

SUPPORTING ACCOUNTANTS IN BUSINESS

CONTENTS:

Supporting Each Other: Peer-to-peer Open Space	2
Audit Quality	4
Creating and Communicating Value through Integrated Reporting	6
Integrating Management of Risk into Decision Making	8
Trends Impacting the Finance Function	11
The Relevance of the UN Sustainable Development Goals to the Profession	14

Report of the Professional Accountants in Business Committee March 2016 Meeting

A profession that is relevant to its professional accountants in business (PAIB) members, trends affecting the finance function, the UN Sustainable Development Goals (SDGs), and the PAIB perspective on audit quality, risk management, and integrated reporting were some of the topics debated at the recent IFAC PAIB Committee meeting.

The Committee, made up of an [international group of PAIB thought leaders](#) from IFAC member organizations met in New York for a two day bi-annual meeting chaired by Charles Tilley, Chartered Institute of Management Accountants Chief Executive.

The key insights of the meeting will help raise awareness of the emerging trends, challenges, and opportunities effecting the accountancy profession and PAIBs across the globe. Highlights of the discussions and outcomes of the meeting are captured in this report. In addition, you will find some suggested actions for your institute at the end of each section.



Supporting Each Other: Peer-to-peer Open Space

Objectives:

1. Create the opportunity for participants to discuss and help solve one another's challenges
2. Exchange knowledge on ways to support PAIBs
3. Approve draft guidance to professional accountancy organizations (PAOs) on engaging professional accountants in business

It can be difficult for PAOs to build a strong PAIB community as there are inherent challenges in supporting and interacting with such a diverse constituency. Engaging PAIBs across national, regional, and local levels can be challenging.

Other significant challenges highlighted by Committee members included finding ways to support those feeling overwhelmed by increasing regulation and compliance requirements and whose work/life balance is generally poor, as well as how to demonstrate value to members working overseas.

One of the key recommendations is that meetings and forums held by PAOs targeting and in support of PAIBs, and the issues they face, allow for useful information exchange on emerging issues and trends. These events provide PAOs with feedback on relevant and needed understanding on member development opportunities. Employers, PAIBs, and PAOs can all benefit from enhancing the connections and regular interactions between PAIBs and their PAOs.

Innovative ideas for PAOs in their support of PAIBs:

- > Targeted events focused on emerging issues, in particular industries and sectors, can provide value to PAOs and their PAIB constituency. Finance leaders sharing their experiences help capture opportunities and challenges, and help PAOs identify role models for the profession.
- > It's important for PAOs to provide member development, which is more holistic than providing CPD. Member development enables PAO members to expand their knowledge and skills and help make them more valuable to employers. It also includes training, either in the corporate environment or in the PAO environment.
- > Ensure PAIB members are aware of PAO activities that position their certification and their professional skills in the marketplace, such as:
 - » public policy and advocacy;
 - » engagement with government, regulators, and media; and
 - » contributions to societal goals, for example by helping to improve financial literacy.

PAIB challenges highlighted during an open exchange between Committee members:

- > Succession planning and talent management in finance and accounting functions: Some established organizations are experiencing the retirement of PAIBs with technical expertise and deep organizational knowledge, leaving problematic gaps in knowledge and skills.
- > Digital disruption of business is having significant implications for how finance functions support organizations, for example appraising projects with uncertain cash flows.

The PAIB Committee also discussed how the profession, globally, regionally, and locally can develop management accounting practices, and support PAIBs implementing management accounting tools to deliver information of greater relevance to the decision making needs of managers.

Next steps

- > Using the expertise of the PAIB Committee, IFAC has developed guidance providing advice to PAOs on supporting their PAIB members through more effective engagement [expected publication: June 2016].
- > The guidance highlights the importance of engaging PAIBs and the benefit of generating greater connectivity within the profession to address PAIB opportunities and challenges. The guidance also includes a case study of the Institute of Chartered Accountants of Pakistan and its recent journey to become more relevant to its PAIB members.
- > This guidance will be published as part of the PAO Capacity Building Series, and supplements *Establishing Governance: A Guide for Professional Accountancy Organizations* and other resources available on the [MOSAIC website](#), a portal for resources and news related to the development of the global accountancy profession.

Action for PAOs:

- > Call for case studies: IFAC is seeking additional case studies from PAOs willing to share the story of how they support and engage with PAIBs, especially new and innovative ideas. Please contact stathisgould@ifac.org to share your PAO's experiences.



Audit Quality

Objective:

1. Establish the PAIB perspective on audit quality, specifically in relation to the International Audit and Assurance Standards Board (IAASB)'s public consultation, [*Invitation to Comment: Enhancing Audit Quality in the Public Interest*](#)

The Committee will submit a comment letter to the Invitation to Comment (ITC) focusing on actions including and beyond the topics of professional skepticism, quality control, and group audits that should be taken into account in audit quality discussions. Committee members called for wider recognition of what should be considered to improve audit quality and that audit quality is the joint responsibility of the external auditor and those charged with governance, executive management, finance leaders, and internal audit. A shared responsibility to support high-quality financial reporting requires a mutual understanding and recognition of the interactions of all involved.

The PAIB Committee is considering several key issues in the development of a comment letter to the IAASB.

- > Highlighting root causes of audit quality issues related to the audit engagement with those charged with governance and management. For example, within its standards, the IAASB might reinforce the communication and interaction with audit committees (ITC: p. 7).
- > Expectation of auditors' challenge of management (ITC: p. 12) and cultural factors that, in some jurisdictions, lead to auditors being less comfortable challenging management (ITC: p. 14).
- > Impact of technology on audits (ITC: p. 9) and the implications for preparers.
- > The key elements of a Quality Management Approach (QMA) that might be included in IAASB's [*International Standard on Quality Control 1*](#) are comprehensive but may be incomplete. For example, an audit hours target might inappropriately reduce the level of audit required (ITC: p. 23). The objective and scope of the QMA, and the implications for practice, also need to be more clear.
- > In terms of strengthening the application of professional skepticism in audit, various issues were raised on professional skepticism applied by auditors, including whether the level of skepticism applied should take into account whether the auditor was dealing with a PAIB in the organization, and the difficulty in applying professional skepticism where there is a lack of understanding of the audit client's organization and environment.

PAIB Committee members felt that more discussions on audit quality are needed on a range of areas, including:

- > Pressure on audit fees and the implications for how audits are carried out;
- > Shifting the focus away from quality control procedures, which encourages a compliance mindset with national and international quality control requirements, to focus on the significant matters that would enable a good audit;
- > Important issues in the eyes of the auditor are not necessarily communicated to the audit committee and management in a timely manner. This issue may improve with the introduction of the enhanced audit report and key audit matters (KAM) given that the KAM are intended to improve user transparency of audit quality and not just output;

- > Greater alignment between auditing standards and the requirements on organizations for implementing internal control systems would help to avoid auditors requiring organizations document things at greater levels of detail. In practice, the experience can be that auditors are forcing their documentation requirements on management, which can lead to additional and unnecessary cost, particularly where auditors request management documentation on matters that are not part of the organization’s internal control framework, or subject to reporting requirements;
- > The challenge of communicating and working effectively with audit teams where the engagement team lacked the sustained involvement of an experienced engagement partner or manager. Coordination of an audit team is particularly important in situations where the engagement involves a range of experts covering specialist areas such as valuation, financial instruments, and tax, who do not all necessarily work in the same location;
- > Poor coordination between auditor, audit committee, and internal auditor often lead to duplication of effort, increased cost, and poor effectiveness; and
- > A greater understanding by audit teams of the organization’s business model and external environment.

Actions for PAOs:

- > Promote the IAASB’s Q&A document, [More Informative Auditor’s Reports – What Audit Committees and Finance Executives Need to Know](#), to raise awareness and understanding among boards, management, and finance leaders.
- > Consider responding to IAASB’s [Invitation to Comment: Enhancing Audit Quality in the Public Interest](#), before **May 16, 2016** with your personal or PAO’s perspective.
- > Key audit quality issues and activities from a PAIB perspective are [available online](#) (open source document that will be updated over time).



Creating and Communicating Value through Integrated Reporting

Objective:

1. Identify priorities for the profession's contribution to integrated reporting and the Integrated Reporting PAO Network

PAIB Committee members discussed the ongoing commitment of the profession to integrated reporting following the sessions at the 2016 IFAC Chief Executives' Forum and IFAC Board meeting in March 2016. Both of these high-level discussions concluded that IFAC should take a lead in providing a vision for the future of reporting through integrated reporting. Global accountancy profession leadership is particularly important in helping ensure that professional accountants are positioned to enable adoption of integrated reporting, as well as ensure confidence in reporting.

One of the priorities for 2016 is to fully utilize the recently-established Integrated Reporting PAO Network to enable a collaborative approach within the accountancy profession for adoption and implementation of integrated reporting. The Committee suggested the top three priorities for the Network should be:

- > articulating the internal (creating value) and external (telling the story) benefits of integrated reporting;
- > highlighting the fundamentals for implementing integrated reporting; and
- > sharing PAO experiences, including what different organizations are doing and what has and has not worked.

The Network's primary means of communication and information exchange are:

- > the Network LinkedIn Group: www.linkedin.com/groups/7031949 (the group is private—please request access via LinkedIn or email MichaelNugent@ifac.org);
- > quarterly webinars; and
- > resources, such as factsheets, presentations, and articles to be made available on the IFAC Extranet in the coming months to assist regional organizations and PAOs in promotion and facilitation of integrated reporting within and beyond the profession.

The Committee also discussed other key opportunities and challenges relating to integrated reporting.

- *Showing integrated reporting is not about more reporting*

In the business community, it is critical to combat the perception that integrated reporting might add to the existing reporting burden. Finding alignment between management commentary reporting and integrated reporting is an important opportunity to enhance adoption and improve the quality of reporting in jurisdictions with regulated forms of management commentary. For example, in the UK, Stephen Haddrill, CEO, Financial Reporting Council, has said Strategic Report efforts in the UK are on the same journey with the same purpose given the principles in a UK strategic report are consistent with an integrated report. Some PAOs are beginning to map existing corporate reporting and disclosure regulations to allow an analysis of consistency and alignment.

- *The need for smart regulation*

A continuing dialogue between regulators and the accountancy profession is important, not because more regulation is needed but to ensure regulation does not hinder integrated reporting and allows

innovation and experimentation to flourish. There is widespread concern that the current regulatory environment is overly focused on adding new requirements. This can lead to a compliance mindset with organizations focusing on adherence to rules rather than delivering desired outcomes. The general view is that a regulatory push would not benefit the integrated reporting movement. Rather, the focus should be creating a regulatory environment that enables integrated reporting.

- *As finance leaders, PAIBs can drive benefits by facilitating integrated thinking*

Finance leaders can play a significant role in unlocking the benefits of integrated reporting through integrated thinking. Given integrated thinking helps maximize the internal benefits of integrated reporting and is a critical part of the business case, more needs to be done to promote the PAIB role. To help PAIBs consider their role in integrated thinking, [Creating Value with Integrated Thinking, the Role of Finance Professionals](#) highlights five key areas where PAIBs can facilitate integrated thinking.

- *Investor demand is increasing, at least with some investor groups*

Some groups of investors are highlighting the need for integrated reporting. For example, the call from the CEO of BlackRock, Larry Fink, for a greater focus by boards on value creation and the endorsement by the CFA Institute of integrated reporting as a tool to facilitate this change make a strong case for wider adoption. For other types of investors, integrated reporting provides a powerful mechanism to help explain to investors how value is being created through the medium and long term. Integrated reporting also helps prevent investors from pre-judging performance in the short term, particularly when organizations are faced with short-term challenges and trying to change their strategies and business models.

Actions for PAOs:

- > Participate in the Integrated Reporting PAO Network by joining the [private LinkedIn discussion group](#).
- > Consider how to promote a dialogue and information sharing on the development of integrated thinking, as well as integrated reporting, among your members.



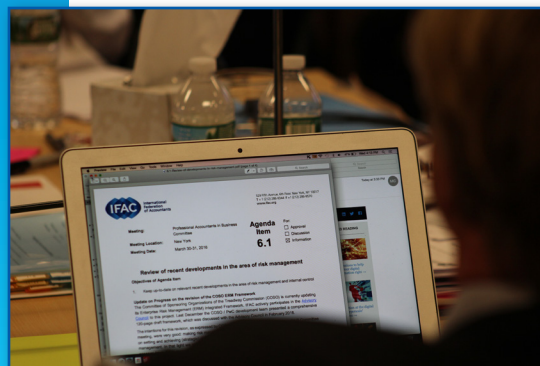
Integrating Management of Risk into Decision Making

Objectives:

1. Capturing best practices in integrating risk management into decision making and subsequent execution
2. Identify priorities for IFAC and the profession

Risk management is at the heart of what finance professionals do. Risk is inherently tied to setting and achieving an organization's objectives and, therefore, should be managed as part of integrated thinking and business performance management.

- > An informal survey of PAIB Committee members, technical advisers, and observers identified the perception that the increased focus on risk over the last five years is driven mainly by regulators rather than by business objectives. Consequently, a compliance-based mentality often determines the way risk is managed and overseen rather than a more effective outcomes-based approach. An outcomes-based approach should start by asking what do we want to achieve as an organization and then identify what can prevent or help us achieving these objectives.
- > The profession needs to expand its scope of, and influence over, risk management to help ensure an enterprise approach that is broader than applying internal control over external financial reporting. Risk management that turns into a compliance exercise will be of limited value to operational management and those in planning roles.
- > Much is going on in risk management with both the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the International Organization for Standardization (ISO) updating their standards, frameworks, and guidelines on risk management. IFAC is directly and actively involved in both groups and, through the PAIB Committee, will coordinate the PAIB perspective into the revision of these standards and guidelines. The public consultation on COSO's revised Enterprise Risk Management (ERM) Framework is expected in early June. ISO's revision of its [Standard 31000:2009—Risk Management](#) started in November 2015 and is expected to deliver a draft international standard in late 2016 or early 2017.
- > The PAIB Committee's main concern with the COSO revision so far has been a disconnect between the explicitly addressed intention to make ERM an integral part of strategic objective setting and overall management (a "business-objective centric" approach), and the current draft guidance, which primarily explains how to manage specific groups of risk as a distinct exercise (a "risk centric" approach).



Areas of Focus for IFAC and the PAIB Committee

Broad discussions at the meeting highlighted five areas members recommend the PAIB Committee focus on.

- **Investigating and promoting the link between business partnering and a PAIB's day-to-day role in helping organizations integrate and embed managing risk in all their decisions and activities**

The level and type of business partnering depends on a PAIB's role. For example, finance leaders need to effectively initiate, facilitate, and stimulate board and management engagement on risk, and help them consider their role in directing and overseeing enterprise risk management.

- **PAIBs/finance leaders encouraging the integration of risk into existing approaches to decision making**

Building on IFAC's 2015 thought-leadership report, [*From Bolt-on to Built-in: Managing Risk as an Integral Part of Managing an Organization*](#), key PAIB focus areas/messages may include:

- > Managing risk is part and parcel of effectively running a business and should not be an isolated function within the organization.
 - > To help facilitate integration, PAIBs need to tailor risk management tools and processes to suit decision making and execution needs in an organization.
 - > Risk assessments are best incorporated as an integral part of strategic planning—instead of being done only after the strategy has been established. This will also help ensure risk is operationalized in every aspect of a business, including planning, budgeting, and performance management.
 - > Risk needs to be considered a key part of the integrated thinking process that supports integrated decision making, integrated execution, integrated monitoring, and integrated reporting.
 - > Regardless of whether a central function exists to ensure that the right risk management arrangements are in place, risk management needs to be applied at every organizational level where decisions are actually made and executed.
- **The use of language and terminology in risk management can often work against integration**
 - > Communicating risk management activities in plain business language is a significant challenge.
 - > Using alternative wording for risk, such as "opportunities", "threats", and "responding to uncertainties facing an organization" can enable a more effective risk management approach. Ultimately, organizations should consider both threats and opportunities in their strategic decision making and execution.

Next Steps

As a result of the session, four core elements of the PAIB Committee's risk management work were identified:

- > sharing and connecting across the profession
- > developing relevant competency requirements among PAIBs
- > influence and advocate

- > integration of risk into other PAIB activities and areas of importance to PAIBs, such as integrated thinking and performance management.

Actions for PAOs:

- > Help surface issues and perspectives on risk internationally and share across the profession. Please share a short written description, and links to relevant content, of your Institute's main priorities, issues, and activities in risk management, including how you support your members and policy and advocacy actions, with Vincent Tophoff (vincenttophoff@ifac.org), who will share with the PAIB Committee's risk management team.
- > [Subscribe to updates](#) from the IFAC Global Knowledge Gateway for information about COSO and ISO developments and emerging thinking (register/login to the IFAC website and visit My Subscriptions). The PAIB Committee will respond to both forthcoming public consultations.



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Trends Impacting the Finance Function

Objectives:

1. Expose the profession to future possibilities
2. Define key priorities, trends, possibilities, and actions regarding what needs to be shared across the profession, the PAIB's work plan, and what is important for the IFAC Communications program

Much has been reported about the changing role of finance and accounting functions and the skills and competence needed by finance professionals to remain relevant now and in the future. A number of IFAC member organizations and others are capturing the trends, and the range of skills and competence needed.

Some of the most significant publications in this area have been captured in an [open source paper online](#). Key themes include offshoring, digital technology, automation and robotics, and finance business partnering, all of which were discussed by the committee.

Presentations at the Committee Meeting

We began the session by watching a [video from Daniel Susskind](#), author of *The Future of Professions*. Daniel, together with his co-author David Susskind, participated in the IFAC Chief Executives' Forum earlier in March discussing the future of accountancy and other professions. In his video at the Committee meeting, Daniel discussed global trends, their impact on accountancy, and how accountants may need to adapt.

The Committee also heard from three professional accountants in business who highlighted the challenges they have faced as leaders in the finance function:

- > Chris Stanley, Vice President and Lead Financial Officer, American Express Global Business Travel;
- > Stuart Chaplin, Vice President Finance - Risk Management, Shell Trading & Supply, and an IFAC PAIB Committee member; and
- > Joyce Evans, Director of Revenue, City of Kitchener, Canada, and an IFAC PAIB Committee member.

These presentations helped the Committee capture key trends affecting the profession and finance functions in public and private sectors in subsequent roundtable discussions.

During the roundtable discussions, several insights were identified.

Implications for financial professionals

- > An increasing number of traditional accounting tasks will be automated in the future and provided on a self-serve basis.
- > Technology will also change the types of tasks that professionals undertake.
- > Finance leaders must be comfortable managing people, from board members to junior finance staff, as well as managing fragmented finance and accounting teams.
- > Collaboration and change management has become a very important skillset.
- > PAIBs need to expand their expertise to develop a learning attitude and adaptation mindset, build the ability to upskill, be open-minded about gaining additional certifications (e.g., project management), and be flexible.

Implications for employers

In the context of cost cutting and rapid change in the business environment, employers need to build more diverse finance teams with different personality types and a broader range of professional skills and capabilities. Some larger companies are thinking innovatively about how to ensure their finance and accounting employees develop and acquire the necessary skills, for example through job rotation, so accountants have a customer and operational view of the organization.

In the public sector, the challenge is that the public wants more clear information on how and where their money is spent. The business case for investing in improving finance and accounting systems, processes, and talent management has to be clear and communicated to those outside of finance.

Employers need to proactively consider how to attract and motivate millennials, who place a strong emphasis on work/life balance, working innovatively, and exploiting technology.

Some key requirements and expectations from employers were identified during the discussion, namely:

- > commercial acumen, which requires a deeper knowledge of the business/ecosystem;
- > forward-thinking professionals who can respond to uncertainty;
- > a strong professional skillset rooted in financial management but with stronger interpersonal and social skills; and
- > finance leaders with a broader skillset enabling them to lead teams and work toward delivering business objectives and growth.

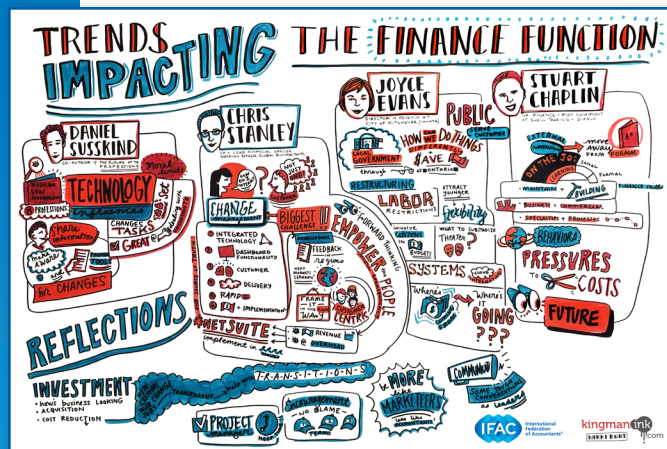
Implications for IFAC

Working through the profession, the committee feels that IFAC needs to:

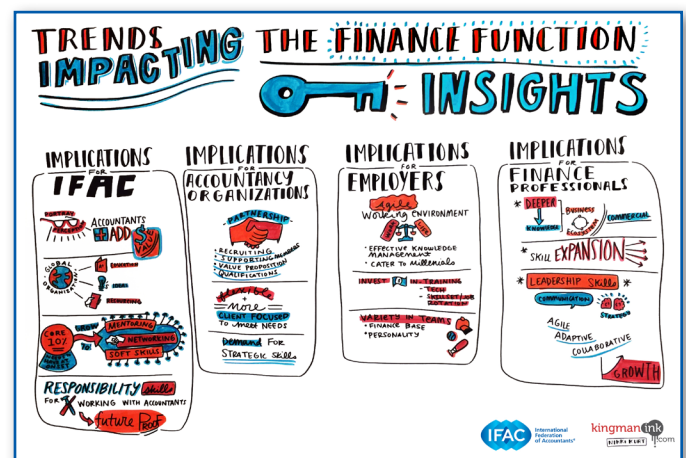
- > advocate: demonstrate how professional accountants perform as business partners as well as organizational stewards.
- > equip: support PAOs to ensure that their professional accountant members are equipped with the skills and business capabilities needed. The challenge for many accountants is acquiring a broader skillset to perform more effectively in some roles, particularly those involving business partnering.
- > convene: bring together relevant activities and resources from around the profession, and provide a platform for global trends, activities, and resources, such as the IFAC Global Knowledge Gateway.

Actions for PAOs:

- > PAOs play an important role in exposing members to emerging trends and ideas, and providing tools for members. PAOs need to consider how to attract the best students to the profession.
- > PAOs have an opportunity to do far more in providing finance learning and building capability to support members in the changing business environment. Employers report that only 10% of learning and capability building of finance staff is based on employees securing formal accreditations and professional certifications. The rest is on the job or based on learning from others.
- > To meet the needs of accountants in business, qualifications and training need to be flexible and adaptable, and focused on the needs of employers. More thinking needs to go into understanding what would actually help PAIBs do their work better.



Discussions during this session were captured by a graphic illustrator.



The Relevance of the UN Sustainable Development Goals to the Profession

Objectives:

- > Develop our thinking on how the profession and PAIBs contribute to achieving the Sustainable Development Goals (SDGs)
- > Provide input into an IFAC briefing to support sharing across the profession and provide messaging.

This session captured a global perspective on how the accountancy profession contributes to the SDGs and their relevance to PAIBs and their employers.

George Kyriacou, Deputy Chief Finance Officer, UN Development Programme and a PAIB, gave a presentation on the SDGs, providing background and their evolution from the Millennium Development Goals (MDGs).

In September 2015, 193 UN member states approved the 17 SDGs demonstrating a widespread political commitment to some of the world's most intractable problems. The SDGs represent one holistic post-2015 sustainable development agenda that integrates economic, social, and environmental sustainability, and completion of unfinished business from the MDGs.

Where the MDGs were often seen as only relevant to the developing world, the SDGs apply to all countries, and require the private sector to play a significant role in their achievement, such as providing financing and innovating.

Several principles underline the SDGs:

- > Universality: a foundational value of the SDGs and a departure from the MGDs, which targetted poor nations. All countries need to carefully examine what they can contribute.
- > Integration: policy integration means balancing all three sustainable development dimensions—social, economic growth, and environmental protection. It implies managing trade-offs and maximizing synergies across goals and targets.
- > No one left behind: this principle advocates for countries to go beyond averages. The SDGs should benefit all, eradicating poverty, reducing inequalities, and managing climate change.

Many companies are explicitly embracing the SDGs and exploring the innovative business opportunities that will result.

A global perspective on how the SDGs are relevant to the accountancy profession

Building on the article, "[Time to Act: The Accountancy Profession's Contribution to the Sustainable Development Goals](#)", the discussions at the PAIB Committee were a next step toward building a clearer picture of how the accountancy profession and PAIBs play a significant role in achieving the SDGs. A series of table discussions at the Committee meeting explored seven of the SDGs that are particularly pertinent to the profession, and were designed to develop thinking on its contribution. A separate briefing report with details and outcomes is in development.

The next PAIB Committee meeting will be in Dubai in September 2016. For more information, email StathisGould@ifac.org.