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

For our professionalism and expertise to be sought, they have to be seen as valuable to business and trusted by wider society. Accountancy bodies have an incredible opportunity to develop a future-ready profession, but if they do not embrace change, they will be doomed.

We are seeing an increasing number of non-accountants performing as chief financial officers (CFOs) and non-professional staff working in finance functions. While meeting in Singapore, we also learnt of a material reduction in those applying for accountancy courses. Is this the start of a wider trend?

To be successful in the future, professional accountancy organizations (PAOs) need to continually review and update their competency frameworks and qualifications to deliver the skills and aptitudes business needs today, support and assess that their members are up to date throughout their careers, and effectively police failures in professionalism.

The recent PAIB Committee meeting provided key insights on finance function transformation, including the opportunities and challenges facing the profession in the region as well as globally. Two round tables held immediately prior to the meeting, hosted by the Malaysian Institute of Accountants (MIA) and the Institute of Singapore Chartered Accountants (ISCA), also provided valuable learnings on how well CFOs and finance functions are meeting the needs of business.

Judy Hsu, Standard Chartered’s regional CEO (ASEAN & South Asia) told us that she wanted her CFO and the finance business partners to have the mindset of a “challenger”. In her view, a CEO can be much more effective in their role with a good CFO and finance team working together with the business to deliver value to the bank’s clients.

“Finance touches everything” highlighted James Hopkinson, Standard Chartered CFO Regions and Clients. He sees the role of the CFO as a “co-pilot” within his business. With increased automation, he is looking for those who are inquisitive and comfortable with change. To develop finance leaders of the future, Standard Chartered set up a CFO academy partnering with Duke University and the global organizational consulting firm, Korn Ferry. The focus is on skills not addressed by professional qualifications, including communication, empathy, partnering, and collaboration.

Yvonne Chan, CFO of the hugely successful Maritime and Port Authority of Singapore (MPA), addressed the transformation agendas of both the organization and its finance function. With sponsorship from the CEO, their journey has focused on ensuring the finance function supports the business in four key areas: business partnership, business analytics, industry engagement and governance and control. Integrated thinking and reporting have underpinned an external focus in the business, the finance function responding to customer needs, and the United Nation’s Sustainable Development Goals.
Both James and Yvonne are on substantial transformation journeys. A vision and plan are of course important. The value of data is undoubted. But they emphasized that critical to success was an understanding of customer needs and a focus on people. Aligning corporate and personal goals is key. For example, this could include process re-engineering and new systems that actually lead to spending less time at the office. A powerful motivational message in the MPA office is: “I want to go home to my family”.

David Christopherson and Sallie Pilot of the stakeholder communications company Black Sun, reminded us that trust in business around the globe is low. To address this trust gap it has never been more important for business to communicate effectively. “The challenge is not to produce more information, but ‘better’ information on an organization’s ability to create value over time. “

In this report is a summary of the key activities of the IFAC PAIB program and meeting outcomes in support of enabling a PAIB-relevant profession. At the heart of our agenda is the development of a vision and roadmap for the finance function and its finance professionals. The intention is to visualize the future building on our own work and the excellent work of many accountancy bodies, accounting firms and other experts. Ultimately, we need to demonstrate what an exciting career lies ahead for us all if we embrace change, and particularly for the “millennials” and “generation Z” we want to attract to the profession.

I would very much welcome your comments on our activities as we continue to share our learnings across the profession.

Charles Tilley
Main Themes

CFO Perspectives on the Finance Function Journey

Two CFOs shared experiences from the finance function transformation journeys in their organizations:

- James Hopkinson, Chief Financial Officer for Regions and Clients, Standard Chartered Bank [Access here]
- Yvonne Chan, Chief Financial Officer and Director of Corporate Development, Maritime and Port Authority of Singapore (MPA) and Vice President of the Institute of Singapore Chartered Accountants [Access here]

A Vision and Roadmap for the Finance Function

Through an interactive session, the PAIB Committee identified the key elements of a development path and roadmap for finance functions. These elements form the basis of finance function transformation to ensure it is relevant and adding value to stakeholders in the future. These also represent the various areas where CFOs and controllers will want to focus their attention and investment, and measure and evaluate progress. [Access here]

To explore how well CFOs and finance functions are meeting current business needs, two round tables were held, one hosted by the Malaysian Institute of Accountants and the other by the ISCA. The round tables involved a mix of CFOs and controllers, audit committee chairs, academia, firms, and regulators, addressing the CFO and finance function agenda in the context of market and business needs, the expectations of the customers of finance, and the key trends impacting business, finance and accounting. [Access here]

Next Steps—IFAC will further develop a finance function vision and framework, and circulate to PAOs. PAOs will be able to use it to align competency and education frameworks to the key areas of finance function development helping to ensure accountants develop the necessary skillsets to contribute to the needs of organizations.
Effective Audit Committees and their Relationship with CFOs and the Finance Function

The strength of the finance function is not only critical to audit quality, but also to support effective governance and organizational management. To maximize the finance function’s impact to the business, the PAIB Committee discussed whether there should be a more structured approach to the evaluation of its effectiveness, and debated whether the audit committee could or should play a leading role. Opinions varied because audit committee mandates and practices are not uniform around the world. Some felt that oversight of the CFO and finance function logically fell under the remit of the audit committee, while others had the view that the audit committee should focus on its core role in oversight of financial reporting. But it was agreed that regardless of who in an organization assumes responsibility, there needs to be in place mechanisms to support, assess, and be confident in, the value of the CFO and finance function. [Access here]

Next Steps—Building on existing guidance by PAOs and others, IFAC will consider the need for a tool, such as scorecard for assessing the CFO and finance function, for use by boards and/or their committees. Such a tool would cover the key elements for a future-ready finance function outlined above. The best approaches to promoting the value of the finance function need to also be further explored.

Data Analytics

Data analytics has become omnipresent in the way organizations manage their businesses. It is a broad term encompassing many diverse techniques and processes of drawing insights from financial and non-financial data to improve decisions that are made every day and that are critical to an organization’s success. The committee discussed the opportunities and threats arising from data analytics, and shared experiences of its use in their organizations including perspectives from an SME, internal audit function, and finance function. [Access here]

Data Modeling Beyond Financial Accounting and Reporting

There is a concern that where finance functions over rely on data and processes designed to support financial reporting systems, and are using outdated costing models, they will not be providing the information that their operational colleagues require. The PAIB Committee discussed the importance of accountants in business being able to develop data and operational models that serve decision making across all forms of capital. [Access here]
A Workshop on Trust and Professionalism
Exploring the issue of trust and professionalism in a dedicated workshop environment, the committee considered the root causes of declining trust in the profession with a view to addressing the question: “How might we maintain and enhance trust in professional accountants in business and the public sector?” [Access here]

Effective Communication and Storytelling
The importance of communication cannot be underestimated. It is critical in the building of trusted relationships. David Christopherson and Sallie Pilot, from stakeholder communications company Black Sun plc shared their views on key trends influencing corporate communications, and discussed stakeholder communication strategies that can be adopted by IFAC members and professional accountants to effectively communicate with a broad range of stakeholders to tell their corporate story. [Access here]

Next Steps – IFAC will develop messaging that can be shared with PAOs to support their communication about professional accountants in business. A presentation about PAIBs will be circulated to PAOs for their use.

Professional Ethics
Caroline Lee, Member of the International Ethics Standards Board for Accountants (IESBA) provided an update on
- The revised and restructured code, renamed International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code)
- The IESBA’s project Promoting the Role and Mindset Expected of Professional Accountants (following on from their consultation on professional skepticism)
- Proposed IESBA future strategy and work plan 2019–2023
[Access here]

Action for PAOs–Share your initiatives and views on professional ethics via the IFAC Global Knowledge Gateway and the PAIB Committee. Please contact Laura Leka (LauraLeka@ifac.org).

NEXT MEETING
The next PAIB Committee meeting will be held on March 26-27, 2018, in New York. To attend as an observer guest, please contact stathisgould@ifac.org
CFO Perspectives on the Finance Function Journey

James Hopkinson, Chief Financial Officer for Regions and Clients, Standard Chartered Bank

Standard Chartered is an international banking group, predominantly operating in Asia, Africa and the Middle East.

Judy Hsu, Regional CEO, ASEAN & South Asia, set the context for the session, sharing her view that the CFO is one of the closest partners to the CEO. In short, the CFO is a business partner focusing externally on the markets and clients, providing insights to drive the business as well as critical challenge to decision making.

Recognizing that a shift in mindset will be critical to the bank’s future success, they are asking themselves: “Are we the incumbent or are we the challenger?” A key part of her role as CEO is to encourage and facilitate the organization to think like a disruptor and not to be constrained by a legacy mindset. At the same time ensuring that their purpose to drive commerce and prosperity remains at the heart of everything they do.

“Never again will the rate of change be as slow as it is today.”

James shared insight into the transformation journey of Standard Chartered’s finance function; from where they stand today, to where they want to be, how they are managing change, and his views on the pivotal role of the CFO in leading strategic change.

The finance function today

• Currently, the finance function’s operational processes are predominantly manual and, as a result, are quite resource-intensive.

• The finance function is regarded highly by the business and its views are respected by internal customers. However, there is a perception that it is a primarily technical function.

• The operating model of the finance function today is not sustainable. Processes, policies and procedures will be increasingly automated, and new accountants will not be as high in demand for process roles as they were previously.

• The vision for the finance function is that it will be a business partner and enabler of value creation. This shift in roles and expectations is already in process, and is leading to a greater focus on delivering insights, which results in greater trust with others in the organization.

Understanding and addressing business needs

• Business leaders want:

  ○ Everyone to have timely access to data—often in a way they can interrogate themselves to make business decisions
The CFO and finance function to act as advisors on the future of the business, supporting management in a thoughtful way, while also challenging conventional thinking where necessary. To respond efficiently to external events or new regulations. This requires a finance function that has its pulse on trends and events in the business environment. Those that only look internally are “doomed.”

• The finance operating model must better support the business. It requires change in:
  ○ People, organization and culture
  ○ Processes—eliminate, standardize, centralize and automate
  ○ Systems and data upgrade.

Enabling people-centered change

• 75% of large change programs fail to achieve their objectives. Why? Because they start with technology, not people and behaviors.

• 80% of programs with a clear people-centered change focus do achieve their benefit targets.

• Leading with a mindset shift that addresses what people do and how they can be part of the solution is critical. People adopt what they help to create.

• Mindsets are built over decades. Attempting to change mindsets in just a few months requires an element of unlearning. If employees are surrounded by others who aren’t changing, the challenge becomes harder.

• Standard Chartered’s finance function is in the middle of a transformation supported by:
  ○ Executive and senior management
  ○ Attitudes that see change as exciting and inevitable, and satisfaction that they are playing a central part in designing their own future
  ○ Technology that enables change and exponential thinking to overcome legacy challenges, and provides the opportunity to enhance the finance function’s overall contribution to the organization.
CFO role in transformation

- The CFO is an important catalyst for strategic change. And if they are not, then a different CFO is needed.
- The CFO acts as a “co-pilot” alongside the CEO, focused on driving business growth, people capability, technology and innovation. This is a shift from being a “navigator” that simply helps steer the organization towards achieving predetermined strategic objectives, to working in partnership with leadership to make difficult decisions, and engaging the organization on the right challenges and opportunities.
- It is important that the CFO:
  ○ Is honest and transparent – tone at the top is critical
  ○ Creates an environment that embraces change
  ○ Listens to their teams
  ○ Ensures that each team understands that they must become more valuable
- Although there is uncertainty on what the world will be like in 3 years’ time, strong leadership and a vision are very important to provide direction and context for every decision.

Building successful finance leaders of the future

“WHAT MADE THEM SUCCESSFUL UP UNTIL NOW, MAY NOT MAKE THEM SUCCESSFUL IN THE FUTURE”

- Standard Chartered established a CFO Academy for mid-level and emerging talent, designed internally in partnership with Duke University and Korn Ferry, a global organizational consulting firm.
- The focus of the CFO Academy is on developing within the finance function key skills needed for the future, such as leadership, communication, empathy, and collaboration.
- The program is designed to take people out of their comfort zones in areas where their experience is limited. The team found thinking like clients the most difficult.
As for the career route of the future – we have no way of knowing exactly. What we do know is that the finance function needs to be agile enough to cope with uncertainty. The right mindset and attitude are key qualities that Standard Chartered look for in new recruits to the finance function. Prospective employees are from varied educational backgrounds, but need to be:
- Passionate
- Inquisitive in nature
- Impatient for change

A successful future finance function is diverse, innovative, and a trusted partner that pursues the best interests of the organization.
A CFO Perspective on the Finance Function Journey

Yvonne Chan, Chief Financial Officer and Director of Corporate Development, Maritime and Port Authority of Singapore (MPA) and Vice President of the Institute of Singapore Chartered Accountants

Maritime Singapore contributes to around 7 per cent of Singapore’s GDP and has over 170,000 employees. It is the world’s second busiest container port and world’s top bunkering port.

In her CFO and Director role, Yvonne has been involved as part of the senior management team in the development of an industry transformation roadmap. This industry strategy seeks to foster innovation by enabling enhanced port services through digital technologies, improved productivity, and new jobs requiring new and updated skills.

As a substantial public sector entity, it is crucial for the MPA to plan far ahead for its infrastructure. Key areas of focus include:

• Facilitating the plans for new port design innovation, and helping the organization think long term, and beyond current constraints
• Retaining talent in the maritime accounting industry.

MPA emphasizes service excellence at its core and does not take its customers for granted recognizing that customers have choices and if they do not evolve fast enough, customers could divert to other newer, cheaper and more efficient ports.

The MPA Finance Transformation Agenda

The finance function supports the business in four key areas:

○ Business partnership to support various departments
○ Governance and control
○ Industry engagement
○ Business analytics.

“IF YOU WANT TRANSFORMATION BUT ARE NOT WILLING TO TAKE A DRASTIC MEASURE, THEN YOU ARE NOT REALLY UP FOR TRANSFORMATION”
The change management journey has involved:

- Providing a clear vision and expectation for the role of the finance function in supporting the organization’s objectives, based on:
  - The finance function and its professionals moving beyond a support role to being co-pilots in the organization
  - Being champions of customer-centricity and innovation

- From a staff and behavioral perspective, change management has involved human and behavior-centric leadership to help ensure the finance function has the people and skills to deliver the vision. Key elements of the people approach include:
  - Attracting high quality finance and accounting staff
  - Supporting current staff development and skills acquisition, enabling them to be competitive in the job market
  - Aligning corporate and personal goals; for example, by ensuring process re-engineering and new systems and approaches lead to a better work-life balance
  - Using team events to help establish employees’ preferences and skills
  - Enabling those staff who have an aptitude for financial strategy, planning and analysis to focus on those roles in a dedicated “management accounting” team that is primarily forward-looking. This team is also focused on providing business analytics on key data points that help manage and steer the organization
  - Dedicated team for general accounting providing confidence in the financial governance of the organization

- A constant upgrade of the finance ERP systems architecture, and deploying specialist tools and applications for budgeting and business analytics

- Enabling effective business analytics delivered in real-time and in easily-consumable formats to mobile devices such as tablets

- Constant review of process and procedure design using process mapping, with the aim of reducing human touch points and replacing with system processing, when possible. This reduces risk as checkpoints and verification become increasingly embedded in the system. It also allows more time for the finance function to identify and evolve key performance indicators and review performance with a sense making capability. This requires close partnership with the business and wider skillsets and behaviors

- Implementation of an enterprise risk management framework to provide a structured approach to determining challenges and risks confronting the organization, including finance-related risks and subsequently adopting risk-mitigation measures.
Finance’s Strategic Role in Sustainability and Integrated Reporting

• Sustainability Reporting increasingly falls within the job roles of accountants – MPA has produced a 4-part series of Sustainability/Integrated Reports, beginning with the inaugural issue for 2014 (the MPA’s 2017 report is available here)

  ○ This report also maps MPA’s material issues and key initiatives to United Nations Sustainable Development Goals (UNSDGs) to provide focus on those areas where the MPA is helping to fulfill societal goals. Please visit page 17 of the MPA report for further details.

• MPA’s Sustainability/Integrated Reports adopt the Global Reporting Initiative’s disclosure standards to capture key metrics, and are aligned to the International Integrated Reporting <IR> Framework. Integrated reporting has enabled the MPA to articulate and communicate its business model and value creation process.

The sustainability/integrated reporting process enables the finance function to re-orientate its focus to holistic performance covering all those key areas that are driving value creation.
A Vision and Roadmap for the Finance Function

Objective: Progress an overarching framework for the development of the finance function based on recent expert input and discussions of the PAIB Committee.

At recent meetings, the PAIB Committee has set out to:

- Identify and understand the changing landscape and drivers of change
- Develop the profile of a future-ready professional accountant
- Identify relevant skills.

These resources will be made available to professional accountancy organizations in the coming months.

At its meeting in Singapore, the committee identified the key elements of a development path and roadmap for finance functions. These elements form the basis of finance function transformation to ensure it is relevant and will continue to add value to stakeholders in the future.

These also represent the various areas where CFOs and controllers will want to focus their attention and investment, and measure and evaluate progress.

We also held two round tables, one hosted by the Malaysian Institute of Accountants and the other by the Institute of Singapore Chartered Accountants involving a mix of CFOs and controllers, audit committee chairs, academia, firms, and regulators, and addressed four key questions to provide input on the future development path of the CFO role and finance functions.

- What is your perception of how well CFOs and finance functions are meeting current business needs?
- What do others in your organization expect from the CFO and finance function?
- What are the opportunities and challenges for the development of the CFO and finance function agenda?
- What needs to occur for the finance function role to change?

The feedback from these round tables is captured in the box on page 18. A key conclusion from the round table discussions is that guidance on finance function transformation and development would be helpful for developing a vision and pathway for delivering value in the context of automation and digitalization.
The Key Elements for a Future-Ready Finance Function

The overall vision for a finance function transformation is to create

An agile, integrated and customer-led finance function that supports the organization in dealing with uncertainty and the challenges of a multi-capitals world.

A finance function transformation should lead to an efficient and effective finance function that:

• Enables the organization to deliver its objectives in the context of stakeholder expectations.
• Delivers actionable insights at speed to support strategic and operational decisions shaping how the organization creates value and manages opportunities and risk.
• Provides confidence and trust in data, processes, systems and reporting.
• Provides measurement and metrics that track value creation across capitals.
• Communicates in an integrated and timely way to provide a holistic picture of performance.

Prerequisites for delivering such a vision include:

Being customer-led and responsive to customer needs

• A customer and partnership strategy is needed to drive proactive engagement and interaction with key customers of the finance function
  ○ Board and management
  ○ Operations and other key functions
  ○ External stakeholders including investors, regulators, customers, suppliers and NGOs.
• A collaborative mindset that leads to the finance function proactively interacting and collaborating beyond its functional boundary with various teams including those that specialize in data, technology and digital, risk, operations and supply chain.

Commercial, business or organizational awareness and understanding

• The drivers of business success and competition in a specific industry, and key areas of uncertainty and change.
• A deep understanding of the business model(s) and key areas of opportunity and risk related to value creation and preservation. This involves understanding operational aspects of the business model such as manufacturing, production, distribution, or service delivery, the capitals or resources that are the basis for success, such as brand and marketing, sales, research and development, and the organization’s key enablers and dependencies, such as technology, digital, and data, talent management and people.
Key enablers of the vision include

Technology and Digitalization
- Enabling faster decision making and responsiveness through digitalization and integration of data, processes and systems.
- Capitalizing on the opportunities of technology and digitalization to create a touchless transactional environment, including tools and practices that
  - Lead to real-time information flow to decision makers
  - Enable enhanced understanding of performance and timely action
  - Strengthen controls
- Advanced data governance and analytics to drive effective risk management and insights.

Values and Culture
- Establishing values, culture, and behaviors that enable agility through:
  - Continuous experimentation and iteration
  - Curiosity and exploration of digital ways of working
  - Empowered teams with the necessary skills
  - Working effectively with automation, AI and algorithms.

Structure
- A fit-for-purpose digital-age operational model that shapes the finance function to support key activities, including:
  - Operational finance and accounting that directly supports business service delivery and core end-to-end business processes
  - Decision support including financial planning and analysis and enterprise performance management
  - Effective and targeted business partnership to operations and other areas
  - Specialist subject matter expertise in key areas such as tax, treasury, data and analytics, digital and technology for the benefit of stakeholders across the organization.

Talent and skills
- Talent management involves learning and development strategies that enable a workforce to deliver value-add roles. Key aspects include:
  - Leadership and management development
○ Identifying critical human capital requirements, such as innovation and diversity
○ Effective learning-centric approaches to support accountants acquire required skills and maintain relevance
○ Recruiting for aptitudes and behaviors in addition to technical expertise
○ Looking after people

Professionalism—ethics and integrity – and the application of professional values

• Professional integrity is valued by boards and management and should not be seen as incongruent with developing a value-creating finance function.

• Integrity, skepticism and objectivity serve to encourage constructive challenge, bring value and credibility to projects, business cases and decision making, and safeguard the wider interests of the business and its key stakeholders.

Next Steps
IFAC will further develop a finance function vision and framework, and circulate to PAOs. PAOs will be able to use it to align their competency and education frameworks to the key areas of finance function development helping to ensure accountants develop the necessary skillsets to contribute to the needs of organizations.
Feedback from Roundtables held in Malaysia and Singapore

Key messages

- Outside of the finance and accounting function, there can be inadequate recognition of the importance of the finance function to an organization. Consequently, finance functions can be limited in their contribution to high quality reporting and decision making unless there’s an audit committee chair and/or CEO to champion investing in developing the capability of the finance function. This can particularly be the case where the CFO is not a professionally qualified accountant.

- A gap can exist between CFO/controller and finance function capability which needs to be bridged.

- CFOs of new economy/technology-driven companies have a different mindset and approaches to problem solving that also provides for an expanded role for finance functions in those organizations.

- CFO and controller roles often need to be separated and cannot be easily combined into one role with the former being more of a co-pilot to the organization focused on creating value rather than a steward focused on protecting value.

- Regulatory attention is largely focused on the quality of financial reporting and unethical practices and fraud. In their view, the organization and management culture can be more important than CFO competence when it comes to ethics. Fraud or unethical practices often don’t occur because of incompetence, but because of the pressure put on CFOs to deliver targets.

- Accountancy education and training is in strong competition with other fields including STEM (science, technology, engineering, and mathematics). There is general fear around the relevance of accounting in light of digitalization and automation which could be discouraging students.

Key conclusions

- Education and communication on the value of high quality finance functions is key

- To gain the support of CEOs and audit committee chairs, CFOs need to champion the business case for finance function development.

- Guidance on finance function transformation and development would be helpful to deliver value in the context of automation and digitalization.

- Accountancy education & training needs to cover broader skills covering digital and data, communication, and broader-based business skills rather than being primarily focused on a steward role.
Effective Audit Committees and their Relationship with CFOs and the Finance Function

Objective: To explore the importance of effective finance function leadership, and a strong finance function, in supporting audit quality and improving governance.

Responsibility for audit quality cannot lie solely with the auditor. Those charged with governance (usually the board), together with executive management and the independent auditor, are key pillars that support robust financial and broader reporting.

But, it is also important to recognize that the oversight role of the board, and the attestation role of the external auditor, can be severely inhibited by a finance function that lacks capacity, expertise, and effective leadership, such as by the CFO or equivalent executive.

The finance function is responsible for producing reliable and auditable information for external disclosure. In addition, as finance functions shift from providing technical support to becoming business partners, they are increasingly producing information and analysis for the board that supports strategic decision making. Therefore, the strength of the finance function is not only critical to audit quality, but also to support effective governance and organizational management.

Organizations need mechanisms in place to support, assess, and be confident in, the value of the CFO and finance function.

During his opening presentation at the ISCA PAIB conference in Singapore, PAIB Committee Chair Charles Tilley asked the 500 conference participants how well they thought their finance and accounting teams were meeting the needs of the organization. Worryingly, only a quarter thought they were doing well or extremely well.

To maximize the impact to the business, should there be a more structured approach to the evaluation of the effectiveness of the finance function?

The PAIB Committee discussed who in the organization assumes responsibility for ensuring a fit-for-purpose finance function that meets the needs of the board and the organization, and debated whether the audit committee could or should play a leading role in:

• Evaluating the performance of the finance function
• Appointing key finance staff and participating in succession planning for the finance function
• Promoting the value of the finance function, and championing the business case for its development.
Reflections from the PAIB Committee

• Broad consensus was that the responsibility for appointment of all executive and senior management roles (including the CFO or equivalent), as well as performance evaluation of all departments (including the finance function), lies with the board. But, there is recognition that these responsibilities are often delegated by the board to other committees, including the audit committee, nomination and remuneration committee, finance committee or risk committee.

• Audit committee mandates are not uniform across jurisdictions or organizations. In some jurisdictions, the audit committee has a narrow focus on financial reporting only, while in others their oversight extends to wider corporate reporting that encompasses the whole organization. Smaller organizations may not have an audit committee at all. Therefore opinions on the audit committee’s role were varied. Some felt that oversight of the CFO and finance function logically fell under the remit of the audit committee, while others were of the view that the audit committee should focus on its core role in oversight of financial reporting.

• The audit committee chair can confirm to the board that what the CFO is communicating is credible. Executive management also plays a role in corroborating that the organization has an effective finance function. The board is expected to trust management, but it also has to verify that its trust is appropriate.

• The finance function has a role in supporting audit committee or board effectiveness. For example, through enhancing communication between meetings, ensuring the finance function provides quality information, and highlighting emerging issues to ensure they are on board agendas. Examples of practices:
  ○ Private meetings between the audit committee and external auditors, such that the audit committee can routinely ask, without the CFO present, for the auditor’s views on the finance function and whether there are any issues they should be concerned with.
  ○ Benchmarks for finance function assessment that may encapsulate, for example, the number of internal audit breaches, number of control breaches, or number of audit adjustments.
  ○ The CFO and finance function annually presenting to the board on the finance strategy for the next 12 months, on how the finance function is supporting the organization, and the adequacy of resources to fulfil the strategy
  ○ Regulators asking to speak directly to audit committee members.
Next Steps
Building on existing guidance by PAOs and others, IFAC will consider the need for a tool, such as scorecard for assessing the CFO and finance function, for use by boards and/or their committees. Such a tool would cover the key elements for a future-ready finance function outlined above.
The best approaches to promoting the value of the finance function need to also be further explored.

Further Resource—United, Connected and Aligned: How the Distinct Roles of Internal Audit and the Finance Function Drive Good Governance
Effective governance involves many individuals throughout an organization, including internal audit and the finance function. IFAC and The Institute of Internal Auditors (IIA) have compiled insights from 11 governance experts to examine how the complementary roles of both functions drive sound governance.
Data Analytics

Objectives: Develop insights on how PAIBs and the finance function are supporting data analytics, and opportunities and challenges for professional accountants.

Data analytics is a broad term encompassing many diverse techniques and processes that deliver insights from financial and non-financial data to improve decision making on matters that are critical to an organization’s success. Data analytics has become omnipresent in the way organizations manage their businesses.

Accountants working in either the finance function or internal audit are using data analytics to help organizations uncover valuable insights within their financial reporting processes and to better manage risk, as well as to more broadly improve strategic and operational decisions for revenue growth and cost reduction.

As it becomes increasingly ubiquitous, accountants need to identify how they can develop their roles to contribute to data analytics activities that involve data to enhance business decisions, and improve risk management and internal control.

Reflections from the PAIB Committee on their experiences of data analytics in different settings

Data Analytics for finance teams in small and medium-sized enterprises (SMEs)

- It is important to apply the professional accounting skillset to ensure data governance, and to help build the foundation for data analytics that will drive decision making. In an SME where there may only be a CFO and a few accounting staff, it is often not possible to employ experts such as data scientists. This makes managing financial and non-financial data across the organization an opportunity to create additional value for the CFO and finance team.

- Need to consider what data is already available about the organization and its operations, and what would be useful, collectible and would provide insights into business problems to help identify opportunities.

- Need to invest in a system to store and generate robust and reliable data. Without a solid foundation, it is difficult to apply business intelligence tools to exploit the data. Underlying datasets need to be reliable and credible otherwise investment in analytical tools is ineffective.

- A focus on data governance and controls is key and the finance team can develop the necessary policies, procedures, and data taxonomies to ensure confidence in data.

Data analytics in an internal audit function of a large financial organization

- The automation of large parts of the audit plan using analytics has made the internal audit function more efficient and effective. Up to 75% of internal audit activity now relies on data analytics, which involves automated day-to-day testing.

- The audit committee and management have experienced greater value from internal audit, as have other operations that benefit from the insights delivered. Use cases include:
○ Financial planning and analysis (FP&A)—ensuring a business unit’s FP&A is consistent with independent analysis, and allowing the identification of unexpected anomalies and variances

○ Software to monitor communications by employees to identify potential prohibited sales.

○ Reviewing financial transaction information based on a full population of data combined with data visualization tools is a powerful way to show trends and underlying areas of risk.

○ Developing a data analytics “IQ” among all internal audit staff has been a priority. This involves ensuring staff are connected to the wider analytics community to acquire new knowledge and experience. Internal audit has become a resource center in data analytics. The data analytics knowledge from IA is being transferred to the business, and representatives from internal audit serve as data analytics champions.

○ Internal audit provides a data analytics program framework that enhances data governance to drive consistent data analytics methods, processes, documentation standards, quality control, and talent management.

Using Data Analytics in the Finance Function

• Together with automation, analytics enables better risk understanding and reporting across thousands of data points that form the basis of P&L reporting.

• Data analytics has improved collaboration with external auditors using their software and tools to detect patterns and trends. The relationship and dialogue between the finance function and external auditors have significantly improved, leading to better outcomes.

• Providing leadership to the organization in data governance, building on the natural skillset of the finance function. Ensuring appropriate data ownership and policies and providing the necessary structure to ensure data robustness. Data analytics capability is gradually being built in-house within the finance function.

• Supporting the business analytics process beyond the finance function. This is also being done in conjunction with other technology projects such as using blockchain to enhance for example commodity trading.

Opportunities and Threats Arising from Data Analytics

Opportunities

Efficient and real-time information allows more time for action and value added activities

• Greater job satisfaction and contribution to business strategy, risk management, and value creation for finance staff

• Better cooperation with external auditors and more efficient audits ultimately lead to enhanced audit quality

• Enhancing professional skepticism improves the ability to ask the right questions and build on existing analytical ability

• Better prioritization, more targeted in approach to support the organization
• Greater transparency and accountability
• Greater insights into the business and the potential to enhance decisions and insights.

Threats
• At the transactional level, the accountant can become marginalized and less relevant, or even obsolete.
• Data security and privacy need to be carefully managed within the organization as well as with the external auditor. IT and cyber risk is an increasingly important topic for discussion between audit firms and their clients, and one which carries significant reputational risk. Audit firms process large volumes of client data and are therefore vulnerable to data breaches or external cyberattacks.
• Resistance to training and upskilling has to be overcome. The finance function needs to achieve real impact from analytics initiatives. To do so requires applying finance and accounting skillsets and knowledge of the business to help the organizations identify and prioritize their problems, based on which will create the highest value when solved.
• Resource constraints to implementing necessary processes, systems and tools particularly in an SME context.
• Risk of error in underlying data which can lead to misleading results. Poor quality data in other parts of the organization can also be a challenge to the usability of data.
• There is a need to work effectively in collaboration with other experts such as data engineers, data architects, and data-visualization experts to ensure the finance function is relevant and not marginalized in data analytics.

PAO resource: Data Analytics, An Information Resource for IFAC Members, gives an overview of the different types of data analytics and their applications to financial reporting and audit, as well as usage in business, to uncover valuable insights. Also available in PowerPoint format. Please contact StathisGould@ifac.org to request use.

IFAC webinar on data analytics
Data is at the heart of digital transformation—IFAC’s webinar provides a wide range of insights on how data analytics is being applied in business and the accountancy profession and the skills and competencies needed by professional accountants.
Data Modeling Beyond Financial Accounting and Reporting

The PAIB Committee discussed the importance of accountants in business being able to develop data models that serve both decision making and reporting purposes across all forms of capital (see Integrated Reporting’s multicapital framework).

Such models cannot be derived solely from IFRS and GAAP financial reporting standards, since financial statement value (at approximately 16% of market value today) is increasingly not representative of market value. The emphasis on management accounting capability requires competency in data, analytics, and modeling that goes beyond financial reporting requirements given that:

• “GAAP” product cost does not represent the real cost of products or services.
• Costs around R&D and brand and marketing are treated as expenses rather than value drivers.
• Historical cost depreciation such as of equipment and software does not provide forward-looking decision useful analysis for strategic, market, and risk analyses. For example, a capital replacement charge in the form of a depreciation expense in product cost does not aid decisions in today’s technology-driven economy.
• Selling, general and administrative expenses on the income statement often have little or no causal relationship to products or services.
• Human resources and network effects (e.g., supplier network, distribution network, and customer network) are not considered assets in the financial reporting world.

Consequently, there is a concern that where finance functions overly rely on data and processes designed to support financial reporting systems, and are using outdated costing models, they will not be providing the information that their operational colleagues require.

In highly automated production environments, and at a time when most drivers of value creation are intangible, a singular focus on financial reporting requirements can hinder rather than enhance finance and accounting teams’ ability to develop the data modeling capability needed. Modeling operations and creating financial data that reflect operations in a clear cause and effect manner to enhance business insights needs to become a core competence for finance functions. Decision support analytics should have resources, capacity, and cause-and-effect process relationships at its core.

Resource for Data Modeling–The IMA Conceptual Framework for Managerial Costing
A Workshop on Trust and Professionalism

Objectives:

• To deep dive into the issue of trust and professionalism and establish the root cause of loss of trust in the profession from a PAIB perspective

• To establish potential stakeholders we might engage with around this issue in the future.

IFAC’s objective is to support accountants in business to not just survive, but thrive in the increasingly complex world.

A number of emerging trends could conspire to cause the profession to lose its position of trust and relevance. Technology and digital disruption are at the forefront of these, with innovations like automation and blockchain threatening the core activities of accountants. The perception of the profession in terms of its ethics, professionalism, contribution to society, and its attractiveness to youth, are also being challenged.

IFAC and its members need to steward the profession towards a trajectory that supports continuing relevance in the face of this disruption and uncertainty. Addressing systemic challenges, such as climate change and a decline in trust in business and governments, requires in-depth understanding of the complex and interconnected issues that are driving positive and negative outcomes for organizations, economies and societies.

Exploring the issue of trust and professionalism in a dedicated workshop environment, the committee considered the root causes of declining trust in the profession with a view to address the question: “How might we maintain and enhance trust in professional accountants in business and the public sector?”

The process

To take a meaningful deep dive, the PAIB Committee conducted an exercise outlining the “forces” surrounding the issue of loss of trust, looking at what contributes to improving or worsening outcomes. These included forces that are vicious, virtuous, stabilizing and stagnating. This was followed by a root cause mapping exercise which focuses on the fundamental problems at hand, instead of addressing the symptoms of the challenges at a superficial level.

Finally, the committee considered “unusual suspects”—alternative stakeholders—we could convene to expand the profession’s thinking and address some of the fundamental issues.

To continue challenging our thinking in the context of other stakeholder perspectives and to identify impactful ways to respond to trends and challenges, it will be important to engage others through conversation and interactive workshops.
What are the most significant root causes that result in PAIBs not being trusted?

The PAIB Committee’s discussion revealed some interesting themes that will be further explored in a workshop at its next meeting in March in New York. Fundamentally, trust is based on displays of ethical and professional behavior, as well as the ability to deliver for the organization and for society.

The negative attention that the profession receives from the media and regulators is typically related to unethical behavior and/or incompetence, and can often be focused on auditors (“where were the auditors?” syndrome). A significant challenge for the profession is that accountants and the profession can be acutely stereotyped, or all perceived by the public to be similar, although the majority of the profession are working in diverse roles inside organizations.

The key themes that impact the perception of trust both positively and negatively include:

1. Acting with integrity—The lack of clarity on the line between behaving with integrity as a professional accountant and making unethical decisions, or placing the interests of the organization before those of other stakeholders. Pressure to act unethically or go too close to the “line” can come from others outside the finance and accounting team, or directly from the CFO or those in leadership positions. Pressure from others to sail close to the line is not uncommon and applies to both making decisions and reporting on financial performance. Consequently, it is important to be alert and adaptive to how world and social expectations are changing, for example in relation to corporate responsibility and accountability.

2. Speaking the language of business is key to being viewed as trusted. Using the language of financial reporting or jargon, or being overly control- and compliance-centric can lead to a perception that the finance function is not adequately meeting the needs of its customers and users. The more PAIBs are overburdened with routine work, the more limited scope they have to pause and think creatively about how the world is changing and how they can help their organizations to respond.

Key Conclusions Arising from the Workshop

• Efforts to re-brand and re-orient the profession to build trust in business, and respond to mega-trends such as digitalization, sustainability, and climate change, are key to ensuring the profession and PAIBs in particular serve both societal and business needs.

• The accountant in business role in supporting trusted organizations and business is critical. They can enhance trust by proactively bringing their professional qualities to their role and encouraging ethical behavior and decision making throughout an organization to ensure sustainable value creation.

• Communication from the profession and business needs to be authentic and inspiring to engage and influence important stakeholders (see section on Effective Communication and Storytelling).
Effective Communication and Storytelling

Objective: To consider key elements of effective communication and the implications for accountants, reporting and PAIB messaging.

Technology is clearly driving change, delivering with it both opportunities and risks. But success in all business is dependent on customer focus and excellent communication with all stakeholders. The importance of communication cannot be underestimated. It is critical in the building of trusted relationships.

David Christopherson and Sallie Pilot, from stakeholder communications company Black Sun plc shared their views on key trends influencing corporate communications, and discussed stakeholder communication strategies that can be adopted by professional accountants in business to effectively communicate with a broad range of stakeholders to tell their corporate story.

“What are the Key Trends Influencing Corporate Communication?”

- **Reduced corporate trust**—According to the Edelman Trust Barometer, trust has been in severe decline in various institutions in recent years, and is eroding particularly in business. Behavior and decisions by corporations are often perceived to compromise society and the environment for the short term benefit of organizations and their shareholders. In Edelman’s latest survey:
  - 56% of respondents agreed with the statement that, “companies that only think about themselves and their profits are bound to fail.”
  - 60% agreed that “CEOs are driven more by greed than a desire to make a positive difference in the world.”

- **Long-term thinking**—78% of investors care more about sustainability compared to five years ago (Source: Schroders Global Investor Study 2017: Sustainable investing on the rise).

- **Wider value creation**—Value is increasingly being defined by intangibles not on the balance sheet. But, business is still struggling to explain how it defines and delivers long-term value.

- **Purpose and culture**—Businesses need to evidence their corporate purpose and social license to operate. According to the Deloitte Millennial Survey 2018, only 48% of over 10,000 millennials surveyed believe businesses behave ethically (compared with 65% in 2017).

- **Evolving consumption and the power of stakeholders**—Changing technology and social media has empowered stakeholders, giving them a voice and added an increased ability to hold corporates to account. But, it also means that businesses no longer have control of much of their messaging, and therefore must make the most of corporate reporting to tell their own story.

“IT HAS NEVER BEEN MORE IMPORTANT FOR BUSINESS TO COMMUNICATE EFFECTIVELY”
• **Different stakeholder information needs**—Investors and stakeholders want information that is relevant to them for their specific needs. According to the 2018 Black Sun study, *Less perfection, more authenticity*, only 19% of companies in the FTSE 100 describe how stakeholder interests affect their strategy.

• **An age of disruption and growth**—Communication channels are changing with new technology, and organizations will need to ensure that their core messaging is robust and consistent across channels. Black Sun demonstrated the power of video as a form of communication.

Consequently, effective corporate communication needs to be strategic, authentic, inspiring, engaging, and relevant. The *International Integrated Reporting Framework* is one tool being used by organizations to explain their value creation story.

*Key Considerations for the Value Creation Story*

Black Sun poses 10 key questions to help organizations consider how they create and communicate value:

1. What is your definition of value?
2. What is your business model?
3. What are the market trends shaping your business?
4. What is special and distinctive about you as an organization?
5. What opportunities are you focused on achieving?
6. What is your strategy for long-term value creation?
7. What is the link between value-adding activities and decisions made?
8. How resilient is your business model to future change?
9. What are the key risks you need to understand and manage?
10. How does remuneration align with how your business creates value?

Professional accountants in business play an important role in enhancing credibility of communications through provision of reliable supporting data, which, coupled with more authentic narrative, is key to address declining trust.

*Implications on the Key Messaging for the Profession Related to Professional Accountants in Business*

A key message for IFAC and professional accountancy organizations must be “better accountants, better business, better society.” This is to say, the contribution of professional accountancy to business and the public sector is in building resilient and sustainable organizations.

Key elements of this messaging include:

• The CFO and finance function needs to continually adapt and innovate to meet evolving business needs. Specifically, the focus should be on the need to drive value for customers by producing goods and services that
people want, and therefore to make money as a result, but doing so in a way that makes a positive contribution to society, the economy and the environment.

• To build trust in business, accountants need to be focused on addressing multi-capitalism in decision making and reporting to support the creation and development of responsible organizations.

• Encouraging organizations to emphasize long term thinking and their role in bringing positive outcomes to society and sustainable development. Making decisions focused on short term financial outcomes at the expense of the long term is no longer societally acceptable.

• Enabling and influencing good governance, ethical business and enhanced accountability. Organizations that do not act ethically eventually lose their “license to operate” with the subsequent failure resulting in lost value to a variety of stakeholders.

• Accountants are a positive force in combating fraud and corruption, and encouraging ethical decision making.

• Effectively and candidly communicating how value is created and preserved beyond the bottom line to investors and other stakeholders using approaches such as integrated reporting is an important part of the accountant’s role.

For IFAC and its members, a key focus needs to be on how these messages are supported and pursued in tangible outcomes.

An accountancy profession that meets the needs of business and society will also help increase attractiveness of the profession when attracting talent and youth.

With a professional obligation to stay up-to-date, the continuing professional development of accountants is a critical part of maintaining their professional status and contribution to business. Keeping up-to-date has never been more important or challenging. 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.

Next Steps

Develop messaging that can be shared with PAOs to support their communication about professional accountants in business. A presentation about PAIBs will be circulated to PAOs for their use.
Professional Ethics

Objective: Ensure a relevant Code of Ethics for Professional Accountants

Caroline Lee, Member of the International Ethics Standards Board for Accountants (IESBA)

Updated the PAIB Committee on:

- The revised and restructured code, renamed *International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code)*
  - An enhanced conceptual framework
  - Standard on Non-Compliance with Laws and Regulations (NOCLAR)
  - Other substantive revisions relevant to PAIBs
- The IESBA’s project *Promoting the Role and Mindset Expected of Professional Accountants* (following on from their consultation on professional skepticism)
- Proposed IESBA future strategy and work plan 2019–2023

The PAIB Committee discussed with Caroline challenges experienced with NOCLAR since it came into effect in July 2017, as well as guidance developed by PAOs regionally to support their members:

- Common misconception that NOCLAR is about hunting for non-compliance
- Reporting carelessly suspected instances of non-compliance (without sufficient credible evidence) can have severe implications
- Members receiving the new standard, but not reading fully or understanding their responsibilities and its impacts. Examples of PAO activities to support their membership include:
  - Animated videos
  - An app to support accountants with ethical dilemmas and help in deciding what action to take, if any
  - Helplines for members
  - Guidance documents
  - Significant outreach activities, including workshops

The IESBA itself has developed a range of support materials on NOCLAR, including short videos, Q&A documents, factsheet, at a glance summary, and summary presentation slides.

*Role and Mindset of Professional Accountants*

Following analysis of responses to their consultation on professional skepticism, the IESBA will not be seeking to expand on the current material on professional skepticism in the Code or define a wider definition that would be
applicable to all professional accountants. They will instead be focusing on strengthening Part 1 of the Code to clearly set out the values and behavioral characteristics that are expected of all professional accountants.

The PAIB Committee is supportive of ensuring a relevant Code of Ethics for all professional accountants, and will be engaging with the IESBA as it develops its new guidance to provide input from a PAIB perspective.

Next Steps

• Support the IESBA with its project Promoting the Role and Mindset Expected of Professional Accountants
• Continue to monitor developments in professional ethics

Action for PAOs

Share your initiatives and views on professional ethics via the IFAC Global Gateway and the PAIB Committee. Please contact Laura Leka (LauraLeka@ifac.org).

Recent PAO resources; others can be found on the IFAC Global Knowledge Gateway

○ ACCA Ethics and trust in a digital age
○ CIPFA ethics survey results, Do the right thing
○ ICAEW – Scepticism: The Practitioners’ Take
○ Royal NBA –Moresprudentie ‘Dealing with suspicions of fraud’