Role of IFRS in Enhancing Corporate Governance

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Governance Overview

- The purpose of this presentation is to highlight the important role played by International Financial Reporting Standards (IFRS) in enhancing corporate governance.
- Corporate governance involves a set of relationships between a company’s management, its board, shareholders as well as it’s stakeholders.
- Corporate governance also provides the structure through which the objectives of the company are set, and the methods of achieving these objectives and monitoring performance are determined.

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Governance Overview (Cont'd)

- Governance strength is measured by aggregating variables, such as board independence, board functioning and audit committee effectiveness.
- Regression results show that stronger governance firms disclose more information, comply more fully and use IAS 39's carve-out provision less opportunistically.

Governance Transparency

Corporate governance framework should ensure that timely and accurate disclosure is made on all relevant and important areas.

disclosure items include:

- Company's financial and operating results.
- Company's objectives and non-financial information.
- Information about board members.
- Related party transactions.
- Foreseeable risk factors.
- Matters relevant to employees and other stakeholders.

Codes and Standards on Corporate Governance

- The discussions that ACCA have had in preparing our Tenets of Corporate Governance project suggest very little support for additional regulation around corporate governance.

- We believe that adding more detailed or stringent provisions to corporate governance codes won't have the desired effect of raising the standard of governance within organisations.

  - Each organisation, private or public sector, are fundamentally different: even companies within the same sector have different objectives and different demands from different stakeholders.
  - For this reason, it's not possible to apply one standard across the board indiscriminately.

Codes and Standards on Corporate Governance (Cont'd)

- Businesses change as the external environment changes – therefore, our approach to corporate governance must also evolve over time.

- Rather than standardising processes, **ACCA** suggests that each organisation should design the processes and procedures that are most appropriate for its specific circumstances, taking into account its culture and goals.

- For any business to succeed it requires everyone to '*do the right thing*'. Corporate leaders must ask the question '*do we have the right culture*?' and take ownership of the answer.
- ACCA's culture-governance tool https://youtu.be/y6mIQDr13Gc

Directors' Responsibilities for Financial Reporting

- Directors have primary responsibility for the quality of the financial statements: they're responsible for providing useful and meaningful information for investors and other users of the financial statements.
- In many jurisdictions, directors' responsibilities for financial reporting is written into legislation, as part of their duty of care to the organisation that they lead.
- The CA ANZ – ACCA report 'Directors' responsibilities for financial reporting' provides:
  - specific examples of legislation in Australia, New Zealand, the UK, Hong Kong, Malaysia and Singapore.
  - this paper aims to help directors understand their responsibilities in relation to financial reporting and provide practical ideas on how these responsibilities can be fulfilled.

Directors' Responsibilities for Financial Reporting (Cont'd)

Although directors are not necessarily accounting experts, their responsibilities for financial reporting commonly include:

- Reading and understanding the information in the financial statements, to form a view about the accuracy, credibility and understandability of the information presented.
- Understanding the policies, procedures and processes that management follow in preparing the financial statements (the internal control framework).
- Consider the appropriateness of the accounting policies adopted, including any areas of judgement or estimation.

Directors’ Responsibilities for Financial Reporting (Cont’d)

- Understanding and approving the assumptions made around key areas of judgement or estimation – including the going concern assumption.
- Overseeing the external audit process, including auditor appointment, and the quality and independence of the audit process:
- Directors need to have the opportunity for open and candid communication with the external auditor and management, particularly where sensitive issues are involved.

Governance over Non-Financial Reporting

- Financial reporting and auditing advice for non-executive directors:
  - The importance of board oversight not just on financial reporting, but on wider reporting around business position, performance and prospects.
  - Corporate reporting has been and will always be one of the core means of communication between companies and their stakeholders.
  - Corporate reporting can play a key role in attaining the sustainable development goals, as high quality and internationally comparable reporting contributes to financial stability and promotes good governance.

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Governance over Non-Financial Reporting (Cont'd)

- Directors have a responsibility to ensure that any non-financial information reported externally is consistent with their understanding of the business, and with the financial statements.

- In response to calls for more information have come from the public, pressure groups and the media, regulators around the world are introducing requirements for more disclosure around companies' impact on stakeholders:
  - starting from shareholders but also including others in their supply chain: employees, customers, suppliers, and the communities where they operate.

Governance over Non-Financial Reporting (Cont'd)

- As with financial reporting, directors also need to gain an understanding of the internal control framework around non-financial information.
- A more holistic understanding of the organisation's activities will also enable the board to assess how effectively the organisation is using finite resources, and responding to future risks and opportunities.

IFRS Impact on Governance

- IFRS – a **principle-based standard**, involves extensive use of judgement in selection of appropriate accounting policies and alternative treatments, including at the time of adoption.

- IFRS require valuations and future forecasts, which will involve use of estimates, assumptions and management's judgements. It has been observed that the combination of these factors can have a significant impact on the reported earnings and financial position of an enterprise.
- So far, audit committees and board of directors mainly had an oversight role on accounting matters. With IFRS, this role is set to get enhanced considerably.

IFRS Impact on Governance (Cont'd)

- Boards of directors will have to specifically focus on how well companies are geared to the transition to IFRS.
- They must be aware of the options available under IFRS, the choices made and the reasons for making these choices.
- It will be most critical for boards of directors to monitor the quality and robustness of the conversion process and the road map to IFRS.
- Members responsible for governance will have to spend considerable time in ensuring appropriate convergence towards IFRS.
- Audit committees and board members will need to manage and address restatement effectively.

IFRS Impact on Governance (Cont'd)

- Finally, one of the biggest challenges for board members – who are responsible for governance, will be to manage stakeholder expectations, in terms of meeting targets and key performance indicators, declaring dividends and explaining variations and volatility in earnings.
- Effective internal corporate governance helps companies to be more aligned with IFRS and thus provide high quality financial information.
- Lastly, audit quality as an external governance factor, mediates the relationship between internal corporate governance and IFRS convergence.

Thank you