



**International
Federation
of Accountants®**

A VISION FOR THE FINANCE PROFESSIONAL AND THE FINANCE FUNCTION

SHARING KNOWLEDGE, IDEAS, AND EXPERIENCE

May 2018

Message from Charles Tilley, IFAC Professional Accountants in Business Committee Chair



I was shocked by a recent survey where only 8% of CFOs believe they are implementing processes well!

I believe the future for professional accountants working in business and the public sector is incredibly exciting, but there remains a long way to go to ensure we are relevant to the future needs of business. There is a clear need to embrace change, acquire the needed capabilities and skills, and act in accordance with our professional ethics to enable and support organizations as they pursue sustainable success.

Taking an integrated approach to our March PAIB Committee meeting, the agenda was framed around the key elements of developing a vision and roadmap for finance professionals and functions. We focused on the expectations of various customers of finance; digital disruption and technology; and future roles, skills and competencies. Following the same structure, this report highlights the key messages arising from the meeting and provides an update on other areas of importance on the IFAC PAIB agenda.

An effective finance leader and finance function is a key requirement for all organizations. This message was strongly emphasized by our PAIB Committee members who serve as board directors and audit committee chairs. From an independent director's perspective, trust and confidence in an organization is directly tied to the competence of its finance leader and finance function. First and foremost to ensure confidence in the controls and financials, and then to enable integrated thinking and integrated reporting, focusing on outcomes to support value protection and creation in a multicapitals context.

In both private and public sector finance functions, a key starting point for developing a vision is to focus on their customers' needs, including those of the board, operations and external stakeholders. The committee began to explore the expectations on the finance function from other stakeholder perspectives, including considering specific challenges facing the public sector and its finance teams. I plan to continue this approach with wider engagement at future meetings.

Digital disruption will significantly impact finance and accounting roles; from business partner to specialist roles in reporting, tax and internal and external audit. It will involve people working closely with machines and software, creating a digitally-enabled finance function that is more efficient and enables a much higher contribution to the business. To envisage this future, we looked in detail at the application of automation in the finance function as well as the potential of blockchain and distributed ledgers which could considerably impact financial business models, supply chains and accounting.

In a technology and data driven world, professional accounting skills will remain important. However, in recruiting talent, business as well as interpersonal and behavioral skills will be increasingly key to our future development. The roles and skills needed for commercially facing finance professionals are fundamentally changing as the expectation shifts from providing business rather than technical solutions. Enhancing the effectiveness and efficiency of finance

increasingly involves multi-disciplinary teams of data scientists, software engineers and architects in addition to finance professionals.

The half-life of knowledge, which represents the amount of time that elapses before half of the knowledge one has acquired is superseded, is rapidly reducing and could be under 5 years before long. A PAO's role in providing continuously relevant professional education, as well as useful lifelong learning and continuing professional development, has never been greater. However, traditional education approaches and career pathways are being challenged, meaning PAOs, organizations and education providers need to rethink their respective roles and relationships.

I encourage all PAOs to ensure they develop and frequently refresh their competency frameworks to support their professional qualification and continuing professional development (CPD) to maintain their relevancy in both the private and public sectors.

Asserting and maintaining relevance for professional accountants in business is a significant challenge and an enormous opportunity for the profession and PAOs. To help, I encourage you to use the [Self-Assessment Evaluation Tool](#) released in January to help take a strategic and practical approach to enhancing relevance. I also encourage PAOs to continue to put forward strong and diverse candidates for nomination to the PAIB Committee.

At our meeting, we reflected on our own committee's purpose and way of working which will lead to articulating a clear business model for the committee that demonstrates how we creates value in supporting IFAC and the profession. Our thinking will provide input in the development of IFAC's strategy beyond 2019. I look forward to sharing our approach later in the year.

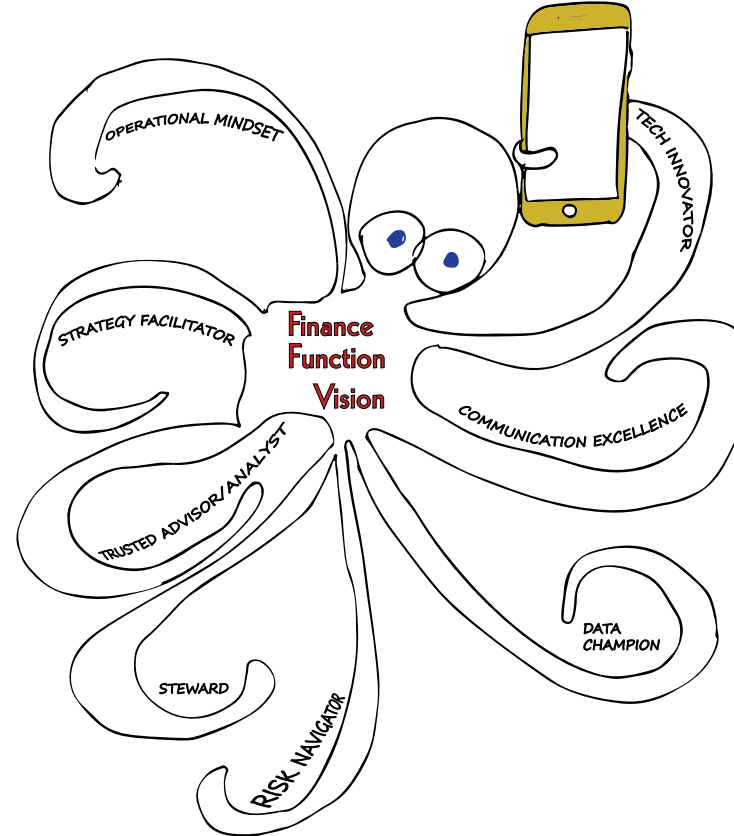
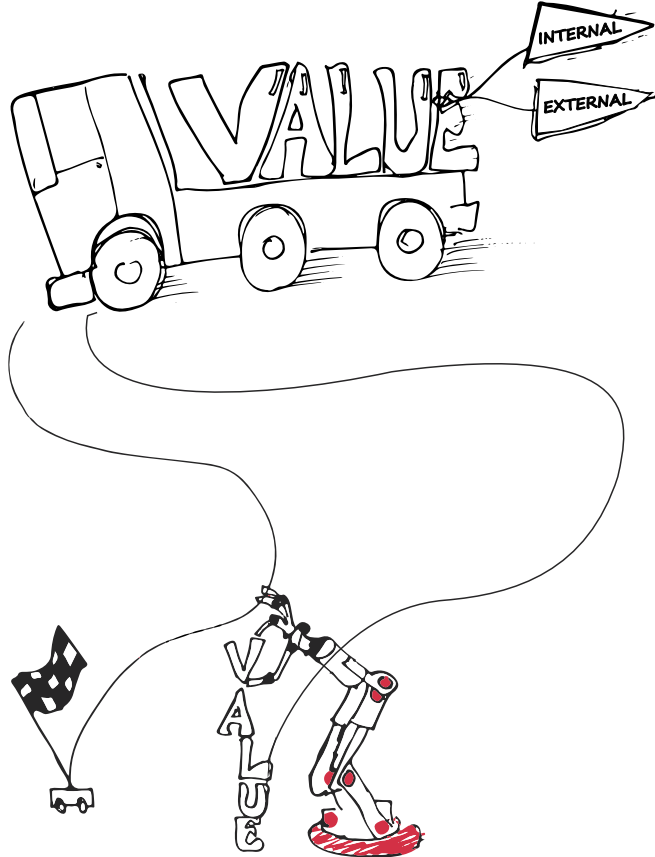
I trust you find this report of value as a means to keep connected to the discussions we have at PAIB Committee meetings. I greatly value your continuing help in ensuring that the PAIB Committee addresses your needs so I very much welcome your feedback and involvement in the PAIB agenda.

Charles Tilley

Main Themes

Developing a vision and roadmap for the finance professional and finance function is a journey requiring an iterative and experimental approach, supported by a development plan that incorporates significant thinking on the customer perspective of finance; digital and technology developments and implications; and the future profile and skills of the financial professional. The vision is important to provide a sense of direction, but given inevitable future uncertainties, the approach to fulfilling the vision needs to encourage agility and adaptability.

In an interactive workshop, the committee conducted a visioning exercise and developed many visual representations of the future finance function. Two examples of these have been included below. They illustrate the journey of the profession to continue delivering value to internal and external stakeholders, enabled by technology, and with finance professionals as the octopus or nerve system, connecting the organization to ensure a collaborative and integrated view.



Section I: Developing a Vision for the Finance Function

1. The Customer Perspective of the Finance Function: Opportunities and Challenges

A session focused on understanding the external customer perception and expectations of the finance function around the world. Three key components include:

- A view from Zaiton Mohd Hassan, Audit Committee Chair, Sime Darby
- An interactive session to define perceptions and expectations from the vantage point of various customers of the finance function.
- A public sector perspective from three members experienced in finance leadership in the public sector–
 - Janet Senior, Executive Director for Resources and Regeneration (and currently interim Chief Executive), London Borough of Lewisham, UK
 - Joyce Evans, Deputy City Treasurer/Director of Revenue, City of Kitchener, Canada
 - Larry White, Executive director of the Resource Consumption Accounting Institute and former commanding officer of the US Coast Guard Finance Center), US

2. Building Awareness of the Latest in Digital and Technology Developments

To understand the latest in digital and technology, two experts discussed the impact of technology trends on the finance function, with a particular focus on the transformation of finance service delivery and people models, and the potential emerging role of the finance leader around technology innovation:

- Jeanne Boillet, Global Assurance Innovation Leader, EY on key enablers for an agile finance function
- Sam Peterson, Partner/Principal, Blockchain Leader, Americas FAAS Digital & Analytics, EY on blockchain and its use cases

3. Future Finance Vision and Development Roadmap

A creative session to develop a vision and roadmap for the finance function in the context of business needs, expectations of the customers of finance, and technology and other trends impacting finance and accounting. The session had two key components:

- David Anderson, Digital Finance Experiential Lab, Deloitte MCS Limited, discussing how well finance functions are meeting current business needs, what needs to occur for the finance function role to materially change, and what a typical finance function development plan involves.
- Paul Urquhart, Deputy CFO, Australia Post, highlighting the development of the finance function vision within his organization, and an interactive and session to develop ideas for generating a finance function roadmap.

4. The Finance Professional Profile of the Future

Building on work done in 2017 (see [Developing a Future-Ready Profession](#)), this session focused on building thought leadership on the future profile of the finance professional based in eight different roles that demonstrate how finance professionals need to adapt to be integral to the business. Interactive group work to identify the skills and competencies needed to embrace these roles will be the basis to influence a future finance function vision and transformed service delivery model.

5. Key Skills Needed for Technology Competence

Anne Marie Vitale, Partner, PwC, Deputy Chair, International Accounting Education Standards Board (IAESB), and Chair of IAESB ICT Task Force shared an overview of the work of the IAESB, which is considering how emerging technologies are impacting the technology and communication skills professional accountants need to perform their roles effectively. Accounting education for both current and aspiring accountants needs to keep pace with the changes in technology, the challenge being the necessity to look forward to be proactive and not reactive.

Section II: Update on Current Initiatives

6. The Accountant Role in Effective Risk Management

7. Audit Quality and Audit Committee Effectiveness

8. Professional Ethics

9. IFAC's Approach to Professional Accountants in Business

Special Workshop on Effective Meeting Design and Facilitation

Immediately prior to the PAIB Committee meeting, an inaugural IFAC PAIB workshop for PAOs on designing and facilitating participatory workshops provided an opportunity to reflect on how to enhance meetings and events. This special training session provided insights on facilitating interactive workshops and events which have been used by the PAIB Committee in recent years.

As the world becomes more complex and new challenges arise, a PAO's ability to gather insights and perspectives from key stakeholders and turn this into strategy and actions is becoming critically important in helping a PAO become more connected and adaptable.

Sixteen PAOs participated including guest PAOs from Haiti, Ecuador, Kenya, South Africa and Suriname. Their involvement in the subsequent PAIB Committee meeting enriched the meeting discussions and provided new perspectives.



Section I: Developing a Vision for the Finance Function

1. The Customer Perspective of the Finance Function: Opportunities and Challenges

Objective: To understand the external customer perception and expectation of the finance and accounting function around the world.

Zaiton Mohd Hassan, Audit Committee Chair, Sime Darby

Sime Darby is the largest conglomerate company in Malaysia with a market capitalization of USD 15 billion and four major businesses – plantation, property, trading (motor and industrial equipment) and logistics. It is the first PLC in Malaysia to migrate to integrated reporting. Zaiton provided a view on the expectation of the CFO from the perspectives of Sime Darby and the Malaysian Institute of Accountants.



Evolving Role and Expectations on the Chief Financial Officer (CFO)

- **Delivers trust** – Through their professionalism and work. The traditional CFO role of ensuring confidence in the financials remains a given. The need for accounting and financial expertise will not go away as the CFO role evolves but their stewardship role is being enabled by technology which improves speed (e.g. accounts closing), accuracy, and reporting at the same time as reducing cost.
- **Communicates effectively** – The financial statements provide an indication of performance at a point in time. The CFO needs the ability to communicate, articulate and explain what the financials mean in a way that non-accountants can understand. For example, the impact of recent changes to standards covering financial instruments, revenue recognition and leases need to be understood and explained to the board, management and other parts of the business.
- **Meets customer expectations** – Although CFOs are responsible and trusted to manage all financial aspects of the organization, they are ultimately judged by peers on what value they bring more broadly to their organization and whether they are meeting the expectations of various internal and external customers, including: The governing board, Management and operations, Major shareholders and other funders, Fund managers and analysts, and Regulators and rating agencies.

- **Secures respect of the board** – In relation to the board, the CFO is seen as the trusted professional who is the conscience of the organization ensuring integrity, accountability and trust. When things go wrong, a board will typically look to the CFO – a heavy load on their shoulders but shows a lot of respect for the accountancy profession. The board expects the CFO to be a strong communicator explaining the performance of an organization in an understandable way, as well as taking an independent objective view (“the sanity test”) on significant new investments, mergers and acquisition and joint ventures.
- **Understands the business model** – In relation to management and operations, the CFO needs to understand the business model to be an effective business partner, and providing insights on financial and risk implications of decisions and their potential implications in the short and long term. In terms of ensuring control, the CFO needs to institute effective checks and balances involving adherence to limits of authority.
- **Creates long term value** – The adoption of integrated reporting and the integrated thinking in Sime Darby has brought about a shared purpose and better understanding of what drives value, and brought into view opportunities and risks that might not be easily quantified in the short term but might have a huge impact on value creation in the long-term. Sime Darby’s integrated reporting catalyzes forward-looking discussion with stakeholders rather than a dialogue based solely on past performance. The CFO is expected to be able to communicate all key aspects of value creation in the integrated report.

Given trust and confidence in an organization is very much based on having a competent finance leader and finance function, from Zaiton’s independent board directors’ perspective, the expectation should be that the CFO is a professionally qualified accountant.

How do different customers perceive the finance and accounting function in the public and private sectors?

In developing a vision and roadmap of the finance function, it is critical to understand what customers of the finance function demand from it.

What do finance function customers want from the finance function? By Customer Group:



Independent Director

- Holds the business to account and ensures controls and processes
- Understands the business
- Understands technology to take advantage of digital enablement
- Understands and communicates the implications in changes in financial reporting standards
- Reports with transparency on the business and relevant data
- Ensures funding is available for strategic and operational investments and that the investment process is judicious and supports objectives
- Communicates effectively to external stakeholders



Operations

- Holds deep awareness of operational objectives and performance
- Views value stream processes and systems end-to-end
- Provides insights that lead to solutions to operational challenges
- Inquisitive yet enabling and opportunities focused



Regulators

- Leads a finance function that can be trusted to deliver effective and efficient finance operations (so to avoid over reliance on external audit)
- Provides high quality reporting across companies that is consistent, complete and timely
- Ensures no lapses in regulatory compliance
- Provides confidence in non-financial as well as financial data
- Invests appropriately
- Understands whether business and public interest outcomes have been delivered



Sales

- Understands the industry
- Explores strategic opportunities to drive top-line growth (not just focus on cost control)
- Delivers insight into customers that can improve proposals and value proposition
- Provides market intelligence enabling better sourcing decisions
- Develops responsive and timely performance information that is accessible to sales staff



Marketing

- Communicates in the language of the business
- Allows for greater dialogue on new ideas and highlights both opportunities and risks
- Provides guidance on evaluating marketing ROI and measuring performance of brand investment
- Delivers useful data to support marketing decisions
- Links marketing budgets and expenditure to specific marketing activity
- Collaborates on communication with external stakeholders



Tech (IT, CIO, CTO)

- Understands the operational side of the business and underlying processes
- Views the organization beyond financial systems and processes
- Productively invests in new technology to support the business and the finance function
- Provides connectivity to the objectives and strategies of the organization rather than being procedural

Key Insights on Opportunities and Challenges for Finance Professionals in the Public Sector

Janet Senior, Executive Director for Resources and Regeneration (and currently interim Chief Executive), London Borough of Lewisham, UK

Joyce Evans, Deputy City Treasurer/Director of Revenue, City of Kitchener, Canada

Larry White, Executive director of the Resource Consumption Accounting Institute and former commanding officer of the US Coast Guard Finance Center), US

Summary of Key Insights

The Committee discussed the opportunities and challenges facing public sector finance professionals and teams in the context of significant austerity, revenue limitations, and rapidly increasing demand for high quality services.

- The importance of effective resource allocation, relevant data and insights, and communication to senior policy makers, politicians, and the public are all key features of a relevant finance function, and are critical to fighting corruption, waste, and abuse in government.
- The capabilities and skills required of finance professionals and teams in the public sector is generally more the same than different than in the private sector but the objectives, political context and constraints are more diverse.
- The challenges faced by finance professionals and teams varies markedly across jurisdictions. In local governments in the UK and Canada, they are on a journey to move beyond their traditional role of ensuring transparency and accountability in financial management to supporting the effectiveness and efficiency of service delivery using innovative approaches. Austerity has led to more expectation on finance teams to help to enhance services in the context of reducing revenues
- To take a broader role in measuring and managing social value contribution and the resources required to support service delivery, finance teams will need to be more engaged in the wider organization enabling them to provide more relevant data and insights to improve decision making.
- In some jurisdictions, the professionalization of finance in the public sector remains a consuming priority, and the focus is on providing confidence in accounting and financial reporting, adopting accrual accounting standards and ensuring an unqualified audit opinion. This pressure to focus on basic financial accounting and reporting constrains professional accountants from developing the internal decision support information required by other parts of the organization to improve service delivery, managing operations.
- In government, having an impact on decision making requires involvement in policy making, planning, budgeting, and program management. Professional accountants are on a journey to be more active in these areas to impact the future direction of their governments and provide solid financial data and information as the basis for decision making. A broader set of professional capabilities and skills is needed to transition into valued business partnership and moving from historical reporting to forward looking decision support.

The CFO and Finance Professionals, a UK Local Government Perspective – Balancing increasing expectation on service delivery with significant austerity

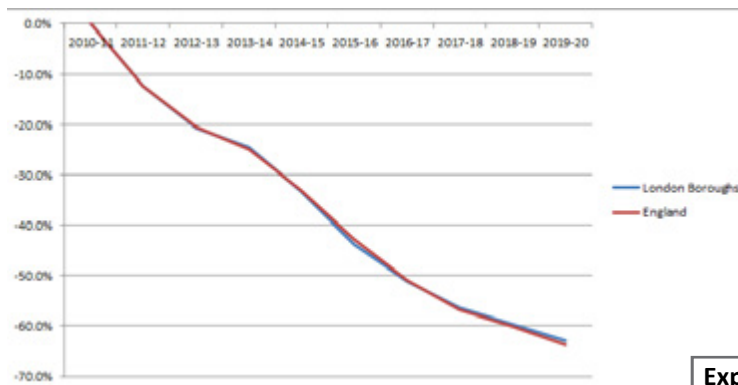
UK Local Government Context

- Local Government is 25% of the total public sector in the UK.
- For all top tier local authorities the scale and impact of government funding reductions have been unprecedented since 2010 as a result of austerity policy.
 - 49.1% real terms reduction in government funding
 - 28.6% real terms reduction in spending power (government funding plus council tax)



UK GOVERNMENT FUNDING FOR LOCAL AUTHORITIES

London Councils – analysis of London Borough funding* reductions of 63% from 2010 to 2020
 * formula grant to 2013/14 and then settlement funding (grants and business rates)



- These reductions have necessitated significant financial savings to be made putting strain on local authorities and tax payers.
- Other pressures include: Brexit uncertainties (impact on growth and access to skills), inflationary pressures on wages and services; welfare reforms and a broken housing market, increasing demand for services as a result of population increases.

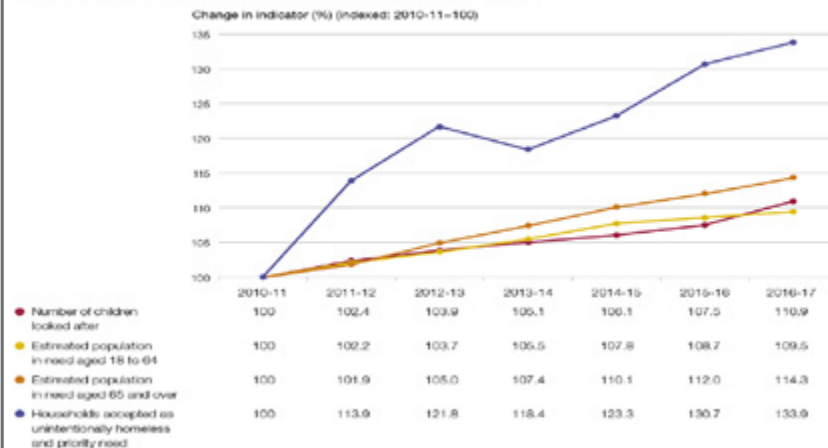
Response strategies

- Reducing costs in a way that does not prevent ability to deliver social value and using reserves in the short term to enable transition
- Transformation through innovation - doing things differently and doing different things e.g., demand management; strategic commissioning paying on outcomes that incentivize prevention; greater efficiencies at scale: shared services between councils & agencies; pooling of different agencies budgets; new trading operations and raising fees and charges; more commercial approach to asset management; greater digitization of services

Explosive demand growth

Figure 4
 Change in demand in key local authority service areas in England

There has been growth in actual or potential demand in a range of core service areas



Source: National Audit Office analysis of departmental data. See standardise methodology

The Role of the CFO and Finance Function

- The CFO and finance professionals need to understand the demands and expectations, and balance financial pressures across the ambitions and responsibilities of the local authority
- Public sector finance teams typically require similar capabilities and skills as those in the private sector but have to work in a unique context involving
 - Obligations, through statute and regulations, to deliver services. No choice in which services or customers' needs have to be met (unlike the private sector where there is flexibility to engage in chosen markets or with certain customers)
 - Service delivery being the common "currency" and financial work as the means to the service outcome
 - Social value the primary concern in all activities to ensure fairness and equality in service delivery (in the private sector social value is more often a consideration to support longer term sustainability and corporate resilience)
- UK Local Government – legal framework for finance professionals. The CFO
 - is a key member of the leadership team (HM Treasury 'Managing Public Money' 2007)
 - actively involved in all material business decisions (Local Government Act 2000)
 - lead on the promotion of and delivery by the whole organization of good financial management (Local Government Act 2003 & CIPFA Prudential Code)
 - lead and direct a finance function that is resourced and fit for purpose (Accounts and Audit Regulations 2015)
 - must be professionally qualified and suitably experienced (s113 of the Local Government Fin. Act 1988) (Source: [CIPFA Role of the Chief Finance Officer \(CFO\) in Local Government 2016](#))
- The capabilities and skills required of a finance professional in UK local government - from student to CFO
 - Be principled and act with integrity
 - Ensure fundamentals of financial management are sound
 - Engage with the whole organization
 - Provide leadership
 - Embrace and use the potential of technology
 - Understand the business to convert data into information / intelligence
 - Able to partner and work with others – commercially and in alliance
 - Agile and open to change
 - Prepared to challenge
 - Be risk aware

Canada - Opportunities and Challenges for Municipal Government

Strategic context for municipalities

- Open government - transparent and accountable to citizens, providing easy access to information, a great customer service experience, and meaningful opportunities to participate in the democratic process.
- Strong and resilient economy - within a collaborative network of city-builders to create a dynamic and prosperous local economy that is rich with employment opportunities and successful business ventures that can grow and thrive within the broader global economy.
- Safe & Thriving Neighbourhoods - connected, safe and walkable neighbourhoods with a range of housing options.
- Sustainable Environment & Infrastructure - well planned, managed and cost effective infrastructure systems that support long-term community needs for services, harnessing the benefits of nature through green infrastructure programs to create a healthy urban environment.
- Effective & Efficient City Services - delivery of quality public services that meet the day-to-day needs of the community in a reliable and affordable way, made possible through technology, innovation, employee engagement and a sound long-term financial plan.
- Government policy and legislative frameworks and requirements that determine service delivery priorities, prohibit budget deficits, and limit revenue, borrowing and investment options.



Financial Challenges

- Balanced budgets are legislated by the Province and budget increases are typically held below inflation
- Growing cities through new development and increasing demand for services
- Municipal costs increases more than inflation causing pressures e.g. increasing salaries
- Limited sources of new revenues and need for investment to replace aging infrastructure
- Increasing legislation in areas such as water quality; minimum wage; accessibility; health and safety

Tools to address challenges

- Replace aging IT Systems with integrated systems
- Mobile computing for technicians and 24/7 self-serve access for customers for a variety of services
- Lean management process reviews and implementation, and reorganize work flows for greater efficiency

Next Steps

Customer perception of CFOs and finance functions will be further explored in a series of round tables aligned to the next PAIB Committee meeting agenda.

2. Building Awareness of the Latest in Digital and Technology

Objective: To understand latest digital and technology developments and their impact on the effectiveness and efficiency of finance functions.

The session built on [previous committee discussions](#) around the impact of digital and technology trends, with a particular focus on the transformation of finance service delivery and people models, and the emerging role of the finance leader around technology innovation.

Presentation from Jeanne Boillet, Global Assurance Innovation Leader, EY

To survive in the new normal, finance functions need to adapt to the challenges and opportunities (and potentially disruption) introduced by digital technologies and new operating models.

Key Trends Impacting the Finance function

TREND		IMPACT
The changing role of the CFO	Modern CFOs are increasingly driving strategy and business model innovation, ensuring the organization stays ahead of business cycles.	Requires faster and better information outside the traditional constraints of time and cost, underpinned by enhanced business partnering capabilities.
Accelerated planning cycles	Organizations are adopting rolling budget/forecast cycles, some moving to continuous forecasting and real-time information delivery.	Requires finance to look outside the organization to understand major trends and to identify patterns, critical risks and opportunities.
Demand for advanced analytics	Users are demanding access to ever-increasing amounts of data.	Requires finance to move through and analyze vast amounts of information, deliver more tailored role specific reporting and drive new insights and better decisions.
New technologies	Intelligent automation technologies, advanced real time analytics, in-memory computing and blockchain	Offers unparalleled change opportunities for finance.

Agile Finance

Is digital leading to a better finance world? Digitalization is impacting the role of the CFO and finance leaders by enabling an agile finance function that is:

- **Responsive** – to changing market dynamics, business needs and regulatory requirements
- **Insightful** – providing accurate, timely and actionable information to stakeholders
- **Efficient** – delivering quality service at a competitive cost, while being flexible to demand

Five challenges that can impact the finance function

1. Does digital lead to new value?

Yes, it does. It enables a better understanding of complex correlations, transforming data into insights, and insights into value.

2. If digital finance changes everything, how do we enable our people?

Specialized training is key, as well as the reorganization of current operating models to assign the right skills to the right positions

3. Do we still need local finance if global transparency is possible?

Global finance offers consistent data models and real time information through automated processes in lower cost locations, which challenges local information advantages.

4. Does digital lead to empty offices?

There will be major impact in most workplaces, with employee reductions of 50% expected within the next 5-10 years. As a result, employees need to adapt to new skill requirements.

5. Timing and value – identifying sustainable solutions and optimizing investment in new technology

It is important to focus on technology that can solve complex business issues, differentiating sustainable solutions from temporary hypes. Avoiding early adoption by piloting new technology before making a final investment decision is essential.

Key Enablers for an Agile Finance Function

- **Talent management and organization design** – Equipping current and next generation finance leaders with the skills and capabilities to excel in an agile, digital future is crucial. Finance must also organize its resources more effectively to deliver business needs. One way to do this is through a [Global Business Service \(GBS\) model](#).
- **Next generation enterprise resource planning (ERP)** – Traditional ERP applications, while extremely powerful, are not flexible and functional enough to enable agile finance. Next generation ERPs change this. They can store and process large volumes of data in ways that they could not in the past, support advanced analytics, reduce the number of system interfaces and enhance reporting capabilities. An example of a next-generation ERP is [SAP HANA](#).
- **Big data and advanced analytics** – Most companies already use *descriptive* analytics, which involves mining past data to report and understand what has already happened. *Predictive* analytics is the next step, which leverages past data to understand underlying relationships and predict future outcomes across various scenarios. *Prescriptive* analytics is the most advanced type of analytics, which uses simulations to determine which decision or action will produce the most effective result against a specific set of objectives and constraints.

- **Internet of Things (IoT)** – IoT enables massive flow of real time data into financial systems by connecting devices onto a network. In implementing IoT, there are issues that CFOs need to consider, such as security implications and tax ramifications. IoT can add value to traditional products, but could also make product companies seem more like service providers.
- **Cloud and software-as-a-service (SaaS)** – New cloud-based billing systems and reconciliation and reporting platforms can further improve finance’s capabilities. New ERP solutions are available in cloud form and have a number benefits including: reduced cost; robust security tools; and opportunities to drive standardization in a faster, smarter way.
- **Blockchain and distributed ledgers** (see [Blockchain section](#))
- **Intelligent automation** (Robotic Process Automation (RPA), machine learning and artificial intelligence)



Automation gaining momentum

Automation has various maturity levels. RPA has the lowest entry cost and is helping to transform repetitive, rules-based and high volume activities. It involves screen-level data collection, workflow and process automation based on existing systems. With greater cognitive capability and server-based approaches, automation can extend to managing unstructured data through machine learning & natural language processing, which involves reading source data, pattern recognition, and self-learning capabilities leading to more predictive capability.

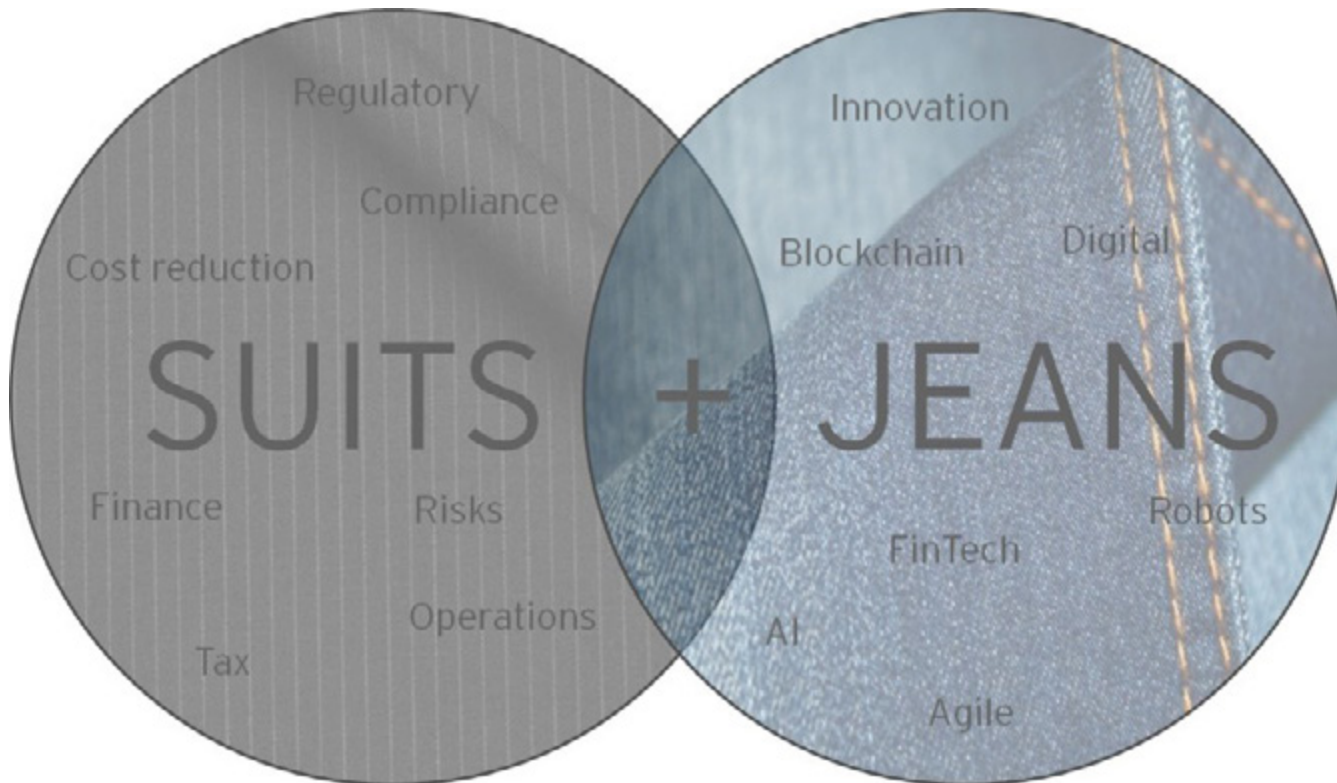
Robotic Process Automation in finance and accounting – an Update from Rick Payne, *ICAEW Finance Direction Programme*, and Jamie Lyon, *ACCA*

Learning points

- RPA does not solve failing processes. Process simplification and optimization remain critical, and change management needs to deal with resistance to change and challenges with legacy IT systems.
- Requires clear direction on tasks you automate, and those you don’t.
- Build RPA skills in the team. The right skills are needed to develop automation scripts, but this does not require deep technical programming expertise.
- In assessing benefits, cost reduction is only one measure; benefits of releasing time for finance staff is key.
- RPA needs to be part of a wider digital finance function vision that can be scaled and clearly connects to other technologies and applications.
- Effective engagement with IT and outsourcing and BPO providers is important.

What can we do now?

- Look for 'quick win' efficiencies in the way processes are performed
- Refresh the team's profile – need people who understand the opportunities and risks from digital
- Recruit team members who are interested in doing things differently
- Hire and train good project managers



Source: EY

Sam Peterson, Partner/Principal, Blockchain Leader, Americas FAAS Digital & Analytics, EY

What is Blockchain?

- Blockchain is software, both a database and a network. It is a distributed ledger with no central authority (i.e. no single participant controls the blockchain) that keeps a record of each transaction that occurs across a network. All transactions are secured by encryption to prevent tampering.
- A transaction and record occur in one single event with automated validation of a record in a “block”. This validation happens through a consensus algorithm (also referred to as a consensus protocol), which is an important mechanism to ensure data being added is properly validated. The type of consensus algorithm to use is a key decision when setting up a blockchain. They can be very complex and require high computing power, which in turn consumes vast amounts of electricity. There are also less complex methods that use less power, but will impact on the speed of processing.
- Chained blocks form a ledger and each computer participating in the chain has access (via a key) to the complete ledger.
- Blockchains can contain smart contracts, which are a type of automation that attach a set of rules to a transaction through small programs that govern when and how transactions are processed. These could be legal agreements, but could also be other business processes.

Uses for Blockchain

Blockchain is increasingly being applied to supply chain management and operational processes, for example to verify the origin of food.

Other uses include:

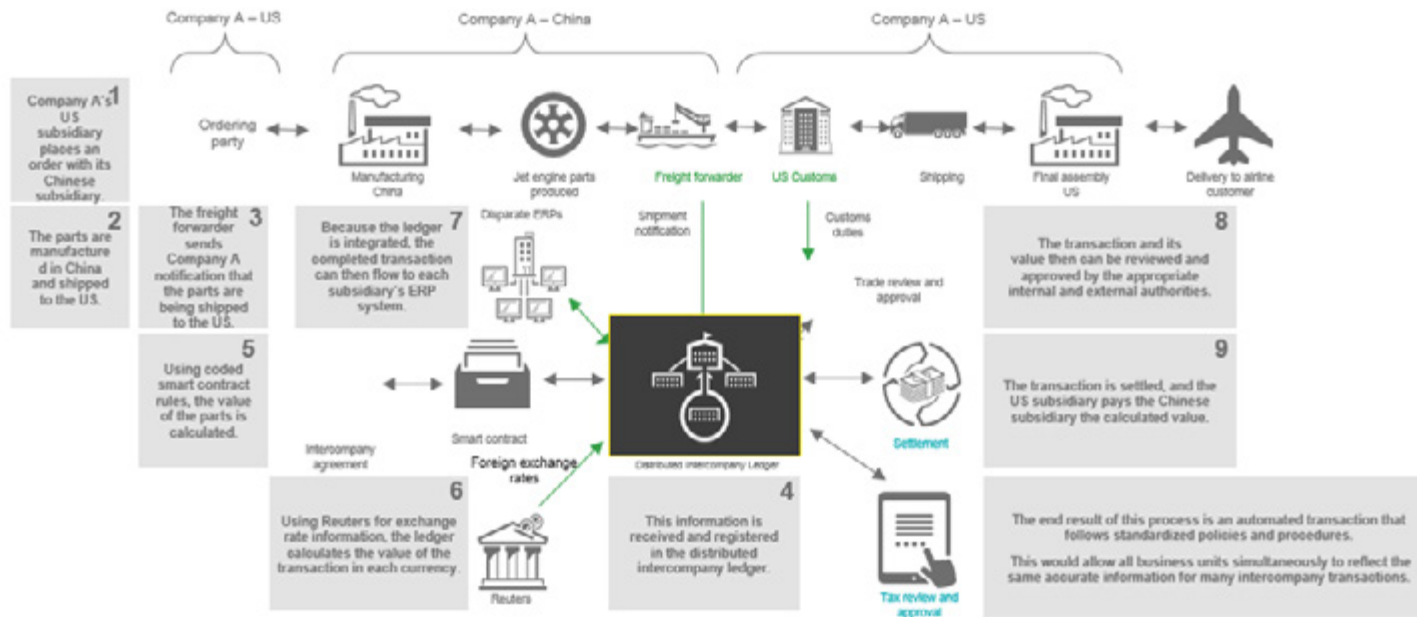
- **Health care** – records management and procedure billing and ordering
- **Media** – verifying intellectual property
- **Manufacturing, power and utilities** – cross-border trade and logistics
- **Public Sector** – Voting and public registries
- **Financial Services** – Cross-border payments and securities and derivative clearing and settlement

Wine Blockchain

The wine industry faces the issue of counterfeiting, with 20% of Italian wine estimated to be counterfeit.

This [video](#) outlines how Blockchain has been used by wine producers to verify authenticity.

EY is involved in developing proof of concepts and use cases in various settings including supply chain (wine) and financial services covering intercompany transactions, and financial and commodity markets where potential savings in market activities range from 30-60 per cent by reducing capital costs through faster settlements, reducing technology costs by removing dependency on multiple systems, and taking out manual processes.



Source: EY

Where can blockchain be useful?

- The core problem blockchain solves is data fragmentation. Data fragmentation is most complex when it takes place between organizations (e.g. intercompany transactions).
- In cases where multiple parties are writing to a database, blockchain eliminates the need to reconcile data. Therefore, data becomes much more reliable.
- Blockchain provides a complete audit trail from whenever the chain was set up. Everyone has IDs (public and private keys with a unique number) and can see who accesses the information and at what time.
- When a big system is coming to the end of its useful life, it is a good opportunity to consider blockchain.

Blockchain has a wide range of applications and the more complex the situation, the more valuable blockchain will be. However, there are certain situations when it is not an appropriate solution to a business problem.

EY uses a five-point test:

1. Are there multiple parties in this ecosystem?
2. Is establishing trust between all of the parties an issue?
3. Is it critical to have a tamper-proof permanent record of transactions?
4. Are we securing the ownership or management of a finite resource?
5. Does this ecosystem benefit from improved transparency?

Challenges to Blockchain Scalability

- **Legal and regulatory concerns** – Current laws do not cover distributed ledger technologies, which raises questions such as: How will system failures be addressed? Who has legal claim to all or parts of the data?
- **Security concerns** – There have not yet been hacks on the underlying blockchain software itself, but the smart contracts that enable automated transactions to a blockchain can be exploited if badly coded. Blockchain will not solve bad coding or sub-optimal processes.
- **Data privacy concerns** – Data can be stored indefinitely, which raises concern over compliance with data protection regulations.
- **Scalability concerns** – Blockchains consume massive amounts of electricity, which raises concern over its scalability, as well as its environmental impacts.
- **Uncertainty around the cost of implementation** – Need to consider ongoing hosting fees and support costs.
- **Loss of keys** – Private keys are important to control the data, loss of that key means loss of control of the data.

Companies across the world are currently experimenting with blockchain to overcome these challenges. Over the next three years, huge growth is expected in its application across industries.

Useful Resources



EY report: [Blockchain, How This Technology Could Impact the CFO](#)



ACCA report: [The race for relevance: Technology opportunities for the finance function](#)



IFAC: [Blockchain: Impact on business, Finance, and Accounting](#), available to IFAC member organizations to share and/or customize. Please contact stathisgould@ifac.org to request use.

Action for PAOs

- Review what is needed to raise awareness and build the capacity of your members around blockchain. The key question to address is what needs to be done today to position accountants in business for success in improving finance and business processes using distributed ledgers. New skills are needed but an experiential learning mindset and culture within finance teams will be paramount.

3. Future Finance Vision and Development Roadmap

Objective: Develop a vision and roadmap for the finance function in the context of evolving business needs, expectations of its customers, technology, and other trends impacting finance and accounting.

David Anderson, Digital Finance Experiential Lab, Deloitte MCS Limited

Finance Function of the Future, Vision and Development Roadmap

Where are CFOs and Finance Functions Spending their Time?

CFOs and their finance functions are generally struggling to meet business needs. Based on Deloitte [research involving 290 CFOs](#) over a 6 year period, today finance is spending around 56 percent of its time on steward and operator roles as compared to strategist and catalyst roles that focus on proactive and predictive activities to:

- Guide and steer the business to make the right strategic choices in response to increased uncertainty; and
- Focus on partnering the business and providing the insights to drive commercial outcomes in the key moments that matter.

The 2025 vision for CFOs and their finance functions is to be able to spend more time on strategic and business partner roles enabled by.

- **Automation and the adoption of distributed ledgers** (blockchain) to streamline transaction processing and allow previously manual transaction processing to be touchless. These developments are likely to significantly reduce headcount in certain traditional areas of finance and allow greater focus on higher value activities. Many larger organizations are targeting a total finance operations cost of 0.5 per cent or less of total entity revenue.
- **Data volume and analytics** will transform business finance, providing an opportunity to greatly enhance its service to the business by providing insights that are needed to support value creation. As business partnering increases and becomes more embedded into business lines, the boundary between the finance function and the organization will increasingly blur.
- **Real time and self-service reporting** transforms how finance and accounting information is delivered. Real time and periodic reporting is no longer needed to service operational decision making. The shift to self-service reporting is accelerating and is increasingly delivered via app-based solutions to support management and operational decision making.
- **New service delivery models** emerge for operational, business, and specialized finance. Work is completed by a combination of humans, robots, and algorithms. Companies will need to rethink their offshore operations and outsourcing models.
- **Data standardization and governance** become key focus areas. Public & private Application Programming Interfaces (APIs) will help drive data standardization, but data cleansing, governance, and analytics will be key focus areas. The use of apps for different purposes is prevalent in all aspects of life and will be a central feature of

information delivery in organizations. Finance applications and microservices will increasingly challenge traditional ERP services and the big vendors will evolve their own service delivery in support of ERP platforms.

The Best Way to Predict the Future is to Create it

Finance function development plans need to be adaptive and specific to industry and organization environments. The approach to developing a vision for the finance function must be adaptable and iterative in exploring alternative ways of fulfilling a vision, with customer and business needs being at the core.

There can be no fixed end state given the abundance of change and uncertainty, but there is a need for a “north star” and a development approach that encourages agility and adaptability and learning through doing. The future is so uncertain that looking too far ahead is unhelpful.

The Deloitte approach to finance function development provides a journey of exploration of digital trends, change drivers and good practice signals.

The key elements of a development plan include

- A vision to help deal with and respond to uncertainty and acknowledging that the end state is unknown
- Placing (organizational) strategy, customer needs and experience at the heart of design. Looking at the needs of (internal) customers of finance provides a limited view of where to make enhancements. Looking at the client perspective makes it possible to enhance processes and service delivery end-to-end
- Crowd-sourcing, virtual workshops and digital demos to incentivize ideation and aid delivery. Crowd sourcing ideas involving those from outside of the finance function aids experimentation and ideas implementation
- Live exploration of digital technologies and ways of working
- Rapid proto-typing, experimentation and timely acceptance of failing and need for continual reiteration
- Ability to quickly scale areas of good practice.

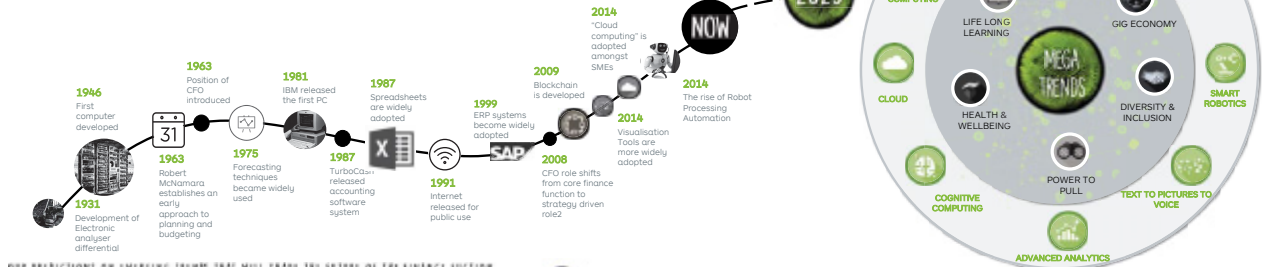


A finance development plan can be in the context of three key dimensions:

- Worker – roles, talent, knowledge and skills required
- Work – the type of work finance professionals will be doing in the future
- Workplace – the structures and practices to enable the worker to create value in the future.

Paul Urquhart, Deputy CFO, Australia Post, provided an example of the type of factors that are being considered in his organization as part of developing a finance function vision of the future.

THE FUTURE OF THE FINANCE FUNCTION 2025 VISION



OUR PREDICTIONS ON EMERGING TRENDS THAT WILL SHAPE THE FUTURE OF THE FINANCE FUNCTION

<p>INTERNET OF THINGS MEANS MORE DATA</p> <p>Facilities, retail outlets, trucks, vans and bikes will be fitted with sensors that capture event and environmental data. Combined with other datasets, AI will use this new data to derive value within our business from advanced analytics and create new revenue from commercialisation of this data.</p>	<p>ADVANCED ANALYTICS FOR VALUE</p> <p>The volume of IoT data from embedded sensors will increase, as too will the utilisation of external crowdsourced data being used for strategic forecasting obtained from open source platforms. This data will evolve Advanced Analytics to drive increased value contribution from Finance, where deriving value from data and driving disciplined change to business practices to generate value will form a much larger part of its role.</p>
<p>LIVE DISTRIBUTED LEDGERS FOR AR/AP INITIALLY</p> <p>A live distributed ledger, similar to the blockchain, where transactions are verified in real time will be used initially for Accounts Payable, Accounts Receivable and Payroll removing the need for invoices, eventually extending to the entire ledger. Live distributed ledgers will catch up to the real time digital payments technologies and enable payment in digital currencies creating a connected ecosystem that is verified and secure.</p>	<p>COGNITIVE TECHNOLOGIES AUGMENT HUMANS</p> <p>Finance will use artificial intelligence and broader datasets to augment their commercial acumen in more complex decisions. For example unstructured text in social media and news will be used to value the influence of entrepreneurs in potential business acquisitions, and capital project status updates will identify human traits in leaders and project managers that will get the best returns from invested capital based on the type, shape, form of project or investment.</p>
<p>SMART ROBOTICS</p> <p>Robotic process automation will increasingly replace manual human effort to perform transfers, manipulations, allocations, journals, purchasing and reconciliations. Rather than investing in more systems or integrating existing systems, Finance will evolve to leverage machine learning to predict and forecast underlying business results and contribution with no human intervention.</p>	<p>CLOUD ENABLED</p> <p>Large enterprise corporates will move away from on premise IT architecture leveraging advances in cloud technologies, which will facilitate data sharing between functions and precursor the initial moves to a live distributed ledger. Granular transaction data will move first for both analytics and reporting, but will eventually extend to the entire ERP and GL.</p>
<p>TEXT TO PICTURES TO VOICE</p> <p>Reports with tables and graphs, will be replaced with interactive visualisation tools and dashboards that will constantly monitor data in real time and answer commercial questions on demand via text and voice. Both visualisation tools and dashboards will be able to alert the business of events outside expectations. The CFO will receive summaries questions being asked of dashboards each week or month as potential lead indicators to concerns or performance. The technology will progress to making recommended actions and predict the change in business performance by taking that action.</p>	<p>IN-MEMORY COMPUTING TO IMPROVE TECH SOLUTIONS</p> <p>Finance will increasingly leverage in memory computing to facilitate expected response times in crunching so much data that finance will have access to perform advanced analytics, cognitive computing and intelligent robotics. Queries are processed up to 20,000x faster in real time. This will increase the speed to migrate to cloud based solutions.</p>

FINANCE WILL CHANGE IN THE FOLLOWING WAYS...

<p>WORK The type of work Finance will be doing in the future</p> <p>Imagine...</p> <p>A SHIFT IN ROLE Continue to have solid control and governance over business commercials, with an increased focus on delivering tangible commercial value to the business</p> <p>MORE TECHNOLOGY, LESS EFFORT Self service reporting, chatbots and predictive artificial intelligence will replace finance processes that were once delegated to finance analysts</p> <p>EXPLOSION OF DATA ACCESS Access to data will be extensive and in real time; work will increasingly become self generated where value is mined from the data based on a deep understanding of the business</p> <p>EXCEPTION BASED EFFORT Work will become exception based requiring increased human investigation shifting away from processes</p> <p>SHIFT TOWARDS FACILITATING CHANGE Finance will shift towards a middle office or a performance management role, where efforts are focussed on strategic influence to drive disciplined executions and meaningful change that achieve clear commercial outcomes</p>	<p>WORKER The workforce composition, skills and capabilities required</p> <p>Imagine...</p> <p>DIVERSE EDUCATIONS BEYOND COMMERCE Education shifts towards digital, engineering, data science, media and communications</p> <p>EXPERIENCE WITH TECHNOLOGY IS CRITICAL Increased experience in working with cognitive technologies, and code based algorithms across different platforms</p> <p>HIRE FOR APPTITUDE OVER EXPERIENCE More advanced problem solving, consulting, change mindsets, and an ability to pick things up quickly with an increased ability to connect technology and human behaviour</p> <p>SPEED TO ACTION OVER ACCURACY Workers will demonstrate much faster abilities to learn, understand underlying mechanics of the business and be more flexible in changes to their roles</p> <p>ATTRACTING TALENT WILL BE ABOUT PURPOSE Greater prominence of social consciences with more emphasis placed on the purpose of work</p>	<p>WORKPLACE The structures and practices to enable the worker to create value in the future</p> <p>Imagine...</p> <p>BLURRING OF WORK & PERSONAL SPACE Roaming, mobile teams that work in a range of physical environments with other parts of the business</p> <p>WORKING TOGETHER, RATHER THAN FOR Flatter organisational structures, with more peer based workers accountable for clear outcomes over being managed</p> <p>TEAMS FORMED, AND REFORMED Nimble culture catering to flexible work arrangements, teams to be set up and disbanded quickly and allowing for contingent workers</p> <p>MENTAL HEALTH A FOCUS Diversity in workspaces and locations, fostering safety, health and wellbeing with increased management of outcomes over activity</p>
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An Update on Enterprise Performance Management (EPM)

As set out in the last PAIB report, [Professional Accountants as Business Partners and Value Enablers](#), the PAIB Committee has been supporting the development of a report to help prepare professional accountants for a more significant contribution to EPM.

The report on EPM captures how finance professionals and the finance function can ensure relevance in this space based on four key enablers of an effective finance team contribution to EPM covering data and models, technology, talent and skills, and culture. It is available [here](#).



The Finance Function and Talent Management

- The success of a finance function development plan is dependent on talent management strategies that capture the right roles, people skills and capabilities, and change management that together, with investment in digital and technology, can bring about a more efficient and effective finance function.
- A development plan needs to reflect internal constraints for growth in the current finance teams, including culture and behaviors, structure, and focus on where technology and digital innovation can enable people to deliver in their roles. In some organizations, finance leaders will need to influence peers to ensure adequate investment in advancing of finance team development toward a greater contribution to the organization and its goals.
- Teams will be increasingly multidisciplinary. For example, Deloitte's Digital Experiential Lab brings together finance professionals, user experience specialists, software engineers and architects, and data scientists. Organizations are also increasingly moving to open and flexible models of engaging talent utilizing joint ventures, contractors, freelancers, gig workers and crowd sourcing to facilitate innovation and development.
- Talent management strategies will need to create new personas for finance staff focused on adding value to the organization such as new business partner roles focused on value creation and provide job specifications for the roles and capabilities needed to support the delivery of a vision and plan. Equally important will be the need to shape the more specialist roles in business finance in tax, treasury, financial and regulatory reporting, and those managing transactions and systems (whether in the organization or in outsource providers). For controllers and those in specialist finance roles, technology will also help to more efficiently deliver compliance and regulatory requirements, and reporting to external stakeholders.

Implications for the Profession and the Development of Finance Teams

- Becoming a finance professional needs to be seen as a training ground for a business career attracting the right talent into the profession.
- A diverse and digitally-enabled finance function will be more exciting to students and youth. The automation of transaction processing is seen as an opportunity for finance professionals to undertake more value added roles. A dual focus on technology and people development will allow finance roles to be more rich and rewarding.
- Talent management and learning development strategies need to support the delivery of a finance function development plan. These will increasingly emphasize problem solving and creative thinking capabilities, flexibility and adaptability and acquisition of new skills and capabilities.
- In a digitally enabled finance function, finance professionals will face new challenges. For example, where machines undertake deep learning and analysis using structured and unstructured data, the connections and insights they provide might not be fully understandable to humans. This will mean that the professional judgment and skepticism of accountants in business will be increasingly important.

Deloitte has identified digital related capabilities that they have established for effective finance teams in the future, see [Leadership characteristics of 'digital natives'](#).

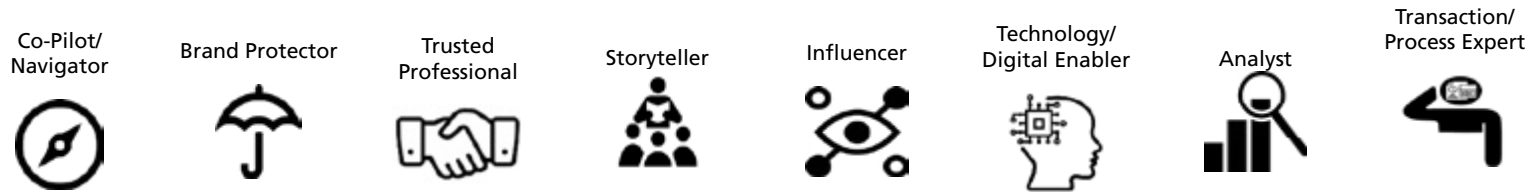
4. The Finance Professional Profile of the Future

Objectives: Develop thought leadership on the future profile of the finance professional; and develop a knowledge, skills and competency profile to implement finance function change and support a transformed service delivery model.

In 2017, the PAIB Committee started creating a vision for the future profile of an accountant in business (see [Developing a Future-Ready Profession](#)). This has led to the creation of eight different roles to capture how finance professionals will be integral to business, both currently and in the future.

- **Co-pilot/Navigator** – Steering an organization toward achieving its objectives & sustainable value creation, and enabling integration.
- **Brand Protector** – Ensuring business integrity and sound reputation through good governance, risk and control, effective stakeholder engagement and social license to operate, and financial discipline.
- **Trusted Professional** – Professionally objective and skeptical, challenging the organization when needed.
- **Storyteller** – Explaining the organization and how it's creating value over time to internal and external stakeholders.
- **Influencer** – Influencing decisions with robust data and analysis, and driving change and transformation.
- **Technology and Digital Enabler** – Enabling a cognitive and data-driven business that utilizes technology, digital and automation in ways that drive decisions.
- **Analyst** – Providing constructive insight into various aspects of the business model, including on trends, customers, products and suppliers, critical resources and dependencies, opportunities and risks.
- **Transaction and Process Expert** – Ensuring efficient and effective end-to-end process and work flows in across finance and the organization.

The skills and competencies to support these eight roles were considered by the committee and the results of their discussions are highlighted in the table below.



Knowledge, skills and competencies professional accountants require to embrace these roles

Business and Sector-Specific	Technical	Interpersonal & Behavioral
<ul style="list-style-type: none"> • Knowledge of industry, competitive landscape, emerging trends, supply chain and sourcing • Deep understanding of the business in all areas of the business model, including external operating environment, strategy, opportunities and risks, drivers of value, and KPIs • A multicapitals perspective on how value is created and destroyed in organizations • Awareness of internal and external customers and stakeholders and their expectations and information needs • Understanding of process improvement (e.g., lean, ISO), the analytical evaluation of business processes and the financial end-to-end process of flow of the organization 	<ul style="list-style-type: none"> • Sufficient level of expertise and competence, and necessary qualifications, for the specific role, including the fundamental areas of finance: <ul style="list-style-type: none"> ◦ Accounting standards, quality standards, and of relevant laws, tax and regulations ◦ Management accounting ◦ Financial reporting ◦ Specialist areas including tax, treasury and corporate finance ◦ Governance, risk and control • Understanding of the frameworks, methodologies, technology and applications that enhance decision support and external and/or internal audit • Awareness and application of coding and programming approaches that support digitization and process automation, and data analysis and visualization • Statistical methods and techniques to support data analytics • Application of visuals and presentation approaches for effective communication • Understanding of digital risk, data security and governance 	<ul style="list-style-type: none"> • Agility and adaptability: learning and experimenting with new ideas and approaches • Being self-aware of strengths and limitations (supported by 360 appraisal and mentoring) • Effective communicator of vision, purpose, big picture, details, and story telling • Emotional intelligence and empathy • Ability to apply professional objectivity and competence including in uncertain and ambiguous situations • Integrity and authenticity • Creative and critical thinking • Curiosity and passion • Collaboration and relationship building, negotiation • Confidence and persistence • Conflict and tension management • Social and cultural awareness • Translator between IT and the business

Ways to Acquire Relevant Knowledge, Skills and Competency

Given the half-life of knowledge and a rapidly evolving business ecosystem, the need for lifelong learning and continuing professional development is greater than at any time. Significant educational challenges face PAOs and education providers, organizations and individuals. Traditional learning and education approaches are being challenged, and PAOs, organizations and education providers need to rethink their respective roles and relationships.

The balance of learning and education of professional accountants in business is split between formal and structured education, lifelong learning and social and community based peer-to-peer approaches

- Formal and structured
 - Professional qualification from a PAO as basis for relevant professional and technical skills, as well as business and commercial knowledge.
 - Additional education and CPD e.g., executive leadership, technical courses and programs and accreditations, etc.
- Lifelong learning
 - On the job—opportunity to understand and acquire knowledge about the industry and business through secondments/job rotation, on-site training and observation, shadowing others. Acquisition and development of relevant skills and behaviors supported by experiential learning, public speaking, team work and collaboration, and learning by doing in a supportive environment.
 - Specialized training to enable employees to match new digital requirements.
- Social and community
 - Mentoring/coaching; use of role models and reverse mentoring.
 - Performance feedback - 360 performance feedback from within and outside the organization.
 - Volunteer roles (external e.g., board member or treasurer of an external organization).

PAIB Committee members also highlighted that upskilling the finance function requires investment. Finance leaders need to provide a vision and roadmap to influence peers, as well as undertake a skills analysis of the various finance teams (through skills mapping) to identify future human capital requirements and learning approaches to acquire necessary skills.

Next Steps

- The Committee's discussions on the future profile of accountants in business will be further developed and circulated across the global profession later in 2018.

5. Key Skills Needed for Technology Competence

Emerging technologies are impacting the information and communications technology (ICT) skills professional accountants need to perform their roles effectively.

Accounting education for both current and aspiring accountants needs to keep pace with the changes in technology.

Anne Marie Vitale, Partner, PwC, Deputy Chair, IAESB, and Chair of IAESB ICT Task Force shared an overview of the work of the ICT Task Force.

The [ICT Task Force](#) has been gathering evidence on ICT knowledge, skills and competencies required by professional accountants in the current and rapid changing environment, to evaluate whether the International Education Standards (IES) are fit for purpose in the digital age. They are assessing if there is a need for new IES, revisions to existing IES or further application guidance.

Key points raised include:

- Focus is not on the specific technologies or tools, but rather the skillsets needed to perform in a changing environment, but...
- Future accountants still need an understanding of what is behind the technology—“What happens in the black box?” Technology does not take away the responsibility of the accountant to ensure accurate, objective and understandable information is reported.
- There are actions to take now in order to become ‘digitally fit’. For example the use of digital resources such as videos, articles, and apps in order to increase knowledge of newer technologies to professional accountants.
- Need to consider at what point to embed technology education – how far does it come into the accounting curriculum, or do accountants undertake most of their learning through on the job training?

Possibly need a mix of theory and application in accounting education, e.g. integrate use of analytics into the syllabus, including use of actual software systems.

Next Steps

The PAIB Committee will continue to contribute directly to the work of the IAESB ICT Task Force by providing insights on the skills and competency required in relation to ICT as well as providing information on how these skills and competencies are acquired.



<http://www.ifac.org/publications-resources/information-and-communications-technology-literature-review>

SECTION II: Update on Current Initiatives

6. The Accountant Role in Effective Risk Management

Objective: Support high-quality practices by professional accountants in effective governance, risk management, and internal control.

An impending report will capture the committee's recent discussions on effective risk management, highlighting the critical role of accountants in business. It will also include the feedback from recent PAO workshops with young professionals on their perspective on risk management, and the skills and competency needed for career development. Many accountants in business are involved in risk as it relates to financial reporting and compliance, but they also need to be able to manage risk more strategically and deal with emerging and wider risk areas. The way risk is covered in accounting education can be too narrow. More needs to be done, by both PAOs and organizations themselves, to build in the competencies needed for effective risk management. These include analytical, modelling and scenario planning skills, as well as enhancing the necessary interpersonal skills. To meet the needs of business in risk management, accountants in business need:

- **Deep understanding of the business** is instrumental in order to gain the credibility needed to challenge how the organization achieves its objectives. The starting point for effective risk management is a good understanding of how the business creates value, which then provides the context for finance professionals to manage risks through their core activities.
- **Confidence to challenge and ask difficult questions.** When something goes wrong, it is often the case that individuals didn't feel confident enough to act on existing concerns, only speaking out after the event. The difficulty for leadership is to create a culture that encourages challenge of contentious issues. Preventative action can save time, effort and value leakage.
- **Ability to communicate and integrate across boundaries.** The boundary of the finance function's role starts to cross over with other functions. The reality is often push back on finance to concentrate on financial control. However, those advanced in risk management appreciate constructive challenge, insightful questions and cross functional communication.
- **Models and frameworks.** Risk management needs to be **built in not bolt on**. There is a danger that this is used as an excuse to do nothing, if risk management is so built in that it's considered inherent. Therefore models and frameworks are important. They can be used to frame a conversation, help to ask better questions and ultimately drive better discussion on risk management to 'connect the dots' across the organization. Examples include the Committee of Sponsoring Organizations of the Treadway Committee (COSO) framework, *Enterprise Risk Management – Integrating Strategy and Performance*, and the International Organization for Standardization's (ISO) standard, *ISO 31000–Risk management*. Business model frameworks can also help boards, management and finance professionals understand all the key elements of a business in order to ask the right questions about risk and opportunity aligned to value creation.

- **Enhanced quantitative and statistics skills**, for example, a good understanding of correlation and confidence limits are an essential requirement.
- **Responsiveness to learn from mistakes** made within and outside an organization, which can provide a platform to continually improve risk oversight and management practices. Corporate failures offer learnings in potential causes of failure that accountants working in various roles can act upon to prevent similar occurrences in future, thereby enhancing their professional contribution to stewardship and business partnership.

Next Steps

- Develop and circulate a call-to-action to the profession highlighting the critical role of accountants in business in effective risk management.

Case study: Carillion

A recent example of the consequences of failure to properly manage risk, is the collapse of the UK's second largest construction company, Carillion, in January 2018 with debts of approximately £1.5 billion. Such corporate failures can damage the reputation of the profession. It is therefore important that lessons are learned to prevent repeat failures and enhance the role of the profession in protecting and creating value.

This is an unfolding story, so there needs to be caution about any conclusions drawn. A range of official inquiries are in progress and it will be some time before the outcomes of these are reported, for example the UK regulator, the Financial Reporting Council (FRC) is investigating the role of the auditors, as well as that of two of the recent CFOs. However, at this stage, it appears

- Too many risky projects were taken on at unsustainable margins.
- Aggressive accounting techniques were used to bring forward income and delay payments.
- Excessive executive remuneration/bonuses were paid alongside continuing dividend payments to shareholders, for example, between 2012 and 2016, £376m was paid out in dividends compared to cash generated of £159m.
- There was a lack of transparency, for example in its last annual report for 2016 (issued March 2017), Carillion indicated in its viability statement (part of the UK Corporate Governance Code) that over the chosen period of its assessment (three years), 'the directors believe they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due.'

In summary, there was no sudden 'shock' or external event that caused the collapse of Carillion, but there does appear to have been a failure of risk management and internal control. Financial decisions appeared to have been taken without reference to the underlying fundamentals of the business (i.e. the business model).

The article, [Carillion – a salutary reminder on due diligence](#), reflects, in hindsight, on whether there were indications in Carillion's reporting that should have raised alarm of its impending collapse.

7. Audit Quality and Audit Committee Effectiveness

Objective: Improve the financial reporting supply chain through effective audit committees and finance functions

Responsibilities for an effective audit span across the financial reporting supply chain, and having proper governance and oversight arrangements in place in an organization is of great importance to ensure audit quality. A key component of these arrangements is the role of the audit committee.

The PAIB Committee has been considering the roles and responsibilities of the audit committee; their expanding remit and resulting impact on their skills, competencies and bandwidth.

Core responsibilities

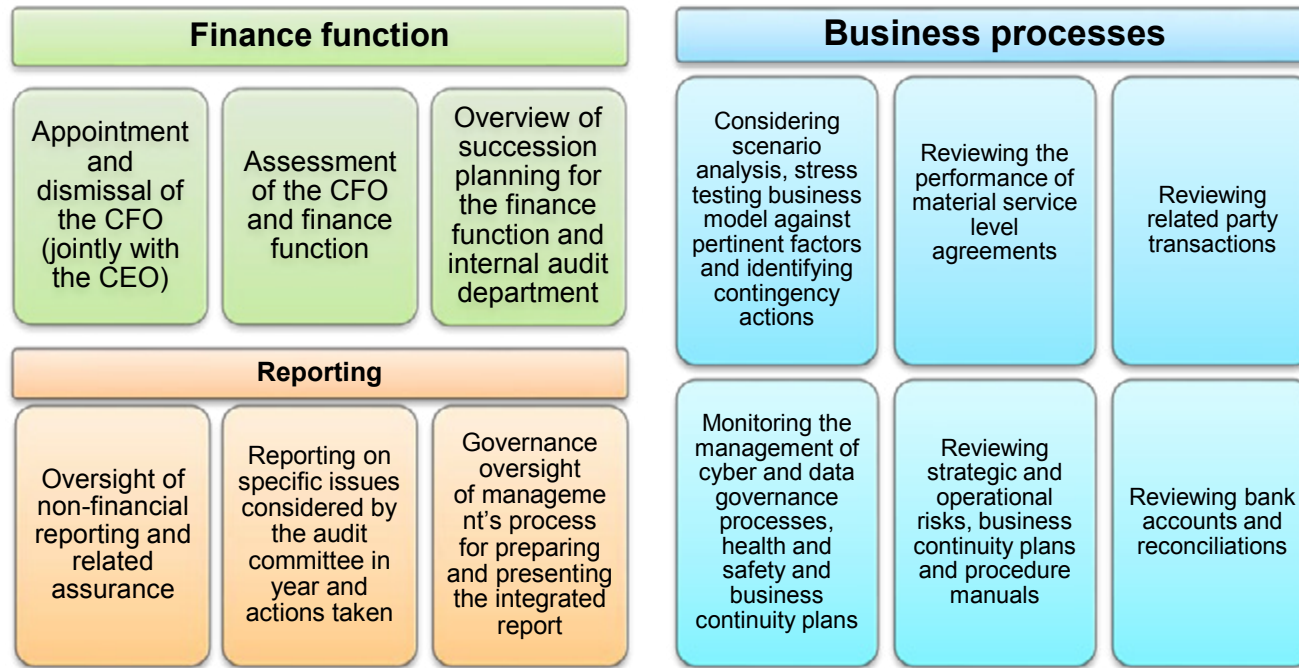
Broadly stated, the common core responsibilities of the audit committee are to:

- Oversee the company's financial reporting and internal control over financial reporting
- Oversee the internal audit function and the external auditors
 - Including scope of work; effectiveness; independence; objectivity; appointment, reappointment and removal; and approval of non-audit services by the external auditor
- Establish procedures with respect to whistle-blower complaints (often only if delegated by the board)
- Review internal control system, risk assessment and risk management (where there is no separate risk committee)
- Engage in self-assessment of its performance or report to the board on how it has discharged its responsibilities.

Additional responsibilities

An observation shared during the meeting on responsibilities was that if the Board is not directly dealing with a matter or there isn't a separate committee, whatever is left over often falls to the audit committee to oversee.

Additional responsibilities identified include:



Audit committee effectiveness

With their widening agendas and increasing responsibilities, ensuring the audit committee is fit for purpose is a key issue. Worryingly, a recent [KPMG global survey](#) of over 800 audit committee members revealed that they are finding it increasingly difficult, both in terms of time and expertise, to oversee the major risks on their agenda in addition to their core oversight responsibilities. It was also concerning that when asked what would most improve their committee's overall effectiveness, the top response (with 39%) was a 'better understanding of the business and risks', which for an effective audit committee, should already be a core requisite.

The committee discussed other factors that enhance the effectiveness of the audit committee. Key highlights from the discussion include:

- **Composition of the audit committee** – Having a professional accountant as audit committee chair can be very effective as they are often more interactive with the CFO and finance function. But effective audit committees are not only comprised of professional accountants. Diversity of the committee, including a wide range of expertise is also very important.

- **Training and support tools** – Training programs, guidance and other support tools are essential to ensure the audit committee keep up to date with relevant developments in accounting and corporate reporting, as well as new technologies and their impact on the business and future of audit (e.g. increased use of data analytics in the audit process). Suggested approaches to ensure sustained competence of the audit committee include:
 - Reverse mentoring, where senior members learn from the younger generation, particularly useful to understand emerging technologies
 - Mandatory training programs for non-executive directors
 - PAO resources aimed at executive and non-executive directors, for example CPA Canada’s [20 questions series](#).
 - Inviting business heads to present to the audit committee, ensuring members are kept up to date with business operations.
- **Strong finance function** – The finance function is responsible for producing reliable and auditable information, communicated through high quality corporate reporting and other information. The strength of the finance function is therefore critical. The audit committee need confidence that the finance function is fit for purpose and require mechanisms to assess this.
- **Strong internal audit function** – Infusing subject matter experts into internal audit provides greater understanding and depth within the function, which can then provide more effective support and where necessary, technical advice to the audit committee.
- **Effective communication** – The nature of interactions that the audit committee has with the finance function and both the internal and external auditors, can have an impact on audit quality.
- **Professional skepticism** – In considering disclosures from management, audit committee members need to apply a degree of professional skepticism in order to provide effective and robust challenge of the information reported to them, including consideration of whether that information is complete.

Next Steps

- Continuing advocacy of the role of audit committees and PAIBs in ensuring confidence in business reporting and risk management.

8. Professional Ethics

Objective: Ensure a relevant Code of Ethics for Professional Accountants

Professional Skepticism

The PAIB Committee maintains the [strong view](#) that professional skepticism, as well as professional judgement, relates to all professional accountants regardless of their role. The Committee is therefore supportive of the International Ethics Standards Board for Accountants (IESBA) [longer-term follow up project](#) to explore how aspects of professional skepticism apply more broadly to all professional accountants, and will be participating in their upcoming [consultation process](#).

New resource from the International Accounting Education Standards Board (IAESB):

[All Professional Accountants Need to Include Skepticism in their Mindset](#)

New resource from the International Ethics Standards Board for Accountants (IESBA):

Revamped Code of Ethics for Professional Accountants <http://www.ifac.org/news-events/2018-04/global-ethics-board-releases-revamped-code-ethics-professional-accountants>

Ethics Standards

The recent Monitoring Group [proposals](#) set out options for changes to the standard setting model, including potentially developing a single independent board to develop auditing and assurance and audit-related ethics standards. This outcome would split ethics standards for auditors from ethics standards for accountants in business. There are parallels between this and splitting professional skepticism and professional judgement for auditors and accountants in business, neither of which the PAIB Committee sees as being in the public interest.

The PAIB Committee therefore [responded directly to the Monitoring Group](#) to address this issue and highlight the importance of retaining a united profession under one globally-accepted Code of Ethics for Professional Accountants. The current integrated model of a single standard setting body responsible for a Code of Ethics for Professional Accountants, which applies to *all* professional accountants regardless of their employer or role conveys a clear message to the public that all professional accountants are held to the same high ethics standards regardless of their role in the financial reporting supply chain.

Next Steps

- Participation in the upcoming IESBA roundtable on professional skepticism and formal response to the professional skepticism [consultation paper](#).
- Continue to monitor developments in professional ethics

9. IFAC's Approach to Professional Accountants in Business

Objective: Develop the PAIB Committee's contribution to IFAC and the profession

The PAIB Committee continues to innovate and support the profession to adapt in the context of increasingly complex operating environments driven by various factors, such as

- Digital and technology disruption
- Increasing expectations for companies to be responsible corporate citizens and think long term
- A shift to multi-capital thinking and reporting.

In reviewing how IFAC supports accountants in business to remain relevant, the PAIB Committee is further exploring Innovation Lab ways of working to build on its recent successes and strive for greater impact through its meeting approach and PAO and stakeholder engagement.

An Innovation Lab Approach

To help the profession consider how it stewards itself in a changing world, Rachel Sinha, Founder, Systems Studio, engaged the committee on systems thinking and social innovation lab working methods.

Key themes

The profession faces a series of challenges including emerging technology replacing jobs, public failures of ethics and professionalism, diversity and disruptive demographics.

The global profession has an opportunity to lead versus follow in the following areas

- PAIBs providing leadership in shaping relationships between technology, data, business and society
- PAIBs proactive and effective in collaboration and partnership with others
- PAOs and PAIBs demonstrating an ongoing willingness to transform and evolve.

An Innovation Lab is an effective way for the PAIB Committee to be an independent space for PAOs and others to come together and innovate on PAIB issues. Such an approach involves engaging diverse stakeholders from within and outside the profession. Through a diverse engagement of stakeholders and experimental approach, a Lab can lead to more innovative solutions and interventions addressing challenges at a root-cause level. Example Labs include the [Financial Reporting Lab](#), [FinTech Innovation Lab](#), [Sustainable Finance Lab](#), and ICAEW's [Audit Futures](#).

As IFAC develops its strategic approach to championing professional accountants in business, it will continue to think about the PAIB Committee's engagement and working methods on the lines of an Innovation Lab format. The next step is to develop a clear business model for the committee that crystallizes its purpose and how it creates value in supporting IFAC and the profession.

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Next Meeting

The next PAIB
Committee meeting
will be held on
September 26-27,
2018, in Singapore. To
attend as an observer
guest, please contact
stathisgould@ifac.org

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