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Richard Murphy (2019) 'Corporate tax avoidance: is tax transparency the solution?': a practitioner view, *Accounting and Business Research*, 49:5, 584-586, DOI: [10.1080/00014788.2019.1611728](https://doi.org/10.1080/00014788.2019.1611728)

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I would like to thank Oats and Tuck ([2019](#) Oats, L. and Tuck, P., 2019. Tax avoidance: is tax transparency the solution? *Accounting and Business Research*, 49 (5), 565–583. [[Taylor & Francis Online](#)], [[Google Scholar](#)]) for their comments on country-by-country reporting. I have a close relationship with this as I wrote the first ever version of it in the form in which it has become commonly known in 2003 (Murphy, [2003](#) Murphy, R., 2003. A Proposed International Accounting Standard: Reporting Turnover and Tax by Location, Proposal prepared on behalf of the Association for Accountancy and Business Affairs. Available from: <http://visar.csustan.edu/aaba/ProposedAccstd.pdf> [Accessed 14 December 2018]. [[Google Scholar](#)]). I believe that country-by-country reporting does and will work to reduce financial scandals. I also think people can and will understand it. After all, the data it provides is a simplified income statement for each country in which a multinational corporation operates, plus limited cash flow and balance sheet data. It is much easier to understand than the data we customarily present as accountants.

But this said, I think the issue of tackling financial scandals will involve more than country-by-country reporting, however dedicated I am to it. I am at my core an optimist; as a result it is my belief that we can change the world for the better. Financial scandals have always rocked our world. There is no point pretending otherwise. Some who have had the opportunity to cheat have always succumbed to temptation. I am not optimistic enough to think that this will change. But in that case what has to happen is that the opportunities to cheat have to be reduced.

As an accountant I have spent my life doing two things. One is reporting. The other is creating environments where risk might be mitigated. Financial scandals arise because of a failure in a risk mitigation environment. As accountants we spend a great deal of time thinking about internal controls. We divide duties. We create checks and balances. We undertake audits, both internal and external. And throughout it all we mostly sweat the small stuff. I can almost guarantee that in most UK businesses more effort is put into preventing petty fraud than into appraising the risk of gross corporate failure as a result of a financial scandal. If I am right, we have got our priorities wrong.

My observation of this profession suggests that I am right. We as a profession, and the ICAEW as a professional body, have a sorry tale to tell when it comes to ensuring that the necessary controls are in place to defeat financial scandals. We let our members and the firms that they work for operate in tax havens when the almost sole purpose of these places is the creation of opacity. Opacity is the enemy of effective control environments, always, and without exception. No one can control what cannot be seen, and that which is unknown. But let's not pretend that this profession has only turned a blind eye to opacity in

tax havens. It does so all too often. So often, in fact, that it is fair to say that the failing is systemic.

This profession has supported the continual reduction in audit requirements over the last two decades. And the matching reduction in compulsory public filing by most limited liability entities so that well over 90% of all companies in the UK now file accounts on public record that are next to meaningless. As a result the essential control environment that public scrutiny – including by staff, suppliers and customers who would have reason to suspect that accounts are wrong – has been lost throughout most of corporate Britain. And the situation is not much better in our larger companies.

Auditing has been reduced to a box ticking farce by the IAASB Standards that have destroyed the concept of a true and fair view that I was trained in, whilst International Financial Reporting Standards fail to provide many users of accounts – from all who those trade with an entity, to regulators, to tax authorities and civil society – with much of the data they need to appraise the risks that they face when engaging with our largest companies. This is not the way to create a control environment. This is the way to create the environment in which financial scandals can be created.

There is a way to tackle these deficiencies in the creation of which the accounting profession has played far too large a part. That way is for the ICAEW and the profession as a whole to stand back and remember what we are for. As accountants we exist to report what is happening. Openly, honestly and, quite literally, accountably. And I would remind everyone that all of accountancy's professional bodies are tasked with ensuring that this happens in the public interest. They are not in existence as a trade lobby, although you would never know from the way that they behave.

As an accountant I am ashamed that my profession has forgotten these things, and that it has seemingly made the creation of opacity and not accountability its primary task. But we could change that. We could put accountability at the heart of accountancy again. And so we could say that we are proud of our work and the contribution that it makes to strong and ethical reporting environments in which financial scandal, whether on tax or anything else, is harder to create. We could demand that the full accounts of all companies be on public record. We could demand, as a profession, that tax havens end their opacity.

We could also rewrite accounting standards from scratch to serve the interests of all the public and not just a tiny few from a very small proportion of society – remembering that this profession only exists according to the Royal Charter that this Institute holds – to serve the public interest as a whole, which we have forgotten for more years than I care to remember. And we could remember that we – the accountancy profession – and the ICAEW of which I have been a member for more than 35 years – are not observers and commenters on scandal, but that we, as a whole, are part of the control environment that is actively meant to stop it.

My message as an accounting practitioner is that the ICAEW has failed to appreciate this fact, and that it has failed its members as a result as much as it has failed the public as a

result. My charge is simple. I believe that it has failed to stop preventable financial scandals, and I suggest that only a root and branch reform of the ICAEW's culture, and that of the profession as a whole, can change that. Our job in the future is not to create the environments where cheating is more likely because opacity permits it. Our job is instead to create the transparent accounting that mitigates risk for all involved in the entities that we serve. And it is time we put that first and foremost in our thoughts and acted as if this really was our mission.

I look forward to the day when I can be truly proud of what my profession does. That day has not existed for many years. I hope it will again. But as I said at the start, I am an optimist. And it takes an extreme form of optimism to have such hope for this profession at this point in time. That said, it could start today. We recently heard that the Competition and Markets Authority has proposed radical reforms of auditing. Radical, but still not sufficient in my view. So I am going to propose a simple test. If the ICAEW wants to indicate it is changing its spots then it should embrace these changes, as a minimum starting point for reform, and then it should move on from there. If it does anything less, then the ICAEW is part of the problem when it comes to financial scandals, and not part of the solution.

#### **Disclosure statement**

No potential conflict of interest was reported by the author.

#### **References**

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