

## Largest Accounting Firms See Coming Revolution in Business Reporting

As part of the Global Public Policy Symposium in Paris, held on November 8 and attended by key players concerned with ensuring the quality and reliability of financial reporting worldwide, the Chief Executive Officers (**CEOs**) of **PricewaterhouseCoopers** (PwC) International, **Grant Thornton** International, **Deloitte**, **KPMG** International and **Ernst & Young**, published a joint statement of their vision of what the future might hold for financial reporting and the accounting profession.

Entitled "Global Capital Markets and the Global Economy: A Vision from the CEOs of the International Audit Networks," the document envisions investors having access to **real time company financial information** through XBRL, **financial statements that go beyond reporting past performance to projecting future performance based on information about business intangibles that are not currently measured**, and a recommendation that companies choose to supplement regular audits with **periodic forensic audits**. The report may be viewed at [www.globalpublicpolicysymposium.com/](http://www.globalpublicpolicysymposium.com/)

"This essay is about one type of information and its importance to all actors in the global economy; information about the performance of management and companies that make and deliver goods and services, and compete for capital," the symposium paper says.

In a letter to the Wall Street Journal published on November 8, the day their paper was released, the CEOs wrote that **when the basics of current accounting procedures were written, the world's investors were more a "private club than a global network. Auditors used fountain pens,** capital stayed pooled in a few financial centers, and information moved by runner." The world has changed since then.

In the short term, the letter says, it will be necessary to proceed as rapidly as possible with convergence in international accounting standards, and with overcoming national differences in oversight of auditors and in enforcement.

In the longer term, **auditors themselves must evaluate the usefulness to investors of information provided in the current financial statement and footnote format and consider the inclusion of more nonfinancial information.**

But, the CEOs say in the Journal letter, "All of these steps should include an emphasis on allowing auditors greater room to exercise judgment. Accountants and auditors are trained professionals who have the ability to apply the spirit of broad principles in deciding how to account for and report financial and other information. . . . Such [future] measures should also include an honest assessment of the "expectations gap," relating to material fraud and the ability of auditors to uncover it at a reasonable cost."

The paper looks forward to a world "where users increasingly will want to customize the information they receive" in which "the process for recording and classifying business information will be as important, if not more important, than the static formats in which today's financial information is reported. Our jobs as auditors, must therefore change to increasing focus on those business processes."

An "important enabler" of future reporting will be the Global XBRL Initiative, the paper says. XBRL users will be able to view company data in any language, any currency and under different accounting systems and get immediate answers to queries. "In fact the new world is already here for the approximately 40,000 companies that already use XBRL to input their data. . . . China, Spain, the Netherlands and the United Kingdom have required companies to use XBRL." The paper acknowledges that investors, analysts and others will still want standardized reports to be issued by public companies on a regular basis. But the CEOs say that investors have told them they want more relevant information to be included. **"The large discrepancies between the "book" and "market" values of many, if not most, public companies similarly provide strong evidence of the limited usefulness of statements of assets and liabilities that are based on historical costs. A range of intangibles, such as employee creativity and loyalty and relationships with suppliers and customers, can drive a company's performance, yet the value of these intangibles is not consistently reported."**

In short, the CEO's vision states "the same forces that are reshaping economies at all levels are driving the need to transform what kind of information various stakeholders want from companies, in what form, and at what frequency. In a world of "mass customization," **standard financial statements have less and less meaning and relevance.** *The future of auditing* in such an environment **lies in the need to verify that the process** by which company-specific information is collected, sorted and reported is reliable and the information presented **is relevant for decision making.**"

Investors and regulatory bodies may expect auditors to go further than is reasonable to detect fraud and the paper recommends that all companies be subjected to a regular forensic audit, or be subjected to forensic audits on a random basis.

Another option would be introducing more choice regarding the intensity of audits for fraud. For example, since forensic audits are conducted primarily for the benefit of investors, one possibility would be to let shareholders decide on the intensity of the fraud detection effort they want auditors to perform. Shareholders could be assisted in making this decision by disclosure in the proxy materials of the costs of the different levels of audits, as well as the historical experience of the company with fraud.

The CEO paper calls for both liability reform and scope of service reform. Considering the "Brave New World" of auditing envisioned in the document and the scope of the questions it raises, "Global Capital Markets and the Global Economy" has received little attention in the financial press, Motley Fool reports. But, while approving the idea of more timely information flows for the investor, Fool says, "enough companies have trouble meeting their reporting obligations as it is. I would prefer to both maintain those reports and supplement them with additional data."

That financial reporting will evolve and change is inevitable, the International Herald Tribune says, but whether large accounting firms will lead the dialogue is another matter that may be influenced by their "life-threatening litigation risks."

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