



Audit and Risk Advisory Services

# CFO of the future: Leading through influence and integrity

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# Roadmap

- **About the paper**
- **Comparison to previous papers**
- **The business environment**
- **Compliance**
- **Strategic & commercial**
- **People**
- **The way forward**

## About the paper

- **Sponsored by KPMG in collaboration with the Institute of Chartered Accountants in Australia**
- **Research conducted via interviews with 30 CFOs and company directors**
- **3<sup>rd</sup> paper in a series (1998, 2001 & 2004)**

# Findings of previous 'CFO' papers

## From Chief Accountant to CFO:

- **Key focus areas:**
  - Strategic and business issues (expanding focus)
  - Technical and compliance (shrinking focus)
  - Transaction processing (minimising cost)
- **Embracing 'best practices' for greater effectiveness and efficiency**
- **Up-skilling – especially 'soft' skills**

# Comparison to current findings

## CFOs:

- **Continuing trend**

- More involvement in strategic and compliance issues
- Improving people skills and focus on people issues

- **Reversal of trend**

- Technical and compliance issues are now top of mind (growing not shrinking)
- Focus on best practices

## Meaning...

- Previously - CFOs coped with increasing strategic & commercial responsibilities by minimising their technical and compliance work
- Now - CFOs are stretched to manage an expanding range of both strategic & commercial AND technical & compliance responsibilities
- Result – CFOs' role has never been larger and the scope of influence has never been greater



# 2004 Key Findings

# The business environment

Continues to be characterised by:

- **Intense competition – local and global**
  - e.g. Emergence of India and China; and
- **Extraordinary amount of change**
  - Scientific developments
  - Societal changes (attitudes/ ageing)
  - Natural environment
  - Corporate ethics & responses to corporate collapses
  - Regulators day in the sun
    - SEC
    - ASIC
    - APRA

## The business environment – cont'd

The result for CFOs is more responsibility and greater influence.

Three broad areas of concern for CFOs:

- Compliance;
- Strategic & commercial; and
- People.

*“There is no standing still – that is the challenge for CFOs”  
– Jillian Broadbent*

**Act with integrity.**



# Compliance

**Major change since last 2 surveys**

# Compliance focus

## Caused by:

- ASX Guidelines
- CLERP 9
- US Sarbanes Oxley Act 2002
- IFRS

*Organisational response is firmly with CFOs & other regulatory eg. FS APRA*

# Compliance imbalance?

## Conformance vs. Performance

- Concern that CFOs are being diverted from strategic & commercial work by the compliance burden



*“The increase in the level of compliance and governance activity is permanent”  
– Helen Lynch*

## Compliance – how to cope

*“The trick is to embed the controls in the business processes” – Grant Logan*

*“...Good companies should have been doing it anyway” – Peter Day*

## Compliance – specific areas

- External audit – increased profile
- Audit committees – more active
- Auditors are no longer seen as advocates of management
- Internal auditing – reverting to ‘tick & flick’

# Stakeholder communication

## Annual reports

**There is a strong feeling that annual reporting needs to be re-thought**

*“Annual reports contain a lot of information that is not read...” – Helen Lynch*

*“Companies should disclose their strategy and their performance against it...” – Steve McKerihan*

**Is your Financial Reporting working for you?**

**CFO's are pivotal to telling your company's story.**

# Forecast information

- **General reluctance to disclose financial forecasts**

- Savage market reaction if forecasts not met
- Fear of prosecution
- Leading to suggestion for...

- **‘Safe harbour’ legislation**

*“We need to speak about the future but we need a ‘safe harbour’ to divulge ... without fear of sanction” – Peter Day*

# International Financial Reporting Standards

- **General agreement that they are a good idea – but the transition is painful for many**

*“We must have uniform accounting standards globally” – David Crawford*

*“They are a good thing – but I wish they weren’t happening on my watch!” – CFO  
(Anon)*

- **Deals being done, know – IFRS**
- **The accounting can be very different to what you might have thought**
  - Talk to the experts
  - Big 4 investing Internationally
  - ASIC lagging this investment



# Strategic and commercial

# Strategic & commercial

## Still remains CFOs' principal role:

- Provide leadership
- Partner with other professionals
- Whole of business risk management

*“CFOs contribute a great deal to strategy and are involved at the highest level with the CEO and board” – Dieter Adamsas*

*“CFOs must understand changing external environments. They are change agents” – Steve McKerihan*

## 'Best practices'

- Best practices remain best intentions for many
- Difficult to get approval for IT projects & those without fast financial returns

*“Because of the financial pressures there has been under investment in financial systems in the last few years, but technology has moved on and there is now a large gap” – Anne Flanagan*

## Other

- **Ironic that there is no time to implement the very processes that would save time**
  - Fast / Virtual Close
  - Continuous planning & forecasting
- **Vision, values, policies & strategy**
  - Articulate & communicate for efficiency
- **XBRL (Extensible Business Reporting Language)**
  - Still on the horizon...



# People

## CFO's pivotal position

- **Trusted confidant, but remain independent**
- **Provide support, yet also lead**

**Above all, CFOs must maintain their integrity**

*“All direct reports do the CEO's bidding, but the CFO must do more than that – the CFO must be independent” – Peter J.B. Duncan*

# Internal relationships

- **Boards – rely heavily on CFOs’ judgement to supply them with the right information**

*“The CFO’s role in providing an independent financial view is vital” –  
Helen Lynch*

- **CEO’s – CFO’s work closely, sometimes deputise, must be independent**

*“... the boundary between them will vary by company and by their personalities, backgrounds and interests” – David Crawford*

# The Finance Team

## **CFOs are very reliant on their teams**

- **They cannot be experts in all their areas of responsibility**
- **Key people in the finance team can be difficult to replace**
- **Work/life balance is a major concern (more concern for staff than for themselves) – CFO article – “Do as I say”**
- **Retaining women is an issue**

*“Retaining and developing people is the key. People want to be challenged” – Fraser MacKenzie*

# CFO responsibilities



# CFO skill set

## **Soft skills are relatively more important than hard skills the more senior the position**

- Critical for CFOs (influence, persuade, negotiate, communicate, build teams, manage change, provide leadership, etc)

*“There is great value in emotional intelligence and people skills” –  
Deidre Lott*

But hard skills remain important too...

# CFO career path

- **Be an accountant!**

*“CFOs do not have to be accountants but the core disciplines of accountants position them well to be good CFOs” – Bruce Brook*

- **After financial grounding, budding CFOs need operational experience**

- Acquire the necessary breadth of business knowledge and skills

*“The increase in the level of compliance and governance activity is permanent” – Helen Lynch*



# The way forward

# The way forward

- **Embed compliance in business processes and ensure it is aligned with and supportive of business strategy**
- **Leading through influence and integrity**
- **Build quality finance teams**
- **Enhance reporting and stakeholder engagement to be effective, not just complaint**

*“Overall, CFOs must lead through influence and integrity”*



## Presenter's contact details

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