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ADOPTION AND IMPLEMENTATION OF SUSTAINABILITY REPORTING IN TANZANIA



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ACCOUNTANTS,**
Auditors in
Sustainability
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Education, skills
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From the Executive Director's Office

Greetings

It is my great pleasure to bring to you the January to June 2024 issue of the Accountant Magazine.

The Accountants and Auditors (Registration) Act, Cap 286 was amended and passed by the National Assembly on 3rd September, 2021 and assented by H.E. Samia Suluhu Hassan, the President of the United Republic of Tanzania on 28th September, 2021 and gazetted on 28th October 2021. These amendments were done to update the legal framework due to changing environment, the Act was amended last time in 1995.

NBAA has been able to increase its active membership to 7,455 with the following breakdown: Graduate Accountants 5,097,

ACPA 1,301; ACPA-PP 765, FCPA 72; FCPA-PP125 and Temporary 95;

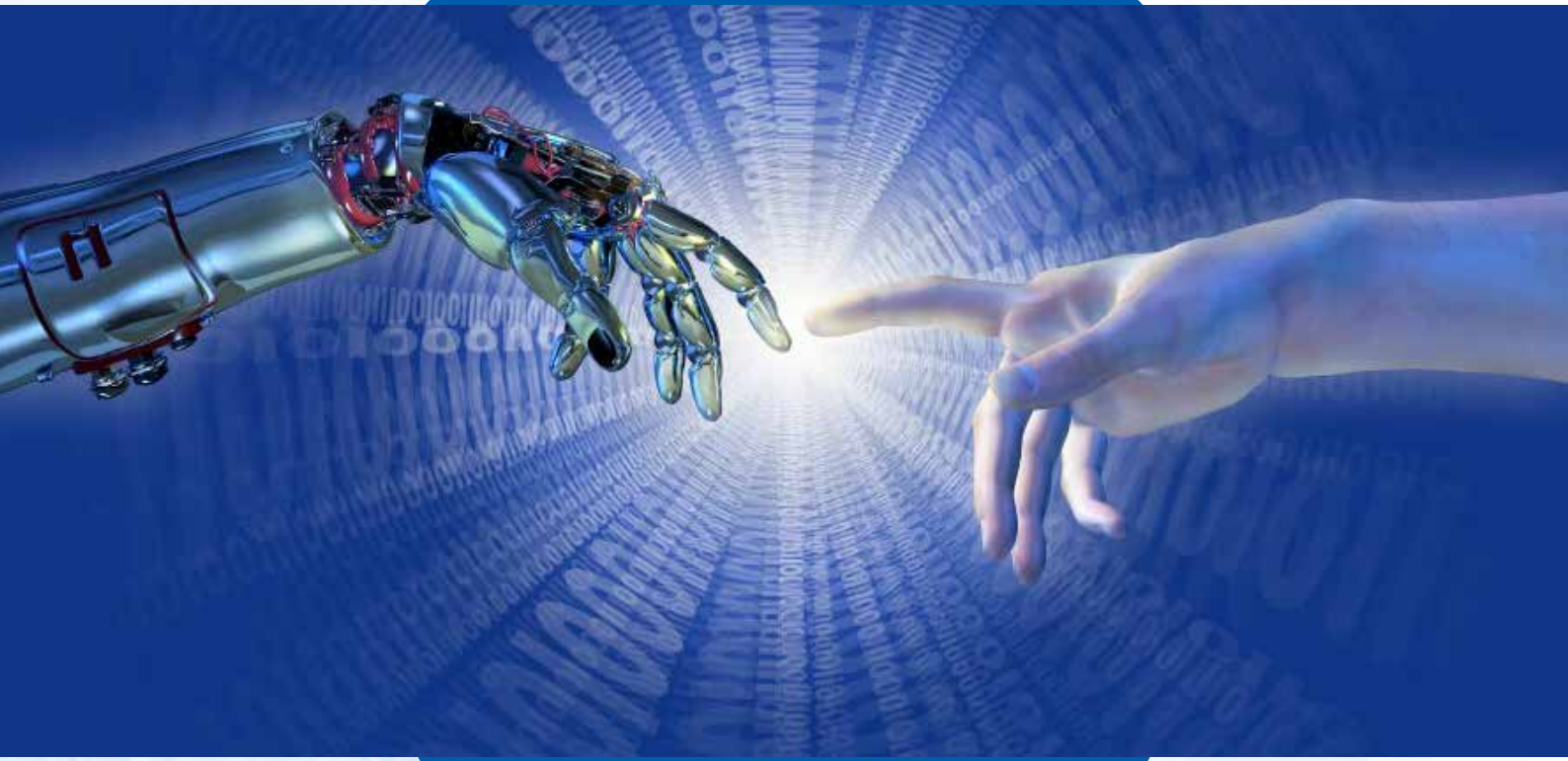
Number of NBAA candidates per session in both November 2021 and May 2022 is over 6000 per session, NBAA was able to conduct more than 20 CPD programmes including Web based Seminars (Webinars). More than 10 advisory programs were conducted to both private as well as public entities

The use of information and communication technology has dramatically increased in 2022. NBAA ICT strategy which was developed in 2011, has tremendously improved in terms of effectiveness, economy and efficiency. NBAA has developed Members and Examinations Management System (MEMS) for online application/registration. A

guidance on how to use Members and Examinations Management System (MEMS) has also been issued in order to allow smooth interaction with the system. In addition, from August 2020 MEMS is full accessible via smart phones. Accessibility via smart phones gives Board's stakeholders opportunity to register, apply, check status, process payment and access examination results online, hence increase performance, efficiency and integrity at individual level and the general public as a whole. NBAA has also introduced online diploma and Certificate in IPSAS review classes from March 2023, to avoid the challenges of opening physical classes everywhere particularly in the remote areas. Please enjoy NBAA services at individual/ convenient location and time.

 **CPA Pius A. Maneno**

EVOLVING ROLE OF QUALIFIED ACCOUNTANTS IN TECH-DRIVEN WORLD



In today's rapidly evolving world, technology is transforming industries across the board, and the field of accounting is no exception. With the rise of automation, Artificial Intelligence (AI), and advanced technology solutions, the role of accountants is undergoing a significant shift.

Traditionally, accountants were primarily responsible for meticulous number-crunching, financial reporting, and ensuring compliance with regulations. While these tasks remain essential, they have become increasingly

automated.

Machines now process data faster and more accurately than ever before, leaving accountants wondering about their future role.

In this tech-driven landscape, the accountant's role is evolving in several critical ways:

1. From Number Crunchers to Data Analysts:

Accountants are transitioning into data analysts, using advanced analytics

tools to extract valuable insights from financial data. Their expertise allows them to turn raw data into actionable strategies, guiding organisations in making informed financial decisions.

2. Strategic Advisors:

Accountants are no longer mere record-keepers. They are becoming strategic advisors, armed with a deep understanding of financial data and business dynamics.

They assist in financial planning, risk management, and the development of growth strategies.

3. Compliance and Ethics Guardians:

The increasing complexity of financial regulations and the emphasis on ethical financial practices make accountants indispensable.

They ensure that organisations adhere to strict compliance standards and ethical guidelines, extending their responsibility to areas like sustainability reporting and ethical investing.

4. Ethical Dilemmas and Responsibility:

As AI and automation continue to rise, ethical dilemmas related to data privacy, security, and transparency become more pronounced. Accountants must navigate these challenges while upholding the highest ethical standards.

5. Technology Integration:

Accountants are expected to be proficient in using advanced financial software, artificial intelligence, and machine learning algorithms. This

integration streamlines financial processes, enhances accuracy, and allows accountants to focus on value-added activities.

6. Continuous Learning and Adaptation:

Thriving in this dynamic environment requires accountants to embrace lifelong learning. Staying updated with the latest technological advancements, regulatory changes, and industry trends is essential. The accountancy profession demands a commitment to ongoing education and professional development.

In conclusion, while technology is reshaping the accounting landscape, it is not rendering qualified accountants obsolete. Instead, it is propelling them to evolve into strategic partners who provide critical insights, ensure compliance, and promote ethical financial practices. The future of accounting is not about numbers alone; it's about understanding the story behind the numbers and helping organisations thrive. As long as accountants embrace change, continue learning, and adapt, there is a promising and exciting future ahead.

(EduPristine)

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Traditionally, accountants were primarily responsible for meticulous number-crunching, financial reporting, and ensuring compliance with regulations. While these tasks remain essential, they have become increasingly automated.

ACCOUNTANTS AND AUDITORS DISCUSS THE BENEFITS AND CHALLENGES OF DIGITAL TECHNOLOGY IN REPORTING

More than 700 participants from public organizations, financial and audit sectors in the country met in Arusha to discuss the benefits and challenges arising from the development of new digital technologies.

The Executive Director of the National Board of Accountants and Auditors (NBAA), CPA Pius Maneno said that although this is one of their regular annual meetings, this year's meetings are specialized in discussing digital issues.

"We are discussing our roles in the implementation of Digital Transformation in the provision of financial services and financial information as well as the protection and security of such information against hacking, or Cybersecurity," said the Director.



He further said that the participants were also discussing about the issue of stock markets and how they can use digital information, to develop efficiency

in performance to get good results in the capital markets as well as how the registration of companies can be improved digitally.

One of the participants of this three-day meeting, CPA. Sarah Malay, who is an employee of the Tanzania Electricity Corporation, reported that they have started to learn many issues about digital development, including controlling money laundering, and illegal activities.



The official guest at the opening of the meeting, who is the Deputy Governor of the Bank of Tanzania, Dr. Yamungu Kayandabila, elaborated

that the development of digital technology in the provision of information helps to reduce the use of paper publications.



Dr Yamungu Kayambala making his official opening speech.

"The Guest of honour in his opening speech pinpointed that at this moment it is not necessary to have many office buildings because communication and information processing can be done anywhere due to digital developments, so many costs will be saved as well as reducing the effects of air pollution hence protecting our environment.

However, the Deputy Governor added that in addition to the relevant benefits, the journey towards the development of digital technology also has its own challenges, including infrastructure costs, information hacking and the issue of many people being out of the relevant system.



A group photo with Guest of Honour during the 15th joint meeting between NBAA and BOT at Arusha International Conference Centre.

THE ROLE OF ACCOUNTANTS & AUDITORS

in sustainability reporting

In recent years, sustainability reporting has become increasingly crucial in corporate accountability and transparency.

Investors and other stakeholders are calling on companies to disclose more about their sustainability and Environmental, Social, and Governance (ESG) strategies placing a higher demand on comprehensive sustainability reports.

This call for transparency is not new, but there is a heightened focus on this reporting in response to investors' growing interests in and incorporation of sustainability considerations into their investment strategies.

This shift in focus is also reshaping the role of accountants in significant ways.

The Evolution of Sustainability Reporting

Sustainability reporting involves disclosing a company's environmental, social, and governance performance. Traditionally, financial reporting focused on profit, loss, and balance sheets. However, with rising concerns about climate change and

ethical practices, companies now must address their impact on the planet and society. This shift is driven by stakeholders such as investors, customers, regulators, and advocacy groups, demanding more transparency and accountability. Many countries have introduced ESG disclosure regulations, underscoring the need for comprehensive sustainability reporting.

The Role of Accountants in Sustainability Reporting

As sustainability reporting becomes a mainstream practice, accountants find themselves at the forefront of this transformative shift. Their expertise in financial reporting, data analysis, and compliance uniquely positions them to play a pivotal role in the process. Here's how accountants are influencing and being influenced by the rise of sustainability reporting:

1. Data Collection and Analysis

Sustainability reporting calls for the smooth blending of financial and non-financial data to get a full picture of a company's performance. Accountants are pivotal in

setting up reliable systems and processes to ensure the accurate merging of these crucial datasets. They can play a key role in collecting, analysing, and explaining the wide range of information needed for sustainability reporting. This includes important metrics like carbon emissions, energy consumption, waste management, and various social and governance indicators.

2. Advisory Services

Accountants have a unique position in offering practical advice to organisations looking to enhance their ESG performance. Through their advisory and audit services, they can emphasise the importance of ESG initiatives for business owners. This involves independently verifying the accuracy of reported information, building trust among stakeholders, and ensuring that ESG efforts are in sync with overall business strategies.

The surge in sustainability and ESG reporting has not only ushered in a new era but also presented a unique opportunity for accountants to diversify their skill sets.

This involves delving into ESG reporting frameworks, mastering data analytics, and honing expertise in sustainability strategy development. As sustainability reporting continues to gain prominence, accountants will play an increasingly vital role in helping organisations navigate the complexities of ESG disclosure and demonstrate their commitment to a more sustainable future. By embracing this shift, accountants can not only enhance their professional value but also contribute significantly to the broader goal of creating a more sustainable and responsible business environment.

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IFAC Publishes Updated Guide for Trainers to Support IPSAS Implementation

March 26, 2024

Implementing accrual accounting is a significant priority for many public sector and government entities across jurisdictions as it enhances decision-making and improves transparency and accountability.

Adopting and implementing accrual accounting standards successfully can be an intricate process involving many stakeholders.

To assist governments and government entities interested to report in accordance with the accrual-based International Public Sector Accounting Standards (IPSAS), IFAC has released a package of training materials collectively titled *Implementing IPSAS: A Guide for Trainers* for use by trainers

to teach others about the standards and how to apply them.

Implementing IPSAS: A Guide for Trainers is the 2024 edition to *Train the Trainer: Introduction to IPSAS* released in November 2020. The 2024 edition includes updates to incorporate standards and pronouncements recently issued, including IPSAS 46, Measurement, IPSAS 47, Revenue, IPSAS 48, Transfer Expenses, and IPSAS 43, Leases.

Implementing IPSAS: A Guide for Trainers contains ten modules separated into topics that can be delivered as individual sessions. Each module includes a manual for the trainer and an

accompanying set of slides which can be customized to suit their specific needs. Some modules also contain supplementary video content.

"Transitioning to accrual and implementing IPSAS is an in-depth, team effort for a jurisdiction or public sector entity," said Laura Leka, IFAC Principal. "These materials, created with input from the IPSASB, are comprehensive, technically sound, and can help in the provision of training that delivers the skills and knowledge necessary for a successful reform program."

<https://www.ifac.org/news-events/2024-03/ifac-publishes-updated-guide-trainers-support-ipsas-implementation>.

MARKETING APPROACH TO TALENT MANAGEMENT

Ten Tactics for Accounting Practices

Marketing is a process through which supply meets demand. To meet demand, professional services firms supply the knowledge, skills, and time of their staff. Although many accounting firms closely follow the needs and wants of their target market (buyers) in order to adjust their supply propositions, often these same firms pay little attention to what firms' staff (that which supplies the buyer) demand for themselves to be in a position to meet those buyer requirements. Accounting firms are in the market for both clients and talent. With the current demand for accounting services high but the talent pipeline having trouble meeting supply, it makes a lot of sense to temporarily shift some of the focus from clients to the most pressing issue—talent, specifically their needs and wants.

In what ways could marketing possibly impact talent management?

A CPA firm is in a position to decide which segment of demand to pursue, that is,

make a strategic decision on which kind of clients (and work) to go after. In order to be able to meet that slice of demand, firms have to adjust their supply proposition by choosing which kind of people to hire and train so that the firm's provision of these services is compelling for those clients. Thus retaining and acquiring professional staff (a resource that is part and parcel of the supply proposition) directly impact the ability of the marketing process to fulfill its function. It works both ways: the knowledge and skills of current staff impact the demand that can be pursued and, by deliberately pursuing a specific demand, the composition of future staff is impacted.

Organizations that have already learned how to attract and retain clients are in a good position to apply similar marketing tactics to talent management—their main asset. Consider how some of the following tactics—which would generally be applied to clients—can be adapted to staff matters.

Marketing Tactics to Manage Talent

Surveys

Many accounting firms claim to be client-oriented. This idea can be flipped to address the needs and wants of the staff. Employees usually want to be listened to, respected, and valued. The best way to discover what people need and want is to ask them. Employee surveys conducted on a regular basis are a great way of taking the temperature of the firm. It shows people that management is listening and, if management acts on that feedback, proves to staff that their input is valuable.

Relationships

Just like seniors, partners, and account managers are responsible for fostering relationships between clients and the firm, managers should take responsibility for building personal relationships with and among their subordinates. People collaborate more if they trust one another, which is more likely if they get to know each other multidimensionally:



interests, hobbies, family, books, volunteerism. Employees are less willing to quit if that means losing personal bonds they have developed over the years.

Fairness

Clients want fair work for the buck—that's the baseline, below which firms operate at their peril. The threshold is, obviously, different for every client, but it exists for all. Professionals have their pay thresholds too. Today, when the demand for professionals is high, people are more confident in their ability to get a job elsewhere. Staff are often more than willing to put in fair work if they receive fair pay. Paying people a fair market rate is usually enough to keep the level of good quality work from dropping, and it provides less reasons to jump ship.

Quality

Consistency in the quality of work is held in high esteem among buyers of professional services. The only way to consistently deliver on work quality is to supervise staff and make them accountable. The same goes for the quality of staff itself. Although self-improvement and personal accountability are a given, it is management that has to be held accountable for how they consistently reprimand, praise, encourage, and develop their subordinates.

Image

Looks can be deceiving; nevertheless, both buyers of accounting services and potential candidates judge firms by their appearances. A brand-new conference room with fancy furniture, on the

one hand, and a shoddy office kitchen with a 20th-century microwave oven on the other, send a clear message to employees: the firm cares more about clients than us. The same goes for firm's website and social media accounts: talent want a sneak peek into the potential future workplace and culture. If it isn't managed well or at all, that's quite discouraging for professionals who have many other options these days.

Culling

Firing clients that are a bad fit can be a significant boon for a firm. It is good for morale, profitability and long-term sustainability. On the flip side, bad-fit employees tend to be the source of low morale or poor performance. Firing people who do not fit the culture (including toxic rainmakers) or cannot pull

their own weight improves the mid- to long-term financial performance of a firm.

Staffing

Clients want firms to staff their engagements with their best people. If buyers could have it their way, firms would have to overwork their senior professionals, because they are generally more knowledgeable and skilled than junior staff. Well-run accounting firms know how leverage works and staff projects accordingly. Flipping this idea to matters of talent, firms can identify the importance of staffing people in accordance with their developmental needs. Project managers or partners responsible for staffing must take into account the need and willingness of people at all seniority levels to grow, not to mention their personal preferences with regard to which team members they are most comfortable collaborating with.

Differentiation

In a similar way that firms can present themselves as a compelling alternative service provider for clients, firms can present themselves as an appealing destination for professionals—be it a career springboard for professionals seeking a particular avenue of personal growth, the most secure place to work, or the environment with the most networking opportunities. There are many ways of differentiating a firm from competitors.

Caring

Buyers of professional services value firms that deeply care about their success; not through mere proclamations, but real actions. CPA firms that invest their time in thinking, doing research, attempting foresight, or otherwise looking into client's unique challenges without being asked are rewarded with attention. A similar caring approach to talent management can be very compelling: "We have thought about your challenges and aspirations as an employee: here is how we can help." Onboarding, orientation, mentorship, and robust outplacement programs are the kinds of activities that resonate with job seekers. In an employee's market, the scales tilt toward, "What can the firm do for me?" instead of "What can you do for the firm?"

Speaking

Conducting seminars and making speeches at industry conferences is a well-known way of getting buyers' attention. Meeting prospects at water coolers has always worked. Talent isn't different in that aspect. Making the firm visible at places where talent hangs out is a good marketing activity.

Firms that have discovered other successful client-oriented marketing tactics should consider flipping them to see whether they make sense in a talent management context.

Sergei N. Freiman a marketing advisor at awezzom, a marketing consultancy for professional service firms.



Organizations that have already learned how to attract and retain clients are in a good position to apply similar marketing tactics to talent management—their main asset. Consider how some of the following tactics—which would generally be applied to clients—can be adapted to staff matters.

NATIONAL EXHIBITION OF EDUCATION, SKILLS AND CREATIVITY IN 2024

NBAA participated in the National Exhibition of Education, Skills and Creativity held in Tanga from 25th to 31st May 2024.

NBAA officers were responsible to give highlights to the customers on functions and responsibilities of the Board as well as answering various questions that were raised by different stakeholders. Stakeholders were also informed that all NBAA services are now available through online including application for examinations and membership as well as payment of various fees.



Officers from NBAA giving elaboration to Kiomboi Secondary School Students on how to join NBAA professional examinations during the 2024 exhibition.

SIX PRINCIPLES FOR THE EFFECTIVE USE OF ARTIFICIAL INTELLIGENCE LARGE LANGUAGE MODELS

How to Leverage ChatGPT, Bard, and Bing Chat in Accounting Work

**By Daniel A. Street, PhD,
Joseph Wilck, PhD and
Zachariah Chism, CPA**

**Featured, November/
December 2023, ICYMI,
Accounting & Auditing,
Technology | March 2024**

Large Language Models (LLM) like ChatGPT, Bing Chat, Bard, and others can improve the efficiency of common language generation tasks performed by CPAs, but using LLMs entails certain risks. To help CPAs reap the benefits while minimizing the risks of this emerging technology, the authors suggest six principles to guide CPAs as they

incorporate LLMs into their work.

Recently, the topic of Artificial Intelligence (AI) has captured the imagination of the public and professionals alike. Image generators like Dall-E 2 and Stable Diffusion have challenged the definition of art. The increased use of self-driving cars has challenged the role of human drivers. Large Language Models (LLM), including ChatGPT (by OpenAI), Bing Chat (Microsoft), and Bard (Google), have emulated human conversation and facilitated professional and creative writing. LLMs have been quickly adopted by the public. For example, ChatGPT

surpassed 100 million users within two months of its release in November 2022, smashing the adoption record previously held by Google, which took one full year to draw the same number of users (“ChatGPT Statistics for 2023: Comprehensive Facts and Data,” DemandSage, 2023, <https://www.demandsage.com/chatgpt-statistics/>). Nearly 30% of professionals acknowledge having used ChatGPT at work, according to a survey by Fishbowl, a Glassdoor product (“Almost 30% of Professionals Say They’ve Tried ChatGPT at Work,” Bloomberg News, 2023, <https://tinyurl>.

com/3jfemphyh). In March 2023, ChatGPT and Bard were the most well-known and used LLMs for public use, with many considering ChatGPT to be more useful ("How ChatGPT and Bard Performed as My Executive Assistants," New York Times, Brian Chen, March 29, 2023; <https://tinyurl.com/4dt98mrm>). As of August 2023, the most prominent LLMs are ChatGPT (by OpenAI), Bard (Google), Bing Chat (Microsoft—built using ChatGPT), LLAMA (Meta), Bloom (Big-Science), and Dolly (Databricks) ("Popular Open-Source Large-Language Models," Analytics Insight, 2023, <https://tinyurl.com/5fb3h9e3>).

An LLM is best thought of as an extremely fluent extension of predictive text. Just as a smartphone or e-mail client can suggest one or two words based on the context of the sentence being written, an LLM utilizes its training on a vast body of text (its "corpus") to generate text in response to a user's prompt. Instead of merely predicting the next two or three upcoming words to complete a phrase or sentence, LLMs can reply to a user's prompt with several paragraphs of coherent (and often accurate) text across many domains. As of August 2023, LLMs can accept input files and create text (including computer code) from those inputs. One of the primary features of LLMs that distinguish them from other AI models is that LLMs can generate a response to a prompt on an unknown (to

them) topic. The response may be highly inaccurate, but the response is based on LLMs' contextual knowledge of (what they deem are) similar topics.

LLMs in Accounting

LLMs are adept at interpreting, synthesizing, and expressing results in natural language. These capabilities have been applied in a variety of fields, including writing product recommendations for retailers, reading transcripts and summarizing earnings calls, and preparing marketing copy. CPAs—especially at firms with limited resources—may be curious to experiment with LLMs to improve the efficiency of common language generation tasks. For example, LLMs can be used to form a rough draft summarizing tax issues to a taxpayer client, prepare a memo to staff, draft a courteous e-mail to an audit client, describe how to conduct a particular process, conduct research into technical topics, or quickly gain an understanding of the risks and opportunities facing a particular industry.

Using LLMs effectively requires an appreciation of the risks of this technology. One of the major risks is data privacy. CPAs have a responsibility to protect client data, and need to practice extreme caution when using LLMs with client data. LLMs have many features (for example, as of August 2023, ChatGPT has the ability to accept multiple input files of data; "ChatGPT—Release Notes," OpenAI, 2023, <https://tinyurl.com/25a27fhd>) that

make it easy and enticing to input client data into the LLM, but uploading data entails significant data security risks. Other risks associated with LLMs include their limited ability to provide useful responses in specialized bodies of knowledge, their struggle to adequately process facts that adhere to a timeline, the difficulty in sorting fact from fiction in their responses, the need to critically assess the rationale for their answers, their struggle to cite their sources, and determining which degree of confidence should be placed in their answers.

The accounting profession is currently navigating the tension between the advantages offered by LLMs and their risks. For example, in February 2023, PwC Australia encouraged their staff to "experiment with ChatGPT personally, and to think about the role generative AI could play in our business" ("PwC Warns Staff against Using ChatGPT for Client Work," Australian Financial Review, 2023, <https://tinyurl.com/43de5crw>), but cautioned:

It is important that we navigate the risks and limitations of using [LLMs]... They are stochastic in nature (meaning you could get a different answer every time you ask the same question), they can present inaccuracies as though they are facts, and they are prone to user error. They will require review and oversight and cross-validation of results before they can be relied upon for tasks that demand precision.



Six Principles for the Effective Use of Large Language Models (LLM)

1. Develop Specific Questions and Avoid Broad Requests

LLMs are trained on a broad corpus of text and have a wide range of domain knowledge. This can make them very effective tools, but asking the right questions in the accounting domain takes

practice. Prompts (questions) for LLMs are most effective if they are specific and reference the context of the prompt. For example, the prompt "How should a building be valued on the balance sheet under U.S. GAAP?" will be more effective than "How should a building be valued on a balance sheet?". CPAs should also either avoid or define ambiguous terms within the prompt. "How do I account for the purchase of a bond as an investment?" is more likely to be effective than "How do I record a bond transaction?", because "bond"

could either refer to the transaction in which a bond is issued or purchased. Users can also provide an example in the prompt and request that the LLM use a specific framework (e.g., "Prepare an expected credit loss schedule for my receivables using the following table format").

In summary, we recommend that CPAs provide LLMs with prompts that are specific, provide the context for the question, explain or define ambiguous terms, and provide an example (if applicable).

2. Actively Monitor the Inquiry and Interpretation Process by Breaking Down Complex Tasks into Verifiable Subtasks

The breadth of information in an LLM's corpus can lead to problems when different accounting bases or tax standards can apply to a given prompt. For instance, unless instructed clearly, an LLM could provide information from either U.S. GAAP or IFRS; thus, it is critical that CPAs must exercise skepticism and utilize their expertise to ensure that the proper concepts have been applied in the output of the LLM. Only with sufficient expertise will an accountant recognize when IFRS standards are being applied, but U.S. GAAP standards are needed. (Different LLMs have different strengths and weaknesses: It's worth noting that, as of August 2023, ChatGPT does not reliably cite its sources; in fact, sometimes when you ask ChatGPT to cite sources, it makes up sources that don't exist. On the other hand, Bing Chat reliably cites its sources by providing web links.) In other words, LLMs are subject to significant rates of "Type 2 error": LLMs may provide responses that appear relevant and accurate on their face, but are inaccurate when reviewed more carefully. Therefore, we recommend that CPAs maintain a high degree of concept skepticism, critically assessing whether the concept that the LLM has applied in a given response is indeed the

correct concept expected to be applied (with respect to accounting basis, framework, or standard).

LLMs are trained on a corpus of data that spans time. Although this provides them with an impressive breadth of knowledge, LLMs struggle to differentiate between information over time. An LLM might provide the current accounting and tax standard information, or it might provide outdated and superseded information. CPAs should also understand and carefully consider the extent to which the LLM they employ has access to current information. The corpus supporting ChatGPT 3.5, for example, only consists of information through the end of 2021; ChatGPT 3.5, therefore, will not be able to provide tax or accounting information that has changed since that time. Its response to a request for the IRS mileage rates or the deductibility of medical expenses may or may not contain correct information for the proper tax year. Similarly, it will not be able to describe the impact of any current economic or business events occurring after that date. Other LLMs including Bing Chat and Bard have access to Internet information sources, and can more reliably refer to current information. We recommend that CPAs critically assess whether the information that the LLM has provided indeed applies to the proper time period.

In the authors' experience, LLMs provide more accurate

responses to specific tasks and questions rather than large or complex tasks. For example, ChatGPT 3.5 provides more accurate responses when prompted to generate the assets, liabilities, or stockholders' equity portions of a balance sheet separately rather than preparing an entire balance sheet at once. We recommend that CPAs break down large tasks into smaller portions and ask LLMs to perform those smaller tasks in sequence. This also allows for a user to verify the correctness of each smaller task before beginning the next step in the process.

3. Understand LLMs' Contextual Boundaries, and Do Not Input Private, Sensitive, or Proprietary Information

In addition to the data provided in its corpus, an LLM can receive and respond to user-submitted text and data. Although this feature facilitates the broad functionality of LLMs, inputting private, sensitive, or proprietary data input into an LLM, raises serious concerns about data storage and privacy issues. For example, LLMs could incorporate user-submitted data into their knowledge and then synthesize and provide this information to other users without the right to this data. Until and unless LLMs are implemented with reliable privacy safeguards (including an "on-premise server" or a "private instance" for a particular company or firm), the authors recommend that CPAs

do not input private, sensitive, or proprietary information into LLMs.

LLMs are designed to have natural conversations with users. ChatGPT, Bing Chat, and Bard all attempt to remember the context of a conversation and, once effectively prompted, stay within the scope of the topic. If the LLM misinterprets a prompt or additional information is needed, users can ask follow-up or clarifying questions and the LLM will consider them within the context of the earlier questions within the conversation. For example, if you ask an LLM about how a building should be valued under U.S. GAAP and then in a subsequent question ask, "Which depreciation methods are acceptable?", it is likely to tailor its responses to depreciation methods common for buildings. Therefore, we recommend that users ask follow-up questions and provide clarifications and directions within a given conversation. But exercise discretion with feedback—LLMs can learn from user feedback and incorporate it into its base of knowledge.

As of August 2023, ChatGPT, Bing Chat, and Google Bard all have the ability to save previous chats (known as "chat history"). However, ChatGPT does not actively remember the context of previous chats when answering responses in a new chat (OpenAI Developer Forum, April 2023, <https://community.openai.com/>). Similar documentation for Bing

Chat is unavailable, but it is reasonable to expect that Bing Chat also does not remember the context of previous chats when responding to a new chat; by contrast, Google Bard was designed to remember previous conversations. Bard's capability is limited by the amount of computing memory and available capacity; thus, its recollection may not be very good (Bard FAQ Page, August 2023, <https://bard.google.com/faq>). Because many LLMs cannot access context developed in other conversations, the authors recommend that CPAs create a new conversation when switching to a new task or topic.

4. Carefully Scrutinize and Recalculate Quantitative Responses

Although impressively fluent with text, LLMs are quite poor at any but the clearest quantitative tasks. It is important for CPAs to remember that the fundamental task of an LLM is to suggest a sequence of text that best responds to the user's prompt. LLMs are not designed to produce quantitative responses, nor are they skilled at mathematical procedures, although they will provide numeric text if that text is predicted to be the best in a given response. For example, when the authors tasked ChatGPT with creating an income statement based on several business transactions, a portion of its response asserted that $\$2.00 + \$5.50 + \$7.50 = \17.50 . Similarly, when

preparing a partial balance sheet, it asserted that fixed assets "have a total value of \$1,775.00 but also have been depreciated by \$1,055.00. The net value of the fixed assets after depreciation is \$4,720.00." CPAs are much better off utilizing spreadsheet software, business calculators, or nearly any other alternative software rather than relying on an LLM to conduct mathematical procedures. CPAs can ask LLMs to suggest, identify, or describe the mathematical process to be used for a given scenario, but we recommend that CPAs do not use LLMs to actually perform mathematical calculations.

5. Rely on Other Sources for Factual Information, Especially for Less Prominent Topics

Like many other LLMs, ChatGPT was trained on a large corpus that included both fact and fiction across many knowledge areas. Approximately 3% of ChatGPT's corpus consists of "facts" from Wikipedia and an additional 38% has been vetted by humans beyond the original author. [ChatGPT's corpus consisted of a general "crawl" of the Internet (60%), websites with a certain level of upvotes (22%), books (16%), and Wikipedia (3%) ("Language Models are Few-Shot Learners," Tom B. Brown, Benjamin Mann, Nick Ryder, et al., 2020, <https://arxiv.org/abs/2005.14165>). Although the general "crawl" provided the largest amount of data included in the corpus, Wikipedia data was given the

highest weight, followed by websites with the most up-votes. ChatGPT's crawl of the Internet allowed it to learn how to use conversational language across a wide breadth of content.] In addition to factual knowledge, ChatGPT has been designed to engage in human-like conversation and is capable of creating new answers; it can create new computer code, write a poem, or speak in a given person's style. Its training encouraged it to communicate facts as well as to communicate with human-like creativity. Unfortunately, ChatGPT does not articulate to the user whether it is conveying facts or displaying creativity; hence, it may lie. Other LLMs have different training and reward structures, and are capable of providing references for facts.

The "knowledge" of an LLM is probabilistic. The authors have encountered situations where ChatGPT's responses have disagreed with each other, even in the same conversation. For example, the authors have observed ChatGPT state that an event has occurred in one year, but when asked again, it states that the event actually occurred in a different year. Certain firms have prohibited the use of ChatGPT due to concerns over factual accuracy ("PwC Warns Staff against Using ChatGPT for Client Work," Australian Financial Review, 2023, <https://tinyurl.com/43de5crw>). We recommend that CPAs seek "knowledge" or "facts" from sources other than an LLM. CPAs should evaluate and cross-check any factual claims

provided by an LLM using a reliable alternative source.

The more frequently an item appears in an LLM's corpus, the more knowledgeable the LLM will be about that topic. More prominent concepts, events, and firms appear more frequently in the corpus, and allow the LLM to respond more capably to prompts on these subjects. For example, an LLM is much more capable of addressing questions about federal tax law than about municipal tax regulations. Therefore, we suggest that CPAs rely more on the responses provided by LLMs for topics that are more prominent.

6. Use LLMs to Enhance Rather than Replace Human Expertise

LLMs can make the work of a CPA more efficient and potentially more effective, but they cannot replace a CPA's expertise. The authors have successfully used LLMs to enhance our work by having them:

- ✓ Draft memos or e-mails
- ✓ Structure sensitive and effective feedback
- ✓ Overcome writer's block and jumpstart creativity
- ✓ Gather information on technical accounting topics
- ✓ Generate understandable descriptions of technical issues in auditing

- ✓ Provide introductory information about opportunities and threats facing particular industries
- ✓ Review notable historical and economic events
- ✓ Produce creative text.

Although the authors recommend that accountants use LLMs to enhance their work on a variety of tasks, we do not predict the "death of accounting" at the hands of LLMs anytime soon, for at least four reasons:

- ✓ LLMs cannot be relied upon as a trustworthy subordinate or specialist because they fail to comply with the expertise, objectivity, and independence requirements of auditors (AICPA Code of Professional Conduct section .300.050.01-02 and AU-C section 620, "Using the Work of an Auditor's Specialist"), nor can LLM output serve as audit evidence because its work is not reproducible, nor guaranteed to be sufficient and appropriate (AU-C section 500, "Audit Evidence"). If LLMs cannot truly be objective and independent, nor can they produce reliable audit evidence, they cannot be relied on as a trustworthy subordinate or specialist.
- ✓ Even if LLMs are improved technically to understand the nuanced context of accounting events and to properly perform the required mathematical operations, LLMs will not

be able to exercise the professional judgment of a CPA when it comes to the qualities of decision-useful information.

- ✓ Although broadly trained, LLMs are unlikely to be able to tailor their responses to the particular institutional features and dynamics of a specific topic, especially if it is small or unique.
- ✓ At best, LLMs are trained on recent data, but they will always be based on historical training and will struggle to provide innovative, future-oriented advice.

An Illustration Applying the Six Principles

To illustrate how CPAs can apply these six principles in practice, consider the following hypothetical situation: The year is 2021. You sent an update to your client list about eligibility for the California Young Child Tax Credit. One of your clients falls within the phase-out range for this credit (Regina Jenkins, a W2 employee with AGI of \$28,000 and single mother of two qualifying children, a 3-year-old daughter and a 7-year-old son). Regina has heard a lot about the Federal Advance Child Tax Credit Payments in 2021, so she sent

you an e-mail asking whether she'll be receiving monthly checks for this California credit, and if so, whether and how she should opt-out.

ChatGPT. ChatGPT responded about tax credits broadly, rather than seeking clarification about which tax credit information was sought. Although each of the questions in the prompt was addressed in the response, the answers were not sufficiently precise. A portion of the response provided by ChatGPT follows: "The eligibility for a tax credit doesn't necessarily mean that the individual will receive a check immediately. Tax credits



can affect a person's tax liability, which could result in a refund or reduced tax owed when they file their tax return for the relevant tax year." (ChatGPT 3.5, OpenAI, <https://chat.openai.com/>). At the end of its response, ChatGPT acknowledged its limitations and caveated its response with a recommendation that Regina should "reach out to a tax professional who can guide her based on her individual circumstances and the specific tax credit in question."

Bing Chat: Rather than providing information about a given tax credit or about tax credits broadly, Bing Chat requested more specific information from the user. A portion of its response follows: "It is not clear which tax credit you are referring to. There are many tax credits available, and the amount and eligibility requirements vary depending on the specific credit. Could you please provide more information about the tax credit you mentioned in your e-mail to your clients? That way, I can better assist you with your question." (Bing Chat, Microsoft, <https://www.bing.com/search/>)

Google Bard: Google Bard assumed we sought information about the Federal Earned Income Tax Credit (EITC). Based on this assumption, it attempted to calculate Regina's EITC, then stated that Regina would not receive an advance payment. A portion of its response follows: "The tax credit you are referring to is the Earned Income Tax Credit (EITC). Regina is eligible for the EITC because her

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The more frequently an item appears in an LLM's corpus, the more knowledgeable the LLM will be about that topic. More prominent concepts, events, and firms appear more frequently in the corpus, and allow the LLM to respond more capably to prompts on these subjects.”

adjusted gross income (AGI) is below the threshold for her filing status. The maximum EITC for a taxpayer with an AGI of \$28,000 is \$480. Regina will not receive a check immediately. The EITC is a refundable tax credit, which means that it can reduce Regina's tax liability to zero and she will receive any remaining credit as a refund. Regina should not opt out of the payment. The EITC is a valuable tax credit that can help Regina reduce her tax burden and get a larger refund." (Bard, Google, <https://bard.google.com/>).

By contrast, Prompt 2 adheres to the above principles by relying on the CPA's judgment and expertise at quantitative tasks while leveraging LLMs' fluid writing abilities. In the following prompt, the underlined portions in the following prompt demonstrate how the prompt adheres to the six principles, which are specified in brackets. (Neither the underline formatting nor the bracketed contents were provided to the LLMs.)

Take a Careful Approach

Since beginning our research on ChatGPT, the authors have been asked to provide a summary of the usefulness and impact of LLMs in the domain of accounting. Some academics and professionals that we spoke with wonder if LLMs like ChatGPT are a panacea—after all, there have been widespread reports about its remarkable capabilities—while others dismiss LLMs as unreliable, unhelpful, and overblown. The authors believe that neither extreme perspective is accurate; rather, we believe that CPAs who appropriately incorporate LLMs into their work can improve both their efficiency and effectiveness. Appropriately incorporating LLMs into accounting requires a careful, strategic approach. Therefore, CPAs are encouraged to utilize the principles provided in this article to appropriately leverage LLMs in their work.

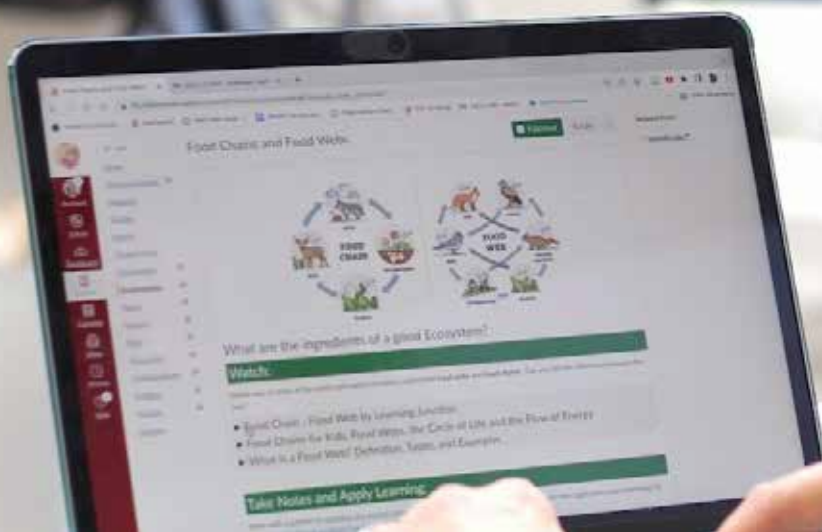
Daniel Street, CPA, PhD, is an assistant professor of accounting at the Freeman College of Management, Bucknell University, Lewisburg, Pa.

The National Board of Accountants and Auditors (NBAA) Tanzania has introduced two interactive communication systems i.e. Customer Based Helpdesk System and e-Mrejesho system to promote customers satisfactions on service delivery.

e-ticket number which will be used for making follow-up or getting feedback or status on the issue submitted to NBAA.

"You will also receive a notification message once your issue has been resolved/attended. If you are not satisfied with the replies from

STREAMLINED COMMUNICATION SYSTEM INTRODUCED FOR NBAA STAKEHOLDERS



NBAA Executive Director, CPA Pius A. Maneno said in a public notice that effective utilization of these systems as designated channels for communication with NBAA will minimize lead time, increase efficiency, bringing integrity, enhance transparency as well as accountability.

NBAA members, students and other Stakeholders can send inquiries, concerns, or requests regarding MEMS to email address helpdesk@nbaa.go.tz where they will receive an acknowledgement message together with

NBAA then, you can reopen your ticket for more clarification(s)," reads in part at the public notice which is also available on the NBAA website.

The Board also request its members, students and other stakeholders to utilize our eMrejesho system by visiting www.emrejesho.gov.go.tz then select National Board of Accountants and Auditors (NBAA) for presenting their feedback, complaints and suggestions.

ADOPTION AND IMPLEMENTATION OF SUSTAINABILITY REPORTING IN TANZANIA



IFRS Sustainability Reporting Standards were approved by the National Board of Accountants and Auditors (NBAA) Governing Board during its 192nd meeting held on 29th September 2023. Subsequently, the NBAA launched the Sustainability Reporting on 18th October 2023 in Dar es Salaam, Tanzania. This meant the start of the journey to implement International Financial Reporting Standards (IFRS) Sustainability Reporting Standards issued by the International Sustainability Standards Board (ISSB). Two standards are in issue at the moment, these are the IFRS S1 *General Requirements for Disclosure of Sustainability-Related Financial Information* and IFRS S2 *Climate Related Disclosures*, issued by the International Sustainability Standards Board (ISSB) in June 2023 with the implementation date of 1st January 2024.



Official Guest- Assistant Accountant General of the Government of the United Republic of Tanzania CPA Azizi Kifile (left) pressing the button to mark the launch of the Sustainability Reporting in Tanzania aimed at helping the government in its efforts to achieve the goals of Sustainable Development 2030 (SDG 2030). Those standards are International Financial Reporting Standards (IFRS) S1 General Requirements for Disclosure of Sustainability-Related Financial Information and IFRS S2 Climate Related Disclosures, to be used by Public and Private Institutions in Tanzania from 1st January, 2024.

In the middle is the Chairman of the Governing Board National Board of Accountants and Auditors Tanzania (NBAA), CPA Prof. Sylvia S. Temu and right is the Executive Director of NBAA, CPA Pius A. Maneno.

The aim of the standards is to support Governments towards the 2030 Sustainable Development Goals (SDGs) implementation journey and ensure that private and public sector entities are reporting their contribution towards the implementation of the SDGs. SDG 12

Responsible Consumption and Production, in its target 12.6 explicitly encourages companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycles. Indicator 12.6.1 requires data on the number of companies publishing sustainability reports. Several other SDG indicators refer to data already being provided by many enterprises in their reports, such as on the use of energy and water, carbon dioxide emissions, waste generation and recycling, and to human resource management, gender equality

and community development, among others. Reporting is therefore an important data source for the SDG monitoring framework. As a primary source of information on entity's performance, reporting can enrich and enhance SDG monitoring mechanisms by providing stakeholders such as Governments and capital providers with the means to assess the environmental, social and governance impact of companies on sustainable development.

NBAA, through the amendment of the Tanzania Financial Reporting Standard (TFRS) 1 *Reporting by Those Charged with Governance*, require entities to incorporate sustainability disclosures in the report by those charged with governance, the report which accompany the financial statements with effect from 01st January 2024. Para 26 of the TFRS 1 requires private and public sector entities to comply with all applicable

sustainability standards and guidelines issued by the by the International Sustainability Standards Board (ISSB) and International Public Sector Accounting Standards Board (IPSASB) respectively. Furthermore, the report by those charged with governance shall discuss the sustainability disclosures about environment, social, governance and any other disclosures required by the ISSB and IPSASB. Moreover, TFRS 1 requires Regulatory Authorities to disclose actions taken by themselves, as Regulatory Authorities, in ensuring sustainable developments of the sectors or industries regulated. Hence, it is expected that the private sector entities will incorporate the requirements of sustainability reporting standards in the financial statements for the year ending 31 December 2024, and public sector entities for the year ending 30 June 2025.



A cross section of the participants to the ceremony on Launching of the Sustainability Reporting in Tanzania held at the Bank of Tanzania Hall in Dar Es Salaam, Tanzania on 18th October 2023

The launch of the Sustainability Reporting in Tanzania was followed by the formation of the National Sustainability Reporting Steering Committee (NSRSC). The thirty-one (31) members of the Committee include the Planning Commission, Various Government Regulators including the NBAA, Dar es Salaam Stock Exchange (DSE), CEO's Roundtable, Tanzania Private Sector Foundation (TPSF) and the National Carbon Monitoring Centre (NCMC).

The National Sustainability Reporting Steering Committee (NSRSC)

The NSRSC is an important part of the country's sustainability reporting framework. The Committee is responsible for monitoring the sustainability reporting in both the private and public sector. The sustainability disclosure accompanying the financial statements will form an important input in the preparation of Voluntary National Review Report on the Implementation of SDGs.

The Bank of Tanzania as amongst the Regulators in the Committee had already issued the Guideline on Climate Related Financial Risks, 2022, to mandate climate related disclosures in the financial statements of banks and financial institutions. Similarly, the DSE issued the Dar es Salaam Stock Exchange Rules 2022 which includes the Guidelines to Sustainability Reporting.

The specific responsibilities of the members of the NSRSC are to:

- a) Develop guidance or circulars on sustainability-related financial information and climate related disclosures for their industries / sectors / areas of responsibilities;
- b) Set timelines or deadlines for entities under their regulation to comply with sustainability-related financial information and climate related disclosures guidelines,

specifically the disclosures of Scope 1 Greenhouse Gas Emissions, Scope 2 Greenhouse Gas Emissions and Scope 3 Greenhouse Gas Emissions;

- c) Set monitoring procedures to ensure that the guidelines or circulars are being complied with;
- d) Provide input on various sustainability reporting developments from a Tanzanian perspective;
- e) Inform the NBAA research agenda; and
- f) Help NBAA respond to relevant proposals by the ISSB and IPSASB and conduct research on sustainability issues affecting Tanzanian entities.

The guidance developed should be designed to provide the right information, in the right way, to support decision-making and facilitate the country's reporting on SDGs.





The proposed roadmap the National Sustainability Reporting Steering Committee (NSRSC) is as shown hereunder.

No.	Description	2024	2025	2026	2027	2028
1.	Sustainability Assessment: A thorough assessment of the entity's sustainability readiness and performances					
2.	Sustainability Positioning: A positioning analysis aimed at identifying the current and prospective sustainability positioning of the entity versus its main competitors or industry Key Performance Indicators(KPIs).					
3.	Sustainability Framework and Sustainability Policy: A sustainability framework and sustainability policy outlining the entity's commitment to practices and standards designed to promote environmentally and socially responsible operations.					
4.	Sustainability Strategic Plan: A strategic plan especially designed to help the entity meet its sustainability goals, through specific, measurable, attainable, relevant and time-bound interventions and KPI.					
5.	IFRS S1 Disclosures: For each disclosure topic, the information about Governance, Strategy, Risk Management and Metrics and Targets.					
6.	IFRS S2 Disclosures: For each disclosure topic, the information about Governance, Strategy, Risk Management and Metrics and Targets.					
7.	Scope 1 Greenhouse Gas Emission: (Direct greenhouse gas emissions that occur from sources that are owned or controlled by an entity)					
8.	Scope 2 Greenhouse Gas Emission: (Indirect greenhouse gas emissions from the generation of purchased or acquired electricity, steam, heating or cooling consumed by an entity).					

9.	Scope 3 Greenhouse Gas Emission: (Indirect greenhouse gas emissions (not included in Scope 2 greenhouse gas emissions) that occur in the value chain of an entity, including both upstream and downstream emissions).					
(1)	Purchased goods and services					
(2)	Capital goods					
(3)	Fuel- and energy-related activities not included in Scope 1 greenhouse gas emissions or Scope 2 greenhouse gas emissions					
(4)	Upstream transportation and distribution					
(5)	Waste generated in operations					
(6)	Business travel					
(7)	Employee commuting					
(8)	Upstream leased assets					
(9)	Downstream transportation and distribution					
(10)	Processing of sold products					
(11)	Use of sold products					
(12)	End-of-life treatment of sold products					
(13)	Downstream leased assets					
(14)	Franchises					
	(15) Investments					

New Sustainability Disclosure Standards will be incorporated in the proposed roadmap when issued.

Compliance with IFRS Sustainability Disclosure Standards

Para 72 of the IFRS S1 *General Requirements for Disclosure of Sustainability-Related Financial Information* requires that an entity whose sustainability-related financial disclosures comply with all the requirements of IFRS Sustainability Disclosure Standards shall make an explicit and unreserved statement of compliance. An entity shall not describe sustainability-related financial disclosures as complying with IFRS Sustainability Disclosure

Standards unless they comply with all the requirements of IFRS Sustainability Disclosure Standards.

The comparative information disclosed in respect of the preceding period for all amounts disclosed in the reporting period, including comparative information for narrative and descriptive information, will be useful for an understanding of the sustainability-related financial disclosures and climate-related disclosure for the reporting period.

Where the report by those charged with governance include the 'explicit and unreserved statement of compliance' with IFRS sustainability disclosure

standards, the NBAA is in the process of issuing a circular requiring the 'Declaration of Head of Finance' to state that the sustainability disclosures are in compliance with applicable standards. This requirement will be similar to the current requirement for the declaration of head of finance on compliance with IFRS/IPSAS.

External Auditors Responsibilities on Sustainability Disclosures

As the Sustainability Disclosures will be incorporated in the report by those charged with governance, it will form part of other information accompanying audited financial statements. The

objectives of the auditors, having read the sustainability disclosures, will be to consider whether there is a material inconsistency between the sustainability disclosures and the financial statements; to consider whether there is a material inconsistency between the sustainability disclosures and the auditor's knowledge obtained in the audit; to respond appropriately when the auditor identifies that such material inconsistencies

appear to exist, or when the auditor otherwise becomes aware that sustainability disclosures appears to be materially misstated; and to report in accordance with International Standards on Auditing (ISA) 720 *The Auditor's Responsibilities Relating To Other Information*.

It will therefore be the responsibility of external auditors to consider the adequacy of the 'explicit

and unreserved statement of compliance' with IFRS sustainability disclosure standards, if included in the report by those charged with governance.

Furthermore, the external auditors will be expected to consider the reasonability of the plans that Those Charged with Governance have to ensure that the entity being governed comply with IFRS Sustainability Disclosure Standards.



Official Guest Assistant Accountant General of the Government of the United Republic of Tanzania CPA Azizi Kifile in a photo with the Chairman of the National Board of Accountants and Auditors Tanzania (NBAA), CPA. Prof. Sylvia Temu, Executive Director of the National Board of Accountants and Auditors (NBAA), CPA Pius Maneno, the Board's staff as well as various stakeholders who attended the launch of the International Standards for Sustainable Development held in the Central Bank of Tanzania Hall in Dar es Salaam.

Conclusion

The objective of the NBAA is to provide a reporting mechanism which will assist entities in evaluating whether they are making positive progress towards sustainable development by improving their sustainability practices and minimizing carbon emission on yearly basis. Hence NBAA is calling upon all Tanzania development stakeholders to participate fully and honestly with renewed confidence in

their respective roles towards the successful implementation of all IFRS Sustainability Disclosure Standards, and hence supporting the implementation of the seventeen (17) SDGs.

The second meeting of the NSRSC is expected to be held in July 2024.

NBAA CELEBRATES INTERNATIONAL WOMEN'S DAY 2023



Various pictures of the events of some of the women staff of the National Board of Accountants and Auditors of Tanzania (NBAA) in the celebration

of International Women's Day held on 8TH March, 2024 today in Mji mwema grounds, Kigamboni district, Dar es Salaam.



In celebration of International Women's Day in 2024, the women of the Tanzania National Board of Accountants and Auditors (NBAA) have participated in the celebration that took place

today in the grounds of Mjini Mwema, Kigamboni district, Dar es Salaam region. The year's motto was "Invest in women to speed up national development and social well-being"

The 8th of March every year is International Women's Day, where this day wants to remind us and reflect on the political, social and economic results achieved by women and their strong position at the social level in general.

Speaking at the celebration, the Women's Chairperson of the National Board of Accountants and Auditors Tanzania (NBAA), Irene Mutagaywa told the students in schools to focus

on creating their dreams by studying hard especially Science subjects to be able to keep up with the technology that continues to grow day by day.

In brief the International Women's Day began as a result of the efforts of 15,000 women in 1908 when they marched in New York in the United States demanding reduced working hours, reasonable wages and the right to vote. It was the

American socialist party that declared it the first national women's day, a year later. The idea of an international day was started by a woman by the name of Clara Zetkin. She proposed the idea in 1910 at an international meeting of women workers in Copenhagen Denmark.

FIXED ASSET RECONCILIATION

By CPA. Kamulika.

Fixed assets are long-term investments that businesses own and use in their daily business operations to generate earnings. These long-term investments are anticipated to provide economic benefits throughout their useful lives, and their effective management is crucial to ensuring those financial rewards are achieved. Fixed asset reconciliation is a critical accounting process that plays

a critical role in effective asset management by ensuring accuracy, transparency, and compliance. Furthermore, it provides confidence that a company's books of account and the financial statement accurately reflect the value of these assets and that there are no material misstatements. To have an effective fixed asset reconciliation, initial steps are needed to prevent discrepancies or errors in the asset's value. Some accounts

must be reconciled before the fixed asset reconciliation is complete.

The first account that must be reconciled before finalizing the fixed asset reconciliation is the VAT account. VAT stands for value-added tax, and it is a tax on the value that is added to goods and services at each stage of the production process. VAT is a significant cost for businesses, and failing to claim back the VAT





that is due can significantly impact the value of fixed assets. Thus, reconciling the VAT account is necessary to ensure that unclaimed VAT is added back to the cost of the fixed asset.

To reconcile the VAT account, businesses should first ensure that all VAT records are up-to-date and accurate. This includes recording all VAT paid and collected, as well as any adjustments made to these amounts. Next, businesses should compare the VAT records to the VAT returns that have been submitted to the tax authorities. Any discrepancies between these records should be investigated and corrected immediately. Finally, businesses should ensure that all VAT due has

been claimed back and recorded in the appropriate accounts.

The second account that must be reconciled before finalizing the fixed asset reconciliation is the payables account. This account records any outstanding payments that a company owes to its suppliers. Reconciling the payables account is essential to ensuring that the fixed asset has been capitalized instead of being expensed. When an asset is expensed, it is treated as a current expense and is fully deductible in the period in which it was incurred. However, when an asset is capitalized, it is recorded as a long-term investment and depreciated over its useful life.

To reconcile the payables account, businesses should first ensure that all outstanding payments have been recorded in the account. Next, businesses should compare the payables account to the purchase invoices to ensure that all expenses related to the fixed asset have been capitalized. Any discrepancies between the payables account and the purchase invoices should be investigated and corrected immediately. Finally, businesses should ensure that any expenses related to fixed asset expenses are reversed and recorded as capital expenditures.

The final account that must be reconciled before finalizing the fixed asset reconciliation is the prepayments account.

This account records any payments made in advance of the receipt of goods or services. Reconciling the prepayments account is necessary to ensure that no asset ready for use is treated as a prepayment. If an asset is treated as a prepayment, it will not be included in the fixed asset register, and its value will not be reflected accurately in the financial statements.

To reconcile the prepayments account, businesses should ensure that all prepayments related to fixed assets have been recorded. Next, businesses should compare the prepayments account to the asset register to ensure that all assets ready for use have been capitalized. Any

discrepancies between the prepayments account and the asset register should be investigated and corrected immediately. Finally, businesses should ensure that any prepayments related to fixed assets that have been expensed are reversed and recorded as capital expenditures.

In addition, cash and bank accounts should be reconciled before the fixed asset reconciliation. In essence, while cash and bank reconciliation is primarily concerned with cash and bank transactions, it indirectly supports fixed asset reconciliation by guaranteeing the accuracy, completeness, and reliability of financial records,

particularly those on fixed assets. Bank reconciliation can help us observe if there are any missing transactions related to fixed assets or any expenses that should have been capitalized.

In conclusion, reconciling fixed assets is a critical accounting process that helps ensure effective asset management and that a company's financial statements accurately reflect the value of these assets. However, before finalizing the fixed asset reconciliation, several accounts need to be reconciled first to avoid any discrepancies or errors in the asset's value. Reconciling the VAT account, payables account, and prepayments account.

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Finally, businesses should ensure that all VAT due has been claimed back and recorded in the appropriate accounts.





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