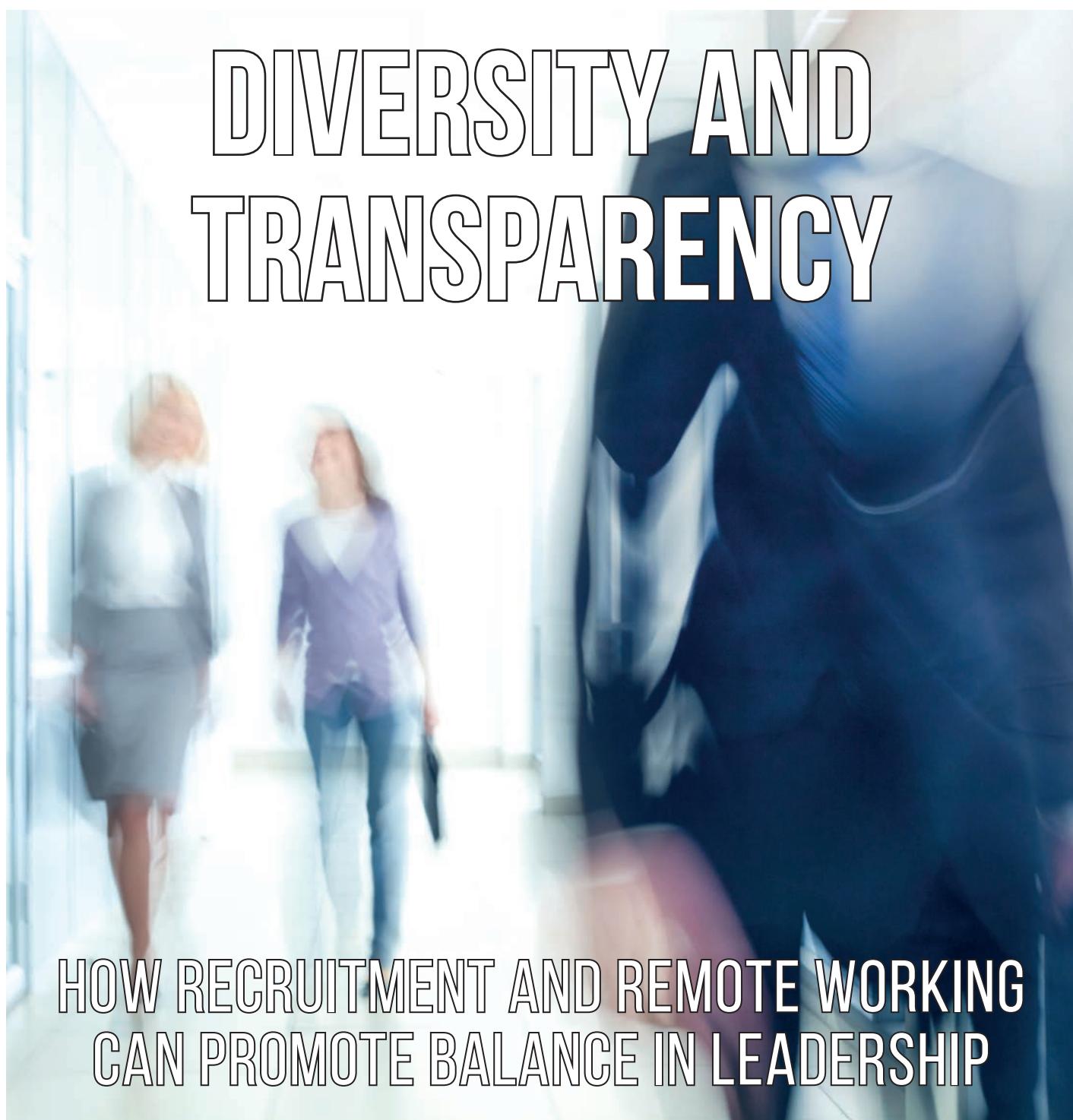


# INTERNATIONAL Accounting BULLETIN

## DIVERSITY AND TRANSPARENCY



HOW RECRUITMENT AND REMOTE WORKING  
CAN PROMOTE BALANCE IN LEADERSHIP

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# COLOMBIA STRENGTHENS ITS ACCOUNTING STANDARDS

**Although not a recent development, the application of financial reporting standards continues to exercise the minds of Colombian accounting firms and their clients. *Paul Golden* reports**

**C**olombia has been working on the implementation of regulatory technical frameworks related to IFRS and NIAS for more than a decade. This process has forced accountants to change long-established practices.

"An example of this is the calculation of the impairment of accounts receivable, which was previously generally linked to the provisions of the Colombian fiscal entity DIAN," says Harley Andres Moya López, audit supervisor at HLB International member firm Peñalosa Consultores. "Generally, companies did not perform the calculation of this type of request because it did not affect the period's results."

Colombian industry is made up largely of small and mid-sized companies, which to an extent has facilitated the implementation of IFRS, as these are entities that are not listed.

Andres Moreno Ramirez, managing partner at PrimeGlobal member firm Astaf, notes that over the last two years the Technical Council of Public Accounting, as an advisory and consultant body for technical regularisation of accounting standards, financial information and information assurance, has developed a number of studies and pronouncements related to the application and interpretation of the new accounting and auditing principles under international standards that came into force in Colombia in 2016, and on the development of accounting activity.

"The implementation of financial reporting standards in the country has opened up new markets, strengthened foreign investment and helped Colombia meet the requirements to join the OECD," says Nancy Bermúdez Caraballo, partner at MGI Páez Asociados. "By simplifying the tax regime and unifying the standards for presenting accounting information, companies have gained the opportunity to enter new markets with ease."

"Over the next 12 months we expect that the government will update the regulation of accounting activity in Colombia and all sectors are currently defining methodologies and work schedules," says Carlos Molano, managing partner Mazars Colombia. "Audit activity will have a transformation in terms of technological updates and to adjust and establish better practices defined by international standards."

## IFRS 17

Another point of particular interest will be the regulation of IFRS 17 regarding new practices in the insurance industry, which requires many technological, actuarial and accounting changes and is expected to be a challenge for the accounting market.

Molano observes that the Colombian government has made several critical regulatory changes to simplify taxation, including automatic tax refunds whereby taxpayers who are not classified as high-risk will receive their balances in favour within 15 days of completing the process, and suggested

income tax returns for individuals, which allows the cross-checking of information to identify the veracity of the taxpayer's operations.

"Previously, taxpayers had to comply with different formal tax obligations such as income tax, VAT, industry and trade tax and payroll," he says. "Thanks to the simple taxation regime, some taxpayers can settle only a single tax. The filing of this return can be done electronically, which generates savings in transaction costs, and the simple taxation regime states that the taxpayer who is in this regime will not be subject to any withholding tax."

Crowe Colombia CEO Jorge Castelblanco agrees that strengthening the transition process for the adoption of IFRS and international standards of auditing has been the most significant development in the Colombian market in the last 24 months. "In terms of service areas, tax and BPO services have been growing due to the complexity of regulations," he says. "Enterprises want to transfer responsibility for compliance to third parties to make them responsible in case of a requirement from a regulator."

It is important to clarify that developments in the accounting services industry do not necessarily imply digitising, and that firms can also innovate by offering new services as differentiators in the market. That is the view of Hector Fabio Mejía Herrera, consulting director at MGI VIA Consultoría, who adds that businesses require simple and easy-to-implement accounting solutions which move in the same direction as the regulatory bodies.

"In the case of Colombia, the last Tax Reform Law 2010 of 2019 (Economic Growth Law) seeks to stabilise the country's economy to raise money and cover the budget deficit," he explains. "The coronavirus



Harley Andres Moya López,  
Peñalosa Consultores



Jorge Castelblanco, Crowe Colombia

pandemic means that the laws will require further adjustment."

According to Alfredo Jose Lopez, managing partner at Allinial Global member firm Alfredo Lopez & Company, the effects of the pandemic are already evident in a number of service areas, for example business lines such as administrative and financial BPO services where demand has increased given the benefits that outsourcing of processes brings, including the targeting of expertise allowing management to focus on the core business.

"On the other hand, demand for consulting services also shows growth as the need for firms to reinvent themselves in the face of new market challenges and new realities create demand from entrepreneurs for advice on strategy, processes and technology," he says.

Lopez observes that advisory services relating to the transition to IFRS have decreased in demand because most companies have already completed this transition. "On the other hand, tax services have acquired greater relevance in the market, not only due to the need to save or optimise the tax burden, but also because of the need to interpret the new tax regulations that result from IFRS accounting regulations," he adds.

Natalia Mora, international relations manager and partner at Kreston RM Colombia, says that in addition to external audit and consulting, there is also growing demand for contracts audit. This is a service that is engaged by a state entity in three specific cases:

- When the law has established the obligation to have this figure in certain contracts;
- When the follow-up of the contract requires specialised knowledge in the subject matter thereof;
- When the complexity or length of the contract justify it.

"This work covers the technical monitoring of the execution of contracts of different types and also refers to the administrative, financial, accounting and/or legal aspects of the contract," she explains. "We have identified slower growth in demand for statutory audits where competition has been growing and increasing the difficulty in obtaining contracts, while there has also been a downward trend in prices."

Herrera also refers to pricing challenges. "VAT is a major problem when a prospective client has to choose between an accounting services company and an independent professional who will carry out the same work," he says. "An independent professional will not charge VAT and does not have the same operational costs, so they are much cheaper to engage."

"We consider that at this time and based on the declaration of a state of economic, social and ecological emergency as issued by the national government in response to the coronavirus pandemic, the demand for integrated accounting and financial services takes on greater importance and relevance as it contributes to the country's development and economic growth," adds Caraballo.

## REGULATION

In Colombia the statutory auditor is a state delegate who must ensure that companies comply with the rules in general, as well as aspects related to social responsibility. The functions delegated to the statutory auditor include making sure that the operations carried out on behalf of the company comply with the requirements of the statutes, the decisions of the general assembly and the board of directors.

This person must also give a timely account to the assembly or board of partners, the board of directors or the manager of any irregularities in the operation of the company and in the development of its business, as well as collaborate with government entities that carry out inspection and surveillance of the companies and render any reports requested.

"Fiscal reviewers are burdened with responsibilities, which makes this work less and less attractive for accounting firms to the extent that the Big Four have begun to offer more and more the external audit service and not that of statutory auditor since it is less risky for the development of the profession," says Lopez. "Proof of this is that in 2019, the Superintendence of Companies published a study which concluded that 80% of fiscal



Natalia Mora, Kreston RM Colombia

auditor services in Colombia are provided by independent accountants, with small firms representing another 15% and the Big Four only 5%."

According to Ramirez, the accounting profession has a great opportunity to transform its strategic role for the development of Colombian companies with an international vision. He suggests the areas of greatest potential growth over the next decade are:

- Financial advisory and investment banking, since comprehensive knowledge of the financial situation of companies under international standards allows for accounting to make valuations of assets, businesses and companies using global criteria as well as financial projections that make it possible to strengthen strategic decisions for capitalisation, acquisition, sale and merger of companies domestically and internationally;
- Audit aimed at verifying processes with a high technological component, using robotics tools, data analytics, data mining and business intelligence;
- Evaluation of cyber-risks and cybersecurity policies of new digital businesses, to measure and validate the design and safe interaction of new information technologies.

"Traditional and labour-intensive accounting, auditing and tax services are in less demand as many public accountants are being replaced by sophisticated technological platforms and robotics processes," he concludes. "Traditional accounting services are being replaced by more sophisticated processes of strategic consulting and business intelligence, which entails a great challenge for our accounting profession to adapt to these changes." ■