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Public accountant

THE OFFICIAL JOURNAL OF THE INSTITUTE OF PUBLIC ACCOUNTANTS

IPA INSTITUTE OF PUBLIC ACCOUNTANTS®

SPECIAL EDITION:

GREEN NEW WORLD

Accounting for an ethical and sustainable future

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Welcome to this unique edition of the *Public Accountant* journal.

We are very proud and excited to share with you our sustainability special, which is entirely dedicated to exploring the role accountants and businesses play in creating a greener world.

And although, arguably, sustainability has developed a bit of a buzzword reputation, humanity's persistent ignorance of the vital role each individual holds in the future of our planet is, simply put, troubling.

Climate change truly is one of the major global challenges of our time.

As such, not only has the Institute of Public Accountants embarked on a journey that will see it shed some of its own bad habits in favour of a greener future, but it is a journey that will aim to support and educate accountants Australia-wide, lending them a hand as they strive to influence change.

In this special edition, we also bring you pieces by esteemed scholars Dr Lex Fullarton and Peter Newman, while diving into topics such as the upcoming changes to corporate reporting, Australia's waste conundrum, our war on plastic and much, much more. Join us on this journey as we set out to create a more healthy and sustainable world.

I hope you enjoy the read and tell us what you think by emailing maja@momentumconnect.com.au.

Visit publicaccountant.com.au and join the conversation.

Public Accountant magazine is now available to read online on the Public Accountant digital hub.

Mumbrella PUBLISH Awards 2019 FINALIST

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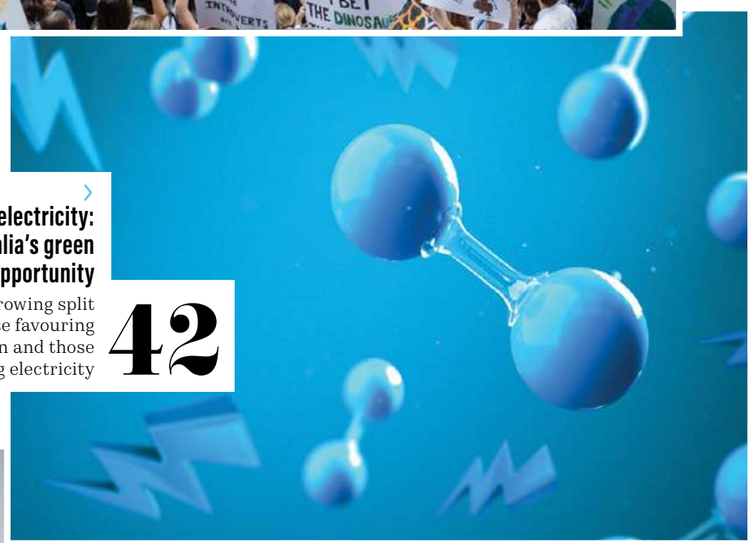

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Present burdens, looming opportunities

| Julie Williams FIPA FFA |

The past 18 months have tested professionals of every stripe. Many accounting professionals are carrying a double burden, working to ensure their own businesses stay in shape, while helping clients and employers to survive COVID-19's very real business threats

FROM MY own experience and conversations with members and their clients, I know that many of our IPA members have risen to this challenge superbly. I also know the toll that this period has taken not only on our members but on the community as a whole. The troubles of our clients can weigh on us heavily, as can the issues in our own organisations.

Talking with members has confirmed to me the need for the Institute to identify further and better ways to address the mental health burdens of running a business. Thankfully, we've already started tackling this challenge. We are working to find answers through a program called Counting on U, developed in combination with Deakin University, Beyond Blue and industry and government partners. The events of recent months have shown the importance of that commitment.

The Institute identified pre-pandemic, one of accounting's biggest opportunities lies with sustainability; organisations are increasingly accountable not just for their finances but for the sustainability of their operations. The quality of their sustainability efforts is helping not just to ensure compliance but to drive their marketing and fuel their growth.

Managing that sustainability requires risk assessment and reporting skills that accountants are ideally placed to provide. We know that sustainability factors are already motivating investors and driving a demand for new information. More and more, these sustainability factors will drive organisations' short-term and long-term prospects.

This issue of *Public Accountant* sets out some examples of the new sustainability push; it explores and considers the issues that accountants will need to understand as sustainability efforts evolve.

Integrated reporting, for instance, presents accountants and auditors with new challenges and opportunities.

This year, the IPA will gain a new perspective on integrated reporting when it starts to adopt it in our own annual report. This will also give you the opportunity to review it. We aim to show how integrated reporting can go hand in hand with increased relevance.

Sustainability provides one example of how accountants need to wrap their arms around the future – in other words, to innovate.

This need for innovation has driven the creation of our third IPA-Deakin SME Research Centre Small Business White Paper, launched in June. The work of the Centre over the past eight years has been one of the landmark achievements of our CEO, Andrew Conway, and the IPA team. The Centre's outputs are an important part of our effort to strengthen Australia's economy. I urge you all to read it and consider its findings and recommendations.

I hope you all enjoy this special sustainability edition of *Public Accountant*.

Follow Andrew Conway
twitter.com/andrewconwayceo

Proof that we can change

| Andrew Conway FIPA FFA |

Australia's almost three decades of economic growth up to early 2020 made it easier for all Australians to take our minds off one of the country's enduring economic disappointments: its poor record on research, development and overall business innovation

THIS YEAR'S third IPA-Deakin SME Research Centre Small Business White Paper is in part an effort to insert this challenge back into the Australian debate. Other countries share our innovation challenges, but Australia's record is surprisingly mediocre. Across a range of key innovation indicators, it consistently sits toward the bottom of the OECD rankings. For instance, Australian businesses rank among the least effective in the OECD at introducing product and process innovations.

As Australia tries to grow out of its COVID-19 recession, it needs more than ever to lift its national productivity, the ultimate source of economic enrichment. Innovation can deliver a permanent boost to the economic performance of small and medium businesses.

But Australia needs to act now.

The pandemic proof

Ironically, the pandemic itself has shown that Australia can take up and apply new ideas. It can do so in ways many people did not imagine, and it can do so at speeds most did not think possible. To take just one example: when COVID struck, the collective move to videoconferencing – previously discussed in terms of decades – happened instead in weeks. When circumstances demand it, Australia can apply new technologies right away.

The Small Business White Paper asks the question: what other opportunities are out there just waiting for Australia to seize them? What great ideas would emerge if industry and universities talked more with each other?

And the White Paper sets out a number of barriers that make innovation harder for small and medium businesses. Among them: eligibility criteria for R&D activities are too narrow, small firms struggle for capital to invest in R&D, and recent tax changes perversely reduce incentives.

Fixing the blockages

As well as shining a light on these problems, we have offered a list of practical fixes that offer the promise of greater small-firm innovation. It's not enough to say what's going wrong in the Australian system; if the Institute wants it fixed, we need to show how to fix it. And of course, we have aimed to exemplify innovation in our own operations.

We take this practical approach across the range of problems we confront. We have continued to argue that Australia's federal government should recognise tax agents as an essential service for the purpose of COVID-19 measures. We are pushing for government to recognise accountants' role in the pandemic recovery. We want our sector to be in the Australian government's mind as they make a whole range of decisions in these tough times. The Institute of Public Accountants believes these ideas and practices will do more than just help our members and the small business sector.

As we emerge from the pandemic, they will provide ongoing benefits to the entire Australian economy.

New guide launched setting out expectations for regulators

THE MORRISON government has released its Regulator Performance Guide, setting out its expectations of regulator performance and reporting via three principles of best practice, including continuous improvement and building trust; risk based and data driven; and collaboration and engagement.

"Our Deregulation Agenda is focused on making it easier to do business in Australia. Our regulators need to be at the heart of this work. They need to be clear on what we expect and what best practice looks like," said Assistant Minister to the Prime Minister and Cabinet Ben Morton.

"This new guide is a part of our broader work to increase accountability, promote best practice, support cultural change and build the professionalism of regulators. It will also streamline regulator performance reporting against these expectations."

Noting that while regulators are often operationally independent of government, this does not mean independent of expectations or guidance about how they fulfil their statutory roles.

Reflecting this, the guide also sets out the government's policy for issuing Ministerial Statements of Expectations to regulators on the government's objectives and policies relevant to the regulator's statutory remit.

"We took the time to listen to a broad range of views about what we should expect from our regulators. Making sure regulators are accountable to these expectations will help unleash the potential of Australian business and drive economic and jobs growth," Mr Morton said.

Also making its thoughts heard, the Institute of Public Accountants submitted its comments in May, arguing that while it supports the three principles, "implementation, enforcement and revision also need to be guiding principles".

"There must be a genuine approach to building trust, risk-based regulation and collaboration and engagement. Paying lip service to these should be called out and attempts made for consistent and genuine application of the principles," Vicki Stylianou, group executive of advocacy and policy at the IPA, said.

"We acknowledge there are pockets of good practice, best practice and excellence and we encourage all stakeholders to take responsibility in striving for excellence at all times."

The Regulator Performance Guide applies from 1 July 2021 with a transition period of one year. Material to support regulators in implementing the guide, including a library of best practice case studies, is available on the Deregulation Agenda website.

Gov orders review of GST on goods

The government has requested that the Board of Taxation review the collections of GST on low value imported goods – first introduced on 1 July 2018. Before this date, goods imported directly by consumers costing $1,000 or less did not attract GST and only high value goods with a customs value over $1,000 were assessed and charged GST at the border. Assistant Treasurer Michael Sukkar noted that Australia was one of the first countries to implement a vendor model. "When announcing the measure in the 2016-17 budget, the government committed to reviewing the measure after it was operational, to ensure it was consistent with international best practice," Mr Sukkar said.

130 countries join international tax reform

The countries and jurisdictions, representing more than 90 per cent of global GDP, have agreed a new two-pillar plan to ensure that large multinational enterprises (MNEs) pay tax where they operate and earn profits, while adding much-needed certainty and stability to the international tax system. According to the OECD, the framework updates key elements of the century-old international tax system, which is no longer fit for purpose in a globalised and digitalised 21st century economy.

Taxpayers rush to lodge on 1 July despite warnings

The Australian Taxation Office (ATO) is urging taxpayers to avoid a simple mistake that could keep them and their tax refunds apart. Assistant commissioner Tim Loh said that leaving out income is the number one reason tax returns and refunds are delayed in the middle of July. "We understand the rush to get a refund as fast as possible but racing to lodge your return can often lead to easily avoidable mistakes," Mr Loh said. "Waiting until the end of July to lodge allows the ATO to add information into your tax return from employers, banks, private health insurers, and government agencies into your tax return. Agents can access this information too."

Review launched into the tax treatment of venture capital investments

The review, set to be undertaken by Treasury and Industry Innovation and Science Australia (IISA), will cover the Early Stage Venture Capital Limited Partnership (ESVCLP), the Venture Capital Limited Partnership (VCLP), and the Australian Fund of Funds (AFOFs) programs. According to the Australian Investment Council, recent trends demonstrate a strong Australian venture capital industry with a record $1.3 billion raised in 2020, compared with $200 million in 2013.

172
THOUSAND
individual 2021 tax lodgments on 1 July

01
JULY 2020
New compulsory reporting scheme for gig economy workers

130
COUNTRIES
Have joined international tax reform

78
PER CENT
The increase of undisputed ATO debts

'No policy case' for digital currency, RBA says

In a submission to the senate committee on Australia as a Technology and Financial Centre, the Reserve Bank of Australia revealed that it's talking to other central banks about the potential of digital currency systems. The RBA said that it "is continuing to closely monitor the case for a retail CBDC and is engaging with some other central banks on possible use cases, including for cross-border payments." However, for now, they insist that real-world use cases remain unconvincing. "Like many other advanced-economy central banks, the bank does not consider that a policy case has yet emerged for issuing a CBDC," the RBA said.

New compulsory reporting scheme for gig economy workers

Uber drivers and users of Airbnb are among the share-economy participants that will soon have to adhere to a new compulsory reporting regime, which will be implemented by applying the taxable payments reporting system to certain transactions undertaken through these platforms. Ride-sourcing and short-term accommodation platforms will be first up, with the likes of Uber and Airbnb expected to report information of all transactions to the ATO from 1 July 2022.

IN THE MEDIA

The IPA has actively engaged with the media on a wide range of important and pressing issues.

Undisputed ATO debts increase by 78%

Institute of Public Accountants general manager for technical policy Tony Greco said COVID-19 would be a significant factor in the size of the ATO debt book for the period ending June 2021. Ninety-five per cent of collectable debts were currently paid within 90 days. "Improving the performance of managing tax debt is particularly important as Australia repairs its finances in a post-COVID world," Mr Greco said. "It is also important to maintain public confidence in our tax system and the perception that there is a level playing field, otherwise it could impair our high level of voluntary compliance."

Tony Greco, The Australian Financial Review

ATO's $34bn debt book outpaces economic growth

Tony Greco, general manager of technical policy at the Institute of Public Accountants, believes that while the "sheer magnitude" of the collectable debt would command attention, further investigations to uncover the reasons behind the continued growth would be needed. "To better manage this asset, greater insights and enhanced reporting are recommended by the IGTO which the IPA supports," said Mr Greco. "This will help target investigations into problem areas and measure the effectiveness of the ATO in recovering collectable debt.

Tony Greco, Accountants Daily

New client verification standards require education: IPA

Given the ramifications for the tax profession in adopting the client verification guidelines, we would anticipate that the TPB and the ATO need to engage in an education program to highlight to practitioners what will become compulsory business practices after the initial transition period ends," said Tony Greco, general manager of technical policy at the IPA.

Tony Greco, Accountants Daily

FBT exemption for retraining employees locked in

The Institute of Public Accountants general manager of technical policy, Tony Greco, said that while the move was positive, further changes to expand tax deductions to education and training unrelated to an individual's current job was necessary to bring equity to the tax system. "[The new FBT exemption] discriminates against individuals who work for employers who do not have the financial capacity to undertake such activities," said Mr Greco.

Tony Greco, Accountants Daily

So, what do we mean when we talk about sustainability?

Is there a more prominent buzzword than sustainability in our society today? Despite its dominance, most of us, including many experts in the field, are perplexed by how exactly the concept should be defined and how wide its scope should be. This article, and in fact this entire special edition of *Public Accountant*, intends to explore the many aspects and interpretations of sustainability, with an emphasis on what it means for business

| by Matthew Cavicchia |

The photo called The Blue Marble was taken by the crew of the Apollo 17 spacecraft on 7 December 1972 on its way to the moon

A brief history lesson

'Sustainability' has its roots in science and resource consumption. For a resource to be sustainable, its deposits are replenished at a rate that exceeds that of extraction. However, when we talk about sustainability today, it is a vision that vastly exceeds the availability of resources.

As the awareness of environmental issues and their increasing severity developed throughout the 1960s, it was interestingly the triumph of Apollo 17 and the first colour photo of Earth in 1972 that accelerated the first global discussions. The photo revealed a confronting truth.

While humanity understood its place on Earth, the real-life visual of our planet from the outside highlighted just how small each human being is, compared to the environment.

Acknowledging that there is no planet B, some countries began to speak out against environmental degradation, leading towards the 1972 United Nations Conference on the Human Environment in Stockholm.

In the year 1980, the World Conservation Strategy first coined the term sustainable development, although it was not until the 1987 Brundtland Report that this phrase expanded beyond ecology.

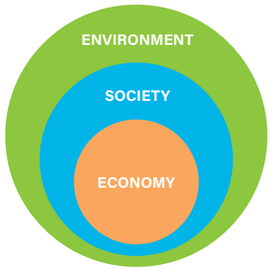
A fundamental quote from the report is as follows:

"Humanity has the ability to make development sustainable to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs."

This active awareness of future generations is called intergenerational equity. Intergenerational equity extends the scope of sustainability significantly, as we are no longer solely focused on reducing poverty, inequality, and environmental degradation for the benefit of the present generations.

Instead, this approach encourages us to consider what the implications will be for our descendants and to act now, ensuring that both the present and future generations can thrive. Furthermore, this idea of sustainable development fundamentally combines environmental conservation with economic and social concerns, forming what is commonly referred to as the triple-bottom line approach.

When it comes to the environmental considerations of sustainability, it is most effective to consider the economy as a fixture within



society, which is surrounded by and interacts with the environment. Through an anthropocentric (human-centred) lens, the environment provides vital resources that enable society (both present and future) to thrive and the economy to operate.

Sustainable development in the present day is most prominently being driven by the United Nations Sustainable Development Goals (SDGs), which were introduced in 2015.

The SDGs recognise that improving living standards and overall prosperity is connected to a range of factors, including action on climate, economic growth, healthcare, education and more, resulting in a total of 17 ambitious goals. The SDGs replaced the eight Millennium Development Goals which were signed in 2000. The focus of the SDGs was built on the underwhelming outcomes of the Millennium Development Goals, which ultimately did not consider the wider view of 'sustainable development'.

Responsibility of business

This modern, integrated conceptualisation of sustainable development has also led to the recognition that the private sector has a significant role to play.

5
TRILLION
The estimated amount of plastic bags used worldwide each year
Source: SUMAS

Businesses are substantial contributors due to their capacity to innovate and influence production and consumption habits. Resources such as the SDG Compass and the UN Global Compact are available to businesses to help embed sustainability into corporate strategy and communicate progress. If you question the connection between sustainability and business, the proposed conceptual framework of the Sustainability Accounting Standards Board (SASB) puts forth five dimensions of sustainability in the context of business.

Environment
The environmental impacts associated with the resource needs and activities of the organisation.

Human capital
Issues associated with the workforce of an organisation; including their rights, occupational health and safety, mental health and so on.

Social capital
Issues associated with the organisation's reputation and relationships with external stakeholders – do they have a social licence to operate?

Business model and innovation
The capacity of the firm to integrate environmental, human and social considerations into their overall perception of value creation.

Leadership and governance
Complying with laws and regulations of the industry and striving for 'best practice'. The five dimensions succinctly highlight the interplay between business and sustainability, drawing parallels to the value creation focus of Integrated Reporting and Thinking. This is expected, given the proposed merger between the IIRC and the SASB to form the Value Reporting Foundation.

What's the incentive for business?

Profitability
Sustainable alternatives are generally perceived as expensive, meaning many businesses think of it as something that will hurt the bottom line.

While it is true that making initial changes such as switching to recycled paper increases costs, a crucial element of sustainability is to consume less. Thus, reducing paper consumption by 50 per cent and using recycled paper when required will greatly reduce operating costs, thus improving profitability.

Becoming a better employer
The prime motivation of sustainable business should not be greenwashing, although, there are inevitably reputational benefits that stem from making this change. From an employment perspective, there is growing evidence to suggest that we are increasingly attracted to the prospect of working for socially responsible businesses. Therefore, these organisations are better equipped to both attract and retain talent by championing sustainable processes.

For more visit
www.publicaccountant.com.au

Albany wind and Grasmere farms are two wind power stations near Albany, Western Australia, owned by Bright Energy Investments

UNDERLINING SUSTAINABILITY'S ROLE

Sustainability in accounting took another step in June with the merger of the Sustainability Accounting Standards Board and the International Integrated Reporting Council. The new Value Reporting Foundation will work on integrated thinking principles, integrated reporting and SASB standards. The IPA welcomes the formation of a body which can help to lead the continuing evolution of sustainable reporting.

Julie Williams
FIPA FFA, IPA president

More attractive to consumers
Additionally, consumers are also increasingly likely to shop from businesses that are sustainable. Speaking from my own experience as somebody from Generation Z, I am willing to pay a premium for products that I know are made from recycled materials and know countless others who feel this same way.

Innovation
As alluded to earlier, businesses are hubs for innovation. Sustainable innovation has been at the forefront for some time and is essential for the achievement of all the SDGs.

Investing in R&D and sustainable innovation may not be viable for all organisations, although the opportunity to achieve a competitive advantage, while simultaneously making a positive social impact, should be strongly considered.

SMEs and SMPs
Understandably, ongoing survival will take precedence over social impact for most SMEs, especially as we continue upon the path out of the pandemic. Furthermore, many of the calls to action for corporate sustainability are targeted at large companies in big markets with a magnitude of resources. However, as SMEs acquire knowledge of the business case for sustainability, they often develop an appetite to explore how it can become ingrained within their organisation. Or, better yet, a growing number of small business ideas are conceptualised as sustainable and brought to life by aspiring innovators and entrepreneurs.

As the number of SMEs embedding sustainable policies continues to rise, there is an enticing opportunity for even the smallest of accountants to play a significant role in championing the achievement of their client's sustainability objectives, while simultaneously building a new revenue stream for their own business. Acquiring the ability to measure climate risk, along with an understanding of sustainability reporting frameworks, is pivotal for the future of the profession. Although various developments such as the IFRS Sustainability Standards Board are set to redefine the sustainability reporting landscape in the coming years, it is still essential for accountants to be establishing their knowledge in this area.

This, of course, requires the IPA to ensure our members have numerous opportunities to develop their sustainability accounting skillset, which we aim to continue following June's Integrated Reporting workshops.

Now it is a matter of getting started. As we call for members to get familiar with sustainability, this subsequently asks the IPA to provide resources and set the standard, beginning with the release of this sustainability special edition.

We are ready to walk the talk and hope that this will inspire you all as well!

The Fimiston Open Pit, colloquially known as the Super Pit open cut gold mine located in Kalgoorlie, Western Australia

Professional accountants leading reporting and assurance on sustainability

As professional accountants, the chief stewards of business information, we have both an important responsibility and a transformative opportunity to engage in and lead on upcoming changes in corporate reporting, and improving the quality of sustainability information

| by Kevin Dancey |

THE VOLUNTARY approach to reporting sustainability information has been in place for a long time and it has not worked.

The capital markets do not have consistent, comparable, and assurable information, and greenwashing continues to be prevalent. The immediate development of a baseline of global standards for sustainability information under the IFRS Foundation is important for the capital markets, investor protection and for companies.

Why is this important now?
The world needs better corporate reporting. The demand for sustainability information is driven by institutional investors and asset managers (e.g. BlackRock CEO Larry Fink's 2021 letter to CEOs) and other stakeholders wanting better information about an entity's operations and the effect that it is having on the economy, environment and people/society at large.

Stakeholders want information that is relevant, reliable, comparable and assurable. Unfortunately, there is currently a high degree of confusion in the marketplace due to the variety of frameworks and approaches. This has led to companies using a mixture of reporting standards/frameworks that is not helpful for anybody.

There is also recognition that the climate crisis is real, but no commonly agreed way to measure progress. Commitments to climate targets are hollow if jurisdictions, and the businesses within jurisdictions, cannot measure progress.

A global profession positioned to lead
IFAC's corporate reporting and sustainability agenda focuses on:

The Carrington Terminal, Newcastle is one of the biggest coal exporters in the world mostly sending coal to countries such as Korea and Japan

1. Advocating for a global approach to sustainability standards
There has been significant global momentum in which IFAC has been a leading advocate. IFAC believes setting up a new International Sustainability Standards Board – "ISSB" under the auspices of the IFRS Foundation is critical to achieve globally consistent sustainability standards that lead to relevant, reliable, comparable and assurable information.

A global approach reduces regulatory fragmentation and the proposed approach leverages a global structure that already has legitimacy. IFAC's building blocks approach to reporting sustainability information enhances our previously issued roadmap, The Way Forward. IFAC believes that adopting a building blocks approach is the only way to reconcile the objectives and demands of all stakeholders and the aspiration of achieving both a global solution for a baseline of consistent information for global capital markets and satisfying the objectives of certain jurisdictions (e.g. the EU) for better reporting on a variety of public policy matters.

In summary:

- **Block 1** is investor focused sustainability information that is material to/relevant to enterprise value. We call this the 'outside-in' impacts – the impacts of ESG factors on an organisation's short-, medium- and long-term performance. Block 1 information needs to be integrated with existing financial GAAP reporting to provide a complete picture of enterprise value. IFAC believes a new ISSB should first focus on block 1, focusing first on climate, but then turning its attention to all block 1 issues.

- **Block 2** is multi-stakeholder focused sustainability reporting that helps a wide range of stakeholders understand a company's positive and negative contributions to sustainable development and its impacts on economy, environment, and people. What we call the 'inside-out' impacts. These are the impacts that an entity has on the outside, but these impacts do not, at least as of now, affect the entity's performance.

The issue with block 2 information is more challenging and the demand for information in this space will in many cases be in response to jurisdiction-specific public policy objectives. Accordingly, for block 2 there can be an aspirational goal for global standards or guidance (e.g. a new ISSB under the auspices of the IFRS Foundation could help here by facilitating the sharing of approaches and encouraging the coalescing of approaches), but there will likely always be a need for jurisdiction-specific requirements.

$8
MILLION
The amount (€5 million) in fines Italian oil major Eni recieved for claiming that its palm oil-based diesel was 'green' in an advertising campaign

2. Encouraging sustainability-related skills and competencies
IFAC will continue to work with PAOs and through the International Panel on Accountancy Education to demonstrate that professional accountants not only have the skills and competencies needed to prepare, assure, and utilise this information, but also the expertise to build and evaluate necessary controls and processes related to sustainability.

In identifying which existing foundational skills can be leveraged to meet new requirements, and in creating access to obtain new subject matter expertise, IFAC supports the positioning that professional accountants are best placed to meet the advisory, preparatory and assurance sustainability-related needs of organisations.

3. Championing an integrated mindset
The insight gained from both financial and sustainability-related (or "non-financial") information is maximised when an integrated approach connects the two. Quite simply, financial and sustainability information are not two, disconnected silos.

An integrated approach leads to better decisions that deliver long-term value creation – financial returns to investors while taking account of value to customers, employees, suppliers, and societal interests.

Professional accountants working in companies must continue to foster an integrated mindset that connects financial and sustainability data, processes and analysis. Visit IFAC's Rethinking Value Creation webpage at the end of the article, which provides case studies of integrated thinking.

Read IFAC's building blocks approach to reporting sustainability at www.ifac.org

4. Advancing assurance services
Assurance is a necessary component of the evolving global reporting system and an imperative for our profession.

IFAC is undertaking a benchmarking study to better understand current and best market practices, identify gaps, and develop a shared narrative that best positions professional accountants to perform sustainability assurance.

We recently published *Accelerating Integrated Reporting Assurance in the Public Interest* and the IAASB has released new *Guidance on Applying ISAE 3000 (Revised) to Extended External Reporting Assurance Engagements.*

5. Why are professional accountants best positioned?
As Professor Mervyn King has said, "Only accountants can save the world!"

Professional accountants are central to gathering, analysing, and communicating high-quality information. Our role in sustainability-related reporting – and insights – represents an even greater opportunity to unlock value for companies and clients. We will have to integrate new and diverse subject matters and technologies into our work, but our core knowledge, skills, professional judgment, integrity, and code of ethics (The International Code of Ethics for Professional Accountants) are already in place. The future potential of sustainability information is too important to not get it right; together we will actively make the case that our profession is well positioned to rise to this challenge.

Global community
IFAC encourages all individuals to advocate on behalf of the profession as preparers, advisers, directors, investors and auditors – whatever your role may be – to make sure advancing sustainability happens the right way and that as a profession we play a leading, proactive role.

Kevin Dancey
chief executive officer, IFAC

For more on sustainability visit www.ifac.org

Energy from waste: the solution to Australia's war on waste?

Following the Council of Australian Governments' (COAG) Waste Strategy Response announced in 2019, Energy from Waste (EfW) technologies have emerged as potentially viable methods of managing waste in Australia, supporting the Australian government's aim to become a completely circular economy over the coming decades

By Clare Corke, Joseph Barbaro, Edward Kelly and Cameron Busch
Corrs Chambers Westgarth

THIS EMERGING sector undoubtedly brings significant political, economic and regulatory challenges, but also opportunity for investors, industrialists and even the National Electricity Market with a new source of clean baseline energy production (where the input is Australia's waste). Below, we explore the EfW opportunity and discuss what needs to happen on a policy and regulatory level for broader commercial uptake and investment into the sector.

What is Energy from Waste?

While EfW incorporates any technology or process that converts 'waste', defined as any kind of waste that would otherwise go to landfill or be exported, into energy or energy carrying products, for current purposes we are primarily focused on thermal processes (combustion, gasification and pyrolysis).

Combustion and gasification differ. Combustion burns the waste with the resulting heat converting water into steam and then electricity; while gasification uses oxygen or steam reactions that cause the waste to convert into a gaseous mixture. This mixture has applications beyond electricity and can also be converted into products such as diesel fuel, hydrogen fuel or ethanol.

Large scale EfW facilities commonly use combustion for the thermal treatment of mixed waste streams (such as municipal solid waste). Gasification requires more homogenous waste streams or pre-treatment before the waste enters the gasification chambers.

Pyrolysis is the heating of organic material, such as biomass, in the absence of oxygen. The process produces three products: biochar, bio-oil and bio-gas, each with a range of potentially useful applications. Pyrolysis can be used for the treatment of organic wastes, including plastics, and may be deployed on a smaller scale and in a broader range of locations than large scale combustion and gasification processes.

Is Energy from Waste a commonly accepted technology?

The EfW sector has struggled to gain traction in Australia for a number of reasons:

1. Australia's abundance of land in close proximity to major cities and waste producers is perfectly suited to cheap landfill operations. Coupled with an inconsistent approach to waste levies, there is little to no incentive to consider alternatives to landfill such as EfW which are more capital intensive.

2. EfW plants have traditionally been regarded as smelly, undesirable projects that no one wanted in their backyard. This has led to strong opposition from communities situated near proposed projects, despite new technologies being developed for emission capture and smell mitigation.

3. EfW projects have struggled to explain their importance to the circular economy, in that EfW plants allow for the recovery of energy from residual or non-recyclable waste that would otherwise be sent to landfill.

4. There has been a lack of co-ordinated policy and regulation - nationally consistent policy and regulation which embed the waste management hierarchy reflect the latest EfW technologies and emission limits, and support offtake markets that would facilitate project development by investors on a national basis.

Whilst Australia has faced a general lack of any substantial investment into EfW projects, the sector in other parts of the world, such as Europe, Japan and the United States, has proven to be highly successful both from a commercial and waste management perspective. In particular, case studies in Europe have shown that when a country has adopted EfW technology, its recycling rates have also improved, provided the correct regulatory environment and incentives are put in place.

Why did Europe adopt Energy from Waste?

There are several key factors behind Europe's adoption of EfW technology. The first is necessity. With limited land available and strong population growth leading to increased waste, an alternative to landfill had to be found. The second is environmental concerns. Individuals in Europe, in particular the relatively wealthier Western European nations, were early movers in voicing their concern over climate change and the importance of mitigating future damage. As a result political support followed for technologies such as EfW.

Despite the inductive conditions for EfW in Europe, at its early stages the adoption of EfW technology still required a supportive and consistent policy and regulatory approach between the various levels of government in each country to support the development of the sector at a broader European Union level.

At an individual country level, the countries who have found the most success with EfW, such as the Netherlands, were early adopters of a uniform country-wide waste levy. This helped standalone EfW projects become more economical for private investors. With a pricing incentive in place, countries then developed regulatory and technical standards, which continue to be updated to account for evolving EfW technologies (albeit at an European Union level).

For example, in December 2019, the European Union released the Best Available Techniques (BAT) Conclusions for Waste Incineration under Article 13(6) of the Industrial Emission Directive (IED).

The document contains 37 BAT conclusions which seek to reduce emissions from waste incineration and to better improve EfW's position in the circular economy and waste management hierarchy.

The European Union regulatory framework, which regulates over 400 EfW plants currently in operation in Europe, consists of:

- the EU Landfill Directive;
- renewable heat incentives;
- landfill levies/taxes;
- feed-in tariffs; and
- legal requirements under the IED.

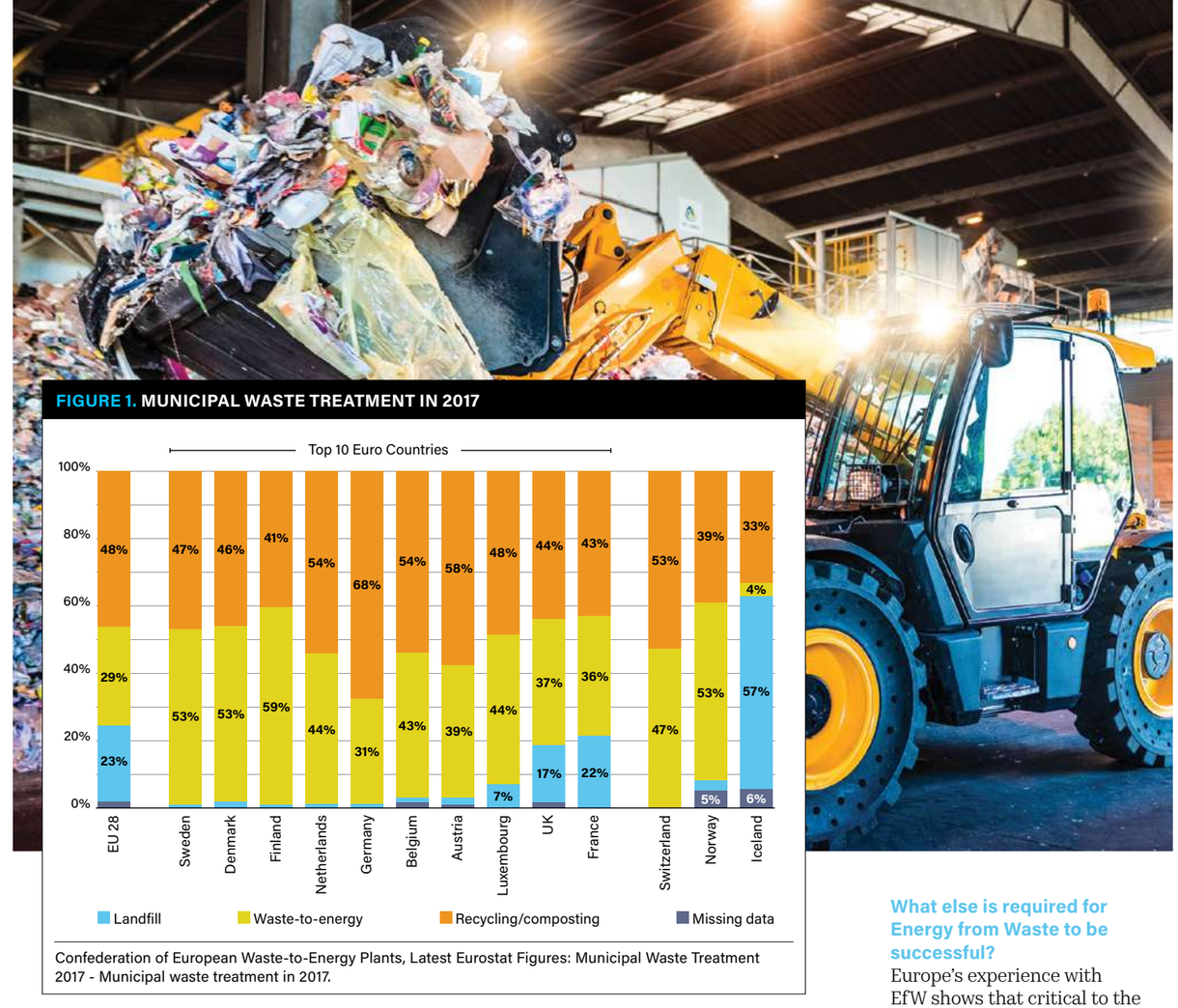


FIGURE 1. MUNICIPAL WASTE TREATMENT IN 2017

Confederation of European Waste-to-Energy Plants, Latest Eurostat Figures: Municipal Waste Treatment 2017 - Municipal waste treatment in 2017.

What else is required for Energy from Waste to be successful?

Europe's experience with EfW shows that critical to the economics of each proposed project is a stable and long-term supply of waste. Local councils often co-ordinate and combine their waste quantities to support the development of large scale EfW projects. To minimise transportation of waste, projects are often located close to the major sources of waste, for example cities for their municipal waste or large industrial emitters of waste. However, and as mentioned, this creates a tension with the local community. The community opposition could be avoided by locating EfW plants in regional locations and away from residential homes, but this has two disadvantages:

- first, the additional cost of transporting waste out of cities will make EfW less competitive compared to landfill and would require a greater waste levy to redress the balance; and
- second, projects require a ready and easily accessible market for their electricity and other end products.

With respect to other end products, in the northern hemisphere countries, the heat generated by a EfW plant can be used for district heating, in Australia it is more likely that heat will be used by industry for manufacturing processes, utilised in greenhouses for agriculture purposes or could be turned into cooling systems for residential or commercial use. Other by-products, such as syngas, char and oils, can also be sold as additional sources of revenue rather than be sent to landfill. Separately, while historically the process of converting waste to energy produced substantial carbon emissions as a by-product, modern technologies have largely removed this negative consequence. For example:

- Under a nationalised approach, the Netherlands' EfW plants are equipped with extensive flue gas cleaning to reduce dioxins and acid emissions.
- Advancements in EfW technology mean that a portion of the electricity produced from EfW plants in Europe is deemed to be renewable energy.
- EfW plants can supply greenhouses with CO2 to promote plant growth. Dutch EfW company, AVR, has implemented this strategy in an effort to reduce its emissions from incineration.

What does Australia's Energy from Waste sector currently look like?
Australia does not yet have any large scale operational EfW plants. However, a strong pipeline of EfW projects is emerging with two plants currently under construction in Western Australia and a number of others around the country in the process of obtaining finance and regulatory approvals. Announced projects include the following.

Avertas Energy (Kwinana, WA): The Avertas Energy Plant, currently under construction, is on track to be Australia's first thermal EfW plant with operational status expected to be achieved this year. The circa $698 million plant was co-developed by Macquarie Capital and Phoenix Energy, with investment from DIF Capital Partners and funding from the Australian Renewable Energy Agency. Acciona has been appointed to design and construct the facility and a 25-year operations and maintenance service agreement has been signed with Veolia. When completed, the plant will be capable of converting up to 400,000 tonnes of household, commercial and industrial waste (a quarter of Perth's annual post recycling waste), which would otherwise be headed for landfill, into electricity and construction materials.

East Rockingham (Perth, WA): The circa $511 million East Rockingham Resource Recovery Facility is the second EfW project to reach financial close in WA. The project was co-developed by Hitachi Zosen Inova (HZI), New Energy Corporation and Tribe Infrastructure with additional investment from Masdar (a subsidiary of Mubadala Investment Company) and John Laing, and funding from the Clean Energy Finance Corporation and the Australian Renewable Energy Agency. The contract to design, build and commission the plant was awarded to an EPC consortium of Acciona and HZI, and long-term operation and maintenance has been awarded to SUEZ. On current estimates, the plant could divert up to 330,000 tonnes of waste from the Cockburn, Belmont, Kalamunda, Mundaring and Swan landfills each year.

Maryvale EfW Plant (Latrobe Valley, VIC): Opal Australian Paper is developing a circa $600 million EfW plant with SUEZ at the Latrobe Valley mill. Late last year, the project secured additional equity partners in Masdar and Tribe and selected Acciona as its construction partner. SUEZ has committed to supply the plant with a significant portion of its waste requirements.

The consortium has also announced a Memorandum of Understanding with Citywide to source and supply waste via the rail link between Melbourne and the mill.

- Melbourne Waste and Resource Recovery Group Advanced Waste Processing Project (Melbourne, VIC): In early 2020, the Metropolitan Waste and Resource Recovery Group commenced the largest tender for new waste management infrastructure ever undertaken for Melbourne councils to provide an alternative to landfill for 16 councils in Melbourne's south east. Three tenderers were shortlisted and are now working towards the final tender stage with a 20-25 year contract expected to be awarded in 2022. Construction is targeted to commence in 2023.
- Western Sydney Energy and Resource Recovery Centre (Sydney, NSW): Cleanaway has recently completed the public exhibition phase of the planning process for its proposed $500 million EfW plant in Western Sydney. The project is being developed by Cleanaway and Macquarie Capital and will be the first of its kind in New South Wales, designed to process up to 500,000 tonnes of waste materials and generate up to 55MW of electricity. The project would contribute to the achievement of the NSW Environment Protection Authority's target of diverting 75 per cent of waste away from landfill.
- Mt Piper Energy Recovery Project (Lithgow, NSW): Energy Australia, in collaboration with Re.Group, is developing a $170 million EfW plant that will connect to the Mt Piper Power Station near Lithgow to create additional energy from 'refuse derived fuel' (RDF) made from non-recyclable household and commercial waste. The project would divert 200,000 tonnes of waste away from landfill and make the Mt Piper Power Station the first hybrid coal/RDF power station in Australia.
- Remondis Waste to Energy Facility (Ipswich, Qld): Remondis is in the process of obtaining environmental and regulatory approvals for its circa $400 million EfW plant in Swanbank, west of Brisbane. The plant will process up to 500,000 tonnes of waste per year and generate up to 50MW of electricity. Construction is targeted to commence in 2024.
- Renergi Biorefinery (Collie, WA): Renergi, a spin-off from Perth's Curtin University, has received ARENA funding to design, build and operate a commercial demonstration pyrolysis plant in Western Australia. The plant will convert municipal, forestry and agricultural wastes into biochar and bio-oil. The oil produced through the demonstration will be sold as a liquid fuel for local industrial applications, with the biochar to be sold as a soil additive.

With a clear pipeline of Energy from Waste projects, how will more prospective projects become feasible?
Taking lead from other jurisdictions around the world, implementing the following could encourage new EfW projects in Australia:

1. A nationally co-ordinated increase in landfill levies. This is a proven method of facilitating investment into EfW projects as increases in landfill costs incentivise EfW installations.

2. Political support. The sector can only develop with a supportive regulatory and political environment which provides investors with a clear understanding of the long-term policy and regulation for the sector. Progress is occurring at varying paces amongst the various states and territories and at a national level, the Australian government announced a $1 billion waste and recycling plan in 2020. The key components of this plan are:

- contingent on co-funding from the states and territories, $190 million for a new Recycling Modernisation Fund to leverage private sector investment of up to $600 million;
- $35 million to implement the government's commitments under Australia's National Waste Policy Action Plan;
- $24.6 million to improve national waste data so it can measure recycling outcomes and track progress against national waste targets; and
- a commitment to introduce legislation to formally enact the government's waste export ban and encourage greater product stewardship by the private sector.

3. The support of the community. The process for obtaining this support will require public discussion at both a state and local level so that public concerns can be addressed consistently and openly. Despite community concerns, evidence from EfW around the world supports the fact that modern EfW plants lower greenhouse emissions (relative to landfill), encourage increased rates of recycling and create long-term jobs.

4. Partnerships with local councils (which for the most part manage Australia's municipal waste) and industrial users. In particular, with advancements in technology there are bespoke opportunities for industrial players to work in partnership with waste management companies to generate energy from their waste as well as profit from any excess electricity that may be supplied to the broader market. The Opal Australian Paper EfW plant is a prime example of this emerging opportunity.

Globally, EfW projects are expanding as jurisdictions implement the necessary regulatory framework and contractual mechanisms needed to facilitate growth in EfW technologies.

In Australia, renewed political commitment to developing and investing in circular economy waste infrastructure and technology is a strong indication of the political support for the further development of the EfW sector. EfW, if used appropriately within the waste management hierarchy, can become a key part in the circular economy as it does not detract from recycling, diverts waste from landfill, reduces environmental and social impact, and provides additional, low emission, baseload electricity from waste which would otherwise end up in landfill.

The impact of responsible investing on the super industry

Responsible investing is known as "a wave that is building", but in essence it means aligning one's capital with investments that ensure a flourishing society without exploiting our environment

| by Matthew Cavicchia |

RESPONSIBLE INVESTING, also known as ethical investing, is the alignment of our capital with investments that ensure society can thrive and the environment is not exploited.

Responsible Investment Association Australasia (RIAA) presents a spectrum of responsible investment, ranging from ESG integration, which only tackles the avoidance of harm, through to impact investing, which are investments that avoid harm, benefit stakeholders, and contribute solutions.

Both ends of the spectrum deliver competitive returns, although investments focused on impact create real-economy outcomes for a sustainable future.

RI Australia 2021

RIAA held RI Australia, a hybrid event at the ICC Sydney on Friday, 8 May 2021. Described by the organisers as "a wave that is building", here are some takeaways about responsible investing from some of the event's keynote speakers.

1. Returns

While the impact of responsible investing is what makes it attractive, the key motivation behind investing will always be strong returns. Alexandra Clunies-Ross of Artesian (Alternative Investments) stated that their VC funds deliver impact without sacrificing financial returns via collaborative partnerships. Furthermore, Matthew Tominic of Conscious Investment Management spoke on specialist disability accommodation (SDA) portfolios. SDA investments have higher risk-adjusted returns as the investment risk (vacancy) is directly correlated to the social impact, which is to provide disability solutions.

2. Making 'bad' harder

New York Times best-selling author Anand Giridharadas criticised the focus of making 'good' easier rather than making 'bad' harder. Mr Giridharadas claims that this current approach fosters systems that entities can exploit to mislead the consumer, emphasising the key distinction between appearances and structural reality.

3. Sustainability linked loans

Sustainability linked loans, mostly limited to large corporations in the early stage of their conception, are loans with margins subject to pre-determined sustainability metrics. The philosophy behind these loans is that sustainable companies are lower risk and thus, deserve better pricing. This incentivises recipients to meet and surpass targets so they can access discounts.

4. Demand for ethical investment

Abby Wild, research fellow at BehaviourWorks, presented the results of a study which revealed that 53 per cent of the sample would be motivated to increase their savings and investments if they knew it would be having a positive impact on the world. Those respondents who answered unsure were 29 per cent, while only 18 per cent said no. Furthermore, the research reveals an expectation of ethical investment, as 86 per cent of those surveyed agreed that they expect their super or other investments to be made responsibly and ethically.

The superannuation industry:

The superannuation industry is the other forum within which there is a buzz for ethical investments. For example, in December 2020, REST Super responded to increasing consumer demand by developing an ethical and sustainable investment option, which is perhaps the legacy of an important legal battle between the fund and a member.

Australian Ethical invests in food production company Costa. Costa is Australia's largest horticultural company and a major supplier of produce to food retailers both nationally and abroad. They are the country's leading berry producer with multiple sites across Australia, growing blueberries, raspberries, strawberries and blackberries.

Mark McVeigh sued REST for not disclosing how, and if, they manage climate risk, which he claimed was a breach of both the *Superannuation* and *Corporations Acts*. REST eventually conceded that "climate change is a material, direct and current financial risk to the superannuation fund", symbolising the beginning of a new era.

An example of a responsible superannuation fund is Australian Ethical Super. Australian Ethical Super is RIAA certified, meaning they prioritise companies with a positive impact and avoid coal, oil, tobacco, and gambling. Australian Ethical Super's balanced portfolio has delivered very competitive returns.

8.62
PER CENT
Australian Ethical Super's three-year performance, according to Finder

According to Finder, Australian Ethical Super has a recent three-year performance of 8.62 per cent, outperforming big names such as Australian Super Pre-mixed balanced option (7.73 per cent), CBUS Growth (7.18 per cent), and HostPlus Balanced (6.36 per cent). Australian Ethical Super has a recent 10-year performance of 8.2 per cent, which is again competitive and suggests that ethical investments can generate sustainable returns.

This comparison is not financial advice but rather insight into why the likes of REST and MLC are gradually diversifying into the responsible investing space.

Divesting v corporate engagement:

If you have investments in unethical companies, what is the best way forward? While divesting is an option, all this effectively does is handpass the problem onto others without any positive impact and real-world outcomes.

The advice from Kado Muir, chair of the First Nations Heritage Protection Alliance, and the CFA Institute's Future of Sustainability in Investment Webinar was to engage as shareholders. There may be opportunities to exercise voting rights, join conversations and participate in working groups that can bring about positive change. Thus, corporate engagement is far more impactful than simply opting to sell unethical investments.

As responsible investing continues to expand into the mainstream, it will be exciting to watch just how big the movement becomes.

Matthew Cavicchia
analyst, Institute of Public Accountants

Plastics: Finding a sustainable solution

Plastic pollution is one of the most pressing environmental issues facing the planet. Here in Australia just 18 per cent of the plastic we put on the market is successfully recovered for future use. By 2040, if we fail to act, the volume of plastic on the market will double, the annual volume of plastic entering the ocean will almost triple, and ocean plastic stocks will quadruple. It is clear that to safeguard a sustainable future we must act now to change our relationship with plastics

| by Brooke Donnelly |

IT IS important to recognise that plastic plays an important role in our global supply chains. It helps us keep food fresh to feed 8 billion people worldwide, delivers our life-saving medicines safely and securely, and transports our precious and hazardous goods. While plastic when managed appropriately is not inherently harmful, the way we have handled plastic at end of life has not been effective enough to ensure that it has not created harmful effects in our environment.

Changing the way we manage plastics requires a paradigm shift across industry, government and the community.

Indeed, many businesses are already well on the way to changing their relationship with plastics, as they work to meet powerful consumer demand for sustainable alternatives and adhere to new state and territory legislation to phase out certain problematic and unnecessary plastic items.

Here's a snapshot of some of the initiatives and programs currently designed to help businesses change their approach to packaging sustainability.

ANZPAC Plastics Pact

To help address the plastics crisis in Oceania, the Australian Packaging Covenant Organisation (APCO) launched the Australia, New Zealand and Pacific Islands Plastics Pact (ANZPAC). Developed in partnership with the Ellen MacArthur Foundation, ANZPAC is the 11th pact in the foundation's global Plastics Pact network, joining pacts in the US, Canada, South Africa, Chile and across Europe.

ANZPAC is a collaborative solution that brings together key players in the region behind a shared vision of a circular economy for plastic, where plastic never becomes waste or pollution.

The ambitious new cross-regional program will work to fundamentally transform our response to plastic by:

- eliminating the plastics we do not need;
- innovating to ensure that the plastics we do need are reusable, recyclable, or compostable; and
- circulating the plastic we do use, keeping it in the economy and out of the environment.

The pact represents the complete plastics supply chain, from leading brands, packaging manufacturers and retailers to resource recovery leaders, government institutions, and NGOs. More than 70 organisations have so far signed up to ANZPAC, including many of Australia's largest and best-known businesses.

ANZPAC members will work towards four clear, actionable targets by 2025:

1. Eliminate unnecessary and problematic plastic packaging through redesign, innovation and alternative (reuse) delivery models.
2. 100 per cent of plastic packaging to be reusable, recyclable or compostable packaging by 2025.
3. Increase plastic packaging collected and effectively recycled by 25 per cent for each geography within the ANZPAC region.
4. Average of 25 per cent recycled content in plastic packaging across the region.

The phase out of unnecessary and problematic single-use plastic packaging

While plastic packaging has many benefits for society, problematic and unnecessary single-use plastic packaging represents a highly damaging issue, with a range of associated negative environmental and economic impacts. In 2019, approximately 50,700 tonnes of unnecessary and problematic single-use plastic packaging were produced, making up 5 per cent of the total 1 million tonnes of plastic packaging placed on the Australian market.

The phase out of single-use plastic packaging is an initiative that is being led by APCO through the 2025 National Packaging Targets. Since these targets were agreed, APCO has worked with the whole plastic supply chain to produce an agreed list of materials for phase-out, including agreed timelines for this to take place.

The Australasian Recycling Label Program

The Australasian Recycling Label (ARL) Program launched in 2018 and has since recruited more than 500 organisations to join the program, including many of Australia's best-known brands and retailers. The ARL Program is an on-pack labelling scheme that helps consumers to recycle correctly and supports businesses to design packaging that is recyclable at end-of-life. The program was developed by APCO in partnership with Planet Ark and PREP Design and is endorsed by all Australian governments to help make recycling easier and empower consumers to make effective disposal decisions about packaging at the end of life.

The ARL Program features two key elements:

- The Packaging Recyclability Evaluation Portal (PREP) – an online tool that assesses packaging recyclability in the Australian and New Zealand recovery systems.
- The Australasian Recycling Label – an on-pack label that provides clear and simple instructions about how to recycle all of the separable packaging components.

Along with helping build consumer trust and credibility, the ARL takes the confusion out of recycling with easy-to-understand instructions about how to correctly dispose of all parts of a product's packaging.

Consumer awareness of the ARL has grown significantly and is particularly high among younger audiences. Consumers also say the ARL helps them to recycle more – with one in five reporting they would recycle a lot more if the ARL was on their packaging. Three-quarters of Australians want to see the label on every item of packaging – while just under half say the ARL would influence their decision to buy a product.

This widespread uptake was one of the factors that was commended in a recent report from the UN Environment Programme. The ARL Program was recognised as a world-leading consumer education initiative, celebrated for its clarity, reliability and accessibility.

In summary, by addressing these plastic issues, we will reduce litter and waste, improve the economics of recycling, increase employment, lift recycling rates, and help to boost recycled content in packaging.

For those in businesses that provide counsel to clients, it is important to remain aware and informed of the fast-paced changing landscape of sustainable packaging, to better support your clients as they navigate this space. They themselves may be undergoing changes to their packaging or beginning their journey to improve it over time.

The reality is that consumers are increasingly expecting businesses to be working to achieve best practice in sustainable packaging.

Want to find out more?

For more information, visit www.apco.org.au or get in touch at apco@apco.org.au

"SINGLE-USE PLASTIC PACKAGING REPRESENTS A HIGHLY DAMAGING ISSUE, WITH A RANGE OF ASSOCIATED NEGATIVE ENVIRONMENTAL AND ECONOMIC IMPACTS"

Follow @APCovenant
twitter.com/APCovenant

Brooke Donnelly
CEO, Australian Packaging Covenant Organisation

Holding to account: Climate reporting in the public sector

In recent years, sustainability reporting has attracted widespread interest and activity in the private sector. However, there has been only limited focus on the public sector to date, despite the public sector being the largest economic sector of most nations

| by Karen Sanderson |

TO BETTER understand the challenges and opportunities sustainability reporting brings, the Chartered Institute of Public Finance and Accountancy (CIPFA) recently conducted international research across the public sector globally, with a particular focus on climate reporting. CIPFA's report, *Evolving Climate Accountability, A Global Review of Public Sector Environmental Reporting*, identifies several areas of further consideration if sustainability reporting is to become more mainstream in the public sector.

In our review of reporting practices, across various levels of government, we found public sector sustainability reporting to be in its infancy. Fewer than half (44 per cent) of the participants in our survey currently produce a sustainability report.

Those currently reporting on climate matters largely do so on a voluntary basis.

The lack of any statutory obligation, as well as the challenges involved with the preparation of sustainability reports – including the availability and quality of data – were identified as significant obstacles hindering widespread uptake. The skills and specialist expertise required for both the preparation and assurance of such reports was highlighted by participants as a key challenge for the sector.

Practically speaking, sustainability reporting requires a multi-disciplinary team with capacity and capabilities beyond what most public sector organisations have in-house at present.

There was broad recognition that the finance profession has a key role to play and, amongst other things, can use its expertise in establishing controls and supporting systems for the collection and communication of data in sustainability reports.

There is much more work to be done, but the sector is not starting from scratch. We found that, of those public sector organisations that have been producing sustainability reports, few were integrating them with other forms of reporting. While standalone sustainability reports can raise greater awareness of climate issues, integration with other organisational reporting provides a more holistic view of performance and enables better-informed decision-making.

However, it's worth noting some jurisdictions around the world are making constructive links between financial and non-financial reporting. A prime example is the NSW Treasury's guidance for public sector bodies, which explains how to reflect the effects of climate-related matters in financial statements. At CIPFA, we expect public sector sustainability reporting to evolve, and examples like the NSW guidance will only improve and accelerate that development.

44
PER CENT
The number of participants surveyed that currently produce a sustainability report
(CIPFA)

Despite the array of obstacles, there is clearly appetite for this type of reporting. There was a consistent view from participants that public sector entities should commence their sustainability reporting journey sooner rather than later, as processes and standards will need to evolve over time.

Waiting is viewed as a mistake. Furthermore, we found that commitment to report on climate impact can provide the impetus needed to overcome some of the current hurdles.

CIPFA recognises that this research is just the tip of a very large iceberg for the public sector.

We intend for it to serve as a baseline from which the evolution of public sector sustainability reporting can be measured.

There is much to do in the public sector to identify a robust and consistent approach to sustainability reporting.

Only then will meaningful and targeted climate action follow. After all, as one research participant stated, "carbon is carbon – the planet doesn't care who produced it".

Karen Sanderson
director of public financial management, CIPFA

ROUNDTABLE
CIPFA

The Oceania and Asia Roundtable was held on 20 April 2021, chaired by Professor Ian Ball (photo), Victoria University of Wellington, and attended by Dr Eleanor Roy and Tim Youngberry, CIPFA.

Rich discussion persisted throughout, especially surrounding the relevance of current sustainability reporting frameworks to the public sector. Much like adopting integrated reporting for SMEs, public sector sustainability reporting is also dealing with the issue of applying investor-focused frameworks despite having no shareholders. Are modifications required?

Another key topic was community engagement with public sector sustainability reporting. Given the perceived necessity of public goods and governmental services, the community arguably does not scrutinise the public sector as much as the private sector concerning sustainability performance and reporting. However, as I raised at the roundtable, younger generations increasingly express demand for transparency and accountability from all sectors. Perhaps the community to the public sector is comparable to shareholders of a company.

Thus, constituents have a right to know the environmental impact of the Department of Transport, for instance, and what they are doing to reduce or offset their emissions.

Thinking and reporting in an integrated manner – A micro, small and medium enterprises approach

The COVID-19 pandemic continues to cause significant concerns through the world and can be considered a mega-force that has created significant impact on a global scale

| by Luckmika Perera, Michael Bray and Darren Scammell |

THE ECONOMIC impact is estimated to be billions of US dollars globally. According to the 2021 federal budget, the economic cost of COVID-19 was $311 billion.

The Australian Treasury estimated the cost of a lockdown to the Australian economy at approximately $1.4 billion a week, annualised at $50 billion. The economic fallout has had a direct impact on organisations in Australia, as many have struggled to manage this unforeseen risk which has threatened their very existence.

While most larger corporates have the financial ability to overcome or survive such a mega-force, the most vulnerable have been in the micro, small and medium enterprise (MSME) sectors. According to the Small Business Counts December 2020 report from the Australian Small Business and Family Enterprise Ombudsman's office, the MSME sector counts for nearly 98 per cent of all Australian businesses based on number of employees or turnover.

According to Australian Bureau of Statistics data, the MSME sector employs around 4.7 million people, which is about 41 per cent of the total employment. More than 60 per cent of all MSMEs have a turnover of less than $200,000 per annum. The MSME sector contributes around 56 per cent of the economy, whereas large businesses contribute around 44 per cent. The importance of the MSME sector is therefore very significant to the Australian economy.

The mega-force of COVID-19 has had more of an impact on MSMEs, and this highlights some of the major issues with MSMEs and their operations. Many MSMEs do not necessarily have a broader understanding of the markets they operate in and are affected by. MSMEs may not necessarily have the resources or time to invest and understand the internal and external elements that may affect their business.

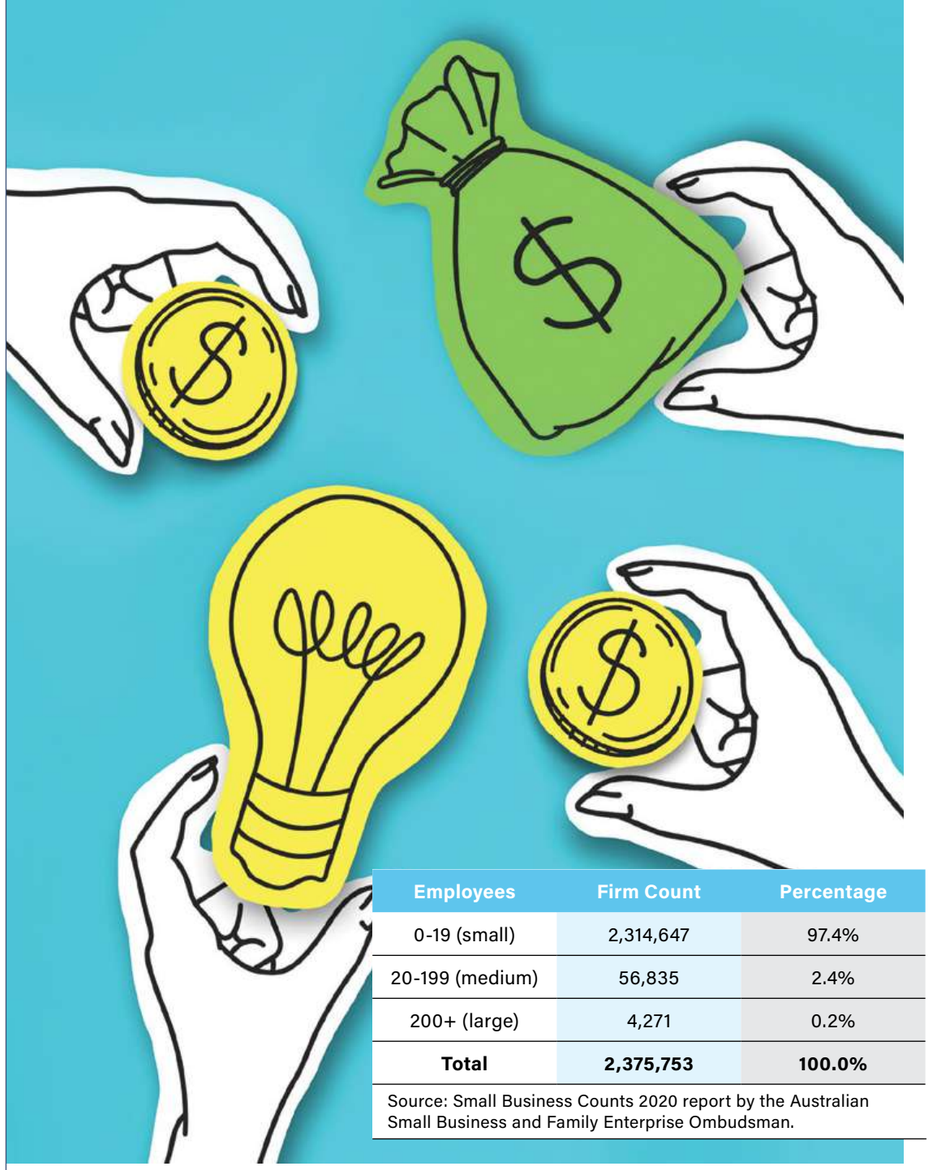
The International Integrated Reporting Framework is one such tool to assist MSMEs to have a better understanding of their own organisation and reap the benefits that integrated thinking (and reporting) will bring to their business. The International Integrated Reporting Council has now merged with the Sustainability Accounting Standards Board to form the Value Reporting Foundation (VRF). The three frameworks or tools that the VRF is providing would be the <IR> Framework, Integrated Thinking Principles, and the Sustainability Accounting Standards Board Standards.

$1.4
BILLION
The estimated cost per week of a lockdown to the Australian economy, according to the Australian Treasury

The key objectives of the VRF are to evolve and align integrated thinking principles and the integrated reporting framework, together with the SASB standards, and to support adoption of all three tools by businesses and investors alike. The VRF aims to assist different stakeholders in simplifying and globalising the field in terms of standards.

The concept of integrated thinking is defined by the <IR> Framework as "the active consideration by an organisation of the relationships between its various operating and functional units and the capitals that the organisation uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term". Integrated thinking is at the heart of the <IR> Framework, though it is called the "integrated reporting" framework. Integrated thinking is about looking at an organisation or business in a holistic in the context of its external environment, lead to the creation of value in the short, medium and long term". This is the result of integrated thinking and the integrated reporting process. An integrated report in essence is the output of a better understanding of the business, and a means through which an effective, holistic story of the organisation can be communicated by the business to its stakeholders.

There is a genuine case that can be presented for MSMEs to consider adopting the <IR> Framework and concepts of integrated thinking. However, there is a perception that adoption of the full <IR> Framework may be too onerous from an MSME's perspective. There is a drive by the Business Reporting Leaders Forum (BRLF) to specifically look at the concept of <IR> Lite for MSMEs, which focuses on the needs of MSMEs. A Special Interest Group on MSMEs (SIG-MSME) of the BRLF has been created to specifically focus on the needs of MSMEs and extend the concept of <IR> with the specific needs of MSMEs in mind. The <IR> Lite framework simplifies application of the <IR> Framework to better equip MSMEs to realise the benefits that integrated reporting and thinking will bring to their businesses.



Employees	Firm Count	Percentage
0-19 (small)	2,314,647	97.4%
20-199 (medium)	56,835	2.4%
200+ (large)	4,271	0.2%
Total	**2,375,753**	**100.0%**

Source: Small Business Counts 2020 report by the Australian Small Business and Family Enterprise Ombudsman.

For more information contact
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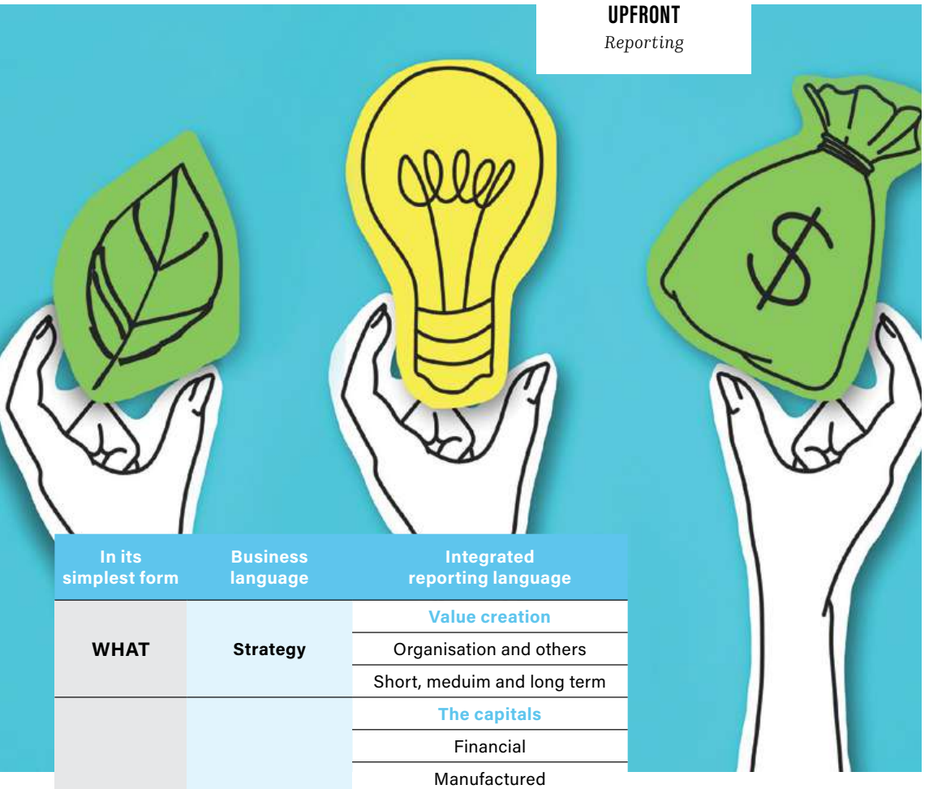
The concept of <IR> Lite is focused on the MSME in terms of "what", "with" and "how" they run their business. The diagram (p28) gives a summary of how the <IR> Lite framework links with, and applies, integrated reporting language. The concept of "what" relates to the purpose and strategy of an MSME. This encapsulates the value that the MSME creates for itself and others in the short, medium and long term.

The "with" refers to the capitals, or resources and relationships. There are six capitals that are defined broadly by the <IR> Framework, namely: i) Financial (refers to funding of the business); ii) Manufactured (physical assets used by the business to create value); iii) Social and Relationship (e.g. the networks that the business has); iv) Human (the people that work in the business); v) Intellectual (the knowledge within the business); and vi) Natural (the natural resources used within the business). The MSME can recognise its own capitals and is not necessarily required to use 'capitals' terminology.

The "how" refers to how value is created by the business, namely, the business model and business activities, the risks and opportunities, and how the business is managed in order to create value.

In essence, the key concepts of <IR> Lite enable the MSME to tell its own story, about "with", "what" and "how" they do



In its simplest form	Business language	Integrated reporting language
WHAT	Strategy	Value creation
		Organisation and others
		Short, meduim and long term
WITH	Resources and relationships	The capitals
		Financial
		Manufactured
		Social and relationship
		Human
		Intellectual
		Natural
HOW	Business model and governance	Value creation process
		Risk and opportunities
		Governance
		Business model

their business. By better telling the story of the business, it will lead to better understanding of the business and better decision making in the short, medium and long term.

The <IR> Lite framework aims to provide a simple and powerful approach for MSMEs to implement integrated thinking and reporting, without needing significant resources as compared with those available to larger corporates. It is our belief that through <IR> Lite, MSMEs will benefit significantly and be better equipped to face the post COVID-19 future through better understanding of the business and its external environment.

Let's look at a hypothetical MSME called "Business Small". Through integrated thinking, "Business Small" can better understand their business by asking some key questions such as, what is the purpose of our business, what is the strategy and what resources do we have? How are we allocating? How are we doing both financially and non-financially? How would we do in the future? What is our key business knowledge (intellectual capital) and who are our key people (human capital)? What are our networks (social and relationships capital)? How do we do business and what are the outcomes?

Documenting operations of the business through an integrated report, and by asking the above questions, it will help "Business Small" to better communicate the "story of the business", through an Integrated Report, with their providers of different resources.

Some of the key advantages that "Business Small" can reap through <IR> Lite could be cheaper and better access to funding through better communicating their story. "Business Small" can possibly improve efficiencies within the business through better knowing their business and different components of it. The business can also identify who their key relationships are and how to better engage with them.

Most importantly, "Business Small" could have a better understanding of the external environment that it operates in, and through which it can better navigate the opportunities and threats that the environment may bring.

In summary, MSMEs would significantly benefit from embracing the integrated reporting framework, but it needs to meet the specific needs of MSMEs. The <IR> Lite framework would be ideally fit for this purpose.

$1.4
BILLION
The estimated cost per week of a lockdown to the Australian economy, according to the Australian Treasury

For further information, please contact the Institute of Public Accountants on headoffice@publicaccountants.org.au.

Luckmika Perera
Deakin Integrated Reporting Centre, Deakin Business School

Michael Bray
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Darren Scammell
Grant Thornton Australia

To know more, visit ASFI at www.sustainablefinance.org.au

ASFI roadmap unites the finance sector for a resilient and prosperous Australia

Throughout the last 18 months, Australians have shown our collective capability to adapt in an unprecedented global crisis, showing true resilience

| by Jacki Johnson and Simon O'Connor, co-chairs, ASFI |

RESILIENCE IS often defined as maintaining system stability while being able to adapt in a way that can respond to the changing circumstances around us. We have been able to maintain financial system stability while responding to a continuously changing environment. It has shown how quickly Australians can adapt to change when it is urgent. Climate change is impacting us at a slower pace. However, the impact long term will be more dramatic than what we have faced in 2020-21. It will require civil society, government, Australian businesses and academia to all work together for an orderly transition so we do not experience a sudden jolt.

To assist with this orderly transition, the Australian Sustainable Finance Initiative (ASFI) launched a roadmap in November 2020 providing a plan to align Australia's financial system with a sustainable, resilient and prosperous future for all Australians. This initiative is industry-led, with over 80 organisations coming together with the involvement of federal, state and local government and our financial regulators. It uniquely brings together the insurance, banking and investment sector to work together to help Australia deliver on its commitments to the Paris Agreement, Sendai Agreement for Disaster Reduction, and the United Nations Sustainable Development Goals (UNSDG).

The recommendations recognise it will take leadership, practice, building resilience for all Australian communities and a sustainable financial market to succeed. We recognise individual organisations will identify their own priorities.

We argue it is the collective effort across the whole financial sector that will ensure Australia has a sustainable, resilient and prosperous future.

Since launch we have seen organisations from across Australia taking action. In July a "Momentum Tracker" was launched summarising examples of this progress.

Next steps for ASFI

We recognise we need ongoing collaboration between the finance sector, government and regulators, and broader stakeholders. For this reason, the sector has committed to the establishment of a permanent body that will assist to drive impact, monitor progress and help convene the many groups that need to come together to achieve change.

The 17 SDGs defined

The Sustainable Development Goals (SDGs), also known as the Global Goals, were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity

THE UN's 17 SDGs are integrated — they recognise that action in one area will affect outcomes in others, and that development must balance social, economic and environmental sustainability.

Their goal is to end poverty, hunger, AIDS, and discrimination against women and girls. According to the UN, the creativity, knowhow, technology and financial resources from all of society is necessary to achieve the SDGs in every context.

1. No poverty
The SDGs are a bold commitment to end poverty in all forms and dimensions by 2030. This involves targeting the most vulnerable, increasing basic resources and services, and supporting communities affected by conflict and climate-related disasters.

2. Zero hunger
The SDGs aim to end all forms of hunger and malnutrition by 2030, making sure all people – especially children–have sufficient and nutritious food all year. This involves promoting sustainable agriculture, supporting small-scale farmers and equal access to land, technology and markets. It also requires international co-operation to ensure investment in infrastructure and technology to improve agricultural productivity.

3. Good health
The UN believes good health is essential to sustainable development and the 2030 Agenda reflects the complexity and interconnectedness of the two. It takes into account widening economic and social inequalities, rapid urbanisation, threats to the climate and the environment, the continuing burden of HIV and other infectious diseases, and emerging challenges such as non-communicable diseases. The UN is confident that universal health coverage is integral to achieving SDG 3, ending poverty and reducing inequalities.

4. Quality education
This goal ensures that all girls and boys complete free primary and secondary schooling by 2030. It also aims to provide equal access to affordable vocational training, to eliminate gender and wealth disparities, and achieve universal access to a quality higher education.

5. Gender equality
Ending all discrimination against women and girls is not only a basic human right, it's crucial for a sustainable future; it's proven that empowering women and girls helps economic growth and development. The UN believes it is vital to give women equal rights to land and property, sexual and reproductive health, and to technology and the internet.

6. Safe water and sanitation
This goal foresees safe and affordable drinking water for all by 2030, which requires adequate investment in infrastructure, sanitation facilities, and encouraging hygiene. Protecting and restoring water-related ecosystems is essential.

7. Affordable and clean energy
Investing in solar, wind and thermal power, improving energy productivity, and ensuring energy for all is vital to achieve SDG 7 by 2030. Expanding infrastructure and upgrading technology to provide clean and more efficient energy in all countries is expected to encourage growth and help the environment.

2030
The target year to end poverty, protect the planet, and ensure that all people enjoy peace and prosperity

8. Decent work and economic growth
SDGs encourage entrepreneurship and job creation to eradicate forced labour, slavery and human trafficking. With these targets in mind, the goal is to achieve full and productive employment, and decent work, for all women and men by 2030.

9. Industry, innovation and infrastructure
More than 4 billion people still do not have access to the internet, and 90 per cent are from the developing world. Bridging this digital divide is crucial to ensure equal access to information and knowledge, as well as foster innovation and entrepreneurship.

10. Reducing inequalities
Income inequality has increased in nearly everywhere in recent decades, but at different speeds. To eradicate it countries are required to improve the regulation and monitoring of financial markets and institutions, encouraging development assistance and foreign direct investment to regions where the need is greatest. Facilitating the safe migration and mobility of people is also key to bridging the widening divide.

11. Sustainable cities and economies
Making cities sustainable means creating career and business opportunities, safe and affordable housing, and building resilient societies and economies. It involves investment in public transport, creating green public spaces, and improving urban planning and management in participatory and inclusive ways.

12. Responsible consumption and production
The efficient management of our shared natural resources, and the way we dispose of toxic waste and pollutants, are important targets to achieve this goal. Encouraging industries, businesses and consumers to recycle and reduce waste is equally important, as is supporting developing countries to move towards more sustainable patterns of consumption by 2030.

13. Climate action
Supporting vulnerable regions will directly contribute not only to Goal 13 but also to the other SDGs. According to the UN, these actions must also go hand in hand with efforts to integrate disaster risk measures, sustainable natural resource management, and human security into national development strategies. "It is still possible, with strong political will, increased investment, and using existing technology, to limit the increase in global mean temperature to two degrees Celsius above pre-industrial levels, aiming at 1.5°C, but this requires urgent and ambitious collective action," the UN believes.

14. Life below water
The SDGs aim to sustainably manage and protect marine and coastal ecosystems from pollution, as well as address the impacts of ocean acidification. Enhancing conservation and the sustainable use of ocean-based resources through international law is also seen as a means to help mitigate some of the challenges facing our oceans.

15. Life on land
According to the UN Urgent action must be taken to reduce the loss of natural habitats and biodiversity which are part of our common heritage and support global food and water security, climate change mitigation and adaptation, and peace and security.

16. Peace, justice and strong institutions
The SDGs aim to significantly reduce all forms of violence, and work with governments and communities to end conflict and insecurity. Promoting the rule of law and human rights are key to this process, as is reducing the flow of illicit arms and strengthening the participation of developing countries in the institutions of global governance.

17. Partnership for the goals
Goal 17 brings together efforts on all the other 16 goals. According to the UN, an ambitious and interconnected global development agenda requires a new global partnership – this includes financing development, connecting people through information technology networks, international trade flows, and strengthening data collection and analysis.

For more information on the Sustainable Development Goals and SDG good practice go to: www.sdgs.un.org/goals

IPA sustainability update

It was announced in December 2019 that sustainability would be a focus of the IPA in 2020. As we all know, a global pandemic had other plans, forcing our hand into other services and initiatives. However, with some normality returning to different extents across the country, now is the perfect time for the IPA to reintroduce this focus

| by Matthew Cavicchia |

OUR FOCUS is of course predominantly on the role of accountants. As the IPA regularly describes accountants as influencers of society with a plethora of transferrable skills, there is hardly a more pressing and topical issue than sustainability for the profession and its people to be tackling.

The 2020s is well and truly the decade of action when it comes to sustainable development, and we envisage accountants being right in the thick of it. Climate change is firmly established as a business risk, and as providers of financial and business advice, accountants will be expected to be up to speed. As a professional body, we acknowledge that our unique position enables us to promote sustainability at a variety of levels. These will be outlined below:

In our offices

Before we can faithfully advise SMPs to make their practices more sustainable, we must set an example by taking steps in our own offices to demonstrate what can be done.

A small-scale waste audit at head office made clear that the presence of at-desk bins completely overrides any incentive for staff to correctly separate their waste.

Read how to manage office waste (page 42) in the June/July 2021 edition of *Public Accountant*, at publicaccountant.com.au

While some of us are conveniently located near the compactus room and have quick access to recycling, it is a lot further away for others. While one solution could have been putting an extra bin at each desk, the consensus for sustainable offices tends to be the implementation of centralised waste stations.

We have started small with landfill and mixed recycling and hope to reduce our waste to landfill by adding organic waste to these stations in the future.

Other initiatives around the IPA offices have included the exploration of paperless office opportunities.

This requires an investment into enhanced digitisation and the leveraging of platforms already used within the organisation. While this continues to be an ongoing project, we envisage digitisation maximising operational efficiencies and reducing our paper consumption.

The attention on waste and consumption relates to our SDG 8.4 initiative, which is about decoupling economic growth from environmental degradation.

The solution with the most legs is 'circular economics', which was introduced in our waste feature in the previous edition of *Public Accountant*.

As many developments are occurring in this space, especially accounting for circular business models, we hope to have many updates coming soon.

Thought leadership

The second element of our focus on sustainability is to drive important discussions and be thought leaders. This has symbolically begun with the lead-up to this sustainability edition, although it will continue to have a presence within *Public Accountant* and our other IPA Group media channels. Additionally, we are in the process of signing up as signatories of the United Nations Global Compact, which is the world's largest corporate social responsibility initiative. By becoming a member of the Global Compact, we make a pledge to the following:

- To meet the Global Compact's 10 Universal Sustainability Principles;
- To engage with the society around us;
- To push sustainability deep within our DNA ; and
- To report on our progress.

On an advocacy front, we will continue to be supportive of IFAC's sustainability focus and the IFRS sustainability standards board.

Expanding our impact

With over 40,000 members, the IPA is excited at the prospect of inspiring you to review your own practices, as well as provide opportunities for you to obtain the necessary skills to help your clients implement more sustainable business models. While this is perhaps further down the line in our strategy, expect to see an increase in sustainability reporting and climate risk disclosures among future CPD.

Other member-focused initiatives include Counting on U, which is of course our initiative that provides members an opportunity to undertake mental health training. Mental health is linked to sustainability through the third sustainable development goal, which is 'good health and wellbeing'.

> **"CLIMATE CHANGE IS FIRMLY ESTABLISHED AS A BUSINESS RISK, AND AS PROVIDERS OF FINANCIAL AND BUSINESS ADVICE, ACCOUNTANTS WILL BE EXPECTED TO BE UP TO SPEED"**

Sustainable development goals

Our seven sustainable development goals of focus are outlined below:

1. Good health and wellbeing
Counting on U and other mental health initiatives, and our reason for being, which is a dedication to improving the life of small business.

2. Quality education
Increasing pathways, continually improving the quality of the IPA Program and a commitment to lifelong learning.

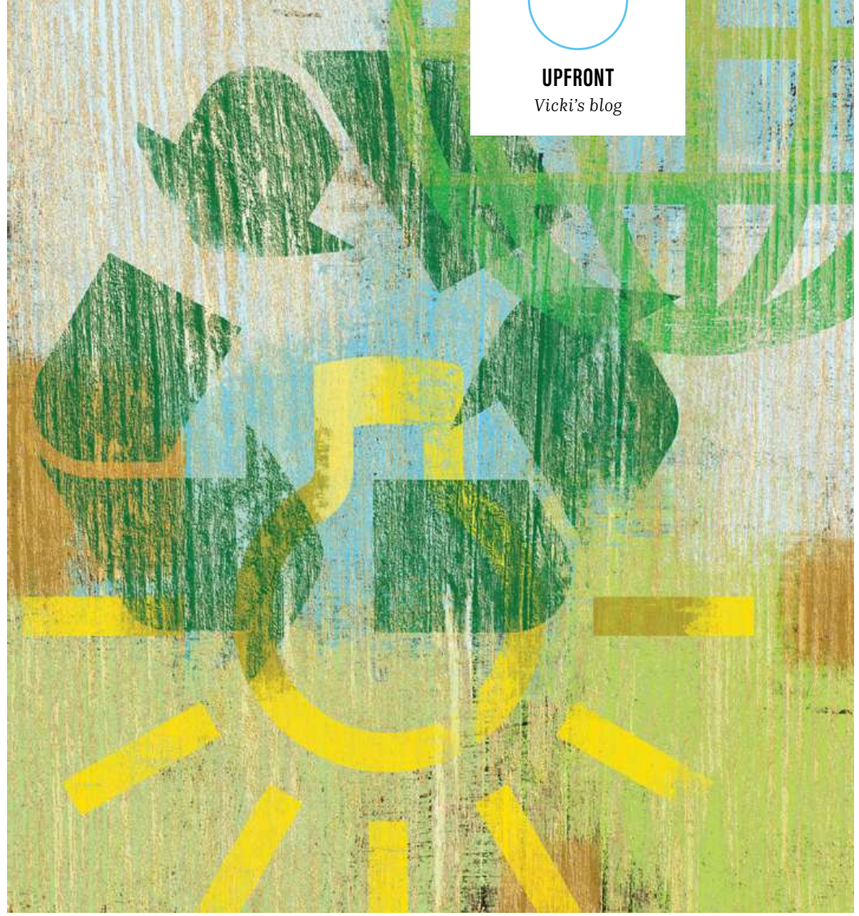
3. Gender equality
Ensuring we maintain a balance of gender diversity and equality in our own organisation and advocate for the same across the profession and the broader community.

4. Decent work and economic growth
Aforementioned SDG 8.4 initiative, as well as an ongoing commitment to monitor and contribute to Australia's sustainable economic growth.

5. Industry, innovation and infrastructure
Ongoing work on developing industry and innovation policy, including through the IPA Deakin SME Research Centre and the Small Business White Paper series.

6. Peace, justice and strong institutions
Capacity building and advocacy to government and regulators, including a focus on appropriate policy and regulation.

7. Partnerships for the goals
Expanding our alliances to maximise the reach and extent of our positive social impact.



The role of accountants in achieving sustainability

The planning for this sustainability special edition of *Public Accountant* was disrupted by the pandemic, so it is extremely satisfying to see it come to fruition after so long

| by Vicki Stylianou |

A MAJOR focus has always been the role of accountants in assisting businesses to become sustainable, that is, to embed sustainability throughout the business, from formulating strategy to improving processes, measuring performance to making a clear business case for sustainability initiatives; and answering the critical question of "but how much will it cost?"

The IPA wants to help members and the profession be part of the change to a more sustainable economy and community.

It starts with having a certain mindset and may need a cultural shift. This involves a change in thinking solely about financial performance to thinking about transparency and what progress is being made on environmental, social and governance (ESG) issues. Stakeholders, including governments and shareholders, are demanding more information about how firms are impacting society and the environment.

According to the Governance and Accountability Institute, ESG reporting has increased by more than four times since 2011 among S&P 500 companies, and as global interest grows there have been calls for more uniform metrics. The Institute contends that ESG reporting "provides more accountability, enhances legitimacy, increases profitability and improves governance, and as climate change affects all markets and presents risks that shareholders can no longer ignore, investors are demanding answers about ESG fundamentals in the investment process".

In Australia, a 2020 PwC report states that two out of five ASX 200 companies in Australia have limited ESG reporting to the market. However, more than 80 per cent disclosed their ESG strategy to stakeholders. *(Source: ESG reporting – are we keeping pace? PwC, 2020)*.

On a more micro level, accountants advise businesses about risks and opportunities and possess the correct skillset to measure ESG, so with more direction and development, they are the natural starting point.

Accountancy Europe deputy CEO Hilde Blomme says, "Governments and companies alike are starting to acknowledge that non-financial reporting, such as on ESG matters, is essential. Accountants can be a strategic partner in the transition to a more sustainable future. They already have the right skill set to measure ESG impact and disclose these results.

"Accountants also offer an independent expert opinion and can verify how accurate and exhaustive the data reported is."

So, while the motivation and the mindset are there, Ms Blomme identifies the need for a universal standard:

"The real work now is to develop global standards for ESG reporting. There is much progress in non-financial reporting, but there is also proliferation of standards and frameworks. The time has come to consolidate these to make reporting more consistent, transparent and comparable," added Ms Blomme.

40
PER CENT
The number of ASX 200 companies that have limited ESG reporting to the market, according to a 2020 PwC report

Accountants have transferable expertise and can also adapt existing skillsets to help businesses satisfy numerous stakeholder concerns; and thereby deal with ESG issues. For instance, we know that environmental costs have to be understood and allocated, so they can be managed and prices set appropriately.

In addition, all other relevant costs must be considered when assessing project proposals; and risk must be adequately managed, which requires strategies to address and mitigate them. These are all traditional skills for accountants.

I have written before about the United Nations (UN) Sustainable Development Goals, which provide an ambitious agenda by 2030. It is worth reiterating that accountants have a critical role to play in achieving the SDGs. This is reflected in the strategic plan of the International Federation of Accountants (IFAC), which has 'anchored' its strategy to the SDGs.

The IPA has taken this on board and is developing an initiative around SDG 8.4, which focuses on decoupling economic growth from environmental degradation. Sustainable consumption and production are part of this and what we are particularly interested in is the move to diversify, innovate and upgrade for economic productivity.

These have been common themes for the IPA Deakin SME Research Centre. There is a lot more to come on this and we hope that members will get on board with our initiative.

We hope that you enjoy this sustainability special edition and that we have encouraged you to take the next step in your own sustainability journey.

Follow Vicki Stylianou
twitter.com/vickistylianou

Vicki Stylianou
group executive advocacy and policy, IPA

The IPA's advocacy update

The IPA uses advocacy to further the interests of its members, the accounting profession, small business and SMEs

BELOW ARE some but not all of the topics on which the IPA has been advocating. The body's advocacy efforts include making submissions, attending consultations and meetings with various stakeholders including ministers, shadow ministers, government agencies and regulators. For details of the IPA's submissions, please go to the IPA website.

Lodgement deferral: IPA pushed for lodgement deferral to support many tax agent members

"We have received direct feedback from our members around the country that they are struggling with their lodgements. It has not been business as usual dealing with the events of 2020, and many are now playing catch-up. The accounting profession was at the forefront helping clients navigate the way to access vital government assistance support," the IPA said.

IPA has made ongoing and direct representations to senior ATO officials alerting them to a groundswell of concern from smaller practices about their inability to meet 2020 lodgement deadlines.

While a blanket lodgement deferral will not be available this year, the ATO has instead agreed to allocate extra resources to assist agents with deferral requests via a tailored support program that is suited to their individual circumstances.

"We thank the ATO on behalf of members by responding with a dedicated specialist team to assist tax practitioners with deferral arrangements," the IPA said.

FBT and retraining: Retraining and reskilling are critical to our future prosperity and should be supported by the tax system

IPA has responded to the exposure draft legislation – Fringe benefits tax (FBT) – exemption to support retraining and reskilling.

"We are supportive of initiatives that encourage the continual upgrading of human capital skills over an individual's working life. Our current tax settings do not support or encourage the retraining and reskilling once an individual has commenced earning an income in their chosen field," the IPA said. "We believe that the tax system (income tax and FBT) can play a greater role in incentivising the retraining and reskilling of individuals to support their future employment and career."

This exemption addresses the FBT disincentive of the tax system. Without this FBT amendment, education expenses not related to an individual's current employment would be liable for FBT as the otherwise deductible rule would not exclude the benefit from FBT.

Allocation of firm profits: Consultation on the future of the allocation of firm profits continues with the IPA seeking to make refinements to the ATO's compliance approach

IPA has further considered draft PCG 2021/D2 Allocation of professional firm profits. Following on from the joint submission already sent, the IPA made further comments on some more specific issues relevant to our member firms and members. Inappropriate risk parameters, the omission of common structures, no legal basis underscoring the draft PCG and Part IVA were some of the specific member concerns in the draft.

The IPA was left wondering whether the goal of the PCG was to intimidate professional firms into conservative tax outcomes when Part IVA factors are absent.

Breach reporting: IPA and other stakeholders are challenging ASIC's proposed breach reporting requirements, which will add more impractical compliance

One of the IPA's main concerns is the cost of compliance for licensees and the cost of implementation for ASIC.

For a complete rundown of what the IPA has been doing during this pandemic, visit: publicaccountants.org.au/news-advocacy/covid-19-news

"Given the number of times we have commented on the lack of adequate resourcing for ASIC, we are not convinced that ASIC will have the capacity to adequately implement these requirements, which will undermine the policy objectives reflected in the Hayne royal commission recommendations," the IPA said.

IPA is also concerned that this may lead to an increase in the ASIC industry funding levy, which it said has already caused a significant amount of anxiety for regulated individuals and entities.

For full listings of the latest IPA submissions visit publicaccountants.org.au/news-advocacy/submissions

ASIC cost recovery: IPA and others continue to seek a review of the ASIC industry funding model

IPA, together with other professional associations, continues to advocate for a transparent and sensible approach to cost recovery by government. The IPA has met again with ministers and Treasury and will continue to seek a full review of the funding model. This will be the subject of ongoing advocacy.

"We note (again) that costs cannot simply be absorbed by businesses, many of which are small professional services firms, nor passed on to clients," the IPA said.

Regulator performance: Everyone benefits when regulators are held to a higher standard

Consultation has been undertaken by the Department of the Prime Minister and Cabinet on the Draft Regulator Performance Guide. IPA agrees with the three principles:

1. Continuous improvement and building trust,
2. Risk-based and data-driven,
3. Collaboration and engagement.

However, implementation, execution, enforcement and timely revision are also critical to their overall success as guiding principles. According to the IPA, there is also a need for consistency across all of government, no matter the size, sector or level of funding of the department or agency.

Disciplinary system: Holding financial advisers to account through an appropriate disciplinary system will benefit consumers

The bill introducing the SDB was introduced into Parliament on 24 June 2021. Following the recommendations of the Hayne royal commission, the government is seeking to establish a Single Disciplinary Body (SDB) for financial advisers and has put out an exposure draft for consultation. Overall, the IPA supports the establishment of an SDB; the process of a 'triage' to ensure that minor matters or breaches do not create bottlenecks in the overall disciplinary process; and having a separate, efficient process to deal with minor matters and breaches; an expanded range of sanctions; individual registration and so on.

Small Business White Paper 2021: Post COVID Policy Options to Enhance Australia's Innovation Capabilities

The third Small Business White Paper has been released by the IPA Deakin SME Research Centre. It focuses solely on innovation policy.

Essentially, the findings raise some fundamental questions about the adequacy of Australia's innovation and research and development (R&D) system, particularly in the small business sector.

Free Trade Agreement: Accountants and the broader Australian and United Kingdom economies will benefit from the Australia-UK Free Trade Agreement

The Australian and UK governments have finalised their Agreement in Principle, which sets out the terms on which the FTA will be concluded. The FTA includes a commitment to high standard rules for cross border trade in services, including professional services. This means greater mobility between countries; and recognising qualifications without facing unnecessary cost and bureaucracy, primarily through collaboration between UK and Australian accreditation and regulatory bodies aimed at facilitating qualification recognition.

Consumer Data Right: Access to accounting services for consumers should not be impeded by the regulation of banking data

Consultation on the new Consumer Data Right (CDR) regime continues.

"We have jointly written to Minister Jane Hume about the unintended consequences of the regime; and seek recognition that the purpose for which clients seek accounting services is not a purpose within the CDR regime," the IPA said.

Accordingly, access to accounting data, which includes banking data, should not require our members to be accredited under the CDR regime.

GEN CHANGE

From climate risk to a once in a generation opportunity

Described as the moral dilemma of our generation, offsetting climate change is more than just a political battleground. You've heard the catchphrase but you might be still wondering, what are the risks and rewards? How will Australia cope in a post climate change world? And what do we need to do today to save the planet?

| by Cameron Micallef |

COVID-19 has put the size of the climate challenge into perspective. In fact, by bringing economies to a standstill, by forcing the closure of individual businesses, borders, personal garages and factories, emissions around the globe were reduced by about 7 per cent in 2020. Before we pat ourselves on the back, it's key to remember that for humanity to really reduce our climate impact and limit global warming to 1.5 degrees, we need to suppress carbon emissions by an equal 7 per cent every year for the next decade.

Given that permanently shutting global economies isn't an option, governments across the world are seeking new ways to transform, with every leader adopting a unique approach to ensure their populace not only survives, but thrives in a safe world.

The science is pretty clear - the Earth's temperature has undoubtedly warmed by 1 degree compared to pre-industrial levels, with even the most optimistic forecasts saying this impact is now irreversible.

And while it may appear insignificant, experts warn that even tiny lifts in temperature translate into huge changes for the world's climate with many species already at the mercy of this changing world.

What does this mean for the planet?

The CSIRO has warned that Australia will not be excluded from the detrimental impacts of climate change given that every aspect of human life is in some small way related to the environment. According to the research hub, most of the erratic changes to our planet over the recent decades will continue with Australia now predicted to suffer from:

- More frequent extremely hot days
- Rising sea levels
- More acidic oceans
- Declining snow depths
- More intense extreme rainfall events

The WWF notes that this will have a profound impact on Australia's ecosystems causing one in six species to become extinct while completely altering farming and food production, depleting water resources, eroding coastal areas, increasing health concerns and causing damage to our homes. Sounds fun?

While current damage cannot be undone, failure to act now will clearly see larger impacts on life as we know it.

$540
MILLION
The amount Scott Morrision has pledged for new investment into Australian clean energy projects

Leaders set out a path to net-zero

Australia hasn't been too convincing in setting its path to net zero. And while countries around the world have made firm commitments, Australia has termed 2050 as a "preferable" target.

Meanwhile, US President Joe Biden has announced a more ambitious target to cut his country's emissions at least in half by 2030, after UK Prime Minister Boris Johnson pledged a 78 per cent cut by 2034.

"The UK will be home to pioneering businesses, new technologies and green innovation as we make progress to net zero emissions, laying the foundations for decades of economic growth in a way that creates thousands of jobs," Mr Johnson said recently.

Australia, on the other hand, has no hard targets. Its aim is to cut emissions recorded in 2005 by 26 to 28 per cent by 2030. As part of this plan, the Prime Minister announced an extra $540 million in investments on clean energy projects in May this year.

Roughly half the money will be spent building hydrogen hubs in industry-exposed regional areas, such as the Pilbara in Western Australia and Whyalla in South Australia.

The rest of the money will go towards carbon capture and storage facilities, although the science is still out on their effectiveness.

Scott Morrison, however, insists the twin technologies will be crucial if Australia plans to achieve net zero emissions by 2050.

"We want to make clean energy more affordable and reliable while looking for ways our investments can get more people into work," he said. "We cannot pretend the world is not changing.

"If we do, we run the risk of stranding jobs in this country, especially in regional areas."

Technology not taxes

In Australia, the government has prioritised technology with innovation over the introduction of carbon taxes to guide the country towards net-zero emissions.

In a speech the PM gave at the Business Council of Australia, Mr Morrison said Australia will reach net zero as quickly as possible through the use of technological solutions that will create jobs as well as help the environment.

"I'm increasing in confidence with the plan that we're developing to achieve that. We are not going to meet our climate change targets through punishing taxes. I am not going to tax our industries off the planet. We are going to meet our ambitions with the smartest minds, the best technology and the animal spirits of our business community," he said.

And although the "animal spirit of our business community" may have financial gain at its core, Mr Morrison is confident the private sector is making strides towards cleaner practices.

"We need to change our energy mix over the next 30 years on that road to net-zero emissions. Last week I was in Western Australia and saw firsthand the groundbreaking work that Andrew Forrest and Fortescue are doing as part of our energy transition as a way of sustaining jobs in the resources sector," Mr Morrison said.

But the PM's word is not enough for some, with calls increasing for the inclusion of environmental impacts in financial reports with the goal to up their responsibility regarding all aspects of the environment.

In fact, following consultations in 2020, the International Financial Reporting Standards Foundation has moved towards developing international sustainability reporting standards, signalling a new era in corporate reporting where the same rigour is demanded for sustainability reporting as for financial information.

"With the pivotal support of the FSB and IOSCO, the IFRS Foundation is uniquely positioned to unify sustainability reporting. Our hope is that this will ultimately deliver a fully interconnected reporting system, addressing the key matters that drive long-term business value whether they relate to environmental, social, governance, intangibles or other non-financial information," said Reinhard Dotzlaw, KPMG global IFRS leader, in May this year.

Recent research published by KPMG revealed that 78 per cent of the ASX100 clearly acknowledge climate change as a financial risk to business, up from 52 per cent in 2017. In fact, Australian companies place second across the globe in acknowledging climate change as a risk, and are ahead of the G20. However, despite this good news, only 32 per cent of the ASX100 include TCFD or climate risk disclosures in their annual financial or integrated report or published a standalone climate report. Moreover, a lesser 20 per cent of ASX100 companies use scenario analysis to model the impacts of climate change on their business, while 17 per cent state they are reporting in line with science-based targets.

Moving forward, KPMG noted that even if entities determine that based on their operations, climate-related risks do not currently have a material quantitative impact on the recognition and measurement of assets and liabilities in financial statements.

There is an increasing focus and expectation from regulators and investors on more information being provided in the financial statements on this topic. As a result, it is important, particularly for entities operating in sectors that are more significantly impacted by climate, to consider the disclosures made in the notes to their financial statements and whether climate-related risk discussions should be featured.

Pre-Covid #ClimateStrike
In September 2019, over 300,000 people marched in every Australian capital city demanding action on climate change

26.1
MILLION TONNES
The amount of emissions (5.0 per cent) in the year to December 2020 lower than in 2019, according to Department of Industry, Science, Energy and Resources

Your money in a greener world

And while corporations are required to do better, what many don't realise is that they have a role in exerting the right kind of pressure to enact change. Namely, your retirement nest egg is a powerful tool in this process.

Just in May this year, a new legal opinion dictated that Australian superannuation funds are legally required to "understand and manage" the material financial risks of climate change.

Formed by barristers Noel Hutley SC and James Mack, the advice builds on a previous opinion in 2017, which prompted Rest Super member Mark McVeigh to successfully sue the $55 billion fund over its approach to climate action.

Some of the critical findings outlined in the legal opinion are:

- Super funds must take a thorough approach to understanding the financial risks posed by climate change, including obtaining regular expert advice;
- Where these risks are too great for a particular investment, funds must consider divestment – that is, shifting funds to less risky investments;
- Multiple studies have confirmed that failing to limit global warming in line with the Paris climate goals would have serious negative financial impacts across the economy broadly, and therefore super funds' entire portfolios; and
- Target [investment] exposures, such as portfolio wide net zero emissions reduction targets, will need to be determined having regard to any financial risk posed by climate change.

But, despite these legal actions, not everyone's superannuation is being invested in a greener world.

This is where you come in.

Recent data from Future Super revealed that just 7.7 per cent of the money currently invested in Australia's superannuation system could transform Australia's power grid to 100 per cent renewable energy by 2035.

"People have the right to choose where their money is going," says Future Super's CEO Simon Sheikh.

"To choose, they need to be able to see what their superfund is doing — both what it's investing in and how it's using its voting power as a shareholder. More super funds are starting to report on the carbon in their portfolios.

"However, the most important part for a consumer to see is how a super fund is investing their money and how they're acting as a shareholder," Mr Sheikh said.

As such, consumers are encouraged to take a closer look at where their money is invested.

From moral dilemma to once-in-a-generation opportunity

While climate change is the biggest moral dilemma, it is also creating the biggest opportunity for the world to create new jobs and a new future for all. As US President Joe Biden explained to world leaders: "Within our climate response lies an extraordinary engine of job creation and economic opportunity ready to be fired up.

"We have to move. We have to move quickly to meet these challenges. The steps our countries take between now and Glasgow will set the world up for success to protect livelihoods around the world and keep global warming at a maximum of 1.5 degrees Celsius. We must get on the path now in order to do that. This is a moral imperative, an economic imperative, a moment of peril but also a moment of extraordinary possibilities."

Australia's green fuel opportunity

HYDROGEN - *VERSUS* - ELECTRICITY

It's fairly easy to see how global power systems can now phase out coal and gas using solar and wind with batteries; these are now cheaper and more effective. But what about fuel for transport and industry? There is a growing split between those favouring hydrogen and those favouring electricity. I would suggest both have roles and they are both big opportunities for the Australian economy

| by Peter Newman AO, Professor of Sustainability at Curtin University |

The solar electric transition

Global economies are now in competition to see who can be the leaders in decarbonising the economy. The major target is net zero by 2050 but there are some saying net zero by 2030. Is it possible that such a target could be delivered? Yes, to a large degree, because the world's financiers are now saying that they will only fund 'net zero projects'.

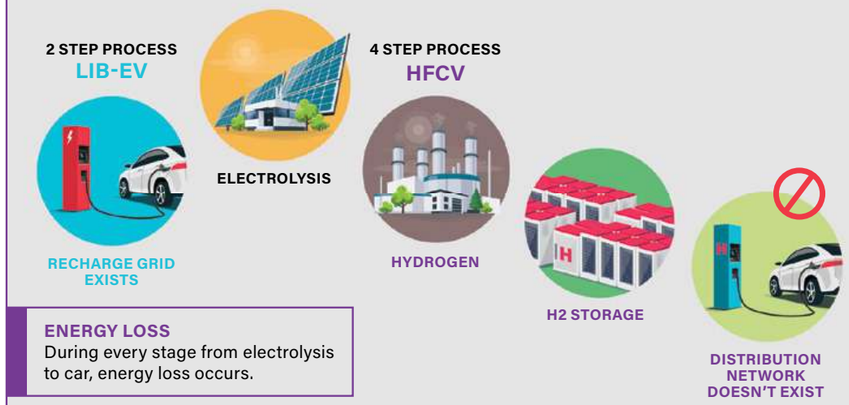
The reason they are doing this is that there are now four big innovations that are taking off with major investments driving them into super exponential growth - solar, batteries, electromobility and smart technology.

These can be integrated into net zero urban and transport developments in our cities where most of the economy is created and where most of the greenhouse emissions are made. They are demonstrably cheaper and better for the future.

There is not much happening yet on electric vehicles in Australia but it's growing globally at 40 per cent a year and it is inevitable as the main way to remove oil from most transport in cities.

Australia is well positioned to make value from the solar-based net zero transition in the power system. We are already a global leader in how to share solar on roof tops for households and small industries based on community batteries that provide the necessary balance and resilience. The smart systems needed for this are already being exported creating many jobs.

FIGURE 1. ELECTROMOBILITY AND HYDROGEN-MOBILITY



ENERGY LOSS
During every stage from electrolysis to car, energy loss occurs.

We also have all the lithium battery metals so we can now make the most of the opportunity to add economic value by processing them here and making them into batteries.

We are creating a local EV industry, even if it's not cars, we are already making electric buses, trains, trams, bikes, scooters and other micromobility.

These are the big growth industries for Australian cities. But there is also much talk about hydrogen. Where does that fit?

The hydrogen transition

The hydrogen economy has been used by futurists since the 1960s as a way to approach a world without fossil fuels with hydrogen used in every part of the economy. However, technological change has now by-passed hydrogen as a fuel for electric power apart from some very minor roles in remote areas.

It is also not competitive for most transport. But it is still important to see hydrogen's strategic and niche roles that remain.

The problem is that the thermodynamics of creating hydrogen is not favourable. Energy degrades every time it is used or transformed into another form. There is a loss of energy at every step where energy is being transferred down a wire or a pipe and turning it into a useful product that enables mobility, light, heat or an industrial process.

These energy losses are built into the nature of matter and will of course form the fundamentals of energy costs.

The problem for hydrogen is shown in **Figure 1** comparing the difference in the number of steps needed to make a transport fuel: Lithium Ion Battery-based Electric Vehicles (LiB-EV) v Hydrogen Fuel Cell Electric Vehicles (HFCV). To use a solar-based HFCV requires two extra steps than a LiB-EV. And this does not include the need to make a hydrogen distribution grid with some kind of storage.

$539
MILLION
The amount allocated in the 2021-2022 Budget for clean hydrogen, carbon capture, use and storage (CCS/CCUS) projects

Hydrogen vehicles will always consume two to four times more energy than battery electric vehicles. This is simply due to the laws of physics, and cannot be resolved by technological improvements. Road transport is therefore one area where hydrogen will not play a major role.

So hydrogen-powered vehicles will always be a higher cost compared to battery-electric vehicles. It also means far more space for solar panels or wind turbines is needed to generate renewable energy.

This is a waste as we need all the renewable power we can get for our cities and transport system to be net zero using electric vehicles of all sorts.

There has been a lot of focus on how long haul trucks may need to be hydrogen fuelled but electric vehicles already have longer driving ranges and a continuously expanding charging infrastructure, including ultra-fast chargers.

Most global car and truck makers have recognised the lack of advantage for hydrogen vehicles and are now focusing on electric vehicles. Despite the loss of value for land transport there is a growing awareness that there will be no option other than to use hydrogen for shipping and aviation. Both of these use very heavy vehicles and go for long distances where recharging is hard. The only real solution is hydrogen being converted to ammonia for ships and being converted to synthetic jet fuel for planes. These are rapidly developing solutions that are still just at R&D stage and are unlikely to be ready to scale up before 2030.

Increasing use of hydrogen for demonstrations will now be seen across the world. Australia can be part of this especially if we start making hydrogen for other purposes.

The world is now looking for markets with 'green' on the front that represent industrial processes without using fossil fuels: green cement, green steel, green aluminium, green battery metals, green fertiliser... The value of hydrogen is that it is not just an energy source but is also a reducing agent that provides the chemistry for refining products. Industrial processes are thus the other major use for hydrogen if it can be produced from renewables.

"THE VALUE OF HYDROGEN IS THAT IT IS NOT JUST AN ENERGY SOURCE BUT IS ALSO A REDUCING AGENT THAT PROVIDES THE CHEMISTRY FOR REFINING PRODUCTS"

Regional ports as hydrogen hubs

What this means for Australia is that we must see regional ports as hydrogen hubs. This is where metals are brought in to be exported and yet there is much more space for the solar farms that can make hydrogen and hence process all the products before shipping them out. Thus Australia can add value to our primary products by using renewable hydrogen in regional ports and thus deliver the greatest global, national and local environmental and economic benefits.

As hydrogen production scales up and costs fall, excess hydrogen would be available at ports for fuelling ships and planes through turning the green hydrogen into ammonia and jet fuel for net zero long haul transport.

Australia can create net zero cities using solar-based electricity for everything, and can create net zero regions and export products that contribute significantly to creating a net zero world.

PROFILE
PETER NEWMAN

Peter is the Professor of Sustainability at Curtin University in Perth, Australia. He has written 20 books and over 350 papers on sustainable cities with a global reputation and has worked to deliver his ideas in all levels of government.

Peter has worked in local government as an elected councillor in Fremantle, in Western Australia's state government as an advisor to three Premiers and in the Australian government on the Board of Infrastructure Australia and the Prime Minister's Cities Reference Group. He is the co-ordinating lead author for the UN's IPCC on Transport.

In 2014 he was awarded an Order of Australia for his contributions to urban design and sustainable transport particularly for his work in saving and rebuilding Perth's rail system. In 2018/19 he was the WA Scientist of the Year. He is the editor-in-chief of the Springer journal Sustainable Earth.

GOING GREEN

After COVID-19, Australia's sustainable industries are quickly approaching a tipping point

| by Fergus Halliday |

While measuring just when and how Australia's growing stable of green industries arrived, or even how big they are, can be difficult, their influence and impact is becoming increasingly difficult to ignore

New industries have never cropped up overnight, and green industries aren't actually all that different in that sense. Australia doesn't quite have its own Tesla yet, but there are now countless green energy and infrastructure providers, from solar panel manufacturers to those involved in the burgeoning 'big battery' sector.

For many, the moment that this growth really began to accelerate was 2008. In the wake of the Global Financial Crisis (GFC), the United Nations Environment Programme launched the Green Economy Initiative. The idea here was to capitalise on the economic crisis and use it as a catalyst for a more sustainable status quo. Rather than a recovery that led to the same carbon-intensive normal of the pre-GFC era, the Green Economy Initiative tried to reframe the crisis as the perfect opportunity to push for a greener economy.

If you're going to rebuild, it makes sense to do it in a way that respects the future as much as it does the past. Instead of settling for lowering the level of carbon emissions our economy creates, green economy efforts look to raise the bar by aiming for the outright elimination of emissions.

According to the United Nations, "an inclusive green economy is an alternative to today's dominant economic model, which exacerbates inequalities, encourages waste, triggers resource scarcities, and generates widespread threats to the environment and human health".

However, speaking to *Public Accountant*, Smart Energy Council chief executive John Grimes argues that the notion of green industries in Australia actually predates this international initiative.

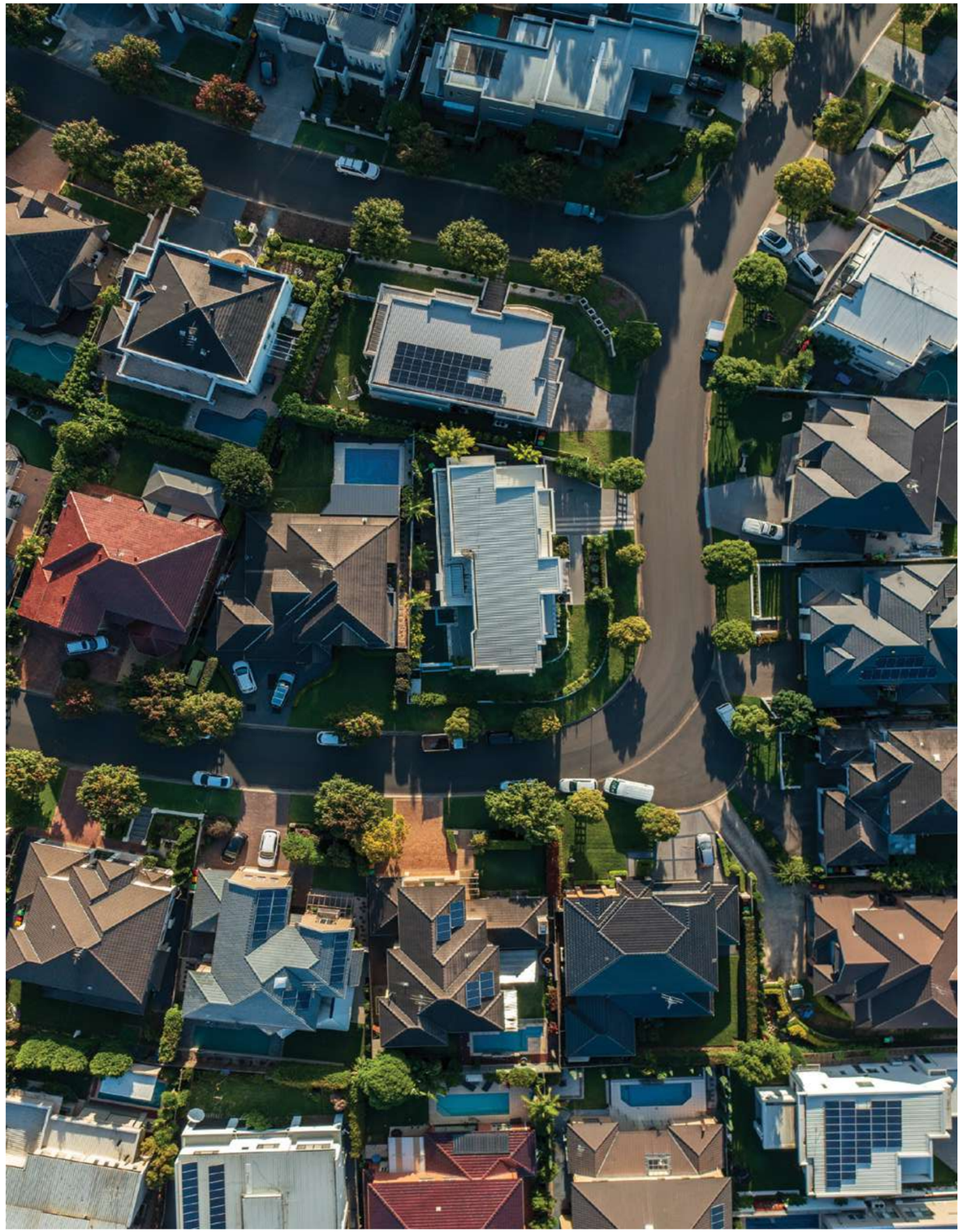
"A lot of this technology is really old," he says. "Not only have we known that climate change is a serious problem for us, but a lot of the technologies that are going to help solve it have been around for many, many decades."

While things like solar panels may have taken several decades to mature, he noted that "a lot of that technology was developed here in Australia, including at the University of New South Wales."

Mr Grimes argues that solar energy is now the cheapest way to generate energy in the history of the world.

"That is just the facts," he said, noting that the cost curve has come down dramatically for renewable energy in recent decades.

From a current level of around 20 per cent, the Reserve Bank of Australia expects that a combination of factors including government policy incentives, rising non-renewable energy prices and declining costs of renewable tech will see it rise further still in the future.



The green economy and the going green economy

Ben Peacock, the founder of Republic of Everyone in Sydney, argues that the definition of green industries is even broader. To him, the term encompasses not just companies set up specifically to create positive social and environmental change, but also third-party consultancies that help less-green industries become greener.

Even NGOs fit into Mr Peacock's vision of green industries, "who have been driving the agenda here for a long time and have often brought to market the information required."

Speaking to *Public Accountant*, Mr Peacock suggests that if you asked 100 people to define green industries, "you'd get 100 definitions."

For that reason, he argues that a broad definition is necessary.

"Anyone or any company that is working towards a way of doing business or a way of running our economy and a way of establishing our lives better considers the environmental and social impacts of everything we do and work towards," he said.

In the wake of COVID-19, calls for increased investment in green industries and infrastructure have only intensified. Where the UN's post-2008 efforts to recalibrate the world away from carbon-intensive infrastructure yielded uneven results, supporters of Australia's green industry are hopeful that things will be different this time around.

Still, Mr Peacock describes a sense of collective fear when everything stopped as the pandemic began.

"Finally, finally, sustainability was getting on agendas and business agendas. There was a huge fear, that everything was going to suddenly be dropped, and, and all this momentum has taken so long it's going to disappear. It was massive. And then, I think what happened was the opposite."

Thankfully, these fears proved unfounded.

"The push towards sustainability within companies has actually grown significantly," Mr Peacock said. "From what I can see, COVID-19 showed the world how fragile it was. In the history of things that have challenged the world, it's tiny. When you look at the Black Death, that killed 30 per cent of people. When you look at the World Wars, [they] killed incredible amounts of people. While it's shaken things up, it's actually a small-scale challenge in the scale of challenges the world can face.

"I think a lot of people went, 'Oh, if this is what a pandemic can do, what can climate change do?'"

Uncertainty meets inevitability

Looking forward, Mr Grimes suggests that many of the barriers to growth are going to fall away over time.

"In the past, the framing has always been that you can either have a strong economy, or a safe climate. That taking decisive action on climate change is simply too expensive. Certainly, that's something that we hear from the federal government in Australia a lot. That's just no longer true. Not only do we have renewable energy now which is zero emissions energy, but it's also the cheapest form of energy."

The world's largest solar farm, costing $20 billion will be soon built in the NT outback. The project that will be visible from space will export electricity to Singapore via a 4,500 kilometre high-voltage direct current network.

29
PER CENT
The number of Aussie houses installed with rooftop solar as of March 2021, according to the Australian government

He said that "because of the cost implications, it's likely that renewables and zero emissions energy technology [are] now going to transform our entire economy."

According to him, "we're not just talking anymore about transferring a bit of renewable energy off the electricity grid, but the possibility to pull emissions out of transportation."

"Transportation over the next decade is going to be transformed as we transition to electric vehicles, electric buses, electric trucks, and so on. We'll be powering not just the electricity sector but the transportation sector as well."

In addition, Mr Grimes said that there's a "huge opportunity" for Australia when it comes to exporting green energy abroad.

"Australia is actually one of the lowest cost jurisdictions in the world to create renewable energy in terms of pricing. That gives us a huge international competitive advantage. It means that we can create renewable energy at the world's lowest cost, and then actually export it to other markets."

As Australia's growing crop of green industries grow in size and influence, this transformative effect will extend further and further.

"NOT ONLY DO WE HAVE RENEWABLE ENERGY NOW WHICH IS ZERO EMISSIONS ENERGY, BUT IT'S ALSO THE CHEAPEST FORM OF ENERGY"

"If we can actually produce the world's cheapest electricity which also is green energy, then you actually make every business more competitive. In a sense, every business will transition to become a clean energy business. They'll do it indirectly without even doing anything."

There's just one problem, Mr Grimes continued.

"The technology works. The economics work. The big challenge that we have at the moment is government, government policy and leadership. Unfortunately, we have a federal government that really wants to do everything it can to protect existing fossil fuels and stop any disruption from renewables.

2.77
MILLION
Small-scale solar power systems (rooftop solar panels) have been installed across Australia, according to the Australian government

"But I'm pleased to say that in every state and territory, this transition is inevitable.

"The opportunities for those that want to get into the sector, to actually build because this is economically transformative. It's a massive, massive business opportunity."

Australia needs to break out of its old habits

Mr Peacock suggests that Australia has always been a "dig it up" country.

He said that there's a sense that "if we just keep growing it, or digging it up, and selling it. We'll be right. And the truth is we have been right. So, why would we change that?

"We are a naturally complacent country, because we've never had reason not to be."

However, going forward, his hopes are high for the growth of green industries.

"I can't see how, over the next three years, every company is not in transformation towards being part of the world's great industries. I just don't think there's a future for any company that isn't.

"You're looking at leadership contingent to a lot of companies that have the same people that have been running them.

"They're running an agenda that's been around for a long time, and they're probably less likely to be amenable to understanding that it's time to change.

"You're already seeing huge investor pressure for companies to have an agenda in the space. You're seeing customer and employee demand for it. Employees want to work for companies that have a great agenda.

"Customers are probably the slowest along the way because there's always a gap between what they say and what they do, but they're certainly starting to speak with their wallets in the space, and then ultimately, there is some level of government leadership that I think you'll only see grow because it has to."

Regarding the lack of federal leadership for Australia's growing green industries, he acknowledged the support of state-level and local governments.

"We've seen a lot of good movement there, and even federally. We're starting to see them show almost more acceptance than leadership, but at least it's something.

"There's certainly less love from government leadership in this country than there has been overseas, particularly in Europe, and that's led Australia to be a fair way behind the rest of the world."

THE FUTURE

of electric cars in Australia

Truth has a tough job dispelling fiction, a 'good story' is always more appealing. However, this article sets out some statistical data gathered over five years from a case study on a Mitsubishi Outlander Plug-in Electric Vehicle (PHEV), Australian Bureau of Statics (ABS) and Australian Taxation Office (ATO) statistics, to present findings of the impacts of transitioning from internal combustion engine (ICE) powered vehicles to electric vehicles. There is also a factor of tax implications leading to how tax could be legitimately avoided by transition from the old smoky 'clunker' to the 21st century electric vehicle (EV)

| by Dr Lex Fullarton FIPA |

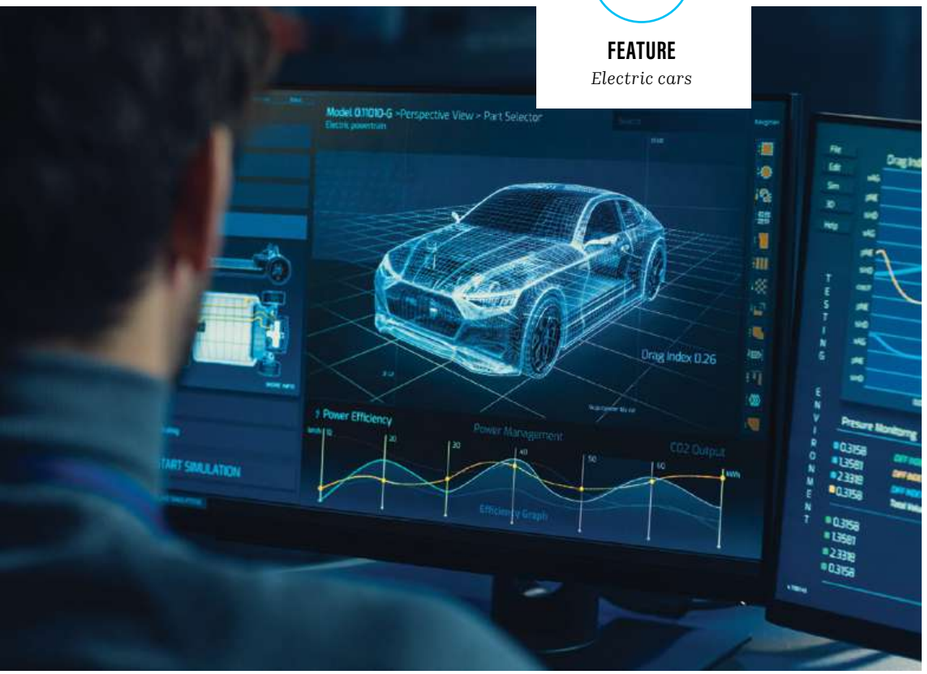
Firstly, in 2016, a newspaper article asserted that: *Australians who drive Holden Commodores are paying three times as much tax for federal roads as those who own hybrid vehicles such as the Toyota Prius, sparking fears of a funding crisis that could keep every motorist in the slow lane for years. Wealthier Australians who can afford to buy hybrid and electric cars are starting to erode the $12 billion in annual fuel excise that pays for the nation's roads, forcing the federal government to look at new ways to raise cash for major projects.*

Since then, not much has changed in the perception that EV owners will unfairly benefit at the expense of ICE powered vehicles as they will avoid the fuel excise placed on motor vehicle spirit. In April 2021 it was reported that: *The Victorian government is planning to introduce road usage fees of 2.5 cent/km charge for electric and other zero-emission vehicles, including hydrogen vehicles, and a 2.0 cent/km for plug-in hybrid-electric vehicles.*

The article stated that: *The [Victorian] state government has argued the tax will make sure electric car users contribute to the cost of maintaining roads.*

Therefore, it appears little has changed in the common belief that fuel excises are hypothecated to the construction and maintenance of Australia's roadways, and that the transition to EVs will result in that source of government revenue diminishing to the point where the funding crisis will no longer support the cost of roadways and they will fall into disrepair.

That is a false belief.



China is the largest growth contributor to global plug-in sales. In the first half of 2019, EV sales in China increased by 66 per cent. Europe had a growth rate of 35 per cent, whereas in the US, the growth rate was around 22 per cent.

Source: EV-Volumes

TABLE 1. GROWTH OF ELECTRIC VEHICLES IN AUSTRALIA 2013-20

Year	Electric vehicles	Passenger vehicles	Percentage of EVs	Total vehicles	Percentage of EVs
2013	4,167	13,000,023	0.032	20,757,657	0.020
2014	4,705	13,297,170	0.035	21,313,721	0.022
2015	5,215	13,549,450	0.038	21,785,979	0.024
2016	6,546	13,815,108	0.047	22,249,088	0.029
2017	7,774	14,078,569	0.055	22,733,051	0.342
2018	9,728	14,330,429	0.068	23,215,235	0.419
2019	8,935	14,504,151	0.061	23,625,540	0.038
2020	15,688	14,679,246	0.107	24,002,745	0.065

Source: ABS Motor Vehicle Census data 2013-20

Hypothecation (allocating tax revenue to a particular expenditure) of fuel excise to the construction and maintenance of Australian roadways has not been applied for over 60 years.

In 1959, the Commonwealth government removed the nexus between revenue raised from 'the collections from time to time of the duties of customs and duties of excise' and 'the construction, reconstruction, maintenance and repair of roads or on the purchase of road-making plant'. The Commonwealth Aid Roads Act 1959 (Cth) differed from its predecessors in that it provided for a tied financial grant of £220 million over five years (1959-63).

The 1959 legislation made no reference to the collection of customs or excise duties to fund those grants. Speeches made in support of, and opposition to, the Commonwealth Aid Roads Bill 1959 make it quite clear that the nexus between revenue derived from the petrol tax and grants to road funding was at an end.

Secondly, even if road tax revenue was hypothecated to roadway construction and maintenance, at the current rate EVs are being rolled out in Australia it will be decades before fuel excises will be impacted significantly.

In 2016, ABS data showed that the total number of motor vehicles registered in Australia rose 12.33 per cent from 16,368,383 in 2011 to 18,387,136, in 2016.

That number continued to rise to 18,824,136 in 2020, however the rate of growth slowed from 12.33 per cent over the five years 2011-16 to just 2.38 per cent over the four years 2016-20. On the other hand, the ABS motor vehicle census of 2020 reveals that of all vehicles registered in Australia only 15,688, or just 0.065 per cent, were classified as electric.

That number is extremely modest when compared to the total number of registered vehicles of more than 20 million from 2013 onwards. **Table 1** shows the growth of licensed electric vehicles on Australian roads for the years 2013-20. It appears the authors of the articles and the Victorian government are considering economic influences in isolation.

If viewed solely from an economic perspective, then Australians should be encouraged to take up drinking alcohol, smoking and gambling. The taxes raised from those three 'social evils' are considerable. It is reported that the 2019-20 budget: *predicts revenue from the tobacco tax at a staggering $17.4 billion. That's a lot of money compared to the expected surplus of $7.1 billion. It's more than the $12.3 billion from diesel fuel, $6.4 billion from petrol tax, and the roughly $6 billion from alcoholic beverages.*

15.7

THOUSAND

The number of electric vehicles in Australia as of 2020, according to ABS Motor Vehicle Census

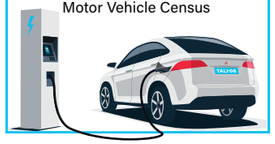
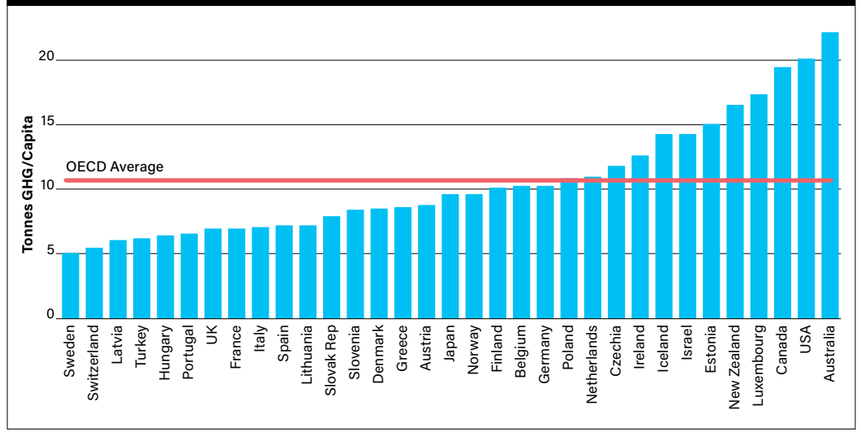


FIGURE 1. OECD NATIONAL GREENHOUSE GAS EMISSION INTENSITIES PER CAPITA, 2018



PROFILE

SMART TRUCKER

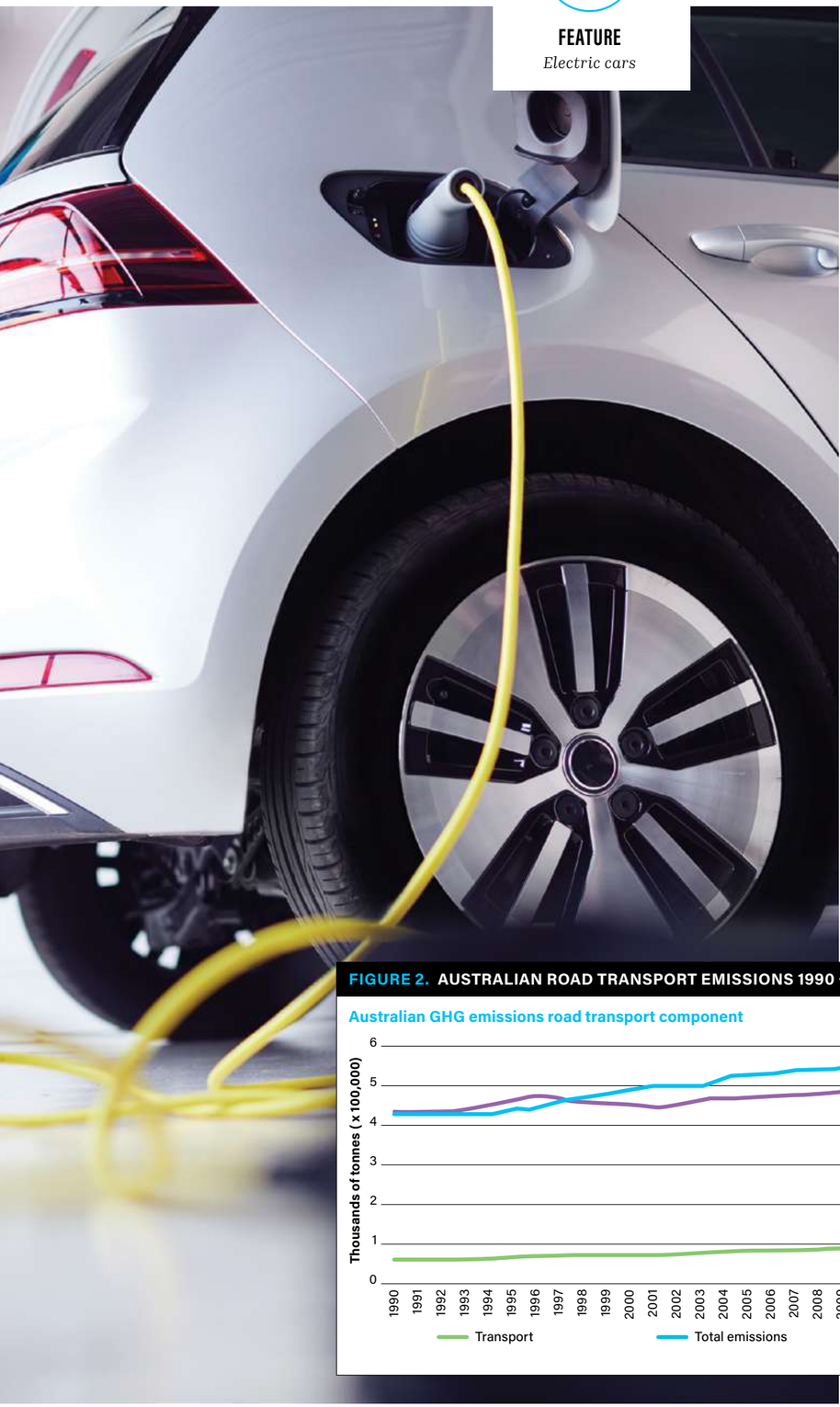
Dr Lex Fullarton is a fourth-generation Scottish-Australian and, as he likes to joke, possibly the only truck driver with a PhD in taxation.

An accountant, tax expert, bush lover, solar farmer Lex Fullarton is anything but your typical accountant.

He has been a member of the Institute of Public Accountants since March 1984 and was twice the Western Australia Member of the Year.

Lex's introduction into public practice began in 1973 and was briefly interrupted while he dedicated his time to full-time study at the WA Secondary Teachers' College. In 1981, Lex re-joined the WA public service, until in 1984 he became a registered taxation practitioner.

In 2005 he and his family established Australia's first privately owned, commercial solar farm in Carnarvon Western Australia. He retired from public practice in 2007 and now operates the Solex Project. He is also an academic researcher and an Adjunct Professor with the Curtin University Law School. He has written a number of papers on renewable energy and taxation.



In 2018 the tax revenue from gambling was $6.2 billion. That is a total of around $29 billion per annum. However, the net revenue, after rebates, from fuel excise in 2019 was less than half that.

Of course, that proposal is nonsense when the social and environmental damages are considered. The raising of tax revenue must be considered in the broader perspective of the increased medical and hospitalisation costs incurred by the broader population by way of treatments for cancer and alcoholism. The social, and ultimately economic costs, of domestic violence and other negative social impacts are incalculable. Hence the government campaigns against alcohol, tobacco and gambling addictions. The opportunity cost of lost tax revenue is rarely, if ever considered.

Significantly, as shown in **Figure 1,** Australians are the highest greenhouse gas emitters in the OECD on an individual basis.

As to the contribution of road transport to the total national emissions, **Figure 2** shows that the total national emissions have plateaued since 2010, but not declined. The road transport component has actually risen from 14.5 per cent in 1990, to 16.43 per cent in 2010 to 18.06 per cent in 2018.

Gains achieved in other sectors, such as the roll out of dispersed solar photovoltaic electricity generation to displace fossil fuels in the electricity generation sector, appear to have been negated by the rise in GHG emissions in the transport sector.

The data indicates that significant reductions in national GHG emissions could be achieved by focusing on the transport sector, through the transition to electric vehicles and hybrids, which will reduce the use of fossil fuels in that sector and the reduction of GHG emissions generally.

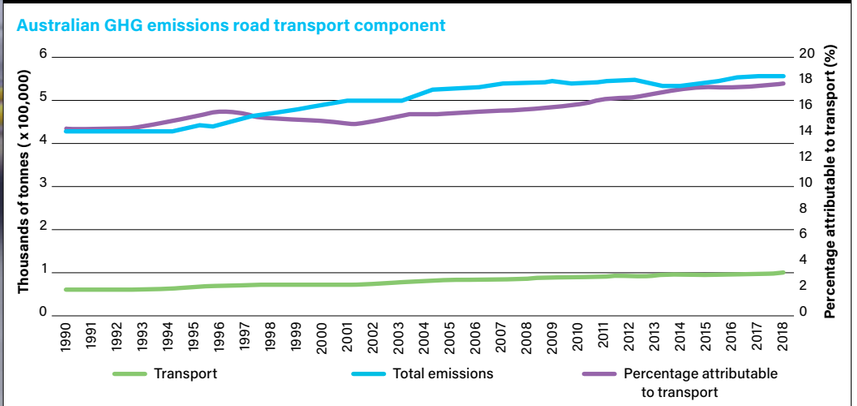
This paper suggests that the need to transition to electrification of the transport sector has reached a critical stage, and can no longer be ignored by Australia's parliaments.

Installing solar pv systems on homes and businesses to charge EVs and PHEVs not only avoids fuel excises but employees could renegotiate employment agreements to reflect 'payment in kind'. Reductions in assessable income to purchase non-work-related expenses (travel to and from workplaces) can benefit employers as well.

We get to breathe less diesel particulate, and other toxic gases, and generally lead a healthier lifestyle, with less medical problems, which saves on government supported medical and hospital resources.

This article argues that there is far more to be gained by moving to renewable energy charged electric cars than the loss of a few billion dollars in foregone tax revenue, which is not allocated to roadway construction and maintenance in any event.

FIGURE 2. AUSTRALIAN ROAD TRANSPORT EMISSIONS 1990 - 2018



Dr Lex Fullarton with Scottish conservationist Neil Oliver

How have you adopted sustainable business practices in your workplace?

Annette Tasker
JP, FIPA, FFA,
Southern Summit Advisory

An inconvenient truth

We started our journey in more sustainable business practices with an environmental audit. We wanted to break the addiction to convenience by implementing more sustainable practices into the office, as well as leading by example to our clients, and other local businesses through our involvement on the Plastic Free Cronulla committee.

This helped raise our business profile as a leader and an example of a forward thinking firm willing to embrace change for the good.

We chose a few areas to begin with so as not to overwhelm. We have been paperless for years, and if we just had no alternative, we print smarter and only when essential.

We provide bins for recycling and discourage use of non-recyclable products, we have real kitchenware and have a refillable water filter and an in house coffee machine.

One of our staff even provides green cleaning products she makes at home, we have reusable tote bags and containers available for all.

Opening up your mindset to introduce sustainable business practices and reviewing the worst words you can hear in business: "We have always done it this way", are the first essential steps to improve sustainability in all areas.

Get more expert insights at
publicaccountant.com.au/blog

Ben Johnston
FIPA, FFA, managing director,
Johnston Advisory

One planet

Our staff are conscious of the vulnerability of the planet and are passionate about implementing sustainable practices. In response to this as a firm, we are totally paperless, it wasn't driven by the efficiencies that a paperless office creates, it was initiated to minimise the footprint we leave by minimising paper use. Our practice actively discourages the use of single use plastics products including coffee cups and water bottles and have a recycling program that helps towards this goal.

From a wellness perspective, Johnston Advisory offers a flexible workplace and encourages staff to put their health and wellbeing first. If staff are happy and healthy it promotes productivity and an enjoyable workplace.

Flexible workdays and the option to work from home whenever suits the employee are a couple of examples of how we encourage our staff to stay in a healthy frame of mind, especially those that have young families and are juggling the work/life balance. Fortunately, advanced technology and data storage in the Cloud have eased this transition which may well be a way of the future post pandemic.

Johnston Advisory also supports the community by providing pro-bono services to companies that are doing good in the community at the expense of profiteering. An example is Worn for Good, a company that supports recycling fashion and sustainable manufacturing processes ultimately to reduce the impact left by mass textile production.

Timothy Munro
FIPA, FFA, CEO and founder,
Change Accountants and Advisors

Small change, big difference

Yes, we have adopted sustainable business practices in our workplace. The starting point for this was our move to digital signing of documents three years ago. This dramatically reduced the amount of paper we required and also reduced our need for printer cartridges. Many of our team had their own printers in the past, but with 95 per cent of our documents sent to clients electronically now we only need one multi-function printing and scanning device in our business. This has also reduced electricity use and our postage requirements.

Some of our younger team members made suggestions to us that we implemented. In our kitchen area we've installed recycle waste bins to keep this separate from general waste. Our toner cartridges are set for recycling.

We're moving to a smaller office space in the same building in a few months' time, and we're ensuring that LED lighting is fitted to reduce electricity usage. These are all small things – but they add up over the long term!

"IN OUR KITCHEN AREA WE'VE INSTALLED RECYCLE WASTE BINS TO KEEP THIS SEPARATE FROM GENERAL WASTE. OUR TONER CARTRIDGES ARE SET FOR RECYCLING"

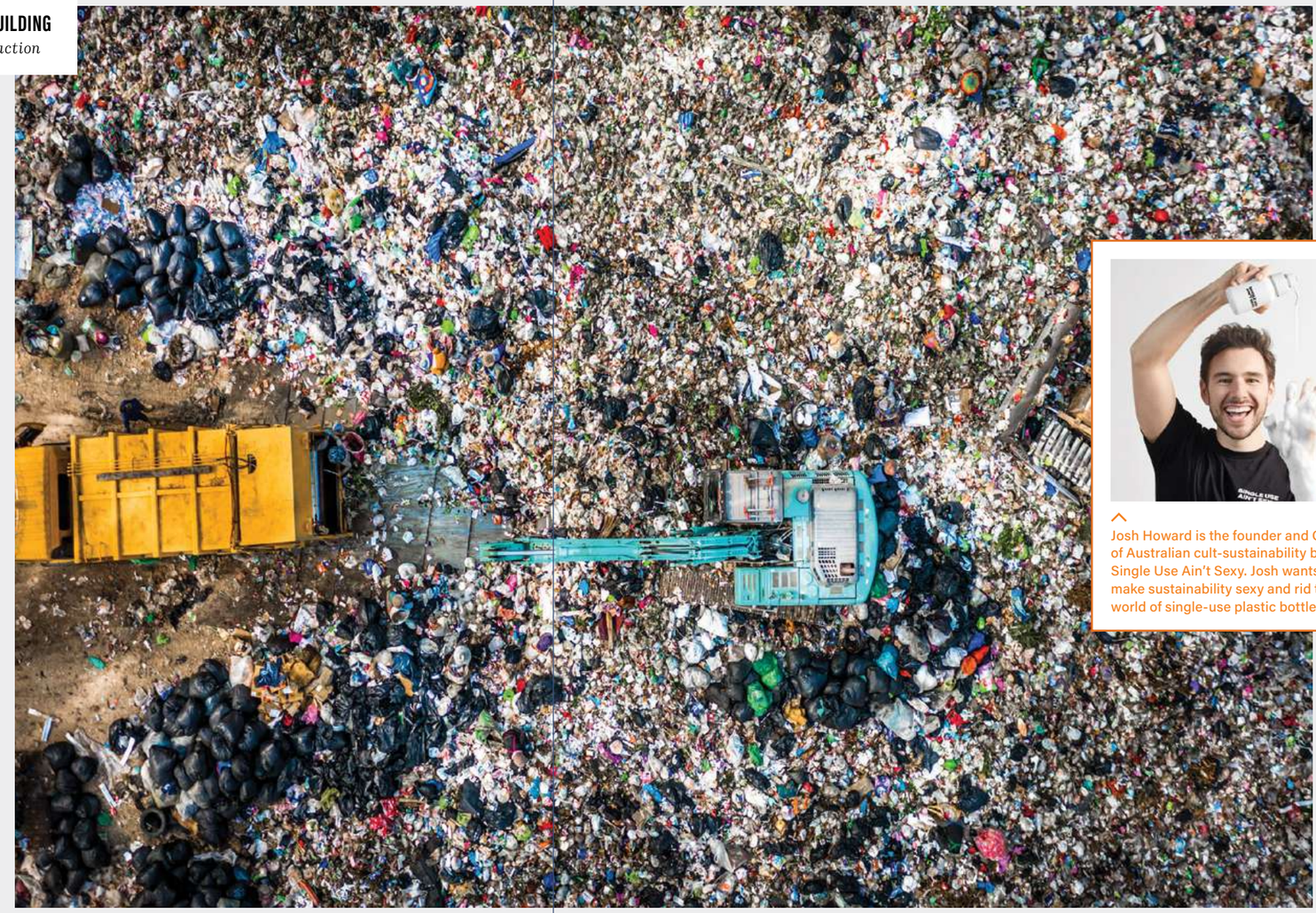
Business building

A wrap of the latest strategies, insights and trends affecting your business, as well as your clients' or employer's businesses

Single use isn't sexy: Sustainability expert provides his best tips on reducing business waste... and getting your team onboard as well

Despite the world going digital in 2020, unfortunately offices are still one of the biggest contributors to Australia's waste problem

| by Josh Howard |



Josh Howard is the founder and CEO of Australian cult-sustainability brand Single Use Ain't Sexy. Josh wants to make sustainability sexy and rid the world of single-use plastic bottles.

INDIVIDUAL OFFICE workers on average use over 10,000 sheets of paper per year, with 63 per cent often not being recycled properly. And while office waste is inevitable, there are several ways you can help combat this, because even some small differences can have a big impact.

Josh Howard, the founder and CEO of Australian cult-sustainability brand, Single Use Ain't Sexy, provides his top tips for how businesses can reduce their waste... and some sneaky ways to encourage your team to also get involved.

Tip 1: Think before your print

As mentioned, paper can be a big contributor to business waste, however what many of us don't realise is that the office printer can be an even bigger culprit. Thankfully, COVID-19 has taught us we can function digitally, so continue to encourage your teams to use electronic platforms, whilst reducing the need for printed documents and agendas.

If someone really needs to print something out, encourage them to opt for black and white to conserve ink and remind them to turn the printer off or onto sleep mode, so it uses less energy while sitting idly between uses.

Tip 2: Don't get lazy with your e-wastage

E-wastage refers to anything electronic in your office that you are looking to bin, including old printers, phones, ink cartridges or keyboards. While it's tempting to throw these away during your next office clear out, the truth is that e-wastage is actually responsible for 70 per cent of the toxic chemicals (including lead and mercury) that end up in landfill.

90
PER CENT
of Aussies want more sustainable products, according to Single Use Ain't Sexy

Instead of sneaking e-wastage into your work bin when no one is looking, take these items to a free e-wastage recycling centre around Australia. Get your team involved and make a day trip out of it together or organise a collection day in the office with an e-waste collection company.

Tip 3: Embrace digital receipts

As accountants, I'm sure there's at least one drawer or folder in your office that you keep hidden from everyone else... your unruly, unorganised receipt pile (don't worry, I'm guilty of that too)!

While receipts are a necessary part of your job, in the 21st century we now have many modern payment platforms offering e-receipts and digital invoices that can help you cut down on waste. Many people don't realise that the waxy coating on receipts is made from BPA, which is a bad chemical for your body and also makes the receipt completely unrecyclable.

Encourage employees to stop printing receipts and instead have them emailed or photographed to you. Receipts will be 100 per cent virtual in the near future, so jump on board now while it's trendy and tell everyone you were ahead of the curve!

For more on sustainability visit www.singleuseaintsexy.com

Tip 4: Invest in sustainable and eco-friendly office products

By replacing a few small items in your office to sustainable and eco-friendly versions, you can make a massive impact to your organisation's carbon footprint. As a boss, lead by example and do fun things to help your team embrace sustainable practices, like purchasing everyone a reusable keep-cup for their daily coffee run, or a non-plastic wine glass for Friday drinks.

In addition, you can get your team some high-quality desk lamps that maximise energy and use less light power, or re-fillable portfolio folders they can use all year round. And of course, if you like to keep a clean office, you can choose some enviro-friendly hygiene products, such as our dissolving hand-soap tablets and reusable glass bottles. When in doubt about whether something is genuinely helping the environment or not, always read labels and ensure the products you're using are made sustainably. Making changes can be hard at first, but as you and your team rally together to implement these, you will watch as it builds strong office habits and culture – and make you look so much sexier to other businesses around you.

Josh Howard
founder and CEO, Single Use Ain't Sexy

How this entrepreneur is 'keeping it clean'

Twenty-six-year-old entrepreneur Bonnie Macqueen has created a waste-free soap brand helping Aussies everywhere lead a more sustainable, healthy lifestyle

AUSTRALIAN HOUSEHOLDS generate 12.4 million tonnes of waste each year and are responsible for 47 per cent of the country's plastic waste. While our governments are working towards a ban on single-use plastics by 2025, the founder of a new, waste-free brand believes Aussies can do more to reduce their environmental impact and encourages them to make more conscious choices.

According to Bonnie, Keeper Clean is a truly grassroots brand, born out of her combined expertise as a brand and marketing specialist and personal passion to lead an environmentally conscious lifestyle. The Sydney-based entrepreneur invested her own money to build the company from the ground up, without any external funding.

So far, Keeper Clean has prevented 532 single-use plastic hand soap bottles from ending up in landfill.

1. How did your business journey begin?
When I moved out of home, I realised how much plastic was involved in setting up and constantly replenishing all the necessities in an apartment.

I did a lot of research into replacing single-use plastic products with reusable ones but I kept coming up short, with not a lot of options out there. What I really wanted was a reusable hand soap bottle with plastic-free refills and for a while it was just a dream to start my own business. In March 2020, at the beginning of COVID-19, my work hours at my full-time job were reduced by 20 per cent, which meant I suddenly had a lot more free time on my hands.

I had a bit of an epiphany and thought, "if I don't do it now, then when will I start my own business?" So, I got to researching and calling suppliers and manufacturers. I kept getting knocked back because I couldn't purchase enough bottles or enough volume of refills for these businesses. It was discouraging and for a while I felt like I would never find the right bottle and refill to launch with, but my fiancée was there to encourage me during those tough times, and eventually I found the bottle and I found the supplier to make the refill pods and I was able to launch!

2. Tell us about your product?
Keeper Clean combines a refillable glass hand soap bottle, with 100 per cent biodegradable soap pods. When designing and developing Keeper Clean, I really wanted to find a beautiful bottle because it was important that people actually wanted to have this next to their kitchen sink, or in their bathroom, because as the name suggests, it's a Keeper.

3. Aside from producing a sustainable product, do you follow sustainable practices in your own business?
Sustainability is our core passion and driver. We certainly don't claim to be perfect, but we have goals in place, so as we grow, we can adapt and implement more sustainable practices.

When making business decisions, sustainability is always first and foremost. Our packaging is made out of 100 per cent recycled materials and printed with plant-based inks, so it can be composted or recycled. We use a carbon neutral shipping service, all of our products are vegan and cruelty free and most importantly we promote transparency and want to be open with our consumers, so they can make informed decisions when buying our products.

4. Is running a sustainable business challenging?
I believe that running any business is challenging, one challenge in particular that we face is competing with huge companies that use greenwashing tactics to convince people to buy their products, when in fact, they aren't really sustainable at all. Apart from the general challenges of running a business, it really is extremely fulfilling and exciting!

Check them out at:
keeperclean.com.au

5. What's the best business advice you've ever received?
The best business advice I have ever received is, be honest with yourself. Nothing would get done if we constantly made excuses as to why we couldn't do it. The other great piece of advice I've received is to put your blinders on, don't get distracted by what the competition is doing and look ahead.

6. What are you currently up to in your business?
We are three months post launch, at this stage I'm working on what the future of Keeper looks like, what products we want to move into next and how to get there – some really exciting stuff!

7. What are the biggest obstacles to being a business owner?
For me personally, it is a lack of time. I currently work full-time at another company, so making time for Keeper Clean can be challenging. I have to be really strict with my schedule to make sure I can balance working, exercise and a social life!

8. What is one piece of advice you would give someone wanting to start a small business?
I would say that things don't need to be perfect straight away, you need to start somewhere so don't be afraid of imperfection and getting things wrong the first time. If you have persistence, there is time for everything later.

Sustainable scalability: Using technology to ensure successful, long-term growth

It's no secret that the past 18 months have been the most challenging that many businesses have ever seen – which means it's been some of the most busy and stressful for their financial teams, too

| by Troy Brown |

WE KNOW right now, many accountants and bookkeepers are finding their business more demanding. Their clients need more time and attention than usual. Some are experiencing unexpected, exponential growth in their business. The workload can be overwhelming and let's face it – work/life balance a pipe dream.

But it doesn't have to be that way. Even with unprecedented demand on accounting professionals and the services they deliver, there are things you can do to ensure you're taking care of you and yours, building a strong, resilient business that can sustainably grow and be successful over the long term.

It's not just about how you work; it's about what you do and how your services evolve.

It's about ensuring you're using best practice. And it's about continually adding meaningful value to your clients – all while (hopefully) maintaining that coveted work/life balance many start their own business for. So, how can you ensure you remain productive, avoid burnout and ensure you can stay on top of things, even in your most demanding periods? There are a few key things to focus on.

Tech: The best silent business partner

For accountants and bookkeepers: there is no longer any justifiable need to be spending valuable time on manual checks or repetitive manual tasks that can be automated. As artificial intelligence shapes the future path of the industry, it clear to see the most efficient way to scale up your business successfully and sustainably in 2021 and beyond is understanding and implementing it.

Using AI as an audit tool is a no-brainer. It removes the margin of human error, saves time on rework and allows both staff and their managers to work more efficiently, confident in the numbers.

Looking to practice processes – traditionally, they have been complex, arduous and manual-work heavy. Technology changes the paradigm on the 'do once, check, and lock' approach, enabling you to smooth out your workflows.

Consider, as your business scales and you're onboarding new staff – what does that look like? Relying on staff to do the right thing, with no mistakes, all the time, just isn't realistic. You can, however, trust the process when you've got the right technology in your corner and supporting your team.

The right people, armed with the right technology, can amplify your ability to quickly perform the work required and know if mistakes have been made. This can create a new way of working, focusing on the review process rather than hand-holding; providing a way for you to scale your business to any level.

Don't bring a knife to a gun fight

Any professional knows, having the right tools for your business is the key. Your clients expect the same. Ensuring you're showing up each day with the most efficient tool belt will set you apart, every time. There will always be an investment in tools – the important part is understanding whether the investment period (and time) will be worth it.

Understanding the benefits a tool will have to your business, negates how much of an investment you make and technology is no different. Sure, you might be able to get by switching in and out of different technology tools – but the question is: What time are you spending on using tools that have not been built particularly for the industry?

Looking at task tools in particular – there are literally thousands on the market. What are you using in your practice? Is it a product designed specifically for the way accountants and bookkeepers work? Using a product that has been designed for you, and allows you to cater for different client types and time frames in your workflows, is a simple way you gain leverage over your time.

In a world of fixed time versus hourly rates, it is important to have the right technology in place to remove time spent on charges that your competitors don't have to pass on. This can be the difference when scaling up the ability to sell your services compared with your competitors.

Increase revenue (and value for your clients)

Now more than ever, actionable and expert advice is crucial for businesses. Being able to provide that advice, without loads more legwork, not only strengthens your relationship with your clients, it allows you to add more billable hours to the clock, increasing your revenue.

Technology provides the information that allows advisers to cut through to answers they're looking for. Forget endless clicking or manually trawling data to find the right answers, or insights into your client's business health. With the right solution, they're available in a click.

The same applies to workflow. Don't waste time sifting through spreadsheets and checklists to find where your team is at or whether something has been missed and begin to 'manage by exception'. Using a dedicated tech solution that helps cut through the data to know where you and your team are, is a key part of staying on top of the information flow.

Tracking processes with one or two clicks and being able to understand where your business is at, while the technology constantly checks on all changes made by you, your team or the business, allows you to move forward but easily understand if someone has affected the end of month process. Not only does this revolutionise your day-to-day workflow, it also helps remove the end of month, end of quarter and end of financial year bump. This can literally be the difference between just surviving in your business, to alleviating time pressure and creating capacity to onboard and serve new clients.

Looking to the future

There is no doubt, technology and, in particular, artificial intelligence will help shape the next generation of accounting and bookkeeping businesses. It will disrupt the traditional manual-only practices, as modern accounting professionals embrace technology and evolve the profession.

Mundane work will be removed, and opportunities for new services will emerge. Technology will continue to allow advisers to understand their clients even better and will help unlock a new methodology of approaching their workflows.

Using this technology in the right way is imperative for those looking to achieve sustainable, long-term success in their business. Using smart, efficient technology solutions will empower those businesses with a question: What should we now do with the free time we have created – scale or relax?

Follow Troy at twitter.com/troy_brown_xb

Troy Brown
co-founder, XBert

The quest to green crypto

As the volume of the conversation around the environmental impact of cryptocurrencies like bitcoin grows louder, new and more eco-friendly blockchain solutions are looking to seize the limelight

| by Fergus Halliday |

WHEN IT comes to carbon footprint, the greatest strengths of decentralised blockchain networks threaten to become their weaknesses.

The math here is as simple as it is daunting in scale. Transactions made using the bitcoin blockchain cost less in fees than traditional payments but this shouldn't be taken to mean that they don't have a cost.

In terms of the electricity consumed by the maintenance and operation of the blockchain network, bitcoin transactions are significantly more expensive than other means of payment.

The reason for this is that bitcoin mining isn't just an activity that introduces new bitcoins into the system, it's fundamental to how the network processes payments.

At the most basic level, the blockchain rewards those who do the work involved with maintaining it.

Bitcoin miners are competing to be the one who completes a complex mathematical problem and earns the right to place the next block in the chain. By doing and providing proof of this work, they earn new bitcoins.

Older blockchains like that of bitcoin or ethereum currently operate on this kind of system, called a proof-of-work system. In this system, all the electricity used by the miners who did not solve the problem is essentially wasted. This is why the electricity consumed by the bitcoin network is so high.

That being said, proof-of-work does have its upsides. If there's a disagreement between two parties in the network about whether or not a transaction happened, the system automatically and always favours the version of events that has the most work put into it. This is why the blockchain is commonly framed as a 'tamper-proof' system.

Even if a fraudulent transaction is recorded in the blockchain, the party responsible would have to mine the next "block" in the chain indefinitely in order to keep the lie alive. The moment they fail to do so, the version of the blockchain without the fraudulent transaction in it would become canonical.

Unfortunately, proof of work is problematic from an environmental impact perspective because it incentivises crypto miners to throw additional hash power at the problem. Doing so doesn't necessarily increase the speed with which new blocks are added to the blockchain but it does increase their chances of reaping the financial benefits involved.

The cost of doing business on the blockchain

This dynamic has led to a situation where the electricity consumed by the bitcoin network has exploded in recent years.

Research by digiconomist.net founder Alex de Vries in March suggested that the bitcoin network could consume as much energy as all data centres globally.

That energy has come from somewhere, and according to de Vries, the associated carbon footprint equals that of London. De Vries claims that the carbon footprint of a single bitcoin transaction is equivalent to that of 751,205 Visa transactions.

According to research done by Visual Capitalist, the annual power consumption of the bitcoin network totalled 129 terawatt-hours. If this blockchain was a country, it would rank 29th in the world for power consumption by that metric.

Some within the crypto world argue that the climate impact of the bitcoin blockchain is partially offset by the widespread use of renewable and/or "trapped" energy that would otherwise go to waste. However, it remains the case that a world that doesn't have to deal with this carbon footprint at all would probably be one that is closer to realising its decarbonisation goals. An article on Nature.com puts the potential power usage of the blockchain in dire terms, claiming that "projected bitcoin usage, should it follow the rate of adoption of other broadly adopted technologies, could alone produce enough CO2 emissions to push warming above [2 degrees] within less than three decades".

The quest to green crypto

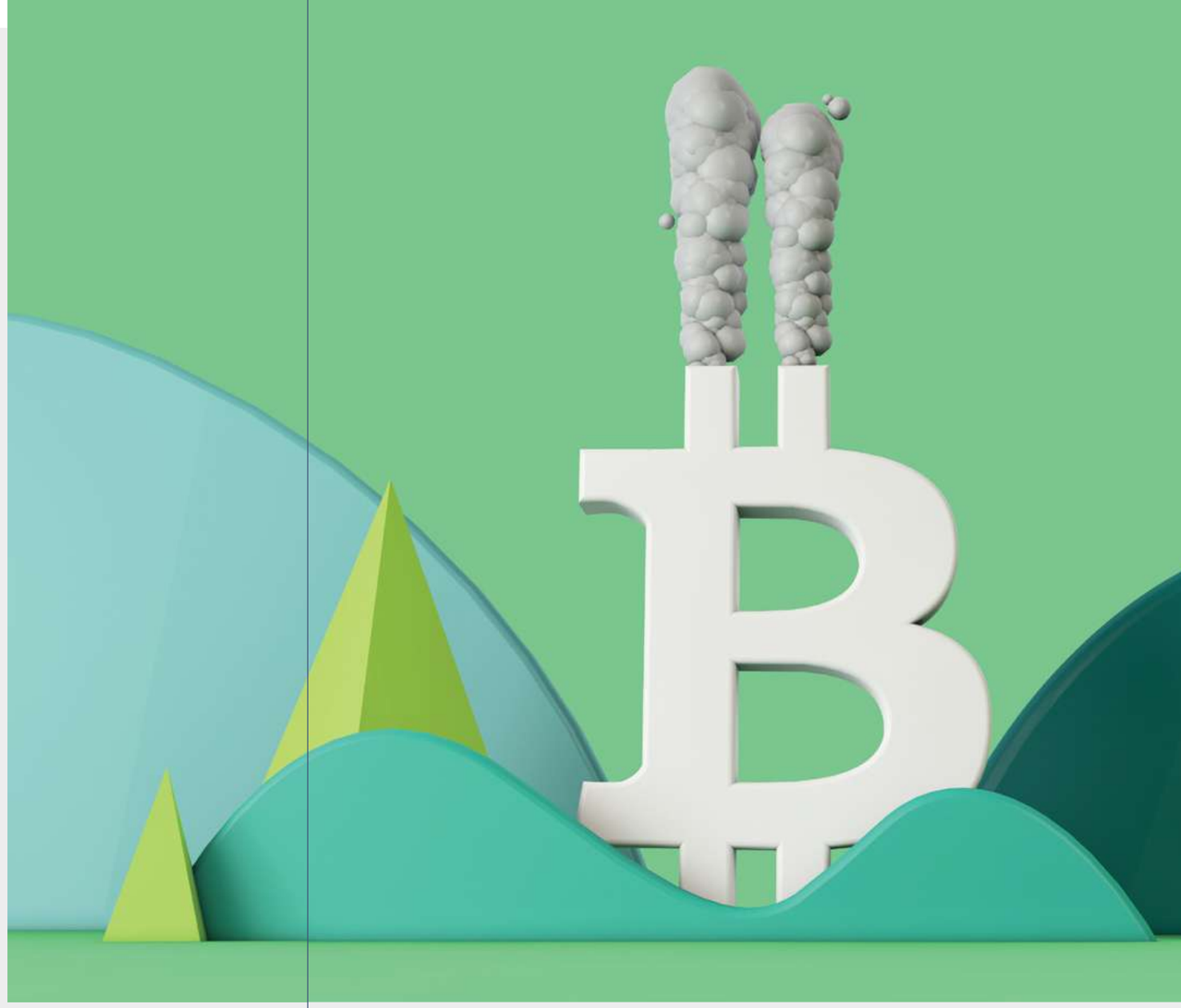
In May, Tesla CEO Elon Musk ditched plans to accept bitcoin as an alternative to conventional currencies. He cited concerns "about rapidly increasing use of fossil fuels for bitcoin mining and transactions, especially coal, which has the worst emissions of any fuel".

"Cryptocurrency is a good idea on many levels, and we believe it has a promising future, but this cannot come at great cost to the environment," Mr Musk said.

While some groups like the Crypto Climate Accord have sought to shift the entire cryptocurrency industry towards renewable and sustainable resources by 2030 as a way of offsetting the networks' carbon impact, others have looked to build new and modify existing cryptocurrencies in a way that reduces emissions.

The main thrust of this is a proposed shift to what is called a proof-of-stake system. Under this model, new coins are said to be 'forged' rather than mined.

To participate in the forging process, users lock an amount of crypto into the system.



Carbon footprint of a single bitcoin transaction

717.54 kg of CO2 = equivalent to the carbon footprint of 1,590,324 Visa transactions

1,510.62 kWh of electricity = equivalent to the power consumption of the average American household over 51.78 days

Carbon footprint of annual bitcoin transactions

58.96 Mt CO2 = the carbon footprint of Libya

124.12 TWh = the power consumption of Pakistan

15.15 kt = as much e-waste generation as Luxembourg

Source: Digiconomist

This is called staking and is somewhat similar to something like a traditional term deposit.

By staking, users can earn a cut of transaction fees made using the platform.

When it comes time to add a new block to the blockchain, proof-of-stake essentially works like a lottery. The larger someone's stake, the greater the chances that they will be selected to forge a block. Some proof-of-stake networks also give older stakes a greater weighting, encouraging long-term investment in the system.

While some newer cryptocurrencies have opted to embrace a proof-of-stake model right out of the gate, others are eyeing a transition later down the line.

The highest profile of these is ethereum. Under the proposed ethereum 2.0 revamp, the world's second most popular cryptocurrency is set to migrate from a proof-of-work system to a proof-of-stake system.

According to the Ethereum Foundation, the shift to a proof-of-stake system will reduce the energy costs of the network by 99.95 per cent.

While some experts have suggested that a similar transition from proof-of-work to proof-of-stake may not be technically feasible for bitcoin, others insist that such a shift is only a matter of time.

"I'm sure, once the technology is proven, that bitcoin will adapt to it as well," Niklas Nikolajsen, the founder of Bitcoin Suisse, said in an interview about ether's transition to proof-of-stake.

In a business environment where sustainability is increasingly seen as a favourable thing by consumers, the demand for and supply of green and greener cryptocurrencies seems likely to continue to rise.

However, as more and more green cryptocurrencies enter the conversation, it's worth scrutinising their claims.

For instance, the chia cryptocurrency recently garnered attention for its unique 'proof-of-space' system. Relative to proof-of-work or proof-of-stake, this approach promised to position chia as a more environmentally sustainable cryptocurrency.

Unfortunately, in reality, this system privileges those who commit the greatest amount of hard drive space to the network. This quickly drove up the demand for traditional storage components. If you factor in the carbon costs of manufacturing, shipping and consuming those hard drives, the sustainability of something like chia becomes a bit more questionable.

When a market is growing as fast as the crypto one is, relying on renewables, linking crypto investment with carbon offsets and reducing the amount of wasted energy involved is only the first step towards a greener crypto economy.

As put by the director of the University of Edinburgh's Blockchain Technology Lab, Professor Aggelos Kiayias, "Being merely less resource hungry compared to bitcoin is a rather low bar as far as 'green' technology is concerned."

59
MILLION TONNES
The annual carbon dioxide emissions footprint of bitcoin transactions, according to Digiconomist

Technical

Our technical section keeps you abreast of the regulatory, legislative and policy developments affecting the accounting profession

Greenwashing - What is it and why you should avoid it

The term 'greenwashing' first came about in the 1980s to describe outlandish corporate claims, with the succeeding three decades seeing it become vastly more sophisticated as consumers push for a greener world

| by Cameron Micallef |

THE TERM greenwashing was first coined by environmentalist Jay Westerveld in 1986 in an essay used to examine the practices of the hotel industry. While greenwashing didn't have a name, environmental groups point to the 1960s when Westinghouse nuclear power was a greenwashing pioneer.

By the mid-1980s, oil company Chevron commissioned a series of expensive television and print ads to convince the public that it was on the side of environmentalism which is known as the gold standard of greenwashing in the years to come. Today, businesses around the world are still accused of the same deceitful practices, as consumers say they're willing to pay more for products that have a sustainable message.

What is it?

Let's take a step back and define our terms.

The Cambridge Dictionary explains it "as behaviour or activities that make people believe that a company is doing more to protect the environment than it really is."

While environmentalists have called it a deceitful advertising gimmick intended to mislead consumers who prefer to buy goods and services from environmentally conscious brands, the practice is still widely used by large scale businesses.

For example, a company might claim to have energy-saving benefits or that its goods are made from recycled materials, which is often partially true, however the benefits the company spruiks outweigh what it is selling.

Surprise surprise, Australia is lagging the world

For anyone following the news, it might be unsurprising to read Australia lags behind the rest of the world when it comes to greenwashing.Research Affiliates head of research Mike Aked told *Public Accountant* that while the US and the EU are making strides, Australia is setting its sights slightly lower.

"In Australia, incorporating non-pecuniary goals into an investment process through activism is often quoted, but it is very difficult to measure the benefit of activism. In terms of environmental investing practices, Australia is sadly far behind the leadership displayed by Europe, the UK, and now even the US," he said.

According to Mr Aked, the EU and the UK have both come out with measurable, hard targets for what constitutes low carbon investing, something Australia has failed to do.

"The EU Regulation for Low Carbon Benchmarks provides the "definition of minimum standards for the methodology of the 'EU Climate Transition' and 'EU Paris-aligned' benchmarks, that are aligned with the objectives of the Paris Agreement and addressing the risk of greenwashing," he said.

Do climate risks need to be included in financial reporting?

While Australian superannuation funds have adopted a net zero approach by 2050, businesses as a whole in Australia still do not declare climate risk in financial reporting. Good data on the climate impact, both today and through 2050, of each investment has become more important to investors.

With a need for climate risk to be established, the Task Force on Climate-related Financial Disclosures, or TCFD for short, was established to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions.

However, as reported by KPMG earlier in the year, 78 per cent of ASX100 companies clearly acknowledge climate change as a financial risk to business, but only 32 per cent of companies include the TCFD or climate risk disclosures in their financial reports.

78
PER CENT
of ASX100 companies clearly acknowledge climate change as a financial risk, according to KPMG

32
PER CENT
of ASX100 companies include the TCFD or climate risk disclosures in their financial reports, according to KPMG

Investors aren't being fooled

Despite claims to action on greenwashing, investors are seeing a disconnect between marketing materials from businesses and how they want to invest their money.

"IN AUSTRALIA, INCORPORATING NON-PECUNIARY GOALS INTO AN INVESTMENT PROCESS THROUGH ACTIVISM IS OFTEN QUOTED, BUT IT IS VERY DIFFICULT TO MEASURE THE BENEFIT OF ACTIVISM"

According to Stoic Venture Capital partner Geoff Waring, many investors are waking up to the excessive claims of fund managers when it comes to their ESG credentials and their failure to properly report on ESG outcomes.

Research done by the Responsible Investment Association Australasia found that of the 165 ethical investment managers surveyed, just 27 per cent applied a leading approach to responsible investment. Thirty-six per cent disclosed their full fund holdings, while the remaining 28 per cent only disclosed some holdings.

Mr Waring argued that while investors want to invest huge amounts of capital in ESG, there was a lack of authentic investment options being presented by fund managers for mature companies.

"Public equity and buyout fund managers are more likely to invest in established companies. These are more likely to use mature technologies and industrial practices with poorer environmental and social outcomes.

"In these cases, fund managers have to change investment allocation within the company to cleaner technologies," he said.

Know your client

Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF) Act 2006 does not cover second-tier professions, such as accountants, lawyers and real estate agents

| by Tony Greco |

THIS IS despite a recommendation by the Australian government's Joint Committee on Law Enforcement back in October 2015, recommending this expansion. The UK and NZ have already included accountants as part of their AML laws. Part of the key obligations under the AML/CTF Act are:

- ongoing customer due diligence requirements; and
- suspicious matter reporting.

It's no wonder that The Australian Taxation Office (ATO) and the Tax Practitioners Board (TPB) are implementing their own guidance around client verification. The ATO has already had instances where tax professionals unbeknown have assisted with identity fraud. It is seeing an increase in attempts by criminals to commit refund fraud by stealing the identities of taxpayers. The guidance focuses on measures to intercept attempted identity fraud targeted at registered tax practitioners and their clients. New guidelines aim to strengthen and modernise the practices and controls that registered tax practitioners should follow when verifying the identity of their clients.

An increased reliance on technology and remote working practices can make it easier to facilitate someone's identity being compromised, which can have devastating financial consequences. Tax practitioners need to manage their practices in a way that minimises the risk of their practice being the target of fraudulent activities against the registered tax practitioner themselves, clients, taxpayers and/or the government.

Both the ATO and the TPB have separately issued draft guidance encouraging tax practitioners to voluntarily start adopting the new client verification standards immediately, with the view for the standards to become compulsory in the future following an initial transition period and further consultation with the tax profession. One point to emphasise is that there is no expectation that tax practitioners need to go back and verify the identity of their entire client base as part of the transitional approach. It's a case of performing identity checks from this point on, as part of the practice's normal dealings with clients.

Tax Agent Services Act 2009 (TASA)

All tax practitioners are governed by TASA. While there is no specific proof of identity requirements under the TASA, there are a number of provisions that a registered tax practitioner may be found to have breached if the registered tax practitioner fails to take appropriate proof of identity steps to verify a new or ongoing client's identity, as well as confirming the identity in relation to any representative of new or ongoing clients. It's about exercising reasonable care under the circumstances.

The TPB's minimum requirements

The TPB requires that all registered tax practitioners take appropriate proof of identity steps prior to providing tax agent services, BAS services and tax (financial) advice services, and on an ongoing basis, as appropriate.

Similarly, in circumstances where an individual is representing a client (including individual and non-individual clients) in engaging the registered tax practitioner (an individual representative), the registered tax practitioner must also take steps to ascertain and verify the individual representative's identity, and the authority for the individual representative to engage the registered tax practitioner on behalf of the client.

Table 1 – Minimum requirements for verifying a client's identity.
Exposure Draft TPB Practice Note (TPB(PN) D45/2021) Proof of identity requirements for client verification.

Scenario	Required information	Required evidence to be sighted
Individual seeking to engage the registered tax practitioner in their own right	**The individual's:** • full name; and • either residential address or date of birth.	**An original or certified copy of a primary photographic identification document, or both of the following:** • an original or certified copy of a primary non-photographic identification document; and • an original or certified copy of a secondary identification document.
Individual representative seeking to engage the registered tax practitioner on behalf of an individual client	**Both the individual representative and individual client's:** • full names; and • either residential addresses or dates of birth; and • authority of the individual representative to engage the registered tax practitioner on behalf of the individual client.	**For both the individual representative and the individual client:** • an original or certified copy of a primary photographic identification document, or both of the following: • an original or certified copy of a primary non-photographic identification document; and • an original or certified copy of a secondary identification document; and • a legal document demonstrating the authority of the individual representative to engage the registered tax practitioner on behalf of the individual client, including in relation to parental, guardianship or power of attorney representation.
Individual representative seeking to engage the registered tax practitioner on behalf of a non-individual client	**The individual representative's:** • full name; and • either residential address or date of birth; and • The non-individual client's: • full name; and either: ○ Australian Business Number (ABN); ○ Australian Company Number (ACN); or ○ any other additional detail in order to make a reasonable assessment of the legitimacy of the non-individual's identity; and ○ Authority of the individual representative to engage the registered tax practitioner on behalf of the non-individual client.	**For the individual representative, an original or certified copy of a primary photographic identification document, or both of the following:** • an original or certified copy of a primary non-photographic identification document; and • an original or certified copy of a secondary identification document. • For the non-individual client, documentation or data that verifies the existence of the non-individual client; and • a legal document demonstrating the authority of the individual representative to engage the registered tax practitioner on behalf of the non-individual client.

Examples of required evidence

Required evidence to be sighted	Examples
Primary photographic identification document	• A driver's licence or permit from Australia or overseas, including a digital driver's licence • An Australian passport • A government proof of age card issued in Australia • A foreign passport issued by a foreign government or the United Nations • International travel documents issued by a foreign government or the United Nations • A national identity card issued by a foreign government or the United Nations • An ImmiCard provided by the Department of Home Affairs.
Primary non-photographic identification document	• An Australian birth certificate, birth extract or citizenship certificate • A foreign birth certificate or citizenship certificate • A government issued concession card, such as a pensioner concession card, a health care card, or a senior's health care card.
Secondary identification document	• A notice from the ATO or other government agency, such as Centrelink, that contains the individual's name and residential address, issued in the past 12 months • A municipal council rates notice or a utilities bill (such as a water, gas or electricity bill) that contains the individual's name and residential address, issued in the past three months • A Medicare card • For an individual aged under 18, a letter from a school principal issued in the past three months that details the individual's name, residential address and when they attended the school, or a student card if available • Electoral roll details (checked against www.aec.gov.au).
Documentation or data that verifies the existence of non-individual clients	• Extracts issued by the Australian Securities and Investments Commission (ASIC) or other Australian government body • Constituting or governing documentation (for example, trust deed or partnership agreement) • Proof of the non-individual client's business address • Invoices issued/received in the non-individual client's name.
Legal document demonstrating the authority of an individual representative to engage a registered tax practitioner on behalf of an individual client	• Official or legal documents demonstrating parental, guardianship or power of attorney representation, for example: o enduring power of attorney or similar document o birth certificate o adoption paper o court order o letter of authority o signed doctor's letter with explanation of circumstances.
Legal document demonstrating the authority of an individual representative to engage a registered tax practitioner on behalf of a non-individual client	• A certificate of incorporation of a company or current company extract from ASIC, identifying the individual as a public officer • A trust deed • A partnership agreement • The constitution and/or certificate of incorporation for an incorporated association • The constitution of a registered co-operative.

Source: TPB PN D45/2021

Verification methods

Visual – Same as TPB	Source – ATO	Source – Document Verification Services (DVS)
• Suitable when interacting in person or by video. • Confirm visually details on document matches details given by you client. • Once linked on ATO systems, confirm name, TFN or ABN along with address and/or date of birth.	• Comparing information provided by the client against data held on ATO systems. • Seek permission to link client using their TFN and date of birth or ABN and name. • Cannot be used to prove identity of representatives of clients – unless the representatives is also an agent's client	• Comparing client details on government issued identity documents using a commercial DVS provider • Must verify clients name and their date of birth of address against two separate government identity documents. • An arrangement with an appropriate provider is needed to use this method.

Note:
- For each method a total of two separate proofs of identity must be verified – exception is when a primary photographic proof of identity document can be verified using the visual method i.e. driver's licence.
- Combination of methods can be used to achieve the two separate proofs of identity.

In determining what steps are appropriate in any given circumstances, the TPB requires that, at a minimum, registered tax practitioners comply with the requirements contained in Table 1 – Minimum requirements for verifying a client's identity.

If a registered tax practitioner is engaged by multiple related clients (or an individual representative of multiple related clients), the TPB requires the registered tax practitioner to undertake the verification steps outlined in Table 1 in respect of each of the clients and individual representative/s (for example, husband and wife, a partnership and individual partners, a company and its directors, trustees of a trust and its beneficiaries).

The TPB requires registered tax practitioners to undertake the requirements outlined in Table 1 in respect of all new and ongoing clients and individual representatives throughout their engagement. However, it is a matter for registered tax practitioners to determine the frequency of undertaking these requirements, depending on the circumstances of the client, individual representative (if applicable) and the registered tax practitioner's engagement, including but not limited to:

- the registered tax practitioner's relationship and familiarity with the client;
- the scope of the services provided to the client;
- whether the engagement and interactions with the client takes place online, in-person or a combination of both;
- the employment status or business activities undertaken by the client;
- whether there has been a change in the circumstances of the client;
- any discrepancies that arise in relation to the client's identity or other affairs;
- any changes that arise in relation to an individual representative (if applicable); and
- any changes that arise in relation to the relationship between the client and individual representative, or the authority for the individual representative to act on behalf of the client (if applicable).

What if there are discrepancies?

If after satisfying the requirements in Table 1, a registered tax practitioner identifies discrepancies with the information provided and claims made by the client or individual representative (if applicable), the registered tax practitioner should:

- ask additional probing questions of the client or individual representative, and/or seek additional documentation or evidence;
- take steps to independently verify the information provided (if possible);
- decline the engagement if the registered tax practitioner is not satisfied that the information about the client's or individual representative's identity is correct; and

- consider notifying the ATO, ASIC or other relevant authorities. Tax practitioners who are unable to successfully verify a client's identity and suspect potential fraud should contact the ATO immediately on **1800 467 033.**

Electronic and remote verification

Yes, you can engage with clients remotely using webcam or videoconferencing and in doing so sight the relevant documents. In circumstances where you engage with clients online and without a visual medium, you will need to follow the ATO's requirements for verifying their identities.

ATO guidance – Transition to strengthening client verification

Whilst tax practitioners are governed by TASA, it is understandable why the ATO has also proposed guidelines for client verification to address the growing risk of identity theft and fraud which is on the rise.

The ATO have seen first-hand the increasingly widespread and sophisticated attempts by criminals to commit refund fraud by stealing taxpayer identities.

The guidelines are broadly aligned with what the TPB have established as the minimum standard to be applied across the tax profession to ensure due diligence is taking place when engaging new clients, or where you suspect an existing client may have had their identity compromised. The ATO outlines three ways an agent can verify clients:

Using combination of methods
A combination of methods may also be used to achieve the two separate proofs of identiity

Type	Visual	Source ATO	Source DVS
Visual	**1 x** Original primary photographic ID **or** **1 x** Original non-photographic ID and **1 x** Secondary ID document	x	x
Source ATO	**1 x** Original non-photographic ID **and** Name and **1 x** information verified against ATO systems	Name and **2 x** information verified against ATO systems	x
Source DVS	**1 x** Original non-photographic ID **and** **1 x** Government ID document verifying name and date of birth or address via DVS	**1 x** client information verified against ATO systems **and** **1 x** Government ID document verifying name and date of birth or address via DVS	**2 x** Government ID document verifying name and date of birth or address via DVS

Relationship verification
It is important that you verify 'identity' and the 'authorisation' in relation to clients acting on behalf of other people entities.

	Acting on behalf of another individual	Acting on behalf of an entity
Verification menthods for representative	• Visual • Source ATO (only if the representitive is also your client) • Source DVS	
Evidence of authorisation, verification of the representative	You must sight documents that prove they are authorised i.e. • letter of authority • court order • power of attorney • verbal authority from the original client (after they have been verified) • birth certificate • adoption papers	Examples of evidence of authorisation includes but not limited to: • Trust deed • Partnership agrement • Copies of board meetings • Employment contract • Confirmation from ASIC that the individual is an officeholder • Copies of board meeting minutes that document the appointment • Verbal authority from a pre-verfied person representatitive • Onsite presence at the business premises • Clear identification of representative on client materials such as website
Verifing the relationship using ATO systems	If you cannot verify the relationship before linking, you may link the original client first and then use ATO systems to confirm the relationship usineg authorised contacts. Again, take care not to view the representative personally on ATO systems if they are not your client.	

- **Visual** – when interacting with the client in person or by video;
- **Source ATO** – comparing data provided by the client against data held by the ATO system; and
- **Source Document Verification Service (DVS)** – comparing a client's details on government issued identity documents against details held by a DVS provider.

To use this method, you must have an arrangement with an appropriate external provider.

Retaining identification records not recommended

Neither the TPB nor the ATO is recommending retaining identification documents as this may increase the risk of practitioners being targeted for identity theft.

What is recommended is that you maintain a contemporaneous record of the date and time that you did the proof of identity checks and all the details of what was done as follows:

- Date and time the POI checks were done.
- Type of IDs sighted and whether they were original or certified copies.
- How the documents were sighted –in person or electronically.
- Who performed the checks.
- Certification that the IDs were clear and legible and there were no reasons to question them.

SMSF member verification

Member verification already exists for SMSFs. Currently super funds must use the self-managed super fund (SMSF) member verification service (MVS) to confirm that the person requesting a rollover to an SMSF is a member of that SMSF. The ATO will be introducing a new SMSF verification service (SVS) to assist funds with their requirements to validate SMSFs and their member when processing a rollover.

Super funds will have until the end of September 2021 to start using the SVS. To help with this transition, the online MVS function will remain available to super funds until COB 24 September 2021 from the Online services for business log in page.

In summary

In the absence of AML rules covering accountants, tax practitioners must do their bit to protect the Australian community from tax fraud through identity crime.

There will be implications if tax practitioners fail to take reasonable steps to ensure the identity of their clients is established. In most cases all that will be required is a primary proof of identity document that visually identifies the client.

The guidance provided should be looked at as the minimum expectation of what will be required for conducting client verification. We are in the transition stage of the voluntary adoption of these standards, which are being refined as further consultation takes place.

Tony Greco FIPA
general manager of technical policy, IPA

Contribution reserving – Are you aware of all the risks?

When discussing contribution strategies with clients, advisers should be mindful not to present contribution reserving as a straightforward exercise, as there are a number of practical issues and potential risks that should be carefully considered before proceeding with a contribution reserving strategy

| by Daniel Butler |

THIS ARTICLE discusses some of the common hurdles and risks to assist in making an informed decision on whether contribution reserving is a strategy where the limited upside is justified after assessing the potential downside and related risks.

What is contribution reserving?

A contribution reserving strategy typically involves a fund member or their employer making a contribution (usually a concessional contribution, (CC)) in one income year with arrangements in place to hold the contributed amount in an unallocated suspense account or a contribution reserve account (CR account) until the subsequent income year. The fund trustee then allocates the contribution to the relevant member's accumulation account within 28 days from the start of the following income year pursuant to the timing rules in reg 7.08 of the Superannuation Industry (Supervision) Regulations 1994 (Cth) (SISR94).

This article focuses on contribution reserving for personal deductible contributions as this is consistent with the example in the ATO's public ruling on this topic, namely, TD 2013/22.

Treatment of 'reserved' amounts

Subject to a number of provisos (see, e.g., TD 2013/22), the broadly accepted treatment of contributions that are appropriately reserved is as follows:

- the contribution is only counted for general capping purposes (for example, for the member's CC cap) in the income year that it is allocated. Thus, in the income year of the contribution, the amount held in the CR account does not count towards the member's CC cap;
- the contribution is deductible in the year it is made. Thus, a personal deductible contribution made by a member into a CR account is deductible in the income year the contribution is made to, or received by, the fund, assuming the relevant requirements in Div 290 of the Income Tax Assessment Act 1997 (Cth) (ITAA 1997) are met;
- the contribution is included in the assessable income of the fund in the income year it is received by the fund; and
- the contribution is only counted as a CC for the purposes of calculating the member's adjusted taxable income under Div 293 of the ITAA97 in the income year the contribution is allocated to the member's accumulation account. Income for Div 293 purposes includes taxable income, reportable fringe benefits, total net investment loss, and CCs. Thus, contribution reserving can assist with managing Div 293 tax where claiming a larger deduction in year one is beneficial for Div 293 purposes.

Risks with contribution reserving

Contribution reserving should not be undertaken lightly due to the risks of ATO scrutiny arising, including in relation to being asked to supply the requisite documents that support the strategy. These documents would typically need to include an SMSF deed with relevant express powers to support contribution reserving, appropriate trustee resolutions to cover the treatment of the contribution as part of a CR Account, reserving strategy documents and allocation resolutions.

Naturally, these documents should be in place before any contribution is reserved and serious penalties can apply for any backdating of documents. If appropriate documentation is not in place before the strategy is implemented, then the strategy may fail and result in the ATO investigating whether any false and misleading statements have been made.

In many instances, a reserved contribution will trigger an excess contributions determination and subsequent assessment, which will need to be dealt with and rectified as part of a contribution reserving strategy.

Naturally, the likelihood of clients being exposed to ATO scrutiny and the associated risks, including the possibility that an objection may need to be made against an excess contributions assessment, should be explained to any client who is contemplating this strategy.

The author is aware of numerous clients who have incurred considerable expense dealing with excess contribution issues arising as a result of contribution reserving. For these clients, the excess arose as a result of differences in timing of lodgements of SMSF and personal tax returns compared with when the ATO processes the 'Request to adjust concessional contributions' form (NAT 74851) that needs to be lodged by the SMSF trustee or their agent to report a reserved contribution.

This form is processed manually by the ATO and an excess contributions notification may be automatically generated by the ATO's systems as soon as the SMSF and member's tax returns have been processed. The request to adjust CCs, by itself, does not cancel an excess contributions assessment. Thus, considerable work may be involved with seeking to have an excess contributions assessment adjusted.

This work can be time-consuming and costly for an adviser to attend on a client's behalf, unless of course the adviser has been requested by the client to fix the problem that they (the adviser) have created at their own cost.

"CONTRIBUTION RESERVING SHOULD NOT BE UNDERTAKEN LIGHTLY DUE TO THE RISKS OF ATO SCRUTINY ARISING, INCLUDING IN RELATION TO BEING ASKED TO SUPPLY THE REQUISITE DOCUMENTS THAT SUPPORT THE STRATEGY"

Only a discrete contributed amount can be reserved

Another issue that often arises in relation to contribution reserving is making sure that only a discrete contribution is reserved and not part of a larger amount.

The ATO generally does not accept that part of a contribution can be reserved under the allocation rules in reg 7.08 of the SISR, the ATO does not accept that part of a contribution can be allocated to the member's account, with the remaining part of the contribution being applied to a CR account.

Therefore, to comply with the ATO's view, the amount of a contribution that a member intends to be held in a contributions reserve should be a discrete amount that is separate to any other contributions being made to the fund.

Total superannuation balance implications

It is important to note that a contribution reserving strategy cannot be used to circumvent total superannuation balance (TSB) testing which is relevant to various superannuation caps and concessions, including the non-concessional contribution caps and the carry forward rules for unused CCs.

A member's TSB is broadly equal to the sum of all of their interests in all relevant Australian superannuation funds. The TSB value of a member's accumulation entitlements is broadly determined based on what would be payable if the individual voluntarily caused their interest to cease pursuant to s 307 205 of the ITAA97. Thus, a reserved contribution would be reflected in a member's 30

June TSB testing, despite the fact that an SMSF's financial statements may not reflect a reserved contribution in the member's account as of 30 June.

Financial services law implications

For advisers with an Australian Financial Services Licence (AFSL), consideration should also be given to whether a statement of advice or record of advice should be provided. For advisers without a licence, they need to determine whether they are authorised by law to give such advice on the basis it is merely tax or factual advice and does not involve any recommendation in relation to a financial product (i.e. an SMSF). Special documentation is required by non-licensed people to ensure they do not contravene the AFSL restrictions in the Corporations Act 2001 (Cth) in this instance.

Is the limited upside justified, given the downside and related risks?

If a contribution reserving strategy is successfully implemented with appropriate supporting documentation, for example, say a $25,000 amount is contributed in mid-June 2021 and $27,500 is contributed on 25 June 2021, which is allocated to a CR account, the strategy seeks to have $25,000 counted against the member's CC cap for FY2021 and, on allocation of the $27,500 from the CR account the member's account prior to July 2021, the $27,500 is counted towards the member's CC cap for FY2022.

Thus, the member's contribution cap for FY2022 is used up by the reserved contribution made in FY2021. The member can next contribute on 1 July 2022 for FY2023, or make a contribution that is reserved, say, in 30 June 2022 which is allocated in early July 2022 for FY2023.

In broad terms, once a member starts a contribution reserving strategy, there is generally only a one-off upfront timing advantage. Therefore, the question must be asked: is all the risk and potential downside worth proceeding with a strategy that has limited upside?

While a member who has a prior 30 June TSB of less than $500,000 may have the ability to make a larger contribution reflective of their unused CC caps since FY2019, the contribution reserved amount for FY2022 would add a potential $27,500 on top of the member's CC figure.

This may appear appealing, especially if that person has made no CCs since 1 July 2018, as a $75,000 contribution could be made for FY2021 with a potential $27,500 being reserved for FY2022, being a total of $102,500.

However, the $27,500 tax deduction is again a timing difference occurring in FY2021 rather than FY2022. It should also be noted that a member cannot obtain a deduction that exceeds their taxable income under s 26-55 of the ITAA97.

Conclusions

Many advisers seem to treat contribution reserving as a "walk in the park" and do not mention the risks and potential downside (outlined above) to their clients. Thus, advisers discussing contribution reserving with clients should be mindful that there are a number of risks involved in the strategy, and clients should only proceed with their eyes wide open to the risks. An adviser would potentially be liable if they did not warn their clients of the risks involved with the strategy, as well as any potential upside, so their clients were in a position to make an informed decision on whether they intend to proceed with a contribution reserving strategy or not.

The best way for an adviser to minimise their legal risks is to provide a comprehensive statement or letter of advice in writing to clients well before they enter into the strategy.

Daniel Butler
director, DBA Lawyers

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