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PROFESSIONAL ACCOUNTANTS AS BUSINESS PARTNERS AND VALUE ENABLERS

SHARING KNOWLEDGE, IDEAS, AND EXPERIENCE

September 2017

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



The IFAC Professional Accountants in Business (PAIB) Committee September meeting was scheduled to be held in Mexico City. However, the tragic earthquake took precedence and our meeting was canceled. We wholeheartedly supported the Instituto Mexicano de Contadores Públicos (IMCP) to focus its efforts on ensuring the well-being of its staff, their families, and others impacted by the earthquake. We appreciated the tremendous efforts of the IMCP and PAIB Committee Member, [Raúl González Lima](#), in organizing both the meeting and the special integrated reporting event planned at the Bolsa Mexicana de Valores (Mexican Stock Exchange). We extend our best wishes to all those affected by the earthquake and hope to meet in Mexico in the not too distant future.

In place of the meeting, we held a three-hour webinar, and I believe we can maintain momentum on critical matters effecting accountants in business. We are working closely with committee members to drive forward the major initiatives covered in this report. As you will see in this report, professional accountancy organizations' (PAOs') support and input into our initiatives is requested and most welcome.

To achieve their mission and objectives, most IFAC member organizations continue to focus on the success of their members working in business and the public sector. However, it is important to continue raising the bar and learning from others so that their membership have the skills they need throughout their careers. In this fast changing world, ongoing skill and competency acquisition and development is more important than ever. Relevance is critical to the reputation of both individual members and their PAOs.

As a Committee, we continue to focus on the profile of the future professional accountant in business and the public sector. We expect to publish a vision for the future profile next year based on our rich discussions on a [future-ready profession](#). This work is also informed by various interconnected initiatives on the accountants in business agenda, focused on accountants as business partners and value enablers. To maintain our relevance, critical areas of development by the profession include enterprise performance and risk management, integrated reporting, and technology advances that support low-cost, effective finance functions.

If the public is to see accountants as providing legitimacy, trust, and accountability within both corporations and government, the *professionalism* of accountants working in organizations will be a critical differentiator. As such, we must ensure that professional skepticism and judgment are seen as fundamental components of professional accountants working beyond public practice.

Professional accountants are the "first line of defense" in safeguarding the reputation of an organization, as well as providing the insights necessary for effective decision making. This is why we very much support the International Ethics Standards Board for Accountants in its continued efforts to ensure a relevant *Code of Ethics for Professional Accountants* that underpins required professional behavior and mindset.

To better support the development of an accountants in business-relevant profession, we have been experimenting with practical ways to help PAOs develop their engagement with accountants in business and the issues they face. In August, IFAC provided member organizations with materials to help transform and boost effectiveness of meetings and member engagement. We are building on these workshop resources with a PAO self-evaluation, tool which is now in trial with a number of PAOs.

I am also pleased to report that an increasing number of PAOs are themselves producing integrated reports and many more are on the journey. Integrated reporting helps PAOs assert their value to current and future members, and the public. PAO reporting shows leadership within the integrated reporting movement and helps support accountants in managing and reporting more holistically on an organization's value creation. I, therefore, urge all PAOs to actively consider producing an integrated report and demonstrating the profession's support of IFAC's policy position, *Enhanced Organizational Reporting: Integrated Reporting Key*.

The IFAC accountants in business agenda addresses the areas of opportunity and risk for the profession in the 21st Century, while also enhancing the attractiveness of the profession. We need to continually ensure our skills and competency remain relevant and support effective business partnership.

I hope you find the report of interest and value.

Main Themes

1. Enterprise Performance Management

- To maintain accountants in business' relevance as business partners, effective EPM provides the means to enable better decisions. The PAIB Committee is undertaking an initiative to support the global profession to ensure that professional accountants preserve and enhance their role in this rapidly evolving space.

2. The Role of Finance Leaders and Business Partners in Technology

- Finance functions are increasingly contributing to decisions on technology investment. Building strong relationships and collaborating effectively with chief information officers is key to ensuring IT investment drives business value. Professional accountants in business need an understanding of how emerging technologies can strengthen business controls, maintain effective, and efficient finance operations and deliver greater business insights.

3. Effective Accountant Involvement in Risk Management

- Concepts and practices in risk management continue to evolve and effective risk management requires an enterprise focus beyond financial controls and reporting. Professional accountants must therefore expand their skills to remain relevant to roles in risk management.

4. Creating and Communicating Value through Integrated Reporting and Thinking

- PAOs play a central role in encouraging adoption and implementation of integrated reporting, which is the only reporting approach that focuses holistically on all aspects of an organization and its performance. As well as advancing the thinking around integrated thinking and reporting, the PAIB Committee evaluated the integrated reporting breakthrough phase and identified priorities for the IIRC and the integrated reporting movement.

5. PAO Support Tools

- The PAIB Committee supports developing practical tools to help PAOs engage accountants in business on relevant topics. Toolkits to help run effective workshops in storytelling and risk management are currently available and additional tools will be released next year.

6. Audit Quality and Audit Committee Effectiveness

- When considering issues around audit quality, the focus is often primarily on the role of the external auditor and less so on the roles of others in the financial reporting supply chain, such as management and those charged with governance. Having proper governance and oversight arrangements in place in an organization are of great importance as a foundation to ensuring audit quality. A key component of these arrangements is the role of the audit committee.

7. Professional Skepticism

- Professional skepticism and judgement should be applied by all professional accountants regardless of where they are employed. The committee proposed a broader approach to thinking about professional skepticism for application to professional accountants in business in the financial reporting supply chain.

Enterprise Performance Management

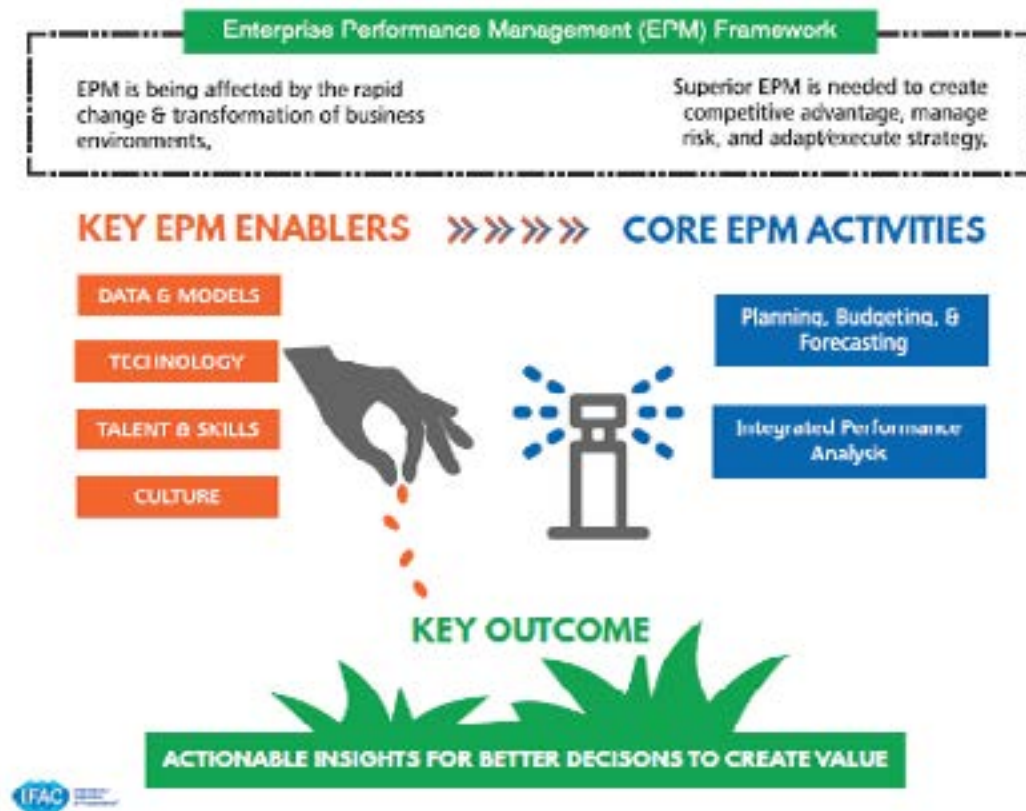
Objective: Better understand enterprise performance management (EPM) and the finance function as a business partner.

Driven by changing competitive environments and business models, EPM is evolving rapidly. Broad-based information is needed to manage risk and execute business strategies.

The relevance of accountants as business partners in both the private and public sector depends on effective EPM. The finance function has to enable decisions across the organization, requiring deeper, clearer insight into operations, customers, markets, and the external business environment, including trends and competitors. To seize the opportunities that EPM and business analytics present requires an operationally grounded and data-driven perspective to decision support.

To prepare professional accountants for a more significant contribution to EPM, the PAIB Committee is working to define the EPM space (see below), capture what is driving change and the implications of such change, and explore how accountants in business can ensure relevance in this space.

The infographic represents the four key enablers of EPM, as well as the key areas in which accountants in business and finance functions need to step up. Our thinking on EPM and the role of accountants in business and the finance function is a work in progress and will be shared in greater detail in 2018.



PAO Actions:

- PAOs are invited to submit relevant activities related to EPM. These will be reflected in the further development of the project, and included on the IFAC Global Knowledge Gateway.

The Role of Finance Leaders and Business Partners in Technology

Objective: Better understand the professional accountant in business' role in decisions on technology selection, deployment, and management.

A critical enabler of business model transformation and EPM, technology helps to enhance competitive advantage through data and producing insights for better decisions.

A [Harvard Business Review survey](#) found that 72% of executives think their companies are susceptible to digital disruption by competitors in the next three years. The remaining third of executives surveyed rated their organization as ineffective when adopting new technologies.

Accountants in business need to demonstrate value-add by selecting and deploying technology both inside and outside the finance function. Technology provides a platform to unlock value from data and information, allowing the finance function to focus on business partnering activities.

Exploiting the value of data can lead to greater insight in a range of areas, such as the external business environment, customers, operations, and opportunities for enhancement.

Accountants in business will be increasingly involved in decisions on technology investment in a range of areas (see [Technology Trends Impacting the Finance Function and the Profession](#)). In larger organizations, this leads to important collaboration with chief information or data officers, and other parts of the organization.

A recent [EY survey](#) finds that an increasing number of CFOs have increased involvement in their organization's IT agenda. The finance function's contribution to technology decisions will typically cover two broad areas:

- Maintaining an effective, efficient, and robust finance operation (e.g., strengthening business controls and driving efficiency through reduction of manual tasks); and
- Delivering greater insights to enhance the business through innovation, identify emerging market needs, and better respond to changing customer demands.

The typical challenges that accountants in business face as technology leaders include:

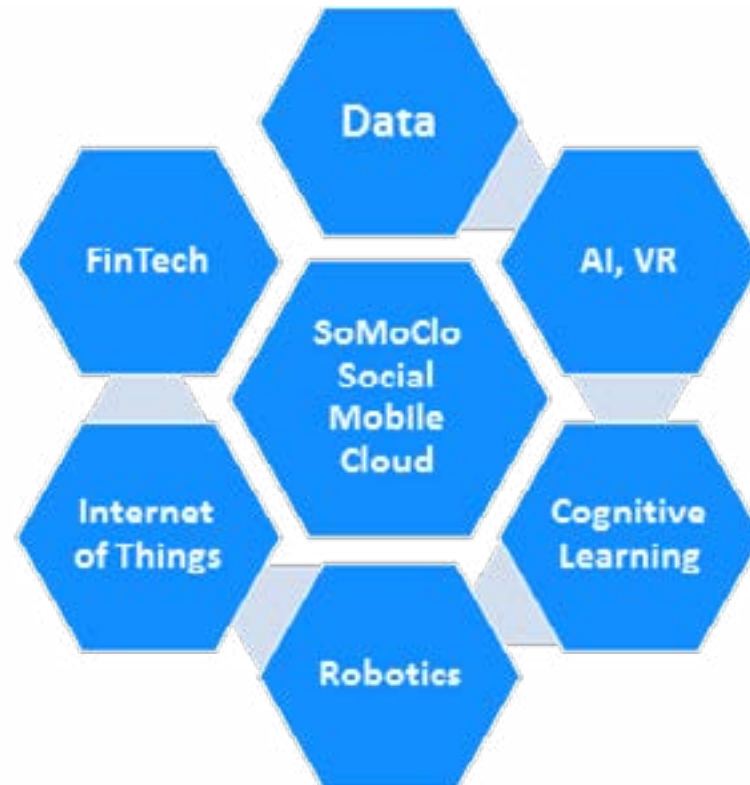
- Securing credibility within the organization
 - Acquiring the right technological and operational know-how
 - Understanding what it means to be a data-driven organization
- Raising awareness of the strategic value of technologies and digital tools
- Understanding the opportunities and risks of investments in digital and technology
- How best to measure the returns of project investment
- Interpersonal skills needed to effectively manage adaptation to new technology and processes.

To be successful in investing in technology, accountants in business should consider:

- Identifying the key decision-making criteria in selecting technology and ensure they are shared across the organization
- Clarifying how technology and digital strategy enhances the business, either through driving growth and value creation, and achieving efficiencies
- Linking to business model and value creating opportunities
- Assessing opportunity and risk in context of legacy systems and decommissioning opportunities
- Approving source of financing (e.g., capex versus opex)
- Measuring returns on investment and continued spend required to maintain investments
- Collaborating with IT and other operating/support functions to ensure an understanding of accountabilities
- Sourcing skills needed to manage implementation.

At its next meeting, the PAIB Committee will continue exploring technology trends related to EPM as well as rapidly emerging areas, such as blockchain.

The IFAC Global Knowledge Gateway now includes a [dedicated section](#) on technology.



Effective Accountant Involvement in Risk Management

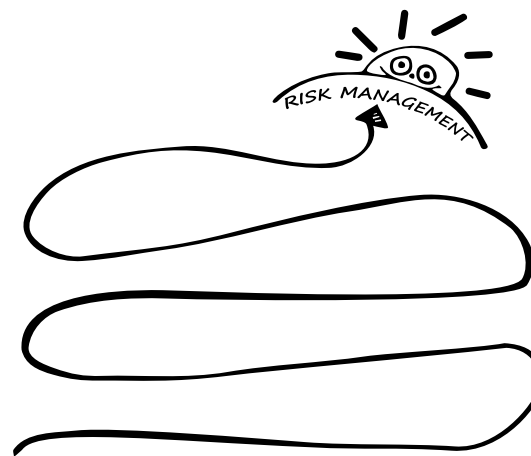
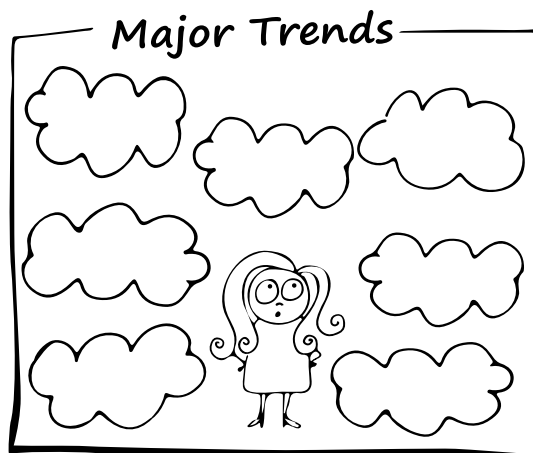
Objective: Support high-quality practices by professional accountants in effective governance, risk management, and internal control.

Insights from PAO Risk Workshops

Earlier this year, IFAC launched a Risk Management Toolkit to provide resources for PAOs to run interactive risk workshops that engage participants. The Chartered Institute of Management Accountants and the Institute of Chartered Accountants of Zimbabwe have both hosted workshops with young professionals to understand their career aspirations and perspectives on the skills required for effective work in risk-related roles. Other workshops are being delivered by various PAOs.

Key insights on running workshops

- Working with small groups is an effective way of ensuring the session is interactive and allows all participants to contribute actively to discussion.
- To get the most out of the workshop, it is important that participants understand the aims and intended outcomes of the session at the beginning.
- Workshops need not be overly formalized. The most important aspect is to get the discussion going as quickly as possible.



Perspectives on risk management

- When considering effective risk management, there can be a tendency to refer to frameworks and methodologies, and while these are important, they are inadequate to be an effective business partner. Effective risk management requires the ability to collaborate across an organization in order to effect change, requiring well developed relationship management and communication skills. Soft skills are critical but often difficult to develop quickly.
- Participants expressed a strong motivation to develop analytical, modelling, scenario planning, and business intelligence skills.
- Digitalization and technology were not dominant themes, possibly because young professionals are more comfortable with technology evolution.
- In order for accountants in business to remain relevant to changing roles in risk management, cost-effective, time-efficient learning solutions are needed.
- Confirming the views expressed at the [PAIB Committee meeting in March 2017](#), risk is not currently as extensive in accounting education and professional training as it should be given its importance.
- Emphasis on engagement, relationship management, and connectivity is a prerequisite for risk management roles.
- PAOs play a significant role in identifying future trends and updating continuing professional development (CPD) activities in response. PAOs risk becoming increasingly irrelevant to accountants developing risk management skills if their qualifications are not up to date with the latest developments in risk management.



The Risk Management toolkit is designed to be flexible and can be adapted. For PAOs interested in running a workshop, please contact Stathis Gould (stathisgould@ifac.org).

Updated COSO Enterprise Risk Management Framework

Concepts and practices in risk management have evolved since the Committee of Sponsoring Organizations of the Treadway Commission (COSO) released its original enterprise risk management (ERM) framework in 2004.

- Business and operating environments are now more complex, technologically driven, and global in scale.
- Stakeholders are more engaged and seek greater transparency and accountability on a wider range of topics.
- Risk discussions are increasingly prominent at the board level.
- The bar for effective risk management has been raised, particularly in terms of integration and connectivity to strategy, business model, and dependencies.

After consultation on a revised exposure draft (including a response from the [PAIB Committee](#)), COSO has published its updated ERM Framework, *Enterprise Risk Management—Integrating with Strategy and Performance*.

The updated framework advances the concept of “[bolt-on to built-in](#)” by integrating ERM into business processes.



An overview of the changes are detailed in an [article on the Global Knowledge Gateway](#).

Focusing on Innovation & Best Practices to Better Help PAOs Support Accountants in Business

Effective risk management requires professional accountants take an enterprise focus beyond financial controls and reporting. To support PAOs and their members in staying stay ahead of the curve, the Committee aims to expose the profession to latest thinking and best practices. A key focus area will be on how, by using a business model lens, accountants can facilitate a more integrated approach to risk management in line with COSO. The updated COSO framework is a good opportunity for PAOs to further develop pre- and post-qualification activities and support services.

PAO Actions:

- Share your initiatives and views on risk management with the profession via the IFAC Global Gateway and the PAIB Committee. Please contact Stathis Gould (stathisgould@ifac.org).

Creating and Communicating Value through Integrated Reporting and Thinking

Objective: Support high-quality practices in integrated reporting, and identify priority areas of focus for the International Integrated Reporting Council (IIRC) and IFAC.

From Breakthrough to Global Adoption

The IIRC is coming to the end of the “breakthrough” phase of its strategy and is now evaluating the extent of success against its strategic objectives. This will determine whether it can move into the next phase, “global adoption”, in 2018.

The PAIB Committee identified its priorities for the IIRC in the context of the IIRC’s achievements and challenges. Key background factors considered include:

- An estimated 1,600 organizations are adopting some form of integrated reporting, predominantly large listed companies.
- Early adoption is beginning in public sector organizations and small- and medium-sized enterprises (SMEs), but it is currently on a limited scale.
- Countries such as Japan that have a high adoption rate now need to focus on the quality of integrated reports.
- The empirical evidence base for integrated reporting adoption is increasing. A research report published earlier this year by the Association of Chartered Certified Accountants (ACCA) studied more than 40 reporters at differing stages of integrated reporting implementation and highlighted the benefits, as well as practical challenges. See the Gateway article, [“Insights into Integrated Reporting.”](#)
- A number of jurisdictions, such as South Africa and Malaysia, have embed integrated reporting in their corporate governance codes.

Five Priority Areas for the IIRC and Integrated Reporting Movement

1. Define what success looks like for integrated reporting adoption and how the IIRC plans to achieve it.
2. Develop a meaningful response to market concerns on overlapping frameworks, which can be aided by:
 - Clearly defining outcomes of the [Corporate Reporting Dialogue](#) that would help improve the corporate reporting system; and
 - Using regional integrated reporting groups to drive common understanding, language, and collective action across jurisdictions in line with the principles of integrated reporting (e.g., the Pan African Federation of Accountants' driven <IR> Committee).
3. Increase incorporation of integrated reporting and desired outcomes in corporate governance codes.
4. Develop thought leadership and share best practices on integrated reporting. This would also help respond to practical difficulties with additional guidance, for example on measuring the capitals and demonstrating connectivity to the financials.
5. Facilitate alignment to existing regulatory reporting requirements.

<IR> Network for PAOs

IFAC recently conducted a survey of participants in its <IR> Network for PAOs, receiving 85 responses across 54 countries.

Interestingly, the survey found differing perspectives within countries on the level of progress in integrated reporting. This reiterates the importance of clearly defining integrated reporting success. In the UK, for example, some respondents felt that integrated reporting has reached critical mass, as evidenced by its alignment to strategic reports. Those who view success through the lens of the number of integrated reporters have a different perspective.

PAOs play a key role in encouraging more widespread adoption and implementation of integrated reporting, which can be achieved by leadership in adoption.

PAOs who have already published an integrated report include the Association of Accounting Technicians of Sri Lanka, Association of Chartered Certified Accountants, Chartered Institute of Management Accountants, CPA Australia, Institute of Chartered Accountants of Namibia, Malaysian Institute of Accountants, South African Institute of Chartered Accountants, and South African Institute of Professional Accountants.

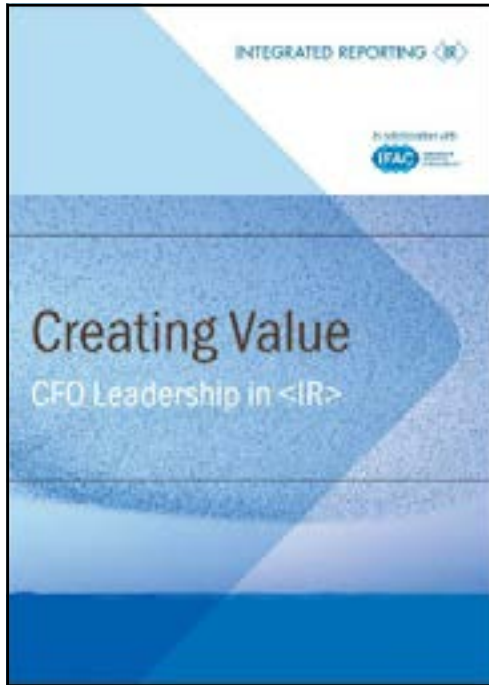
The experiences of five of these PAOs are summarized in the Global Knowledge Gateway article, "[A Call to Action: Walk the Talk on Integrated Reporting.](#)"

Since this article was written, the [Malaysian Institute of Accountants \(MIA\)](#) has published its first integrated report. MIA also shared insights with the <IR> Network for PAOs on the last webinar and has written an article on [its journey to integrated reporting.](#)

Almost half of PAOs surveyed produce their own integrated report or plan to within 2 years.

Supporting Global Adoption of Integrated Reporting

From an overall reporting perspective, the International <IR> Framework is the only framework that provides a mechanism for reporting a holistic picture of an organization's ability to create value over time. IFAC's focus continues to be based on *Enhancing Organizational Reporting: Integrated Reporting Key*, supporting PAOs in advocating for integrated reporting, and helping to improve the framework and thinking around it.



Resource: *Creating Value: CFO Leadership in <IR>*



Resource: *Creating Value for SMEs through Integrated Thinking: The Benefits of Integrated Reporting <IR>*

PAO Actions:

- Develop integrated thinking and reporting in your organization and share insights with the <IR> Network for PAOs.
- Share integrated reporting developments in your jurisdictions on the PAO network webinars and via the Global Knowledge Gateway.

For information on the <IR> Network for PAOs, or to join for access to exclusive resources, please contact Laura Leka (LauraLeka@ifac.org).

PAO Support Tools

Objective: To support the development of an accountants in business-relevant profession.

The PAIB Committee supports developing practical tools to help PAOs engage accountants in business on relevant topics. In August, IFAC shared exclusive materials to help transform meetings and member engagement, circulated to all IFAC members.

They include everything needed to run great workshops on any topic and workshop materials for two specific areas—storytelling and risk management. They can help you uncover and leverage the knowledge, experience, and perspectives of your members and key stakeholders, which has never been more important.

A PAO self-evaluation tool is also in development to assist PAOs in strengthening engagement with accountants in business and the public sector as a means to expand their reach, influence, and contribution. The evaluation tool would build on the 2016 guidance, *Engaging Professional Accountants in Business: How to Build a More Relevant PAO and Profession*, and support PAOs on their journey of developing governance, capacity, and stakeholder engagement.

The development of the tool is in its first stage and is being tested by a number of PAOs. Its development is based on the following principles:

- Pragmatic and usable;
- Allows for self-evaluation and promotes continual learning on a maturity path;
- Brings into focus those development areas that appear out of sight so that they are not out of mind; and
- Is aligned to IFAC's [PAO Capacity Building Framework](#), which defines three key capacity building elements: *sustainability*, *relevance*, and *standards and enforcement*.

The tool will be released in early 2018 and accompanied by a visual narrative on the importance of an accountants in business-relevant profession.



PAO Actions:

- A workshop for PAOs on hosting participatory and innovative events is being planned for March 26, 2018 in New York. If you are interested in attending and/or interested in observing the PAIB Committee meeting March 27-28, 2018, please contact Stathis Gould (stathisgould@ifac.org).

Audit Quality and Audit Committee Effectiveness

Objective: Rebalance efforts to improve the financial reporting supply chain and recognize the shared responsibilities for audit quality.

The accountant in business' role in enhancing audit quality was last discussed by the PAIB Committee during the September 2016 meeting, as summarized in the [PAIB Committee meeting report](#).

Audit quality remains an important issue given increasing government and regulatory responses to the global financial crisis, with corporate failures focusing primarily on the role of the auditor. There have been a multitude of regulatory reforms impacting the auditing part of the profession, and financial reporting standard setting has been subject to vigorous debate.

However, there has been considerably less focus on the roles of boards of directors, management teams, and regulators in achieving high-quality corporate reporting. To rebalance attention to the shared responsibilities across the financial reporting supply chain, the PAIB Committee plans to further explore the role of audit committees, their changing remits, and how the finance function can provide more effective support.

PAO Actions:

- PAOs are invited to submit materials related to audit committee effectiveness and assessment of audit quality. The PAIB Committee will review these materials and assess the need for additional international activities at its next meeting in March 2018.

Professional Skepticism

Objective: Ensure a relevant Code of Ethics for Professional Accountants.

The PAIB Committee submitted its response to the International Ethics Standards Board for Accountants (IESBA) [Exposure Draft, Proposed Application Material Relating to Professional Skepticism and Professional Judgment](#), which received 43 comment letters in total.

The PAIB Committee believes that the concept of professional skepticism, as well as professional judgment, should be applied by all professional accountants regardless of where they are employed and their influence in the financial reporting supply chain. Its response highlights how the application of professional skepticism in accountants in business roles can be seen in a financial reporting context, as well as in roles beyond financial reporting. The committee proposed a broader approach to thinking about professional skepticism for application to professional accountants in business in the financial reporting supply chain.

The joint IESBA, International Auditing and Assurance Standards Board (IAASB), and International Accounting Education Standards Board (IAESB) Professional Skepticism Working Group also issued a new publication, *Toward Enhanced Professional Skepticism*, which outlines observations and further actions the global standard-setting boards will take, as well as the role that other stakeholders can play in enhancing professional skepticism.

The IESBA and IAESB recognize the need for further examination as to whether the concepts underlying professional skepticism should be pertinent to all professional accountants.

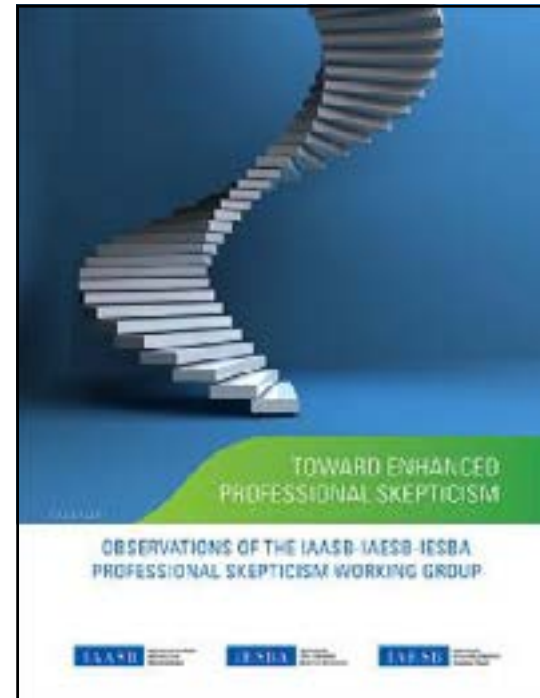
The PAIB Committee supports IESBA's follow-up project examining professional skepticism's relevance to compliance with the fundamental principles, and how the Code of Ethics addresses the applicability of professional skepticism to all professional accountants.

There is also an acceptance that standard setting alone is insufficient to support professional accountants in applying professional skepticism.

The committee also supports the IAESB's efforts to consider professional skepticism and its relevance to accountants in business from an education perspective.

Next PAIB Committee Meeting

March 27-28, 2018, in New York, New York. An event is planned for March 26.



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