Doing the right thing: responsible financial reporting

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Institute of Business Ethics calls for directors to act if they detect anything that might undermine a true and fair view

> "If a corrupt culture infects the financial reporting process, it is like a cancer that progressively undermines the true and fair view of the financial statements unless it is treated – and treated swiftly and effectively," says Guy Jubb

12th September 2017: Poor financial reporting often plays a part in corporate crises, as recent cases involving accounting for contracts as well as the earlier banking crisis show. Accounting is not simply a question of following rigid rules, says the Institute of Business Ethics today, as it publishes its latest Board Briefing Responsible Reporting: doing the right thing. Preparing accounts requires judgements all along the line, and all judgements have an ethical dimension, says the IBE.

Responsible financial reporting lies at the heart of responsible capitalism and, in today's world, it is more than ever up to directors and, in particular, independent non-executive directors to ensure they do the right thing as a board when it comes to making choices about how to present profits and other key financial data. *"At all stages of the corporate reporting process the board must keep the company's values at the centre of its discussions and decision making,"* says Guy Jubb, the author of the report, who has spent several decades looking at company accounts from the perspective of an investor.

The Board Briefing looks at the challenges and threats to responsible reporting, including the short-term pressures of the market or the desire by executives to meet remuneration targets.

Boards need to actively monitor how their company's values are implemented throughout the company, including how they are applied by those involved in the financial reporting process. The Briefing offers six elements of responsible financial reporting; these hallmarks are not optional extras – they are essential ingredients.

1. Truthfulness and integrity
2. Fair presentation and freedom from bias
3. Neutrality supported by prudence
4. Consistency
5. Completeness
6. Comprehensibility

Independent non-executive directors must use all the resources at their disposal in seeking the truth that is the foundation of responsible financial reporting. They must challenge accounting policies and how they are applied, as well as the accuracy of the information used. They must probe related party transactions, which can often be controversial when viewed through the lens of shareholders. They must go out of their way to get feedback on the financial statements from professional analysts and shareholders. Last but not least, they should take steps to ensure that the auditors bring to bear an appropriate degree of professional scepticism, the report says.

"Responsible financial reporting requires an engaged board and an effective audit committee comprising non-executive directors who are demonstrably independent of management and have the personal and professional courage to challenge – and to do so effectively. Without independent non-executive directors who are prepared to question the unquestionable and pursue their concerns to get satisfactory resolution, one way or the other, responsible financial reporting will suffer." says Guy Jubb when commenting on the responsibility of directors to challenge effectively when addressing financial reporting issues.

Philippa Foster Back CBE, IBE's Director said: *"This Board Briefing is relevant reading for all directors, not just those who serve on audit committees. In a unitary board, all directors must take responsibility for ensuring that the financial reports show a true and fair view. When things go wrong with financial reporting, the buck stops with the board, not just the audit committee. Guy's wise counsel will help executives and boards navigate their way through the ethical challenges."*

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EDITORS' NOTES

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Launch date and information

The report will be launched on Tuesday 12th September 2017 at 4.30pm at Cicero Group, 10 Old Bailey, London EC4M 7NG

Guy Jubb will present the Board Briefing, followed by a discussion including John Plender of the Financial Times, Jessica Ground of Schroders, and chaired by Iain Anderson, Executive Chairman of Cicero Group.

Please email events@ibe.org.uk if you would like to attend.

About the Institute of Business Ethics (IBE)

The Institute of Business Ethics is a registered charity which promotes high standards of business practice based on ethical values.

We help organisations to strengthen their ethics culture through the sharing of knowledge and good practice. www.ibe.org.uk

The author: Guy Jubb

Guy Jubb CA is an Honorary Professor at the University of Edinburgh and the former Global Head of Governance & Stewardship at Standard Life Investments.

After qualifying as a Scottish chartered accountant in Edinburgh in 1976, Guy worked in London and New York before joining County Bank in London in 1981. He was recruited by Touche Ross in 1984 to join its corporate advisory team. In 1986, he returned to Edinburgh to join Standard Life, where he was responsible for setting up its smaller company and private equity investment teams. He pioneered the development of Standard Life's corporate governance team in 1992 which has made governance and stewardship an integral part of its investment service. He retired from Standard Life in 2016 as Global Head of Governance & Stewardship.

Guy served on many influential committees, including the Association of British Insurers Investment Committee and the Standing Advisory Group of the Public Company Accounting Oversight Board (PCAOB), the US audit regulator. He was Co-Chair of the Global Auditor Investor Dialogue, the Conference Board's European Corporate Governance Council, and the GC100 and Investor Working Group. In 2015 Guy was the recipient of ICSA's Outstanding Achievement Award.

Guy chairs the Constitutional Panel and the Strategy and Research Advisory Group of ICAS, the Institute of Chartered Accountants of Scotland, and is a member of its Council. He is a Director of the European Corporate Governance Institute (ECGI), and an adviser on governance, accountability and stewardship.

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