

**Developments in the Financial
Reporting Supply Chain—Results
from a Global Study among IFAC
Member Bodies**



Financial Reporting Supply Chain Project
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DEVELOPMENTS IN THE FINANCIAL REPORTING SUPPLY CHAIN— RESULTS FROM A GLOBAL STUDY AMONG IFAC MEMBER BODIES

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Summary of Key Findings

Following the March 2008 publication of the report, [*Financial Reporting Supply Chain: Current Perspectives and Directions*](#), and in response to recommendations made within it, the Board of the International Federation of Accountants (IFAC) established a Business Reporting Project Group to study progress in the areas of governance, financial reporting, and auditing around the world. The first step of this follow-up project was a global research study, in which 74 IFAC member bodies from 59 different countries and jurisdictions, including all major economies, participated. This study was conducted mid-2008, just before the full impact of the current financial crisis had been felt. The effects of this crisis should be taken into account when developing recommendations for the next steps in further improving financial reporting.

The results of the study indicate that in many countries and jurisdictions progress has been made in numerous areas of governance, financial reporting, and auditing, such as new or revised codes and increased convergence of standards. However, the study also highlights a number of persistent and important issues in the following areas of the financial reporting supply chain that still need satisfactory solutions:

- **Corporate governance:** risk and control systems that are too narrowly focused; insufficient integration of governance into the overarching business model, so that governance often costs more than it delivers; a lack of safe harbor protection for those charged with governance; and more attention to remuneration for directors and executives.
- **Financial reporting:** the adoption of suitable reporting standards for small- and medium-sized entities and other entities, such as not-for-profit and public sector organizations; further convergence to principles-based reporting standards; and meeting the challenges of fair value accounting – particularly in the context of the current financial crisis.
- **Financial auditing:** challenges for small and medium accountancy practices to keep up-to-date with regard to changes in International Standards on Auditing (ISAs) and other standards; difficulties in working with various sets of auditing standards for multinational clients; improving the understanding among the financial reporting stakeholders of the benefits of an audit; increased litigation risks in today's turbulent environment; and challenges for the audit of fair value accounting estimates.
- **The usefulness of financial reports:** insufficient reporting on nonfinancial indicators, risks and sustainability performance; the unclear link between reporting and an organization's environment, its strategy, and the implementation of that strategy; and the use of fair value measurements in current market circumstances.

Together with the efforts necessary to address the current financial crisis, the results from this study demonstrate the need for additional action on these issues from IFAC and its member bodies, in cooperation with other stakeholders in the financial reporting supply chain.

The next steps in IFAC's Business Reporting Project will be to:

- Interview investors, preparers, auditors, standard setters, and regulators from around the world to provide practical solutions for making business reporting more useful and for

further improving the communication (on business performance) between a business and its stakeholders; and

- Consider the development of International Good Practice Guidance on evaluating and improving business reporting in organizations.

Part 1: Introduction

In March 2008, IFAC published the report, *Financial Reporting Supply Chain: Current Perspectives and Directions*¹ (www.ifac.org/frsc), based on a global survey from all sectors of the financial reporting supply chain – including investors, preparers, company management and directors, auditors, standard setters, and regulators. The main conclusions of the Financial Reporting Supply Chain report were that all participants in the financial reporting supply chain are critical to producing useful reports for investors, and that despite the strengthening of the financial reporting process and the many improvements made, there remains much to be done to meet the needs of investors and other stakeholders. Recommendations emphasized the importance of matters such as:

- Setting the right tone-at-the-top in governance;
- Increasing board and auditor independence;
- Implementing better risk and control systems;
- Balancing compliance and performance;
- Aligning remuneration with performance;
- Providing more transparency and reliability in communications; and
- Converging to principles-based global standards for accounting and auditing.

In this follow-up report, which is part of IFAC’s Business Reporting Project (see section 1.2), IFAC member bodies and associates studied the progress that their respective countries or jurisdictions have made in the areas of governance, financial reporting, and auditing, compared to the issues that were identified and the recommendations that were made in the original Financial Reporting Supply Chain report. The results of this study, which are presented in this report, are designed to help IFAC and its member bodies and associates to identify those issues and recommendations that need additional attention at an international, regional, or national level to meet better the needs of investors and other stakeholders.

1.1 Scope and Timing of Study

The follow-up project looked at developments in each of the following four key areas of the financial reporting supply chain:

1. Corporate governance;
2. The financial reporting process;
3. The audit of financial reports; and
4. The usefulness of financial reports.

¹ Besides the Financial Reporting Supply Chain report, IFAC has published a number of other significant reports focused on enhancing the quality of the various links in the financial reporting supply chain. These include *Rebuilding Public Confidence in Financial Reporting: An International Perspective* (2003), *Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and ISAs* (2004), and *Enterprise Governance: Getting the Balance Right* (2004).

These are the same areas as were used in the original Financial Reporting Supply Chain report, allowing for comparison between participants' perspectives as indicated in the original report and the actual developments taking place in various countries and jurisdictions around the world.

This study was conducted over an 11-week period ending early September 2008.

The response

From among the 157 IFAC member bodies and associates, a total of 74 from 59 countries and jurisdictions (see Appendix A) participated in the IFAC study on global developments in the financial reporting supply chain.

The results of this study were presented by Charles Tilley, chair of the project group and Chief Executive of the Chartered Institute of Management Accountants (CIMA), at the annual IFAC Council meeting, November 2008 in Rome. A copy of his presentation, as well as of the original report, *Financial Reporting Supply Chain: Current Perspectives and Directions*, can be found at www.ifac.org/frsc. This report highlights key points made in that presentation and elaborates on them.

1.2 IFAC's Business Reporting Project

The participants of the Business Reporting Project Group are:

- Charles Tilley, Chief Executive Officer of CIMA (Project Chair);
- Edward Chow, Chief Executive Director and Chairman of CIG Yangtze Ports PLC and former Chair of IFAC's Professional Accountants in Business Committee;
- Al Anderson, Managing Principal—Accounting and Assurance Services of Larson Allen and Chair of the Assurance Services Executive Committee of the American Institute of Certified Public Accountants (AICPA);
- Norman Lyle OBE, retired Group Finance Director of Jardine Matheson Holdings Limited and Chair of IFAC's previous Financial Reporting Supply Chain Project;
- Richard Mallett, Technical Director with CIMA;
- Amy Pawlicki, Director Business Reporting, Assurance & Advisory Services of the AICPA; and
- Graham Ward CBE, a Senior Partner at PricewaterhouseCoopers and past IFAC President.

This comparison of the issues and recommendations of the original Financial Reporting Supply Chain report with the actual developments that are taking place in the various countries and jurisdictions is the first product of IFAC's Business Reporting Project.

See section 6.4 for a brief overview of the next steps in the project.

Part 2: Corporate Governance

This section of the study sought the developments and next steps in improving corporate governance in the various countries and jurisdictions around the world.

It has been said that “A wise person builds his house on a rock.” Similarly, corporate governance is the foundation of high-quality financial reporting. It is hard to envisage a good financial report coming out of an organization with a bad governance structure. Therefore, improvements in corporate governance contribute directly to bringing financial reporting to a higher level.

2.1 Major Corporate Governance Developments

Respondents said that governments, regulators, standard setters, investors, and others from many countries and jurisdictions have taken some positive steps with regard to corporate governance. By far, the most important development – mentioned by more than 50 of the 74 participants in this study – was the creation of new or revised and updated codes of governance. Participants also indicated that the legislative or regulatory framework for corporate governance has improved in their countries or jurisdictions.

Many participants also explicitly pointed out that their country or jurisdiction had not seen major setbacks in corporate governance. Some difficulties were reported with the proper understanding and application of corporate governance concepts, which is sometimes more in name than in substance. Additionally, participants indicated that the same issues identified in the Financial Reporting Supply Chain report (see section 2.2) continue to remain unresolved.

Many IFAC member bodies have taken or are taking action to enhance corporate governance and ethics for their members and the organizations in which they work; predominantly through thought leadership on governance issues, such as remuneration and the identification, measurement, and management of risks; through education and training in, for example, better communication with audit committees; and through governance awareness programs for accountants, directors, and others.

2.2 Progress on Corporate Governance Issues

The study revealed that, in many countries and jurisdictions, the development and implementation of new or revised codes of governance, as well as other corporate governance measures, have been somewhat helpful in resolving the following corporate governance issues identified in the Financial Reporting Supply Chain report (www.ifac.org/frsc):

1. Existence of governance in name but not in spirit;
2. Development of a checklist mentality;
3. Existence of corporate governance overregulation;
4. Personal risk and liability for directors and management; and
5. Cost-benefit concerns with regard to governance.

As shown in table 2.1, in about half of the participating countries and jurisdictions, the developments have had a positive effect on embracing the spirit of good corporate governance

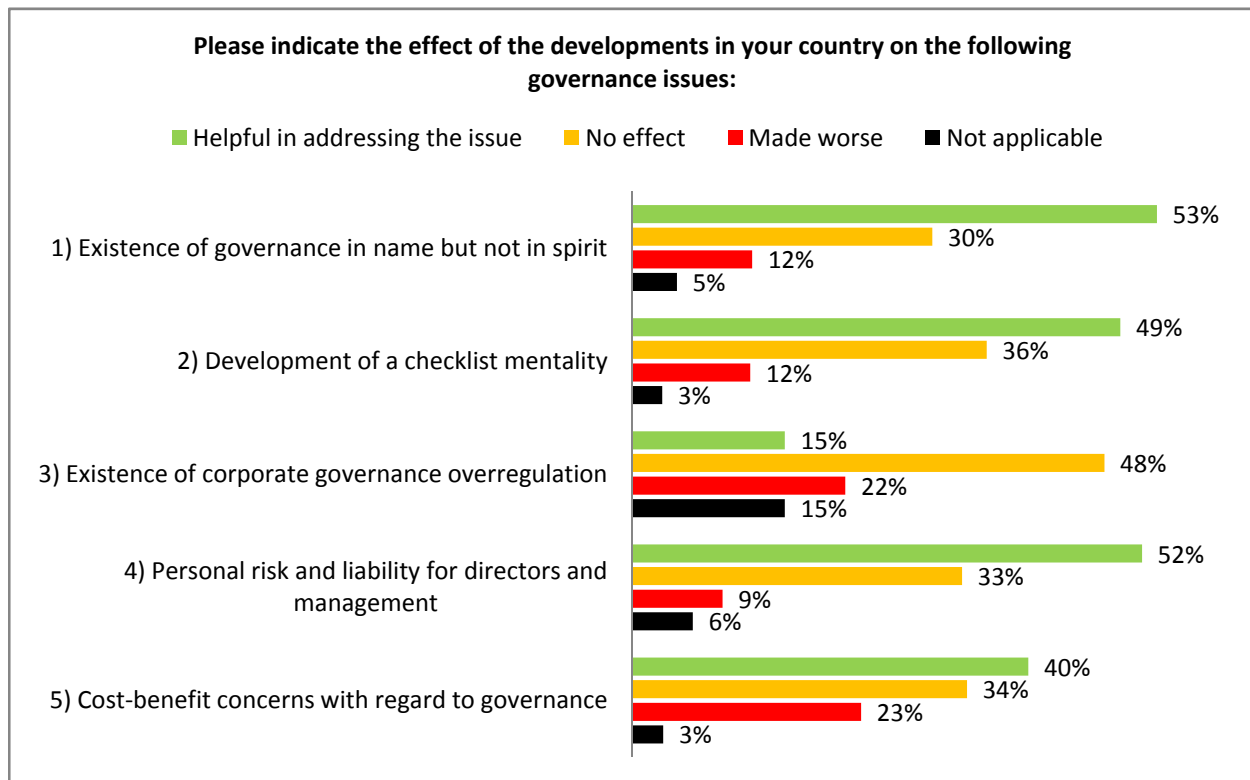
and steering away from a checklist mentality. In the other half of the countries and jurisdictions, though, participants reported a zero or even a worsening effect from the actions taken.

With respect to corporate governance overregulation, little progress is reported, and, for most countries and jurisdictions, there has been no or even a worsening effect from the actions taken.

Developments have been slightly positive with respect to reducing personal risk and liability for directors and management.

Finally, the majority of respondents was of the opinion that the developments have had no effect on the cost-benefit ratio of governance, or even made it worse.

Table 2.1



Participants also highlighted a number of additional corporate governance issues that need to be addressed in their countries or jurisdictions:

- Risk and control systems that are too narrowly focused on financial reporting and, for example, ignore the wider risks that currently threaten many organizations;
- Insufficient integration of governance into the overarching business model, so that governance often costs more than it delivers;
- Lack of safe harbor protection for those charged with governance, making it more difficult to attract and retain competent individuals;
- The need for more governance in public sector organizations; and

- More attention to remuneration for directors and executives. According to many participants, this is clearly an issue that requires urgent attention.

Many of these corporate governance issues are particularly relevant in the current financial crisis, which makes the need to follow-up on them even more important.

2.3 Follow-up on Corporate Governance Recommendations

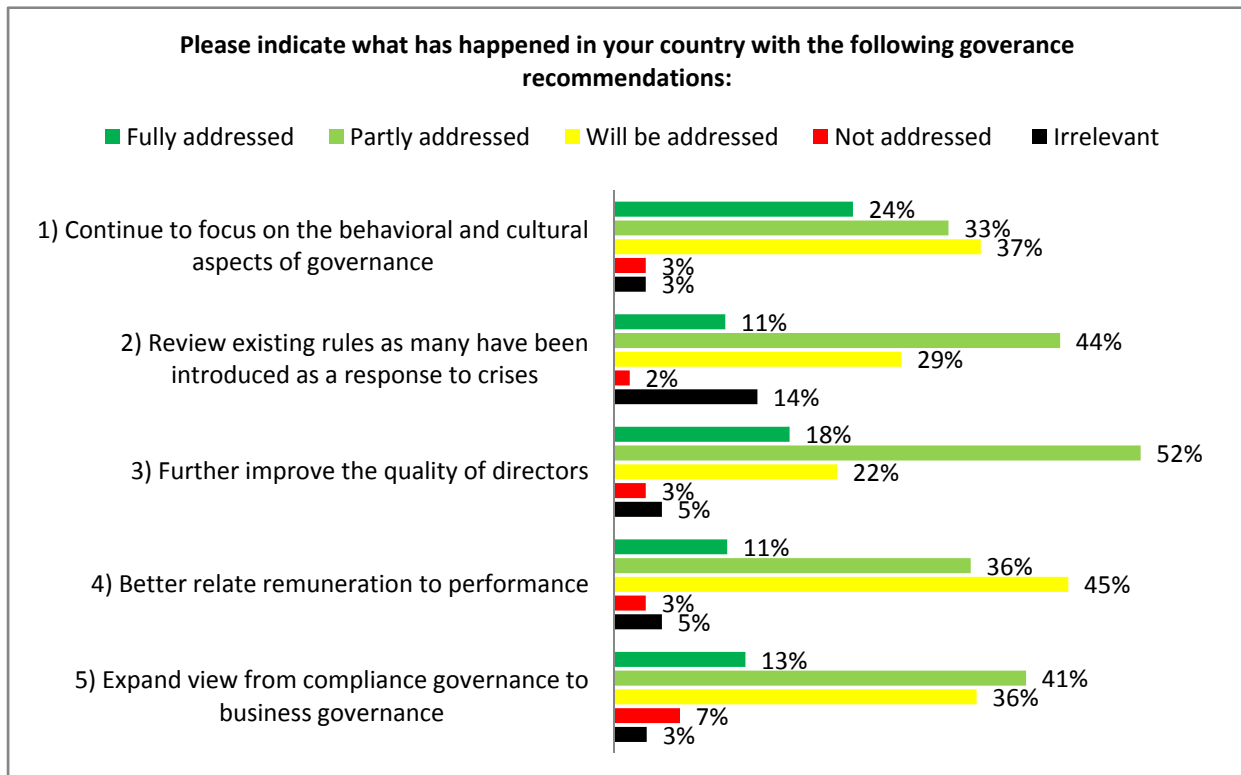
The original Financial Reporting Supply Chain report provided the following recommendations with regard to corporate governance (www.ifac.org/frsc):

1. Continue to focus on the behavioral and cultural aspects of governance;
2. Review existing rules, as many have been introduced as a response to crises;
3. Further improve the quality of directors;
4. Better relate remuneration to performance; and
5. Expand view from compliance governance to business governance.

Most participants in this follow-up study indicated that these corporate governance recommendations were relevant for their country or jurisdiction and have been partly addressed or will be addressed in the future.

According to the responses, as depicted in table 2.2, progress has been made on all of these recommendations, but most notable in further improving the quality of directors and in focusing on the behavioral and cultural aspects of governance. Progress has also been seen in reviewing existing rules, such as relating remuneration to performance and restoring the balance between compliance and performance, which is more relevant than ever in light of the current financial crisis.

Table 2.2



2.4 Next Steps in Improving Corporate Governance

Participants emphasized the importance of continuous improvement in the area of corporate governance, in particular the need to keep executive remuneration under constant review to avoid rewards for failure.

Participants listed several opportunities for IFAC and its member bodies to enhance corporate governance. The opportunity most often mentioned was international collaboration to further develop, bring together, and disseminate governance guidance.²

² IFAC recently released new International Good Practice Guidance (IGPG), entitled [*Evaluating and Improving Governance in Organizations*](#), which sets out a framework, a series of principles, supporting guidance, and references on how to evaluate and improve governance in organizations.

Part 3: The Financial Reporting Process

This section of the study sought the developments and next steps in improving the financial reporting process in the various countries and jurisdictions around the world.

3.1 Major Financial Reporting Developments

The participants in this study overwhelmingly mentioned the adoption of or (further) convergence to International Financial Reporting Standards (IFRS) as the most positive development with regard to the financial reporting process that has recently taken place, is in progress, or is planned in their country or jurisdiction. This almost global move towards IFRS is coupled with a number of challenges, though. For some, the adoption process is too slow, for others, too fast. In many countries and jurisdictions, the actual implementation is a great issue. As a consequence, there is a great need for additional guidance, especially for small and medium accountancy practices and small- and medium-sized enterprises.

Some participants also observed an unfavorable move towards more rules and prescription, even if the rhetoric is often the opposite. Another area of concern is the continued focus on historical reporting, while, according to one respondent, anecdotal evidence suggests that more forward-looking management commentary adds value to the share price. The same respondent commended the establishment of a safe harbor provision for forward-looking information in the United Kingdom, but also noted that boards continued to be very cautious in providing management commentary.

Many IFAC member bodies indicated that they have taken action, or are taking action, to provide guidance and training for preparers and others who are required to work with new financial reporting standards. IFAC member bodies are also actively commenting on proposed new or revised financial reporting standards.

3.2 Progress on Financial Reporting Issues

Listed below are the issues with regard to the financial reporting process as identified in the Financial Reporting Supply Chain report (www.ifac.org/frsc):

1. Difficulties with the transition from national accounting standards to IFRS;
2. Complying/reconciling accounts to different financial reporting standards;
3. Complexity of financial reporting standards; and
4. Liability restricting the financial reporting process.

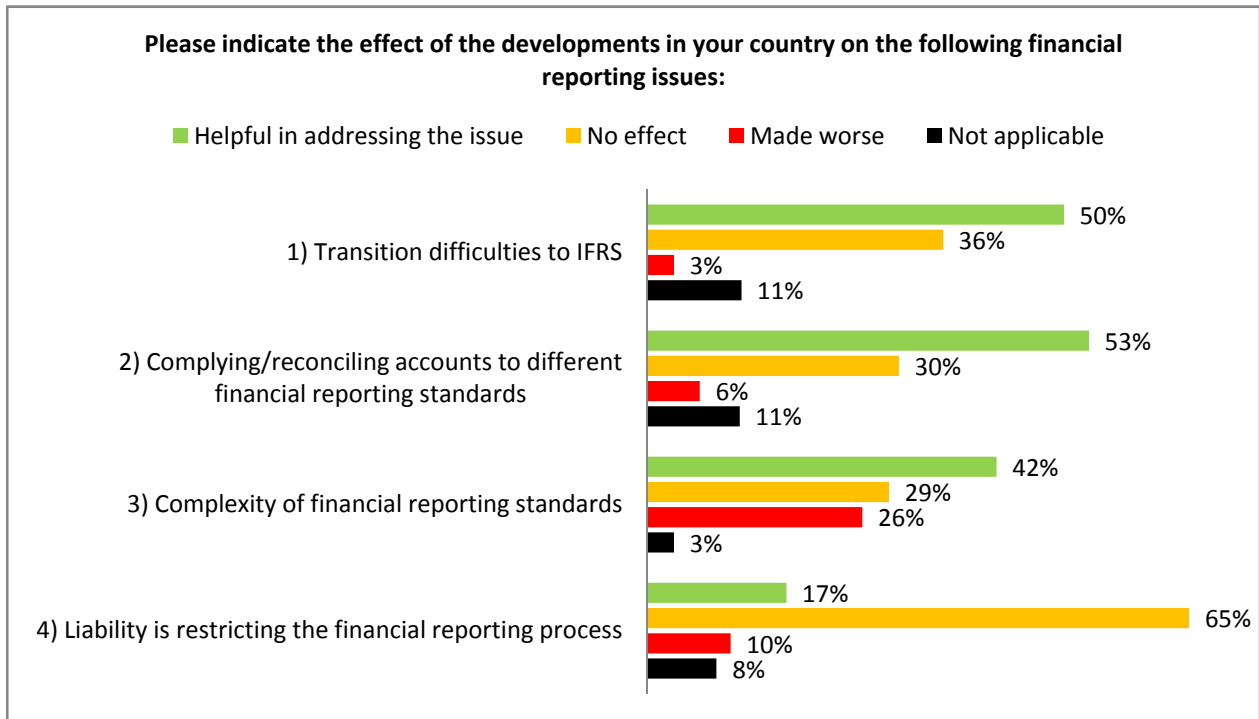
Table 3.1 indicates how the developments in financial reporting have affected these issues in the various countries and jurisdictions. Many countries and jurisdictions now have implemented IFRS or are well on their way to doing so. Preparers, auditors, users, and other financial reporting supply chain participants have now adjusted to working with IFRS, resolving many transition difficulties throughout the process. Convergence to the global financial reporting standards, IFRS, has also lessened the burden of reporting using multiple standards.

The complexity of financial reporting standards and liability issues for preparers are still more of a problem.

More than half of the participants noted that developments have had no effect on simplifying the financial reporting process or even made it worse.

One of the participants stated that litigation reform is needed to better protect companies that truly attempt to provide more clarity to better business reporting. However, the study shows that developments in most of the participating countries and jurisdictions have had no or an adverse effect on the liability issues. The continuing lack of safe harbor protection in many countries and jurisdictions will drive even more companies to focus on compliance with regulations, rather than on reporting the underlying economics of the business.

Table 3.1



Participants also listed the following additional issues with regard to the financial reporting process that need to be addressed in their countries or jurisdictions:

- The importance of adoption and implementation of suitable reporting standards for small- and medium-sized entities (SMEs) and other entities, such as not-for-profit and public sector organizations;
- The continuation of the principles versus rules debate – as described in the Financial Reporting Supply Chain report – without clearly visible steps towards a solution; and
- Challenges of fair value accounting – certainly in the context of the current financial crisis.

3.3 Follow-up on Financial Reporting Recommendations

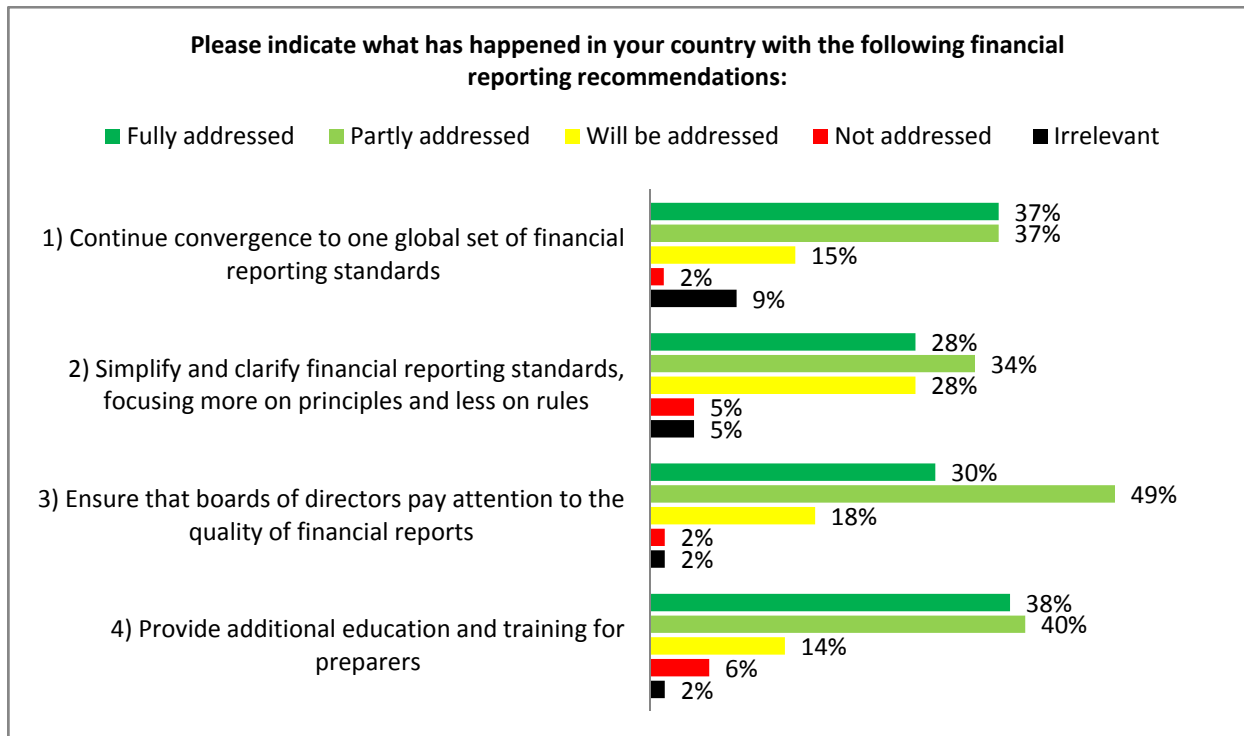
Listed below are the recommendations with regard to the financial reporting process as identified in the Financial Reporting Supply Chain report (www.ifac.org/frsc):

1. Continue convergence to one global set of financial reporting standards;
2. Simplify and clarify financial reporting standards, focusing more on principles and less on rules;
3. Ensure that boards of directors pay attention to the quality of financial reports; and
4. Provide additional education and training for preparers.

As shown in table 3.2, participants indicated substantial progress in addressing the reporting recommendations on convergence, simplification, board attention, and additional education. As noted above, many participants reported that their country or jurisdiction has already converged to IFRS or is in the process of doing so, and additional guidance and training for preparers is becoming increasingly available.

Remarkable is the reported simplification and clarification of reporting standards. This seems in contrast with the finding above that, in many countries and jurisdictions, the developments had no or even a worsening effect on resolving the complexity issue. From this study it remains unclear how exactly simplification has been addressed. Possibly, the transition to IFRS has helped. At least, the conclusion from this study is that the issue is recognized and that many countries and jurisdictions are working towards improvement.

Table 3.2



3.4 Next Steps in Improving Financial Reporting

Participants indicated a number of opportunities for international collaboration facilitated by IFAC to enhance the financial reporting process. For example, case studies of companies with high-quality business- and governance-oriented reporting could support the development of additional guidance on the further improvement of the business reporting processes. Another opportunity mentioned by the participants is the development of a guide that provides preparers of financial reports with a better understanding of the conduct of a financial audit.

Part 4: The Audit of Financial Reports

This section of the study sought the developments and next steps in improving the audit of financial reports in the various countries and jurisdictions around the world.

4.1 Major Financial Auditing Developments

A number of positive developments with regard to the audit of financial reports has been reported in this study. Participants pointed to the further convergence to ISAs, the increased emphasis on quality assurance and oversight, the new guidance on using ISAs in the audit of small- and medium-sized entities, and progress in liability reforms for auditors.

Participants also mentioned some adverse financial auditing trends in their country or jurisdiction, such as the move towards overregulation and away from self-regulation. The increasing complexity and length of auditing standards is another concern, especially for audits of small- and medium-sized entities. A temporary challenge resulting from the convergence to ISAs is the need to change education and training programs to reflect the transition, and subsequently to educate and train all those involved in the use of ISAs.

IFAC member bodies around the world have prepared or are preparing translations of international standards and are adapting to the recently clarified ISAs. To enhance the audit of financial reports, they also provide training in ethics and financial auditing – especially for small and medium accountancy practices – provide quality control reviews, and participate in the discussion about liability reforms for financial auditors.

4.2 Progress on Financial Auditing Issues

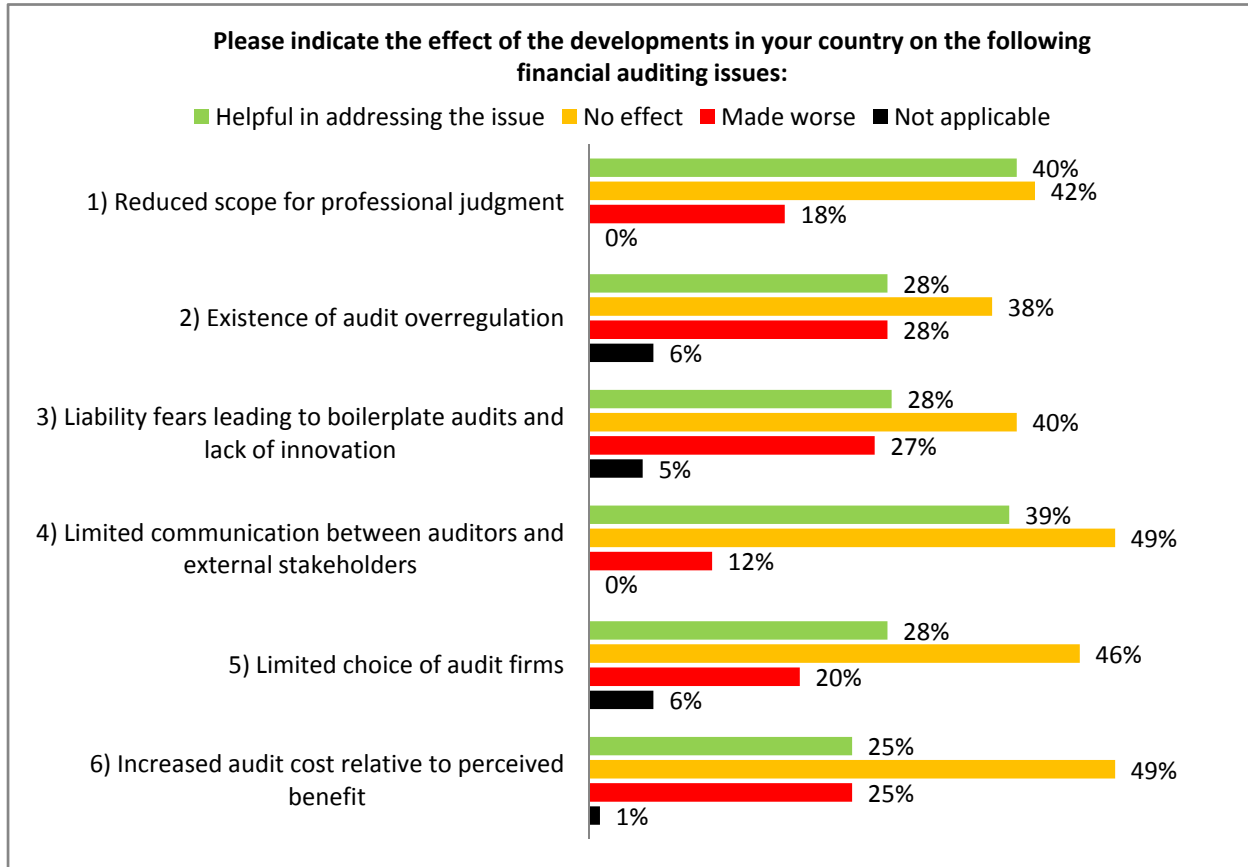
Listed below are the issues with regard to the audit of financial reports as identified in the Financial Reporting Supply Chain report (www.ifac.org/frsc).

1. Reduced scope for professional judgment;
2. Existence of audit overregulation;
3. Liability fears leading to boilerplate audits and lack of innovation;
4. Limited communication between auditors and external stakeholders;
5. Limited choice of audit firms; and
6. Increased audit cost relative to perceived benefit.

As reflected in table 4.1, this study disclosed mixed results in progress on financial auditing issues. Some participants indicated that helpful developments have been made to increase professional judgment by auditors and to improve auditors' communication with external stakeholders. In this regard, participants mentioned the professional development courses to improve auditors' communication.

According to the numbers in table 4.1, progress on most of the other financial auditing issues, including overregulation, liability fears of auditors, limited auditor choice, and audit cost is still pending in most of the countries and jurisdictions that participated in this study.

Table 4.1



The participants listed additional issues with regard to the audit of financial reports that need to be addressed in their countries or jurisdictions:

- Challenges for small- and medium-sized practices (SMPs) to keep up with changes in ISAs and other standards;
- Difficulties in working with two different sets of auditing standards for multinational clients;
- The need to improve understanding among various financial reporting stakeholders, such as directors and policy makers, of the benefits of an audit;
- Increased litigation risks in today’s turbulent environment; and
- The audit of fair value accounting estimates and the course of the current financial crisis, which may create new uncertainties for entities and their auditors further down the road.³

³ Recently, the staff of the International Auditing and Assurance Standards Board (IAASB) issued a practice alert to highlight areas within the ISAs that are particularly relevant in the audit of fair value accounting estimates in times of market uncertainty. The IAASB staff also released a practice alert that deals with the effect of the credit crisis and economic downturn on an entity’s ability to continue as a going concern. Both alerts can be downloaded from the IAASB section of the IFAC website at www.ifac.org/IAASB/staff-audit-practice-alerts.php.

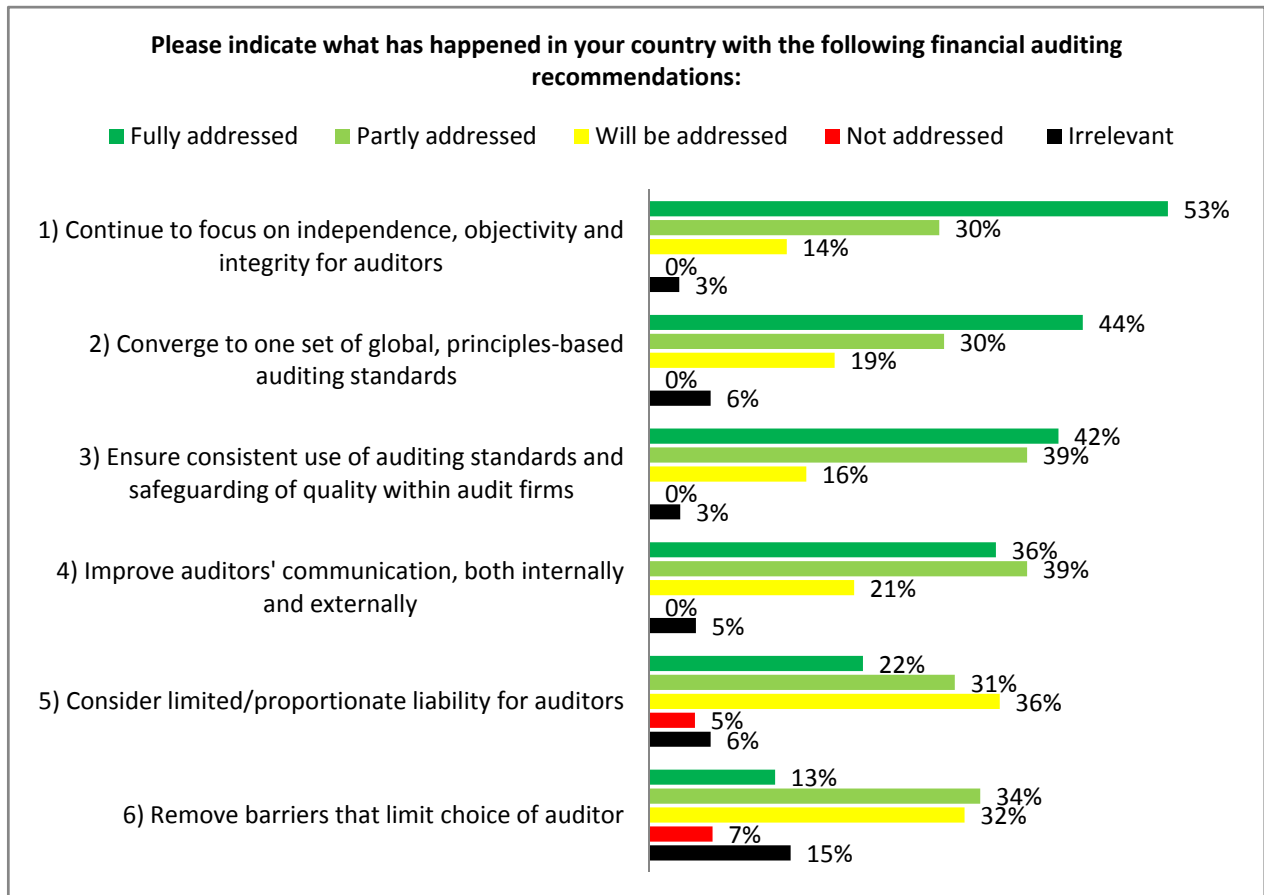
4.3 Follow-up on Financial Auditing Recommendations

Listed below are the recommendations with regard to the audit of financial reports as identified in the Financial Reporting Supply Chain report (www.ifac.org/frsc):

1. Continue to focus on independence, objectivity and integrity for auditors;
2. Converge to one set of global, principles-based auditing standards;
3. Ensure consistent use of auditing standards and safeguarding of quality within audit firms;
4. Improve auditors’ communication, both with the client and with external stakeholders;
5. Consider limited/proportionate liability for auditors; and
6. Remove barriers that limit choice of auditor.

As it appears from the data captured in table 4.2, many countries and jurisdictions already have addressed or are currently addressing the various recommendations to further improve the audit of financial reports. Of all the recommendations with regard to the audit of financial reports, the continued focus on independence, objectivity, and integrity for auditors is by far the most addressed, closely followed by further convergence to one set of global, principles-based auditing standards and a more consistent use of auditing standards and quality control within audit firms.

Table 4.2



According to the participants in this study, some progress has also been made in many countries and jurisdictions to improve further the auditors' communication and in the discussion to limit auditor liability. Finally, some progress has been reported in the removal of the barriers that limit auditor choice.

4.4 Next Steps in Improving Financial Auditing

Participants in this study identified the following opportunities for IFAC and its member bodies to enhance the audit of financial reports. Further convergence of standards and guidance in the areas of ethics, auditing, and assurance is the most mentioned opportunity, followed by the collaborative development of best practices in ethics and financial auditing, and the provision of additional auditing guidance for audits of small- and medium-sized entities.⁴

⁴ In December 2007, IFAC published a [*Guide to Using International Standards on Auditing in the Audit of Small- and Medium-sized Entities*](#). This is the first in a series of implementation guides, to assist small and medium accountancy practices and other auditors of small- and medium-sized entities (SMEs) in applying International Standards on Auditing to the audit of SMEs. The guide provides a detailed analysis of the standards and their requirements in the context of an SME audit.

Part 5: The Usefulness of Financial Reports

This section of the study sought the developments and next steps in improving the usefulness of financial reports in the various countries and jurisdictions around the world.

The usefulness of financial reports is without doubt the most important element of financial reporting. Useful reports should be relevant, reliable, and understandable. These are the core elements of the entire financial reporting supply chain.

5.1 Major Usefulness Developments

The overall conclusion from the Financial Reporting Supply Chain report (www.ifac.org/frsc) was that, despite improvements to the financial reporting process, the usefulness of financial reports has not improved much. The reliability of financial reports has certainly increased and so has the relevance of the information that they provide, but not their understandability.

Participants in this study reported a number of improvements with regard to the usefulness of financial reports in their country or jurisdiction, partly caused by an increase in engaged stakeholders. Examples of improvements include easier access to financial information (due to progress in web-based information and in XBRL⁵), more and better quality narrative information, and a greater focus on reporting and assurance due to the current financial crisis.

Participants indicated, however, that the trend toward ever more extensive but ever less reader-friendly and useable financial reports is certainly not yet reversed. A new, but pressing usefulness challenge, according to participants from many countries and jurisdictions, is the use of fair value accounting in illiquid markets.

The results of the study indicated that IFAC member bodies are further enhancing the usefulness of financial reports by creating awareness of the issues that reduce the usefulness of financial reporting and how they could be solved; by providing training to preparers, auditors, and others; by taking a leadership role in financial reporting standard setting; by providing feedback to regulators; and by organizing good financial reporting awards.

5.2 Progress on Usefulness Issues

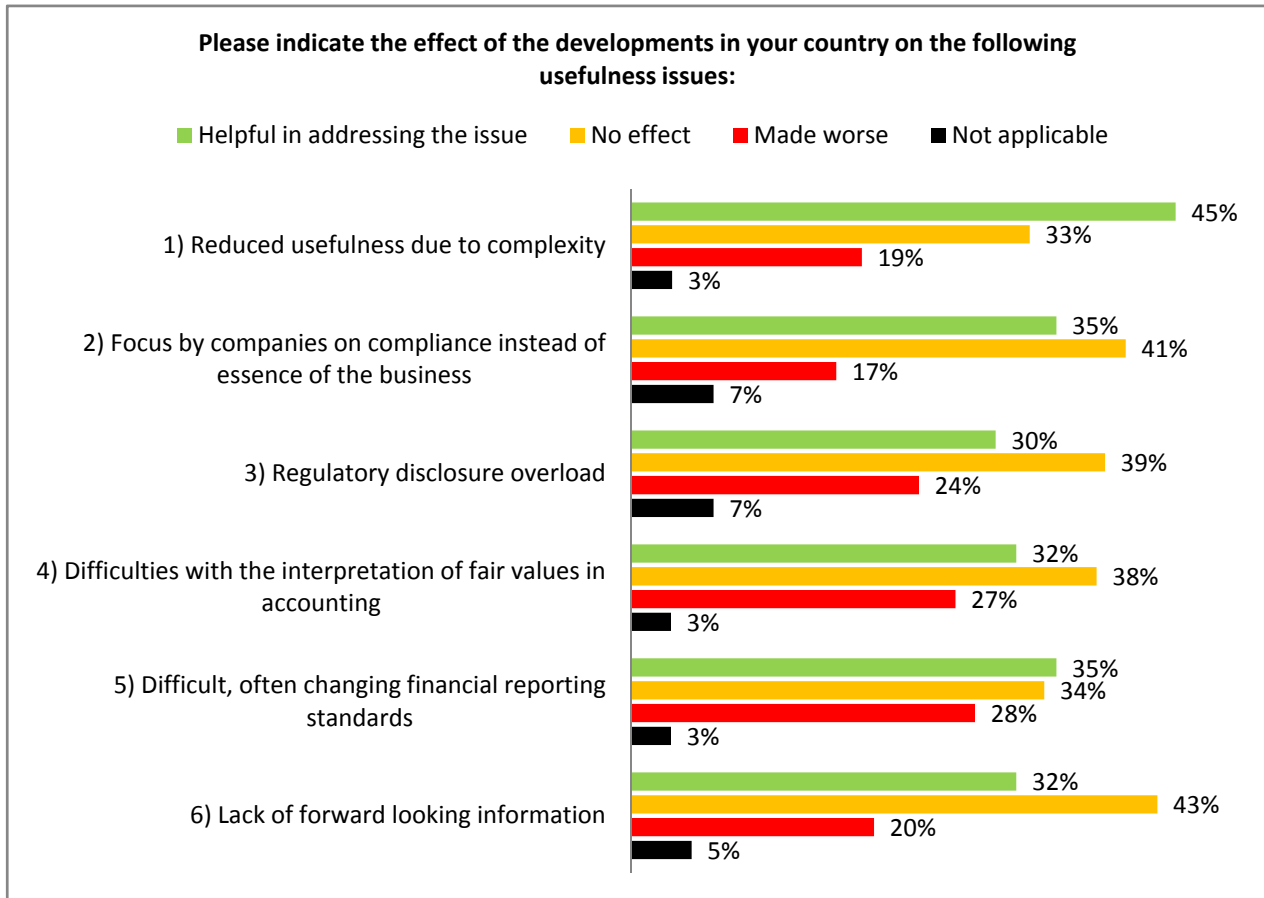
Listed below are the issues with regard to the usefulness of financial reports as identified in the Financial Reporting Supply Chain report (www.ifac.org/frsc):

1. Reduced usefulness due to complexity;
2. Focus by companies on compliance instead of essence of the business;
3. Regulatory disclosure overload;
4. Difficulties with the interpretation of fair values in accounting;
5. Difficult, often changing financial reporting standards; and
6. Lack of forward-looking information.

⁵ XBRL: eXtensible Business Reporting Language. See also www.xbrl.org.

Of the four areas studied – corporate governance, financial reporting, financial auditing, and the usefulness of financial reports – the usefulness of financial reports shows the least progress, albeit with mixed results among the various countries and jurisdictions. Whereas the developments in some countries and jurisdictions, according to the participants, have been helpful to solve issues such as complexity and the focus on compliance and regulatory overload, nothing or the opposite has happened in many other countries and jurisdictions. The results of the study indicate that many countries and jurisdictions still have to address many of these issues in order to make financial reporting more useful.

Table 5.1



In addition to the issues listed above, participants in this study identified a number of other issues that need to be addressed in their countries or jurisdictions, such as insufficient reporting on nonfinancial indicators, risks and sustainability results; the unclear link between reporting and an organization’s environment, its strategy, and the implementation of that strategy; and the use of fair value measurements in current market circumstances.

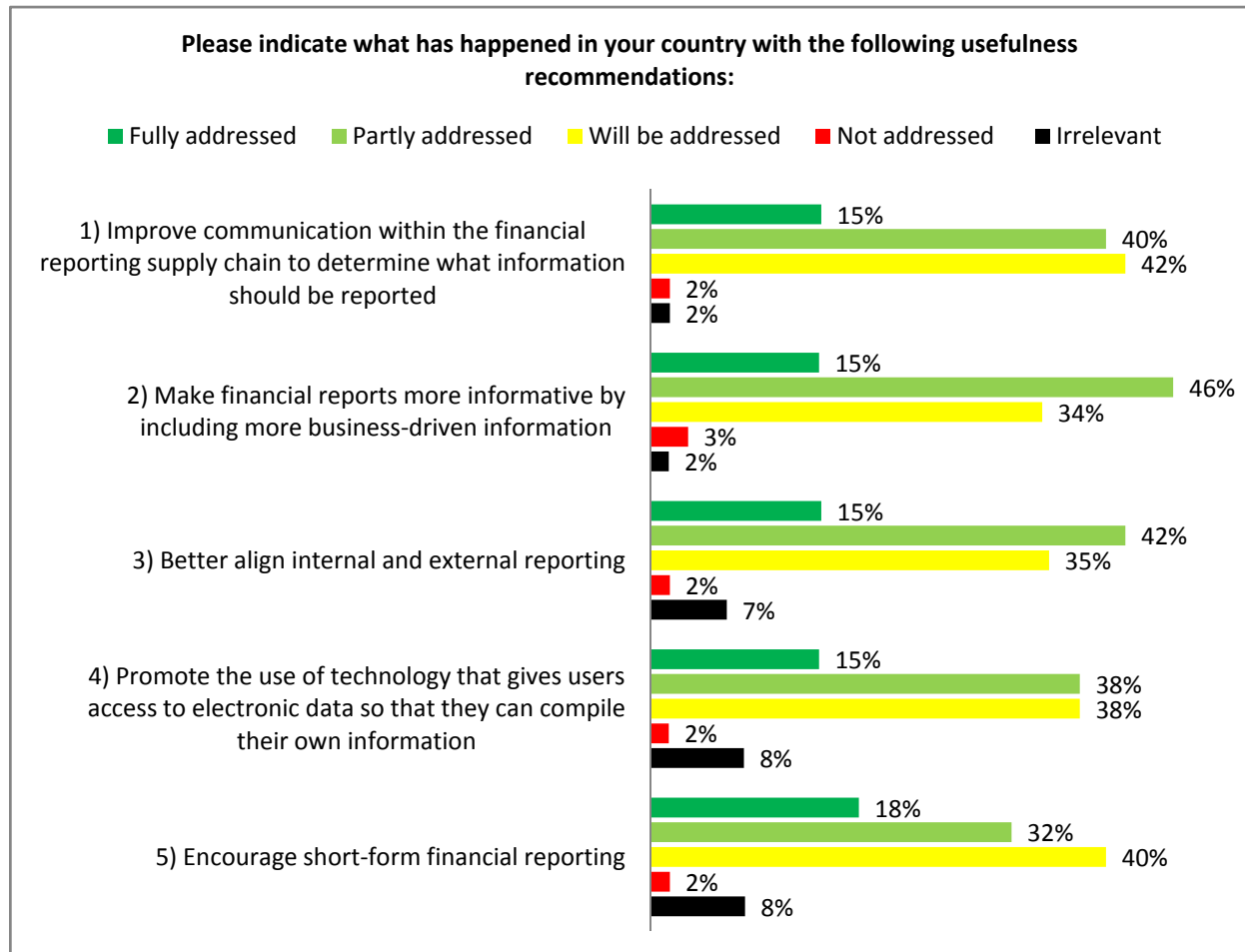
5.3 Follow-up on Usefulness Recommendations

Listed below are the recommendations with regard to the usefulness of financial reports as identified in the Financial Reporting Supply Chain report (www.ifac.org/frsc):

1. Improve communication within the financial reporting supply chain to determine what information should be reported;
2. Make financial reports more informative by including more business-driven information;
3. Better align internal and external reporting;
4. Promote the use of technology that gives users access to electronic data so that they can compile their own information; and
5. Encourage short-form financial reporting.

The results of the study, captured in table 5.2, show that many countries and jurisdictions are currently addressing, or will be addressing, the various recommendations to improve further the usefulness of financial reports. The results demonstrate the need to continue to strive for better communication within the financial reporting supply chain to determine better what information should be reported. At least, financial reports should provide more business-driven information that is aligned with the information that the organization uses internally. Work has also been done to extend further the use of technology, so that users can more easily access the information that they need. Not all users need a full set of information, which sometimes can be more confusing to them than a more concise financial report that captures the essence of the developments in an organization.

Table 5.2



5.4 Next Steps in Improving the Usefulness of Financial Reports

Participants in this study recommended that IFAC and its member bodies continue to provide leadership in their dialogue with other stakeholders in the financial reporting supply chain to enhance the usefulness of financial reports. Reduction of complexity and more meaningful narrative reporting are among the top priorities for further improvement. IFAC and its member bodies should also continue their guidance and training in financial reporting standards, such as IFRS, XBRL, accounting for small- and medium-sized entities, and sustainability reporting.

Part 6: Conclusions

6.1 Overall Conclusions from the Study

The results of this study, in which 74 IFAC member bodies from 59 different countries and jurisdictions, including all major economies, have participated, indicate that in many countries and jurisdictions, progress has been made in many areas of governance, financial reporting, auditing, and the usefulness of financial reports, such as new or revised codes and increased convergence of standards.

Virtually all IFAC member bodies that participated in the study have provided thought leadership, guidance, and training, or have taken other initiatives to improve further governance, financial reporting, auditing, and the usefulness of financial reports in their countries or jurisdictions.

This study also highlights a number of persistent and important issues, in the following areas of the financial reporting supply chain, that still need a satisfactory solution:

- **Corporate governance:** risk and control systems that are too narrowly focused; insufficient integration of governance into the overarching business model, so that governance often costs more than it delivers; a lack of safe harbor protection for those charged with governance; and more attention to remuneration for directors and executives.
- **Financial reporting:** the adoption of suitable reporting standards for small- and medium-sized entities and other entities, such as not-for-profit and public sector organizations; further convergence to principles-based reporting standards; and meeting the challenges of fair value accounting – particularly in the context of the current financial crisis.
- **Financial auditing:** challenges for small and medium accountancy practices to keep up-to-date with regard to changes in ISAs and other standards; difficulties in working with various sets of auditing standards for multinational clients; improving the understanding among the financial reporting stakeholders of the benefits of an audit; increased litigation risks in today’s turbulent environment; and challenges for the audit of fair value accounting estimates.
- **The usefulness of financial reports:** insufficient reporting on nonfinancial indicators, risks, and sustainability performance; the unclear link between reporting and an organization’s environment and strategy and its implementation; and the use of fair value measurements in current market circumstances.

Participants of the financial reporting supply chain are encouraged to continue their national and international collaboration on these and other issues to make financial reports more useful.

6.2 Current Financial Crisis

This study has been conducted over an 11-week period ending in early September 2008, before the full impact of the current financial crisis had been felt. The effects of this crisis should be taken into account when developing recommendations for the next steps in further improving financial reporting. For example, it is naïve to think that this crisis will not be followed by calls for more regulation. However, any regulation needs to be thoroughly consulted upon so that it delivers improvements for the financial reporting supply chain and avoids unintended

consequences. As the results of this study confirm, progress has been made in many areas of governance, financial reporting, auditing, and the usefulness of financial reports.

6.3 Next Steps in Improving the Financial Reporting Supply Chain

Recommended improvements include:

- Better application of existing regulation and previous recommendations, including:
 - Setting the right tone-at-the-top in governance;
 - Increasing board and auditor independence;
 - Implementing better risk and control systems;
 - Balancing compliance and performance;
 - Aligning remuneration with performance;
 - Providing more transparency and reliability in stakeholder communications; and
 - Converging to principles-based global standards for accounting and auditing.
- Better oversight; and, if necessary,
- Not *more* but *improved* regulation:
 - Based on a robust evaluation of what went wrong;
 - Proportionate to the issues it is addressing;
 - Principles-based; and
 - With a cost-benefit justification.

6.4 Next Steps in IFAC's Business Reporting Project

The next step in IFAC's Business Reporting Project will be a series of interviews with investors, preparers, auditors, standard setters, and regulators from around the world to provide practical solutions for making business reporting more useful and for further improving the communication (on business performance) between a business and its stakeholders.

The findings of the Business Reporting Project are planned to feed into the development of International Good Practice Guidance⁶ (IGPG) to assist professional accountants in business and their organizations in preparing relevant, high-quality business reports.

6.5 Further Information

If you have any questions, please contact Charles Tilley, Chairman of IFAC's Business Reporting Project, at frsc@ifac.org or Vincent Tophoff, Senior Technical Manager, Professional Accountants in Business Committee, at vincenttophoff@ifac.org or via telephone: +1-212-471-8733.

⁶ See the [Preface to IFAC's International Good Practice Guidance](#) (IFAC 2008), which sets out the scope, purpose, and due process of IFAC's International Good Practice Guidance on management accounting, financial management, and other topics.

Appendix A

Participants in the IFAC Study

A total of 74 IFAC member bodies and associates from the following 59 countries and jurisdictions participated in the IFAC study on global developments in the financial reporting supply chain:

Albania	Institute of Authorized Chartered Auditors of Albania
Armenia	Association of Accountants and Auditors of Armenia
Australia	CPA Australia
Australia	National Institute of Accountants in Australia
Azerbaijan	The Chamber of Auditors of Azerbaijan Republic
Bangladesh	The Institute of Cost and Management Accountants of Bangladesh
Botswana	Botswana Institute of Accountants
Brazil	Conselho Federal de Contabilidade
Brazil	Instituto dos Auditores Independentes do Brasil – IBRACON
Bulgaria	Institute of Certified Public Accountants of Bulgaria
Canada	CMA Canada
China	Chinese Institute of Certified Public Accountants
Cyprus	The Institute of Certified Public Accountants of Cyprus
Denmark	Foreningen Registrerede Revisorer
Denmark	Foreningen af Statsautoriserede Revisorer
Egypt	The Egyptian Society of Accountants & Auditors
Finland	KHT-yhdistys-Föreningen CGR ry
Hong Kong	Hong Kong Institute of Certified Public Accountants
India	The Institute of Cost and Works Accountants of India
Ireland	The Institute of Chartered Accountants in Ireland
Israel	Institute of Certified Public Accountants in Israel
Japan	The Japanese Institute of Certified Public Accountants
Kenya	Institute of Certified Public Accountants of Kenya
Korea	Korean Institute of Certified Public Accountants
Kosovo	Society of Certified Accountants and Auditors of Kosovo
Lesotho	Lesotho Institute of Accountants
Malawi	The Society of Accountants in Malawi

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Malaysia	Malaysian Institute of Accountants
Malaysia	Malaysian Institute of Certified Public Accountants
Malta	The Malta Institute of Accountants
Mexico	Instituto Mexicano de Contadores Públicos, A.C.
Mongolia	Mongolian Institute of Certified Public Accountants
Netherlands	Koninklijk Nederlands Instituut van Registeraccountants
Nicaragua	Colegio de Contadores Públicos de Nicaragua
Pakistan	Institute of Chartered Accountants of Pakistan
Philippines	Philippine Institute of Certified Public Accountants
Poland	National Chamber of Statutory Auditors
Romania	Chamber of Financial Auditors of Romania
Singapore	Institute of Certified Public Accountants of Singapore
Slovakia	Slovenska Komora Auditorov
Slovenia	The Slovenian Institute of Auditors
South Africa	The South African Institute of Chartered Accountants
Spain	Instituto de Censores Jurados de Cuentas de España
Sri Lanka	Association of Accounting Technicians of Sri Lanka
Sri Lanka	The Institute of Chartered Accountants of Sri Lanka
Switzerland	Treuhand-Kammer
Tanzania	National Board of Accountants and Auditors – Tanzania
Tunisia	Ordre des Experts Comptables de Tunisie
Uganda	Institute of Certified Public Accountants of Uganda
Ukraine	Ukrainian Federation of Professional Accountants and Auditors
United Kingdom	The Association of Chartered Certified Accountants
United Kingdom	The Chartered Institute of Management Accountants
United Kingdom	The Chartered Institute of Public Finance and Accountancy
United States	American Institute of Certified Public Accountants
United States	National Association of State Boards of Accountancy
Uzbekistan	National Association of Professional Accountants and Auditors of Uzbekistan

In addition, the study received 18 unsigned responses from member bodies and associates from Austria, Czech Republic, Germany, Jordan, Lithuania, Russian Federation, Saudi Arabia, Turkey, Uruguay, and Vietnam, or from the countries or jurisdictions listed above.

Appendix B

Resources

IFACnet is the global, multilingual search engine developed by the International Federation of Accountants and its members to provide accountants and others with access to global resources and information. IFACnet can be accessed free-of-charge at www.ifacnet.com.

The following relevant publications are available free-of-charge from the IFAC website at <http://www.ifac.org/store>:

- [*Rebuilding Public Confidence in Financial Reporting: An International Perspective*](#) (Credibility Report, IFAC 2003), by the Task Force on Rebuilding Public Confidence in Financial Reporting.
- [*Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and ISAs*](#) (IFAC 2004), by Peter Wong, presents the results of the study on the challenges and successes in adopting and implementing International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISAs).
- [*Enterprise Governance: Getting the Balance Right*](#) (IFAC/CIMA 2004), complements the Credibility Report. It specifically focuses on what goes right and wrong in listed companies, and emphasises that it is important to balance good corporate governance with the creation of sustainable value.
- International Good Practice Guidance (IGPG), [*Evaluating and Improving Governance in Organizations*](#), sets out a framework, a series of principles, supporting guidance, and references on how to evaluate and improve governance in organizations.
- The staff of the International Auditing and Assurance Standards Board (IAASB) issued a practice alert, [*Challenges in Auditing Fair Value Accounting Estimates in the Current Market Environment*](#) (2008), to highlight areas within the ISAs that are particularly relevant in the audit of fair value accounting estimates in times of market uncertainty. The IAASB staff also released a practice alert, [*Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*](#) (2009), that deals with the effect of the credit crisis and economic downturn on an entity's ability to continue as a going concern.
- In December 2007, IFAC published a [*Guide to Using International Standards on Auditing in the Audit of Small- and Medium-sized Entities*](#). This is the first in a series of implementation guides to assist SMPs and other auditors of small- and medium-sized entities (SMEs) in applying ISAs. The guide provides a detailed analysis of the standards and their requirements in the context of an SME audit.
- The [*Preface to IFAC's International Good Practice Guidance*](#) (IFAC 2008) sets out the scope, purpose, and due process of IFAC's International Good Practice Guidance (IGPG) on management accounting, financial management, and other topics.



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