News

New international study finds determinants of corporate performance

A new study has found that the four key determinants of corporate success and failure are - the culture and tone at the top, the chief executive, the board of directors and the internal control system.

The study, jointly conducted by International Federation of Accountants (IFAC) and The Chartered Institute of Management Accountants (CIMA), includes an includes an in-depth analysis of corporate successes and failures in 27 case studies from 10 countries (Australia, Canada, France, Hong Kong, Italy, Malaysia, the Netherlands, Thailand, the United Kingdom and the United States).

The study has covered 10 industries, including telecommunications, retail, financial services, energy and manufacturing. "Although poor corporate governance can ruin a company, the study revealed that good governance on its own cannot make a company successful. Companies need to balance performance with performance.

This is a fundamental component of enterprise governance," says emphasizes Bill Connell who chairs both the IFAC PAIB Committee and CIMA's Technical Committee.

In the study, conformance is defined as "corporate governance." It covers such issues as board structures and roles and executive remuneration. The performance dimension focuses on strategy and value creation.

Unsuccessful M&As were the most significant cause of strategy-related failure. A complete chapter on how enterprise governance can be used to control M&A activities is therefore included in the report.

An analysis of the case studies showed that, in addition to the corporate governance issues mentioned above, there were several other key strategy issues contributing to corporate success and failures:

- **Choice and clarity of strategy;**
- **Strategy execution;**
- **Ability to respond to abrupt changes and/or fast-moving market conditions;** and
- **Ability to undertake successful mergers and acquisitions (M&As).**

Auditors told to maintain stiff quality control process

The International Auditing and Assurance Standards Board has issued a revised International Standard on Auditing which requires auditors to be more proactive in considering the risk of fraud in an audit of financial statements.

It has also issued new quality control standards focusing on both audit firms and engagement teams.

The new International Standard on Auditing `The auditor's responsibility to consider fraud in the audit of financial statements' builds on the new audit risk standards issued last year.

It requires the auditor to focus on areas where there is a risk of material misstatement due to fraud, including management fraud.

The revised standard emphasises the need for the auditor to maintain an attitude of professional skepticism throughout the audit, notwithstanding the auditor's past experience about the honesty and integrity of management and those charged with governance.

The standard, effective for audits of financial statements for financial periods beginning on or after December 15, 2004, requires the engagement team to discuss how the financial statements may be susceptible to material misstatement due to fraud and what audit procedures would be more effective for their detection.

The standard also requires the auditor to design and perform audit procedures to respond to the identified risks of material misstatement due to fraud, including procedures to address the risk of management override of controls.

NIFAC publishes seven SMOs, sets standards

The Board of the International Federation of Accountants has recently approved seven 'Statements of membership obligations' designed to assist and direct IFAC's member organisations and potential members in ensuring high quality performance by professional accountants. The specific SMO's cover the following areas:

- **Quality Assurance**
- **International Education Standards for Professional Accountants and Other EDCOM Guidance**
- **IFAC Code of Ethics for Professional Accountants**
- **International Standards Related Practice Statements and Other Papers issued by the International Auditing and Assurance Standards Board**
- **International Public Sector Accounting Standards and other PSC Guidance**
- **Investigation and Discipline**
- **International Financial Reporting Standards**

New study defines accountants role against money laundering

Governments, regulators and the global business community are increasingly looking up to accounting profession to block money laundering, a new study said.

A new paper on "Anti-money laundering'

addresses the increased expectations of legislators with respect to accountants role in detecting money laundering and implementing controls and safeguards against it.

The new study paper highlights both the causes and possible means of preventing money laundering. Sections of the paper focus on indications of money laundering, vulnerability of banks, non-bank financial institutions and other entities, and governance-related issues. Additionally, it includes a compendium of AML guidance.

Changes in Code of Ethics for accountants likely

IFAC is again considering changes to its Code of Ethics for Professional Accountants, expanding both the guidance and authority of the Code, which is applicable to all member bodies and to accountants worldwide.

The recommendations titled 'exposure draft of the revised code' proposes that the Code be elevated from a "model code" on which to base national requirements to a "standard," requiring IFAC member body compliance.

The proposed revised Code specifically expands guidance for all individual accountants addressing

integrity, objectivity, professional competence, confidentiality, and professional behavior.

The revised Code of Ethics also provides new and in-depth guidance for professional accountants in business across the world by addressing various substantial issues facing them such as potential conflicts, preparing and reporting information, financial interests, inducements, and disclosing of information.

Because these proposals call for significant changes for member bodies and individual accountants, the exposure period has been extended.

XBRL Canada approves Canadian taxonomy

The XBRL Canada Steering Committee has approved a Canadian taxonomy (a dictionary of accounting terms) for Canadian public companies to use under the emerging global business reporting standard called XBRL (extensible Business reporting Language). The taxonomy has also been officially acknowledged by XBRL International.

XBRL is a data standard for exchanging business information. The XBRL standard and the Canadian taxonomy are royalty-free. XBRL software will enable investors and analysts to better understand and investigate financial data, which should lead to greater transparency of such information. It will significantly reduce the time need to locate the enter business information, leaving more time or analysis and comparison.

XBRL will also help enhance good corporate governance. The Canadian taxonomy covers Primary Financial Statements issued in accordance with Canadian GAAP (Generally Accepted Accounting Principles). The approval follows a 45-day comment period of the Public Working Draft issued in December 2003.

Research on reporting of derivatives

An independent research report into the financial reporting of derivatives has found that disclosure has significantly increased following the implementation of FRS 13.

Published by the Institute of Chartered Accountants in England & Wales (ICAE), the report, 'The financial reporting of derivatives and other financial instruments: a study of the implementation and disclosures of FRS 13', investigates the implementation of the 1999 standard by UK companies and assesses its impact on both users and preparers of annual reports.

The use of complex derivatives and other financial instruments has increased significantly in recent years and corporate scandals involving derivatives have persuaded regulators to introduce new reporting requirements, including FRS 13 and, at international level, IAS 32 and IAS 39.

FRS requires narrative and numerical disclosures regarding use of derivatives and other financial instruments, covering interest rate and currency profiles, fair values of financial instruments and the effects of trading and hedging using financial instruments. The aim of the disclosures is to show how the policies are implemented and to provide supplementary information for evaluating specific disclosures.

The study found that:

- Disclosure had significantly increased following the implementation of FRS 13, and companies are now disclosing far more about hedging and risk management activity.
- Institutional investors were supportive of the standard and thought that the enhanced reporting of hedging and derivatives allowed them to gauge corporate activity in those areas more accurately.
- Treasurers generally responded favourably to the standard and found the narrative disclosures to be particularly useful. However, numeral disclosures were less popular and concerns were raised about the potential impact o the international standard IAS 39 on operations and systems.