

FUTURE READY ACCOUNTANTS IN BUSINESS

May 2019



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



The opportunities for professional accountants in business are huge, but only if they accept change as inevitable and work proactively to shape their future roles within business.

McKinsey in their recent survey report "*The new CFO mandate: Prioritize, transform, repeat*", found that 91% of respondents have undergone at least one transformation in their organization in the last three years. The report also highlights the active role CFOs are playing in transformation, and the opportunities and challenges of stepping up their role as change leaders, both within the finance function and across the organization.

"Individuals will need to re-invent themselves every 4–5 years."

That was the message from Rob Falzon, vice chairman and former CFO of Prudential Financial Inc. Sharing his personal experience of multiple moves within Prudential throughout his 30-year career at the company, Rob is a strong advocate that change provides career opportunities. On his expectations of the finance function, he emphasized the power of effective communication, understanding the business and economics of the business model, and the quality of the people.

Long-term business success is dependent on meeting the needs of customers both within and outside of the company. For Prudential's finance function, this means ensuring that promises made to customers are prudent for the company, valuable to the customer, and deliverable through the long-term success of the company. The CFO must connect what the finance function does to organizational purpose and objectives, and the end customer.

Similarly, Larry Fink's 2019 letter to CEOs, *Purpose & Profit*, focuses on the importance of purpose in driving long-term success. The recent spate of corporate failures is predominantly due to short-term thinking and actions.

We will be setting out our views on the future role of the CFO and their finance function later this year. The role is clearly fundamental to enabling and supporting effective decision making and reporting. Risk management is also a significant part of the responsibilities of the finance function and a core competency of being an accountant. We recently issued our report *Enabling the Accountant's Role in Effective Enterprise Risk Management*, which highlights the required role and skillsets of professional accountants to drive risk management. Both the Institute of Internal Auditors and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) stated at our meeting that their views are closely aligned with the views expressed in our report.

Effectively accounting for all resources used by the business, embracing integrated reporting, and advancing the Sustainable Development Goals, widen the CFO and finance function remit. How we use a organization's data to create and preserve value is another key opportunity.

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Bhavesh Shah and Gurdeep Singh of Johnson & Johnson Global Finance told us about their journey. Based in their Singapore Financial Planning and Analysis (FP&A) Center of Excellence, they focus on solving the challenges facing the business, providing better information than the business develops itself, and upskilling their team to maximize the value of data.

Our vision for the finance function is one that has shifted from accounting for the balance sheet to accounting for the business. With a vision in place, the key question becomes—*how does the board know that the finance function is effectively meeting the needs of the organization?* To answer this question, we are developing an evaluation tool, which is also closely related to our work on how the CFO and finance function can support the effectiveness of the audit committee, and ultimately audit quality.

Finally, our role is defined and underpinned by our professionalism. Avoiding mistakes and pressure to make poor choices is significantly enabled by high quality, comprehensive forecasting and scenario analysis. It is also vital for the profession to do a better job of supporting accountants in business in professional ethics, including standing by those who have been brave enough to speak up and do the right thing. This, together with the challenges of education for a fast-changing world, are in my view, the key issues of focus for the global profession.

As I say the opportunities are huge, but we need to focus on providing professional accountants in business with the skills they need to take advantage of them.



Charles Tilley

Chair

IFAC Professional Accountants in Business Committee

Next Meeting

The next Professional Accountants in Business (PAIB) Committee meeting will be held on September 24-25, 2019, in New York. To attend as an observer guest, please contact stathisgould@ifac.org

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A Vision for Finance Function Transformation

The PAIB Committee is on a journey to identify a vision for finance function transformation, along with the key enablers needed to ensure the CFO and finance function contributes to both value creation and preservation. The vision reflects the importance of the finance function playing a broader role in accounting for the business as opposed to just the balance sheet.

Developing an overall and clear vision helps to drive positive action and momentum toward the key enablers of change and provides the opportunity to better understand the capacity needed to support finance and accounting professionals. The vision reflects a desirable future state and the growth mindset needed from accountants in business to evolve into business partners.

The vision, which will be launched in 2019, has benefited from [recent engagements with external organizations](#), such as Standard Chartered, The Singapore Maritime and Port Authority, and most recently, Prudential Financial, Inc.

The vision will be complemented by an evaluation tool for use by boards and/or their committees to assess how well the finance function is meeting the needs of the organization, as well as to identify areas for finance function development. Such a tool could be used to advocate for the benefits of strong finance functions and to help ensure that there is as much attention on investing in the effectiveness of a finance function as there is traditionally on ensuring an effective external or internal audit. It could also be used as a basis for creating a plan to support the finance function transformation journey.

Finance Forward

Presentation from Rob Falzon, Vice Chairman, Prudential Financial, Inc

Having recently been appointed as vice chairman of Prudential Financial, Inc in December 2018, Rob Falzon shared his reflections on the transition from his previous role as the company's CFO, his expectations of the finance function in his current role, and the transformation of Prudential's finance function.

Transition from CFO to Vice Chairman

Reflecting on experiences that helped in his transition from CFO to vice chairman, Rob highlighted three areas:

- 1. Experience outside of the finance function** – having spent his entire career spanning over 30 years at Prudential, Rob has had multiple moves within the company, working in a variety of areas in the investment management business before joining the finance function. Experience working outside of the finance function helped in understanding, and having a perspective of, the business (as opposed to just reporting on the business).
- 2. Focus on impact and legacy of change** – it is not enough to only fine tune existing processes. As a CFO his focus was on how the finance function can create value throughout the organization.

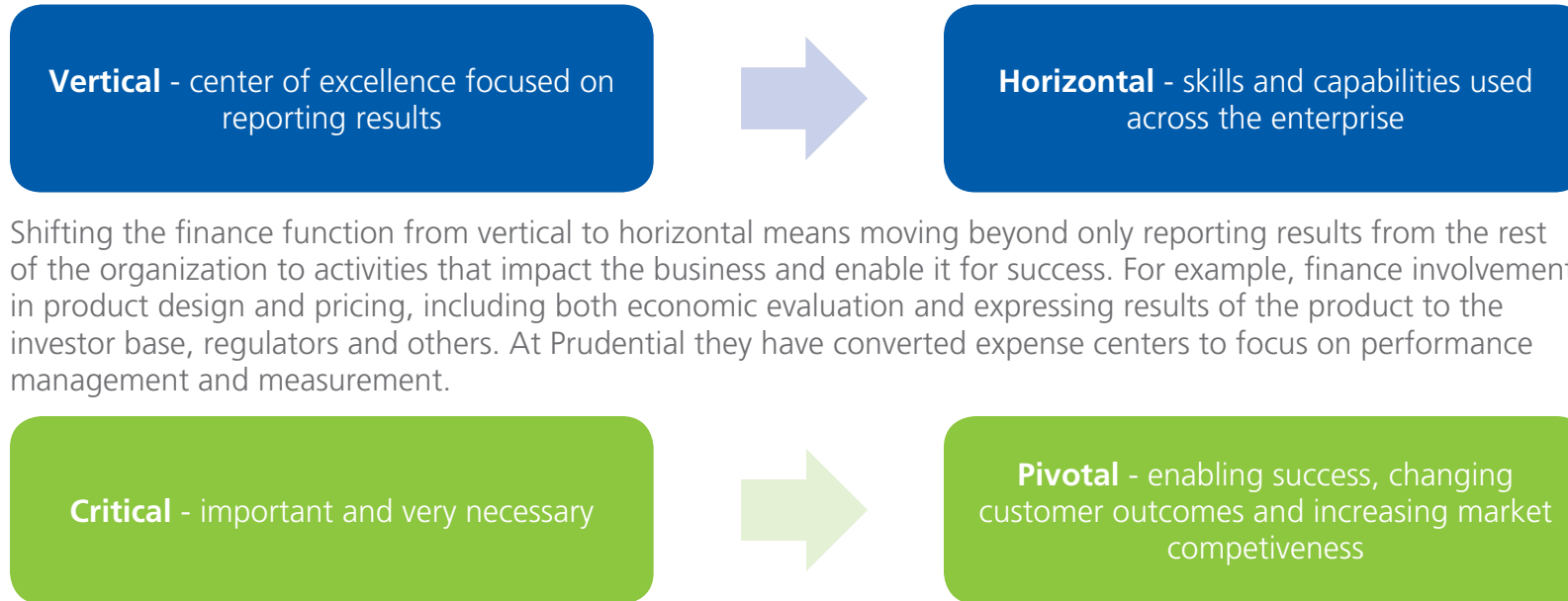


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3. Focus on talent management – recognizing that the only sustainable competitive advantage in the long-run is people, and therefore crucially focusing on recruitment, engagement and retention.

Expectations of the Finance Function from a Vice Chairman

Two paradigm shifts



Shifting the finance function from vertical to horizontal means moving beyond only reporting results from the rest of the organization to activities that impact the business and enable it for success. For example, finance involvement in product design and pricing, including both economic evaluation and expressing results of the product to the investor base, regulators and others. At Prudential they have converted expense centers to focus on performance management and measurement.

It is *critical* to get the books right and reflect the performance of the business accurately. But much of this is now enabled by technology. The finance function needs to explore and utilize tools to effectively achieve the *critical* and move their talent (and highest cost) to focus on areas that are *pivotal* to the success of the company.

Other expectations of the finance function are to:

- Move beyond just managing costs to constantly re-evaluating how work is done in a way that frees up capacity and finances to reinvest in growth initiatives for the company. Financing should not come from earnings or capital, it should come from efficiency savings or from stopping activities to invest in those that add more value.
- Take the economics of the business model and ensure these are appropriately reflected in the reported financial results and supporting narrative for constituents. It is easy to lose sight of this—coming up with accounting results, but not reflecting on whether the reporting actually reflects the underlying ‘*business economics*’. If it does not, the finance function must act, either changing what they do or by changing the reporting. For example, through advocacy with accounting standard-setters and regulators. If an accounting change causes a change in stock price, it becomes economic to investors.
- Focus on talent, in the same way that talent management was a focus for Rob as CFO, he has that expectation of the finance function now.

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Finance Function Transformation

Drivers of change:

- **Changing customer expectations of products, distribution and customer service.** Customer experience is not necessarily judged against others in the same industry, it is evaluated in the context of Amazon for example, where with 2 clicks customers can have a product delivered in 2 days. This has set the bar across all industries.
- **Two-dimensional talent gap** – number of people vs talent with the right skills. In Prudential there are approx. 1,000 open positions in the US alone and attrition creating an additional 1,500 vacancies per year. Talent is needed with the skills to fill pivotal roles not critical roles.
- **Competitive pressures**—products must compete on a cost basis, therefore there is a need to constantly drive down costs and improve efficiency and productivity.

Tools to address change:

- Technology and digital transformation
- Organization design and outsourcing – instead of replacing 1,000 open positions, is there a way to redesign or outsource so only 500 are needed for pivotal roles?
- Smarter and faster processes—either through use of technology or by simplifying processes
- Talent agenda
 - Preparing talent for the future by identifying skills gaps, using advanced workforce planning tools, and training people through a learning academy to address future gaps.
 - Apprenticeships—individuals will need to reinvent themselves every 4–5 years. Finding people who possess all the required skills for a role is increasingly challenging and companies will need to provide on the job training to address any skills gaps
 - Global mobility program

To move its finance function from vertical to horizontal and critical to pivotal, Prudential implemented its “Finance Forward” initiative, which involved aligning Prudential’s talent agenda with:

- Creating a global and enterprise wide perspective, connecting individuals in the finance function to organizational purpose and the ultimate end customer.
- Creating a global finance community
- Optimizing organizational design, shared services, centers of excellence and outsourcing.

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Building Data Science and Analytics Capabilities in Finance and Accounting

Given the importance of data to business success, the profession needs a better understanding of the accountant in business role in data science and analytics. A workshop led by Jeff Thomson, President and CEO of the Institute of Management Accountants (IMA), and Daniel Smith, Founder of advisory firm Theory Lane and member of the IMA Technology Solutions Group, provided an opportunity to consider how finance and accounting education and talent management needs to evolve quickly to better emphasize competency in data science, analysis, and visualization.

Bhavesh Shah, Senior Vice President, and Gurdeep Singh, Global Data and Analytics Lead, both from Johnson & Johnson's Global Finance team based in its Singapore Financial Planning and Analysis (FP&A) Center of Excellence, provided insights into their analytics journey over the last three years, their training strategy for data analytics, and lessons learned.



Building Data Science and Analytics Capabilities in Finance and Accounting

This article provides more insight on the Johnson & Johnson journey, and highlights why data and analytics are important to finance and accounting, what accountants in business need to know, and learning and development approaches to support finance teams in developing their data analytics capability. [Read more](#)

There is an increasing sense of urgency around the enhancements needed in accountancy education and training to incorporate data science and analytics related competence and skills for both accountants in business and accountants working in firms.

The profession can further develop both the foundational areas of knowledge and competency in initial professional education and development, and the learning opportunities provided to mid-career accountants. In response to the rising importance of data and technology, the IMA for example has released an enhanced Management Accounting [Competency Framework](#) for Professionals in the Digital Age.

In terms of the global profession's future education agenda, key strategic questions to address include:

- How much of a focus on data science and analytics is appropriate for initial professional accountancy education and development?
- What are the key learning outcomes needed for professional accountants to remain relevant to the needs of their employers?

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Future-ready accountants will need enhanced competence and skills in:

- Statistics—to discover the patterns and insights provided by data;
- Data and data applications covering a range of areas, such as data governance, data architecture, data creation and storage, data transformation (extraction and transformation), data manipulation and modeling, and technology skills including machine learning and algorithms; and
- Business domain and applications combining an in-depth understanding of the business to identify problems and opportunities, and developing insights and intelligent solutions, including using tools for better visualization and workflow integration.

Implications for the profession going forward include:

- Identifying and incorporating relevant data science and analytics skills and learning outcomes in competency frameworks, education and training;
- Communicating the career opportunities provided by data and analytics; and
- The need for partnerships with other education and training providers to optimize training and development opportunities.

Additional Resources

An ICAEW-led [workshop](#) involving Centrica’s internal audit team revealed important insights around the collaboration of accountants and data scientists. The ICAEW has followed this workshop with a framework of data science [skills](#) for accountants.

Relevant IMA reports and articles:

- [Partnering with Data Scientists for Management Accounting Success](#)
- [How to Embrace Data Analytics to Be Successful](#)
- [The Data Analytics Implementation Journey in Business and Finance](#)

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Supporting Accountants in Professional Ethics

Recent corporate failures in various countries demonstrate how trust in the profession can be quickly and deeply eroded. It is critical to maintain and enhance trust in professional accountants in business and the public sector, but to do so requires a rigorous effort to ensure that ethics is a core part of the accountant profile and is demonstrated in everyday behaviors.

One member provided a personal account of a recent experience where, from their position as an incoming board member, they had uncovered mismanagement of funds and misleading financial reporting. It was a strong example of how moral courage had to be applied in a situation of adversity to ensure that the basis of decision making around investments and reporting were morally and economically sound.

The challenge for accountants in business is that moral courage usually comes at a price. In some situations, the price might appear too high, especially if it means resigning or facing personal threats. Alternatively, in some cases, a lack of awareness of the fundamental ethical principles and lack of moral awareness and competence can lead to important ethical issues not being addressed, ultimately serving to compromise the reputation of the organization and accountant.

Pressure to make poor choices is often driven by unexpected results and outcomes. To address this issue, more effective forecasting and scenario planning would avoid shocks and incentives to manipulate the numbers.

The Royal Netherlands Institute of Chartered Accountants (NBA) highlighted several innovative activities they have undertaken to enhance support of their members, including their "[Moral Intervision Model](#)", an approach based on addressing key questions in a group setting to help accountants reflect on the ethical issues they face. From this basis, the committee considered the kind of support accountants in business need and how PAOs can better support them.



Paying Professional Ethics more than Lip Service

To help develop recommendations for PAOs, committee members were given the opportunity to reflect on real-life ethical dilemmas they had faced, and what enabled and inhibited them to address the situation. From this basis, the committee discussed what PAOs can do better to promote ethics and support accountant in business members. Their recommendations span four areas covering: ethics education and training, delivering member support, effective investigation and discipline, and ethics advocacy. [Read more](#)

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Effective Risk Management and Internal Control

Building on IFAC's report, *Enabling the Accountant's Role in Effective Enterprise Risk Management*, which has been widely communicated within and beyond the profession, further engagement with the IFAC membership via webinar on the implications for PAOs and their potential role in enhancing risk competence among accountants will be planned for later in 2019.

Paul Sobel, COSO Chair and Vice President/Chief Risk Officer for Georgia-Pacific LLC, provided an update on current COSO activities. He highlighted how the IFAC report complemented the COSO Enterprise Risk Management framework and principles, *Integrating with Strategy and Performance*, and provides a good understanding of how CFOs and finance functions should contribute to effective ERM both in terms of value creation and preservation.

PAIB Committee member Stuart Chaplin highlighted how he has used the report within Shell to initiate more discussion on supporting its finance and accounting community in good ERM practices to help drive insights, enable good decisions, and facilitate integration and interconnectivity across the organization.

Francis Nicholson of the Institute of Internal Auditors (IIA), reported on the IIA's review of *The Three Lines of Defense in Effective Risk Management and Control*. The IIA is assessing whether there is a shortfall between what organizations and their stakeholders need and what the current three lines of defense model delivers. Their aim is for a new position paper covering the key elements of governance, including the importance and role of internal audit in an organization's activities to enhance and protect value. The consultation will be launched in May and we encourage responses to the IIA.



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Accountants Enabling Effective Enterprise Risk Management

This article provides highlights from the presentations by Paul Sobel of COSO and Francis Nicholson of the IIA, including next steps for COSO and the potential areas of improvement to the IIA's Three Lines of Defense Model. [Read more](#)



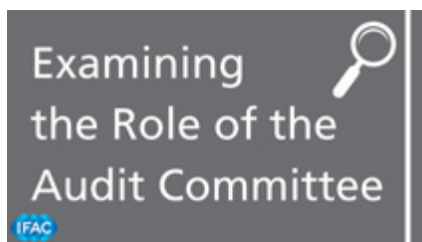
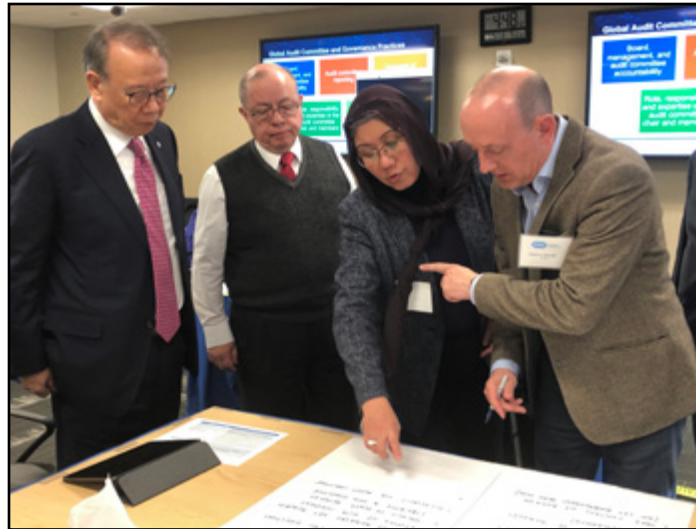
Examining the Role of the Audit Committee

High-profile corporate failures across jurisdictions have sparked increasing debate globally on audit and governance regulatory reform. IFAC is monitoring developments closely from an international perspective, as proposed remedies in one jurisdiction can have both positive and negative cross-border implications.

Political and regulatory attention is heavily focused on the audit profession. The UK specifically faces extensive reviews into the future of audit, competition in the audit market, and even a review into its independent audit oversight regulator, the FRC.

However, audit is not in isolation of the wider ecosystem. Corporate failures have resulted from significant failures in governance, and whatever audit remedies proposed are not likely to succeed unless other aspects of the wider system are also addressed. This includes reviewing the:

- Oversight roles of the audit committee and executive management;
- Effectiveness of the finance function and its role in supporting those charged with governance (including through high quality forecasting and scenario planning); and
- Value of the internal audit function.



Examining the Role of the Audit Committee: Four Perspectives

During the meeting, four PAIB Committee members shared reflections from their experiences either as audit committee chairs and members, or from engagement with the audit committee in their roles. The committee also discussed what was enabling and disabling audit committee effectiveness in their jurisdictions. While external attention is primarily on financial reporting and the audit, audit committees are facing a different set of internal challenges.

[Read more](#)

IFAC will continue to explore ways to strengthen audit committee and governance practices, whilst recognizing there is no one-size-fits-all model, and practices vary widely across jurisdictions, sectors and between companies.

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Enhanced Reporting with Management Commentary

Matt Chapman and Marie Claire Tabone, International Accounting Standards Board (IASB)

The IASB is undertaking a project to [revise and update IFRS Practice Statement 1 on Management Commentary](#) to reflect developments since it was first published in 2010.

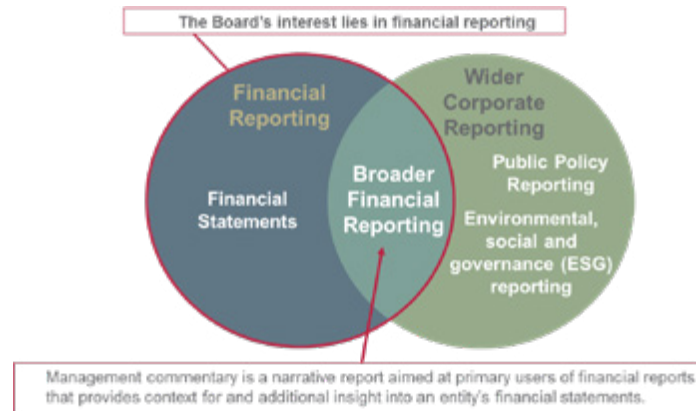
Although the revised management commentary will adopt many principles from integrated reporting, the IASB's remit remains within the boundaries of financial reporting and is focused on the primary users of financial reports, which are defined in the Conceptual Framework for Financial Reporting as existing and potential investors, lenders and other creditors.

Management commentary includes financial and operational information and analysis to help users assess the **prospects for future net cash inflows** to the entity and assess management's stewardship of the entity's economic resources.

The proposed approach to the updated management commentary practice statement starts with a description of the entity's **business model** through to a description of its **operating environment and risks**, and its **strategy**, in order to provide focused information about the entity's **performance, position, and progress**.

Although management commentary will have a strategic focus, it will not require forecasts and targets, or predictions of future performance. The updated practice statement will remain as a principles-based non-binding framework and will not prescribe sector specific requirements or subject-matter specific measures.

The IASB expects to publish an Exposure Draft in the first half of 2020. IFAC will continue to monitor developments with the project, and the relationship between management commentary and integrated reporting.



Management Accounting Development in China

The Ministry of Finance in China shared with the committee an overview of their development of China's management accounting system, consisting of: theoretical system (collaboration with industry, universities, and research institutions to facilitate development of management accounting in a Chinese context), guidelines framework (basic guideline, 34 application guidelines and a case library), talent training, information systems (integrated management accounting systems into enterprise resource planning implementation), and advisory services.

The PAIB Committee welcomed the thorough and inclusive approach taken by the Ministry of Finance in developing a robust management accounting system, particularly their engagement with the global accountancy profession during the development process, and a focus on training talent. Having management accounting sponsored by the government in China is a powerful demonstration of tone at the top.

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ISBN: 978-1-60815-406-7



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