

44th Annual ICAN Conference

Professional Accountant: Adding Value through Financial Reporting System

Presentation
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Execution Edge

Execution Edge

Overview

Context

- What is Financial Reporting (& Financial Reports?)
- What is Accounting & Who is an Accountant
- What about The Audit & The Auditor?
- The Players in Financial Reporting Chain
- Financial Statements & Reporting Standards

Issues in Financial Reporting

- General Issues in Financial Reporting & Financial Audits
- The Quality Issue – **Credibility, Integrity, Skill, Globalization**
 - › Quality of Financial Reports & Reporting
 - › Quantum (&quality) of disclosures
 - › Quality of Assurance [Auditors, preparers, users]

Where does the Professional Accountant Add Value?

Conclusions or Do I measure up?

What is Financial Reporting

Financial reporting includes the following:

- the external financial statements (balance sheet, income statement, statement of cash flows, and statement of stockholders' equity)
- the notes to the financial statements
- press releases and conference calls regarding quarterly earnings and related information
- quarterly and annual reports to stockholders
- financial information posted on a corporation's website
- financial reports to governmental agencies including quarterly and annual reports to the Securities and Exchange Commission (SEC)
- prospectuses pertaining to the issuance of common stock and other securities

Source Accounting Coach website [Harold Averkamp, CPA, MBA]

What is Financial Reporting?

Financial Reports

Financial reports are used by companies to keep track of finances. There are number of different types of financial reports that can be created by the accounting department.

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You may have standard monthly user reports. They come in operating statements, monthly transaction listings, and more. There are also account balance lists, several types of real internal order statements, and project financial reports.

Reference: www.purdue.edu

A financial statement

(or financial report) is a formal record of the **financial** activities of a business, person, or other entity.

Relevant **financial** information is presented in a structured manner and in a ***form easy to understand***.

Source: wikipedia

Statutory Financial Statements (ng)

- Statement of financial position
- Statement of comprehensive income
- Statement of changes in equity
- Statement of cash flows for the year
- A summary of significant accounting policies
- Other explanatory notes.

What is Accounting & Who is an Accountant?

Accounting

The practice of accounting simply means to record financial activity (the actual definition, according to the American Institute of Certified Public Accountants, is **"the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character, and interpreting the results thereof"**).

The goal of accounting is, of course, to account for every financial event that occurs within a company in order to present and interpret it easily.

Source: Mark Becker, December 2011

Accounting is an information science used to collect, classify, and manipulate financial data for organizations and individuals.

Accounting is instrumental within organizations as a means of determining financial stability.

Without accounting, organizations would have no basis or foundation upon which daily and long-term decisions could be made. The budgets for marketing activities, profit reinvestment, research and development, and company growth all stem from the work of accountants.

Accounting is one of the oldest and most respected professions in the world, and accountants can be found in every industry from entertainment to medicine.

Saunders College of Business website

What is Accounting & Who is an Accountant?

ac·coun·tant

noun \ə-ˈkaʊn-tənt\
: someone whose job is to keep the financial records of a business or person

Full Definition of ACCOUNTANT

1: one that gives an account or is accountable

2: one who is skilled in the practice of accounting or who is in charge of public or private accounts

— **ac·coun·tant·ship** *noun*

First Known Use of ACCOUNTANT

15th century

Merriam-Webster dictionary

Accounting is the Language of Business.

Frank Wood

Data Analysis/Analytics

Business Insights

Business Information

- *decision making & performance mgt.*
- *reporting*
- *controlling*
- *planning*

What about the Audit & the Auditor?

An Audit is an independent examination of financial statements (information) with a view to expressing an opinion on those financial statements (information).

That broadly defines a Statutory Audit. There are other Audits!

- Performance Audits, Compliance Audits, Value For Money Audits, Forensic Audits, Social & Environmental Audits, Systems Audits, other External Audits , Internal Audits,

Standards

For Statutory and Financial Audits, there are **Standards on Auditing and Standards on Reporting – Accounting Standards or Financial Reporting Standards backed by Legislation.**

Auditing Standards guide the audit process, the expectations of the auditor and the reporting that can be the outcome of the audit.

An Auditor is anyone who carries out an Audit.

Whatever the Audit, there are rules and regulations (internal and external) that guide conduct of The Audit and The Auditor and the Reference Point or Baseline for The Audit

Statutory Auditors and or financial auditors are usually Accountants – members of the Accounting Profession who are mandated to be formally trained and **CERTIFIED (Licensed) by Regulation and statute.**

Other Auditors can be anyone with skills relevant to the subject matter and bound by rules, regulations or statute around the subject matter of the audit. E.g. ISACA for systems audit

The Financial Audit is an integral part of the Financial Reporting System

What is Financial Reporting

The Players in Financial Reporting Chain

Internal

Board

Staff

Unions

Management

Financial Reports
Financial Statements

External

Investors

Analysts

Government

Regulators

Customers

Suppliers

Public

Preparers, Users & Assurers [Accountants, Auditors]

Financial Statements & Reporting Standards

Whatever the context

Reliable financial statements play a key role in the financial markets, which are integral to the success and well-being of households and businesses, the economy, and global participants and stakeholders in the capital and money markets.

Adapted from a speech (26 October 2012) by Jeanette M. Franzel, Board member, Public Company Accounting Oversight Board to graduating CPAs

Accounting or Financial Reporting Standards guide the preparation and presentation of financial statements and information and are the reference point for the Statutory or the Financial Audit. They form the basis for the accounting measurements and disclosures, etc. They are usually backed by statute in most jurisdictions e.g. IFRS, CAMA,

...

Issues in Financial Reporting

Issues in Financial Reporting & Financial Audits

Statutory or Financial Audits

- History of the Statutory Audit
 - Public Trust or lack thereof (erosion)
 - Public awareness or lack thereof
 - Public lack of financial skills or literacy
 - Fraud and human propensity for greed
 - Advances in technology
 - Mismatch between accountant and auditor skills & report user skills
 - Going concern issues
 - Conceptual framework for accounting
 - Financial burden (cost) of internal controls over financial reporting (SOX)
 - SMEs [limited skills, limited disclosures]
 - Public Sector accounting challenge
 - Business complexity & Business Risk
- **Technology & financial reporting**
 - **Business Complexity & Business Risk**
 - **Social Equity - Taxation**
 - **Globalization of business - MNCs**
 - **Convergence of Standards (internationalization of Auditing and Financial Reporting Standards – IFRS, IPSAS, ... ISAs n NSA)**
 - **Fair value measurements**
 - **Asset impairments**
 - **Accounting estimates**
 - **Measurement Standards – FRS (IFRS)**
 - **Audit Quality**
 - **Ethics**
 - **Cybercrime**
 - **Auditor rotation**
 - **Auditor responsibility for detecting and or preventing fraud**

The Quality Issue

A Perspective

- **Quality of Financial Reports & Reporting**
 - **Quantum (& quality) of disclosures**
 - **Quality of Assurance [auditors, preparers, users]**
 - ***Credibility***
 - ***Integrity***
 - ***Skill [knowledge...]***
 - ***Globalization of business***
1. Public policy framework
 2. Investor protection
 3. Need to promote public interest in financial reporting and auditing
 4. Development of the New Accountant
 5. Regulation of the Accounting Profession
 6. Regulation of Auditing
 7. Training & Skilling of Accountants
 8. Education of the Regulators
 9. Code of Corporate Governance
 10. Code of Conduct

Where does the Professional Accountant Add Value?

Professional Accountants of the future?

Internal Controls over

- Financial reporting
- Value management systems
- Safeguarding assets
- Risk management
- Corporate governance & compliance
- Strategic management & planning
- Delivering business objectives
- Corporate Finance
- Partnering with line managers

Accountants will continue to be critical to the capital markets and the economy as they will be required for providing **RELIABLE** financial reporting and **INDEPENDENT** credible audits.

Accountants are responsible for determining an organization's overall wealth, profitability, and liquidity.

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- Relevant, reliable and timely information (albeit beyond the purely financial) is vital to **making informed decisions** about **risks, business models, strategies and governance**. It is also essential for investors, employees, customers and other stakeholders.
- Getting it right can secure capital and credit, help win the war for talent, develop strong relationships and build trust in your business.

Where does the Professional Accountant Add Value

The qualities and attributes required of them will entail:

1. Personal attributes, which include insight, deep analytical skills, sound professional judgment, project management skills, integrity and ethics
2. Leadership qualities of strategic thinking, planning and a cross-functional perspective
3. Broad business perspective, which includes a good understanding of one's organization and industry, risk management and organizational systems and processes
4. Functional expertise in the traditional technical skills, including financial management and taxation
5. Deep data analytical skills to support strategic thinking and generation of business insight
6. Strong communication skills, well versed in IT, be committed to life time of learning
7. Ability to combine technical skills with strategic vision, see herself/himself as a professional advisor and business partner.
8. ...

Conclusions

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Conclusion

Value addition for the Professional Accountant of the future is about:

1. Knowledge [depth & breadth]
2. Skills [demonstrated competence]
3. Integrity & personal code of ethics
4. Lifetime of learning & investment
5. Dedication & commitment
6. Courage to go beyond the technical

Do I measure up?

**Long Live
ICAN**

? / !

I thank you

The future is what we make of it!