

Corporate reporting is a complex business these days. Over the past ten years, new technology and more sophisticated performance metrics have increased the amount and quality of information generated by businesses. At the same time, the pace and complexity of business activity has also changed. Companies need the freedom to move quickly in new and existing markets and to deploy appropriate financial instruments and business models. Accurately

reflecting these complexities in relevant, understandable and reliable financial and narrative reports is a major challenge.

Despite these hurdles, CIMA's Chief Executive, Charles Tilley, believes that the UK has the right approach to dealing with today's corporate complexities. Top-level oversight and governance is the key. 'Corporate governance has improved dramatically since the 1992 Cadbury report made boards more

accountable to shareholders,' Tilley says. 'The Higgs Report ten years later reinforced this development by putting greater emphasis on the role of non-executive directors as compliance monitors. However, when it comes to reporting, there is still work to be done in terms of effective communication in financial reports.'

Over the past year, CIMA has been helping to push this particular debate forward.

A photograph showing a green glass bottle tilted on the left, pouring a stream of clear water into a clear glass tumbler on the right. The water is captured mid-pour, creating a dynamic splash and many small bubbles within the glass. The background is plain white.

Clear thinking

As the global market place develops and corporate structures become more complex, the need for clarity in financial supply chain reporting grows ever greater. For **Charles Tilley**, Chief Executive of CIMA, transparency is the number one issue.

To get a clear idea of the effects of developments in the financial reporting process over the past five years, the International Federation of Accountants (IFAC) recently commissioned a project to discover if the reporting process has become better or worse, whether financial reports have become more or less relevant and what should be done in the future. The project was chaired by Norman Lyle, a former president of CIMA, who recently retired as FD of Jardine Matheson in Hong Kong. 'The results were mainly positive,' Tilley recalls. 'The survey of 341 contributors to the financial reporting supply chain – the people who prepare, audit, disseminate and use these reports – revealed that governance has improved as a result of recent changes. Equally, respondents said the balance between the cost of producing financial reports and their benefits has also shifted positively.'

But Tilley points out that there were also warnings. The survey revealed that regulation is seen by many to have become too onerous, aspects of financial reporting have grown overly complex and a 'checklist' mentality has crept into the financial reporting supply chain. 'This created concerns about whether governance and financial reporting are well-served by the rules intended to guarantee their credibility,' Tilley explains. In February this year, IFAC commissioned a new project, led by Tilley, to analyse actions currently being taken to address the suitability of business reporting and identify areas for future development. The project will take the findings of the financial supply chain report to the next stage and deliver specific recommendations for further action. 'Investors and other stakeholders have a variety of requirements, but the one thing that everyone is looking for is a clear picture of the direction of a given organisation,' Tilley says. 'Investors really want to understand where a company is and where it's going. Therefore getting the financial information relevant to the investors' needs is what is required and that's the main challenge.'

The next step is to identify individual areas of concern. 'A lot of these concerns are about complexity, about narrative reporting and about liability,' Tilley continues. 'These are the really important issues which have to be addressed. There is also the need to ensure that regulators continue their own journey, so that international accounting standards reflect market developments – such as IAS 39 which is due to be reviewed in the near future.' To emphasise the

Regulatory relationships

Regulation, not least Sarbanes Oxley, has followed hard on the heels of major corporate scandals but regulators are now open to change where rules are onerous or unrealistic, Charles Tilley believes. The complexity project recently launched by the Financial Reporting Council is one such example. There is also the burden of international accounting standards on small and medium size enterprises. The International Accounting Standards Board is in the process of producing a slimmed down version of accounting standards for SMEs. It's currently in the consultation stage and will reduce the number of pages from 1,800 to around 300. 'This is a great step forward,' says Tilley. 'There are people who are concerned about it but my personal position is that we just ought to be implementing it and getting on with it.'

When it comes to the debate over rules- versus principles-based accounting, Tilley believes the issue is more about interpretation than compliance. 'Finance professionals can either treat compliance

as a necessary evil or they can take the regulations and ask how they can make them really work for their companies and help them to better manage their organisations,' he says. 'When Sarbanes Oxley first came out, there was an enormous outpouring of grief from the boardrooms of many organisations, particularly in the US but also those impacted elsewhere in the world about how overwhelming it was and how it encouraged a tick-box mentality,' Tilley says. 'However I remember talking to the finance director of one of the world's largest companies two or three years ago who told me he thought Sarbanes Oxley was absolutely excellent. He said that when it first came out, he was horrified. But his company then implemented it in a way that really focused on what Mr Sarbanes and Mr Oxley were trying to achieve: which is really thinking about the risks facing the company. As a result, it has proved very useful and that particular FD can sleep much more comfortably at night now.'

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importance of this issue, CIMA launched an executive summary providing FDs around the world with a snapshot of their peers' opinions on how financial reporting needs to move forward. One of the most pressing issues highlighted in 'The Financial Reporting Supply Chain' was the need to simplify the contents of corporate reports. 'While the reliability and relevance of financial reports have improved over the past five year, the consensus is that they've not got any easier to understand,' Tilley says. 'It's clear that too often the core strategic information remains buried. CIMA believes that corporate reports are as much about effective communication as they are about compliance.'

These findings dovetail with an ongoing multi-stakeholder project that is working to provide clear examples of how to present annual reports in a clear, concise and user-friendly way. An alliance of CIMA,

PricewaterhouseCoopers and Radley Yeldar, the Report Leadership initiative has produced both a printed and online report for a fictitious company called Generico. 'The idea is to offer examples of how reports can be made clearer and more accessible to investors without swamping them in unnecessary detail,' Tilley says. 'We want to promote further thinking and debate around corporate reporting which is particularly relevant in the light of the IFAC review.'

The move to greater reporting clarity was reinforced in July when the Financial Reporting Council launched its own project to review complexity and relevance of current company reporting requirements in the UK. The project is being supported by a complexity advisory panel which includes Charles Tilley, Rio Tinto Finance Director Guy Elliott and Jennifer Walmsley, associate director at Hermes Equity Ownership

Services. This panel will advise on strategy and ensure that the team produces a report that is easy to read, easy to understand and which will command widespread support.

State-side standards

Looking at the broader international picture, Tilley says he is encouraged by the ongoing convergence work being undertaken by the International Accounting Standard Board and the US. In terms of winning the principles-based accounting argument, Tilley accepts that the issue of liability remains a challenge. 'The US in particular, has a highly litigious financial environment. Therefore, everybody is seeking clarification on whether things are in line with the overriding principles,' he explains. 'So, if you look at US GAAP, it does have high-level principles but it then goes into the rules in enormous detail. Management and auditors alike want to be very clear as to what the right answer is and there clearly isn't such a thing. But what is deemed to be the right

answer in any type of financial reporting is crucial in a litigious environment.'

Tilley believes that the way forward is to develop international accounting standards as a common language to address complexity. 'High quality narrative reporting provides a clear position of where the organisation is,' he says. CIMA's report on the financial reporting supply chain refers to a comment made by the FRC's Chairman, Sir Christopher Hogg, which Tilley thinks apposite. 'Sir Christopher said a chair of the board should be able to show the annual report to their intelligent 20-year-old son who could read through it and say what it is all about. I'm very struck still by how few annual reports really read that way.' Indeed the tendency of reports to grow ever thicker – HSBC Holding's 2007 report weighed in at 476 pages – has not always coincided with the transparency of data they contain. The sheer plethora of information sometimes conceals more than

it reveals. Tilley believes one area in which analysts struggle particularly is cashflow. 'Reports need to have good and transparent information about cashflows which, at the end of the day, is the key to the success of any organisation. The market needs to be comfortable that it's being given good quality explanations, rather than mere evidence of regulatory compliance.' ■

No dearth of qualified non-execs

The days when non-executive directors could snooze through board meetings, eat a good lunch then go home for a month are long over. The 2003 Higgs Report put a stronger focus on the role of non-execs but there was also concern that the pool of truly qualified individuals would not be deep enough to meet demand.

Charles Tilley believes the talent is there but the diversity issue still needs to be tackled. 'A friend on the board of a small building society recently told me that they received 160 applications for the role of non-executive director. Obviously there were some people who were not appropriately qualified but there were around 30 or 40 high quality, relevant, applications. My impression is there are many people in the UK who are qualified to be non-executive directors. There are questions about the balance of boards and in that respect there are, among other factors, diversity issues that still need to be addressed. So while I believe it is challenging, I still think there are a lot of people who've got a lot of experience, and a lot of value to add.'

Charles Tilley

A former London partner of KPMG and finance director of the Hambros Banking Group, Charles Tilley joined CIMA as chief executive in

2001. He has overall responsibility for developing and implementing CIMA's strategy, and leads its management team. He is regularly involved in the issues affecting the global accounting profession, and takes an active role in CIMA's Thought Leadership programme.

