject to NFDD

2027 (on 2026 data)
Listed SMEs and non-EU listed SMEs

2028 (on 2027 data)

Listed SMEs and non-EU listed SMEs

EU subsidiaries and branches of non-EU parents (standalone **and** group-level impact)

European Integration

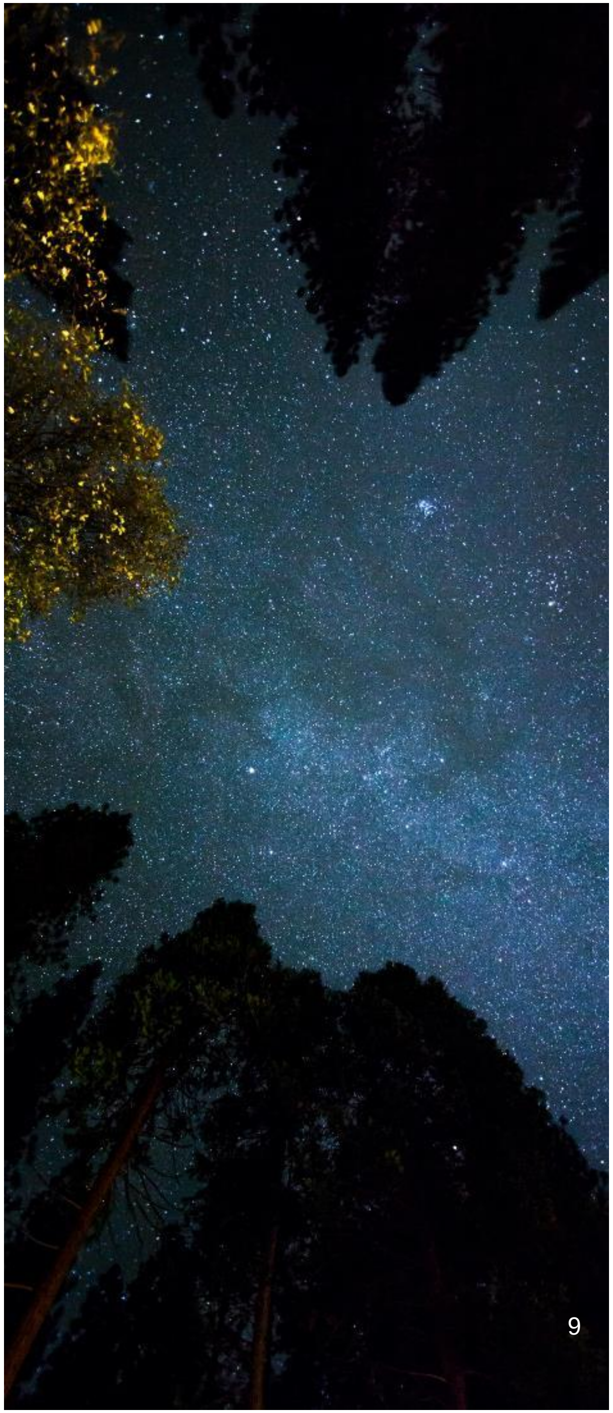
Corporate Sustainability Reporting Directive (CSRD)

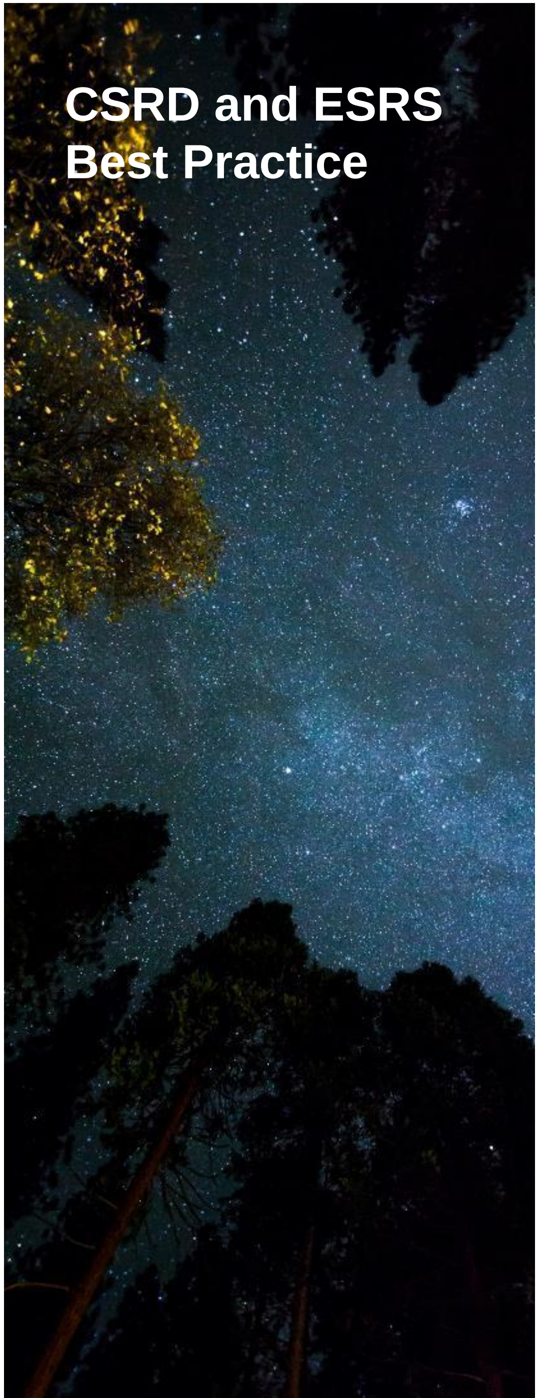
On 5 January 2023, the CSRD entered into force, replacing the NFRD. The CSRD brings approximately 50,000 companies into scope, including listed small and medium-sized enterprises (SMEs), which will be required to report on sustainability under the ESRS (EC 2023).

The new directive aims to end greenwashing and to lay the groundwork for sustainability reporting standards at a global level (EC 2022a).

The new directive considers ‘double materiality’: taking into account the impact of the firm on people and the environment, and the risks and opportunities on the firm.

The CSRD introduces more detailed reporting requirements and ensures that large companies are required to report on sustainability issues such as environmental rights, social rights, human rights and governance factors.





CSRD and ESRS Best Practice

Start from 'first principles'

- Working backwards from the reporting standards is the easiest way to waste time and money, and may not result in compliance!
- Consider how your business identifies, measures and responds to ESG risks and opportunities
- Focus on your value chain – where are ESG impacts most likely to be present, e.g. raw materials extraction, manual labour in countries with human rights abuses or health and safety concerns, use of water / land
- Assess the circularity of your products – e.g. can they be re-used, recycled, re-deployed
- Determine who your material stakeholders are, including those without a voice (e.g. the climate) – and which issues are material to them
- SASB and GRI sector-specific standards are helpful to identify material issues for your industry and appropriate ESG metrics

Value chain

- Do you know who your suppliers' suppliers are? Less than 2% of companies can currently see beyond the second tier of their supply chain – the further up the chain you go, the more impacts you will identify
- Mandate sharing of ESG data through your supplier / distributor contracts
- Understand whether your suppliers obtain any assurance/verification on their ESG data
- Assess your reporting boundary and how far upstream / downstream you need to go before impacts are no longer material to your stakeholders

TCFD and UK Climate-Related Financial Disclosure (CFD) requirements

TCFD scope expanded to larger private companies and LLPs

- Public Interest Entities, premium listed groups and financial services entities already in scope of TCFD under the FCA Listing Rules

- Companies Act 2006 amended last year, expanding UK CFD scope to:
    - Subsidiaries with >£500 million turnover and >500 employees
    - Parent entities (at any time in financial year) where group turnover >£500 million and >500 employees
    - AIM-listed groups with >500 employees

- New UK CFD scope applies for accounting periods starting on/after 6 April 2022

- Responsibility for TCFD recommendations has now passed to the ISSB, which incorporates TCFD into IFRS S2 *Climate-related Disclosures*

- Additional 'supplemental guidance' (= requirements) for high-intensity sectors:
    - Financial services
    - Energy – including oil, gas, coal, electric utilities
    - Transportation – including air freight, passenger air, maritime transportation, rail, trucking services, automobiles
    - Materials and buildings – including metals, mining, chemicals, construction materials, capital goods, real estate management and development
    - Agriculture, food and forests – including beverages, packaged foods and meats, agriculture, paper and forest products

2 Years In – Identification of TCFD Developments

With the FCA promising to follow up on its findings, and the FRC (through its Corporate Reporting Review Team) already including issues with climate reporting in its letters, we believe that every company should look again at their TCFD reporting.

Some companies are also starting to make significant strategic decisions, including where to allocate capital, based on information disclosed as part of the TCFD requirements. This is when dealing with the TCFD requirements becomes part of core business decision-making, as well as a priority for regulators and other stakeholders.

There are a number of specific high-level recommendations (summarised below) and specific areas to consider:

- **Recommendation 1 –** There needs to be a solid basis for the judgements that are made on the relevance and impact of climate change, which should also be reflected in reporting. (Documentation; Proportionate; materiality assessment)
- **Recommendation 2 –** The relevant regulated Listing Rule reporting requirements all need to be appropriately implemented. (Not breaching key LR Guidance. If a business cannot disclosure: **LR 9.8.6 (8) (b)**) – need to provide explanation)
- **Recommendation 3 –** The two most common areas where the regulators found companies to be inconsistent with the TCFD framework particularly need to be looked at again.

  (Scenario Analysis & Metrics – not always CRM…)
- **Recommendation 4 –** Companies need to remember that the TCFD framework is looking for climate-Related *financial* disclosures. Specifically, about quantifiable risk.
- FRC Thematic, page 47: *"We expect companies to provide discussion and,* ***where practical****, quantification of the expected impact of climate-related risks and opportunities on operating costs and revenues, capital expenditures and capital allocation, acquisitions or divestments, and access to capital."*
- ISSB: *"At a minimum an entity would need to undertake the qualitative form of scenario analysis as a basis for its resilience analysis."*

TCFD & UK CFD Best Practice

“The most useful disclosures clearly stated the company’s climate-related metrics and targets, explained which metrics are used to measure and manage climate-related risks and opportunities, and explained which are used to assess progress against targets.”

FRC Thematic Review, July 2023

- Materiality – identify which topics and information are material for your stakeholders. If an issue is identified but assessed as not material, be prepared to justify this if challenged
- Describe the process the business undertook to determine which information to include/exclude and assess materiality
- Use infographics to communicate complex information
- Consider location of disclosures – UK CFD requires disclosures in the ‘Non-Financial and Sustainability Information Statement’ of the Strategic Report, TCFD agnostic
- Assess signposting within the annual report and highlight critical impacts
- Companies subject to TCFD under the FCA Listing Rules **must** provide a clear statement on the extent of compliance with TCFD – approx. 5% did not provide a statement, 45% were partially compliant with TCFD, 50% fully compliant
- Explain reporting boundaries and data limitations, with clear actions on how you will improve data quality / completeness
- Explain where there have been changes to previously-reported metrics, e.g. due to updated definitions or corrections of errors
- Provide information on your transition plan to a lower carbon economy
- Explain what is meant by ‘carbon neutral’, ‘net zero’
- Highlight areas of uncertainty, particularly in regard to scope 3 emissions

FRC – CRR Thematic Review of Climate-Related Metrics & Targets TCFD – July 2023

Improvements Identified:

- the definition and reporting of company-specific metrics and targets, beyond headline ‘net zero’ statements;
- better linkage between companies’ climate-related metrics and targets and the risks and opportunities to which they relate;
- the explanation of year-on-year movements in metrics and performance against targets;
- transparency about internal carbon prices, where used by companies to incentivise emission reduction; and
- better linkage between climate-related targets reported in TCFD disclosures and ESG targets disclosed in the Directors’ Remuneration Report

Specifically, Energy (response sample):

‘Most companies disclosed net zero targets.

All companies reported some Scope 3 emissions, but it was not always clear what these related to and whether they were included in the net zero targets.

Most companies reported some relevant sector-specific and cross-sector metrics, but could improve the linkage with risks and opportunities.

The larger companies in the sample provided helpful explanations of the assessment of climate on the financial statements.’

ISAE 3000

ISAE3000 - Reminder

Assurance for external corporate reports, ensuring their financial and non-financial key-performance indicators reported are aligned with strategies (under defined parameters)

Providing assurance on financial and non-financial metrics and processes (ISAE 3000).

Assurance services related to corporate reporting of sustainability or environmental, social, and governance (ESG) information.

Corporate reporting:

- Corporate report evaluation, gap assessments and strategic roadmap(s)
- Alignment of corporate reports to new reporting frameworks
- External reporting development (e.g., Annual report, Integrated report)

Performance measurement:

- KPI evaluation, gap assessments, and strategic roadmaps
- KPI mapping and process documentation
- Automation of KPI reporting

Assurance over KPIs:

- ISAE 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information
- ISAE 3400 – The examination of prospective financial information
- ISAE 3402 – Assurance Reports on Controls at a Service Organisation
- ISAE 3410 – Assurance Engagements on Greenhouse Gas Statements

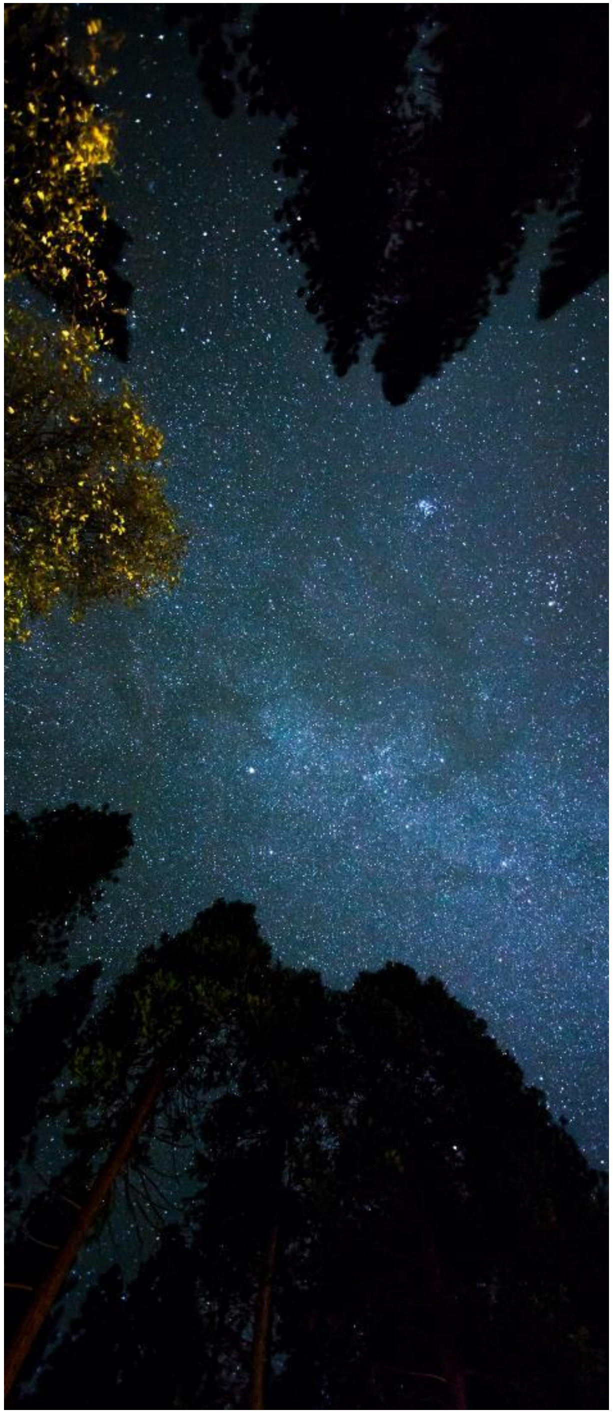
New Approach to ISAE3000 – The ISSA International Standard on Sustainability Assurance

ISSA 5000 will serve as a comprehensive, stand-alone standard suitable for limited and reasonable sustainability assurance engagements. It will apply to sustainability information reported across any sustainability topic and prepared under multiple frameworks.

Key areas of focus in developing the standard: The standard will address the conduct of an assurance engagement in its entirety. However, the IAASB will specifically consider the requirements and application material for the following six priority areas

- difference in work effort between limited and reasonable assurance;
- suitability of reporting criteria;
- the scope of the engagement;
- obtaining and evaluating evidence;
- the entity's system of internal control;
- and materiality. (IAAB 2022B:9)

Set to supersede ISAE3410, ISAE3000.



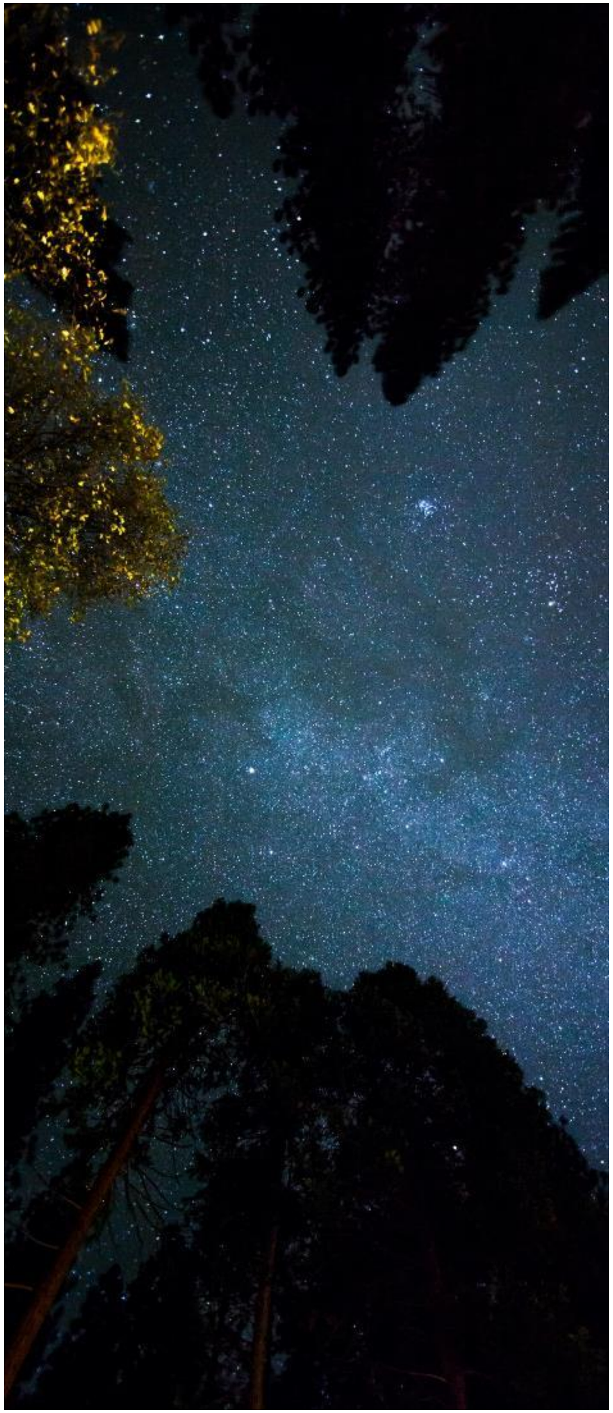
IFRS S1 and S2

Accounting Standards – IFRS S1 & S2

IFRS S1 introduces a comprehensive range of disclosure requirements designed to provide investors with a more nuanced understanding of a company’s short, medium, and long-term exposure to sustainability-related risks and opportunities. (Excludes the double materiality principle, which requires considering the impact of corporate activities on the environment)

The **IFRS S2** provides a detailed and standardized framework for reporting climate-related risks and opportunities, ensuring that investors have access to crucial information to assess a company’s preparedness, resilience, and potential impact in a changing climate landscape.

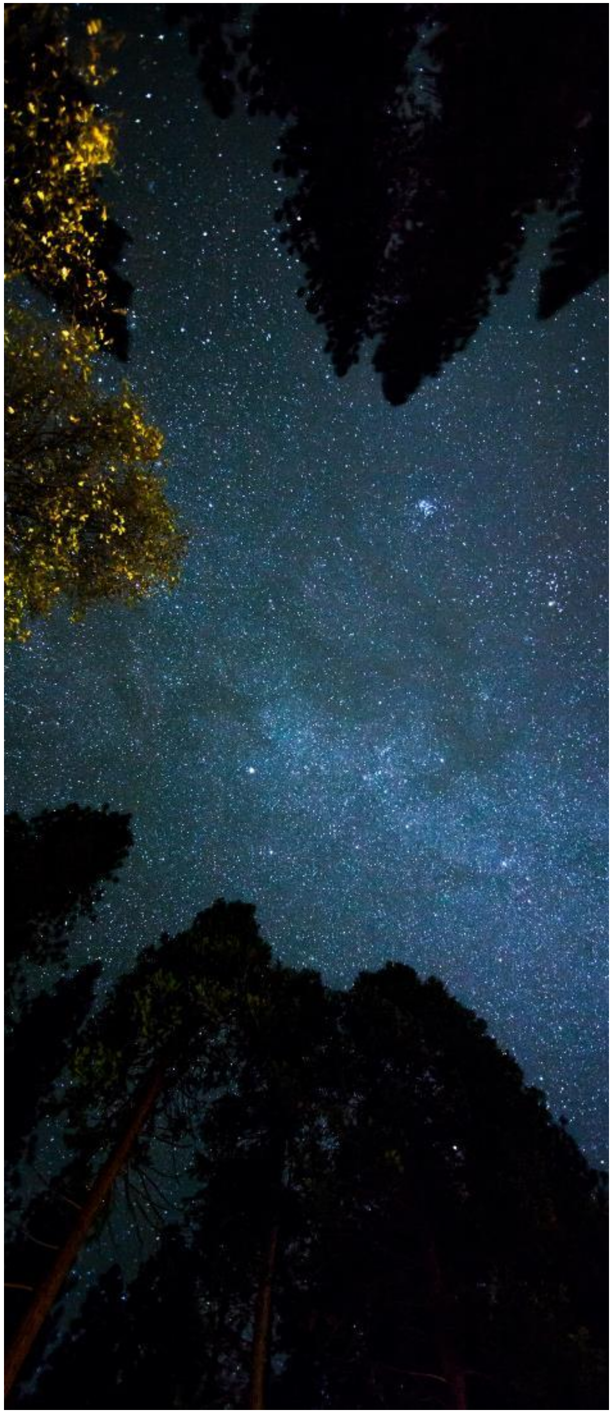
Effective – JANUARY 2024.



ISQM – International Standard on Quality Management

Important note **after 15th December 2022** – assurance engagements:

Note:
For assurance engagements beginning on or after 15 December 2022, the assurance report needs to include a statement that the firm of which the practitioner is a member applies ISQM 1 (or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQM 1).



Auditing Climate Risk

RISKS AND OPPORTUNITIES
CLIMATE CHANGE

Clarity in Understanding audit risk.

Climate-related Risk

1. **Physical risks** - These are risks associated with disruption to business activities arising from climate change. Physical risks are further categorised into acute risk and chronic risk.

2. **Transition risks** - These are the risks associated with a global commitment to move to a low carbon economy. Transition risks are further categorised into policy and legal risks, technology risks, market risks and reputation risks.

Risks Identified in key sectors

1. Financial sector – banks, insurance groups, asset owners, asset managers

2. Non-financial sector – energy, transportation, material and buildings and agriculture, foods and forest products, Oil + Gas, Mining & Heavy Industrial

Audit team

- Specific Materiality considerations need to consider climate, and consideration if any climate risks should be elevated as principal/emerging.
- Walkthrough and testing of Data processing & Integration systems and other critical climate reporting controls (esp. completeness over risk register controls).
- Performing audit risk assessment and substantive test work (impairment testing) in line with the risks identified by the specialist (including understand climate laws and regulations applicable to the audit).

RISKS AND OPPORTUNITIES
CLIMATE CHANGE

Clarity in Understanding audit risk.

1 Climate-related Risk - Physical

Physical risks
These are risks associated with disruption to business activities arising from climate change. Physical risks are further categorised into acute risk and chronic risk:

Acute risk
Acute risks include one off disruptions such as hurricanes, floods and fire

Chronic risk
Chronic risks are more gradual changes such as changing rain patterns and rising sea levels

2 Climate related Risk - Transitional

Policy & Legal Risks
Government; regulation; carbon pricing & capping.

Technology Risk
Technology will allow existing products and services to be replaced with ones that are more energy efficient and deliver lower emissions.

Market Risk
here is a significant change in consumer behaviour and expectations with consumers looking for low carbon goods and services.

Reputational Risk
Stakeholders have higher expectations of how businesses respond to climate change issues.

RISKS AND OPPORTUNITIES
CLIMATE CHANGE

Specific financial statement considerations

Going concern
Are there any material uncertainties over the business' sector, operating environment, suppliers or customers, lenders, arising from climate risk?

Impairment risk – goodwill, other intangibles, property, plant and equipment
Are the cash flows and economic benefits generated by the CGU / assets sufficient to justify their valuation? Are assets at risk of obsolescence from emerging technology?

Impairment risk – inventories, including work in progress
Is the valuation of stock recoverable through sales? Does an active market exist for the products? Is any inventory at risk of obsolescence from emerging technology?

Impairment risk – trade receivables
Has the credit risk profile of the customer base worsened as a result of climate risk, e.g. specific customer going concern risk / ability to pay invoices?

Valuation – financial instruments
Is the fair value affected by climate risk, e.g. interest rates, inflation risk, counterparty default risk, credit risk? Are the cash flow hierarchies / waterfall mechanisms affected by ESG performance criteria? Has the ESG risk been appropriately factored into the fair value?

Completeness – regulatory obligations / provisions
How has the business identified the legal requirements it is subject to, and how does the business stay abreast of these? Has the business complied with ESG-relevant legislation, e.g. ESOS, SECR etc?

Completeness – constructive obligations / provisions
Has the business' professional body stated the sector has a responsibility to rectify, reduce or offset its ESG impacts? Is there a current, valid expectation on the business to incur additional expenditure in relation to its carbon emissions?

Indirect taxation, import & export duties, climate levies
Is the business on top of its tax obligations, e.g. plastic packaging tax?

ESG SERVICES

MHA Dynamic ESG Advisory

Create an Integrated External Engagement Framework (IEEF)

Evaluate performance and create ESG plan (ESGP). Right Audience? Capacity? Innovation & Fresh Thinking? Actions (commitment) internal & external?

Implement IEEF & ESGP Solutions with effective ROI and communications frameworks

- We passionately believe that an ESG commitment should deliver a significant return on investment
- Whether that return comes through energy payment savings in the form of Climate Change Agreements, through efficiencies or through grants, bursaries or beneficial funding we know that every business can make sustainability pay

We call it 'Purpose with Profit'

> Corporate sustainability doesn't have to come at the cost of Corporate profitability.

Mark J Lumsdon-Taylor
MHA Sustainability Partner

Advisory

- MHA Dynamic ESG - a complete approach to embedding ESG from companies that are taking their first ESG steps through to the operation of a fully integrated ESG programme:
- Full ESG & Net zero plan: "Create; Evaluate; Implement"
- GHG (Greenhouse Gas) emissions – collation and the journey to Net Zero and its associated reporting
- SECR* and ESOS* compliance & Reporting (Assurance & Technical)
- Advice on UKETS (UK Energy Trading Schemes), Carbon Code,GRI Reporting (Global Reporting Initiative)
- Specific Scheme support: CCAs (Climate Change Agreements), UKTI grants, VCCAs (Voluntary Climate Change Agreements)
- ISAE 3000 non-financial assurance, Green Finance Solutions & Bespoke Marketing & Communications

Assurance & Compliance

- Climate reporting & Disclosures under TCFD & S172 Legislation
- Audit assurance (Note: FRC Thematic review)

APPENDICES
Reference: Climate Risk

WHEN WE THINK CLIMATE CHANGE IMPACT, WE THINK:

Governance & Strategy
Embed consideration of financial risks from climate change within governance

Risk Management & Targets
Incorporate specific climate risks (not a broad climate change risk) into financial risk management practice

Scenario Analysis
Use scenario analysis to inform strategy and risk assessment and identification.

Disclosure
Develop disclosure approach and roadmap of full TCFD alignment. Be transparent on your journey!

Dealing with uncertainties (1)

There is considerable uncertainty over assumptions about how far global temperatures will rise and what impact various climate change scenarios would have on business operations.

Disclosure of these assumptions in the annual report should be clear, balanced and understandable.

Going concern status (2)

When preparing the annual report, companies are required to assess their ability to continue as a going concern. This assessment must take into account all available information at the time of the annual financial statements or their approval,

and this should include all climate-related information

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Measurement of non-financial assets (3)

Climate-induced changes may indicate that an asset ceases to be available, becomes commercially obsolete or needs to be replaced sooner than previously expected. Such factors affect the useful life of an asset under IFRS. If an asset is measured at fair value using the income approach, *climate-related uncertainties may, for example, lead to changes in estimates of cash flows or to changes in the assessment of risks associated with achieving these cash flows*

Measurement of financial assets (4)

Climate-related events such as floods and hurricanes can lead to business disruption or to a need for impairment charges on assets, thus affecting the creditworthiness of companies as borrowers. *Political and regulatory changes introduced to combat climate change could also have a detrimental effect on creditworthiness in the affected sectors*

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Provisions, contingent liabilities and onerous contracts (5)

The speed and scale of climate change, and also political and regulatory measures by governments in response, could affect the recognition, measurement and disclosure of provisions, contingent liabilities and onerous contracts in the following ways.

- The need to create additional provisions for new or existing obligations that are now considered probable. These could relate, for example, to fines for environmentally damaging activities or for non-fulfilment of climate targets.
- An asset might be decommissioned earlier, so that cash outflows for obligations connected to the decommissioning occur sooner than planned.
- New contingent liabilities for potential obligations or existing contingent liabilities that were previously judged to be unlikely may now have to be disclosed.
- The cash flows and discount rates used in measuring the provisions must reflect the risks and uncertainties of climate change.
- If the cost of fulfilling a contract increases or the benefit from contract performance decreases, they may become onerous contracts.

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Incentive schemes (6)

Companies may introduce management incentive schemes to promote the transition to a low-carbon economy. Such programmes may fall under the scope of either IAS 19 “Employee Benefits” or IFRS 2 “Share-based Payment”, depending on the nature of the benefit.

Pension obligations (7)

Under IAS 19 “Employee Benefits”, all material financial risks must be taken into account when assessing pension obligations. This includes how the financing of a pension fund might change due to climate change risks and affect payments of employer contributions.

The demographic assumptions and the performance of an investment portfolio may vary under different climate change scenarios, affecting the measurement of the assets and liabilities of pension schemes

Recoverability of deferred tax assets (8)

In determining the recoverability of deferred tax assets, the assumptions applied in forecasting future taxable profits should be consistent with the assumptions underlying other profit forecasts used in preparing the financial statements. These assumptions could be significantly affected by climate change.

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Disclosure of significant assumptions and estimates (9)

If the assumptions about the effects of climate change are associated with a significant risk, meaning that a possible change in the assumptions could result in a material adjustment to assets or liabilities within the next financial year, a disclosure on the nature of the assumptions must be made under IAS 1 “Presentation of Financial Statements”.

In addition, sufficient information should be disclosed to enable readers of the financial statements to understand the sensitivity of assets and liabilities to potential changes in the assumptions.

Questions

Bob Truncheon
Chairperson

Beverley Scott
Tax Specialist

Carlison Morris
Audit & Assurance
Specialist

Jonathan Main
VAT Specialist

Mark Lumsdon-Taylor
ESG Specialist

Save the date!

Our next FD Update course

Thursday 8th February 2024